THE VOICE OF **LEADERSHIP**

Dr Mike Nahan MLA
Treasurer, Minister for Energy, Citizenship
and Multicultural Interests
Level 13 Dumas House
2 Havelock Street
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Western Australia 6005

8th August 2014

Dear Dr Nahan

MODERNISING THE LAND TAX PRIMARY PRODUCTION EXEMPTION

The Property Council of Australia welcomes the opportunity to provide comment on the proposed amendments to the *Land Tax Assessment Act 2002*.

As the leading advocate for Australia's property industry, the Property Council represents key owners, investors and developers who are profoundly, negatively impacted by the current land tax system.

The Property Council appreciates the desire to modernise and simplify the operation of the primary production exemption in the *Land Tax Assessment Act 2002*.

What is needed, however, is for the modernisation and simplification of the entire land tax system in Western Australia, as called for by the Government's own Economic Regulatory Authority.

A land tax review should reassess land tax thresholds, abolish land tax aggregation at an entity level, cap land tax assessment and re-examine ALL land tax exemptions. To simplify the operation of a single exemption in the Act is to concentrate on the minutiae when there is a fundamental structural problem with the entire system.

Land Tax in Western Australia
Land tax is a significant contributor to WA tax revenue, raising an estimated $657 million in 2013/14 budget and some $2.4 billion in current forward estimates[1]. In WA, land tax is an annual tax based on the aggregated taxable value of all land owned at the entity level.

[1] Western Australian State 2013-14 Budget

When applied uniformly across a broad base, land tax is cited as the most efficient tax structure from which governments can raise revenue[2]. The land tax structure in WA, however, does not live up to this expectation and, as a result, is highly unequitable.

Ultimately, the structure of land tax will determine its efficiency and equity. The WA land tax structure is inefficient and inequitable as it does not cover all types of land, all ownership structures and incorporates tax-free thresholds as well as numerous exemptions that continually diminish the tax base. Taxes with the highest efficiency costs are characterised by narrow tax bases, high tax rates and exemptions. These features are dominant in the WA land tax structure.

In 2011, the Property Council conducted research to investigate the impacts of WA's current land tax structure. In the last ten years, total land tax revenues have doubled but the number of land tax payers has declined by 50%. This has resulted in the average land tax assessment in WA growing twice as fast as the growth in total tax revenue.

The research concluded that the number of land tax assessments in WA has narrowed by 41%. Within this narrow group of tax payers paying the State's land taxation, an even smaller group of 6.2% pay an estimated 79% of the total land tax. These finding were reconfirmed in the WA State 2013/14 Budget, where around 80% of taxpayers paid less than $700 in land tax – accounting for only 3.67% of total land tax revenue. Furthermore, the 2013/14 State Budget demonstrated that 1.7% of tax payers accounted for more than 60% of the total land tax revenue.

Redesigning Land Tax

A second issue that arises with an inequitable tax system is that the administrative costs of collection became a far greater proportion of the taxation generated.

Changing how the tax is administered, such as by introducing a single rate system and reducing the number of thresholds, would bring administrative costs savings and may also produce wider benefits, such as improved efficiency, equity and, in most cases, compliance. The initial administrative reforms would make inroads into the distortionary effects of land tax and would lay the foundations to reform the land tax system so that it generates more sustainable and efficient revenue with minimal market distortions.

Aggregation

The inequity and unfairness of the current land tax system is magnified by the practice of aggregation at an entity level where owners of multiple properties are required to pay up to three times more land tax than a system that does not apply aggregation. The purpose of aggregation is to ensure that tax payers that have land holdings of the same value pay the same amount of tax irrespective of how the land is parcelled.[3] The Property Council has observed that tax liabilities between businesses for similar parcels of land can differ significantly based on legally-sound business structures.

Ultimately, the current land tax structure makes property a less attractive investment as it is usually highly geared and significantly affected by tax policy particularly for institutional investors. The economic incidence of this tax is passed on to the tenants or reduces investor returns, which distorts the WA property sector and erodes its efficiency.

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[2] Treasury.2010. Australia's Future Tax System: The Henry Review. www.taxreview.treasury.gov.au

[3] Economic Regulatory Authority.2014. Inquiry into Microeconomic Reform: Final Report.

Retirement Villages Exemption

The recent amendments to the *Land Tax Assessment Act 2002* to overturn the State Administrative Tribunal's decision concerning retirement village exemptions provides strong evidence of the urgent need for a tax review in Western Australia. The inconsistent use of exemptions is not only detrimental to the property sector, but decreases the availability of affordable housing options for senior Australians.

Land used as a retirement village is exempt from land tax provided the residential premises in the village are occupied, or available for occupation, under a residence contract, and all necessary *Building Act* approvals for the village are in force. The land tax exemption is intended to support the retirement village industry. However, due to its limited scope, it does not cover the period where a retirement village is being constructed. The liability for land tax during the construction phase adds to the costs of construction, which is ultimately passed onto the residents in the retirement village, through more expensive entry costs.

The Victorian government has taken the initiative to widen the land tax exemption for retirement villages. Since 1 January 2011, the land tax exemption for retirement villages in Victoria has applied to land on which a retirement village is being constructed (see section 78A, Land Tax Act 2005 (Vic)). Under section 78A(2), the exemption applies up to the earlier of the date of completion of construction, or the expiry of two tax years following the date of commencement of construction. The Property Council therefore recommends the extension of the land tax exemption to cover land on which a retirement village is being constructed be included as a specific area of focus in tax reform agenda. This would ensure a more consistent application of exemption policies and a more equitable land tax system.

Concluding Remarks

The Property Council appreciates the desire to modernise and simplify the operation of the primary production exemption in the *Land Tax Assessment Act 2002*. However, the Property Council urges the Government to consider a broader review of the land tax system to reassess land tax thresholds, abolish land tax aggregation at an entity level, cap land tax assessment and re-examine ALL land tax exemptions. To review a single exemption in the Land Tax Act is to concentrate on the minutiae when there is a fundamental structural problem with the entire system.

The Property Council thanks you again for the opportunity to make comment on the proposed amendments. If you would wish to discuss this further, please contact our Policy Advisor Rebecca Douthwaite on 9426 1203 or at rdouthwaite@propertyoz.com.au.

Yours sincerely

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