Deloitte Access Economics

The revenue raising potential of a broad-based land tax

Property Council of Australia

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Contents

Charts

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Executive Summary

There has been a significant amount of commentary in recent years on the relative efficiency of the various Federal and State tax arrangements. The work around Australia's Future Tax System, followed more recently by the Tax White Paper process, and various state tax reform initiatives in the interim, has led to a series of relatively consistent findings on the efficiencies and recommendations for reform. One reform option frequently canvassed is the reform of state property taxes, with land taxes replacing the lost revenue from an abolition of stamp duties.

What has been largely absent from the debate so far is analysis of the practicalities of such a reform. In particular, what land tax rates would a revenue neutral abolition of stamp duties imply, and would these be pragmatic given the likely political cost of expanding the land tax base to include owner-occupier homes and other currently exempt land-holdings?

This report seeks to address these questions. By moving the debate beyond estimates of the relative efficiency of different taxes, of which there is no longer much debate, and shedding light on what property tax reform options imply in practice, this work provides decision makers with a more concrete overview of the options.

More specifically, three scenarios focussing on the revenue raising potential of land taxes are modelled:

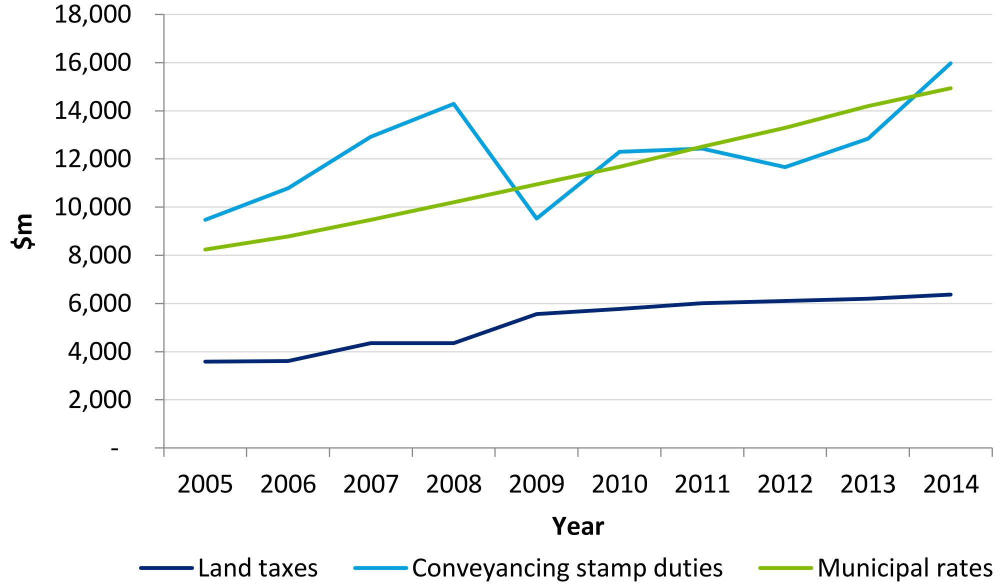
- Abolishing stamp duties and raising an equivalent amount of revenue through a broad based land tax on currently exempt owner occupier housing;
- Abolishing stamp duties and raising an equivalent amount of revenue through a broad based land tax on all currently exempt property; and
- Estimating the revenue raising potential of a land tax set at a similar rate to current local government rates. Such a rate would not raise sufficient revenue to offset an abolition of stamp duties, but is included as a pragmatic option given the potential political difficulties of fully recovering lost stamp duty revenue through land taxes.

In addition to estimating the revenue earning potential of land taxes, the report considers the recent tax reforms in the ACT in which stamp duties are being abolished over a 20 year period and replaced by higher municipal rates.

Revenue neutral land taxes

In addition to being highly inefficient, stamp duties also have drawbacks from a fairness and revenue certainty perspective. Being a function of both property prices and the rate of turnover, stamp duty revenue exhibits significant volatility over time. For example, while revenues from stamp duties exceeded $14 billion in 2007, this fell to below $10 billion in 2008. In contrast, land taxes and municipal rates tend to be relatively stable sources of revenue (see Chart i).

Chart i: National revenue from land taxes, conveyancing stamp duties, and municipal rates, 2005-2015



Source: ABS (2015a).

Nonetheless, conveyance stamp duties account for a large proportion of the revenue of the states and raised around $16 billion nationally in 2013-14,[1] equivalent to around 23% of state tax revenues. In transitioning away from less efficient taxes such as stamp duty, greater reliance on land taxes has been proposed by some commentators as a favourable option given the relative efficiency of taxes on immovable property and the large taxation base which is currently exempt from land taxes. **However, despite repeated calls for such reform, there appears to be no publicly available estimates of the magnitude of land taxes that would be required to offset an abolition of conveyance stamp duties.**

This report contains estimates of these required land taxes for each state and territory.[2] Given the volatility in stamp duty revenues over time, a ten year revenue average is used for this calculation. These rates are a function of both the stamp duties raised in each state, and the value of currently exempt land (shown in Table i below).

Assuming a flat land tax is applied to the unimproved value of all currently exempt owner occupied property in Australia, it is estimated that recouping the revenue foregone from stamp duty abolition would require a land tax of **0.58%** be imposed on the owner occupied land (see Table i). **On average across Australia, this implies a land tax payment of $2,360 per owner-occupied dwelling (see table ii)**. Given the wide distribution of house prices across Australia this average will not reflect the impost on all properties: those in lower value suburbs will pay less, while those in higher value area may pay significantly more. Across jurisdictions, the land tax rate varies from 0.45% in Tasmania to 0.69% in Western Australia.

[1] This is the latest year for which the ABS has reported data.

[2] No estimates are made for the Northern Territory which is the sole jurisdiction that does not currently charge land tax.

Table i: Required land tax rates for a revenue neutral abolition of stamp duties

	NSW	Vic.	Qld.	SA	WA	Tas.	ACT	Australia
Stamp duties on conveyances in 2013-14 ($b)	$6.05	$4.26	$2.40	$0.79	$1.96	$0.15	$0.23	$15.83[a]
Land value of owner occupied land in 2013-14 ($t)	$1.02	$0.70	$0.42	$0.15	$0.31	$0.04	$0.05	$2.69[a]
Land value of all exempt land in 2013-14 ($t)	$1.18	$0.82	$0.52	$0.18	$0.36	$0.05	$0.05	$3.16[a]
Land tax rate required – owner occupied land	0.48%	0.65%	0.60%	0.63%	0.69%	0.45%	0.60%	0.58%[b]
Land tax rate required – all exempt land	0.40%	0.54%	0.50%	0.50%	0.59%	0.36%	0.58%	0.50%

Source: ABS (2013), ABS (2014a), ABS (2014b), RBA (2015), Deloitte Access Economics.
a. Values do not include the Northern Territory.
b. The land tax rate required for Australia is a simple average of the state values presented in the table.

These rates vary across states due to differences in the value of land, current stamp duty rates and the proportion of owner-occupied dwellings out of the total dwelling stock. The table below shows what a revenue neutral land tax on owner-occupied dwellings would imply for the average property in each jurisdiction.

Table ii: Revenue neutral land tax rates, and average payment, by jurisdiction

	NSW	Vic.	Qld.	SA	WA	Tas.	ACT	Australia
Land tax rate required	0.48%	0.65%	0.60%	0.63%	0.69%	0.45%	0.60%	0.58%[a]
Average land tax payment for 2015	$2,492	$2,644	$1,841	$1,720	$2,629	$927	$2,391	$2,360

Source: Deloitte Access Economics
a. The land tax rate required for Australia is a simple average of the state values calculated.

Assuming no carve outs or tax free thresholds, when other exempt land holdings such as universities, primary production and churches are included, the national average land tax rate decreases to **0.50%** reflecting the increase in taxable land value. Again this rate varies across states and territories based on the current value of exempt land. This variation is broadly in line with the rates for owner-occupied dwellings alone due to the additional categories of exempt land only contributing 17% to the total value of exempt land.

Revenues from land taxes set at municipal rate levels

In addition to the revenue neutral land tax rates above, the revenue raising potential of land taxes set at rates broadly equivalent to municipal rates are modelled. These are chosen as they are likely to reflect a more politically palatable rate of land tax. The modelling estimates what portion of stamp duty revenue such rates would recover.

Municipal rates vary across councils based on both size and structure. In order to estimate a representative rate for use determining a local government rates-equivalent land tax, the total value of municipal rates is divided by the total value of the land stock as calculated for the estimates above. This approach is adopted due to the relative complexities in council rate structures and the paucity of data on the distribution of land values at the council level. It yields an average national flat rate of around **0.35%.**

Table iii below shows the proportion of conveyance stamp duty revenue that could be generated by applying a flat rate land tax equal to this rate in each state and the ACT. Again, there is significant variation in this proportion, with recovery of between 54% (Victoria) and 78% (Tasmania). At the national level, land tax rates set at this level on currently exempt land would raise around 61% of total foregone revenues by abolishing stamp duties.

Table iii: Land taxes on owner occupied land levied at rates equivalent to council rates

	NSW	Vic.	Qld.	SA	WA	Tas.	ACT	Australia
Revenue collected relative to stamp duties on conveyances	74%	54%	58%	56%	51%	78%	59%	61%

Source: ABS (2015a), ABS (2014b), ABS (2013), RBA (2015), Deloitte Access Economics.

