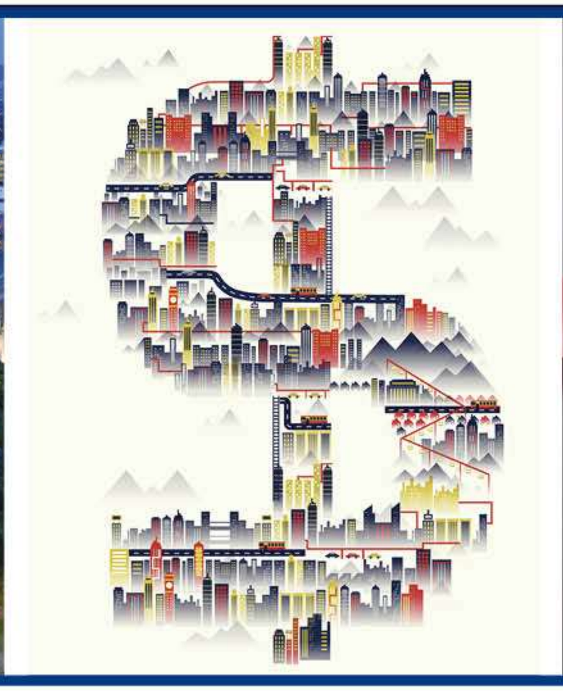
PROPERTY COUNCIL of Australia

South Australia
2016-17 Budget Submission
March 2016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About the Property Council

The Property Council of Australia is the national peak industry body representing property developers, property investors and businesses that provide professional services to the property industry in Australia.

The Property Council's vision for South Australia is a thriving, modern economy supporting prosperity, jobs and strong communities.

In respect to the overall State economy, the property industry is the largest private sector employer in South Australia and overall it is the third largest private industry sector by economic output. Investment in property also represents the major assets of individuals, families and business, through direct ownership, superannuation funds, savings and investments.

The property sector has a larger footprint on the South Australian economy than any other industry.

- It directly contributed $10.5 billion to Gross State Product (GSP) in 2013-14 (10.8%), and is estimated to have contributed a further $16.3 billion to South Australia's GSP through flow-on demand for goods and services (16.8% of GSP).
- It also directly employed 73,325 full time equivalent (FTE) employees in 2013-14 (10.5% of South Australia's total), and supported some 95,011 FTE jobs through flow-on activity (13.6% of South Australia's total).
- It directly paid approximately $4.4 billion in wages and salaries to South Australian workers (9.8% of South Australia's total wages and salaries paid), and a further $7.2 billion to South Australian workers through flow-on activity (16.0% of South Australia's total).
- The majority of property sector activity is generated by the residential property subsector.
- The property sector contributed approximately $3.6 billion in combined South Australian Government tax revenues and South Australian local government rates, fees and charges revenue in 2013-14. This equates to 56.6% of total State taxes and local government rates, fees and charges revenues in 2013-14.
- Residential property ownership is not the only way every day Australians participate in the property sector; 1 million South Australian residents have a financial stake in the property industry through their superannuation funds.

Executive Summary

A competitive taxation system coupled with prudent fiscal reform is vital to a healthy and growing economy. It is also essential to attracting global capital and encouraging domestic investment in property and other asset classes in South Australia. An efficient and equitable taxation framework will enhance community prosperity, strengthening the revenue base for future generations. Equally, efficient expenditure will also deliver a sustainable budgetary position.

We have taken a targeted approach in our 2016-17 Budget submission, with a focus on three main areas:

1. Priority expenditure and investment;
2. Tax reform; and,
3. Budget efficiencies.

We applaud the State Government ("the Government") for its recent trailblazing reform to property taxes in the form of a phased out abolition of commercial stamp duty on property; however, there is certainly more work to be done.

This submission provides the Government with a series of recommendations that have the potential to increase economic growth, create jobs and encourage investor confidence. All of our recommendations support the Government's 10 Economic Priorities and can act as important drivers for realising those ambitions. It is now time for the Government to fund and implement reforms to improve our state's efficiency, performance and productivity.

We welcome opportunities to engage with the Government further on the priorities outlined in this submission.

South Australia's economic outlook

The Australian and South Australian economies are facing challenging circumstances, with demand for resources from China in decline and commodities prices falling.

As outlined in the South Australian Centre for Economic Studies' December 2015 Economic Briefing Report:

> *Latest annual State Accounts indicate that the South Australian economy picked up speed in 2014/15, but was still growing below its long-term trend.*[1]

Furthermore, "*labour market conditions have deteriorated significantly in 2015, suggesting a weaker macroeconomic performance than implied by the GSP and SFD data.*"[2]

Of particular concern to the property and construction sectors, activity in construction has declined in 2015 resulting from a drop in non-residential construction, which indicates a weakness in private investment in South Australia. Residential construction has been performing quite steadily in contrast, which is one of the reasons why the property sector warns against any changes to federal taxation arrangements that could slow this performance.

The October 2015 CommSec State of the States report ranks South Australia seventh of all the states on economic growth, and eighth on retail trade and dwelling starts. This is significant and points to a lack of confidence in the economy.

The pressures of an ageing South Australian population coupled with increasing demand for services and infrastructure from the community means that the State Budget is being squeezed on all sides. Moreover, modest Gross State Product growth in South Australia is a result of weak internal demand in South Australia through a decline in business investment.

