



ACT
Government

Chief Minister, Treasury and
Economic Development

Freedom of Information Publication Coversheet

The following information is provided pursuant to section 28 of the *Freedom of Information Act 2016*.

FOI Reference: CMTEDDFOI 2018-0101

Information to be published	Status
1. Access application	Published
2. Decision notice	Published
3. Documents and schedule	Published
4. Additional information identified	No
5. Fees	Waived
6. Processing time (in working days)	32
7. Decision made by Ombudsman	N/A
8. Additional information identified by Ombudsman	N/A
9. Decision made by ACAT	N/A
10. Additional information identified by ACAT	N/A

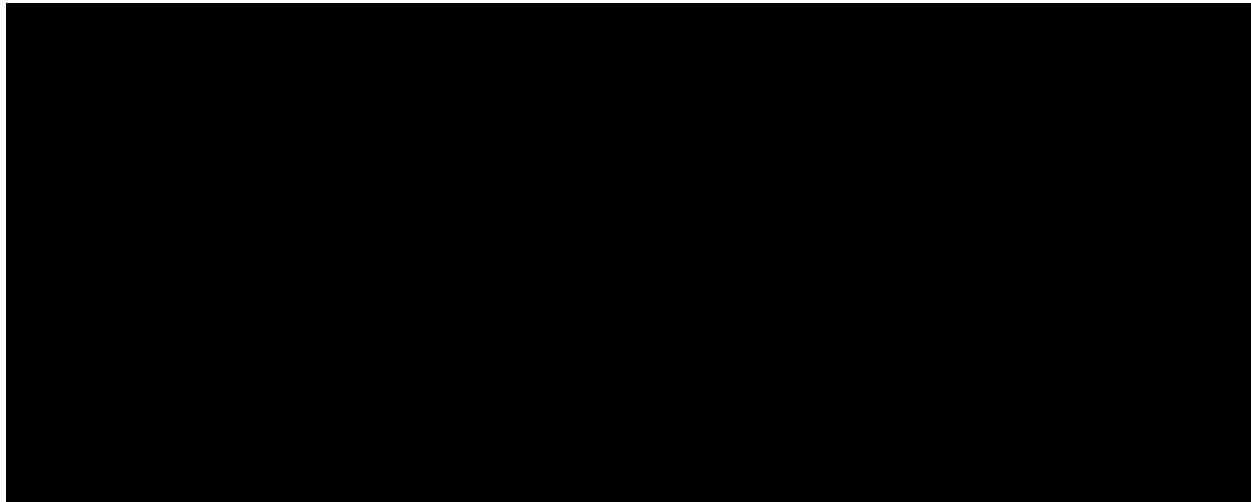
From: [REDACTED]
To: [CMTEDD FOI](#)
Subject: Freedom of Information request
Date: Monday, 30 April 2018 5:51:56 PM

Dear Fol Officer

I seek access to the following information:

Reports, analysis, internal reviews/options papers/discussion papers and/or briefing materials into possible changes to the valuation system used for residential properties for calculating general rates and/or land tax in the ACT;
The scope of the request includes documents developed within the Directorate and documents developed by consultants or other bodies on behalf of the ACT Government.
The scope of the request is limited to the period after 2010.
The scope of the request excludes materials relating to routine administrative adjustments to the current 'unimproved value' valuation system.

Kind regards





Chief Minister, Treasury and
Economic Development

Our ref: CMTEDDFOI 2018-0101

[REDACTED]

via email: [REDACTED]

Dear [REDACTED]

FREEDOM OF INFORMATION REQUEST

I refer to your application under section 30 of the *Freedom of Information Act 2016* (the Act), received by the Chief Minister, Treasury and Economic Development Directorate (CMTEDD) on 30 April 2018, in which you sought access to documents relating to possible changes to the valuation system used for calculating rates and/or land tax in the ACT.

Specifically, you are seeking:

"Reports, analysis, internal reviews/options papers/discussion papers and/or briefing materials into possible changes to the valuation system used for residential properties for calculating general rates and/or land tax in the ACT. The scope of the request includes documents developed within the Directorate and documents developed by consultants or other bodies on behalf of the ACT Government. The scope of the request is limited to the period after 2010. The scope of the request excludes materials relating to routine administrative adjustments to the current 'unimproved value' valuation system."

Authority

I am an Information Officer appointed by the Director-General of CMTEDD under section 18 of the Act to deal with access applications made under Part 5 of the Act.

Timeframes

In accordance with section 40 of the Act, CMTEDD is required to provide a decision on your access application by 19 June 2018.

Third Party Consultation

In making this decision, I completed consultation in accordance with section 38 of the Act. The views of identified third parties were taken into account in making this decision.

Decision on access

Searches were completed for relevant documents and 8 documents were identified that fall within the scope of your request.

I have decided to grant full access to 5 documents, partial access to 2 documents and exempt 1 document in its entirety. The information redacted in the documents I consider to be information that would, on balance, be contrary to the public interest to disclose under the test set out in section 17 of the Act.

I have included as **Attachment A** to this decision the schedule of relevant documents. This provides a description of each document that falls within the scope of your request and the access decision for each of those documents.

My access decisions are detailed further in the following statement of reasons and the documents released to you are provided as **Attachment B** to this letter.

In accordance with section 54(2) of the Act a statement of reasons outlining my decision is below.

Statement of Reasons

In reaching my access decision, I have taken the following into account:

- the Act;
- the content of the documents that fall within the scope of your request;
- the submissions made by the relevant third party; and
- the *Human Rights Act 2004*.

Exemption claimed

My reasons for deciding not to grant access to the identified documents and components of these documents are as follows:

Information Contrary to Public Interest

The Act has a presumption in favour of disclosure. As a decision maker I am required to decide where, on balance, public interests lies. As part of this process I must consider factors favouring disclosure and non-disclosure.

In *Hogan v Hinch* (2011) 243 CLR 506, [31] French CJ stated that when ‘used in a statute, the term [public interest] derives its content from “the subject matter and the scope and purpose” of the enactment in which it appears’. Section 17(1) of the Act sets out the test, to be applied to determine whether disclosure of information would be contrary to the public interest. These factors are found in subsection 17(2) and Schedule 2 of the Act.

Factors favouring disclosure (Schedule 2.1)

Taking into consideration the information contained in the documents found to be within the scope of your request, I have identified that the following public interest factors are

relevant to determine if release of the information contained within these documents is within the ‘public interest’.

- (a) *disclosure of the information could reasonably be expected to do any of the following:*
- (i) *contribute to positive and informed debate on important issues or matters of public interest; and*
 - (viii) *reveal the reason for a government decision and any background or contextual information that informed the decision.*

Having considered the factors identified as relevant in this matter, I consider that release of information contained in these documents would contribute to positive and informed debate on important issues or matters of public interest, namely calculating general rates and/or land tax in the ACT.

The information contained in the documents contains information regarding the interactions between Corelogic, Quotable Value (QV) and the ACT Government. I am satisfied that parts of the information contained within these documents is within the public interest to release as they reveal the reason for a government decision and any background or contextual information that explores the development of a capital improved valuation econometric model as a possible alternative basis for general rates in the Territory.

Factors favouring non-disclosure (Schedule 2.2)

Taking into consideration the information contained in the documents found to be within the scope of your request, I have also identified the following public interest factors in favour of non-disclosure are relevant to determine if release of the information contained within these documents is within the ‘public interest’.

- (a) *disclosure of the information could reasonably be expected to do any of the following:*
- (ii) *prejudice the protection of an individual’s right to privacy or any other right under the Human Rights Act 2004;*
 - (xi) *prejudice trade secrets, business affairs or research of an agency or person.*

Having reviewed the documents, I have considered the impact that releasing personal information contained in the documents, being the names and contact details of non-ACT Government employees. I am of the opinion that release of this information may prejudice the protection of these individuals’ right to privacy or any other right under the *Human Rights Act 2004*. I am satisfied that this factor favouring non-disclosure should be afforded significant weight as it relates to individuals privacy. Accordingly, I have decided to withhold from disclosure the names, emails addresses and a mobile phone number of non-ACT Government employees.

I have also considered the impact that the release of some parts of the information contained in the documents may have on a relevant third party. Taking into account the submissions put to me by the relevant third party as part of the consultation undertaken

in accordance with section 38 of the Act, I am satisfied that releasing this information would prejudice the business affairs of the third party as this information would disclose their business/financial affairs and also disclose research undertaken that is not publically available. Accordingly, I have decided to withhold from disclosure all business/financial and research related affairs of the third party.

Noting the pro-disclosure intent of the Act, I am satisfied that redacting only the information that is not in the public interest to release, while releasing the rest of the documents will ensure the intent of the Act is met and will provide you with access to the majority of information held by CMTEDD within the scope of your request.

Accordingly, I have chosen to redact parts of folio 4, 11-16 and folios 5-10 have been redacted in full of the documents within Attachment B.

Charges

Pursuant to *Freedom of Information (Fees) Determination 2017 (No 2)* processing charges are applicable for this request because the total number of pages to be released to you exceeds the charging threshold of 50 pages. However, the charges have been waived in accordance with section 107(2)(e) of the Act.

Online publishing – Disclosure Log

Under section 28 of the Act, CMTEDD maintains an online record of access applications called a disclosure log. Your original access application, my decision and documents released to you in response to your access application will be published in the CMTEDD disclosure log after 20 June 2018. Your personal contact details will not be published.

You may view CMTEDD disclosure log at:

<https://www.cmtedd.act.gov.au/functions/foi/disclosure-log>.

Ombudsman Review

My decision on your access request is a reviewable decision as identified in Schedule 3 of the Act. You have the right to seek Ombudsman review of this outcome under section 73 of the Act within 20 working days from the day that my decision is published in CMTEDD disclosure log, or a longer period allowed by the Ombudsman.

If you wish to request a review of my decision you may write to the Ombudsman at:

The ACT Ombudsman

GPO Box 442

CANBERRA ACT 2601

Via email: ombudsman@ombudsman.gov.au

ACT Civil and Administrative Tribunal (ACAT) Review

Under section 84 of the Act, if a decision is made under section 82(1) on an Ombudsman review, you may apply to the ACAT for review of the Ombudsman decision. Further information may be obtained from the ACAT at:

ACT Civil and Administrative Tribunal
Level 4, 1 Moore St
GPO Box 370
Canberra City ACT 2601
Telephone: (02) 6207 1740
<http://www.acat.act.gov.au/>

Should you have any queries in relation to your request please contact me by telephone on 6207 7754 or email CMTEDDFOI@act.gov.au

Yours sincerely,



Daniel Riley
Information Officer
Information Access Team
Chief Minister, Treasury and Economic Development Directorate

15 June 2018



ACT
Government

Chief Minister, Treasury and
Economic Development

FREEDOM OF INFORMATION REQUEST SCHEDULE

NAME	WHAT ARE THE PARAMETERS OF THE REQUEST	Reference NO.
[REDACTED]	Reports, analysis, internal reviews/options papers/discussion papers and/or briefing materials into possible changes to the valuation system used for residential properties for calculating general rates and/or land tax in the ACT. The scope of the request includes documents developed within the Directorate and documents developed by consultants or other bodies on behalf of the ACT Government. The scope of the request is limited to the period after 2010. The scope of the request excludes materials relating to routine administrative adjustments to the current 'unimproved value' valuation system	CMTEDDFOI 2018-0101

Ref No	Page number	Description	Date	Status	Reason for Exemption	Online Release Status
	1-3	Minute – Corelogic and Quoteable Value	11/09/2015	Full release	N/A	Yes
	4	Letter to Corelogic from ACT Revenue	00/12/2015	Full release	N/A	Yes
	5-10	Letter from Corelogic to ACT Revenue with annex	29/07/2016	Exempt in Full	Sch 2.2(a)(xi)	No
	11-15	Emails Correspondance with ACT Revenue	23/03/2017 14/02/2017 02/11/2016	Partial Release	Sch 2.2(a)(ii)	Yes
	16-17	Email from Commissioner for ACT Revenue	20/07/2017	Partial Release	Sch 2.2(a)(xi)	Yes
	18-19	Option 2a: Application of a different marginal land tax rate for multi-units blocks (blocks with over 10 units)	Jun 2013	Full release	N/A	Yes
	20-24	General rates AUV vs market values	Jun 2013	Full release	N/A	Yes
	25-66	Framework for Setting Taxes in the ACT	Nov 2011	Full release	N/A	Yes
Total No of Docs						
	8					

RECEIVED

11 SEP 2015

MINUTE



ACT
Government

Chief Minister, Treasury and
Economic Development

Date

7 September 2015

TRIM No: MIN 2015/005881

File No:

To

Treasurer

- Under Treasurer

fV 10/9

From

Director, Revenue Management Division

Subject

Discussions with Corelogic and Quotable Value

Critical date and reason

1. No critical date.

Background

2. Earlier this year you met Corelogic and Quotable Value (QV) with the Under Treasurer. Corelogic specialises in property data analytical services and QV focuses on providing statutory rating valuations in NZ and NSW. Corelogic's strength is in residential housing data especially for mortgage security. QV is a NZ government business entity and owns a significant share of Corelogic.
3. Following your meeting with Corelogic and QV, senior executives from LDA, Treasury, Revenue and Land Titles Office met with the organisations to discuss the following key issues:
 - property information that governments could potentially make available to foster innovation, allow consumers to make informed decisions and allow business using 'big data' to enhance their information products; and
 - capability of Corelogic to provide land information data for social infrastructure planning, valuations of green field sites and valuations for rating purposes.

Issues

4. It was agreed following that meeting that officials would identify a number of areas for further collaboration with Corelogic and QV. We believe that there are two areas that could be usefully pursued:
5. Making government data available

There is the possibility of exploring what property related data held by government could be made available to the public, the format it should take and how that data could be accessed. Corelogic has strong skill sets in this area as exemplified by the development of a property sales portal where data is accessed from State and

Territory jurisdictions and reformatted for public use and mortgage valuation purpose. Access to more government held information would enhance Corelogic's offering. But more importantly the release of government held property data would indicate the government's desire to share 'big data' with the community and demonstrates a greater level of transparency and openness.

Exploring alternative bases for the general rates/tax base

6. A potential second opportunity to explore is accessing Corelogic's knowledge in order to consider the merits of alternate bases for the general rates tax base e.g., a capital improved value basis. Capital improved value pertains to the improved value of a property incorporating any buildings and ground improvements e.g. 10 storey office, structured car park and landscaping.
7. Victorian and South Australian local councils use capital improved value for rating purposes as do most local councils in NZ. This approach has largely been facilitated by the existence of a comprehensive database of rateable property and an integrated management system. Most of these systems have been in place for many years.
8. Given Corelogic's experience in data analytics and systems, we could scope with them information integration requirements to establish a capital improved value database for Territory properties, how changes to the database can be captured and identify policy and risk issues with respect to changing the basis for general rates, such as the treatment of multi-unit properties and the residential versus commercial split.
9. It should be noted that the 2012 Tax Review considered the pros and cons of using unimproved values versus capital improved value and recommended that unimproved value be retained (with a slight modification). On balance the Review concluded that while capital values were more understandable and could result in more equitable outcomes, using capital improved values produced less efficient economic outcomes and required the establishment, and regular updating of, sophisticated property databases.
10. Investigating this option would have some workload implications for both ourselves and Corelogic. If you considered that there was no scenario where a change in the rates base would be considered by Government, we would recommend against undertaking this research.

Financial

11. NIL

Risks/ Sensitivities

12. NIL

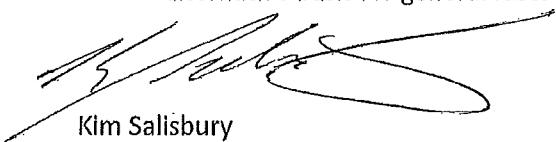
Media

13. NIL

Recommendations

We recommend you agree to further engagement with Corelogic on:

- The property information held by ACT government could be made available to the public; and
- Undertaking research into the use of capital improved value as a possible alternative basis for general rates in the Territory.



