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Tax Forum
Treasury
Langton Crescent
PARKES ACT 2600

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Dear Sir/Ms

I was invited to present and provided advice to Australia's Future Tax System in August 2009 at Commonwealth Treasury Canberra.

My expertise is in state land tax and local government rating. Over the past 3 years I have visited Ministries of Taxation in a number of countries including Denmark, Finland and Estonia as apart of my PhD research into recurrent property taxation as a source of revenue for sub-national government. I have assisted in reforms to the Queensland land tax system during 2009 and 2010.

In Australia, we have a potentially strong and robust recurrent property tax system levied at both state and local government levels and most importantly we are one of the few countries that have retained this tax on land at the state level. The debate on recurrent property taxes has tended to go round in circles then back into the too hard basket. This is largely due to the way the tax is structure across state and local governments in Australia.

At 2.2 percent of GDP or 5.5 of total national tax revenue in Australia, this tax is in need of reform both administratively and operationally, in order to increase its contribution to the tax revenues of sub-national government.

I briefly list the key points needed for reform of this tax in Australia, which I am pleased to assist with.

Whilst there are advantages in levying this tax at two distinct levels of government, local government is constitutionally an operational arm of the states. To this end, the Commonwealth plays an important role in facilitating reforms in the way this tax is shared between the states and local government.

1. A key reform to state taxation is the reduction in less efficient transaction taxes including stamp duty. State land tax plays an important alternate source of revenue to stamp duty. The share of revenue from land tax across the states ranges from 9 -12 percent of total state taxes. State land tax acts as an important neutral base for the facilitation of highest and best use and regeneration of land uses. This is in contrast to a recurrent tax on the improved value of property.
2. Rates account for up to 40 percent of total local government revenue. For some local governments, this can be higher for city based councils. Local government rating is a publically accepted tax in contrast to state land tax, as local government rating it generally viewed as a tax for services rendered. On this basis, whilst opportunity exists to expand a recurrent tax on the principle place of residence in the form of a state land tax, it already operates in the form of council rating, and would be far more acceptable to

the tax payer if collected through increases in the form of local government rating. The States remain reluctant to occupy this void.

3. Both state land tax and local government rating could be collected by local government as identified in the recommendations of AFTS.
4. Of the operational factors confronting recurrent property taxation, it is the definition of the base and the way value it is determined in the assessment of this tax which challenges the principles of good tax design. The operational definition of land and improved value is the greatest impediment to the efficiency of this tax at each state and local government level. What is required is a codified and transparent base for the determination of this tax, regardless of how it is to be applied. A uniform and harmonious operational definition of value is needed for this tax to meet the principles of simplicity and transparency.

Until the above points are addressed with help from the Commonwealth, this tax remains in the too hard basket for sub-national government. Whilst there may limited scope to be included in the forthcoming Tax Forum in October, I would be pleased to assist the Commonwealth in the facilitation of a bottom-up reformation of state and local recurrent property taxation if given the opportunity.

Yours sincerely



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