AN OVERVIEW OF SA

Key categories	Level this quarter	Compared with decade average
Dwelling commencements	2,618	-3.0%
Unemployment	7.3%	28.0%
Population growth	0.78%	-21.5%
Economic growth	$26,500m	8.0%
Equipment investment	$702m	1.2%
Housing finance	3,661	-1.0%
Retail spending	$4,653m	6.9%
Construction work	$2,266m	-1.6%

SA INSIGHTS

South Australia is highest ranked (third) on equipment investment. But South Australia is seventh on economic growth and retail trade and eighth on dwelling starts.

CommSec

Source: CommSec State of the States (October 2015)

[1] Kosturjak, A., Whetton, S., Kaye, L., 2015, *Economic Briefing Report December 2015, Volume 33* (No.2), South Australian Centre for Economic Studies, page v – vi.

[2] As above.

Cost of doing business in SA

The Property Council welcomes the Government's moves to use the tax system to support its worthy aim to make South Australia the best place to do business in Australia (for instance through recent reform to non-residential stamp duty).

The Property Council every year produces its Benchmarks publication, which tracks and compares the costs of net lettable area in each State and Territory, including statutory charges and fees (which include Council rates, water rates, land tax and other statutory fees and charges).

It is important to reflect on the costs that South Australian businesses face and incur. Below are just two comparisons from the Property Council's 2014 Benchmarks publication of the differences in Government taxes and charges for an office building in Adelaide versus Melbourne, and for a shopping centre in a South Australian neighbourhood compared with one in New South Wales (Figure 1). Figure 1 clearly shows the higher tax burden of running an office or shopping centre in SA compared to other jurisdictions in Australia.

Figure 1: Statutory Charges

Source: Property Council of Australia Benchmarks publication (2014)

In a broader context, South Australia (and Australia) is competing for talent and capital and is confronted with an ageing population, weakening terms of trade and productivity challenges. Going forward, the jurisdictions with the most competitive taxation environments and the most liveable cities will win the contest for skilled immigration and investment globally.

South Australia is a competitive and proud state and we need to win this contest.

Priority Expenditure and Investment

Infrastructure – addressing the deficit

It is clear there is an infrastructure deficit in South Australia without a clear plan to progress the prioritisation, financing and funding of infrastructure projects. Infrastructure Australia (IA) recently released a priority list of infrastructure for investment, which included many projects for South Australia (Table 1).

Table 1: List of priority projects for investment by IA

Project	Description
Gawler Line Rail Upgrade	Upgrade and electrification of the Gawler Rail Line, including installation of a new signalling system.
Adelaide North-South Corridor Upgrade (remaining sections)	Upgrade of unfunded sections of the north-south corridor and involves 15km of grade separated motorway along the existing corridor alignment.
AdeLINK Tram Network (Adelaide tram network expansion)	Major expansion of the tram network in Adelaide, creating a tram network around the CBD and inner suburbs.
Strzelecki Track sealing and mobile coverage	Upgrade and seal of 426km of the Strzelecki Track between Lyndhurst and Innamincka, and 26km of the Nappa Merrie Access Road. This will provide a sealed connection between SA and QLD.
South Australian Regional Mineral Port Development	The development of a bulk commodity port capacity in the Spencer Gulf region.
Sturt Highway High Productivity Vehicle capacity enhancement, including Truro bypass	The realignment of the Sturt Highway through the Truro Hills, including a bypass of the town of Truro, to improve safety and allow use of the High Productivity Vehicles on the highway.
Gawler Craton Rail Access	A third party builds, owns and operates a 350km railway in the Gawler Craton province, linking to the existing interstate rail network.
Melbourne – Adelaide – Perth – Rail Upgrade	Upgrades on the Port Augusta – Tarcoola section of the network to accommodate higher axle loads, capacity and speed, and improve train management systems.
Northern Adelaide Plains water infrastructure development	Expand the Bolivar Wastewater Treatment Plant to achieve least cost compliance for the treatment and disposal of waste water, and make an additional 20 gigalitres of recycled water available for high value agricultural production.

Source: Australian Infrastructure Plan – The Infrastructure Priority List Feb 2016

IA's extensive audit found a number of shortcomings in how infrastructure is delivered in Australia, with important learnings for South Australia.

What the Audit found

- The current level of public sector expenditure – especially in the transport sector, which remains largely funded by government rather than user charges – may be unsustainable in the face of increasing budget pressures.
- Current arrangements for the funding of land transport represent the most significant opportunity for public policy reform in Australia's infrastructure sectors.
- Government funding alone is unlikely to be sufficient to provide the infrastructure that Australia requires. Maintaining or strengthening conditions to facilitate private sector investment in and operation of Australia's infrastructure networks is fundamentally important.
- Australia needs to consider a broader system of transport pricing, both for road and public transport.

It is clear we need a more sophisticated approach to funding and delivering infrastructure in South Australia. We urge the Government to invest in exploring international models that have resulted in economic growth, for instance the United Kingdom's City Deals model, Tax Incremental Financing, Public Private Partnerships, special tax incentives such as Growth Area Bonds and greater utilisation of 'user pay' models (as recommended by IA).

We also believe we need to consider innovative models for harnessing superannuation funds' investment power in infrastructure delivery.