Kim Salisbury

Action Officer: Carlo Kling

Phone: 6207 4863

Andrew Barr MLA  17/9/15

AGREED/NOT AGREED/NOTED/PLEASE DISCUSS



ACT
Government

ACT Revenue Office

ABN: 45 096 207 205

Our File No:

Your File No:

Sch 2.2(a)(ii),

Executive General Manager Commercial

Corelogic

Level 21, 2 Market Street

SYDNEY NSW 2000

Dear **Sch 2.2(a)(ii)**,

Rating Method Proposal

I refer to your letter of 9 September 2015 to the Under Treasurer, Mr David Nicol referencing issues covered in a meeting between CoreLogic and representatives of the ACT Government on the 3 August 2015.

There has been ongoing consultation within the ACT Government and it appears that the proposal of most interest pertains to the development of a Capital Improved Valuation econometric model as a possible alternative basis for general rates in the Territory. This would be a new approach to rating valuations as historically the Territory has based rates on Unimproved Value negating the requirement to record the details of improvements.

Our strong preference will be to maintain a single rating system across the Territory.

Based on this, the ACT Revenue Office would like to explore how this system might be implemented, tested and supported and think a further meeting could greatly clarify our understanding of this opportunity.

So if you agree that it is worthwhile, please contact Carlo King of the ACT Revenue Office on (02) 6205 4863 who will organise the meeting.

Given the proximity to Christmas we envisage that the meeting will be early in the New Year.

Yours sincerely

Kim Salisbury
Commissioner for ACT Revenue
December 2015

Sch 2.2(a)(xi)

Sch 2.2(a)(xi)

Sch 2.2(a)(xi)

Sch 2.2(a)(xi)

Sch 2.2(a)(xi)

Sch 2.2(a)(xi)

From: Sch 2.2(a)(ii)
Sent: Thursday, 23 March 2017 3:28 PM
To: Salisbury, Kim
Cc: King, Carlo; Sch 2.2(a)(ii) Craig Mackenzie; Lalliard, MaryJane
Subject: RE: CoreLogic Meeting [SEC=UNCLASSIFIED]

Kim,

Many thanks for the update.

We appreciate the consideration given to the concept.

Regards,

Sch 2.2(a)(ii)

From: Salisbury, Kim [mailto:Kim.Salisbury@act.gov.au]
Sent: Thursday, 23 March 2017 12:54 PM
Sch 2.2(a)(ii)
Cc: King, Carlo <Carlo.King@act.gov.au>; Sch 2.2(a)(ii)>; Sch 2.2(a)(ii)
Sch 2.2(a)(ii) @Corelogic.com.au>; Lalliard, MaryJane <MaryJane.Lalliard@act.gov.au>
Subject: RE: CoreLogic Meeting [SEC=UNCLASSIFIED]

Sch 2.2(a)(ii) the government has now considered the proposal and has elected not to progress any further work on contemplating a change to the basis of rating arrangements over this term of the Assembly (which concludes in 2020).

Thank you for the effort that has been put in by your team to allow us to progress to this point.

regards

Kim

Kim Salisbury | Commissioner

Phone: +61 02 6207 0010 | <mailto:kim.salisbury@act.gov.au> kim.salisbury@act.gov.au

ACT Revenue Office | Chief Minister, Treasury and Economic Development Directorate

PO Box 293 Civic Square ACT 2608 | www.revenue.act.gov.au

From: Salisbury, Kim
Sent: Tuesday, 14 February 2017 5:06 PM
To: Sch 2.2(a)(ii)
Cc: King, Carlo; Sch 2.2(a)(ii) [Sch 2.2(a)(ii)]; Lalliard, MaryJane
Subject: RE: CoreLogic Meeting [SEC=UNCLASSIFIED]

Sch 2.2(a)(ii) apologises for not getting back to you, I am currently in a different role for a number of months. I understand that you made contact with Michael Cook from the Chief Minister's Office recently on this matter.

The costed proposal you put forward will be considered by Treasury in the context of the 2017-18 Budget. The Budget process is just commencing and should be concluded in May 2017.

I will contact you again when there is a decision on this.

Kim

Kim Salisbury | A/g Executive Director

Economic and Financial Group

Phone: +61 02 6207 0337 | <mailto:kim.salisbury@act.gov.au> kim.salisbury@act.gov.au

Chief Minister, Treasury and Economic Development Directorate

PO Box 158 Civic Square 2601

From: Sch 2.2(a)(ii) [REDACTED]
Sent: Monday, 30 January 2017 1:11 PM

To: Salisbury, Kim
Cc: King, Carlo; Sch 2.2(a)(ii); Lalliard, MaryJane
Subject: RE: CoreLogic Meeting [SEC=UNCLASSIFIED]

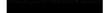
Kim,

Is there an update on timing on the below request?

Any feedback would be appreciated.

Regards,

Sch 2.2(a)(ii)



Sch 2.2(a)(ii)



From: Salisbury, Kim [mailto:Kim.Salisbury@act.gov.au]
Sent: Wednesday, 2 November 2016 4:30 PM
To: Sch 2.2(a)(ii) [REDACTED] <mailto:Sch 2.2(a)(ii) [REDACTED]>>
Cc: King, Carlo <Carlo.King@act.gov.au <mailto:Carlo.King@act.gov.au>>;
[REDACTED] <mailto:[REDACTED]>>; Sch 2.2(a)(ii) [REDACTED] @Corelogic.com.au
Sch 2.2(a)(ii) [REDACTED] @Corelogic.com.au>; Lalliard, MaryJane <MaryJane.Lalliard@act.gov.au
<mailto:MaryJane.Lalliard@act.gov.au>
Subject: RE: CoreLogic Meeting [SEC=UNCLASSIFIED]

[REDACTED], the new term of government only commenced this week.

I wouldn't expect that this issue will be considered again until next year.

Kim

Kim Salisbury | Commissioner | ACT Revenue Office

Phone: +61 02 6207 0010 | <mailto:kim.salisbury@act.gov.au> kim.salisbury@act.gov.au

ACT Revenue Office | Chief Minister, Treasury and Economic Development Directorate | ACT Government

PO Box 293 Civic Square ACT 2608 | www.revenue.act.gov.au

Respect, Integrity, Collaboration, Innovation - Better, Faster, Smarter

Please consider the environment before printing this email - or if printing is necessary, please print double-sided

From: Sch 2.2(a)(ii) [REDACTED]
Sent: Wednesday, 2 November 2016 3:57 PM
To: Salisbury, Kim
Cc: King, Carlo; Sch 2.2(a)(ii) [REDACTED]; Craig Mackenzie
Subject: CoreLogic Meeting

Kim,

Following CoreLogic's correspondence in July, I am emailing to request a meeting with CoreLogic to discuss a potential alternative approach to general rates in the ACT.

Any feedback on your availability in November would be appreciated.

Regards,

Sch 2.2(a)(ii)

Sch 2.2(a)(ii)

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]
This email, and any attachments, may be confidential and also privileged. If you are not the intended recipient, please notify the sender and delete all copies of this transmission along with any attachments immediately. You should not copy or use it for any purpose, nor disclose its contents to any other person.

From: Salisbury, Kim
Sent: Tuesday, 20 June 2017 12:53 PM
To: Goth, Kathy; Ellis, David
Subject: FW: ACT - rate change proposal [SEC=UNCLASSIFIED]
Attachments: ACT Proposal_CLQV_2016.pdf; Corelogic and Quotable Value brief September 2015.pdf

Importance: High

FYI, as agreed I'll draft something up to respond to the journo

Kim Salisbury | Commissioner

Phone: +61 02 6207 0010 | <<mailto:kim.salisbury@act.gov.au>> kim.salisbury@act.gov.au

ACT Revenue Office | Chief Minister, Treasury and Economic Development Directorate

PO Box 293 Civic Square ACT 2608 | www.revenue.act.gov.au

From: Salisbury, Kim
Sent: Wednesday, 8 March 2017 5:28 PM
To: Rayner, Jennifer
Subject: FW: ACT - rate change proposal [SEC=UNCLASSIFIED]
Importance: High

Jen as discussed the Corelogic proposal and our earlier brief on the issue (see paras 6-10).

Happy to bring an expert valuer over to discuss.

Key issues are around equity and incentives.

There are also issues around creating and maintaining the data base.

And the transition strategy.

The Corelogic trial sample is Sch 2.2(a)(x) (and will need a budget bid). The trial will also require significant resources from Rev Office, ESPDD and Land Titles Office.

Kim

Kim Salisbury | Commissioner

Phone: +61 02 6207 0337 | <<mailto:kim.salisbury@act.gov.au>> kim.salisbury@act.gov.au

ACT Revenue Office | Chief Minister, Treasury and Economic Development Directorate

PO Box 293 Civic Square ACT 2608 | www.revenue.act.gov.au

Option 2a: Application of a different marginal land tax rate for multi-units blocks (blocks with over 10 units)

- Under Option 2a, a differential set of marginal tax rates is introduced for multi-units blocks with more than 10 units. This option better reflects the properties' market value and rental return.
- Increasing the marginal land tax rate for multi unit blocks reduces the difference in taxation liability between multi unit blocks and stand-alone dwellings. However, as the overall increase in taxation liability for multi unit blocks is small, we do not anticipate it will negatively impact upon investment in multi unit blocks.
- Table Eight shows the different marginal tax rates that could be applied to multi unit blocks with over 10 units. In this instance, a marginal tax rate twice the current rates has been applied. The marginal rates for stand-alone dwellings and multi unit dwellings with less than 10 units have remained unchanged.

Table 10: Proposed marginal tax rates for stand-alone dwellings, townhouses and multi unit blocks

Stand-alone dwellings and Townhouses	Marginal Rate
AUV up to \$75,000	0.60 %
AUV from \$75,001 to \$150,000	0.70 %
AUV from \$150,001 to \$275,000	0.89 %
AUV of \$275,001 and above	1.80 %

Multi unit blocks (blocks with over 10 units)	Marginal Rate
AUV up to \$75,000	1.20%
AUV from \$75,001 to \$150,000	1.40%
AUV from \$150,001 to \$275,000	1.80%
AUV of \$275,001 and above	3.60%

- Table Nine compares the taxation liability of the same properties, however, the marginal land tax rate applied to multi unit blocks is twice that applied to stand-alone dwellings.

Table 11: Comparison of land tax liability with different marginal land tax rates for multi unit block and stand-alone dwelling

Suburb	Type	Rent (\$/wk)	AUV (\$)	Land tax (\$)	Property value
City	Unit	700	30,000	360	565,000
Charnwood	House	550	243,000	1,803	569,950

- The financial impact from this reform would provide an additional \$11 million to land tax revenue.
- The average land tax per multi unit property would also increase from \$657 to \$1,316 under this option.

Table 12: Financial Impact of Option 2a

	Current	Proposed	Difference
Land tax revenue (\$'000)	\$70,773	\$81,874	\$11,101
Average per multi unit property	\$655	\$1,311	\$656

- Table 13 below shows the distributional impact that this option would have on housing stock in the Territory. It shows that there would be no impact upon owners of stand alone dwellings or those who own multi units in a complex of less than 10 units. The burden of the reform would be borne by those in multi unit complexes with greater than 10 units.

Table 13: Impact of Option 2a

	Number of properties	Current revenue \$'000	Proposed revenue \$'000	Variance
Stand-alone properties	15,666	55,205	55,205	no change
Townhouses (<=10 units)	2,737	4,247	4,247	no change
Multi-units (>10 units)	16,914	11,083	22,184	11,101
Other (separate title)	111	238	238	no change
Total	35,428	70,773	81,874	11,101

- Under this reform option, land tax of multi unit complexes would increase from an average of \$655 to \$1,312. This is an increase of \$656 per annum.

Table 14: Impact on individual land tax bill

	Current average land tax	Proposed average land	Variance
Stand-alone properties	3,524	3,524	no change
Townhouses (<=10 units)	1,552	1,552	no change
Multi-units (>10 units)	655	1,312	656
Other (separate title)	2,143	2,143	no change

- This could be relatively easily incorporated into the revenue system and not require substantial changes compared to aggregation.

Option 2b: Use market value to determine land tax liability

- Currently, land tax is calculated on the AUV of a property. However, Option 2b proposes to use the market valuation of the property to determine land tax payable.
 - This would address the current issue where a single multi unit dwelling incurs a significantly lower taxation burden than a standalone dwelling with similar market values, but much lower land values.
- To ensure that Option 2b does not dramatically increase the land tax liability for all property investors, we have retained the current land tax thresholds, however, have adjusted the marginal rates. These are presented in Table land tax rates as illustrated in Table 15 below.

Table 15: Option 2b – proposed marginal rates and thresholds

Market value up to \$75,000	0.3 %
Market value from \$75,001 to \$150,000	0.4 %
Market value from \$150,001 to \$275,000	0.6 %
Market value \$275,001 and above	1.1 %

- Due to a lack of information about the current market valuation of land taxable properties, we were not able to calculate the financial impact of this reform.
- Table 16 below shows the impact of Option 2b for property investors of both houses and units across the Territory.

Table 16 – Impact of Option 2b

Canberra	Current land tax system				Option 4			
	Houses		Units		Houses		Units	
	AUV ¹	land tax	AUV	land tax	market value ²	land tax	market value	land tax
Inner Central	\$518,000	\$6,462	\$107,340	\$676	\$708,000	\$6,038	\$459,500	\$3,305
Inner South	\$396,167	\$4,268	\$125,454	\$803	\$562,800	\$4,441	\$407,500	\$2,733
West and North	\$263,666	\$1,987	\$98,515	\$615	\$478,300	\$3,511	\$370,000	\$2,320
Outer South	\$277,000	\$2,124	\$114,499	\$726	\$480,000	\$3,530	\$387,500	\$2,513

- Levying land tax on the market value of a property, results in a significant increase in the liability of investors in multi unit dwellings.

¹ Median 2013 AUV within the area, data from Territory Revenue System

² Median property value, REIA Real Estate Market Facts, June 2013

- We note that there is, on average, a slight decrease in land tax liability for standalone dwellings in the inner city, whilst standalone dwellings in Belconnen, Western Creek and Tuggeranong would incur a significant increase in liability.
 - Land tax liability on multi unit dwellings increases by 400 per cent on average.
- As the ACT Government does not collect data on the market value of investment properties, and requiring investors to provide this data may result in significant costs for investors, we suggest that a proxy be used in its place. For example, a multiple of annual rent may be sufficient.
- There would be substantial implementation issues associated with this reform, including changes to the calculation of land tax in the *Land Tax Act 2004* and changes to the ICT systems of the Revenue Office.

Market value as a base for calculating general rates

Background

The current system of levying general rates uses unimproved land value (AUV) as a base for calculating the level of each property's liability. In the case of apartments the AUV is divided among all the apartments on a given block. This results in apartments paying lower general rates compared to houses of similar market value. As Canberra continues the process of densification this will shift a relatively greater portion of the tax burden on to houses compared to apartments. A possible response to this is to use the market value of a property as the basis for calculating general rates.

Australia's Future Tax System Review and ACT Taxation Review

In order for a land based tax to be neutral it must be a per unit (square metre) tax that is independent of land use¹. The Australia's Future Tax System review (AFTS) states that '*land tax rates should be based on the value of a given property, so that the tax does not discriminate between different owners or uses of land.*'² By using market value to calculate rates it would effectively discriminate against the use of land for higher value buildings such as apartment blocks. AUV allows for higher rates to be charged on land which has a higher value based on location or potential returns (land zoned for apartments will have higher economic rent than land zoned for houses), rather than the level of improvements.

