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SOUTH AUSTRALIA - State government introduces legislation on council rate capping in South Australia

Despite significant lobbying from the Local Government Association, the state government this week delivered on its pre-election promise to move on capping council rates.

On Tuesday, June 19, the Marshall government introduced the Local Government (Rates Oversight) Amendment Bill 2018 to ease cost pressures for South Australian households and businesses.

Premier Steven Marshall said it was unacceptable that council rates had increased at a rate that was three times the level of inflation in the last decade.

“It’s been widely reported that some councils have wasted ratepayers’ money on indulgences like golf memberships, apple watches, luxury cars and unnecessary overseas travel,” he said.

“Enough is enough – we will cap rates to protect households and businesses from unjustified rate hikes.”

He said he was pleased that certain councils had already tightened their belts and kept rate increases to a minimum since his party first announced its intention to cap rates.

“Rate capping will make councils more accountable to the people they represent and also ensure that councils have to look within for efficiencies and aren’t able to arbitrarily increase general rates,” he said.

Minister for Local Government Stephan Knoll said the government’s priority was to keep cost pressures down without getting in the way of growth or the delivery of productive infrastructure and necessary services.

“That’s why, through consultation with the local government sector, we have devised a rate capping scheme that will enable councils to still increase their rates if they can convince ratepayers and the independent regulator that the increase is necessary.”

Queensland Budget 2018-19: Increases to land tax rates

The Queensland State Budget was handed down on 12 June 2018 and land tax payers should be aware of upcoming increases to land tax rates.

From the 2018-19 financial year onwards, land tax payers will be liable to pay an additional 0.5% in land tax if they have aggregated landholdings that exceed a taxable value of $10 million. For taxable landholdings above $10 million, the new land tax rates applicable to resident individuals will be 2.25%, whilst companies, trustees and absentees will be required to pay at a rate of 2.5% .

The $10 million bracket is a new addition to the Queensland land tax regime. Previously, the highest land tax bracket applied to resident individuals, companies, trustees and absentees with a total taxable value of land of $5 million or more. It is unclear if the existing $5 million land tax bracket will be preserved from the 2018-19 financial year onwards. However, the Queensland Government has since released a notice on their website that more information will be available from 1 July 2018.

It is estimated that the Budget measure will raise an extra $71 million in the 2018-19 income year alone, and $227 million in the next three years.

Queensland land tax payers whose current landholdings exceed a taxable value of $10 million, or are considering acquiring additional landholdings which may bring their aggregate holdings to $10 million or more should consider how the imminent changes may affect their investment decisions going forward. There may be opportunities when acquiring additional landholdings to structure to reduce the impact of this increase in land tax.

'They've stuffed it': Former treasurer says unit rates changes unfair

The architect of the ACT's taxation reform says the move to re-balance rates paid by units and houses was not a recommendation of his review, and should have been done with more finesse.

Former ACT Treasurer Ted Quinlan was one of the first witnesses to appear before an ACT parliamentary committee probing the change in formula for calculating rates and land tax for multi-unit complexes on Wednesday.

The change was announced in the 2016 budget and was to be phased in over two years, however that was extended to three years in the most recent budget due to a backlash from owners, some who'd seen their rates bill rise by 40 per cent in one year.

Mr Quinlan, a former Labor deputy chief minister, told the committee he had been rather reluctantly drawn into the debate because his name "has been associated with rates".

In 2012, he carried out the root-and-branch review of the ACT's taxation system and, drawing upon the recommendations of Ken Henry, called on government to abolish stamp duty and insurance taxes in favour of rates and land taxes.

But Mr Quinlan said his review never recommended changing the rates formula for units and apartments.

He said the only issue that was discussed and never completely resolved was whether people occupying larger blocks of land should pay greater rates automatically (he believed they should not).

Instead, he said the change - which means that marginal rates are calculated on the unimproved value of a whole block, not divided by the number of units first - came from a "legitimate" problem the government identified in the 2016 budget - that the land value prescribed for units was far lower than that of houses.

"Just on a straight one-to-one basis unit owners in a very plush unit would be paying more in rates than someone just down the road in a pretty standard detached home. That is a problem," Mr Quinlan said.

But Mr Quinlan said the simple change in calculation failed to take into account the economies of scale unit developments offered to government.

"Living in a unit complex does impose on the unit owners additional costs of just being in that unit," he said.

"For the privilege of reducing the cost of city services they also have to pay corporate fees, and all the other things, and it's a legal requirement for sinking fund contributions over the first few years. It's quite an expensive exercise to buy and live in a unit complex."

