



BOROONDARA
City of Harmony

28 April 2009

Dr Ken Henry
Chair
Australia's Future Tax System Review Panel
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Dr Henry

Please find attached a submission from the City of Boroondara regarding your review of Australia's taxation regimes and associated matters.

At its meeting on Monday 27 April 2009 Council endorsed the attached submission and consented to it being made public.

Council commends the Commonwealth for conducting this long overdue review and eagerly awaits the findings and recommendations of your panel.

Yours sincerely

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CITY OF BOROONDARA

SUBMISSION TO THE

AUSTRALIAN GOVERNMENT

TREASURY REVIEW -

Australia's Future Tax System

APRIL 2009

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Australia's Future Tax System

(A submission to the Australian Government Treasury Review)

1. Intergovernmental Financial Relations

- (a) The current escalation methodology for Financial Assistance Grants (FAGs) is based on a mix of population growth and CPI.

Council believes that a more appropriate escalation formula would be one tailored to Local Government needs and suggests a combination of the ABS Wage Cost Index and Construction Cost Index combined with population growth. This recommendation was also made in November 2006 when PricewaterhouseCoopers released its National Financial Sustainability Study of Local Government.

- (b) Council calls upon the Commonwealth to ensure that the quantum of FAGs general purpose funding be set so as to remain at or above one per cent of total Commonwealth taxation revenue. The ALGA has estimated this would increase the local government FAG funding pool from the current level of approximately \$1.82 billion to \$2.44 billion in 2008/09. This would significantly assist Local Governments to address pressing asset renewal issues and deal with historical cost shifting impacts from both Commonwealth and State Government.

In 2003, the Standing Committee on Economic, Finance and Public Administration (the Hawker Committee) issued the report "Rates and Taxes: A Fair Share for Responsible Local Government". This report concluded that "there is no doubt that local government has, over a number of years, been on the wrong end of cost shifting". The Hawker Committee estimated that previous cost shifting practices were costing the Australian Local Government sector between \$500million to \$1billion per annum.

Council believes the review underway by your Panel represents a unique opportunity to rectify fundamental flaws that have arisen in intergovernmental financial relations over previous decades.

2. Fringe Benefits Tax (FBT) and the Treatment of Motor Vehicles

As you would be aware, current calculation methods for the quantification of "car benefits" for the purposes of determining a FBT liability include the "statutory method".

This formula has been devised so as to reduce a taxpayer's FBT liability the further the vehicle travels.

Council believes that alternative statutory formulae need to be examined to remove this distortionary anomaly. By encouraging vehicle custodians to maximise their car use, the current formula actively works against many other laudable public policy initiatives aimed at reducing traffic congestion and vehicle emissions.

Council also supports calls from CPA Australia for the Board of Taxation to undertake a major rewrite of the current FBT legislation to achieve considerable simplification of the FBT law.

3. Increasing Reliance by State Governments on Property Taxes

Council believes that State Governments have increased their reliance on property taxes in recent years. Figures cited by the Property Council of Australia indicate that land tax revenue has increased 134% and conveyancing stamp duty 200% since the GST was introduced.

It is estimated that in 2006/07 Property taxes made up to 40.6% of the tax revenue of the States and Territories.

The GST funding deal negotiated by the Commonwealth with the States and Territories at the time of the introduction of the GST provided for the removal of nine state based taxes. Unfortunately, the timetable for this abolition extended to 2011. Council believes that the Commonwealth could use growing GST revenue to determine a funding arrangement with States and Territories which would decrease their reliance on property taxation (particularly Land Tax) thus providing taxation relief to many small business and self-funded retirees.

Increasing property taxes from State Government creates pressure on Local Government rate revenue. Given the very high dependence on this source of revenue by Local Government to State Government, it is considered important for State Governments not to impinge on Local Government's capacity to draw revenue from its sole taxation base.

Council also recommends that the Commonwealth re-negotiate the GST funding deal with the States to include Land Tax as one of the State taxes to be abolished in return for a share of GST revenues.