South Australia State Tax Review

Submission on Discussion Paper

Property Council of Australia

April 2015

Executive Summary

It is clear there is a need for urgent, fundamental tax reform in South Australia and nationally. Reform to property-based taxes are a critical part of this process. Property in South Australia (and Australia generally) is heavily taxed - 42% of State revenues come from property taxes. This is of concern for a number of key reasons

- Over half of all Australia's household wealth is in property.
- Home ownership rates are in decline, and younger people are being locked out of the market.
- Transactional property taxes dampen the economy and jobs creation.
- Half a million South Australians have investments tied to superannuation funds, which include property investments.
- We need to encourage investment in South Australia. If South Australia's property taxation rates continue to be comparatively high (see Chart 7) this has an impact on growth and jobs creation in the state.

State revenue bases are steadily eroding to the point of unsustainability and there is instability inherent in revenue sources that rely too much upon transactional taxes. There is also an opportunity for South Australia to use tax reform as an economic driver to encourage greater investment in the State.

The Property Council of Australia supports South Australia undertaking an inter-governmental approach to tax reform. The Federal Government has recently opened a national tax reform debate through its publication of a discussion paper as part of its *White Paper on the Reform of Australia's Tax System*. South Australia is uniquely placed to take a leadership role in this intergovernmental process given it has already commenced a State-based reform process.

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, such as broad-based taxes is a crucial step toward improving the economic wealth of the nation. Abolishing stamp duties would mean replacement revenues would need to be provided to fund necessary state government services. The most obvious solution would be to broaden and increase the GST, but the Property Council welcomes engagement on other revenue options.

South Australia if it 'goes it alone' on tax reform must carefully consider the best tax mix and potential perverse outcomes from any reform, as a simple land tax/stamp duty switch may not work, as it can result in penal property taxation rates, which drive away property investment – the opposite of what the South Australian economy needs.

What is the Property Council of Australia?

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.

In broad economic terms the business activities of the membership of the South Australian arm of the Property Council of Australia represent a significant part of the South Australian economy. Their activities contribute to the following key economic outcomes:

- 10% of Gross State Product;
- 16.1% of total State Government Revenue; and
- 11.5% of the State workforce.

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 Council of Australia's vision for South Australia is a thriving, modern economy supporting prosperity, jobs and strong communities. Property represents the physical foundation of where we live, where we do business through shops, offices, industrial precincts, hotels, and public buildings, as well as places for our creative and recreational pursuits, which add so much to our quality of life. In every meaningful way, property is where life happens.

In supporting these industries, the Property Council of Australia provides a voice to ensure certainty for investment in South Australia's future prosperity. Reforming State taxes was a key pillar of the Property Council's *Igniting Our Economy* 2014 pre-election proposal.

Our submission to the State Government tax review focuses mainly on those State taxes having the greatest impact on property, including stamp duty, land tax and council rates. However, it also raises the importance of a national debate on a more competitive, simpler and fairer tax system to support Australia's future prosperity.

Moreover, we see tax as one piece of an important reform puzzle that includes diversification of the South Australian economy and investment in infrastructure, implementation of planning reform and red-tape reduction to make South Australia the best place to live and do business in Australia.

Taxation on property

Property in Australia is heavily taxed with 42% of State revenues coming from property taxes, as highlighted in the State Government's discussion paper (see chart 1 below).

Chart 1: SA estimated tax revenue

Estimated tax revenue over the forward estimates is provided in the following table.

	2012-13 Outcome $m	2013-14 Outcome $m	2014-15 MYBR $m	% of total taxation	2015-16 Estimate $m	2016-17 Estimate $m	2017-18 Estimate $m
Payroll tax	**1 077**	**1 079**	**1 147**	**26%**	**1 223**	**1 289**	**1 361**
Property taxes							
Conveyance duty[a]	778	793	886	20%	979	1 049	1 126
Land tax – private	347	345	347	8%	360	375	387
Land tax – public	215	219	216	5%	224	233	241
ESL on fixed property	103	104	189	4%	194	201	207
NRM levies	42	44	46	1%	46	47	47
Save the River Murray Levy	26	25	26	1%	27	28	29
Guarantee fees	75	76	110	3%	128	131	134
Share duty	41	5	5	0%	5	5	5
Gaming machine surcharge	—	1	1	0%	1	1	1
All other[b]	5	4	5	0%	9	9	9
	1 631	**1 616**	**1 832**	**42%**	**1 972**	**2 078**	**2 186**

Source: Government of South Australia State Tax Review Discussion Paper (2015)

Along with contributing $1.8bn in property specific taxes to State Government revenues, the property sector also pays a generous share of other taxes through payroll taxes, insurance taxes, goods and services tax and Council rates.