The recent reforms in the ACT

To date the ACT has been the only jurisdiction to move towards abolishing stamp duty in favour of a more efficient and stable property tax structure. Among other tax reforms, it is seeking to replace all stamp duties with municipal rates over a 20 year period to 2032. This phasing in period is an attempt to address the inherent difficulties of reforms in this area. In particular, replacing stamp duties with annual property taxes raises fairness concerns over the implicit double taxation of property owners that have already paid stamp duties on their property portfolios. Depending on the approach to phasing in increased land taxes or municipal rates, there may also be short term revenue implications over the transition period.

While the ACT is only a few years into the 20 year transition, it is possible to draw some broad conclusions about the experience so far:

- The initial years following the reforms appear to have been revenue positive in that total property tax revenues have increased as a percentage of Gross Territory Product. While this growth will have been a function of both the reforms and underlying conditions in the property market, Budget forecasts from the time indicate that these increases were expected.
- This has been driven by a significant increase in rates on both residential and commercial property. The top rate for residential property rates has approximately doubled since the reforms commenced, while the top rate for commercial property has increased by around 70%. Rates at lower thresholds have also increased significantly.
- Stamp duty rates have fallen across all thresholds (albeit it off a relatively high base compared to other jurisdictions), although these reductions have not been consistent

so far. Those on lower value properties have fallen by a greater amount than needed for a linear transition over the 20 year period, while those on higher value properties are behind where they would need to be.

Further, despite the significant attention which the ACT reforms have drawn, there is very little public information on the transition process that is planned. In particular, there is no public documentation which sets out the intended rate schedule over the 20 year period. Without a medium to long term plan, it is difficult to conclusively gauge these reforms against the established recommendations.

Instead, the ACT Treasury plans to outline the next stages of tax reforms on a relatively ad-hoc basis through Budget papers over the course of the transition process. Nonetheless, the calculations in this report indicate that the average increase in rates payable by ACT property owners will need to be in the vicinity of 0.6% of the value of their land, assuming the reforms are revenue neutral.

Deloitte Access Economics

1 Introduction

Deloitte Access Economics has been commissioned by the Property Council of Australia to estimate the land tax rates required in each Australian state should an abolition of stamp duties be funded in a revenue neutral way through land tax, and to investigate the revenue earning potential of more politically palatable land tax rates set at levels equivalent to municipal rates. This follows numerous modelling exercises over recent years that have demonstrated the likely economic benefits from reducing stamp duties in favour of other taxes on properties. However, these exercises have tended not to investigate in depth the practicalities of such a shift, including:

- The calculation of the land tax rates required if stamp duty is to be abolished;
- The structure and coverage of these rates (that is, which parts of the market may be asked to pay the additional land tax); and
- The transition plan for phasing between stamp duties and land taxes to avoid concerns around the double-taxation of properties.

This work is a first step down this path. In particular it seeks to calculate the land tax rates that would in fact be required in each state for a revenue neutral shift away from stamp duties, to be paid by those landholders that are currently exempt from land tax:

- The rates required if the additional land tax is to be recovered from owner-occupier housing only and set at a flat rate with no exemptions; and
- The rates required if the additional flat rate land tax is placed on all exempt landholders (including owner-occupier, primary production land and other exempt categories).

The report also estimates what portion of the foregone revenue would be received by state governments if land tax rates were instead set at levels closer to local council rates. Finally, the report outlines the recent ACT property tax reforms as a case study. The ACT stands out as the only jurisdiction which has announced a commitment to removing all conveyancing stamp duties, which it intends to phase out in favour of municipal rates over a twenty year period.

The analysis in the report is based on publicly available data, including Australian Bureau of Statistics data on land values by type and state government revenue data. Unit record data on property values has not been used for this analysis, and there is no comprehensive collection of rates structures by local government area. Nonetheless, the top down approach used in this report has benefits, in large part due to the ease of calculating an average flat tax rate which is more complex when analysed at the local level given complexities in various tax or rate structures.

The report is set out as follows:

- Chapter 2 provides background to the calculations, including an overview of property taxation in Australia and a brief summary of previous analyses of property tax reforms.

- Chapter 3 outlines the steps taken to calculate the required land tax rates for each scenario and provides the key results.
- Chapter 4 summarises the recent ACT experience with property tax reform.

2 Background

Stamp duties on property are widely regarded as one of the least efficient taxes. Measured in terms of marginal excess burden (MEB), the welfare cost to Australia per dollar raised, the recent *Re:think* tax discussion paper placed stamp duties as the least efficient of all major taxes with a MEB of around 70 cents in the dollar.

In recent years there have been various calls for the removal of stamp duties in favour of broader based taxes on less mobile bases, predominantly land. Indeed, land taxes or municipal rates (which are effectively a broad-based land tax) are generally regarded as the most efficient of all taxes given land is immobile and taxing it therefore has a lower impact on behaviour. Nonetheless, current land tax structures contain various features which make them less efficient than they could otherwise be. Analysing the merits and efficiencies of various taxes is, however, not the focus of this report.

While useful in making the case for such reform, these previous analyses have not identified in any depth some of the more practical considerations around the land tax rates implied by revenue neutrality, or the transition arrangements that should be adopted given the potential equity and disruptive impacts that tax reform on the property market may have. The former of these considerations is the focus of this report.

The only similar analysis of which we are aware is one conducted by the Grattan Institute in 2014 which estimates that a broad-based flat-rate land tax set at 0.2% on unimproved values would raise around $7 billion nationally. Although the methodology behind the estimates is not fully set out, it does appear to be broadly consistent with available data on land values. The base used is *all* land subject to council rates (which includes land already subject to land tax). For this reason the Grattan Institute result is not directly comparable to the results in this report.

This section outlines the current set and structures of property taxation in Australia. It demonstrates the core role that stamp duties play in state revenues, particularly relative to land taxes. This is not to say that stamp duties are justified by the size of the revenues they raise, but instead that any reform options need to be carefully planned.

2.1 Property tax revenue in Australia

Stamp duties apply on properties at the time of sale, with no recurring annual tax payment. Duty rates tend to be a fixed fee plus a marginal rate applied per $100 or part thereof that exceeds the lower limit of a threshold, paid on the market price of a property which includes both its land and dwelling value.

In contrast, land tax is an annual tax payable by owners of land, and is administered by the state and territory governments on the unimproved value of land. Every state and territory administers a land tax, except for the Northern Territory. In most instances, the value of the land is determined by a valuation office, and the landholder is charged a fixed fee plus a marginal rate applied to the excess above the lower limit of a value range. Various exemptions apply to land tax in each state, with the largest in terms of revenue foregone being the exemption for place of primary residence. Further information on the structure and rates of stamp duties and land taxes is detailed in Section 2.2.

In 2013-14, the combined revenue from stamp duties in Australia was approximately $16.0 billion. The largest amounts of stamp duty revenue were collected by New South Wales ($6.0 billion), Victoria ($4.3 billion), and Queensland (2.4 billion). Further, Western Australia collected $2.0 billion and South Australia collected $0.8 billion, while the remaining states and territories collected around $0.5 billion in total.

In contrast, land taxes make up a far smaller magnitude of state tax revenue. In 2013-14, the combined revenue from land taxes in Australia was approximately $6.4 billion. The largest amounts of land tax revenue were collected by New South Wales ($2.3 billion), Victoria ($1.7 billion), and Queensland ($1.0 billion). The remaining states and territories collected a combined total of approximately $1.4 billion in land tax revenue.

As detailed in Table 2.1 stamp duty revenue exceeds land tax revenue in all jurisdictions. South Australia had by far the largest proportion of land tax revenue relative to stamp duty revenue in 2013-14, with land tax revenue being 72% the size of stamp duty revenue.

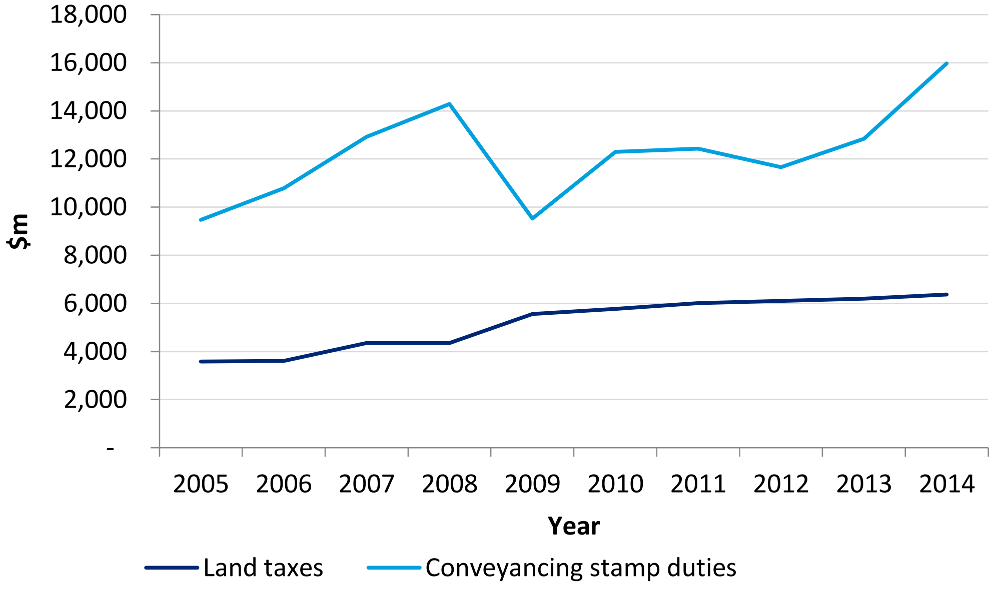
Table 2.1: Land tax and stamp duty revenue, 2013-14

State and Territory	Land tax revenue ($m)	Stamp duty revenue ($m)	Land tax revenue as a % of stamp duty revenue
NSW	2,335	6,045	39%
Vic.	1,659	4,261	39%
QLD	986	2,403	41%
SA	565	789	72%
WA	654	1,955	33%
Tas.	86	154	56%
NT	0	142	0%
ACT	79	227	35%
Total	**6,364**	**15,976**	**40%**

Source: ABS (2015a).

