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Revenue Discussion Paper
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Northern Territory Revenue Discussion Paper – Property Council of Australia Submission

The Property Council of Australia is the peak body representing the property industry in the Northern Territory.

The Northern Territory Division collectively represents billions of dollars of commercial investment in the Northern Territory. The value of the property industry to the NT economy is second only to the resources sector.

The Property Council's membership draws together key players from property investment and development including owners of commercial office buildings and shopping centres, financial institutions, and construction companies. Our membership also extends to those engaged in professions, businesses and provision of services directly associated with the property industry (architects, engineers, financiers, legal and other consultants, suppliers etc.).

As an industry, we not only have a keen interest, but also a financial investment in the future development of the Northern Territory. We appreciate and take seriously the opportunity to provide comment on the Northern Territory Revenue Discussion Paper.

Executive Summary

We have little doubt that there will be short-sighted property developers advocating for the removal of stamp duty and the implementation of a land tax. Their interest is purely short-term and short-sighted. They only care about the short to medium-term benefits of Tax Policy. They have no interest in the long-term success of the Territory and what is in the best interest of all Territorians.

Whilst the Discussion Paper seeks submissions on the broad issues of Territory Taxes, this submission is limited in its focus to taxes on property.

The Property Council is not in favour of any new taxes being levied on the currently struggling Northern Territory economy and is strongly opposed to the introduction of any form of land tax or foreign buyers duty surcharge for the Northern Territory.

The Property Council is also strongly opposed to the reduction / removal of stamp duty at the expense of introducing a land tax. Replacing stamp duty with a land tax is not equitable.

The introduction of any type of land tax will further reduce property prices, business confidence, and future private investment.

The Territory is the only jurisdiction that does not have a land tax. The property industry is already one of the highest taxed sectors in Australia and the introduction of a land tax will make the Territory a less attractive place to invest and to live in.

Broad-based, efficient land tax schemes do not exist and the introduction of one in the Territory is, in reality, impossible.

One of the most important considerations is the cost of living implications of a land tax. We are in extremely difficult times in the Territory and this is particularly true in the property sector. Adding taxes that will undoubtedly put further downward pressure on property values and increase the cost of living is irresponsible given the current economic climate.

The Northern Territory Government has not provided sufficient information and modelling to at least have a basic discussion on land tax. Detailed modelling is required to ascertain the impacts and encourage a real and truthful discussion on the introduction of a land tax.

The Northern Territory Government must review and consider existing policies that are negatively affecting the property market.

Northern Territory Government leaders must retain the community's trust and honour its public commitment to not introduce a land tax.

The Current Economic Climate

The Northern Territory economy is in a very challenging period with the market now experiencing the contraction phase of the local oil and gas boom. This unprecedented level of capital expenditure and investment is approaching a steep drop-off with the completion of the Ichthys LNG project scheduled for mid-2018. There will be great hardship as the economy readjusts, with increases in unemployment, business downsizing, and insolvency.

The Northern Territory Government's record stimulus package was designed to unlock private sector investment, which has to-date simply not materialised. With the foregoing in mind, the Territory Government has recently announced further stimulus measures to once again encourage new private sector investment. The introduction of a land tax will effectively ensure that the property industry does not undertake or entertain new investment opportunities in an already-challenging market-place.

The Northern Territory economy is currently not able to be further burdened with any new taxation measures, especially a land tax.

Contradictory Northern Territory Government Fiscal Policy

The business sector is deeply concerned with the current Northern Territory Government's seemingly contradictory approach to fiscal policy. When elected, the Northern Territory Government, quite correctly, embarked upon a record stimulus spending to cushion the steep drop-off of activity related to the completion of the Ichthys LNG Project.

However, with the introduction of a Discussion Paper and the potential for a land tax being raised therein, the Northern Territory Government has nullified any benefits of its stimulus spend, by putting a brake on private sector investment dollars back out of an already struggling economy.

The foregoing is plainly a contradictory policy position; however, this is exactly what is currently being contemplated by the Northern Territory Government. This then opens the potential for a worst-case scenario.

For example; the Northern Territory economy is being faced with record government debt, a declining population, and a severe and protracted economic recession.

The fiscal policy setting that is eventually adopted by the Northern Territory Government will be the most crucial factor in determining whether this current downturn is short and shallow or long and deep.

A Review of Current Northern Territory Government Policies is Needed

The property sector in the Northern Territory right now can simply be summed up as "considerably oversupplied." This correlates directly with short to medium-term demand at historic lows, and significant falls in property values. The outlook will likely worsen further as the effects of negative population growth impacts the demand for property.