Moreover, nationally, the property sector is one of the most heavily taxed sectors in Australia. Chart 2 below provides estimates of the total tax burden on an industry's good or service, as a percentage of production cost by sector. In particular, the chart shows that the housing sector pays significantly higher taxes than other sectors.

Chart 2: Tax burden as a percentage of production cost of selected sectors, 2009-10

Note: Sectors were selected with value added higher than $10 billion from 113 sectors in the ABS input-output tables. Total tax burden includes direct and indirect taxes and net taxes on use.

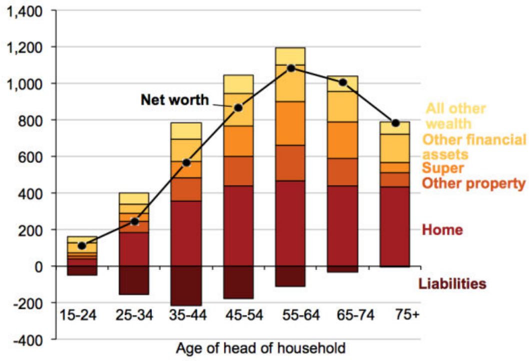
Source: ACIL Allen Consulting.

Why does it matter that the property sector is taxed so heavily?

Here are five key reasons:

1. Over half of all Australia's household wealth is in property (see chart 3).
2. Home ownership rates are in decline, and younger people are being locked out of the market.
3. Transactional property taxes dampen the economy and jobs creation.
4. Half a million South Australians have investments tied to superannuation funds, which include property investments.
5. We need to encourage investment in South Australia. If South Australia's property taxation rates continue to be comparatively high (see Chart 7) this has an impact on growth and jobs creation in the state.

Chart 3: Average wealth per Australian household by type, 2012$ '000s



Source: Grattan Institute Analysis of ABS data (2013)[1]

Younger generations are now less likely to own their own home than their parents or grandparents. In 1981, more than 60 per cent of 25 to 34 year olds owned their own home. By 2011, only 48 per cent of people in that age bracket owned their own home.2 High stamp duty rates, high infrastructure charges and supply side factors (such as cost of delivery and planning delays) all create barriers to people entering the property market, which is locking younger people out of wealth, stability and future prosperity.

Cost of doing business in SA

The Property Council of Australia welcomes the Government's initiative to use the tax review process to support its worthy aim to make South Australia the best place to do business in Australia.

Every year the Property Council produces its *Benchmarks* publication[3], which tracks and compares the costs of net lettable area in each State and Territory, including statutory charges and fees (which includes Council rates, water rates, land tax and other statutory fees and charges).

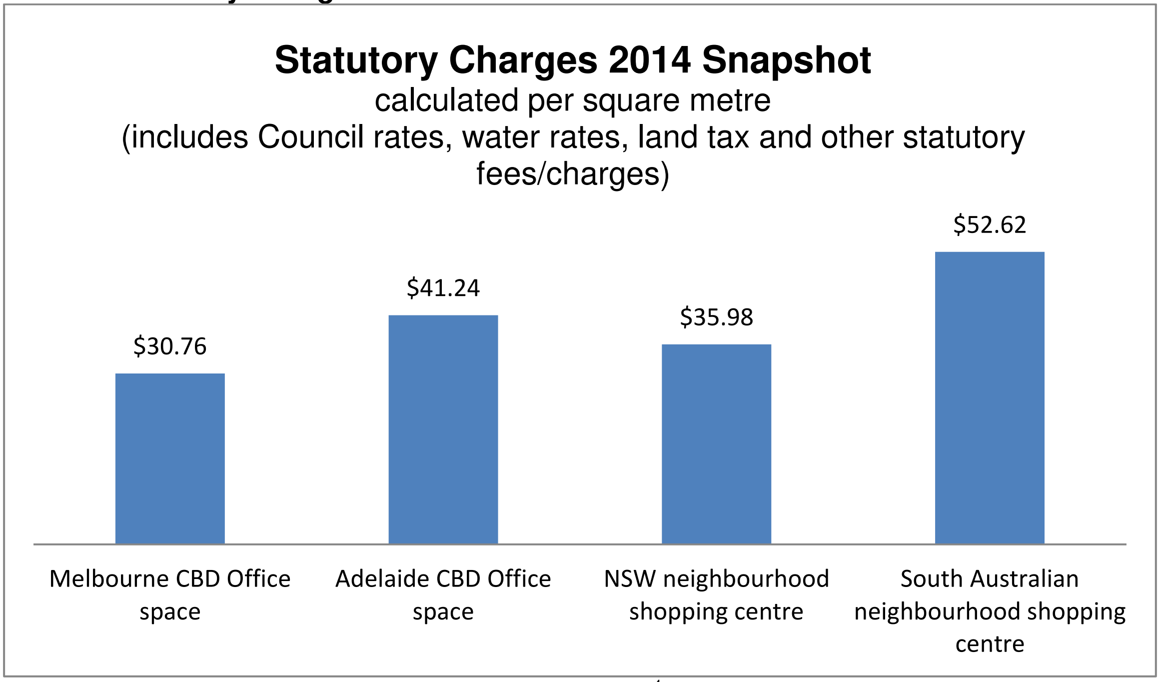
It is important to reflect on the costs that South Australian businesses face. Below are just two comparisons from the Property Council of Australia's 2014 Benchmarks publication of the differences in Government taxes and charges for an office building in Adelaide versus Melbourne, and for a shopping centre in a South Australian neighbourhood compared with one in New South Wales (chart 4). Chart 4 clearly shows the higher tax burden of running an office or shopping centre in SA compared to other jurisdictions in Australia.