From 2003 to 2014, total revenue from land taxes have been between 30%-58% the size of the revenue collected from stamp duties. The gap between land taxes and stamp duty revenue has also exhibited significant volatility. For example, in 2007-08, land tax revenue fell to 30% of stamp duty revenue on property transactions ($4.3 billion compared to $14.3 billion), while the following year this figure rose to 58% ($5.6 billion compared to $9.5 billion). This relative volatility is exhibited in Chart 2.1 below. Further, this volatility at the national level masks the even greater revenue volatility seen by stamp duties at the state level.

Chart 2.1: Total revenue from land taxes and stamp duties in Australia, 2003-2014



Source: ABS (2015a).

2.2 The structure of property taxes

Table 2.2 below provides a summary of the rate structure for stamp duties across all states and territories. In most instances the marginal rates are applied per $100 or part of that amount that exceeds the lower limit of the transaction range, and incorporate a separate fixed charge which is applied to that range. This general structure applies for most jurisdictions, with the notable exception of the Northern Territory which calculates stamp duty rates based on a quadratic formula on dutiable value for transaction values between $0 and $525,000. New South Wales, Victoria, and Western Australia also have slightly different structures in place for duties on residential properties compared to non-residential properties.

Land taxes also tend to face a progressive scale, with increasing marginal rates applied above the lower threshold, with differing fixed charges as well. One exception to this is the Northern Territory which does not implement a land tax. Further, New South Wales, Victoria, and Queensland have different land tax rules for certain companies and trusts, and Western Australia administers a special purpose land tax for land in the metropolitan region.

Table 2.2: Current stamp duty rates and structures

NSW	Vic.	Qld.	WA	SA	Tas.	NT	ACT
Marginal rate applies per $100 or part of $100 that exceeds the lower limit of the range. General duty rates **$0 - $14,000** 1.25% **$14,001 - $30,000** $175 +1.50% **$30,001 - $80,000** $415 +1.75% **$80,001 - $300,000** $1,290 +3.50% **$300,001 - $1m** $8,990 +4.50% **Over $1m** $40,490 +5.50% Premium Property Duty (only payable on residential land) **over $3m** $150,490 +7.00%	Marginal rate applies on dutiable value in excess of lower limit. General duty rates **$0 - $25,000** 1.40% **$25,001 - $130,000** $350 +2.40% **$130,001 - $960,000** $2870 +6.00% **Over $960,000** 5.50% of total value Principal place of residence concession **$0 - $25,000** 1.40% **$25,001 - $130,000** $350 +2.40% **$130,001 - $440,000** $2870 +5.00% **$440,001 - $550,000** $18,370 +6.00% **$550,001 - $960,000** $28,070 +6.00% **Over $960,000** 5.50% of total value	Marginal rate applies per $100 or part of $100 that exceeds the lower limit of the range. General duty rates **$0 - $5,000** Nil **$5,000.01 - $75,000** 1.50% **$75,000.01-$540,000** $1,050 +3.50% **$540,000.01 - $1,000,000** $17,325 +4.50% **Over $1m** $38,025 +5.75%	Marginal rate applies per $100 or part of $100 that exceeds the lower limit of the range. General duty rates **$0-$80,000** 1.90% **$80,001 - $100,000** $1,520 +2.85%, **$100,001 - $250,000** $2,090 +3.80%, **$250,001 - $500,000** $7,790 +4.75% **Over $500,000** $19,665 +5.15%. Residential property **$0 – $120,000** 1.90% **$120,001 – $150,000** $2,280+2.85% **$150,001 – $360,000** $3,135+3.80% **$360,001 – $725,000** $11,115+4.75% **Over $725,000** $28,453+5.15%	Marginal rate applies per $100 or part of $100 that exceeds the lower limit of the range. General duty rates **$0-$12,000** 1.00%, **$12,001-$30,000** $120 +2.00%, **$30,001-$50,000** $480 +3.00%, **$50,001-$100,000** $1,080 +3.50% **$100,001-$200,000** $2,830 +4.00% **$200,001-$250,000** $6,830 +4.25% **$250,001-$300,000** $8,955 +4.75% **$300,001-$500,000** $11,330 +5.00% **Over $500,000** $21,330 +5.50%	Marginal rate applies per $100 or part of $100 that exceeds the lower limit of the range.[3] General duty rates **$0 - $3000** $50 **$3001-$25,000** $50 +1.75% **$25,001 - $75,000** $435 +2.25% **$75,001 - $200,000** $1,560 +3.50% **$200,001 - $375,000** $5,935 +4.00% **$375,001 - $725,000** $12,935 +4.25% **Over $725,000** $27,810 +4.50%	General duty rates **$0 - $525,000** Duty calculated by $D = (0.06571441 x V^2) + 15V$ where D = duty payable, V = 1/1000 of dutiable value **$525,000 - $3m** 4.95% of dutiable value **Over $3m** 5.45% of dutiable value	Rate applies per $100 or part thereof that exceeds the lower limit of the range.[4] **$0 - $200,000** $20 or $1.80 per $100 or part thereof, whichever is greater **$200,001 - $300,000** $3,600 plus $3.00 per $100 or part thereof **$300,001 - $500,000** $6,600 plus $4.00 per $100 or part thereof **$500,001 - $750,000** $14,600 plus $5.00 per $100 or part thereof **$750,001 - $1,000,000** $27,100 plus $6.50 per $100 or part thereof **$1,000,001 - $1,454,999** $43,350 plus $7.00 per $100 or part thereof **$1,455,000 and over** $5.17 per $100 applied to the total transaction value

Source: New South Wales Treasury (2014), Tasmania Department of Treasury and Finance (2015), ACT Revenue Office (2015a)

[3] Effective as of 21 October 2013 (http://www.sro.tas.gov.au/domino%5Cdtf%5CSROWebsite.nsf/v-all/Rates%20of%20Duty?OpenDocument)

[4] Transaction dates from 3 June 2015 to current (http://www.revenue.act.gov.au/duties-and-taxes/duties/land-and-improvements). With the 2012-13 Budget, the ACT has announced its commitment to phase out stamp duties over a twenty year period, with revenue from this reform being replaced through a general rates system (see Chapter 4).

Table 2.3: Current land tax rates and structure in States and Territories

NSW	Vic.	Qld.	WA	SA	Tas.	NT	ACT
Marginal rates apply to excess above the lower limit of the range unless explicitly stated.	Marginal rates apply to excess above the lower limit of the range unless explicitly stated.	Marginal rates apply to excess above the lower limit of the range unless explicitly stated.	Marginal rates apply to excess above the lower limit of the range unless explicitly stated.	Marginal rates apply to excess above the lower limit of the range unless explicitly stated.	Marginal rates apply to excess above the lower limit of the range unless explicitly stated.	No land tax.	Marginal rates apply to the Average Unimproved Value of the land.
General tax rate **$0 - $432,000** Nil **$432,000 - $2,641,000** $100 +1.6% **Over $2,641,000** $35,444 +2.0% In the 2015 Land Tax Year, non-concessional companies and special trusts will be taxed at 1.6% to $2,641,000, plus 2.0% for value over $2,641,000	General tax rate **Less than $250,000** Nil **$250,000 - $599,999** $275 +0.2% **$600,000 - $999,999** $975 +0.5% **$1,000,000 - $1,799,999** $2,975 +0.8% **$1,800,000 - $2,999,999** $9375 +1.3% **$3,000,000 and over** $24,975 +2.25%	For resident individuals **Less than $600,000** Nil **$600,000 - $999,999:** $500 +1% **$1,000,000 - $2,999,999** $4,500 +1.65% **$3,000,000 - $4,999,999** $37,500 +1.25% **$5,000,000 and over** $62,500 +1.75%	General tax rate **$0 - $300,000** Nil **$300,001 - $420,000** $300 **$420,000 - $1,000,000** $300 +0.25% **$1,000,000 - $1,800,000** $1,750+0.90% **$1,800,000 - $5,000,000** $8,950 +1.80% **$5,000,000 - $11,000,000** $66,550 +2.00% **$11,000,000 and over** $186,550 +2.67%	General tax rate **$0-$316,000** Nil **$316,001-$579,000** 0.50% **$579,001-$842,000** $1,315 +1.65% **$842,001-$1,052,000** $5,654.50 +2.40% **Over $1,052,000** $10,694.50 +3.70%	General tax rate **$0 - $24,999** Nil **$25,000 - $349,999** $50 +0.55% **$350,000 and above** $1,837.50 +1.50%		Residential property marginal rates[5] **$0-$75,000** $945 +0.41% **$75,001-$150,000** $945 +0.48% **$150,001-$275,000** $945 +0.61% **Over $275,000** $945 +1.23%.
		For companies, trustees, and absentee: **Less than $350,000** Nil **$350,000-$2,249,999** $1,450 +1.70% **$2,250,000 - $4,999,999** $33,750 +1.50% **$5,000,000 and over** $75,000 +2%	The Metropolitan Region Improvement Tax (MRIT) The tax is levied on the unimproved value of the land situated in the metropolitan area at a rate of 0.14 cents per $1.00 of land valued at over $300,000.				

Source: New South Wales Treasury (2014), ACT Revenue Office (2015b), Western Australia Department of Finance (2015)

[5] Land taxes on commercial properties in the ACT were abolished from 1 July 2012.