Further, the Property Council maintains its repeated calls for the establishment of an independent statutory authority - Infrastructure SA - to manage the prioritisation, financing and funding of infrastructure projects. There is an opportunity for South Australia to adopt best practice methods and to follow the lead of New South Wales, with its creation of Infrastructure NSW, and the Federal Government, with IA. The benefits of creating Infrastructure SA include:

- A rigorous, depoliticised and objective approach to infrastructure prioritisation;
- Boosting business and community confidence in infrastructure planning and delivery;
- Improving businesses' ability to fully leverage investments in infrastructure.

The introduction of a body such as Infrastructure SA would assist in depoliticising infrastructure investment and introduce more rigour into decision-making.

The benefit of alternative funding and financing mechanisms is that they will ensure greater infrastructure delivery without compromising the State's ability to deliver core services.

Recommendations

- Establish an independent infrastructure body to guide decision-making and depoliticise infrastructure planning and delivery.
- Fund an independent analysis of infrastructure funding and delivery models informed by international experience and best practice.

Relevant State Government economic priorities

✓ 6. Growth through innovation
✓ 7. South Australia – the best place to do business.

Reforming our sluggish planning system

Planning reform is one of the most important triggers that will enable the property sector to unlock growth opportunities in South Australia. It is important that South Australia gets the implementation of planning reforms right and that there is a clear pathway to delivering the reforms.

The Government needs to adequately resource all components of the planning reform process so that they can be implemented quickly to unlock growth in the economy, such as the roll out of the State Planning Commission, an electronic planning ("e-planning") system, the timely development of the Design Code, regulations and policies underpinning the system. These are spending areas that will actually improve the performance of the economy, so they ought to be of the highest priority for the Government.

The property industry is calling on the Government to fully fund the proposed e-planning system, so that the system can be truly modernized no matter what the outcome is with the *Planning, Development & Infrastructure Bill*, as an e-planning system is a necessity for modernised development pathways. We want to see a firm commitment to this reform in the upcoming budget, so that there is industry confidence in the Government's commitment to modernise what is presently a lethargic local government-based planning system.

Technology projects require careful implementation planning and costings (for instance there are learnings from the overspend and delays around implementing the new electronic health record system). The property industry would like to see the Government prioritise funding in this area to bolster its other planning reforms aimed at modernising the system. Users increasingly expect Government services to be accessible online. An online planning system is the next logical step for our planning system to remain current, valuable and reliable.

We also urge the Government to be cognizant of the opportunities presented in the planning system by the rollout of the National Broadband Network and how this could enhance the user's experience. For example, the City of Onkaparinga has used high-speed broadband to accelerate the replacement of paper submissions with online applications for planning approvals. The Council also provides in-home planning consultations using high-definition videoconferencing. This reduces the need for applicants to travel, often long distances, to attend meetings at council offices.

Recommendations

- Provide adequate funding for a modernised e-planning system that is cognizant of technological opportunities and user experience.
- Support the rollout of planning reform through adequate funding and staffing to ensure its timely implementation, as it is vital to unlocking economic growth.

Relevant State Government economic priorities

- ✓ 6. Growth through innovation
- ✓ 7. South Australia – the best place to do business.
- ✓ 8. Adelaide – the heart of the vibrant state

Local Government Reform

Council rates fall under the *Local Government Act* (1999) SA and represent more than $1 billion worth of revenue for local councils each year. Industry and residents are overly burdened with council rates and charges. Furthermore, there are inconsistencies and inequities in the ways different Councils structure their rates.

The Property Council encourages the Government to consider following Victoria's example, which undertook reviews through the Auditor-General on asset management, maintenance and the organisational sustainability of smaller councils. New Zealand has also examined local Government rates and charges through its Funding Local Government report, which recommended the abolition of differential ratings, and found that rate charges for commercial properties are often set in a non-transparent and arbitrary manner.[3]

The need to reduce the number of Councils in South Australia is clear. South Australia has 68 Councils – 19 in metropolitan Adelaide alone. The average population of metropolitan Councils is just 63,000. In 1998, we saw a voluntary amalgamation process where amalgamations took Council numbers from 118 to 68. Further reform is needed. Rate revenue as a proportion of the general revenue base of local Government is at 68%, which is higher than other Australian states. This revenue continues to grow. South Australia relative to GSP has increased by 0.7% per annum (whereas it has declined by 0.3% per year nationally). Councils of course also receive grants from Commonwealth and State Governments.

There is also a wide discrepancy in metropolitan Council population size in South Australia. For instance, Walkerville has a population of 7,000 compared to Onkaparinga, which services 165,000 people.

South Australia's local Governments service on average half the population of Councils in Victoria, Queensland or New South Wales. Granted, South Australia's geography and demography means we have smaller regional centres compared to other States; however, there is still much more that could be done to harness economies of scale and improve efficiencies in local Government. As recently reported by Adelaide University's South Australian Centre for Economic Studies, '*the rationalisation of Councils in South Australia is a necessity to enhance their long-term financial sustainability and to achieve economies of scale.*'[4]

South Australia needs to critically examine the role of local taxation through the lens of efficacy, consistency and driving economic development. The State and Federal Governments should not solely bear the burden of driving our economy. Ratepayers (whether they be families or commercial property owners) need to be assured that any hikes in rates are the result of careful analysis of cost pressures and service provision requirements rather than simply an arbitrary exercise in revenue raising. A sustainable Council rating system should be implemented that provides Local Governments with funding for services without discouraging economic development.