[1] Daley, J., Wood, D., Weidmann, B. and Harrison, C., 2014, *The Wealth of Generations*, Grattan Institute, page 14.

[2] As above note 1, page 14.

[3] See http://www.propertyoz.com.au/Bookshop/Listing.aspx?p=13

Chart 4 Statutory Charges



Source: Property Council of Australia Benchmarks publication (2014)[4]

The state of SA's economy – the case for change

When outlining the case for change through tax reform it is important to frame the debate in a broader context. The decline in mining and manufacturing and a slower than anticipated international recovery is placing increasing pressure on SA residents and businesses.

As outlined in the South Australian Centre for Economic Studies' December 2014 Economic Briefing Report:

> *Latest annual State Accounts data indicate that the South Australian economy recorded another sub-par performance in 2013-2014. Gross State Product (GSP) – a measure of aggregate production – rose by 1.3 per cent for the year in real terms, well below the average pace of 2.4 per cent per annum over the previous decade.*[5]

Furthermore:

> *Low rates of population growth; weak growth in domestic incomes, low consumer confidence, weak private sector investment (with the exception of housing); and continued fiscal consolidation by the Commonwealth and State Governments will also serve to keep growth below its long-term trend.*[6]

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 (-0.3 per cent) and public sector investment (-0.2 per cent).[7]

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[4] As above note 3.

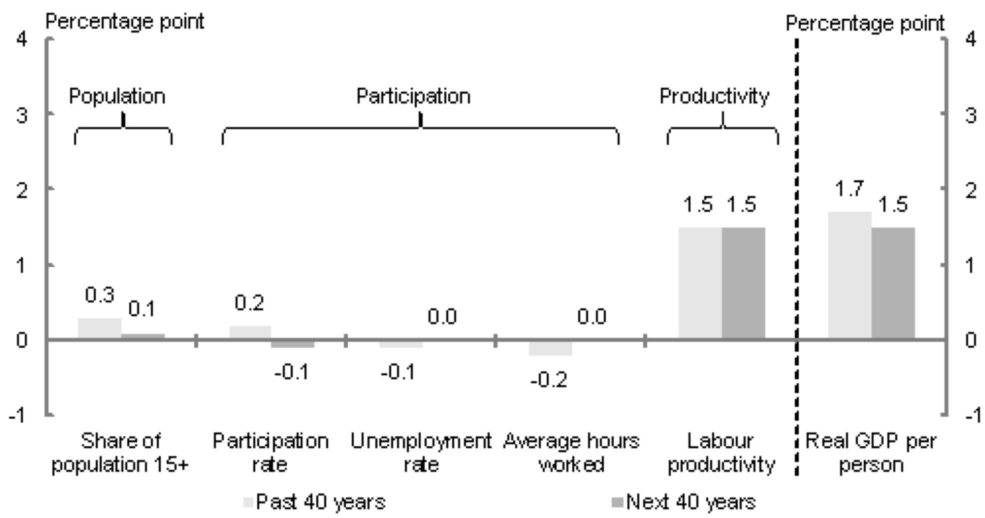
[5] *Economic Briefing Report,* South Australian Centre for Economic Studies (December 2014) page vi.

[6] As above note 2, page xi.

[7] State Accounts, Australian Bureau of Statistics, www.abs.gov.au, November 2014.

In a broader context, South Australia (and Australia) are competing for talent and capital and are 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.

Chart 5: Components of real Australian GDP growth per person (from Intergenerational Report 2015)



Source: ABS cat. no. 5206.0, 6202.0 and Federal Treasury projections

South Australia's economy is now at a pivotal crossroad. The Property Council of Australia welcomes the State Government's focus on tax reform as an economic driver and supports its 10 economic priorities launched by the Premier (as follows).