2.3 Municipal rates – structure and revenue

Municipal rates are the sole source of taxation revenue for local governments across Australia. Rates may be levied on either a property's capital improved or unimproved value, with this differing by jurisdiction. Because rates do not attract the same exemptions as land taxes they can be considered as effectively representing a broad-based land tax. However, councils may charge different rates for primary production land, commercial properties, and residential properties.

In 2013-14, total revenue from municipal rates in Australia was approximately $15 billion, only slightly below the revenue raised by stamp duties. Almost three-quarters of this came from municipal rates sourced in New South Wales (25%), Victoria (27%), and Queensland (21%), while the remaining States and Territories collected the remaining quarter. As shown in Chart 2.2, on aggregate, municipal rates are a relatively stable and steadily growing source of revenue.

Chart 2.2: Municipal rates by State and Territory, 2005-2014

Source: ABS (2015a).

Nationally, revenue from municipal rates has grown at 7% annually from 2003-2014 (Table 2.4). This is reflected across all states and territories, with the fastest growth taking place in the ACT with an annual revenue growth of 12% over this time period.

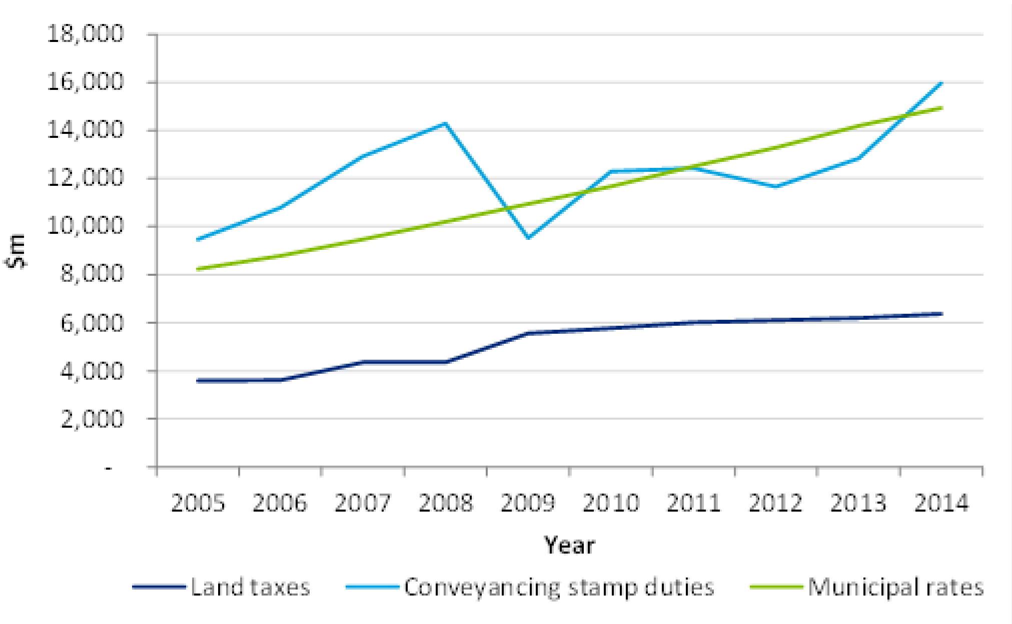
Table 2.4: Municipal rates revenue across States and Territories

State and Territory	Municipal rates revenue, 2013-14 ($m)	Annual growth, 2003-2014
NSW	3,790	5%
VIC	4,030	7%
QLD	3,189	8%
SA	1,303	7%
WA	1,835	9%
TAS	351	7%
NT	105	7%
ACT	340	12%
Total	14,943	7%

Source: ABS (2015a).

Chart 2.3 illustrates the comparative stability of rates revenue. It has grown at broadly the same rate as stamp duty over the period 2004 to 2014, and earned similar absolute revenues over this period, but with significantly less variation in this revenue year-on-year.

Chart 2.3: Total revenue from land taxes, stamp duties, and municipal rates in Australia, 2005-2014



Source: ABS (2015a), Deloitte Access Economics

3 Broad based land tax revenue estimates

This section outlines the approach taken to the estimation of the required flat rate land taxes, and the results from this analysis. It draws on publicly available data on land values and tax revenue used in these estimates, and outlines any assumptions made.

The analysis in this section is based on the following assumptions around tax structure and behavioural responses:

- The hypothetical land tax rates calculated are flat rates applied to the total unimproved land value of the relevant land tax base, with no tax free thresholds.
- Existing land tax regimes continue to apply to all existing land tax payers (including business and investment property). That is, the flat rate tax only applies to the currently exempt group under consideration (owner-occupiers in the first instance, and then extended to all currently exempt land).
- It is assumed that there are no behavioural responses to the reform package.

The second assumption reflects that commercial and residential investment property owners are already subject to land tax in all states. The calculation of a broad-based land tax is therefore applied to currently exempt property owners only.

3.1 Replacing all conveyancing stamp duties with land taxes

This section describes the methodology and results of the analysis of revenue neutral land taxes in the event that stamp duty is abolished. The land taxes estimated below are revenue neutral in that they are set at a level that would have recovered, on average, the same percentage of nominal gross state product (GSP)[6] as stamp duties on conveyances over the period 2005 to 2014. This definition is adopted because governments purchase goods and services in the same dollars they collect them, meaning that a nominal annual amount is the appropriate benchmark.

The use of this longer time period is to account for the significant variability in stamp duty revenues year-on-year. This is demonstrated in Chart 3.1 on the following page, which shows that revenues for the last year were in fact close to their ten year average when expressed as a percentage of GSP.

The calculations of what land tax rates would need to be to replace stamp duties on conveyances are calculated for two scenarios:

- Scenario 1 – Replacing all conveyancing stamp duty revenues with land taxes on owner occupied residential land only; and

[6] ‘GSP’ will be used to refer to both gross state product and gross territory product.

- Scenario 2 – Replacing all conveyancing stamp duty revenues with land taxes on all currently exempt land.

3.1.1 Scenario 1 – Replacing all conveyancing stamp duty revenues with land taxes on owner occupied residential land only

There are four steps involved in calculating the land tax rate that could be applied to owner occupied residential land to replace stamp duties on conveyances:

1. Calculate stamp duty revenues on conveyances as a percentage of nominal GSP in each year 2005 to 2014.

This is done using data from ABS (2014a) and ABS (2015a)

2. Calculate the average of the stamp duty revenues from step 1. Since stamp duty revenues are volatile year-on-year, an estimate based on a single year may not be representative of the rate required for revenue neutrality over a longer period.

   The average of stamp duties on conveyances revenue as a percentage of nominal GSP from 2005 to 2014 provides the criterion of revenue neutrality. This can then be used to calculate the land tax rate needed to recover the same percentage of nominal GSP, on average, over the period 2005 to 2014.

3. Calculate the value of owner occupied residential land in each year 2005 to 2014. This has three steps.

   a. Data on residential land values are drawn from ABS (2014b).

   b. The value of residential land in each year is multiplied by owner occupancy rates calculated using ABS (2013).

   c. These values are multiplied by the average of median owner occupied property prices relative to the median price of other residential property in 2002, 2006 and 2010, as given in RBA (2015), in order to reflect the differences in average values between owner-occupied and investor properties.

      Across all jurisdictions and years, the average median price of primary residences was 1.18 times that of non-owner occupied primary residences.

      Data on median prices is provided separately for New South Wales, Victoria, Queensland, South Australia and Western Australia. A single set of median price data is provided for Tasmania, the Northern Territory and the Australian Capital Territory.

4. Calculate the land tax rate which, when applied to the owner occupied residential land values calculated at step 3 above, would generate the same amount of revenue as a percentage of nominal GSP as stamp duties.

Results

In 2014, stamp duties on conveyances raised $15.8 billion in Australia, or 1.01% of GDP[7] (ABS 2015a). This is only slightly above the decade average of 0.98%, indicated in Chart 3.1.

[7] These values exclude data for the Northern Territory. The Northern Territory is excluded from discussion in this chapter because it currently has no land tax arrangements in place.

Over the period 2005 to 2014, stamp duties on conveyances represented, on average, between 0.69% (Tasmania) and 1.14% (Victoria) of GSP across the states and territories. As Table 3.1 shows, stamp duties as a percentage of nominal GSP can vary significantly over time. In Western Australia, stamp duties peaked as a percentage of nominal GSP at 1.59% in 2006, and fell as low as 0.55%, in 2012.