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[3] *Funding Local Government,* Report of the Local Government Rates Inquiry, pages 117-118.

[4] Gobebett, D., O'Neil, M., Whetton, S., 2016, *The Regulatory Load in South Australia and Impact on Economic Activity, Economic Issues* (No.46), South Australian Centre for Economic Studies, page 19.

The Property Council last year commissioned sentiment polling to determine the community's attitudes towards the number of Councils servicing South Australia, the level of support for Council mergers, the level of support for a review into the performance of Councils and the level of satisfaction with Council services. The case for Local Government reform is now abundantly clear with the majority of South Australians living in metropolitan Adelaide – 53% – supportive of Council amalgamations.

Among those who indicated that they are in favour of Council mergers, the main reason is clearly around cost effectiveness, named by 56% of those in support of amalgamations. Importantly, 64% of respondents are in favour of a State Government performance review into Councils, compared to just one quarter in opposition to this proposal.

At a time when tax and planning reform is being examined along with exploring opportunities like nuclear, we need to continue to be bold and examine the role of local government. The property sector agrees with the sentiment contained within the 'Crafter Report' – otherwise known as *Strengthening South Australian Communities in a Changing World* – to create councils of the future. As it states, "*significant changes will be required in policy and practices to achieve a more robust, vibrant and viable local government*."

Further, commercial, retail and industrial property owners are slugged with differential rating, which means they often are subject to rate increases much higher than residential ratepayers. This is outrageous when the state is struggling economically with slow economic growth. We should be doing everything we can to support businesses to grow, not dish up disincentives to creating jobs.

Another option mooted by the Grattan Institute is that Council rates could be collected centrally by the State Government, which would potentially reduce costs of collection compared to the current situation, which duplicates administrative processes across councils resulting in inefficiency, red-tape and expense.[5] Furthermore, collection could be streamlined through online systems and a one-bill system, which would result in efficiencies for businesses and households and provide more transparency and clarity around where taxes are collected and what they are spent on.

Recommendations

- Review Council rate setting, valuation principles, efficacy and consistency to ensure transparency and taxation integrity for ratepayers.
- Pursue Council amalgamations to create economies of scale, efficiency and to act as an incentive for Councils to improve their performance.
- Reform differential rating of industrial, commercial and retail property by local Government.

Relevant State Government economic priorities

- ✓ 6. Growth through innovation.
- ✓ 7. South Australia – the best place to do business.

[5] Daley, J., Wood, D., Weidmann, B. and Harrison, C., 2014, *The Wealth of Generations*, Grattan Institute, pages 34-35.

Building Upgrade Finance

The Property Council was pleased to note the passage of an amendment to the *Local Government Act* (1999) to enable a new financing mechanism for upgrading commercial buildings in South Australia.

The Property Council has been a staunch advocate for the loan scheme and believes it will be of considerable assistance to commercial building owners and developers looking to access loans to retrofit their buildings. We further believe that it is a powerful tool for tenants to negotiate upgrades to their buildings.

We believe that the proposed Building Upgrade Finance Scheme will remove barriers to upgrading commercial buildings and lead to a more sustainable built environment. We also believe that Government tenants should take a leading role in utilising the BUF mechanism.

South Australia has a large proportion of existing buildings in need of significant retrofitting. The majority (59%) of Adelaide's stock falls within the B, C and D-grade quality categories. The vacancy rates in the Adelaide CBD have increased over the period between July 2015 and January 2016. D-grade office space alone has now reached 20.6% in the Adelaide CBD – the highest level of vacancy on record. This is largely due to the transition away from office accommodation of the past, to office accommodation of the future.

Enhancing energy efficiency is no longer just about new green buildings, but importantly about greening the existing built environment. Buildings and businesses that are energy efficient are more financially secure and better able to maximize growth opportunities. It also is a vehicle for progressing the Government's aim of carbon neutrality for Adelaide.

Recommendation

- Fund an information and implementation program that supports up-take of building upgrade finance opportunities.

Relevant State Government economic priorities

- ✓ 6. Growth through innovation
- ✓ 7. South Australia – the best place to do business.
- ✓ 8. Adelaide, the heart of the vibrant state.

Industry Growth Centres

The Federal Government recently announced a new policy direction for Australia – the Industry Growth Centres Initiative.

This initiative is an industry-led approach that aims to drive innovation, productivity and competitiveness by focusing on areas of competitive strength and strategic priority. It aims to help Australia transition into smart, high value and export focused industries.

The Federal Government has allocated $248 million in funding over four years in six Industry Growth Centres, in the following industry sectors of competitive strength and strategic priority:

- Advanced Manufacturing;
- Cyber Security;
- Food and Agribusiness;
- Medical Technologies and Pharmaceuticals;
- Mining Equipment, Technology and Services; and
- Oil, Gas and Energy Resources.

The Property Council notes that South Australia has not put in a bid for the Growth Centre for Surveillance. As we have a strong skills and experience in surveillance in this state we strongly encourage the Government to put forward a bid for this initiative. Not only would this create more jobs for the state, but it would also assist in improving our economy. South Australia is slowly moving away from manufacturing industries and this initiative provides a valuable opportunity for the state to grow and diversify into new industries. We also urge the Government to consider bidding for other funding for the establishment of other centres where appropriate.

Recommendation

- Bid for the Growth Centre for Surveillance and explore bidding for other federal centres funding under the Industry Growth Centres initiative.

