IPTI Xtracts

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IMF again tries to stir the tax reform pot

The IMF has again offered Australia its thoughts on broad tax reform - advice that will likely be quickly forgotten.

You can't blame them for trying.

The International Monetary Fund used its annual appraisal of Australia this week to again call for sweeping tax reform - rather than the piecemeal efforts of the past 18 years.

Like similar repeated endeavours by the Organisation for Economic Cooperation and Development, the IMF has urged Australia's taxation system focus on revenue raising from consumption - in other words, the GST - and land taxation.

This would help relieve the onus on corporate and personal income tax.

But, as with all such well-meaning suggestions, both sides of politics tend to cherry-pick the things they want to hear while ignoring the rest.

Treasurer Scott Morrison unsurprisingly leapt on the report's backing of the government's efforts to cut the company tax rate to 25 per cent.

"Reinforcing the need to maintain our international competitiveness, the report notes that Australia's corporate tax rate is currently in the top tier of advanced economies," Morrison said.

Likewise, shadow treasurer Chris Bowen eagerly pointed out the IMF also believes lower capital gains discounts and limits to negative gearing for investors are "desirable", something Labor continues to pursue.

However, the IMF also calls for limits to capital gains exemptions on owner-occupier homes, an idea no one wants to talk about.

IMF's Thomas Helbling, who led a delegation to Australia last year as part of the annual analytical process, says there are inefficiencies in the system, with scope to reduce "generous" tax exemptions.

The Washington-based institute estimates broad-based tax reform could boost economic growth by at least a further 1.3 per cent by lowering corporate and personal income taxes and lifting the GST and introducing a land tax.

This surpasses the Australian Treasury's estimates for cutting the company tax rate on its own.

The reduction to 25 per cent for all businesses from 30 per cent over the next decade would lift economic growth by up to one per cent in the "long-term" when fully implemented, it says.

Two years ago, a full-blown tax reform package looked on the cards, the first since former prime minister John Howard and his treasurer Peter Costello introduced the GST in 2000.

Prime Minister Malcolm Turnbull put everything back on the table for discussion from an ongoing tax review started under his predecessor Tony Abbott.

But the idea to raise the GST was ditched as a funding mechanism for broad-brush tax cuts because private modelling showed it would lift growth by just 0.3 per cent.

It meant the GST rate still remains at 10 per cent, where it has stood since its inception and one of the lowest within the OECD.

GST exemptions on food, health and housing also remain intact.

Of course, a major difficulty in making any change to the GST is it has to be agreed to by all the states - who get the revenue - and both houses of federal parliament.

As it is, state premiers are at each other's throats over what may emerge from a Productivity Commission review over how the annual $62 billion GST revenue pie will be carved up after continued whingeing from Western Australia over its dwindling share.

But political deadlock over tax reform is not limited to the GST.

The remainder of the government's business tax cuts risk being blocked in the Senate.

After a lot of argy-bargy last year, the government did manage to get a deduction for businesses with a turnover less than $50 million.

But already the Nick Xenophon Team and One Nation senators are siding with Labor and the Greens in opposing them for larger firms, even while President Donald Trump is slashing the US corporate rate from 35 per cent to 21 per cent.

The government is also talking about possible personal tax cuts being announced in the May budget, although there are questions over how they will be funded while keeping the promise of a budget surplus in 2020/21.

As difficult as tax reform continues to prove, you can bet the IMF and the OECD won't give up handing out their friendly advice.

One day a government might listen.

SOUTH AUSTRALIA - Slug empty shops with higher rates as Adelaide vacancies soar, councillor says

Relentless rent increases are being blamed for a growing number of empty shops in Adelaide and have left at least one district vulnerable to anti-social behaviour, a city councillor says.

In a bid to renew pressure on landlords sitting on empty shops, City of Adelaide councillor Anne Moran wants higher rates to force landlords to reduce rent and fill their premises.

She said rent increases by landlords were "ruining the city", making it impossible for business owners to survive.

"Businesses can't always turn up their trade to match their increase in rent," Ms Moran said.

"But the landlords sit on the same bloody rent increases they always make and make no adjustments, so these properties become vacant and sit empty for decades.

"It seems some of them are just doing a land banking exercise with little concern for the businesses they're leasing out to."

There are nearly 220,000 square metres of vacant office space in Adelaide's CBD — that's more than 10 Adelaide Oval playing surfaces.

Streets such as O'Connell Street in North Adelaide and the southern end of Hutt Street in the city's south-east are among those where vacancy numbers are obvious.

Ms Moran said she wanted the council to be able to impose "punitive rates" that would "force something to happen".

"If your shop's empty at the moment you get less rates because you're not using any services," she said.

"I think we do the reverse, so that we rate empty premises at top dollar.