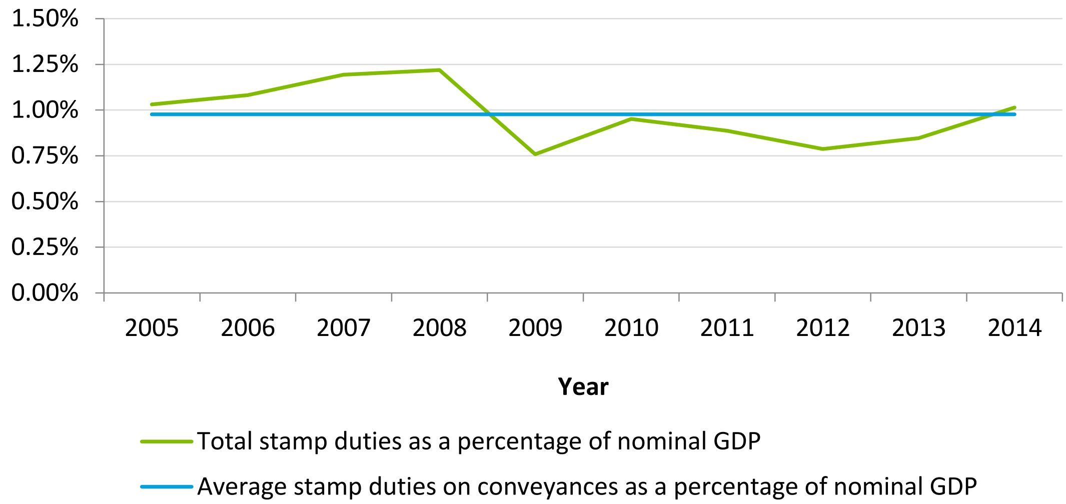
Table 3.1: Stamp duties on conveyances as a percentage of nominal GSP, 2005 to 2014

	NSW	Vic.	Qld.	SA	WA	Tas.	ACT	Australia
Minimum	0.69%	0.99%	0.65%	0.74%	0.55%	0.56%	0.63%	0.73%
Maximum	1.23%	1.35%	1.26%	1.17%	1.59%	0.91%	1.09%	1.31%
Average	0.97%	1.14%	0.89%	0.91%	0.97%	0.69%	0.82%	0.98%

Source: ABS (2014a), ABS (2015a), Deloitte Access Economics

Chart 3.1 below aggregates state-level data to represent total stamp duties on conveyances in Australia as a percentage of nominal gross domestic product (GDP) over the period 2005 to 2014.

Chart 3.1: Stamp duties on conveyances as a percentage of nominal GDP



Source: ABS (2014a), ABS (2015a), Deloitte Access Economics

The states and territories vary in their rates of owner occupancy, and the value of owner occupied residences relative to other residences, which directly impacts the estimated value of owner occupied residential land (Table 3.2). This in turn impacts the land tax rates that will be needed to replace stamp duties on conveyances, with higher values of owner-occupied land leading to lower required rates.

Table 3.2: Key statistics on residential property in Australia

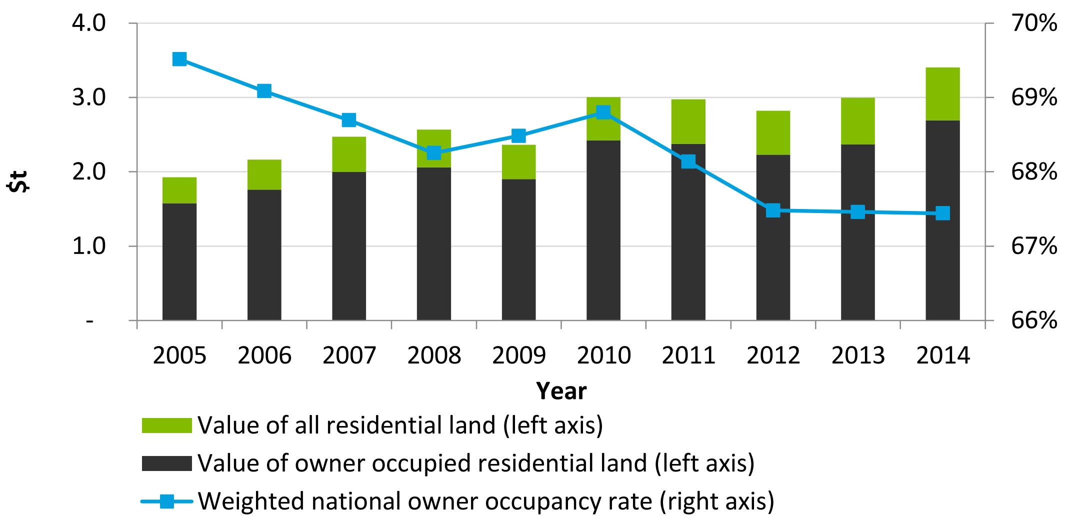
	NSW	Vic.	Qld.	SA	WA	Tas.	ACT	Aus.[a]
Value of residential land, 2013-14 ($b) [b]	$1,281	$877	$555	$197	$387	$48	$60	$3,406[c]
Average owner occupancy rate[d]	68%	72%	66%	71%	68%	72%	69%	69%
Median owner occupied property price/median price of other residential property[e]	121%	113%	117%	105%	120%	124%	124%	117%
Share of value of residential land that is owner occupied (%)[f]	82%	80%	77%	74%	82%	89%	85%	81%
Value of owner-occupied residential land, 2013-14 ($b)	$1,022	$698	$422	$149	$312	$42	$49	$2,694[c]

Source: ABS (2013), Reserve Bank of Australia (2015), ABS (2014b), Deloitte Access Economics

a. Values for Australia are a simple average of state values.
b. Value of residential land is taken from the ABS Australian System of National Account.
c. Value excludes the Northern Territory.
d. Average owner occupancy rates calculated on the basis of data for 2004, 2006, 2008, 2010 and 2012.
e. Calculated as the average of data for 2002, 2006 and 2010. As noted above, data were not separately available for Tasmania and the ACT.
f. Average of values from 2005 to 2014.

Chart 3.2 aggregates state-level calculations to show the value of all residential land, owner occupied land and the owner occupancy rate in Australia from 2005 to 2014.

Chart 3.2: The value of residential land in Australia



Source: ABS (2013), ABS (2014a), Reserve Bank of Australia (2015), Deloitte Access Economics

With data on stamp duties on conveyances revenue and the value of owner occupied residential land, all that remains is to calculate the land tax rates that could be applied to this land to replace stamp duties revenue. The results of this calculation are presented in Table 3.3, along with the amount of land tax that would have been paid on the average residence in 2015.[8]

Table 3.3: Land tax rates needed on owner occupied residential land to replace stamp duties on conveyances

	NSW	Vic.	Qld.	SA	WA	Tas.	ACT	Australia
Land tax rate required	0.48%	0.65%	0.60%	0.63%	0.69%	0.45%	0.60%	0.58%[a]
Average land tax payment for 2015	$2,492	$2,644	$1,841	$1,720	$2,629	$927	$2,391	$2,360

Source: Deloitte Access Economics.

a. The land tax rate required for Australia is a simple average of the state values calculated.

Across all states the average increase in land tax payments per property are estimated to be around $2,360. There will be variation in this across states and property values. The average property in NSW and Victoria are estimated to face payments in excess of the national average, at $2,492 and $2,644 respectively. Further, there will be significant differences across properties within states: those located in lower value suburbs will face smaller annual tax payments, while those in higher value suburbs will face higher payments.

The land tax rates that would need to be levied on owner occupied residential land to replace stamp duties on conveyances vary according to four factors:

- The rate of owner occupancy – the higher are owner occupancy rates, the lower is the required rate of land tax on owner occupied property.
- Owner occupied land values relative to rental property land values – the higher are owner occupied land prices relative to non-owner occupied land price, the lower is the required rate of land tax.
- Related to the above two factors, the higher is the value of land (across all types of occupancy), the lower will be the rate of land tax needed to replace a given amount of stamp duty revenue.
- The stamp duty rates that have been in place in each jurisdiction – the more stamp duty that has historically been collected (relative to GSP), the higher are the required rates of land tax needed to replace this revenue.

These factors are clearly at play when comparing the results of different states in Table 3.3, the residential property statistics in Table 3.2 and the statistics on stamp duties on conveyances above. For example, while the value of owner occupied land as a percentage of the total value of residential land is higher in the ACT than in Queensland. Queensland has historically collected higher stamp duties on conveyances revenue (as a percentage of

[8] Average land tax payments for 2015 have been calculated by multiplying the mean price of residential dwellings in each state at June 2015 (ABS 2015b)) by the percentage of dwelling value that is made up of the value of land. This last variable is calculated by dividing the total value of the dwelling stock (which includes land) (ABS 2015b) by the value of all residential land (sourced from ABS (national accounts)) in each state in 2014. Note that because the hypothetical land tax rates have been calculated as a flat rate on the total value of owner occupied residential land, the average land tax payments are not affected by distribution of land values.

GSP). These factors counter one another, with the land tax rate on owner occupied land needed to replace stamp duties equal in these jurisdictions.

Similarly, while New South Wales and Western Australia have the same percentage of residential land being owner occupied, and the same stamp duties on conveyances revenue as a percentage of GSP, the required land tax rates are significantly different. New South Wales' is lower because the value of residential land in the State is significantly higher as a percentage of GSP.

Tasmania and New South Wales stand out as needing low land tax rates on owner occupied land relative to other states. This is due to several factors: the rate of owner occupancy in Tasmania is very high (averaging 89%, compared to the Australian average of 81%), the amount of conveyancing stamp duty revenue collected in Tasmania has been low relative to GSP (averaging 0.69%, compared to the Australian average of 0.98%), and the value of owner occupied land is relatively high in New South Wales (being over two times GSP, on average, compared to the Australian average being 1.6).

3.1.2 Scenario 2 –Replacing stamp duties on conveyances with land taxes on all currently exempt land

This section presents the methodology and results of analysis of the land tax rate that, when applied to owner occupied to residential land and all other currently exempt land, could replace stamp duties on conveyances.

Major categories of currently exempt property across various States and Territories include:

- principle place of residence;
- primary production land;
- boarding houses;
- residential parks, including caravan parks;
- retirement villages, aged care establishments and nursing homes;
- non-profit organisations, including charitable or educational institutions, unions and associations; and
- low cost accommodation.

Methodology and data

The methodology used is broadly the same as that used above, applied to an expanded land base. As with Scenario 1, a land tax rate is found which would raise revenues equivalent to stamp duties on conveyances (when comparing the average revenue raised as a percentage of nominal GSP over the period 2005 to 2014).

