



# TAX FORUM

4-5 October 2011

## STATEMENT OF REFORM PRIORITIES

### PARTICIPANT NAME AND POSITION

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### ORGANISATION

Council of Mayors (SEQ)

### STATEMENT OF PRIORITIES

*The following statement is a personal view and should not be taken to be an officially endorsed policy position of the Council of Mayors (SEQ), the members of which will be represented by the Australian Local Government Association.*

#### 1. What are your priority reform directions for the tax and transfer system?

##### a. An affordable, equitable and productive housing sector.

The current tax system perversely increases the cost of housing either directly (e.g. through transfer duty on purchases) or indirectly (e.g. through tax-preferred investment into rental properties inflating demand). The increase in the price of land across Australian metropolitan areas over the last decade (doubling in most cases) represents a profound change that could see many first home buyers priced out of the market permanently. Until the interface between the tax system and housing demand and supply is better resolved, this imbalance will continue.

Reform is needed in the tax concessions for investment housing to better direct that investment into affordable housing products and away from directly competing with home buyers for existing product.

Reform is also needed in State Transfer Duties which add directly to the up front cost of housing. The Henry Review suggestion that transfer duty could be converted to land tax has some merit and warrants further investigation. This would need to be a progressive change over time, with some assistance provided to the States to meet the short term revenue shortfall.

Indeed, any reform package should include the removal of the remainder of stamp duties as promised with the introduction of the GST in 2000.

Consideration also needs to be given to public investment in housing given the continuing market failure evidenced in the dramatic increase in housing costs. A model could be the State owned land developer VicUrban which has helped to deliver greater competitive tension (and hence lower prices) in the Melbourne land market than appears evident in other States. Such an intervention



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would need a funding mechanism, which could be provided by a reform of tax concessions for investment housing, or from changes to the land tax regime.

State and local governments have long been under pressure to reduce upfront infrastructure charges, even though charges rarely recover the full cost of infrastructure provision to new developments. If there is any reform in this area, it should be couched with providing a range of new revenue streams to more equitably fund infrastructure, which could include 'value capture' on the value of rezoning land and potentially longer term betterment levies. Again, any changes to taxing regimes could have significant short term financial impacts on State and Local Governments which would need to be addressed.

The National Urban Policy is encouraging the development of more compact urban areas with greater densities adjacent to transport corridors and principal activity centres. More compact cities provide substantial long term infrastructure savings for governments at all levels as well as lower transport costs for the residents enjoying shorter commutes. However, such housing is more expensive to produce. Our tax system should also encourage greater mobility in the housing market, particularly as a means of encouraging 'empty nesters' to move to smaller dwelling and free up stock for other families. The tax system could seek to offset this by ensuring that the longer term savings to government are captured through discounts on stamp duties (or other targeted First Home Buyers Grants) for persons moving to smaller dwellings, or land tax concessions for affordable medium density housing.

## **b. Transport and Infrastructure**

The AFTS Report placed great emphasis on the need for reform of motor vehicle, fuel and road user taxes. This debate is long over due and needs to involve all three levels of government, as all three share the hefty burden of funding our road and rail network.

Local government has long complained that it does not get its fair share of transport related taxes (Fuel excise, motor vehicle registrations, GST etc.) given it is responsible for the lion's share of the road funding task. All governments face a huge backlog of infrastructure need as a direct result of reductions in government investment in infrastructure over the past three decades, although there has been some cathcup due to increased infrastructure spends in more recent years.. The resultant congestion is draining national productivity and adding to the cost (and unreliability) of doing business in our cities.

There needs to be a debate about how best to fund transport infrastructure, both building new infrastructure and maintaining existing infrastructure. The travelling public has shown both here and overseas a preparedness to pay for new infrastructure where the funding source is hypothecated to the project. However, not all infrastructure is a viable commercial proposition, and careful reconsideration of sharing of risk between public and private sectors will be needed.