It cannot be debated that the Northern Territory Government's current policies has thrown the property industry under the proverbial bus in favour of short-term stimulus to retain workers and reverse the negative population trend. The Northern Territory Government gives little to no concern as to the longevity or viability of the property sector as it unleashes even more supply on an already oversupplied market.

Before any additional property-related policy decisions are made, the Northern Territory Government, in particular, our elected officials and the individuals advising them, need to reflect on the most recent property-related decisions. For example;

> **Q1**
> Does the commercial property market need several thousand square metres of additional office supply from the Health Department Office Tender when vacancy rates are above 21%, and while a decade's worth of supply currently sits vacant?
>
> **A: No**
>
> **Q2**
> Does the residential property market need hundreds of additional residential dwellings added to the market by the Northern Territory Government, underwriting seven (7) new multi-story residential developments for community housing, all while property prices are falling and vacancy rates are still rising?
>
> **A: No**
>
> **Q3**
> Does the industrial property market need additional new subdivided lots added to the market from Northern Territory Government funding for Stages 1 and 2 at the Darwin Business Park, and while private developers are shelving future developments due to falling property values and the lack of any future demand on the horizon?
>
> **A: No**

The simple and irrefutable fact is that there are currently **no major private sector property projects** in development due to the current market being unable to absorb the existing oversupply of stock. This is why the only projects currently planned or under construction are those that are reliant upon government funding or pre-commitments. These considerable market distortions will only further compound the problems facing the property sector.

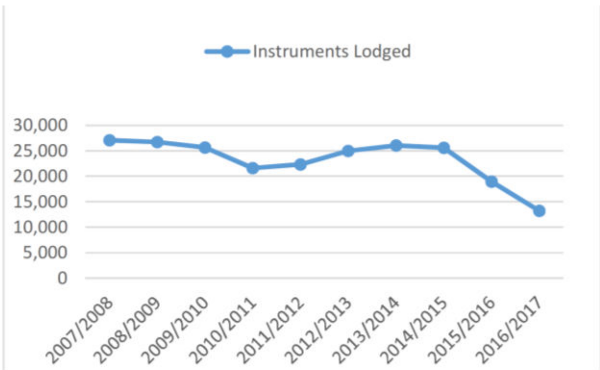
If the Northern Territory Government introduces a land tax, it will only further add to the property sector's current woes and greatly extend the already significant market recovery timeframe.

The Current State of the Property Market

Northern Territory property values have declined across the board ranging from 20% - 35% from the prior market peak and property transactions are at historic lows. ***See figure 1.0 Lodgement Statistics, NTG Registrar General's Newsletter, May 2017***

With very limited capital growth prospects in the short to medium-term and unprecedented downward pressure on yields, the property market may have further room to fall.

The very limited modelling evident in the Discussion Paper on land tax is very likely not of date and any assumptions based upon past values are unrealistic.



PERIOD (Financial Year)	INSTRUMENTS LODGED
2007/2008	27,085
2008/2009	26,738
2009/2010	25,636
2010/2011	21,627
2011/2012	22,311
2012/2013	24,997
2013/2014	26,051
2014/2015	25,619
2015/2016	18,964
*2016/2017	13,206

Figure 1.0 – Lodgement Statistics

The Future Prospects of the Property Market

The implementation of a land tax will immediately reduce the value of every property taxed. As we are all aware, the Territory property market is at the bottom of a very deep property cycle. This deep drop in values has put many property owners under severe mortgage stress.

A considerable portion of the property owners who have purchased a property since 2015 would have little to no equity or negative equity in their property.

A land tax would likely see a further drop of 5% - 20% on these property values, which would place many more Territorians under severe mortgage stress. This is not equitable or fair for those wanting to live and invest here.

The Effect on Business Confidence / Investment Certainty

The Northern Territory Government is on the public record stating that they will not introduce a land tax. Any introduction of a land tax will be a broken promise, which will shatter the trust and confidence of the business community in the current Northern Territory Government. The introduction of a Discussion Paper has already created investment uncertainty and delayed many investment decisions.

As at December 2017, business confidence was at an extremely low level of 36% in the Greater Darwin area. Business confidence will only further decline with the introduction of a land tax.

The Northern Territory's Competitive and Strategic Advantage

A land tax will make the Territory a less attractive place to invest in. The Territory is competing with the rest of Australia, and the world for investment!