Relevant State Government economic priorities

- ✓ 4. The Knowledge State – attracting a diverse student body and commercialising our research.
- ✓ 6. Growth through innovation.
- ✓ 7. South Australia - Best place to do business.
- ✓ 10. South Australia’s small businesses have access to capital and global markets.

Revenue

Stamp duty reform

We urge the Government to bring forward the complete abolition of non-residential stamp duty.

The Property Council would also like to see the axing of residential stamp duty in order to completely restructure our economy. Stamp duty as a transactional tax is a volatile source of revenue in that it is dependent upon property and business transactions taking place in the economy, which makes South Australia's credit rating vulnerable to international economic conditions. Inefficient taxes act as a handbrake on the economy – impeding transactions, stifling activity, inhibiting job growth and constricting productivity. Replacing inefficient taxes, such as stamp duty, with more stable and efficient revenue sources is a crucial step toward improving the economic wealth of the nation.

In this context, it must be noted that more jobs have been created in the eight months since the Government's 2015-16 State Budget than in the 16 months preceding it. Between March 2014 and June 2015, there was a net increase of 5,500 total persons employed in South Australia. However, between July 2015 and February 2016, there was a net increase of 5,600 total persons employed.

Employed persons – total SA	
March 2014	798,700
June 2015	804,200
JOBS CREATED:	**5,500**
July 2015	803,500
February 2016	809,100
JOBS CREATED:	**5,600**

Source: ABS Labour Force (6202.0), Australia, Feb 2016, Table 7

This is a positive sign in South Australia around building business confidence. We urge the Government to go further and completely abolish stamp duty on non-residential and residential property transfers.

Recommendation

- Bring forward the complete abolition of non-residential stamp duty.
- Continue to blaze the trail for reform and abolish residential stamp duty, which is a handbrake on the economy and an impediment to affordable housing.

Relevant State Government economic priorities

- ✓ 7. South Australia – the best place to do business.
- ✓ 10. South Australia's small businesses have access to capital and global markets.

Land tax reform

Land Tax

South Australia's current land tax regime punishes commercial property owners, which has an adverse impact on jobs and investment in this State. Not only that, it also punishes the community more broadly as most South Australians have property investment interests through their superannuation funds. Its narrow base - but high rate - also ensures that certain property investments are relatively less attractive than other types of investments. Moreover, our high rate compared with other jurisdictions gives other jurisdictions a monumental competitive advantage over South Australia.

Furthermore, aggregation is a serious disincentive to investment as it penalises multiple investments by property owners and increases liabilities of owners who own more than one property.

Aggregation means land tax is higher for larger landholders, leading to a bias favouring smaller investors in the property market. This distorts the market, as large-scale long-term investors who may be more suited to providing dwellings for private tenants over a long period are dis-incentivised from investing in such a way.

Our members also report significant deficiencies in the valuation methodologies employed to calculate land tax – this impacts on the 'efficiency' of the taxation regime. It also results in our members often having to challenge valuation determinations, which results in wasted time and expense on their part.

South Australia is at a serious competitive disadvantage in Australia when our land tax rates are compared with other jurisdictions (see appendix 1).

Further, many land tax exemptions exist for historical reasons and do not support existing realities in South Australia. There is a seriously inequitable burden on South Australian businesses with land holdings, which gives other taxpayers and States a comparative advantage.

Of note, recently, the State Government in WA confirmed it is considering changes to land tax aggregation following a backlash to three successive annual increases in land tax rates and changes to tax thresholds in that jurisdiction.

We cannot be held up as a competitive investment destination when our land tax rates continue to be out of step with other states and territories.

Recommendation

- Implement the most competitive land tax regime in Australia to improve investment conditions in this state.

Relevant State Government economic priorities

- ✓ 6. Growth through innovation.
- ✓ 7. South Australia – the best place to do business.

Emergency Services Levy (ESL)

South Australian property owners are overburdened from a taxation point of view, as aforementioned:

> *The property sector contributed approximately $3.6 billion in combined South Australian Government tax revenues and South Australian local government rates, fees and charges revenue in 2013-14. This equates to 56.6% of total State taxes and local government rates, fees and charges revenues in 2013-14.*

We believe that recent increases to the ESL in the 2014-15 and 2015-2016 State Budgets are an unreasonable burden on property owners. As it is a levy – rather than a broad tax – it is expected that it would fluctuate due to expenditure on emergency services. However, it is unfair for property owners to be confronted with fluctuating, increasing charges on top of already anticompetitive land tax and Council rate regimes in this state. We need certainty and fairness for business, so that they can prepare their business plans and budgets with certainty.

Recommendation

- Abolish the Emergency Services Levy.

Relevant State Government economic priorities

✓ 7. South Australia – the best place to do business.

Efficiencies

Red-tape – a serious drag on business

We note the Government's focus on red-tape through the establishment of a unit within the Premier's Department; however, we are disappointed at a lack of significant progress in this area and make a number of recommendations for the Government's consideration. This includes prioritising the implementation of Harper review recommendations into competitiveness and performing an audit of recent Productivity Commission recommendations that fall into state responsibility to see where further economic gains can be made.