South Australian Government's Economic Priorities

Priority 1 *Unlocking the full potential of South Australia's resources, energy and renewable assets*
Priority 2 *Premium food and wine produced in our clean environment and exported to the world*
Priority 3 *A globally recognised leader in health research, ageing and related services and products*
Priority 4 *Attracting a diverse student body and commercialising our research*
Priority 5 *South Australia - a growing destination choice for international and domestic travellers*
Priority 6 *Growth through innovation*
Priority 7 *South Australia - the best place to do business*
Priority 8 *Adelaide, the heart of the vibrant state*
Priority 9 *Promoting South Australia's international connections and engagement*
Priority 10 *South Australia's small businesses have access to capital and global markets*[8]

It is clear that all of these priorities will be bolstered by tax reform that acts as an economic driver for the State. We also encourage the State Government to consider its spending programs to ensure that efficiency and value for money principles are ingrained into public decision-making.

[8] http://economic.priorities.sa.gov.au/

South Australia's successes

Let's leverage our investments, opportunities and resources through a fairer, simpler and more competitive tax system.

South Australia has a lot to be proud of, including being ranked fifth in the Economist's 2014 Global Liveability ranking for cities (one of only two Australian cities to make the top 10)[9] and Adelaide was the only Australian city to secure a place in the *New York Times* 2015 list of places to visit (coming in at number 24).

Not only is South Australia a great place to live and visit, it has some fantastic economic success stories that will be further leveraged under a reformed taxation environment.

Tax Reform Principles

What kind of tax system do we want?

South Australia's taxation system includes a range of ad hoc, incremental tax changes and levies a web of taxation layers on citizens and businesses for too little return.[10] The Government should be congratulated for embarking upon a bold reform agenda for the state's taxation system and we encourage the Government to consider carefully what makes for a good taxation mix and design.

We rely upon transactional/service based taxes too much in South Australia, which are the worst kind of taxes in terms of stability and economic growth. We also have an overly complex administrative compliance system that overlays tax in this State.

This review is also an opportune time to modernise the administration of taxes.

Payroll, property, financial and capital transactions, insurance, the provision of goods and services (excise and levies, gambling), use of goods and performance of activities (for example motor vehicle registration) and franchises form the bulk of State taxes.

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[9] The Economist Intelligence Unit Limited, 2014, *A Summary of the Liveability Ranking and Overview,* page 4.
[10] See the South Australian Parliament's Economic and Finance Committee report *South Australian Taxation System* for a recent review of the state's taxation system (2013).

There are a number of recognised principles to be used in assessing taxation:

Chart 6: Principles of 'good' taxation

- *Stability* – The central purpose of taxation is to fund Government expenditure on public services. In order to fulfil this purpose a tax must be sustainable, in that it grows in line with economic growth, and reliable, in that revenues are not subject to wide fluctuations
- *Efficiency* –An efficient taxation system minimises the distortionary effects and unnecessary influences of taxes on the behaviour of consumers and producers
- *Equity* – In-principle, taxes should be both horizontally and vertically equitable. Horizontally equitable taxes tax people in similar financial circumstances in the same way. Vertically equitable taxes are progressive, imposing higher taxes on individuals with greater capacity to pay
- *Simplicity* – Taxes should be simple, transparent, practical and enforceable, with minimal administration and compliance costs
- *Competitiveness* – Taxes should be aimed at improving competitiveness of Australian businesses both domestically and internationally
- *Revenue adequacy* – Tax reform measures should aim to minimise significant impacts to the economy by avoiding sudden large-scale expenditure cuts

Source: ACIL Allen, *Modernising Australia's Tax System*, Report to Property Council of Australia[11]

What have we learned from failed/stalled tax reform processes of the past?

It is rare that an ambitious tax review process results in significant change or is well implemented. For example, the Asprey Committee proposals took two decades to be implemented. There is scepticism in the community and business sector around what is promised through a reform process versus what is delivered. For instance, the Council of Australian Government (COAG) agreement to abolish inefficient taxes (such as stamp duty) following the introduction of the Goods and Services Tax was never fully implemented by States and Territories.

Set out below are the key lessons learnt from past reform processes:

- Tax reform has to be clear, achievable and focussed on outcomes.
- While there will inevitably be winners and losers, tax reform must deliver an overall beneficial outcome for the economy that can be accepted and supported by business and the community.
- A clear case for change needs to be made and the public needs to be meaningfully engaged in the process.
- Fixed implementation timeframes and strategies need to be in place.
- Bipartisan political support is required.

[11] ACIL Allen Consulting, *Modernising Australia's Tax System*, Report to Property Council of Australia (2015), page ES3.