Due to our small population, remoteness, and higher construction costs, the Territory is already disadvantaged compared to other regions of Australia. One of the few competitive advantages we have over other jurisdictions is that we do not have a land tax. The property industry is already one of the highest taxed sectors in Australia and this will make the Territory a less attractive place to invest and to live in.

The land tax debate that has been created from the Northern Territory Government's Discussion Paper has already had a negative impact on investment. Many in the property investment community have delayed making an investment decision until this debate/discussion is complete.

In the current economic environment, the Northern Territory Government needs to be stimulating consumer spending and private investment. A land tax will put the brakes on current and future government stimulus measures.

The introduction of a land tax will not only harm future investment, it will force some existing NT investors to pull out and move their investments to other more attractive jurisdictions.

Cost of Living Pressures

A land tax will increase the cost of living for ***all*** Territorians.

The most important consideration for the Northern Territory Government is that it must not introduce any new taxes that either directly or indirectly increase the cost of living for ordinary Territorians, which is exactly what a land tax will achieve.

> **Q4**
> Is this really something we want? To sting those who chose to live, work, and invest in the Territory?
>
> **A: No**

In an economic downturn and a declining / flat population, we can not afford to see business passing the cost of the tax onto consumers, increasing the costs of goods and services that include medicine, food, fuel and all other essentials. This is what could potentially happen if new taxes are implemented.

We believe that given both the direct and indirect cost increases to Territorians, a land tax would encourage more people to leave the Territory.

The Dream of an Efficient Land Tax: Reality vs. Fantasy

The stark reality is that a broad-based, efficient land tax does not exist in any State or Territory in Australia. The theoretical concepts of an efficient land tax, that has been discussed by academics for several years, is a fantasy. To date, every attempt to implement these unproven concepts have failed.

A land tax in the Territory **will not** be broad-based and efficient. The proponents of a land tax, who seem to almost exclusively live in the southern states, seem to always ignore the practical implications of such a tax and the severe difficulty in implementing such a tax. They focus on the theoretical benefits of such a tax but ignore reality.

The reality is that the Territory has very little land that can be taxed and the administrative costs of such a tax would be extremely high. The reality is that there is an overwhelming number of reasons why a theoretical, broad-based land tax is impossible to introduce in the Territory.

The Northern Territory Government is only considering a land tax on less than 1% of the Territory's land mass. **That is not a broad-based tax.**

Q5
Within the 1% of land under consideration, will there be exemptions or concessions for certain types of property owners?

A: Yes

Q6
With this in mind, is the Northern Territory Government considering not providing assistance to:

- Struggling individuals and families on low incomes?
- Not-for-profit organisations?
- Religious institutions?
- Indigenous organisations?

Q7
Will agricultural freehold and leasehold land be included in any land tax?

Q8
What about privately-owned land that currently sits outside council or shire jurisdictions and therefore is not rateable?

Q9
What exemptions and/or inclusions have been included in the Discussion Paper modelling?

It appears that no realistic land tax models and scenarios have been considered by the Northern Territory Government. Furthermore, the Discussion Paper has not provided any realistic land tax scenarios to the broader NT community or industry for consideration.

For a land tax to be effective in the Territory, it would have to be levied against everyone's primary residence, investment properties, properties owned by not-for-profits, religious institutions, indigenous land, and pastoral property **with no exemptions or concessions.**

There is not a large enough pool of residential investments and commercial properties in the Territory to make a land tax viable from a revenue-raising / collection cost-point without including every property category.

Broad-based and Efficient Land Taxes Don't Exist in Australia

There are some economists and experts that advocate for broad-based "efficient" land taxes and provide theoretical modelling to support their beliefs. Yet, to-date there is no State or Territory in Australia that has successfully achieved a transition from stamp duty scheme to a broad-based "efficient" land tax scheme.

The closest Australia has come is what the ACT has attempted, which has been a failure to-date. The ACT Government promised a revenue-neutral outcome and a smooth transition from one revenue source to another over a 20-year period. However, this has not been the reality.

Specifically;

- The tax scheme has not been revenue-neutral for ACT businesses, as total property taxes have increased by 10% each year, resulting in an additional $75 million impost after four years.

- There have been very significant increases in land rates over the last four years; the top rate for residential properties has more or less doubled and commercial rates have increased by 70%. Rates at lower thresholds have also increased significantly.

- The reduction in stamp duty rates has not been consistent. Those on lower value properties have fallen by a greater amount than needed for a linear transition over the 20-year period, while those on higher-value properties are behind where they would need to be.