"They won't like it, but there's no excuse for having an empty shop. It's only empty because your rent's too high."

Higher rates a 'draconian' approach

Property Council of SA executive director Daniel Gannon said Adelaide's empty office spaces were close to 50 per cent higher than its historic average.

But he labelled Ms Moran's comments "draconian" and "narrow-minded" and said the biggest problem was land tax, which along with council rates, were "the highest per capita in the nation".

"Like any punitive tax on businesses, costs have to be passed on to consumers," Mr Gannon said.

"Land tax increases your rent, whether you're a residential tenant or commercial tenant, meaning that renting would be more affordable if this tax was more fair and more equitable.

"At the same time, South Australia has soft demand, which means we have fewer and smaller tenants to house in our commercial office spaces."

A spokesperson for the Local Government Association (LGA) of SA said there was no limit to what a council could increase its rates by each year under the LGA Act.

He said those rates were determined through "conversation with the community", but could not be declared until a council's annual business plan and budget was adopted.

The spokesperson added, however, that while a council could "charge differential rates based on vacant or non-vacant land" — to encourage development — this "did not extend to empty property".

A Department of Planning, Transport and Infrastructure spokesperson said local councils made their own decisions about the rates applied to property owners.

The LGA Act stipulated that rates were generally based on the value of land, and advised against strategies that made "narrow or unreasonably restrictive criteria and should not require ratepayers to meet onerous application requirements".

"The council should, in making any decision, take into account the financial effects of the decision on future generations," the Act said.

Empty shops supporting anti-social behaviour

A plethora of empty shops on Hutt Street's south is being partially blamed for an increase in anti-social behaviour, including drug dealers who are accused of preying on vulnerable homeless people.

Local business owners say violence has spiked over the past six months — a period where multiple restaurants and cafes have closed.

It has left the south end of the street unoccupied and dark at night with more than 20 commercial premises for lease in what was once a busy and popular restaurant strip.

Hutt Street Backpackers owner Gary Locke is one of several business owners in the region who recently spoke publicly about increased violence along the strip.

It ranged from fighting in the street, shoplifting, people being shouted, abused or spat at, vandalism, and personal attacks on local workers — himself included.

"Because of all the empty shops here at the moment, there's lot of little alcoves, lots of shops you can sit outside or around, or sit out back because it's all in darkness," Mr Locke said.

"With 50 per cent of the shops empty, it's a very dark place at night."

Ms Moran said that the more businesses were driven out, the more a district became a nest for bad behaviour.

She added that homeless people and the Hutt Street Centre, a support venue of about 60 years, were not being blamed for the problems on the street, although she did believe it had possibly "outgrown its location".

"It's always worked quite well, because it's run extremely well, and the residents down there were quite community spirited," she said.

"But this is something else."

Mr Locke said media attention had recently resulted in an increased police presence on the street, as well as staff from the Hutt Street Centre turning their attention to activities happening outside opening hours — all of which had improved the situation.

"We all know that the Hutt Street Centre does a great job," he said.

"We'll be meeting with some of the landlords in the area soon to discuss some of the rents and some of the options and ideas."

Australia Needs Broader Tax Reform

The International Monetary Fund has backed the Australian government’s pursuit of a lower corporate tax rate, but has again called for a broader tax reform package.

The IMF estimates broad-based tax reform could boost economic growth by at least a further 1.3 percentage points through lower corporate and personal income taxes, while increasing the GST and introducing a land tax, AAP reported.

The government’s aim to reduce the corporate tax rate to 25% would grow the economy by up to 1% but only when fully implemented in a decade’s time, according to the treasury.

“For a country like Australia looking at the international standing of corporate tax rates is important and we would endorse that,” the IMF’s Thomas Helbling said after the annual assessment of Australia was released on Wednesday.

But he said there are inefficiencies in the current taxation system, with corporate and personal taxes relatively high, while land and consumption are taxed relatively low. He believes there is also scope to reduce “generous” tax exemptions, some of which are not means-tested.

Treasurer Scott Morrison said the report reinforced the need for Australia to maintain its international competitiveness. “The report notes that Australia’s corporate tax rate is currently in the top tier of advanced economies,” Morrison said in a statement, but he did not comment on the IMF’s call for broader tax reform.

Two years ago, Prime Minister Malcolm Turnbull ditched a plan to raise the GST as a funding mechanism for broad-brush tax cuts because modeling showed it would lift growth by just 0.3%.

The IMF report suggests while there are concerns about raising tax on consumption, or the GST, at a time of low wage growth, this could be addressed by broadening its base.

Helbling told reporters via a teleconference that moving to a land tax from stamp duty would be more efficient and improve the functioning of the housing market. However, the report concedes any change would have to be gradual, given the importance of stamp duties to state revenues and the additional burden on existing property owners.