Snapshot – what not to do: Australian Capital Territory reforms

In the ACT, recent reforms which abolished stamp duty have resulted in the commercial property sector being hit with exorbitant Council rates compared to residential property, which is a pertinent example of poor implementation of a tax reform process. These increases in rates have crippled the commercial property sector in a jurisdiction that desperately needs private investment and is too reliant on Government investment.

A snapshot of increases in statutory charges* impacting ACT members of the Property Council of Australia is provided below (noting that the ACT does not have a local Council layer of government, so is responsible for rate setting unlike the South Australian Government):

Chart 7: ACT statutory charges

ACT - Statutory Outgoing Increases* 2010/11 - 2014/15						
Location	**Brief Description**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Mid-City	2 Level - mixed com/retail	100.9%	98.9%	103.3%	127.5%	109.7%
Civic	10 Level Office		98.8%	103.2%	124.1%	114.0%
Suburban Shopping Centre	14 Shops		110.1%	104.3%	126.2%	113.5%
Greenway Office Building	2 Levels	101.4%	99.2%	104.6%	124.5%	111.5%
Woden Office Building	10 Levels	99.8%	100.4%	104.4%	125.4%	112.1%
Figures are based on previous year i.e. 104.4% represents an increase of 4.4% over the previous year.						
*Incudes General Rates, Land Tax, Fire Levy and City Centre Marketing Levy (if applicable)						

Recommendations:

- That following the current consultation process, the State Government provides modelling, on its preferred options to enable transparency and an informed debate in the community.
- That the State Government be bold, brave and ambitious in its reforms and consider implementing a ‘one bill’ taxation system that would drive down red-tape associated with taxation compliance and reporting.

SA’s worst taxes: ineffective/inefficient/stifling

<u>Stamp Duty on conveyances and business transactions</u>

There are four main categories of stamp duty in South Australia, as listed below:

- stamp duty for transferring land;
- stamp duty for transferring businesses;
- stamp duty on transferring units within a unit trust; and
- acquisition of interest in a land holding entity.

As the Henry Review and the Federal Government’s “Re-think” Discussion Paper found, stamp duty is a very inefficient tax, whereas ‘land tax is an efficient tax base because it is immobile; unlike labour and capital it cannot move to escape tax.’[12]. Stamp duty as a

[12] *Australia’s future tax system*, Report to the Treasurer, December 2009, page 255

transactional tax is also 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. We also have the bizarre situation where stamp duty is levied on the GST inclusive price of a property, which means consumers are effectively taxed on a tax when they purchase property.

We encourage the Government to consider the national context and to take a leadership role in assessing the best tax mix for South Australia. 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, such as broad-based taxes is a crucial step toward improving the economic wealth of the nation. Abolishing stamp duties would mean replacement revenues would need to be provided to fund necessary state government services. The most obvious solution would be to broaden and increase the GST, but the Property Council welcomes engagement on other revenue options.

Further to the above, stamp duty discourages people from buying and selling property, so that land owners often use their land in less efficient ways than a potential purchaser. It also discourages people from moving house as their circumstances change, i.e. it is a disincentive to move house to take a better job, and is a barrier to downsizing, resulting in the misallocation of housing stock.[13] This is particularly concerning in South Australia where a transitioning economy means there is a greater need for a more mobile labour force to enhance flexibility and productivity in the economy.

As Henry highlighted other potential societal impacts of stamp duty include:

- *people may commute more, creating greater road congestion;*
- *people who want larger houses may choose to renovate, rather than move; or they may buy a larger house than they need in anticipation of eventually needing the space. This could lead to a housing stock that is larger than necessary;*
- *some groups may have less access to the housing market since they need to save to pay the stamp duty [or borrow funds to pay stamp duty]; and*
- *stamp duties may discourage older Australians from moving to a smaller home and reduce the amount of equity withdrawn from a home if they do downsize.*[14]

Stamp duty on business transactions also discourages transactional activity around business restructuring, which means businesses operate in old and overly complex models rather than simplifying and modernising their structures to avoid paying conveyancing duty on the business transfer.

There are implementation/transitional issues of phasing out stamp duty that must be considered to ensure fairness and stability and to minimise distortion to the timing of sale decisions. Taxpayers who have just recently been burdened with stamp duty should not be the subject of 'double jeopardy' through being hit with a land tax bill after they have just paid stamp duty on a conveyance.

[13] Daley, J., McGannon, C. and Ginnivan, L. 2012, *Game-changers: Economic reform priorities for Australia*, Grattan Institute, Melbourne, page 33.
[14] As above note 12.

Snapshot: Pitcher Partners found in March 2015 that SA has the least competitive taxation regime for start-ups choosing to rent in SA.[15]

Recommendations:

- Abolish stamp duty on the transfer of business assets located in South Australia.
- Abolish stamp duty on land transactions
- Abolish stamp duty on transferring units within a unit trust.
- Carefully manage 'grandfathering' to ensure fairness in implementation.