There are 3 additional steps involved in calculating the land tax rate that could be applied to owner occupied residential land and other currently exempt land to replace stamp duties on conveyances:

1. Calculate the value of other currently exempt land.

   The value of 'rural' and 'other' land are taken from the ABS (2014b).

2. Sum the values of owner occupied residential land, 'rural' and 'other' land from 2005 to 2014 in each jurisdiction. This provides the value of all currently exempt land.
3. Find the land tax rate which, when applied to all currently exempt land, would generate the same amount of revenue as a percentage of GSP, on average, over the period 2005 to 2014 in each jurisdiction as did stamp duties on conveyances.

The most significant assumption underlying this approach is the assumption that 'rural' and 'other' land can be used to represent all land that is currently exempt from land tax. Discussions with the ABS indicate that this is an appropriate assumption, and that the major exempt land use categories – including land used for primary production, not-for-profit organisations, and government land – are included in the 'rural' and 'other' land categories in ABS (2014b).

Results

Chart 3.3 shows the value of all land currently exempt from land tax in Australia over the period 2004 to 2014. On average over the period, owner occupied residential land made up 86% of the value of all exempt land. As a result, the hypothetical land tax rates that would need to be applied to this land base are relatively close to, but slightly lower than, the rates calculated for Scenario 1.

Chart 3.3: The value of land currently exempt from land tax

Source: ABS (2013), ABS (2014b), ABS (2015a), RBA (2015), Deloitte Access Economics

Table 3.4 below provides the land tax rates that would need to be levied on all currently exempt land to replace stamp duties on conveyances. The rates that would need to be levied on owner occupied land are also provided for comparison purposes.

Differences between the land tax rates calculated here and those calculated for Scenario 1 are proportional to the value of owner occupied residential land relative to the value of all exempt land in each state and territory. The higher is the value of owner occupied land relative to all currently exempt land, the closer will be the rates calculated in this section to those above. For example, in the Australian Capital Territory where owner occupied residential land makes up 97% of the value of all land exempt from land taxes, the land tax that could be replace stamp duties when levied on all currently exempt land is 0.58%, compared to 0.60% if it were to be levied on owner occupied residential land alone.

Table 3.4: Required land tax rates on all currently exempt land

	NSW	Vic.	Qld.	SA	WA	Tas.	ACT	Australia
Land tax rate required – owner occupied land	0.48%	0.65%	0.60%	0.63%	0.69%	0.45%	0.60%	0.58%[a]
Land tax rate required – all exempt land	0.40%	0.54%	0.50%	0.50%	0.59%	0.36%	0.58%	0.50%

Source: Deloitte Access Economics

a. The land tax rate required for Australia is a simple average of the state values calculated.

3.2 Land tax at municipal rates

This section provides estimates of the land taxes that could be collected if set at levels broadly equivalent to municipal rates, and applied to owner occupied residential land. The purpose of this is to build a picture of how much revenue land tax at levels that are broadly equivalent to what homeowners are currently used to (in the form of municipal rates).

Methodology and data

Municipal rates in each state and territory have been calculated by dividing the total value of municipal rates revenue by the value of all residential, commercial and rural land, as given by ABS data.[9] This provides a simple top-down approach to estimating average flat rates, and avoids the complexity inherent in local government rate structures.

A weighted average of these values is then calculated, with the weighting being the percentage of municipal rates revenue collected in each jurisdiction. This yields a value of 0.37%. This is likely an over-estimate of the typical rate faced by Australian households due to municipal rates revenue also reflecting the typically higher rates paid on non-residential property. Hence, a slightly lower flat rate of 0.35% is used across all states and territories to represent an indicative level of municipal rates.

Results

Land taxes levied on owner occupied land at municipal rates levels would likely recover only around 61% of stamp duty revenues on average across Australia. This varies across

[9] Data on municipal rates revenue is understood to exclude charges for supply of services, and to reflect general rates only. While it includes commercial and primary production land, it is likely that the average rate implied closely reflects the average rate on residential properties. This is in part because residential property rates sit in between commercial and primary production rates, and because residential land accounts for the majority of the land base.

jurisdictions depending on the size of stamp duty revenue, historically, relative to the value of owner occupied residential land.

Table 3.5: Land taxes on owner occupied land levied at rates equivalent to council rates

	NSW	Vic.	Qld.	SA	WA	Tas.	ACT	Australia
Revenue collected relative to stamp duties on conveyances	74%	54%	58%	56%	51%	78%	59%	61%

Source: ABS (2015a), ABS (2014b), ABS (2013), RBA (2015), Deloitte Access Economics.

4 The recent ACT reforms

Following the Quinlan review in 2012 the ACT Government announced a package of tax reforms for the Territory. As outlined in the 2012-13 ACT Budget, the Government announced a commitment to abolishing conveyance duties over a twenty year period, starting with a five year plan where tax rates for property transactions were to be progressively reduced in order to phase out duties over the long term (ACT, 2012).

This was part of a suite of tax reforms which included abolishing duties on general insurance and life insurance, as well as extending the payroll tax threshold. The ACT government is unique in Australia in that it acts both as the state and local government, a factor that has assisted it in facilitating these property tax reforms.

The key components of the property reforms in the 2012-13 Budget were:

- A restructuring of the conveyance duty rates, commencing on 6 June 2012, with revenue forgone through this reform being replaced through a general rates system;
- Further, land taxes were also slated to be abolished in their current form, with the residential land tax system being replaced with a more progressive structure; and
- Commercial land tax was abolished from 1 July 2012, with the revenue being transferred over to commercial general rates.

From the 2012-13 to 2015-16 ACT Budget, a number of changes have taken place in terms of the tax structure of conveyance duties, land taxes, and general rates.

4.1 Conveyance duties

According to the ACT Government, both equity and efficiency rationales contributed to the decision to abolish conveyance duties in the Territory. On the equity front consideration was given to the fact that only 9% of the population contributed to a quarter of the total annual tax bill, and that this tended to fall on those who could least afford it. Further, it was noted that stamp duty was considered a volatile and unpredictable source of revenue.

The restructuring of conveyance duty rates in 2012 generally resulted in a reduction in the marginal rate applied to property values, with the exception of properties over $750,000, which experienced an increase in the rates applied.

Table 4.1: ACT conveyance duties (2002-2013)

Old threshold (1 July 2002 to 6 June 2012)	Old duties	New threshold, 6 June 2012 to 4 June 2013	New duties
up to $100,000	$20 or 2.00%, whichever is greater		
$100,001 to $200,000	$2,000 +3.50%	up to $200,000	$20 or 2.40%, whichever is greater
$200,001 to $300,000	$5,500 +4.00%	$200,001 to $300,000	$4,800 +3.75%
$300,001 to $500,000	$9,500 +$5.50%	$300,001 to $500,000	$8,550 +4.75%
		$500,001 to $750,000	$18,050 +5.50%
$500,001 to $1,000,000	$20,500 +5.75%	$750,001 to $1,000,000	$31,800 +6.50%
$1,000,001 and over	$49,250 +6.75%	$1,000,001 and over	$48,050 +7.25%

Source: ACT Revenue Office (2015a)

Note: Marginal rate applies per $100 or part thereof that exceeds the lower limit of the range.

In the 2013-14 Budget, a new threshold was introduced for transactions between $1,000,001 and $1,650,000. Similarly, in the 2014-15 Budget, this was replaced by a new threshold for transactions between $1,000,001 and $1,454,999. Overall these new thresholds implied a slight reduction in duties payable at the top end. For example, duties payable on a $1,650,000 fell from $95,175 in 2012-13 to $90,750 in 2013-14.

Table 4.2: ACT conveyance duties, 2012- current

Thresholds	June 2012 to June 2013	June 2013 to June 2014	June 2014 to June 2015	June 2015 to current
up to $200,000	$20 or 2.40%, whichever is greater	$20 or 2.20%, whichever is greater	$20 or 2.00%, whichever is greater	$20 or 1.80%, whichever is greater
$200,001 to $300,000	$4,800 +3.75%	$4,400 +3.70%	$4,000 +3.50%	$3,600 +3.00%
$300,001 to $500,000	$8,550 +4.75%	$8,100 +4.50%	$7,500 +4.15%	$6,600 +4.00%
$500,001 to $750,000	$18,050 +5.50%	$17,100 +5.00%	$15,800 +5.00%	$14,600 +5.00%
$750,001 to $1,000,000	$31,800 +6.50%	$29,600 +6.50%	$28,300 +6.50%	$27,100 +6.50%
$1,000,001 and over	$48,050 +7.25%			
$1,000,001 to $1,454,999 [b]			$44,550 +7.00%	$43,350 +7.00%
$1,000,001 to $1,650,000 [a]		$45,850 +7.00%		
$1,455,000 and over [b]			5.25% applied to total transaction value	5.17% applied to total transaction value
$1,650,001 and over [a]		5.50% applied to total transaction value		

Source: ACT Revenue Office (2015a)

Note: Marginal rate applies per $100 or part thereof that exceeds the lower limit of the range.
a. New threshold from 2013-14 Budget
b. New threshold from 2014-15 Budget

In Table 4.3, the conveyance duty payable for a range of property values are compared across states, including for the ACT both prior to the tax reforms, and the most recent 2015-16 conveyance duty rates.