Petrol excises were originally introduced as a means of funding road expenditure, but over time that nexus has been lost. While an element of petrol excise could be argued is an environmental levy on its carbon content, the vast bulk is not and full hypothecation to transport infrastructure should be considered. State Governments already receive 9 cents from excise for their road projects, and the



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Federal Government might require State Governments to show exactly how this is provided. Road grants to local government, instead of being a budget line item, might also be a hypothecated and increased share of petrol excises, providing a clear and direct funding source for local roads.

Such reforms to build confidence in the petrol excise as a 'road user charge' are needed before more radical reforms such as congestion taxes are considered. Congestion taxing should only be considered as part of a more comprehensive policy approach to change commuting behaviour, including substantial increases in funding to public transport and active transport. Unless real alternatives are provided, it would be seen as no more than a 'tax'.

Consideration might also be given to tax reforms to reduce the concessional treatment of private motor vehicles. Recent tax changes went some way in this regard, but FBT treatment of motor vehicles still provides substantial public subsidies. This could provide a major new funding source for public transport projects or active transport projects around the nation.

#### **c. Carbon and energy taxes:**

The collapse of the Copenhagen Climate Change talks highlights the difficulty of getting international agreement around the pricing of carbon. The fundamental divide between the growth exporting nations of the developing world (China, India, Brazil) and the net importers of the developed world (e.g. Europe, US, Australia) does not look like being bridged any time soon, as there are not sufficient 'carrots' and 'sticks' in asking all to share the pain of 'doing the right thing.'

Possibly consideration should be given to applying a 'value added tax' approach to carbon taxes whereby the carbon price is imposed on all goods at the point of consumption rather than production. Instead of goods from Australia paying a carbon price and competing against goods from China that don't, a price could be set that applies to both. Full credit for the tax could then be counted for carbon accounted under a carbon tax regime or an emissions trading scheme, either here or in an equivalent scheme overseas. If such an approach were developed jointly between major importing nations, it is very likely that other exporting countries would have a far greater incentive to join the mechanism than existed under the arrangements considered at Copenhagen. Any taxes collected on imports could then be divided between household compensation and funding international global abatement emissions (e.g. protecting forests from landclearing).

Electricity prices are an issue of major concern, and are set to continue to rise as utilities continue to invest to meet peak demand. Because capital investment is a large part of the increased cost of electricity, current pricing structure result in low users providing large subsidies to heavy users as all contribute equally investment on usage based charges. Industry sources estimate that the infrastructure necessary to service each new domestic air conditioner is around \$15,000-\$20,000. All or part of this amount should be covered by an access charge, which could then fund a substantial reduction in prices for low energy users (e.g. pensioners). This charge could take the form of a state tax which could then fund CSO payments to utilities to reward low energy users.

#### **d. Increasing the tax free threshold:**

The Federal Government's recent tax reforms include a long overdue reform to increase the tax free



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threshold to \$18,200. This reform takes many low income earners out of the tax net completely. Consideration should be given to delivering an even higher tax free threshold and funding this by broadening the income tax base by comprehensively reviewing current allowable deductions (which tend to be claimed most heavily by high income earners) as well as going reform of the taxation of trusts, partnerships and private companies to ensure genuine personally earned income is taxed in a comparable manner to income tax. Additional revenue to fund a higher tax free threshold could be found from placing a cap on losses which can be claimed on negative geared investments against earned (i.e. non-investment) income, while allowing unclaimed losses to be carried forward. Such a cap would continue to provide a small break for 'mums and dads' investors while preventing excessive use of negative gearing to avoid tax.

With the welcome agreement between the parties to the implementation of the National Disability Insurance Scheme, all primary carers should be allowed to claim as a deduction in their annual return all costs for extra caring costs paid to NFP organisations. This treatment would be similar in kind to federal government assisting persons who have school aged children by allowing them to claim their extra costs in their annual tax return.

## LIST OF ATTACHMENTS

Feel free to attach supporting papers if you wish. Please list them here.