The AFTS also states that taxes on improvements would discourage investment, meaning land may not be used in the most efficient way. This may also lead to urban sprawl³, though it should be noted that taxation is not the Territory's only instrument for encouraging urban densification. Land is an efficient tax base as it is immobile, however the review also notes that if the tax was calculated on market value across all properties in an area the efficiency costs are likely to be small. Additionally a tax on improvements would likely have only a small efficiency cost if the tax rate was low.

Unimproved Land Value

The current general rates system uses unimproved land value as a basis for calculating rates. Although there is a number of different valuation methods used around the country those based purely on land, without including any improvements are the most efficient⁴.

¹ Wildasin, David E. "More on the neutrality of land taxation." *National Tax Journal* (1982): 105-108.

² Australia's Future Tax System: Final Report, Part 2: Detailed Analysis, Chapter C: Land and resources taxes.

³ Banzhaf, H. Spencer, and Nathan Lavery. "Can the land tax help curb urban sprawl? Evidence from growth patterns in Pennsylvania." *Journal of Urban Economics* 67.2 (2010): 169-179.

⁴ Wildasin, David E. "More on the neutrality of land taxation." *National Tax Journal* (1982): 105-108.

There are some equity issues with the current system. Owners of apartments pay lower rates than owners of houses of a similar market value. However this also acts as an economic incentive for land to be used more efficiently, driving urban densification⁵.

Market Value

The main benefit of charging general rates based on market value is it will ensure that high value apartments will pay similar rates to houses of a similar market value. As the process of densification continues in the ACT a larger share of the tax burden will be shifted to houses compared to apartments. Densification creates a greater strain on government services in any given area. With the current system of calculating rates the liability of an area will not increase by an equal proportion to the increase in dwellings as more landed is rezoned for use as apartments. This results in services being provided at lower cost per household. It makes sense to increase the liability for apartments in order to cover the cost of higher service levels that are being consumed in a given area.

There are a number of issues with using this method. Basing rates on market value would ensure that households that have a higher value pay more tax. This is in line with vertical equity, however when an estimate of ability to pay is based on asset ownership, such as a house, rather than income it is not necessarily a good proxy. Property that has had a single owner over the long term may have significantly increased in value, which does not necessarily reflect an increased ability to pay.

A market value based system also provides a disincentive for property owners to make improvements⁶ meaning those with greater ability to pay may not signal that ability through increased spending on property. It may also affect their decision on which property to buy based on the value of improvements, which could result in sub-optimal housing arrangements. A recent report from the Grattan Institute notes that the current stock of fixed capital is unlikely to be affected by a tax on market value. Though as capital is mobile between jurisdictions it could affect investment decisions resulting in improvements being made in a jurisdiction where they are not taxed⁷. The report also suggests that the economic cost of a property tax would be small if levied at a low rate.

From an administrative standpoint charging general rates based on market value would require data on market values. The majority of the cost associated with gathering market value data would be accrued in the transitioning period as data would need to be gathered on the 150,000 properties in the ACT.

Additional cost would arise due to AUV being used as the basis for calculating residential land tax and commercial Fire and Emergency Services Levy (FESL). These taxes would also need to be transitioned to a system of market values or additional costs would be accrued by having to maintain

⁵ Banzhaf, H. Spencer, and Nathan Lavery. "Can the land tax help curb urban sprawl? Evidence from growth patterns in Pennsylvania." *Journal of Urban Economics* 67.2 (2010): 169-179.

⁶ Australia's Future Tax System: Final Report, Part 2: Detailed Analysis, Chapter G: Institutions, governance and administration, G3: Local government.

⁷ Daley, John & Coates, Brendan, 'Property Taxes', Grattan Institute Working Paper.

data sets on both AUV and market values. As well as those taxes the land rent scheme is based on AUV, so there would be transitioning costs for that scheme also.

Valuation Methodologies for the Setting of General Rates⁸

There are a range of different bases for general rates used across states including:

- unimproved value;
- site value;
- unimproved capital value;
- improved capital value;
- gross rental value; and
- net annual value.

As rates are set by local councils there is inconsistency within states as to how rates are calculated. In some states the calculation method is determined by the category of the land, eg residential, rural or commercial, while in other states local councils have complete autonomy to choose the valuation method. Some local councils also have the power to further subdivide state-wide categories to allow them to apply differential rates if they deem it necessary for equity reasons. Local councils in WA may also apply differential rates to a given area in order to fund specific services provided within that area. Other states also carry out valuations less frequently than ACT. NSW performs valuations every three years, while Victoria does them every two years.

NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Land Value; Improved Value; Assessed Annual Value	Site Value; Net Annual Value; Capital Improved Value	Site Value; Unimproved Value	Unimproved Value; Gross Rental Value	Capital Value; Site Value; Annual Value	Land Value; Capital Value; Value; Annual Value	Unimproved Value	Unimproved Capital Value; Average Value; Improved Capital Value

Conclusion

By changing to a system of market values it would ensure that an unfair level of the burden from general rates is not transferred to houses as the process of densification continues. However there would be a large cost to transfer to a new system of valuation, including the issue of having other taxes based on AUV. Using AUV also creates an appropriate economic incentive to use land in the most efficient way. Both the AFTS and the ACTTR state that land value, excluding improvements, is the most efficient base for general rates. By moving to a market value system there would be a small efficiency cost as people may change their behaviour to avoid tax liability, and it may marginally affect investment decisions.

⁸ ACT Taxation Review, Part 3: The ACT's current taxes, General rates.

A Framework for the Setting of Taxes in the ACT

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Executive Summary.

This report proposes a framework for the setting of taxes in the ACT and in doing so it endeavours to encompass the principles of efficiency, equity, simplicity, transparency and sustainability/robustness. In developing the framework relevant recommendations in the review of Australia's future tax system (the Henry review) which relate to municipal and state/territory taxes have been taken into account, including those relating to transaction and/or regressive taxes.

Land has been identified as one basis for the development of an efficient and transparent tax base and forms the basis for the structuring of a tax system where a significant number of current taxes/levies can be replaced by two charges attached to land, namely a Site Charge and a Service Charge. An examination of an appropriate measure of land value as a basis for the determination of land based charges has indicated that the market value of land is the preferred measure, rather than the currently adopted unimproved value. The market value of land has been applied as the appropriate measure in New South Wales, where it is referred to as Land Value, and in Queensland, where it is referred to as Site Value. Other jurisdictions are currently reviewing the basis for measuring land value for use in the setting of rates and land tax.

Site value has been adopted in the framework as a basis for the setting of Site Charges which would include a component of the current rates charge, land tax and potential changes to stamp duty based revenue. This has been supported by the fact that the introduction of the Lease Variation Charge applied to the redevelopment of land (from 1 July 2011) based on a codified system of charges, which replaces the previous Change of Use Charge, is determined from the market value of land (Site value).

The framework includes the proposed broadening of the application of land tax to apply to all residential dwellings, including owner occupied dwellings, rather than being limited to residential investment dwellings, as is the case at present.

A mechanism currently exists for reducing the amount of stamp duty payable, in the case of new residential dwellings, through the mechanism of paying stamp duty only on the land value rather than the improved value of the property (house and land combined), the latter being the case for established residential dwellings. To overcome this 'anomaly', it has been proposed that the level of stamp duty payable be determined from the market value of the land (Site value), rather than the improved value of residential dwellings. It has been recognised that while it would be preferable to phase out stamp duty, since stamp duty represents such a significant component of total revenue (21.9% in 2009/10), other taxes would have to be broadened/increased, or the Commonwealth would need to supplement current grants to account for this. (At the recent Commonwealth Tax Forum the Treasurer indicated that this would not happen.)

If the broadened land tax base were to be used as a basis for reducing/eliminating stamp duty on residential property sales, it should be recognised that this tax burden would effectively be shifted from residential investment dwelling purchasers to all residential property owners. The option of stamp duty payments by means of instalments through time should also be investigated. The resultant impact on revenue cash flow from this source should be carefully analysed, particularly in the initial stages of the introduction of such a policy. Any impact

could be considered in conjunction with the impact of the broadening of the land tax base at the same time.

What has been proposed is that the Site Charge for residential properties should be determined from the Average Site Value (ASV) and the Percentage Multiplier (PM) as:

$$\text{Site Charge} = \text{ASV} \times \text{PM}$$

where the Average Site Value is an average over three years.

The application of this formula to determine the Site Charge will reflect land value relativities through the ASV, and land consumption through the PM. Besides being transparent and straightforward, it allows for significant flexibility in its application. If, for example, in a particular location Government policy wishes to encourage re-development on smaller blocks in particular location(s), the PM can be chosen so that the Site Charge payable in those location(s) will reflect this.

In the case of the current rates notice for residential dwellings, identified specific fixed charges (eg domestic waste removal, fire and emergency services levy) should be accounted for in the Service Charge and, from the point of view of transparency, specifically identified/itemised in the Service Charge notice. Consideration should be given to the transfer of a number of individual taxes/charges such as road and infrastructure services components (which form part of the current rates notice), ambulance levy and insurance levies into the Service Charge.

It should be emphasised that this report relates to a **framework** for the setting of taxes in the ACT into the future. Significant ongoing analyses will need to be undertaken to determine what is, and what isn't, feasible. While the Henry review proposed the abolition of many taxes, including payroll tax, when such taxes contribute such a large percentage of the overall revenue in the case of the Territory, unless the Commonwealth is prepared to compensate, through increased grants, for the loss of such a significant revenue source, the abolition/reduction of such taxes may not be financially prudent, unless the tax base can be significantly broadened.

Recommendations.

Recommendation 1 (Section 3.6):

The ACT Government should adopt the market value of land as a basis for the determination of rates, land tax, lease variation charges, and other charges. This land or site value should exclude improvements on the land (such as buildings and sheds) but include improvement to the land by way of clearing, filling grading, draining, levelling or excavating of the land.

Recommendation 2 (Section 4.3.6):

All residential property in the ACT should be subject to the payment of rates and land tax, with land tax on currently exempt owner-occupied residential properties to be phased in over an appropriate transition period.

Recommendation 3 (Section 4.3.6):

Rates and land tax should be incorporated into a single Site Charge attached to individual properties in the ACT, using the Site Value (market value of land) as a basis for the annual determination of the Site Charge.

Recommendation 4 (Section 4.3.6):

Consideration should be given to the reduction and, over time, phasing out of Stamp duty on property transactions. Any phasing out should take account of the introduction of the extension of the land tax liability to owner-occupied residential properties. If properties which are currently not subject to land tax are sold, then the purchaser should be entitled to a further reduction in the level of stamp duty liability relating to the sale, with this reduction being offset by the purchaser being liable for the payment of land tax associated with the purchased property, from the date of final settlement of the property sale. This reduction would apply during the transition period relating to the proposed extension of the land tax base.

Recommendation 5 (Section 4.3.6):

To remove the option to pay stamp duty only on the land component of new domestic house and land purchases, rather than the improved value of the property (house and land combined), as is the case for developed properties, stamp duty should be based on the market value of the land (Site value), rather than the improved value of the property as at present.

Recommendation 6 (Section 4.3.6):

As is the current practice in the ACT, land tax should continue to be applied per land holding, not as an entity's total holding.

Recommendation 7 (Section 4.3.6):

The Government should recognise that, in determining an appropriate distribution of the proposed Site Charge across individual residential leases (blocks), there will be a need to undertake a significant analysis to determine a process which best supports Government policies, including that relating to increasing population density in specific locations. In addition, analyses in the case of commercial, industrial and rural leases will also need to undertaken in order to determine an appropriate allocation of Site Charges to these leases.

Recommendation 8 (Section 4.5.7):

Consideration should be given to a number of the levies/charges identified in this section being abolished and replaced with a broadly based Service Charge. The Service Charge should be applied to all land in the ACT, with the level of charge being dependent on the nature of the lease held by the lessee.

Recommendation 9 (Section 4.5.7):

Taking into account the relevant sections of the Henry review applying to state based taxes, to achieve as broad a base as possible, and to achieve equity in the application of land based taxes, the ACT Government should seek appropriate advice on the feasibility of the application of proposed Service Charges to Commonwealth controlled land.

1. Introduction

There are a number of basic principles underlying tax reforms that should be applied to assess individual taxes which comprise the current tax system, and which should form the basis of any proposed changes to this system. Other reviews of Australian and state tax systems have aimed at evaluating current and proposed tax changes against these principles of: Efficiency, Equity, Simplicity, Transparency and Sustainability/Robustness.

In doing so however it is clear that these criteria may not always be compatible. Indeed by ensuring equity this may lead to a reduction in simplicity and transparency through the introduction of detailed and complex legislation in an attempt to achieve the desired equitable distribution of a particular tax. In such situations there will be a need to attempt to achieve an acceptable balance between the underlying principles to achieve the desired goals.

As identified and discussed elsewhere^{1,2}:

An **efficient** tax should have minimal impact on individual and business decision making and behaviour. An efficient tax system should be broadly based (applying to a wide range of assets and activities but at a low rate), should not significantly affect business decisions, innovation or entrepreneurial activities, and should provide little or no incentive for taxpayers to aim to minimise or avoid tax.

An **equitable** tax system considers vertical equity (more tax is paid by those with a greater capacity to pay), horizontal equity (people in similar circumstances bear a similar tax burden) and who actually bears the cost of the tax (rather than who is legally required to pay it).

A **simple** tax system is readily understood, has a small number of broadly based taxes with a small number of thresholds, has minimal concessions and is easy and inexpensive to comply with and to administer.

A **transparent** tax is such that its applicability and enforcement is easily apparent.

A **sustainable** tax will provide revenue stability (that is it does not fluctuate significantly from year to year), raise sufficient funds (to meet Government spending needs), and in the long run, support a balanced budget (to avoid placing the burden of current government expenditure on future tax payers).

In addition to these basic principles or ideals, the Terms of Reference for the ACT Taxation Review require the review to ‘complement and build on the recently completed Commonwealth review of taxation’.³

¹ *State Tax Review Discussion Paper*. December 2010. Tasmanian State Government. (See www.treasury.tas.gov.au)

² *Review of State Taxation. Report to the Treasurer*. October 2008. NSW Independent Pricing and Regulatory Tribunal. (See www.ipart.nsw.gov.au)

³ *Australia's Future Tax System*. December 2009. Commonwealth Treasury. (see www.taxreview.treasury.gov.au)

In considering a way forward when considering individual ACT taxes, such considerations will, where possible, be undertaken in the framework of relevant sections of the review of Australia's Future Tax System, often referred to as the Henry review (HR).

2. Land as an Efficient Tax Base

The efficiency of using land values as a tax base was identified in the Henry review which stated:

- (i) ‘Land has the potential to be an efficient tax base for the States capable of delivering significant and sustainable revenues. Land is an efficient tax base because it is immobile; unlike labour or capital, it cannot move to escape tax.’ (HR p247).
- (ii) ‘The future Australian tax system should increasingly rely on land values as a tax base.’ (HR p264)

A number of recommendations in the Henry review related to land tax, including (HR p 263):

Recommendation 52:

Given the efficiency benefits of a broad based land tax, it should be levied on as broad a base as possible. In order to tax more valuable land at higher rates, consideration should be given to levying land tax using an increasing marginal rate schedule, with the lowest rate being zero, with thresholds determined by the per-square-metre value.

Recommendation 53:

In the long run, the land tax base should be broadened to eventually include all land. If this occurs, low value land, such as most agricultural land, would not face a land tax liability where its value per-square-metre is below the lowest rate threshold.

Recommendation 54:

There are a number of incremental reforms that could potentially improve the operation of land tax, including:

- ensuring that land tax applies per land holding, not as an entity's total holding, in order to promote investment in land development;
- eliminating stamp duties on commercial and industrial properties in return for a broad land tax on these properties; and
- investigating various transitional arrangements necessary to achieve a broader land tax.