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 taxpayers and jurisdictions a 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 have more than one property.

There are also sliding scale fees associated with transferring property titles in South Australia that 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.

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 disincentivised from investing in such a way.[16]

South Australia is at a serious competitive disadvantage in Australia when its land tax rates are compared with other jurisdictions, as illustrated below.

[15] Pitcher Partners, *State Tax Review* 2014/2015 (March 2015).
[16] As above note 11 at page 67.

Chart 8: Land tax rates across Australia[17]

Land Tax:	**NSW**	**VIC**	**QLD**	**WA**	**SA**	**TAS**	**NT**	**ACT**
Land Tax **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 2014 land tax year From 1 Jan 2014** **$0-$412,000:** Nil, **$412,001 - $2,519,000:** $100 + 1.6%, **Over $2,519,000:** $33,812 + 2.0%. **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%. In the 2015 Land Tax Year: Non-Concessional companies and special trusts will be taxed at the flat rate of 1.6% to $2,641,000, plus 2.0% for value over $2,641,000. (In 2014 Land Tax Year the premium threshold was $2,519,000.)	For 2014 land tax year- 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 of 5% instead of 2.25%). The Metropolitan Parks Charge 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 2014-15 is $70.62.	For 2014-15 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 2014-15 land tax** Year- **$0-$300,000:** Nil, **$300,001-$1,000,000:** 0.11%, **$1,00,001-$2,200,000:** $770+0.58%, **$2,200,001-$5,500,000:** $7,730+1.51%, **$5,500,001-$11,000,000:** $57,560+1.8%, **Over $11,000,000:** $156,560+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 0.14c per $1.00 for land valued at over $300,000. A 50% cap on land value increases applies for land tax and MRIT purposes.	For 2014-15 land tax Year- **$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+3.7 0%. 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. Note that land tax thresholds have not changed in 2014-15. Property values relevant to 2014-15 land tax liabilities have not increased beyond those for 2011-12.	**$0-$24,999:** Nil, **$25,000-$349,999:** $50+0.55%, **$350,000 or more:** $1,837.50+1.50 %.	Not imposed	For 2014-15 Land tax assessment for each property owner in 2014-15 is based on a fixed charge of $900 and marginal tax rates that are applied to the Average Unimproved Value (which is a rolling three year average of the 2012, 2013 and 2014 unimproved land values). The fixed charge will be effect from 1 October 2014. $900 fixed charge plus Residential Properties Marginal Rates: **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.**

Source: NSW Treasury comparisons (2014-2015)

[17] From NSW Treasury, Interstate Comparison of Taxes (2014-15) at pages 31-32

There are also sliding scale fees associated with transferring property titles in South Australia that need reform as they are a disincentive to transacting in South Australia. A flat rate fee linked to the true administration cost of registering titles should be introduced. Moreover, greater integrity needs to be incorporated into the valuation system (and appeals process) through the administration of land tax in South Australia.

The Property Council of Australia in-principle supports the theory of a low, broad based, flat land tax and we are open to further engagement with the Government on such a proposal. Any reform to land tax needs to be carefully considered – for example, the ACT model does not work because it has resulted in burdensome levels of rates that have driven away investment in the ACT.

Levy land tax based on a per-square-metre value of land?

The State Government's discussion paper puts forward an option to levy land tax based on a per-square-metre value of land. From a principle point of view, any land tax regime that disincentivises capital improvements to land is not supported by the Property Council of Australia. As the discussion paper rightly points out, such a taxation model can place pressure on the CBD and other areas where property values are traditionally high. The Property Council of Australia opposes this proposal for a number of reasons, including:

- it will disadvantage the engine-room of South Australia's economy (the city centre and business district and our tourism hotspots) by penalising CBD and main street property owners who are the cornerstone of job creation in South Australia;
- making our city and high value metropolitan office and retail space less commercially competitive will disadvantage South Australia driving investment into other jurisdictions (taking jobs with it) at a time when we desperately need to retain and build our commercial property investment.

Recommendations:

- We urge the State Government to continue its collaborative approach by providing transparent modelling around any preferred option/new tax mix following the consultation process to enable considered debate in the community.
- Introduce a lowered flat fee that represents the administrative cost of transferring property titles.
- No new land tax levy based on a per-square-metre value of land.
- Abolition of land tax aggregation.

Payroll Tax

As highlighted in the State Government's discussion paper, payroll tax performs relatively well when assessed against the abovementioned 'good' taxation principles. However, the inadequate design of payroll tax, as well as the granting of exemptions, erodes the efficiency and effectiveness of the tax. There are some areas ripe for reform in relation to payroll tax, including:

- There are significant administrative/compliance burdens associated with the tax (particularly for employers with staff across a number of jurisdictions);
- There are different thresholds/administrative regimes across jurisdictions.