Table 4.3: Conveyance duty payable in States and Territories, for selected property values

Property value	NSW	VIC	QLD	WA (residential)	SA	TAS	NT	ACT (as at June 2012)	ACT (current)
$100,000	$1,990	$2,150	$1,925	$1,900	$2,830	$2,435	$2,157	$2,000	$1,800
$200,000	$5,490	$7,070	$5,425	$5,035	$6,830	$5,935	$5,629	$5,500	$3,600
$500,000	$17,990	$25,070	$15,925	$17,765	$21,330	$18,247	$23,929	$20,500	$14,600
$750,000	$29,240	$40,070	$26,775	$29,740	$35,080	$28,935	$37,125	$34,875	$27,100
$1,000,000	$40,490	$55,000	$38,025	$42,615	$48,830	$40,185	$49,500	$49,500	$43,350
$5,000,000	$290,490	$275,000	$268,025	$248,615	$268,830	$220,185	$272,500	$319,250	$258,500

Source: Government of South Australia (2015), ACT Revenue Office (2015a)
Note: The figures do not capture any conveyance duty concessions such as first homebuyer concessions. Conveyance duty rates are as of February 2015, unless otherwise specified.

The three highest payable duties by jurisdiction are highlighted in grey in each row. Prior to the reductions in stamp duties in the ACT commencing in 2012-13, it had the equal second highest stamp duties for a $1,000,000 property and the highest duties payable on the highest value properties. For properties worth $500,000 and $750,000 it had the fourth highest rates. As a result, the reductions in stamp duties as the reforms took effect came off relatively high rates when compared to other jurisdictions.

4.2 Land taxes

In the 2012-13 Budget, land taxes were slated to be abolished in their current form, with the residential land tax system being replaced with a more progressive structure. Further, commercial land taxes were abolished from 1 July 2012, with owners of commercial land now paying increased rates to effectively make up the loss of 'land tax' on commercial land.

All properties are subject to general rates, and land tax still applies to residential properties owned by individuals which are rented out, as well as to all residential properties owned by a trust or corporation, whether rented or not. Further, in the ACT, land tax marginal rates are applied to a property's average unimproved value (AUV), which is the average unimproved value of the land of the current year as well as the last two previous years. Similarly, general rates are applied to a property's AUV.

Thresholds on the land tax have remained unchanged with the ACT tax reforms in the 2012-13 Budget. The initial 2012-13 changes resulted in a decrease in the rates on AUVs from $75,001 to $150,000, and from $150,001 to $275,000 (with the rate on AUVs up to $75,000 remaining unchanged), and the rates on AUVs of $275,000 or higher were increased (Table 4.4).

Table 4.4: ACT land tax, 2012-13 reform

Threshold (AUV)	Old rates for system until 30 June 2012	Rates for 2012-13
Up to $75,000	0.60%	0.60%
From $75,001 to $150,000	0.89%	0.70%
$150,001 to $275,000	1.15%	0.89%
$275,000 and above	1.40%	1.80%

Source: ACT Budget Papers

Since 2012, the AUV thresholds have remained unchanged. Land tax rates were also unchanged between the 2012-13 Budget and the 2013-14 Budget; and a fixed charge was introduced with the 2014-15 Budget along with a new slate of marginal rates. With the 2015-16 Budget, these marginal rates have remained unchanged, while the fixed charge has increased for all AUV thresholds (Table 4.5).

Table 4.5: ACT residential land taxes, 2012- current

Threshold (AUV)	Rates for 2012-13	Rates for 2013-14	Rates for 2014-15	Rates for 2015-16
Up to $75,000	0.60%	0.60%	$900 +0.41%	$945 +0.41%
From $75,001 to $150,000	0.70%	0.70%	$900 +0.48%	$945 +0.48%
$150,001 to $275,000	0.89%	0.89%	$900 +0.61%	$945 +0.61%
$275,000 and above	1.80%	1.80%	$900 +1.23%	$945 +1.24%

Source: ACT Budget Papers

Note: A fixed charge was introduced with the 2014-15 Budget.

4.3 General rates

Prior to 2012-13, general rates revenue increased in line with the ACT Wage Price Index. The increases have been larger ostensibly to make up for lost insurance and conveyance duty revenue but have in fact been significantly revenue positive, and have been around 10% each year for the last few years.

Like the land tax, general rates are applied to a property's AUV, which is the average unimproved land value of the current year and the previous two years. In the case of unit properties that are part of a registered Unit Title Plan, the valuation charge for each unit is calculated using the AUV of the entire Unit Title Plan, which is multiplied by the individual unit entitlement (UE).

In recognition that increases in rates may place financial pressure on some households, the ACT Government offers two concessional options available to residential general rates payers:[10]

- A rebate of up to 50% of general rates with a maximum concession of $700 per property is available to eligible pensioners or special disability trusts; and
- Eligible property owners may also apply to defer payment of their rates, with a relatively low rate of simple interest applied to deferred payments. Deferment is available to pensioners, special disability trusts, those experiencing hardship and over 65s.

Residential rates

ACT residential rates, which initially consisted of a fixed charge of $555 plus a flat rate of 0.27%, have been restructured into a more progressive rates system, with rates for all tax brackets steadily increasing each year since 2012-13 (Table 4.6).

Table 4.6: Residential rates, 2012 – current

Threshold	Old system until 30 June 2012	Rates for 2012-13	Rates for 2013-14	Rates for 2014-15	Rates for 2015-16
0 to $150,000	0.2727%	0.2236%	0.2306%	0.2547%	0.2746%
$150,00 to $300,00	0.2727%	0.3136%	0.3241%	0.3571%	0.3857%
$300,000 to $450,00	0.2727%	0.3736%	0.3876%	0.4287%	0.4629%
Above $450,000	0.2727%	0.4136%	0.4312%	0.4873%	0.5339%
Fixed charge	$555	$555	$625	$675	$730

Source: ACT Budget Papers

Commercial rates

The original commercial rates system till 30 June 2012 was a fixed charge of $1,258 and a rating factor of 0.77% for thresholds above $16,500. Similar to residential rates, they have

[10] ACT Revenue Office (2015c), http://www.revenue.act.gov.au/duties-and-taxes/rates/rates-assistance

been restructured into a more progressive rates structure, with rates for all tax brackets steadily increasing since 2012-13 (Table 4.7). There has also been a significant rise in the fixed charge which has increased by 76% over this period.

Table 4.7: Commercial rates, 2013-2013

Threshold	Rates for 2012-13	Rates for 2013-14	Rates for 2014-15	Rates for 2015-16
0 to $150,000	1.9070%	2.2069%	2.4134%	2.6274%
$150,000 to $275,000	2.2670%	2.6429%	2.7957%	3.0467%
Above $275,000	2.6070%	3.5369%	4.0245%	4.4339%
Fixed charge	$1,213	$1,749	$1,915	$2,130

Source: ACT Budget Papers

Rural rates

For rural properties in the ACT, the fixed charge and marginal rates (which applies to the total average unimproved value of the land) have changed slightly since 2012-13 (Table 4.8).

Table 4.8: Rural rates, 2013-2013

Year	Rates for 2012-13
2012-13	$126 + a rating factor of 0.1489% applied to the AUV of rural properties.
2013-14	$139 + a rating factor of 0.1524% applied to the AUV of rural properties
2014-15	$145 + a rating factor of 0.1468% applied to the AUV of rural properties
2015-16	$150 +a rating factor of 0.1468% applied to the AUV of rural properties

Source: ACT Budget Papers

4.4 Revenue

With the property tax reforms, the ACT has experienced a shift in revenue away from conveyance duties and land taxes, and towards general rates. In 2014-15, municipal rates raised around $380 million in revenue for the ACT, while land taxes raised $89 million and conveyance duties raised around $226 million. Combined, general rates, land tax, and conveyance duties generated over $695 million in revenue in 2014-15.

As seen in Chart 4.1 and in Table 4.9, the decline in land tax and conveyance duty revenue has been more than offset by a significant increase in revenue raised from municipal rates. .

Land tax revenue has flattened out, and stamp duties have fallen, while revenue collected from municipal rates have increased significantly. From 2011-12 to 2014-15, nominal revenue from general rates has increased on average by 22% per year. In contrast, nominal revenue from land taxes and conveyance duties have decreased on average by -3% and -8% per year respectively. The combined (nominal) revenue raised from these property taxes has grown on average by 4% per year during this period. That is, total revenue from general rates, land tax, and conveyance duties increased from $619.7 million in 2011-12 by $75.7 million to $695.4 million in 2014-15. One potential driver for the overall increase in revenues could be the underlying property market conditions, with higher price and volume effects on conveyance duty revenues offsetting the decline that would have been realised through the reduced duty rates alone.

Table 4.9 shows how the actual revenue collected each financial year corresponds to the expected revenue collection as set out in the ACT's Budget for each year. Each Budget has relatively closely estimated the expected land tax and municipal rates revenue; while their estimations of expected conveyance duty revenue has been far more varied from the actual amount collected – highlighting that stamp duties are a volatile and unpredictable source of revenue. Overall, it was estimated that property tax revenue would grow at around 5% per annum in nominal terms over this period, which is higher than forecast nominal growth in GTP.