Also (HR p695):

Recommendation 121:

Over time, State land tax and local government rates should be more integrated. This could involve:

- moving to a joint billing arrangement so that taxpayers receive a single assessment, but are able to identify the separate State and local component; and
- using the same valuation method to calculate the base for local government rates and land tax (with this method being consistent across the State).

Given the unique nature of the ACT Government in that it undertakes the role of both state and local government responsibilities with respect to rates and land tax, issues raised in Recommendation 121 are more easily handled than in the case of State Governments. The ACT already uses the same valuation method, currently based on the unimproved value of land, as the basis for determining rates and land tax, though it currently does not bill these two levies as a single assessment.

Recognising that land is a fixed asset, as distinct from capital and labour, as the Henry review identified, land value has the capacity to form an efficient tax base. As will be identified in this report, in the ACT a number of the taxes/levies charged could be replaced by broadly based Site and Service charges. Prior to doing so however it is necessary to determine a preferred measure of land value.

3. Measuring Land Value

Charges based on land value should be determined from the value of the land comprising that property. In doing so any charges/levies/taxes do not differentiate, or discriminate, between owners or uses of land. The Henry review argues that ‘land value tax is efficient because the tax reduces the price of the land but does not affect how it is used, or how much is used’ (HR p247). Indeed how much purchasers are willing to pay for land will be affected by the expected land value based taxes associated with the land.

In setting charges based on the value of land, the method of assessing land values needs to be robust and also to ensure any land value based charge/tax is efficient and fair. The Henry review states that ‘much of the criticism of land tax centres around perceived arbitrary and inconsistent valuations. Confidence in the system requires up-to-date, transparent and consistent assessments.’ (HR p251).

It has been noted⁴ that ‘property taxation has a very long history of successful application and,, it enjoys a certain simplicity, transparency and reliability.’ This is based on the fact that;

- it is a progressive tax on wealth which may be balanced with user-pays service components
- it has a fixed base identified by means of physical surveys and by specific title references
- it provides a reliable and independent assessment of value which, together with objection and appeal mechanisms, can achieve consistency, relativity and vertical and horizontal equity⁵

⁴ Hefferan, M J and Boyd, T. (2010). *Property taxation and mass appraisal valuations in Australia – adapting to a new environment*. property management. Vol 28, No 3. Emerald group Publishing Limited.

⁵ As indicated earlier, horizontal equity implies that the same treatment is given to people in an identical situation, while vertical equity implies that people with higher incomes should pay more tax. Horizontal equity is an important starting point for any tax system. It can be consistent with also achieving vertical equity. Horizontal equity is the equal treatment of equals and this is a means of achieving a distribution of tax burdens that is vertically equitable.

- any levies/taxes imposed are normally in the form of a percentage or rate in the dollar,
- there is an overall acceptance and general understanding of the reliability, fairness and consistency of a land value based system of charges/levies/taxes.

Land valuation methods for the setting of taxes and charges vary between jurisdictions (states/territories). Table 1 identifies current valuation methodologies for the setting of (council) rates and land tax⁶.

Table 1
Valuation Methodologies for the Setting of Rates and Land Tax

	NSW	Vic	WA	SA	Tas	QLD*	NT	ACT
Rates	LV	SV, NAV, CIV	Rural: UV Non-Rural: GRV	CV, SV, AV	LV, CV, AAV	SV	UCV, AV, ICV	UV
Land Tax	LV	SV	UV	SV	LV	SV	Not levied	UV

Note: AV = Annual Value, AAV = Assessed Annual Value, LV = Land Value, CV = Capital Value, CIV = Capital Improved Value, GRV = Gross Rental Value, NAV = Net Annual Value, SV = Site Value, UCV = Unimproved Capital Value, UV = Unimproved Value, ICV = Improved Capital Value.

*Queensland introduced Site Value as the basis for setting rates and land tax for non-rural land from 1 July 2011, having changed from unimproved value.

While there are some subtle differences in the base definitions of value, the adopted methods may be broadly categorised as;

- Measures based of the value of land itself including unimproved value, unimproved capital value, land value and site value. These values relate to the value of land, and exclude ‘improvements’ (such as buildings, as well as in some bases draining, levelling or filling).
- Capital value and capital improved value include the total market value of land, including any buildings or other improvements.
- Annual value, annual assessed value and gross rental value are based on estimates of the sum of all rental payments paid to the land owner in a year (or would be if the property was rented).
- Net annual value is also the rental value of the property but allows the deduction of landowner’s costs, including land taxes and maintenance costs.

A major objective in choosing an appropriate base for the determination of rates, land tax, etc is that the valuation process chosen is transparent, easily understood by the community and the valuations are timely, relevant, cost effective and the relativities are demonstrable across locations within a state/territory and between states/territories.

Since 2005 a number of states/territories have conducted reviews relating to the appropriate choice of a value to be used as a basis for the setting of charges (taxes, rates, duties, levies, etc. These include Tasmania⁷, Queensland⁸, ACT⁹ and NSW^{10,11}.

⁶ Table 1 is an updated version of Table C2-2 appearing in the Henry review (HR p258).

3.1. Tasmania

Under section 11 of Tasmania's *Valuation of Land Act 2001*, the Valuer General must determine three different values for each property, namely

- Land value – value of the property excluding all visible improvements (eg buildings, structures) but including invisible improvements (eg drainage, excavations);
- Capital value – total value of the property, excluding plant and machinery; and
- Assessed annual value (AAV) – gross annual rental value of the property, excluding GST, council rates and land tax.

Access Economics was engaged by the Local Government Division, Department of Premier and Cabinet (Tasmania) to provide technical advice as part of a review of valuation and local government rating in Tasmania. The final report was presented in October 2010. The former Tasmanian treasurer also announced a review of State taxation in the 2010-11 Budget. The Treasurer established a review that 'will examine the existing system and set a vision for a State tax system that will be appropriate for meeting the needs of Tasmania'.¹²

Currently all 29 Tasmanian councils employ AAV as the basis for rating, however the relevant legislation states that AAV must not be less than 4% of capital value (the 4% minimum rule). In their report Access Economics noted that falling yields have resulted from the proportion of properties on the 4% minimum rule has increased dramatically, 'to the point where the majority of properties are now subject to the rule and are effectively rated against capital value'.

It is notable that;

- AAV is used by the Tasmanian State Grants Commission to determine local government grants and the State Fire Commission (to calculate fire levies).
- Capital value is used by the State Government to determine stamp duty.
- Land value is used by the State Government to determine land tax and by the Commonwealth Grants Commission.

The Access Economics review analysed the different valuation bases currently in use in terms of the stated principles of optimal taxation (efficiency, equity, simplicity, et al). In

⁷ Access Economics. (October 2010). *Valuation and local government rating in Tasmania: a robust framework for the future*. Report for the Local Government Division, Department of Premier and Cabinet, Tasmania. (See www.dpac.tas.gov.au)

⁸ PricewaterhouseCoopers. (June 2010). *Queensland Statutory Valuation Reform Review*. Queensland Department of Environment and Resource Management. (See www.derm.qld.gov.au)

⁹ ACT Standing Committee on Public Accounts. (March 2008). *Inquiry into Land Valuation in the Australian Capital Territory*. Report 13. (See www.parliament.act.gov.au)

¹⁰ NSW Ombudsman. (October 2005). *Improving the quality of Land Valuations issued by the Valuer General*. Special Report to Parliament. (See www.ombo.nsw.gov.au)

¹¹ Parliament of NSW. (December 2010). *Report on the Inquiry into the provisions of the Valuation of Land Act 1916*. Joint Standing Committee on the Office of the Valuer-General. (See www.parliament.nsw.gov.au)

¹² State Taxation Review. (December 2010). *Discussion Paper*. Tasmania. (See www.treasury.tas.gov.au/statetaxreview)

addition the possibility of a hybrid valuation base was considered whereby different land uses were rated against different valuation bases. For example, residential and rural uses could be rated against land value, with commercial and industrial uses against capital value.

Any final outcome would obviously be a policy decision to determine which bases would be the most appropriate for which land classes. The adoption of a hybrid type base would also allow policymakers to determine how much revenue was to be raised from a particular class of property.

Following a comprehensive analysis three valuation base options were compared:

Option 1: Land Value

As a valuation base, land value was seen as the most efficient, it is the simplest and least resource-intensive to administer; and it aligns with the Henry review Recommendation 121 that tax bases used by state and local government be better integrated. Equity (capacity to pay) objectives were seen to be more challenging to achieve.

Optimal implementation was seen to include a single, low fixed charge and the use of differentials, multi-tiered rates and concessions, depending on particular circumstances.

Option 2: Capital Value

In cases where capacity to pay was seen as a more significant policy consideration, capital value may be considered as being more preferable to land value; it was also perceived as the most easily understood by ratepayers. However the cost savings were determined to be considerably less than if land value were the sole method for the determination of rates. Also capital value is less efficient compared with land value, less suited to addressing benefit considerations, and more costly to administer.

Option 3: AAV

The analysis conducted in the Access Economics review concluded that there was not a strong case for retaining AAV, in the case of land valuation methods as a basis for rating purposes in Tasmania, there was not a strong case for retaining AAV as a valuation base for the setting of local government rates.

Capital value was seen to have one distinct advantage over land value in that it was better able to address capacity to pay considerations, since capital values more closely reflect income/wealth and, as a tax base, it better allows policy makers to target equity. Moving from AAV to capital value was estimated to result in administrative cost savings of around 15%; this was much less than the overall gains under a model based only on land value.

Land value was deemed to be the most economically efficient and best equipped to address benefit principle considerations. It was also seen to be the least resource intensive and hence least costly to administer (indicative estimates suggested that a 50% saving in total valuation costs could be achieved under a land value only model). In addition it was consistent with the recommendation of the Henry review that state land

tax and local government taxation be more closely aligned (Recommendation 121). It is believed that even though a wholesale shift to land value would require changes to the administration of stamp duty (which is currently based on capital value), such changes were manageable and would bring Tasmania into line with other jurisdictions.

This report concludes that there is a strong case for shifting the valuation base employed for local government rating to either capital value or land value, with the ultimate choice between these two valuation bases resting with policy makers.

As has been indicated, the Tasmanian Government is currently conducting a State Tax Review (see footnote 12). The associated Discussion Paper indicates that outcomes of the Local Government Valuation and Rating Review will be considered by the Review panel associated with this Tax Review. The Review committee's draft recommendations are to be available for comment in September 2011, with the Final Report recommendations to be published in December 2011.

3.2. New South Wales

Following a written request from the NSW Valuer General in June 2010, the NSW Parliament Joint Standing Committee on the Office of the Valuer General undertook a review into the provisions of the *Valuation of Land Act 1916*. In December 2010 it released its report, together with answers to questions on notice, transcript of evidence and minutes of proceedings¹³. In undertaking this inquiry, the Committee considered the efficiency and effectiveness of the current provisions of the Act, its application to stakeholders, and any other related matters which emerged during its deliberations.

The purpose of the Act is primarily to provide consistent, reliable and independent valuations for the purpose of levying rates and taxes. The Act provides for three methods of valuation: land value, improved value and assessed annual value.

Land value is the value of land only and is the method currently in use in New South Wales. The Act specifies that land values are to be 'market values' but does not specify the method by which land values are determined. In determining the value of land the Act also allows for a variety of allowances and apportionment factors to be taken into account, including heritage orders and other restrictions.

Land value uses a common basis for assessing the value of land based on the land being vacant. Land value reflects the market value of land as at 1 July in the year of valuation. It does not include the value of a dwelling or other structures and improvements on the land. However works including clearing, filling, draining and retaining walls are included in the land value. (Section 6A of the Act details works to be included in land value). In addition, if there is a water right attached to the land, the land value includes the value of the water right (Section 6A(3)(a)). Land value is considered to remove the element of taxation on the owner's capital input and only reflects the underlying value of the land. Land value captures the increase in value from the range of activities that occur around the land including the growth of demand due to population increase and

¹³ NSW Parliament Joint Standing Committee on the Office of the Valuer-General. (December 2010). *Report on the Inquiry into the provisions of the Valuation of Land Act 1916*. Report No. 4/54. (See www.parliament.nsw.gov.au)

consequential use changes or changes in land use patterns (the ‘unearned increment’ in land value).

A submission to this review from the Land and Property Management Authority (LPMA)¹⁴ noted that land value has been considered by ‘various previous inquiries and reviews to be the most appropriate method for providing rating and taxing valuation in New South Wales’ (page 9 of footnote 13).

The improved value of land values the land and buildings (Section 5 of the Act). This value is aimed at assessing the capital input and economic endeavour of the owner. It is seen to be more easily understood by landowners as there is no element of adjustment to hypothetically remove improvements. While this valuation method reflects the entity that is traded on the market (including any improvements) to use this method for the setting of levies could act as a disincentive to landowners to improve or maintain property to the highest and best use. It is also notable that improvements on land are subject to more frequent changes than the underlying land and so improved values require a ‘significantly higher maintenance input’.¹⁵ Improved values of the whole of NSW have not been made since 1973.

Assessed annual values are based on the rental returns of a property. (Section 7 of the Act). They are normally regarded as providing a similar rating and taxing effect as improved values.

The LPMA, in its submission, concluded¹⁶ :

- ‘1. That land based rating and taxing provides an efficient and effective source of revenue for government in New South Wales and should be retained.
2. That land values are an efficient and effective basis for land based rating and taxing in New South Wales and should not be changed without careful cost/benefit consideration of the alternative value bases.
3. The Act currently requires comprehensive review to address many of the issues that arise from its out-dated language, unclear or inconsistent provisions and numerous amendments to the Act.
4. Any review of the Act should be considered in consultation with key stakeholders, including rating and taxing authorities, to ensure all needs are met.’

The Joint Standing Committee report (footnote 13) recommended that a comprehensive review of the Act be undertaken and that the issues raised in that report be considered as part of that review by the Valuer General. In response to the Committee’s recommendations the Valuer General advised that a comprehensive review of the *Valuation of Land Act 1916* will commence in 2011, with the issues raised in the Committee’s recommendations to be considered as part of that review.

¹⁴ Land and Property Management Authority. (July 2010) Submission to the *Inquiry into the Provisions of the Valuation of Land Act 1916*. Submission No 9. (See www.parliament.nsw.gov.au)

¹⁵ Page 15 of footnote 14.

¹⁶ Page 24 of footnote 14.

3.3. Victoria

In Victoria councils may choose one of three valuation methods for the setting of rates, namely;

- site value – the unimproved market value of the land;
- capital improved value (CIV) – total market value of the land plus improved value of the land including any buildings or other improvements; or
- net annual value – annual rental value or 5% of the CIV for residential and farmland (must be at least 5% of CIV for commercial/industrial).

Currently no councils use site value for rating purposes, 73 use CIV and 6 use NAV.

Councils are responsible for revaluations (every 2 years), with most using contract valuers. The Valuer General audits the valuations.

The basis for councils using the CIV methodology appears to be that it is well understood and recognised by the taxpayer. It is notable that when a CIV approach is used as the basis for the setting of a tax, it would represent a regressive tax in the sense that it would encourage landowners, in order to reduce their tax liability, not to add improvements to match the highest and best allowable use of the land. It would also encourage the property not to maintain/update the improvements through time to capture the maximum improved value of the property.

On 1 May 2010 changes to the Victorian *Valuation of Land Act 1960* were implemented, giving municipal councils the option to transfer to the Valuer General their responsibility for completing valuations for rating purposes, and making the Valuer General responsible for state-wide valuation databases. Previously this was the responsibility of each individual council. This is more in line with the NSW rating and land tax system, where the Valuer General contracts out valuations to private enterprise on a state wide basis, while attempting to maintain a consistency in values between different geographical locations within the state.^{17,18}.