Recommendations:

- Reduce payroll tax reporting obligations for employers.
- Create a modernised online system for payroll tax processing.
- Advocate for harmonising tax-free thresholds across States/Territories.

Council Rates

Council rates fall under the *Local Government Act* (1999) SA and represent more than one billion dollars' 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 of Australia encourages the State 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.[18]

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. The Property Council of Australia encourages the State Government to examine introducing rate capping in South Australia in line with New South Wales.

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.[19] 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.

Recommendation:

- A review into Council rate setting, valuation principles, efficacy and consistency be undertaken to ensure transparency and taxation integrity for ratepayers.

SA needs to champion national tax reform

The Property Council of Australia applauds the pragmatic approach taken by the State Government in pursuing tax reform independently of an agreement at the COAG level

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[18] *Funding Local Government*, Report of the Local Government Rates Inquiry, pages 117-118.
[19] As above note 1, pages 34-35.

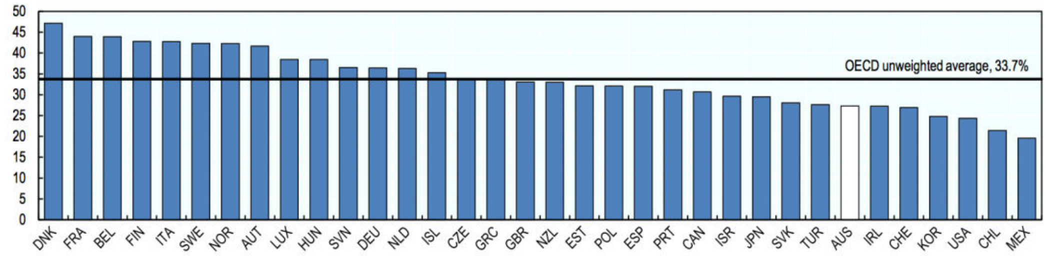
around a national tax reform agenda. South Australia cannot afford to wait. However, we urge the State Government to take a leadership role in negotiating with the Federal Government and other States and Territories on the need for structural national taxation reform to ensure future prosperity and economic development. It is time to drive bipartisan support to support prosperity, jobs and strong communities.

Compared to other Organisation of Economic Cooperation and Development (OECD) countries, Australia underutilises GST for revenue.

Chart 9: OECD Tax Burden Comparisons

Tax burden compared to the OECD

Australia ranked 28th out of 34 member countries in terms of the tax to GDP ratio in 2012 (the latest year for which tax revenue data is available for all OECD countries). In that year Australia had a tax to GDP ratio of 27.3% compared with the OECD average of 33.7%.



Tax structure

The structure of tax receipts in Australia compared with the OECD average is characterised by:

- Higher revenues from taxes on personal income, corporate income and property.
- A lower proportion of revenues from taxes on goods and services.
- No revenue from social security contributions, but Australia has higher revenues for payroll taxes compared with OECD as a whole.

	Australia		OECD unweighted average (%)
	Millions AUD	%	
Taxes on personal income, profits and gains	**162,993**	**39**	**24**
Taxes on corporate income and gains	**78,735**	**19**	**9**
Social security contributions	**-**	**0**	**27**
Payroll taxes	**21,447**	**5**	**1**
Taxes on property	**35,962**	**9**	**5**
Taxes on goods and services	**116,751**	**28**	**33**
Of which GST is	*50,300*	*12*	*20*
Other	**-**	**0**	**1**
TOTAL	**415,888**	**100**	**100**

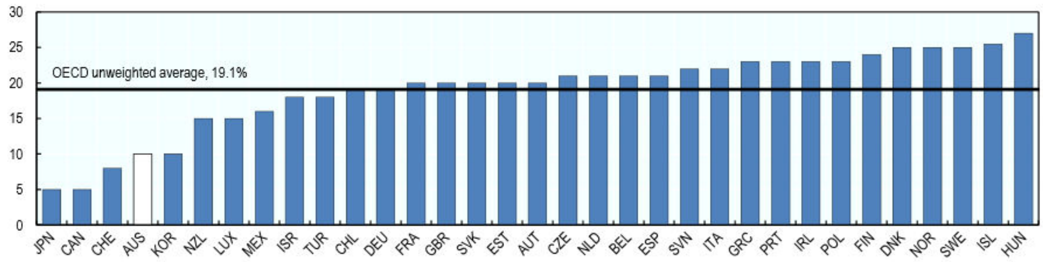
Consumption Tax Trends 2014 - Australia

GST share of total tax revenues

The OECD's biennial *Consumption Tax Trends* report found that GST revenues in Australia accounted for 12.1% of total tax revenue in 2012, the second lowest proportion in the OECD after Japan and considerably below the OECD average of 19.5%.