The IMF also believes lower capital gains discounts and limits to negative gearing for investors are “desirable”.

The report also warned that wage growth in Australia is “weak” and inflation is “below its target range”.

QUEENSLAND - New retrospective Queensland law validates council rates

A law has been introduced in the Queensland Parliament which retrospectively validates council rates that may have been improperly issued.

The new Local Government Legislation (Validation of Rates and Charges) Amendment Bill 2018 has been formulated as a response to a Queensland Supreme Court ruling in November 2017. That ruling, known as the Linville case, meant that many rates and charges levied local government authorities in Queensland in recent years could be found to be invalid.

The case came to court when investment company Linville Holdings was taken to court by Fraser Coast Regional Council for unpaid rates. Linville argued that the rates were invalid because the council had failed to pass separate resolutions each year validating its rates and charges.

Linville won the case. The ruling, from Supreme Court Justice David Jackson, called into question the validity of many separate rates and charges levied by councils all over Queensland. Brisbane paper The Courier-Mail at the time identified Gold Coast, Brisbane, Sunshine Coast, Moreton Bay, Townsville and Cairns as councils that had similarly failed to pass separate resolutions during annual budget meetings, and that potentially all Queensland councils could be affected.

The Queensland Government acted very quickly to enact new legislation which would effectively invalidate the court’s ruling. They new bill will pass quickly into law – Queensland is the only state in Australia with no upper house of Parliament.

The Bill’s Explanatory Notes explain in detail what the Government believes to be the rationale for the legislation, and contains a justification for retrospectivity, basically “the need to provide financial surety to local governments and ratepayers.”

Brent Lillywhite and Samuel Volling from legal firm Corrs Chamber Westgarth have written an overview of the legislation. They say that it was introduced because the Queensland Government recognised the potentially serious implications of the Linville ruling.

“The Bill would insert new sections into the Local Government Act and the City of Brisbane Act with the effect, in summary, that any rate or charge levied (and anything done in relation to the rate or charge e.g. steps to recover the charge) for a financial year up to and including the year ending 30 June 2018 is not invalidated merely because of a failure to make a specific resolution for the rate or charge.

“In so doing, the Bill would retrospectively validate rates or charges that, in light of the Linville case, would otherwise be invalid.”

But they say councils should still be wary.

“The Bill would only apply to rates or charges up to and including the financial year ending 30 June 2018. For future financial years, local governments will need to make specific resolutions levying rates and charges, in line with the Supreme Court’s approach in Linville.

“Second, the Bill would only validate rates or charges that were invalid solely because of the failure to make a specific resolution. If a rate or charge would have also been invalid for another reason, the Bill will not validate it.”

International Monetary Fund urges Australia to cut company taxes

The International Monetary Fund has thrown its weight behind the Turnbull government's company tax reforms, arguing they would "benefit productivity and reduce inequality" and should be paid for by increasing the GST and introducing land taxes.

The call from the global financial watchdog is likely to heap pressure on the Senate to come back to the negotiating table and consider Treasurer Scott Morrison's proposal to cut corporate tax rates to 25 per cent over the next decade.

"Australia’s effective average corporate tax rates are currently in the upper third among advanced economies, but the international environment is evolving," Wednesday's report found.

"A more comprehensive tax reform has the potential to increase efficiency of the tax system, increase investment and labor demand, and reduce inequality."

The IMF said tax reform could raise real Gross Domestic Product by 1.3 per cent.

Mr Morrison welcomed the report stating it "reinforced the need to maintain our international competitiveness," but has yet to outline what taxes could be increased to pay for the full $65 billion company tax cuts and keep the budget in balance.

Christine Barron, the IMF’s alternate executive director, and senior advisors Gemma Preston and Anna Park said the US company income tax package only increased the need for Australia to address its relatively uncompetitive company tax.

"Sustained structural policy efforts in promoting innovation and competition, upgrading labor force skills and reducing gender gaps, and advancing broad tax reform would complement these positive effects," the trio said.

The push comes as Prime Minister Malcolm Turnbull lands in Washington on Thursday, where he will meet with President Donald Trump and up to 50 state governors on a pro-tax cut, pro-trade agenda.

But in a review that otherwise "commended" Australia's economic management through the transition out of the mining boom, the IMF put itself on a collision course with Mr Morrison over housing policy.

It rejected Mr Morrison's argument that Labor's policies to reform negative gearing and capital gains tax would "smash" the housing market.

Capital gains is tax payable on the profits of any asset you sell and is pegged to your income. Negative gearing allows investors to offset losses from maintaining a property through tax.

The IMF's metrics indicated that the policies have contributed to a house price over-valuation of between 5 to 15 per cent at the national level.