3.4. Queensland

In March 2010 the Queensland Government announced that, commencing in 2011, Queensland would move away from using the unimproved value of land (for non-rural land) as a basis for the determination of rates, land tax and other levies. Instead they would adopt a Site Value definition and methodology. A review team led by PricewaterhouseCoopers (PwC) was engaged by the Queensland Government Department of Environment and Resource Management to undertake a review of the State's statutory valuation process and, amongst other requirements, recommend a new

¹⁷ NSW Ombudsman. (October 2005).*Improving the Quality of Land Valuations issued by the Valuer General*. (See www.ombo.nsw.gov.au)

¹⁸ This Ombudsman's report concluded that while the methodology employed to produce land valuations was generally sound, 'weaknesses in the implementation of the quality assurance framework means that the system is producing an uncertain number of values that have unacceptable margins of error'. (page ii of footnote 17). This is as a result of privately contracted valuers determining values in different geographic locations; this has led to significant (unacceptable) variations in determined values. The ACT has an advantage over NSW and Victoria in that one organisation (the Australian Valuer General's Office) has responsibility for valuations for rating land tax, and other purposes. Consequently there is consistency in the set of values produced for rating and taxing purposes.

Site Value definition and outline a new Site Value methodology. The resulting report was completed in June 2010.¹⁹

In the Executive Summary in this report, the consultants concluded that (page ii):

‘Extensive evaluation of other States’ definitions of Site value and broad discussions with the Valuers General of NSW, VIC, SA and WA led the review team to the conclusion that the NSW definition of Site Value, with some minor modification, will provide the best platform for the introduction of SV in the Queensland environment.’

The report recommended the adoption of the NSW Valuation of Land Act definition of Site Value with minor modification to remove irrelevant references to Rural site improvements and the adaptation of clauses in the NSW Act to accommodate specifics such as heritage constraints.

In Queensland the *Land Valuation Act 2010*, which came into effect in September 2010, introduced changes to the statutory land valuation process. From 1 July 2011, all non-rural land is to be valued using the site value methodology and all rural land will continue to be valued using the unimproved valuation methodology.

Site value is similar to the market value of land in its current state. It includes the value of any site improvements made to the land including filling, clearing, levelling and drainage works.²⁰ The following works do not constitute site improvements under the Queensland Land Valuation Act:

- structural works carried out after the land has been prepared for development (eg houses, sheds, fencing, dams, landscaping and other such improvements on the land)
- minor works such as preparing soil for gardens, retaining walls for landscaping purposes, pruning or removal of trees for beautification purposes, excavations for pools, spas or fish ponds
- excavations for underground car parks or the footings/foundations of a structure do not constitute site improvements under the Act, nor do internal roads and driveways, services such as water and sewerage pipes or associated excavations. These improvements are not considered when assessing site value
- any agreements for leases, development approvals or infrastructure credits and their added value (if any).

The site valuation methodology is available for use in most Australian states. It is more aligned to market value, making the valuation simpler and easier to understand.

Queensland has adopted, with some amendments, the New South Wales definition of site value, referred to as land value in that state, which is used by the Commonwealth Grants Commission a basis for the allocation of funds based on the value of land.

¹⁹ PricewaterhouseCoopers. (June 2010). *Queensland Statutory Valuation Reform Review*. Report for the Queensland Government Department of Environment and Resource Management. (See www.derm.qld.gov.au)

²⁰ Site value also captures the value of intangible improvements such as development approvals, leases and infrastructure credits. These would not be taken into account when determining the unimproved value.

3.5. ACT

3.5.1 Inquiry into the ACT's Land Valuation System

In December 2005 the ACT Legislative Assembly Standing Committee on Public Accounts resolved to conduct an inquiry into the ACT's land valuation system. It held public hearings and received submissions in 2006; issued its report in March 2008 and tabled it in the Assembly in April 2008.²¹

The Committee initiated its inquiry as a result of the NSW Ombudsman's report published in 2005 (footnote 17.) The problems identified in the NSW land valuation system were found not to exist in the ACT's land valuation system. This resulted primarily from the fact that in the ACT one organisation, the Australian Valuation Office (AVO), was responsible for determining (unimproved) land values to be used as a basis for determining rates and land tax. As noted earlier, in NSW the Valuer General contracts out state wide valuations to private enterprise, while attempting to maintain a consistency in values between different geographical locations within the state (see footnote 18).

In its deliberations the Standing Committee considered, as a basis for setting property taxes, improved capital value and unimproved value. It noted that while the capital value approach captures the value of the property at its current level of development, it can also act as a disincentive to development, discouraging investment, construction and employment. That is, the use of improved capital value can lead to the imposition of regressive taxes.

The unimproved value system was recognised as having some advantages. Since improvements are not considered in valuations there is no need for regular inspections of buildings, implying that the valuation process is less demanding and can be undertaken with shorter revaluation cycles. Furthermore, it was noted that the unimproved value system reduces the cost of the process compared to the improved system.

This inquiry did not address other valuations methods, including that based on the market value of land (site/land value). As the above discussion indicates, this is the preferred approach to other jurisdictions, and is the method used by the Commonwealth Grants Commission.

The Committee report contained seven recommendations, none of which recommended a specific basis for which land should be valued for the purpose of imposing rates/taxes. It did, however recommend that the ACT Government ensure that any future contracts for the determination of land values for rating and land tax purposes be given to a single organisation to ensure consistency of valuations in the ACT (Recommendation 1).

²¹ ACT Legislative Committee on Public Accounts. (March 2008). *Inquiry into Land Valuation in the Australian Capital Territory*. Report No. 13. (See www.parliament.act.gov.au)

In its response to this report²², the Government agreed in principle with recommendation 1 because ‘although a single service provider currently provides valuation services to the Government for rating and taxation purposes, future valuation contracts will be subject to Government procurement processes and requirements at the time that future contracts are made. Such contracts will largely depend on the availability of suitable service providers capable of performing the large revaluation process in the ACT’.

3.5.2. Review of the Change of Use Charges System in the ACT

In the 2009-10 ACT budget the ACT Government committed to codifying the Change of Use Charge (CUC) in the Territory. The ACT Treasury engaged the consulting firm Macroeconomics.com.au²³ to review the efficiency and effectiveness of the current CUC system and to develop a framework to codify the CUC, ensuring concerns around the current system were addressed, including complexity, uncertainty, delays, cost and the potential for speculation. The final report was submitted on 29 November 2010.²⁴

This review led to the introduction of a codified system for the determination of Lease Variation Charges (LVCs), which replaced the CUC. The legislative changes have been reflected in the *Planning and Development (Lease Variation Charges) Amendment Act 2011*, (the Act) which passed the Legislative Assembly in June 2011, for introduction from 1 July 2011.

In this codified scheme, LVCs are to be determined from tables of codified schedules of land values which are averaged over three years, and updated annually. The land values are based on the market value of land. Indeed s277A of the Act states that in working out the LVC, an improvement in relation to the land comprised in the lease must not be taken into account (s277A(1)). However an existing improvement by way of clearing, filling grading, draining, levelling or excavating of the land may be taken into account (s277A(2)).

Section 277A(3) of the Act states that,

‘improvement, in relation to land, means an existing or proposed improvement and includes any of the following:

- (a) a building or structure on or under the land;
- (b) an alteration or demolition of an existing building or structure on or under the land;
- (c) the remediation of the land;
- (d) earthworks, planting or other work that affects the landscape of the land;
- (e) anything mentioned in paragraphs (a) to (d) that is required—

²² Tabling Statement. (7 August 2008). *Government Response to the Standing Committee on Public Accounts Report No. 13: Inquiry into Land Valuation in The ACT*. (See www.parliament.act.gov.au)

²³ The author of this report, Des Nicholls, played a major role in the development of the codification methodology for the determination of Lease Variation Charges (LVCs), had a significant input in the production of the final report and contributed to process leading to the introduction of the new codification system.

²⁴ Macroeconomics.com.au (November 2010). *Final Report on the Review of the Change of Use Charges System in the ACT*. (134 pages). ACT Treasury. (See www.treasury.act.gov.au)

- (i) as a condition of a development approval; or
- (ii) by a statutory approval obtained or required for a development proposal; or
- (iii) under an agreement between the Territory or a territory entity and—
 - (A) the lessee; or
 - (B) if the lessee is not the applicant for the development approval—the applicant.
- (f) anything mentioned in paragraphs (a) to (d) proposed in a development application in relation to a chargeable variation of a nominal rent lease to be carried out on land outside of the land under the lease.'

That is, in the ACT, while rates and land tax are currently based on the unimproved value of land, the recent legislation relating to the determination of Lease Variation Charges is based on the market value of land.

This has resulted in the AVO having to prepare and update each year land values based on the market value of land (for the determination of Lease Variation Charges) and on the unimproved value (UV) of land (for the determination of rates and land tax). This is clearly inefficient. There are clear cost savings to be made if all ACT based rates, taxes and land based charges were to be based on one land valuation method, to be determined at the same date each year.

Currently rates and land tax are determined from the UV of land as at 1 January each year, while the market value of land for the determination of lease variation charges is determined as at 31 March each year, although it is planned, in the case of the LVC based land valuations, to also be determined as at 1 January each year.

3.6. Conclusion and Recommendation

As the above analysis indicates, many jurisdictions have moved to then market value of land for the determination of rates, taxes and LVCs. This is referred to as Site Value (SV), eg in Queensland) or Land Value (LV) eg in NSW). Indeed jurisdictions which have access to using SV or LV as a basis for the setting of rates and land tax include NSW, VIC, QLD, SA, TAS, and in the case of Lease Variation Charges, the ACT. In addition LV is also used by the Commonwealth Grants Commission.

Taking into account the above analysis, together with the fact the Henry review states that ‘the future Australian tax system should increasingly rely on land values as a tax base’ (HR p264) it makes sense for the ACT to adopt a standard base for the determination of rates, land tax and lease variation charges.

Recommendation 1:

The ACT Government should adopt the market value of land as a basis for the determination of rates, land tax, lease variation charges, and other charges. This land or site value should exclude improvements on the land (such as buildings and sheds) but include improvement to the land by way of clearing, filling grading, draining, levelling or excavating of the land.

4. Frameworks for the Setting of Taxes in the ACT

4.1. Introduction

Section G2 of the Henry review relates to State Tax reform. This review determined that although the states currently have access to significant taxes, there are problems with either the quality of these taxes or the way they are levied. The states were seen to be better placed to meet cost pressures in the future if they received revenue from a broad-based cash flow tax. Table G2-1 (page 680) summarises reform directions proposed by that review and is duplicated as Table 2.

Table 2

Australia's Future Tax System – Reform Directions For State Taxes

State Tax	Reform Direction	Reference
Payroll tax	Payroll tax should be replaced by a tax that better captures the value-add of labour. This should be a broad-based wages tax, or preferably, a cash flow tax.	Section D3
Conveyance duty	The removal of stamp duty should be achieved through a switch to more efficient taxes, such as those levied on broad bases (including consumption and land).	Section C2
Land tax	Land tax should be levied using an increasing marginal rate scale applying to the per-square-metre value of land. The tax should be calculated per land holding, not on an entity's total land holding. There should be no specific exemption for principal place of residence or primary production.	Section C2
Insurance taxes	All specific taxes on insurance products, including the fire services levy, should be abolished.	Section E8
Motor vehicle taxes	State taxes on motor vehicle use and ownership, including motor vehicle registration (stamp) duty and taxi licence fees, should be replaced with efficient user charges where possible.	Section E3
Gambling taxes	Explore options for reducing conflicts in policy-making between regulation and revenue raising.	Section E7
Resource royalties	Most existing out-put based royalties and resource rent tax arrangements imposed on non-renewable resources should be replaced by a single rent-based tax. The Australian Government and State Governments should negotiate an appropriate allocation of the revenues and risks from the resource rent tax.	Section C1

The directions outlined in this table suggest that the long term reform direction for state taxes would mean that the states rely less on transaction taxes and more on the efficient and immobile land based taxes.

4.2. Current ACT Taxes

In proposing any change to the current system of taxes in the ACT, an assessment of the current tax system is warranted. In theory it is desirable to have broad based taxes which satisfy the principles discussed in the Introduction.

Transaction based taxes, are often regarded as being highly inefficient as they have the potential to distort decision making and behaviour. For example, insurance duty effectively increases the cost of obtaining insurance cover and can lead to the members of the community under-insuring, or not insuring at all. Similarly stamp duty on conveyance transactions adds appreciably to the cost of buying property; it could be argued that as a result this dissuades household mobility from the point of view of relocating, upgrading or downsizing when circumstances would indicate it was sensible to do so.

In proposing a rationalisation of taxes it is desirable to make retained taxes as broadly based as possible. This is important in the ACT environment, particularly given that approximately half the workforce works for the Commonwealth or ACT public service and as such their employers are exempt from payroll tax charges. In addition, significant land holdings in the ACT are controlled by the National Planning Authority (NCA) and as such are exempt from the payment of many Territory applied taxes and charges. With constraints such as these, it is desirable for the ACT Government to introduce more broadly based taxes with fewer exemptions.

Land has been identified as an ideal basis for the setting of taxes; land based taxes can be broadly based and are seen to satisfy the principles of efficiency, equity, simplicity, transparency and sustainability.

In considering a framework for current ACT taxes, where possible such taxes should have the broadest possible base and be part of, or replaced by either a Site Charge or a Service Charge, both of which would be attached to land. It would be expected that the different types of land, namely residential, commercial (including retail), industrial, and rural would attract different levels of Site and Service Charges, depending on their location, size, etc. As determined in Section 3 above, the market value of land could form the basis for the setting of Site Charges, with individual block related Service Charge replacing a number of current service charges.

4.3. Site Charges - Rates, Land Tax and Conveyance (Stamp) Duty

As identified earlier, the ACT Government has a distinct advantage over the states in that it has responsibility for the setting and collection of both rates (normally a local council tax) and land tax (a state based tax). Consequently it does not have the problem which often occurs at the state level where rates and land tax are often based on different land valuation methods, with one being collected by the state and the other by the local council. Recommendation 121 of the Henry Review addressed this issue, stating that over time, State land tax and local government rates should be more integrated. This could involve:

- moving to a joint billing arrangement so that taxpayers receive a single assessment, but are able to identify the separate State and local component; and
- using the same valuation method to calculate the base for local government rates and land tax (with this method being consistent across the State).

While the ACT uses the same valuation method for the setting of rates and land tax, separate billing arrangements currently exist for rates and land tax.

4.3.1. Rates

Rates are currently based on the average (over three years) unimproved value of a property. They comprise a fixed charge in addition to a valuation based charge and a Fire and Emergency services levy, this latter charge being a fixed charge.

In other jurisdictions local council rates and specific charges are identified on the relevant notice. Identified charges include a domestic waste levy and a stormwater levy. In proposing separate Site Charges and Service Charges to be adopted in the ACT, the Site Charge would include a rate levy, with other charges currently included in this levy being separated out to be replaced by a separate Service Charge. This could include a domestic waste levy, environmental waste levy, stormwater levy, etc. The Service Charge would also replace the Fire and Emergency Services Levy which currently appears on the Rates notice.

4.3.2 Land Tax

In addition to commercial properties, land tax is currently only applied to residential dwellings that are rented. This results in land tax on residential property being narrowly based and indeed is seen as being a regressive tax in that it acts as a deterrent to investment in residential property. Furthermore owners of residential rental properties would be expected to attempt to recoup all, or part, of land tax costs by increasing rents.

The Henry review recommended that given the efficiency benefits of a broad based land tax, it should be levied on as broad a base as possible, and in order to tax more valuable land at higher rates, consideration should be given to levying land tax using an increasing rate schedule, with the lowest rate being zero, with thresholds being determined by the rate per-square-metre method (Recommendation 52). Furthermore it proposed that in the long run, the land tax base be broadened to include all land, in which case low value land, such as most agricultural land, would face a land tax liability where its value per-square-metre is below the lowest rate threshold (Recommendation 53).