GST rate

The Australian standard GST rate of 10% is one of the lowest in the OECD. The average VAT/GST standard rate in the OECD was 19.1% on 1 January 2014, up from 17.6% on 1 January 2009. In Australia an extensive list of goods and services are GST-free. Australia has not changed its standard GST rate since the introduction of this tax in 2000. In contrast, 20 OECD countries have raised their standard VAT/GST rate at least once in the last five years.



VAT Revenue Ratio

The VAT Revenue Ratio (VRR) for Australia was 0.47 in 2012, below the OECD average of 0.55. The VRR is a measure of the revenue raising performance of a VAT system. A ratio of 1 would reflect a VAT system that applies a single VAT rate to a comprehensive base of all expenditure on goods and services consumed in an economy - with perfect enforcement of the tax. As in most OECD countries, this ratio fell in Australia in 2008 coinciding with the advent of the global economic crisis. This reduction was then followed by a temporary increase in 2009 and by further reductions between 2010 and 2012.

Source: OECD data[20]

Modelling commissioned by the Property Council of Australia shows that a moderate increase and broadening of GST could significantly improve Australia's overall well-being, and boost productivity and the economy.

Tax reform is one piece of the puzzle

This submission is focussed on taxation as a potential economic driver; however, the Property Council of Australia recognises that the State is confronted with other pressing policy challenges that require ambitious reform, including transitioning the economy, infrastructure planning and investment, planning reform implementation, increasing skilled and business migration to South Australia and red-tape reduction. The Property Council of Australia looks forward to continuing engagement with the Government on these matters in conjunction with tax reform.

[20] OECD data http://www.oecd.org/australia/revenue-statistics-and-consumption-tax-trends-2014-australia.pdf

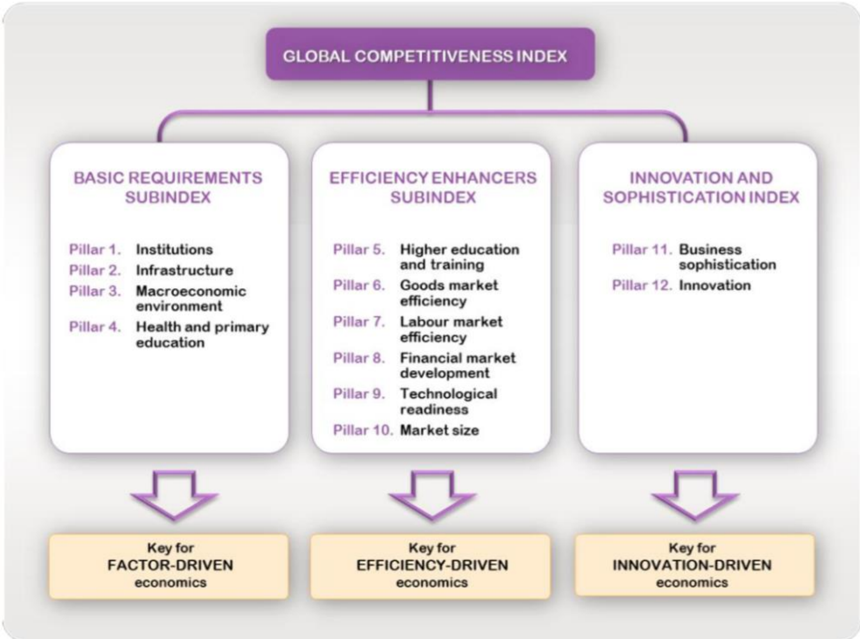
Snapshot: transitioning South Australia's economy

Pittsburgh, Pennsylvania in the United States embarked upon an ambitious economic transition from the early 1990s. This transition took Pittsburgh from being a declining steel industry dependent city to one of the US' most liveable cities with a thriving diversified economy focussed on higher education, tourism, corporate headquarters, banking, and high-technology.

There are many lessons to learn from this experience. In the early 1990s, a White Paper was commissioned[21] which led to a roadmap for economic development and a growth alliance bringing together business, community, academia and various levels of Government to work together towards the ultimate goal of transitioning a city dependent upon the declining steel industry to a modern, thriving economy.

The below diagram from the World Economic Forum illustrates the economic pillars that underpin a competitive, modern economy.

World Economic Forum Pillars of Competitiveness[22]



Recommendation

- That the State Government consider economic development and taxation in an holistic manner and put in place strategies to transition the South Australian economy to ensure future prosperity and job creation.

[21] *Toward a Shared Economic Vision for Pittsburgh and South-western Pennsylvania*, Carnegie Mellon University (1993)
[22] As above note 11, page 35.