"Lower capital gains discounts and limits to negative gearing for investors and limits to capital gains tax exemptions of owner-occupiers as desirable," the report said.

"A housing boom has supported the Australian economy’s adjustment to the end of the [mining] boom, but has led to housing market imbalances and household vulnerabilities."

Shadow treasurer Chris Bowen said the Coaltion's resistance to Labor's housing affordability reforms had "become an international embarrassment," despite Labor only limiting its reforms to investors, stopping short of the IMF's recommendations of limiting capital gains tax benefits for owner occupiers.

The IMF executive board, which includes 24 directors representing 20 groups of countries, said replacing stamp duties with broader land taxes should be a priority.

"Stamp duties tax real estate transactions and discourage alternative uses of urban land at a time of adjustment to higher relative prices in the eastern capitals [and] may also hamper labor mobility," the IMF found.

State governments have been addicted to billions of dollars in stamp duty to deliver budget surpluses, but the restrictive tax stops people from selling as it imposes a one-off fee of up to $40,000 in Sydney and $55,000 in Melbourne, discouraging home-owners from downsizing and reducing the amount of supply in the market.

Research from the Grattan Institute shows replacing stamp duty with a land tax by implementing an annual tax of $1 per every $1000 of a home's value would cost the median Sydney household $845 a year in tax and the median Melbourne home $623 a year, while delivering billions of dollars to state budgets.

The IMF said the strategy to return the budget to balance by 2020-21 was appropriate and encouraged further public infrastructure spending as the key driver of employment across the country.

It did not expect the Reserve Bank to raise interest rates in the near future as wage growth remained so low.

The IMF said conditions were in place for a pickup in economic growth and further declines in economic slack - leading to increased wage growth eventually.
Figures released by the Australian Bureau of Statistics on Wednesday showed wages were showing signs of life after hitting 2.1 per cent, marginally above inflation at 1.9 per cent - the second quarter in a row of positive wage growth numbers.

In a blow to the budget's projections and to the wallets of workers, the IMF predicted that wage growth would remain at or below 2.9 per cent for the next five years, significantly under Treasury's forecast of 3.5 per cent.

TASMANIA - Foreigners facing tax hike on Tasmanian residential sales, but cost could 'spook' buyers

Foreign investors buying residential real estate in Tasmania will be slapped with thousands of dollars in taxes under a Liberal plan to "level the playing field".

But the policy has been criticised by the Property Council, which said it would do nothing to alleviate housing stress and could spook investors.

With Tasmanians going to the polls on March 3, Treasurer Peter Gutwein has announced a re-elected Liberal Government would introduce a tax on international purchases of land and residential properties, in an effort to improve housing affordability in a booming market.

"We have one of the most vigorous real estate markets in the country and this has created challenges," Mr Gutwein said.

"There's increasing interest from foreign investors in Tasmania and we want to level the playing field."

The tax, touted as the Foreign Investor Surcharge, would see an additional 3 per cent in property transfer duty on all purchases of residential property by foreign residents and 0.5 per cent on all purchases of primary production land.

"This will ensure foreign investors who don't normally pay a range of state taxes contribute a fair share to the economy," Mr Gutwein said.

That means, a foreign investor would be taxed an extra $12,000 on a $400,000 property, making the total tax take of $26,000.

Locals taking lion's share of sales

According to the latest Real Estate Institute of Tasmania (REIT) figures, Tasmanian buyers still dominate the market and account for 75 per cent of all sales.

In 2017, there were 11,353 residential property sales, the highest in a decade.

Of those, interstate buyers made up 20 per cent, and foreigners bought 61 of the properties, according to the REIT.

The Property Council's Brian Wightman said he was disappointed by the announcement.

"We don't believe a foreign investor tax will do anything to alleviate the housing affordability stress in Tasmania," Mr Wightman said.

"When you put in place direct taxes, it can have an impact on the market, we'd be concerned that foreign investment would drop off and housing affordability would not improve at all."

Tax could 'spook' investors, real estate group warns

The Liberals have also promised to give first homebuyers a half price discount on stamp duty.

Tasmanian Labor has said it backs the plan, while the Greens said the Government was "playing catch up on the growing level of foreign ownership and influence in Tasmania".

"Tasmanians know foreign investors are impacting on the housing market and that almost 25 per cent of our agricultural land has some level of foreign ownership," Greens leader Cassy O'Connor said in a statement.

"Cashed-up overseas buyers are not going to be dissuaded by a small tax hit.

"The Liberals' policy will make no difference to housing availability, nor will it mean any less agricultural land ends up in foreign hands," she said.

Mr Wightman said foreign investment was important for the state's future.

"We wouldn't want to spook them or discourage them from investing in Tasmania."