In the ACT the land tax base for residential land could be significantly broadened if, in accord with Recommendation 53, it was extended to all residential land, including owner-occupied property²⁵. Such a change would require a transition period during which, after sufficient notification, land tax would commence to be phased in over a number of years.

4.3.3 Conveyance Stamp Duty

As a tax on transferring land, stamp duties are seen as poor taxes as they discourage land from changing hands to its most valuable use. In this respect, key findings identified in the Henry Review include (HR p257);

- Stamp duties are an inequitable way of taxing land and improvements, as the tax applies to those who need to move (the purchasers)

²⁵ The estimated land tax revenue for 2010-11 is \$54.979m (50.1% of total land tax revenue) from 29,767 residential properties and \$54.779m (49.9%) from 5,676 commercial properties. Less than 22% of the ACT's approximately 139,000 residential leases are subject to land tax.

- Existing stamp duties on property conveyancing are highly inefficient, distorting both residential and business use of property
- Stamp duty encourages people to stay in houses when they would prefer to move, contributing to longer commuting times, larger average house sizes and lower labour mobility
- Stamp duty is also inequitable as people who move more regularly - such as those who need to change homes for work - pay more tax than those who do not. Stamp duties also directly reduce access to housing for people who are credit-constrained.

These findings are reflected in the Review's associated Recommendation 51 (HR p263);

'Ideally, there would be no role for any stamp duties, including conveyancing stamp duties, in a modern Australian tax system. Recognising the revenue needs of the states, the removal of stamp duty should be achieved through a switch to more efficient taxes, such as those levied on broad consumption or land bases. Increasing land tax at the same time as reducing stamp duty has the additional benefit of some offsetting impacts on asset prices.'

Abolishing stamp duty, without some compensating changes in other taxes, would create an unacceptable reduction in Territory revenue. Indeed the ACT 2010-11 Budget indicated that Revenue from conveyances represents 21.9% of the total budget estimates (\$249.236m). This is the second highest source of revenue after payroll tax (26.2%). Consequently any transition away from conveyance stamp duty would require a reduction incrementally, possibly including a capping of the maximum rate.

The Henry review also identified a case for the linking of the reform of stamp duty to that of the broadening of the land tax base. This makes sense since, from the point of view of impacts on property prices, some reduction in, or the removal of, stamp duty could lead to higher property prices, while increases in land tax could be expected to lead to lower property prices. The review notes that the overall impact on property prices and investment is uncertain. It depends on a range of policies affecting land use, but there are two identifiable effects of note (HR p264):

'First, (depending in part on future policies affecting land use) property prices might increase because a more efficient tax system increases economic growth, some of which is captured in land rent – what was a 'deadweight' loss from stamp duty is captured in higher economic returns to the land owner. Second, land is a complement to property investment, so moving to a zero tax rate on capital investment (as stamp duty rates reduce) would increase the demand for land. International empirical evidence on the impact on building activity from switching an improved property tax for land tax is inconclusive²⁶ or mildly positive²⁷,

In proposing the replacement of stamp duty with a Site Charge, it is recognised that currently stamp duty is applied to the improved value of the land, ie the land and buildings, whereas the Site Charge would be based on the land value of the property. However if one assumes that higher valued land normally attracts more expensive

²⁶ Oates, W & Schwab, R M. (1997). *The impact of urban land taxation – the Pittsburgh experience*. National Tax Journal, Vol 50, Issue 1, pp 1-21.

²⁷ Plassmann, F & Tideman, T N. (2000). *A Markov chain Monte Carlo analysis of the effect of two-rate property taxes on construction*. Journal of Urban Economics. Vol 47, Issue 2, pp 216-247.

improvements, vertical equity would be maintained by replacing stamp duty with a Site Charge.

It has been recognised that while it would be preferable to phase out stamp duty, because stamp duty represents such a significant component of total revenue, other taxes would have to be broadened/increased, or the Commonwealth would need to supplement current grants to account for this. (At the recent Commonwealth Tax Forum the Treasurer indicated that this latter proposal would not occur.)

If the broadened land tax base were to be used as a basis for reducing/eliminating stamp duty on residential property sales, it should be recognised that this tax burden would effectively be shifted from residential dwelling purchasers to all residential property owners. The option of stamp duty payments by means of instalments through time should also be investigated. The resultant impact on revenue cash flow from this source should be carefully analysed, particularly in the initial stages of the introduction of such a policy. Any impact could be considered in conjunction with the impact of the broadening of the land tax base at the same time.

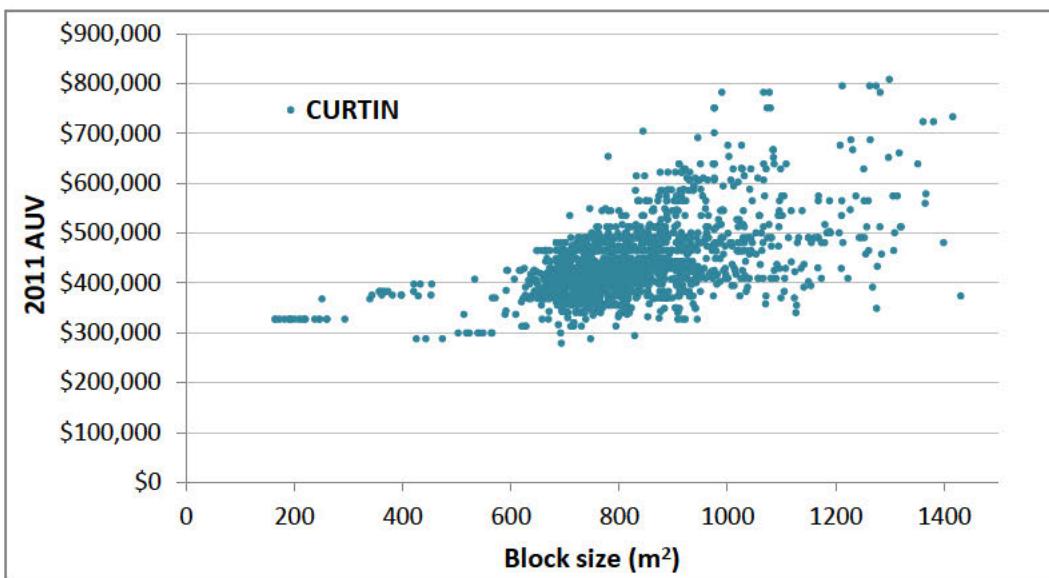
As a transaction tax, stamp duty on property sales in the ACT is an unfair tax, and as has been proposed, it should ideally be phased out over time, while at the same time phasing in land tax to owner-occupied residential properties so that all land would be subject to land tax. Under this scenario when residential owner-occupied properties are sold the purchaser should pay a reduced stamp duty on the property transaction and from the date of settlement be liable for land tax (during the implementation of the proposed extended land tax transition period). That is, when residential owner-occupied properties are sold the purchaser, while receiving a reduced stamp duty liability, would be immediately liable for the payment of land tax, in addition to a rate component of the Site Charge, and other Service Charges.

4.3.4. The Determination of Site Charges – Residential Leases

Recommendations 52 and 53 of the Henry Review, and the discussion leading to these recommendations, propose determining land tax on value a per-square-metre basis. As the following discussion shows this approach is problematic, in the case of the ACT for the determination of the both rates and land tax liabilities.

Current Government policy is aimed at increasing population density in inner suburbs. As a result there is an incentive to reduce residential building block sizes to achieve this. Under the current rating system it is generally the case that smaller blocks attract a much larger amount for rates and land tax on a \$/m² basis. To illustrate this, an exploratory data analysis was undertaken in the case of residential dwellings (excluding multi-level units) in the suburb of Curtin.

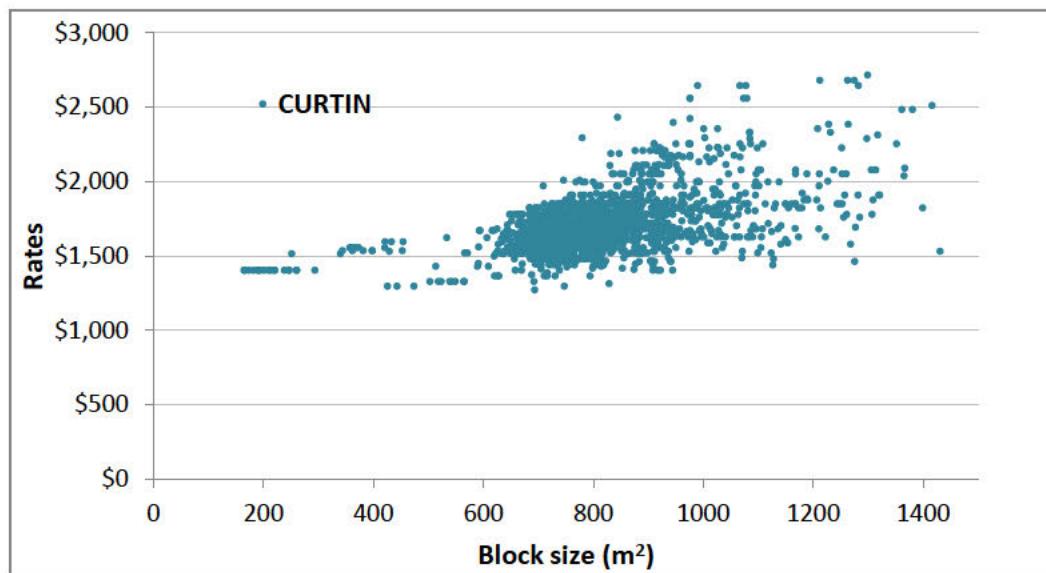
Figure 1
AUV and Block Size – Curtin 2011



Source: ACT Treasury

Figure 1 displays, for the suburb of Curtin, the Block size (m^2) and the 2011 AUV which is the average unimproved land values (averaged over the three years 2009-2011). Each residential property Rates Assessment Notice a Fixed Rates Charge (\$555) and a Valuation Based Charge ($AUV - \$16,500) \times 0.2727\%$.²⁸ It is evident from Figure 1 that, particularly in the case of larger blocks, the same size block will have significant different AUVs, this being impacted by their location in the suburb.

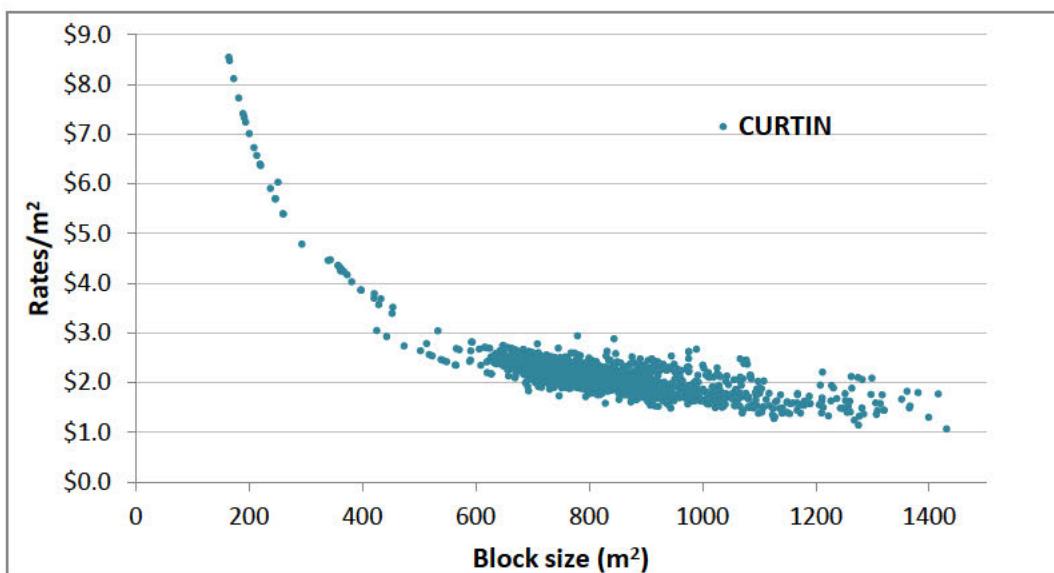
Figure 2
Rates and Block Size – Curtin 2011



Source: ACT Treasury

²⁸ The Rates notice also includes a Fire and Emergency Services Levy (fixed charge of \$101.80), this is excluded from this exploratory data analysis.

Figure 3
Rates/m² and Block Size – Curtin 2011



Source: ACT Treasury

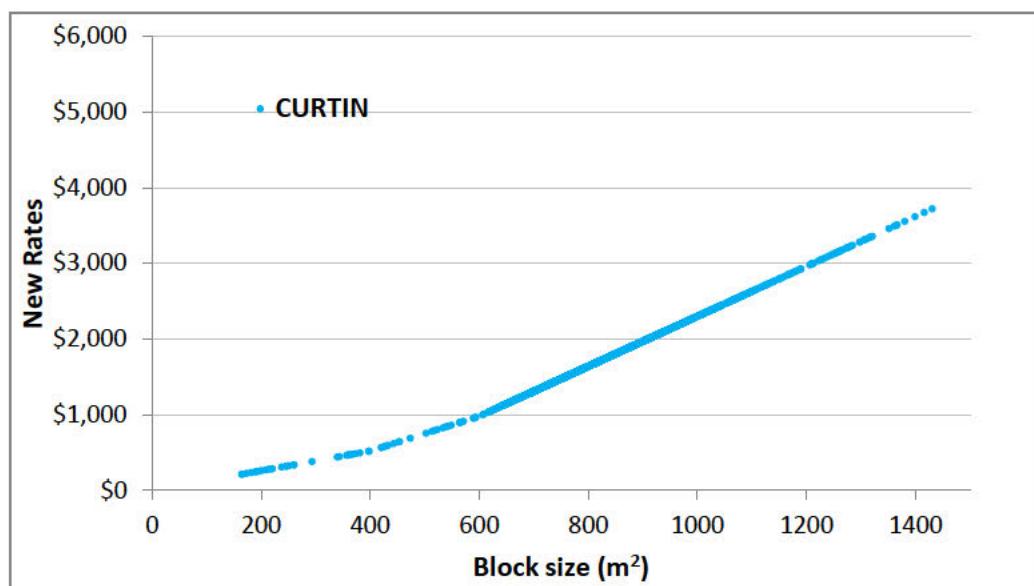
Figure 2 displays the relationship between Rates and Block Size, while Figure 3 illustrates the relationship between Rates paid, on a \$/m² basis, and block size. What this data clearly demonstrates is that under the current system, on a \$/m² basis, smaller blocks are paying a significantly larger amount than larger blocks. Of course size is only one factor impacting on the value of blocks, their location will also have a significant impact on the determined AUV.

What has contributed to this phenomenon is the structure of the currently applied rating formula. The Fixed Rates Charge (of \$555) represents \$2.78/m² in the case of a 200 m² block (approximately 37% of the total rates), and \$0.40/m² in the case of a 1400 m² block (approximately 27% of the total rates).

If the Government were to aim to get a more equitable distribution of rates on a \$/m² basis to reduce the rate burden on smaller blocks, as an incentive for residents to move to then inner city suburbs, there would need to be a major modelling exercise undertaken across all locations (suburbs) to re-distribute rates and land tax in a manner which would encourage such a move. Such an approach will lead to a ‘winners and losers’ situation, as is demonstrated in the following analysis.

As an illustrative example, in the case of Curtin, suppose marginal rates were to be determined from the application of \$/m² rate of \$1.30 for blocks from 0 m² – 400 m², \$2.30 for blocks from 401 m² – 600 m², and \$3.30 for blocks larger than 600 m². If this scenario was applied to residential dwellings in Curtin (excluding town houses and units), revenue received would be \$3,243,819, compared to \$3,217,793 at present. The impact of such a change is illustrated in the following figures.