In terms of the property sector specifically, there are a number of areas of significant red-tape requiring reform, including:

<u>Strata Titles</u>

- A strata scheme under current legislation may only be terminated by unanimous decision. A fair and sensible approach would require a majority decision, rather than a unanimous one, for the termination of a strata scheme (for example a threshold of no more than 25% of owners against termination based on the NSW model). Such a regime has just passed in NSW and is in train for WA. There are numerous international examples of such a regime as well; these include New Zealand, Japan, Hong Kong, United Kingdom and Singapore. Such reform is particularly critical within the context of the Government's infill and density agenda for development.

<u>Easements</u>

- The Lands Titles Office will only extinguish non-contiguous easements by consent from all parties. We are advised that the Registrar also seeks evidence that the party has been compensated before considering extinguishment. Our members have examples of developments not going ahead due to this position. Further, often land owners are not aware of the easement until they receive a notice about it; despite this the Registrar will not extinguish the easement. Our members can cite various residential development sites (often infill opportunities) that cannot be developed because of old easements that are still in existence although in practical terms they are never used. The methodology to extinguish easements should be much easier.

<u>Registration of titles – ridiculous and onerous fees</u>

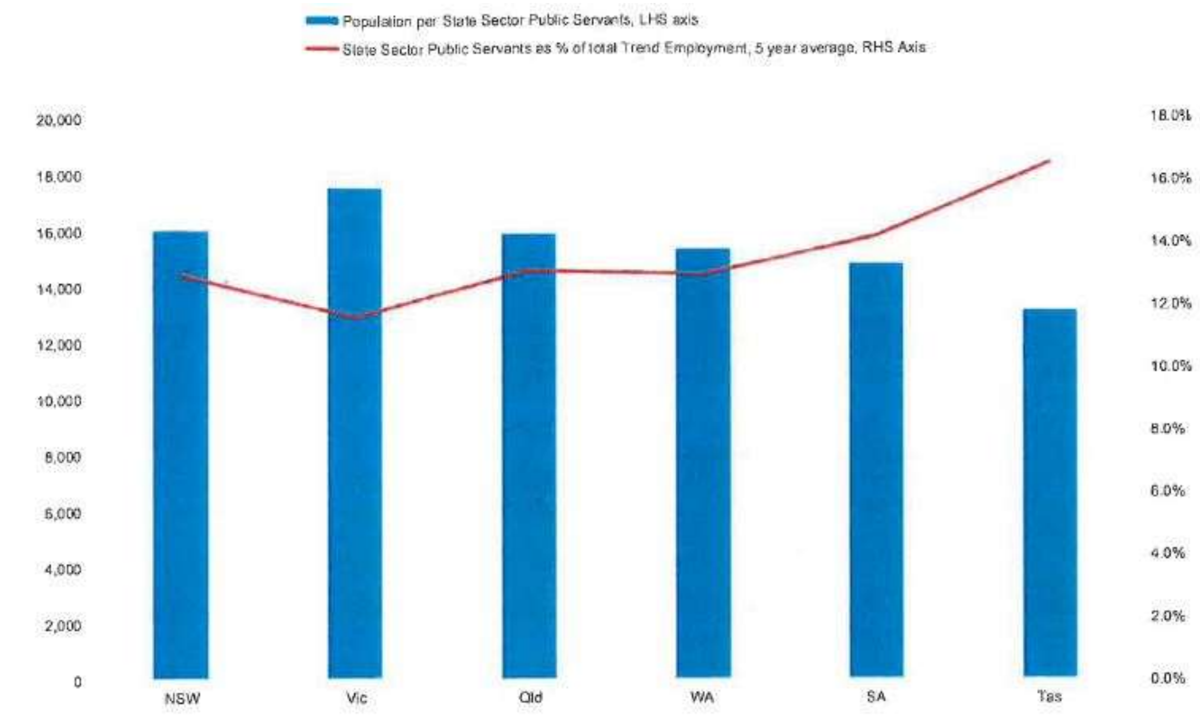
- Setting aside stamp duty charged on transactions for a separate debate, there are currently sliding scale fees associated with transferring property titles in South Australia. These fees need reform, as they are a disincentive to transacting in South Australia. A flat rate fee linked to the true administration cost of registering a change to title should be introduced. For instance, the lodgement fee for a $1 million property is $7611.50, which is ridiculous when we're talking about a simple administrative process and noting that this fee is in addition to stamp duty.

Reduction in the size of the public sector

- The Government should continue to reduce the size of the public sector. South Australia's proportion of employment in the State public sector, averaged over the last five years, is 13.9% compared with the national average (excluding Tasmania) of 12.7%. Wage growth in the public sector is also out of step with commercial reality. For instance, a recent dispute at SA Water over pay and entitlement increases illustrated how out of step the public sector is with the rest of the economy. The private sector has seen moderate wage growth in recent years – the public sector should be made to similarly tighten its belt. It is alarming to also see the growth in administration costs in local Government and wage/entitlements growth in the context of a struggling state economy.

- In South Australia, the proportion of public employment has been rising (Figure 2).[6] We further note that parts of the public sector that can grow the economy, for instance areas responsible for driving reforms to the planning system, are being cut. This is of concern, as we need to ensure reform areas are fully funded so that the full economic gains can be realised.

Figure 2: Australian states' public servants, June 2014



Source: ABS, State Governments' websites.

6 Gobebett, D., O'Neil, M., Whetton, S., 2016, *The Regulatory Load in South Australia and Impact on Economic Activity, Economic Issues* (No.46), South Australian Centre for Economic Studies, page 18-19.