Mr Quinlan said while everyone appear to agree with the principle of the taxation reform, the change had an "element of unfairness in it".

"If you read the 2016 budget, the government has realised they're not generating as much revenue from units as they would like or might as compared to detached residences. That's what they've changed. It's got nothing to do with the replacement of stamp duty," he said.

"Regardless of whether you're looking to abolish stamp duty or not they are seeking to normalise the process but they've stuffed it."

He said to reverse the problem would take a bit of work, but he had faith in the "very bright young people" in ACT Treasury.

"We talk about rating systems and everybody likes to use in the same sentence fairness and simplicity. Now unfortunately those two thing can be at odds with each other but I'm going to suggest we come down more on the side of fairness as opposed to simplicity," Mr Quinlan said.

"I think there's capacity at least in the middle level in Treasury to work through all this stuff and I'd be very surprised and somewhat disappointed if some of this work hasn't already been done."

The committee interrogated four other witnesses who'd made submissions about the personal impact they changes had on them.

Phillip Baron, who had a $400 per cent increase in his rates last year, said while he was "quite comfortable" with the removal of stamp duty, "a percentage increase should be a percentage increase across the board".

Landlord Alexander Popov said the extra costs would be passed on to tenants, some of whom would not be in a position to buy even if investors exited the market and prices fell.

The inquiry continues next month.

Replacing stamp duty with broad based land tax could increase revenue to $11.2 billion by 2047, new report shows

Australia stands to gain $24.3 billion every year in GDP from 2047 if state governments phased out stamp duty replacing it with a broad-based land tax, a new report has found.

Transitioning to this new tax system would also boost government tax revenue to $11.2 billion annually by 2047.
Currently in all states and territories, homeowners must pay stamp duty when they buy a home. The transaction tax, paid in a lump sum, is charged at varying percentages depending on the jurisdiction.

If a broad-based land tax was introduced, homeowners would be charged an annual levy, costing someone in Sydney or Melbourne between $1500 to $2000 a year on a median-priced house, according to Grattan Institute research in 2016.

Infrastructure Australia's *Making Reform Happen* paper made the case for major reforms to better deliver infrastructure including land use to prepare for the "profound change" Australia will face as the population is projected to grow to more than 30 million people by 2031.

Chief executive Philip Davis said revenue generated from switching taxes would come about from 'productivity benefits' rather than homeowners' direct tax contributions.

For example, when land is rezoned or a new train station is proposed there is an uplift in value with the stroke of the pen, according to Per Capita senior economist Warwick Smith, and governments can capitalise on that under this proposal.

“Clearly the people who own those properties weren’t responsible for that uplift in value. If a land tax was well structured enough the government could be building infrastructure that essentially pays for itself,” Mr Smith said.

The same tax could also raise revenue from developers land banking or discourage it all together, along with other tax mechanisms, he said.

For individuals, the current tax can make it harder to move for better job opportunities while for businesses it “reduces the pool of talent from which they can hire,” according to the report.

Despite total stamp duty revenues having almost doubled in the past four years, reaching $20.6 billion by the end of the 2015 financial year, it’s deemed inefficient and unreliable as it relies on property turnover and high prices.

In 2012, the Australian Capital Territory began to phase out the residential property transaction tax over a 20-year period, a model to follow according to IA.

It believed the long-term reform process of the ACT reduced the “volatility of government revenues by moving from duties to a more reliable and stable land tax revenue stream.”

Research Fellow at the Grattan Institute Brendan Coates said it would potentially be one of the biggest economic reforms that could boost Australian living standards.

“Land taxes can actually have the benefit of improving the wellbeing of Australians because it taxes the property owned by foreigners as well,” said Mr Coates.

The greatest impediment, however, was convincing Australians themselves, according to Mr Coates who believed homeowners were more averse to the idea of a recurrent yearly tax, albeit small, compared to the lump sum of stamp duty.

He said IA’s paper was not going to change policy overnight as politicians were reluctant to make changes that were unpopular with voters.

But Mr Coates said the research was significant because it continued to chip away at the problem to build public support.

“It [the paper] sets out a way to incentivise the reform for the states. So anything it can do to shift the needle for the states is a welcome step,” he said.

“The ACT has shown you can get it done and get re-elected.”

Mr Davies acknowledged that there might be negative community perception around broad-based land tax but it was up to the states and territories to provide a compelling narrative to inform the community and industries that the current system was ‘broken’.