Figure 4
New Rates and Block Size

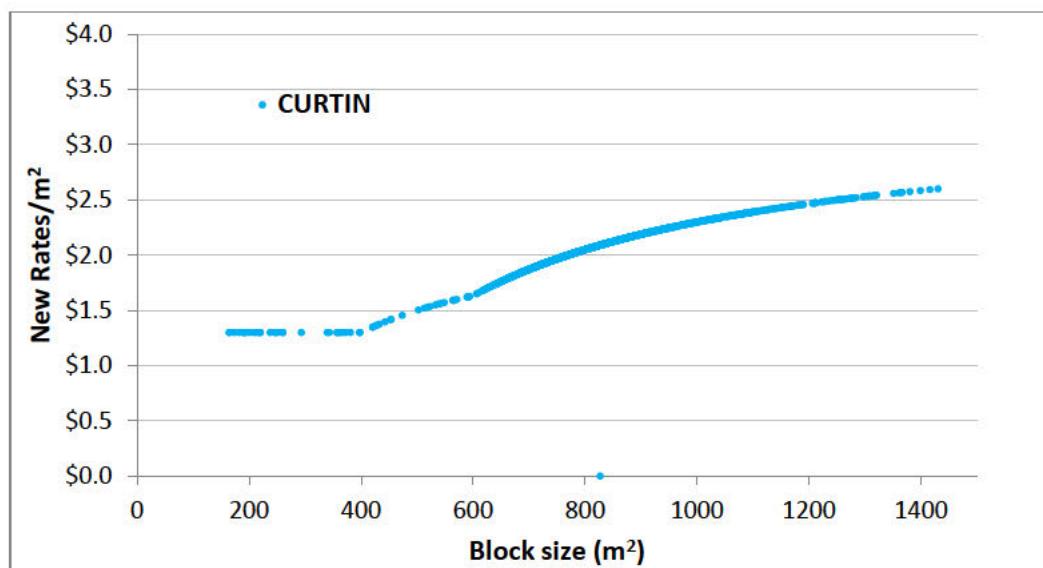


Source: ACT Treasury

As Figure 4 illustrates, the distribution of rates paid would be significantly different to the distribution under the current system, as can be seen by comparing Figure 4 with Figure 2. While there is a notable reduction in rates in the case of smaller blocks, there is a significant increase in the case of many larger blocks.

Figure 5 shows the new rates in $$/m^2$ when compared to block size. This is a significantly different distribution across blocks, when compared to the current system displayed in Figure 3.

Figure 5
New Rates/ m^2 and Block Size



Source: ACT Treasury

Figures 6 and 7 indicate, in the case of this illustrative example, that 741 households (40%) of households would be worse off, while 1126 households (60%) would be better off. In addition, while smaller blocks would benefit, a large number of households would experience a significant annual increase of over \$1,000 in their rates.

Figure 6
(Old – New) Rates Difference (\$) and Block Size

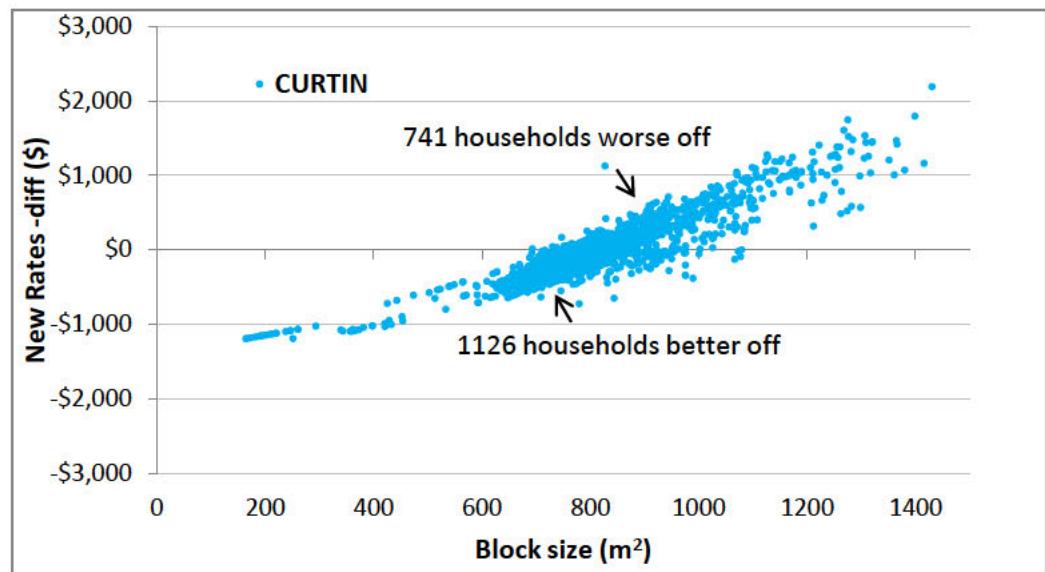
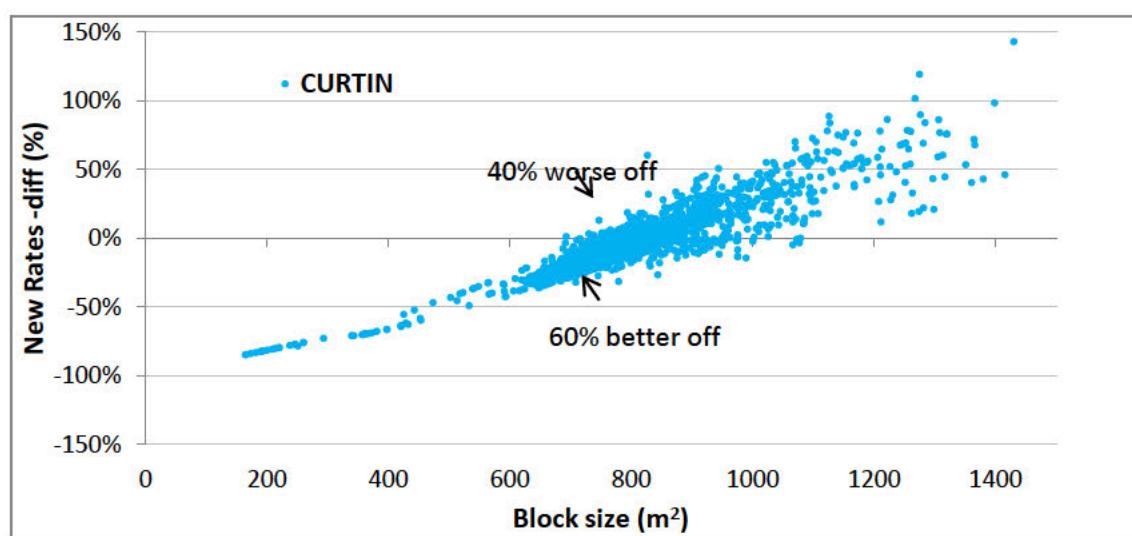


Figure 7
(Old – New) Rates Difference (%) and Block Size



In the case of Curtin, for the properties considered in the above analysis, there are 1,867 properties paying \$3,217,793 in rates. Each individual leaseholder pays a fixed component of their rates of \$555. That is, \$1,036,185 ($=1,867 \times \$555$) or 32.2% of the

total rates is represented by the fixed charge. Under the proposal to replace a large number of current charges with a Site Charge and a Service Charge, the Service charge would replace a number of current fixed charges, including fire and emergency services contribution, waste disposal, and infrastructure (stormwater and street maintenance) charges. The impact of this would be to remove a significant component of the current rates charge which would be replaced by the Site Charge.

The removal of fixed charges from the Site Charge (replacing rates and land tax) would be expected to result in a Site Charge which would be more favourable to smaller blocks in general. This statement assumes that the basis for setting the Site Charges, namely the proposed market value of land (currently the unimproved value) will reflect the size of blocks in its determination. The land value would also take account of location.

Using the market value of land as a basis for the determination of the proposed Site Charge, once the fixed charges have been accounted for in the Service Charge, the formula for the allocation of the level of this charge on specific sites could then be determined. Such a formula could incorporate an adjustment factor reflecting block size if the Government wished to do so to encourage smaller blocks (and hence the potential for denser populations) in specific locations.

As an example, what could be done is to look at scenarios separating out, from the current rate determination, those estimated amounts for fixed charges to be included in the Service Charge, and then appropriately adjusting the Variable Rate Charge, currently based on AUV, to reflect Government policy, eg with respect to encouraging the redevelopment of smaller blocks in particular locations.

As an example, consider the following table representing current rate charges (the 3% discount currently available, as indicated on the Rate notice, has been ignored to keep it simple):

Table 3
Comparison of Rates

Block Size (m ²)	200	1000
AUV (\$)	300,000	600,000
Valuation Based Charge (\$)	773.10	1591.20
Fixed charge (\$)	555	555
Fire & Emergency Services \$	101.8	101.8
Total (\$)	1429.90	2248.00
(Fixed/Total) Charge (%)	45.93%	29.22%

- Under the proposed scenario, fixed and other charges/levies (including Fire and Emergency Services, Domestic Waste Collection and Disposal, Environmental Collection and Disposal, Infrastructure Levy (stormwater, street and bicycle path maintenance), Insurance levy, etc would be a separate Service Charge.
- Considering the current variable component of the rate charge, this is calculated from:

$$\text{Variable Charge} = (\text{AUV}-16500) \times 0.2727\%.$$

- The \$16,500 reduction to the AUV in this formula has little effect on the total rates, in fact this corresponds to a reduction of only \$45 ($=\$16,500 \times 0.2727\%$). As a result of its small impact, there doesn't appear to be a need to include it in a future Site Charge model determination.
- If the Government wished to encourage smaller block development or redevelopment in certain locations, and encourage this through a reduced Site Charge (rate) impost, this could be done by either changing the deductible amount from the AUV, (ie the \$16,500), or varying the percentage multiplier in the Variable Charge formula (ie the 0.2727% figure). Such a change might be made in particular locations, for a specific period of time, to encourage development in those locations. (Similar to the 100% remission of the Lease Variation Charge currently applied to Service Station sites).
- Increasing the AUV deduction alone does not appear appropriate since, for example increase from \$16,500 to \$26,500 would only reduce the Variable Charge by \$27.27. An increase from \$16,500 to \$116,500 would be required to reduce the Variable Charge by \$272.70.
- A more effective approach would appear to be to change the percentage multiplier amount. Taking this approach, consider the following:

Table 4
Redistribution of the Valuation Based Charge of Rates

Block Size m ²	200	1000
AUV \$	300,000	600000
Valuation Based Charge \$	818.1	1636.2
\$/m ²	4.09	1.64
Charge with 50% reduction (\$)	409.05	
Transfer Reduction to Large Block (\$)		409.05
Increased Charge(\$)		2045.25
% Multiplier	0.13635	0.34088
\$/m ²	2.05	2.05
% Change in Valuation Based Charge	-50%	25%

- In this analysis the impact of the \$16,500 reduction in the AUV (ie \$45) has been added back into the Valuation Based Charge (so that, for example, the charge in the case of the smaller block is increased from \$773.10 to \$818.10), which is now determined as:

$$\text{Valuation Based Charge} = \text{AUV} \times 0.2727\%.$$

- If it was determined to give the smaller block a 50% reduction in this charge, and this reduction was transferred to the larger block, then as this has the effect of:
 - (1) The smaller block having a multiplier of 0.13645%.
 - (2) The larger block having a multiplier of 0.34088%.

- The outcome of this is that the variable charges of \$4.09/m² for the small block and \$1.64/m² for the large block, with the application of the different percentage multipliers, would both be \$2.05/m².
- While the smaller block has a reduction of 50% in the Valuation Based Charge, the larger block would have an increase of 25% in this charge.
- In determining an appropriate Valuation Based Charge for the Site Charge, it must be remembered that leaseholders will also be liable for the Service Charge.
- Of course there are many variations of the above approach, including a combination of the current fixed reduction of the AUV (ie the \$16,500), and a variation of the percentage multiplier (ie the 0.2727%).
- The Site Charge would be based on the average Site (market) value of land, rather than the average unimproved value. An approach such as the illustrative example above indicates that there is sufficient flexibility to support Government policy in the determination of the Site and Service Charges.

The Site Charge for residential properties should be determined from the Average Site Value (ASV) and the Percentage Multiplier (PM) as:

$$\text{Site Charge} = \text{ASV} \times \text{PM}.$$

The application of this formula to determine the Site Charge will reflect land value relativities through the ASV, and land consumption through the PM. If, in a particular location, Government policy wishes to encourage re-development on smaller blocks, the PM can be chosen so that the Site Charge payable will reflect this.

4.3.5. The Determination of Site Charges – Commercial Leases

While the discussion in the previous section has related to the determination of a Site Charge relating to residential leases, the determination of this charge for commercial and industrial properties could also be based on the average site value and an appropriate percentage multiplier.

In the case of the ACT, there is a high percentage of the total workforce employed in the Commonwealth and ACT public sectors (when compared to the other states/territory). In addition, many of the commercial offices in which they, and others, are employed are exempt from the payment of rates and land tax. In addition there are many other organisations which are also exempt from the payment of payroll tax. For example the Canberra Institute of Technology is exempt from paying payroll tax, while the Australian National University would appear, as a result of Commonwealth legislation, to be exempt from paying rates and land tax, although it is liable for the payment of payroll tax.²⁹

²⁹ Section 48 of The Australian National University Act (1991) states:

Table 5 indicates the number of properties in the ACT which are not subject to rates and land tax. In some cases exemptions have been given by the ACT Government, in others relevant legislation has exempted them from these charges. In this Table the listed unimproved values would appear to be significantly understated in many cases; it is not clear when the UVs for these properties were last determined. Given they are exempt from rates and land tax payments, this is understandable.

Table 5
Properties Exempt from Rates and
Land Tax Payments

Category	Number of Properties	Total Unimproved Value
Agriculture & Grazing	5	\$202,720
University	53	\$2,115,229
Board Kennels/Vet Hospital	2	\$78,166
Charitable	167	\$6,604,294
Church	147	\$5,762,733
Day Nurseries/Creches	3	\$117,249
Government Property	289	\$11,308,500
Home Units	2	\$81,088
Homes for the Aged	38	\$1,492,459
Hospital	10	\$395,213
Miscellaneous	12	\$476,301
National Institution	5	\$198,337
Non-Govt School	71	\$2,798,269
Religious Residential	6	\$237,420
Scientific Laboratory	10	\$392,291
Number of Properties with No UV	643	
Grand Total	1,463	\$32,260,269

Source: ACT Treasury

What is notable is the large number of properties (1,463) that are exempt from the payment of rates (and land tax); this is particularly so given that 5,676 commercial properties are subject to land tax. It is recognised that, in the case of Commonwealth property, the ACT receives annual payments from the Commonwealth to compensate for those commercial offices, institutions, galleries, etc which do not pay rates and land tax. Whether or not these payments truly compensate for the foregone revenue should be investigated.

While many properties are, as a result of legislative determinations, or otherwise, not subject to Site Charges, whether or not they would be exempt from the payment of

'Taxation'

- (1) Subject to subsection (2), the University is not subject to taxation under the laws of the Commonwealth or of a State or Territory.
- (2) The University is subject to payroll tax under the law of a State or Territory.'

Service Charges which cover specific services (eg waste removal) would need to be determined.

4.3.6. Conclusion and Recommendations

The analysis of the issues discussed in this section has led to the proposal to introduce a Site Charge based on the market value of land (site value), with this charge replacing a number of current charges, as the following recommendations indicate.

Recommendation 2:

All residential property in the ACT should be subject to the payment of rates and land tax, with land tax on currently exempt owner-occupied residential properties to be phased in over an appropriate transition period.

Recommendation 3:

Rates and land tax should be incorporated into a single Site Charge attached to individual properties in the ACT, using the market value of land as a basis for the annual determination of the Site Charge.