Competitive utilities pricing

- South Australia has the least competitive water pricing in Australia. We recognise that we have a geographically large state and a challenging climate in South Australia; however, our water prices are higher than Western Australia and Los Angeles, as recently highlighted by the South Australian Centre for Economic Studies' report: *The Regulatory Load in South Australia and Impact on Economic Activity.* [7] Further, as explored in the SACES' report, we have very high electricity pricing as well. This acts as a handbrake on the economy, as it creates an unattractive investment environment for business and means consumers have less disposable income to spend on retail, hospitality and so on.

Recommendations

- Implement prior recommendations of the Productivity Commission relating to South Australia's red-tape.
- Implement Harper competition policy reforms.
- Reform strata laws in line with NSW.
- Reform the methodology to extinguish easements.
- Reform the registration of change of titles fee.
- Continue to reduce the size of the public sector to promote efficiency.
- Reform our utilities pricing regime to ensure our state's competitiveness.

Relevant State Government economic priorities

✓ 6. Growth through innovation.
✓ 7. South Australia – the best place to do business.

[7] As above note 5.

National Context – risk of changes to negative gearing for residential property

The Property Council is very concerned with the prospect of national changes to negative gearing and views such changes as having particularly negative consequences for South Australia's rental market and other unintended consequences. The Federal Opposition's plan to only allow negative gearing for new builds could result in a serious undersupply of rental housing in areas where land releases are not a priority. The policy also assumes an efficiency in the planning system in terms of the ease of approvals for new building activity that is arguably not a reality.

Australians already pay $72 billion per annum in property taxes – this is 16% of total rates, fees and charges revenues in 2013-14. Real estate specific taxes account for 9% of Australia's total tax take, compared to an OECD average of just 5%.

Some facts on negative gearing

- 840,000 Australians with taxable incomes below $80,000 per year negatively gear investment properties.
- This includes 53,800 teachers, 52,000 retail workers, 35,900 nurses and midwives, 22,600 hospitality workers and 10,400 emergency services workers.
- 47% of investment properties are owned by women, and women account for 45% of all those who negatively gear their investment property.
- During a time when the gender pay gap is at almost 19% and when women are retiring with just over half the superannuation savings of men, negative gearing a property has become a vital means for many women to secure their financial futures.
- The average net rental loss claimed is $9,500 (the exact tax benefit will depend on the individual's marginal tax rate).
- 58% of deductions by value go to the people with taxable incomes less than $80,000. Only 13% go to those with taxable incomes above $200,000.
- 72.8% of investors own only one investment property, while an additional 18% own two properties.
- Just over one quarter (27%) of new housing stock is financed by investors.

Recommendation

- Support negative gearing in federal negotiations around an appropriate tax mix.

Appendix 1: Interstate Comparison of Land Tax 2015-16

LAND TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
Tax Scale: Marginal rates apply to excess above the lower limit of the range unless explicitly specified.	The tax free threshold is calculated by averaging the past three annual thresholds. The annual threshold is indexed each year by growth in State-wide land values as determined by the independent Valuer General. If aggregate land value growth is negative, the indexation factor is zero. Taxable land value is the average of the current year valuation and the previous two years. The minimum land tax payment is $100. For 2015 land tax year From 1 Jan 2015- $0-$432,000: Nil, $432,001 - $2,641,000: $100 + 1.6%, Over $2,641,000: $35,444 + 2.0%. For 2016 land tax year From 1 Jan 2016- $0-$482,000: Nil, $482,001 – 2,947,000: $100 + 1.6%, Over $2,947,000: $39,540 + 2.0%. In the 2016 Land Tax Year: Non-concessional companies and special trusts will be taxed at the flat rate of 1.6% to $2,947,000, plus	For 2016 land tax year- General: Less than $250,000: Nil, $250,000-$599,999: $275+0.20%, $600,000-$999,999: $975+0.50%, $1,000,000-$1,799,999: $2,975+0.80%, $1,800,000-$2,999,999: $9,375+1.30%, $3,000,000 and over: $24,975+2.25%. Trusts: Less than $25,000: Nil, $25,000-$249,999: $82+0.375%, $250,000-$599,999: $926+0.575%, $600,000-$999,999: $2,938+0.875%, $1,000,000-$1,799,999: $6,438+1.175% $1,800,000-$2,999,999: $15,838+0.7614%[a], $3,000,000 and over: $24,975+2.25%. [a]Surcharge on trusts effectively phased out for land holdings valued above $1.8m; Above $3m, no surcharge applies. Since 1 July 2004 land tax has been payable on electricity transmission easements (from 2007, with a top rate	For 2015-16 land tax year 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%. 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%.	For 2015-16 land tax year- $0-$300,000: Nil, $300,001-$420,000: $300 $420,001-$1,000,000: 300+0.25%, $1,00,001-$1,800,000: $1,750+0.90%, $1,800,001-$5,000,000: $8,950+1.80%, $5,000,001-$11,000,000: $66,550+2.0%, Over $11,000,000: $186,550+2.67%. The Metropolitan Region Improvement Tax (MRIT) is levied on the unimproved value of land situated in the metropolitan region at the rate of 0.14% for land valued over $300,000. A 50% cap on annual growth in land value applies for land tax and MRIT purposes. The MRIT will be expanded from 1 July 2016 to regional areas where a region scheme is in place. This includes areas within the Peel Region Scheme and the Greater Bunbury Region Scheme.	For 2015-16 land tax Year- $0-$323,000 Nil, $323,001-$593,000: 0.50%, $593,001-$862,000: $1,350+1.65%, $862,001-$1,078,000: $5,788.50+2.40%, Over $1,052,000: $10,972.50+3.70%. From 1 July 2011, all tax thresholds are indexed annually in line with average site value increases as determined by the (South Australian) Valuer General.	$0-$24,999: Nil, $25,000-$349,999: $50+0.55%, $350,000 or more: $1,837.50+1.50%.	Not imposed.	For 2015-16 Land tax assessment for each property owner in 2015-16 is based on a fixed charge of $945 and marginal tax rates that are applied to the Average Unimproved Value (which is a rolling three year average of the 2013, 2014 and 2015 unimproved land values). Up to $75,000: 0.41%, $75,001-$150,000: 0.48%, $150,001-$275,000: 0.61%, Over $275,000: 1.23%. Commercial Properties Marginal Rates: Land Tax on Commercial Properties was abolished from 1 July 2012.