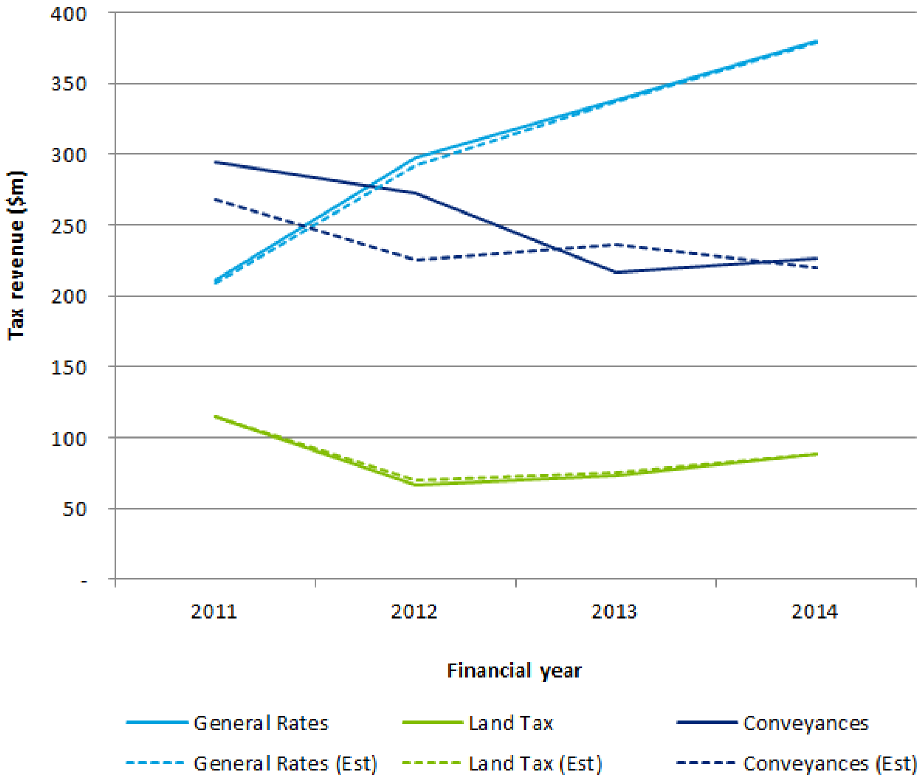
Table 4.9: ACT revenue (nominal) from land tax, conveyance duties and municipal rates, 2011-12 to 2014-15 ($m)

	2011-12	*2011-12 (Est.)*	2012-13	*2012-13 (Est.)*	2013-14	*2013-14 (Est.)*	2014-15	*2014-15 (Est.)*
General Rates	210.6	*209.3*	297.1	*292.0*	338.4	*337.4*	379.9	*378.7*
Land Tax	115.0	*115.0*	66.5	*69.5*	72.9	*75.8*	89.1	*89.1*
Conveyances	294.0	*267.9*	272.6	*225.7*	216.5	*236.3*	226.4	*220.0*
Total	**619.7**	***592.2***	**636.1**	***587.2***	**627.8**	***649.5***	**695.4**	***687.8***

Source: ACT Budget Papers

Hence, while the increased property tax revenues will have been a function of both the reforms and underlying conditions in the property market, the increase in total revenues from the property sector were expected ahead of time. Chart 4.1 below shows that the net increase in property tax revenue is clearly due to the increase in rates revenue over the period, with a relatively small decline in stamp duty revenue in both actual and estimated terms.

Chart 4.1: ACT revenue (nominal) from land tax, conveyance duties and municipal rates, 2011-12 to 2014-15 ($m)



Source: ACT Budget Papers

4.5 Transition planning and future arrangements

The Quinlan review recommended transition arrangements for the stamp duty and land tax reforms. A transitional timeframe of ten years was considered by the panel, for the purposes of minimising distortions in the market and ensuring the economy could adjust, without individuals incurring additional or unnecessary tax burdens.

The review suggested a transition framework consisting of two components:

1. The removal of conveyance duty and the transition of associated revenue into the general rates system over a period of time; and
2. A conveyance duty credit, which accounts for conveyance duty recently paid on property.

Under the conveyance duty credit, any property purchased in the past 10 years would be exempt (to varying degrees) to rate increases. Effectively, the stamp duty paid acts as a 'tax credit', exempting an individual for the payment of increased land tax, for up to 10 years after purchased the property (e.g., if an individual bought property the year prior, they are entitled to 9 years without paying extra rates).

The other transition issues considered by the review was ensuring rates increased each year to cover the decrease in stamp duty. This acknowledged that there could be adverse effects on low-income households (in particular, those that are 'asset rich' but 'income poor') as they are asked to pay a tax on their home which they would not have been called upon to pay previously. The Quinlan review suggests households could be supported through a change to existing concessions.

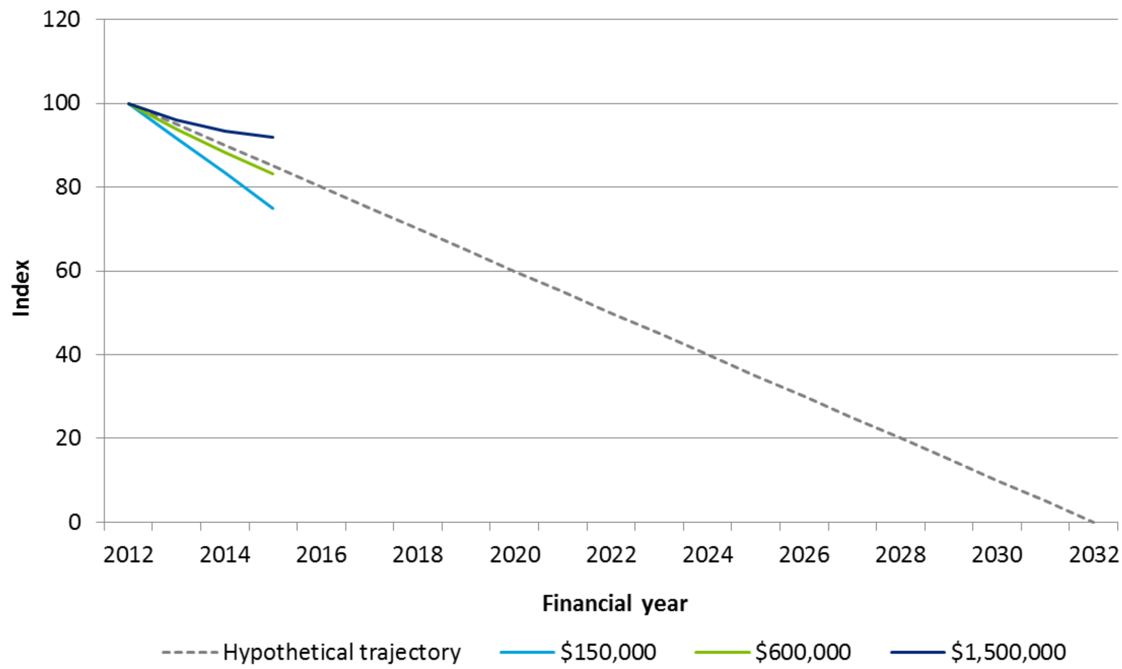
In practice, the ACT Government has chosen to phase the reforms in over a longer period of 20 years, with no credits given for those that have recently purchased property. The 20 year period is chosen in part to reduce the distortions that a shorter phase in period may create, which may lead to individuals and businesses potentially delaying purchases until stamp duties are phased out. The slower phasing in period is also likely to be a contributing factor to the decision not to offer credit for those that recently made property purchases.

Despite these recommendations there is no publicly available information on how the ACT Government's overall transition plan will proceed over the coming years. The next phase of tax reform in the 2016-17 Budget will be announced by the Treasurer in 2016, with taxation reforms considered each year as part of the Budget process, and any adjustments made as required based on market conditions and other factors.

It is, however, possible to make some speculation as to how far the conveyance duty reforms have progressed relative to a hypothetical twenty year transition period.

Chart 4.2 maps the stamp duty payable on three different property values (with the payable tax indexed at 100 for 2012-13) against a hypothetical trajectory where the tax payable linearly decreases until zero in 2032. In Chart 4.2, the light blue line shows the progression of duty payable on a $150,000 property transaction, the green line shows the same for a $600,000 property transaction, and the dark blue line shows duty payable for a $1.5 million property transaction.

Chart 4.2: Tax payable on a $150,000, $600,000, and $1.5 million property transaction (Index = 100 at 2012-13)



Source: Deloitte Access Economics

Based on this chart, it appears that the $150,000 and the $600,000 property are 'on track' to having zero conveyance duties by 2032, while a $1.5 million property is 'off track' (although still decreasing in value over this period).

Nevertheless, the ACT Government is only a few years into a twenty year transition plan and it is not possible to determine whether a linear transition to the 2032 target has been planned. Nonetheless, the lack of public information on the rate at which taxes would be transitioned makes any discussions on the future taxation arrangements of the ACT opaque at best.

4.6 Conclusion

To date, the ACT has been the only jurisdiction in Australia that has made moves towards abolishing all stamp duties.[11] Rates have increased significantly over initial years on both residential and commercial properties, and stamp duties have fallen, albeit off a relatively high initial base. While this is broadly in line with recommendations from both the Henry and Quinlan reviews, there are some pertinent facts that can be gleaned from the reforms so far:

- The initial years have been revenue positive in that total property tax revenues have increased as a percentage of GTP. While it is difficult to disentangle the effect that property market conditions may have had on revenues using publicly available data, it is notable that both forecast and actual property tax takes grew by 4-5% annually over the initial years.
- This has been driven in part by a significant increase in rates on both residential and commercial property. The top rate for residential property rates has approximately doubled since the reforms commenced, while the top rate for commercial property has increased by around 70%. Rates at lower thresholds have also increased significantly.
- Stamp duties have fallen across all thresholds, although these reductions have not been consistent so far. Those on lower value properties have fallen by a greater amount than needed for a linear transition over the 20 year period, while those on higher value properties are behind where they would need to be.

However, despite the significant attention which the reforms have drawn, and despite being roughly four years into a twenty year transition period, there is little public information on the intended rate schedule over the 20 year period. Without a medium to long term plan, it is difficult to conclusively gauge these reforms against the established recommendations.

[11] The South Australian Government has moved to abolish stamp duties on non-residential property, although this represents a relatively small proportion of total property duties paid.

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