- Currently, the phase-out and rates are being set on a relatively ad-hoc basis by the ACT Government. There is no public documentation which sets out the intended rate schedule over the 20-year period. Without a medium to long-term plan, it is difficult to conclusively gauge the success of this transition and the lack of a long-term plan also results in uncertainty for investors.

Q10
How can a fully informed, responsible government even consider an unproven tax scheme based upon only "theoretical" models.

A: The Territory cannot afford to bet its survival on unproven tax models that have never been successfully introduced.

Swapping Stamp Duty for a Land Tax

Changing tax policy based upon market conditions is flat-out wrong and irresponsible.

Governments should not make tax policy decisions based upon current property market conditions. Unfortunately, the property market is cyclical, and has been cyclical for centuries. The property market will continue to be cyclical.

The Treasurer and the Department of Treasury and Finance must take this under consideration when budgeting funds related to existing tax schemes like stamp duty.

It is short-sighted and inappropriate to make major changes to tax policy simply because we are in that stage of the property cycle where property transactions are low due to poor market conditions.

Foreign Buyers Duty Surcharge

As noted in the paper, the Territory does not currently have significant foreign investment in residential property and it is unlikely that the imposition of such a tax will have a material effect on the Territory's revenue or real estate market. Encouragement of foreign investment in the Territory through either institutional or individual investment should be a primary focus of the Territory Government.

Foreign investment is vital to the strength of the Australian and Territory economies. Foreign investment is particularly important to the property sector. It helps provide the long-term patient capital that underpins commercial construction – building office blocks, shopping centres and manufacturing precincts, and contributes to funding residential construction – helping to supply much needed housing stock. It is critical that the Territory continues to offer a competitive investment framework to attract foreign investment. A positive indication by the Territory Government that foreign buyers duty surcharge will not be introduced will cement the Northern Territory as a stable and open investment location.

Equality and Fairness

Just because a tax scheme is easy doesn't mean that it is fair and equitable!

Replacing stamp duty with a land tax is not equitable. Everyone that has already paid stamp duty on their property will be slugged with an additional yearly tax.

Nearly every property owner in the Territory has already paid their fair share of property tax. Slugging them again and again every year going forward is not fair.

If the Northern Territory Government tried to make the switch from stamp duty to land tax more equitable, then the land tax policy implemented will not be efficient or cost effective.

There are also property owners who have borrowed money to pay for their homes and included the stamp duty costs into their mortgage. These individuals are still paying back these costs.

If a land tax is introduced, these homeowners will end up having to pay a portion of their stamp duty costs and a new land tax at the same time.

Other Improvements to the Property Tax System

The Property Council encourages the following improvements to the property tax system in the Territory.

1. The Territory should look to reform the current corporate reconstruction provisions to allow unit trusts and other collective investment vehicles to realign existing company structures without unnecessary tax expense and hinderance. Reconstruction relief should allow corporate groups to manage internal affairs without external taxes resulting in a hinderance to commercial activities. The Territory should continue to encourage a positive investment environment.

2. The Federal government is currently introducing a Corporate Collective Investment Vehicle (CCIV) regime with the goal of providing a globally understood and attractive investment vehicle for foreign investors. The Territory has the opportunity to be ahead of other states in looking to reform their corporate reconstruction relief to facilitate moving to this regime. Currently most significant real estate investment in Australia is through the managed investment trust (MIT) regime; the Federal government is allowing roll-over relief for existing MIT's to move to use CCIV to encourage investment in this new regime. Roll-over relief is vital for the property industry to be able to utilise this vehicle and encourage more overseas capital to invest in the Territory and Australia.

3. The Territory Government acknowledges there is significant complexity in the current legislation for owners of property using company and trust structures. The Property Council encourages review and simplification of guidance to assist taxpayers and governments in applying the current law.

Northern Territory Government Administrative Expenses Review

The Northern Territory Government has decided to have a public discussion about tax revenue. However, the topic of government expenditure has not been raised.

> **Q11**
> Is it now appropriate to have an honest and frank discussion about Territory Government expenditure?
>
> **A:** With the current and future levels of Northern Territory Government debt, it would be prudent and responsible to examine and review future Territory Government expenditure.

Once again, we appreciate the opportunity to provide feedback and look forward to further consultation on this matter.

Should you have any queries or require elaboration, please do not hesitate to contact me on rpalmer@propertycouncil.com.au or 0450 428 314.

Yours sincerely

Ruth Palmer
NT Executive Director