Recommendation 4:

Consideration should be given to the reduction and, over time, phasing out of Stamp duty on property transactions. Any phasing out should take account of the introduction of the extension of the land tax liability to owner-occupied residential properties. If properties which are currently not subject to land tax are sold, then the purchaser should be entitled to a further reduction in the level of stamp duty liability relating to the sale, with this reduction being offset by the purchaser being liable for the payment of land tax associated with the purchased property, from the date of final settlement of the property sale. This reduction would apply during the transition period relating to the proposed extension of the land tax base.

Recommendation 5:

To remove the option to pay stamp duty only on the land component of new domestic house and land purchases, rather than the improved value of the property (house and land combined), as is the case for developed properties, stamp duty should be based on the market value of the land (Site value), rather than the improved value of the property as at present.

Recommendation 6:

As is the current practice in the ACT, land tax should continue to be applied per land holding, not as an entity's total holding.

Recommendation 7:

The Government should recognise that, in determining an appropriate distribution of the proposed Site Charge across individual residential leases (blocks), there will

be a need to undertake a significant analysis to determine a process which best supports Government policies, including that relating to increasing population density in specific locations. In addition, analyses in the case of commercial, industrial and rural leases will also need to undertaken in order to determine an appropriate allocation of Site Charges to these leases.

4.4 Transitional Arrangements Relating to Site Charges

In introducing a scheme where rates, land tax and conveyance stamp duty are, either wholly or in part, integrated into, or replaced with, a single Site Charge, it is important to introduce appropriate and acceptable transitional arrangements so that no stakeholder will be significantly disadvantaged.

By extending the base for the expansion of land tax to include all leased land, including rural and owner-occupied residential land holders³⁰, land tax would have to be phased in over a period in the order of 5 years, with the amount to be paid being based on a scale relating to the market value of land (land value).

In the case of conveyance stamp duty, the level of stamp duty currently paid by the purchasers of residential owner occupied land should be reduced during the transition period, with the purchaser commencing to pay full stamp duty from the settlement date of the purchase. After the 5 year (say) transition period, if it were financially feasible, stamp duty should be significantly reduced or (preferably) eliminated as a tax.

In the case of the rate component of the Site Charge, this should be reduced by moving that part of the current rate charge allocated to specific services (such as for example a domestic waste removal (including the environmental waste removal)) charge and the fire and emergency services levy) and included in the proposed Service Charge, to be discussed below.

In making the applicability of Site and Service Charges more broadly based, because of its unique nature the ACT is currently unable to impose full site and service type charges to all land serviced in the ACT. Such land includes NCA controlled and managed land, including the parliamentary triangle, the ANU, CSIRO, ADFA, the airport, etc. Given the direction of the Henry review with respect to recommending the broadening of tax bases in an effort to reduce the number of taxes payable, it would appear reasonable to expect the Commonwealth to agree to the removal of restrictions for the imposition of Site and Service Charges for currently exempt, or partially exempt, land. Of course the ACT Government would still retain the right to, either partially or wholly, exempt specific organisations or groups from paying the proposed Site and Service Charges.

The first stage in considering a proposal such as this would be to undertake a financial analysis to measure the impact on all stakeholders, including ACT Government revenue. The outcomes from such an analysis would determine what is practical and fair and would assist in determining an appropriate transition period. The impact of different scenarios could also be analysed, including the removal of conveyance stamp duty, and the broadening of the current tax base.

³⁰ The ACT Government should always retain the right to exempt specific sites (relating to charitable organisations, for example) from the payment of the Site Charge.

4.5. Service Charges

There are a number of current charges, of which many are fixed charges, and could be replaced with a single Service Charge, associated with a site. These include:

- Insurance duty,
- Fire and Emergency Services Levy,
- Domestic waste collection and disposal levy,
- Environmental waste collection levy,
- Ambulance levy,
- Infrastructure access/egress levy,

The introduction of a Service charge would only be feasible if it was made as broadly based as possible, with few, if any exceptions. There would be different levels of charges applied to residential/ rural/ commercial/industrial leases. It is envisaged that all leases in the ACT would be subject to such charges.

4.5.1. Insurance Duty

Australia has been seen to have high taxes on insurance, both in comparison to the taxes imposed on other products and industries, as well as compared to other countries.

Imposing specific taxes on insurance adds to the cost of insurance premiums and can lead to under-insurance and non-insurance (HR p469). Low-income earners are more likely than high-income earners to abandon insurance in response to higher premiums. The result is that they bear more risk themselves, although they are less well placed to do so than people with high incomes (HR p474).

Recommendation 79 of the Henry review (p474) stated that ‘All specific taxes on insurance products, including the fire services levy, should be abolished. Insurance products should be treated like most other services consumed within Australia and be subject to only one broad-based tax on consumption.’

Of course the abolition of specific taxes requires the Government to replace these with revenue from other sources. In the case of the ACT Government this could be achieved through the introduction of the proposed Service Charge to be applied to all property (land) in the ACT. It is notable that NSW abolished its Insurance Protection Tax on 1 July 2011.³¹

4.5.2. Fire and Emergency Services Levy

The Henry review (HR p475) argued that if governments wish to provide incentives for people to consider the fire risks when deciding where to live, other mechanisms, such as a risk adjusted charge on property may be more appropriate than a separate fire levy. It also observed that ‘it is not necessary that these charges should be set to exactly match the

³¹ NSW Treasury. (2010). *Interstate Comparison of Taxes 2010-2011*. Office of Financial Management. (50 pages). (See www.treasury.nsw.gov.au)

costs of providing fire services. In fact it may be undesirable particularly where the costs of providing fire services varies significantly from year to year.³²

In the ACT this levy is currently identified and itemised in the annual rate notice and makes sense in that it is a broadly based tax which is transparent. The current Fire and Emergency Services levy could be abolished (in line with the Henry review recommendation) following an appropriate adjustment to the proposed Service Charge.

4.5.3. Domestic and Environmental Waste Collection/Disposal

The costs of these services are currently absorbed into the annual Rates notice. Unlike in other jurisdictions however (eg NSW), it does not appear as a separate line item in the Rates notice together with an associated cost. From the point of view of transparency the ratepayer should be made aware of just how much these services cost. Furthermore, from the point of view of equity, all leaseholders should contribute to these services.

4.5.4. Ambulance Levy

This levy is currently charged to private health insurance organisations on a monthly basis and is calculated on the number and type of private health insurance contributions. For those who do not contribute to private health cover (currently 35.3% of the ACT population), they are expected to pay for ambulance services when they are used. This leaves the ambulance service being subject to exploitation by this system, since it may be difficult to recoup the real costs of ambulance services when they have been used by those who are not able, or are unwilling, to pay for the use of the service. Consequently in its present form the ambulance levy is inequitable. Many private health cover members in the ACT would not be aware that private health cover fees currently include an ambulance levy of \$1.99 per person per week, or a \$3.98 per family per week. That is this levy in its current form is not transparent.

4.5.5. Infrastructure Access/Egress Levy

Stormwater infrastructure, street and bicycle lane maintenance are all costs that could be identified and replaced by a Service Charge attached to an individual site. Other jurisdictions identify individual charges such as a stormwater levy (NSW) in their annual Rates notice.

4.5.6. Determination of the Service Charge

In determining an appropriate basis for the setting of a Service charge, such a charge would be attached to individual land holdings. In considering a basis for the setting of a Service Charge, it is envisaged that different rates of charges would apply to residential, rural, commercial, retail and industrial leases. While most of the service charges would be fixed, a small number may relate to the land value of the property, as is currently the case for the determination of the Fire and Emergency Services levy for Commercial property.³²

³² For 2011-12 this is determined as $(AUV - \$16,500) \times 0.3907\%$.

For each category of lease use there may be a fixed charges as well as variable charges based on the demand for a particular service. In setting the level of charge, in each case, the financial impact of those current levies/charges which were to be abolished would need to be taken into account in the setting of appropriate Service Charges for the different categories of leases held by lessees.

In determining the basis for the setting of these Service Charges it is important that both horizontal and vertical equity be achieved. This will only occur if the application of the Service Charge is as broadly based as possible, and be applied to all landholdings in the ACT. Of course the ACT Government should have the right to partially or fully exempt particular groups/organisations from the payment of Service Charges.

Given the overall direction the Henry review has taken with respect to State tax reform, namely to propose the abolition of transaction related taxes and to introduce a small number of broadly based taxes, there would appear to be a strong case for the ACT Government to negotiate with the Commonwealth on this issue. Indeed the Henry review has strongly supported the broadening of tax bases. If the Commonwealth supports this premise there are then strong grounds for the Commonwealth allowing the ACT Government, from the point of view of the application of Site and Service Charges, to treat all land in the ACT on an equal basis in the determination and application of the charges.

4.5.7. Conclusion and Recommendations

A number of levies/duties have been identified (in this section 4.4) which could be abolished as individual levies and replaced with a Service Charge to be applied to all individual lease (land) holdings in the ACT. The application of a Service Charge would need to be as broadly based as possible. To achieve this all land, including Commonwealth controlled land should, if possible, be included to achieve (vertical and horizontal) equity in the application of charges, and to satisfy the ‘user pays’ principle.

While many of the components to be captured in a Service Charge would be fixed, there may need to be some variable charges included, particularly in the case of commercial/industrial blocks, where some services (eg waste removal) would be in more demand for some industries than others.

The ACT zoning and leasehold system, together with information relating to all commercial and industrial leases, including the gross floor area allowed to be on each site, would allow for a consideration of other approaches to the determination of particular Service Charges for commercial blocks. If some components of the Service Charges for commercial sites were considered more appropriate as variable charges (eg components relating to waste removal and disposal and insurance levies), then such charges based on GFA may be seen to be more equitable than those based on land value.

Recommendation 8 (Section 4.5.7):

Consideration should be given to a number of the levies/charges identified in this section being abolished and replaced with a broadly based Service Charge. The Service Charge should be applied to all land in the ACT, with the level of charge being dependent on the nature of the lease held by the lessee.

Recommendation 9 (Section 4.5.7):

Taking into account the relevant sections of the Henry review applying to state based taxes, to achieve as broad a base as possible, and to achieve equity in the application of land based taxes, the ACT Government should seek appropriate advice on the feasibility of the application of proposed Service Charges to Commonwealth controlled land.

4.5.8. Transitional Arrangements Relating to Service Charges

In the case of the proposed Service Charge, it is difficult to consider transitional arrangements until it has been determined exactly what current individual charges are to be abolished and replaced by the Service Charge. If, for example, the domestic and environmental waste removal costs are to be incorporated into the Service Charge, along with the Fire and Emergency services levy, then the introduction of the Service Charge will need to be co-ordinated with the transitional arrangements relating to the Site Charge.

Appendix 1³³ contains a flow chart of the revenue received from the current Municipal System in 2009/10, together with a framework for the determination of the Site and Service charges as proposed in this report.

5. Conclusion.

This report outlines a proposal for a framework for the future determination of municipal and territory charges taking into account the preferred underlying criteria for the determination of such charges, namely efficiency, equity, simplicity, transparency and sustainability/robustness. The proposal has been to replace a number of regressive taxes with two charges based on property, namely a Site and a Service Charge.

A number of charges and issues have not been fully analysed and addressed in this study. These include;

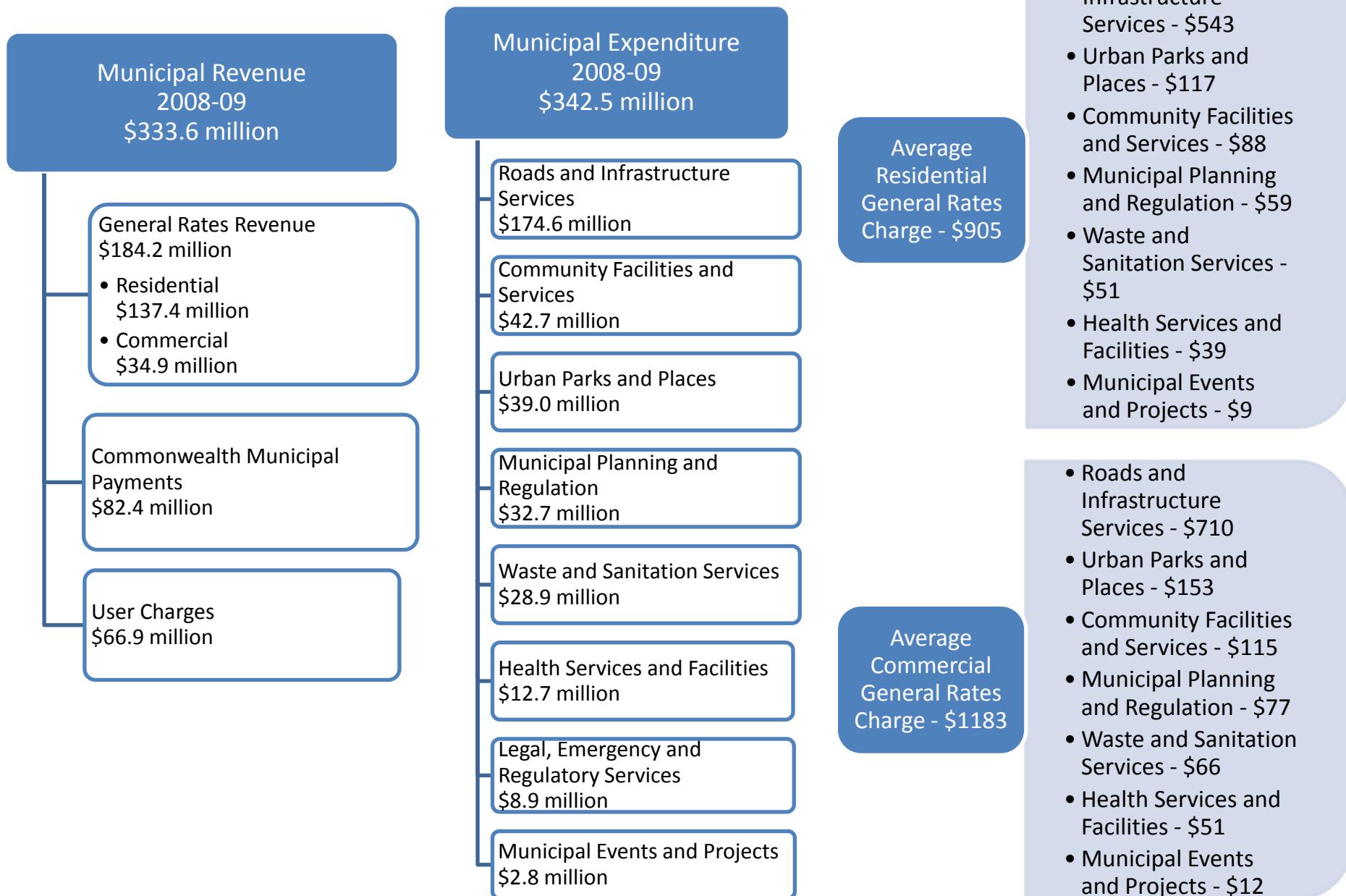
- an analysis of the impact of cross border residents from New South Wales who are employed in the ACT and commute to work each day. While the impact of these residents on hospital and educational facilities has been considered elsewhere, this has not been so when it comes to their impact on municipal services (including infrastructure maintenance).
- an analysis of the impact of payroll tax exemptions for a large proportion of the ACT workforce.
- an analysis of the impact of rates and land tax exemptions for a large number of properties in the ACT.
- An analysis of the impact of annual Commonwealth payments to compensate for a number of these foregone charges/taxes.

Because of the unique nature of the ACT as the nations capital, these issues will play a major role in the determination of a future tax system for the ACT, and should be accounted for in the introduction of a revised/updated revenue raising system evolving

³³ Source: ACT Treasury.

from municipal service charges, as well as land tax, payroll tax and other taxes and charges/levies.

Appendix 1 Current Municipal Framework



Expanded Municipal Framework