	2.0% for value over $2,947,000. (In 2015 Land Tax Year the premium threshold was $2,641,000.)	of 5% instead of 2.25%). <u>Absentee:</u> 0.5% of site value in addition to any land tax payable. <u>The Metropolitan Parks Charge</u> is levied annually on all metropolitan properties via water bills. It is calculated by multiplying the property's 1990 Net Annual Valuation by a rate in the dollar. The minimum yearly Parks Charge in 2015- 16 is $72.56.						
EXEMPTIONS: Primary Residence:	Principal place of residence exempt except if owned or part owned by a special trust or company.	Exempt, except if owned by a company or by certain trusts.	Full exemption available for land owned by individuals who use it as a home and land owned by trusts where all beneficiaries of the trust use the land as their home. Partial exemption available where part of residence used for non-residential purposes. On and from midnight 30 June 2014, full exemption is available for land that does not receive a home exemption because the owner is in the process of selling their old home and moving into a new one, where appropriate conditions are met.	Exempt, except principal places of residence owned by companies and trusts.	Principal place of residence at 30 June exempt. A waiver or refund is also available in some circumstances where land becomes a principal place of residence after 30 June. Additional criteria apply where a business activity is conducted from the principal place of residence (full or partial exemption may apply). Extends to motels, hotels, services apartments and other similar accommodation(if conditions met)	Exempt.		Exempt, apart from parcels of land that are rented or owned by a corporation or trust.
Primary Production Land:	Exempt if rural/nonurban zoning, otherwise exempt if meet business test.	Exempt with conditions.	Exempt.	Exempt, if certain conditions are met.	Exempt, if certain conditions are met.	Exempt		Exempt

Other exemptions: (Note: Generally Charitable, Religious and Educational Bodies are exempt with conditions.)	Exemption for child care centres, aged care facilities and caravan parks used for retirement purposes. An exemption also exists for an owner of a PPR that does not rent their residence and moves into a nursing home.	Exemptions for aged care facilities, supported residential services, rooming houses and caravan parks. Various other exemptions	Exemption for certain caravan or residential parks where more than 50% of all sites occupied or available for occupation for residential purposes for periods of more than 6 weeks at a time. Various other exemptions.	Exemption for private aged care providers and caravan parks. Various other exemptions also apply.	Exemptions (some with conditions) for various associations; land used for benefit of Aboriginal people; caravan parks; supported residential facilities; retirement village or retired persons' relocatable home park that is a person's principal place of residence; residential aged care facility, real property making up the principal place of residence of the beneficiary within a Special Disability Trust	Landowners, who, at June 30, have purchased a new principal place of residence but have not yet sold their current principal place of residence, may apply for a rebate (a transitional rebate) on their land tax. Land tax would normally be payable for the residence not being used as a principal place of residence on 1 July of the tax year. Landowners may apply for the transitional rebate whether or not the land tax has actually been paid. Where a principal place of residence is built on vacant land owned as at 1 July of a financial year, a rebate up to the amount of the land tax paid or payable can be claimed.		Residential land used as a retirement village, nursing home, or by a religious institution to provide accommodation to a member to perform their duties, is exempt from land tax. Other exemptions from land tax include: broadacre subdivision; a property with a guardian or manager for a person with a legal disability; residential land owned by a trustee under a will of a deceased person and occupied by a life tenant; residential land owned by a trustee or a guardian on behalf of a person with a legal disability; and residential land owned by a not-for-profit housing corporation
Reference Period:	Based on the three year average of unimproved land values at 1 July, if owned at midnight 31 December of the previous year.	Based on aggregate value of land owned as at midnight 31 December of the previous year to the assessment year.	Based on three year average of land values at midnight on 30 June. The land tax value is the lesser of the value at 30 June or the average of the values at 30 June over the last three years.	Based on the aggregated unimproved value of land (as determined by the Valuer General) as at 30 June of the previous year.	Based on aggregate value of land as at midnight on 30 June immediately preceding the financial year.	Based on aggregate value of land as at 1 July of the assessment year		Based on the rolling three year average of unimproved land values. Liability is assessed quarterly based on the rental or ownership status of the property on the liability dates of 1 July, 1 October, 1 January and 1 April.

Source: Interstate Comparison of Taxes 2015-16, Research Information Paper, NSW Government The Treasury.

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