



LAND TAX

Commission Position Paper CGC 2008/06

***SUBMISSION BY SOUTH AUSTRALIAN
DEPARTMENT OF TREASURY AND FINANCE***

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SOUTH AUSTRALIAN SUBMISSION ON LAND TAX

Need for value distribution adjustment

Issues raised by the Commission in Commission Position Paper 2008/06 (September 2008) included:

1. *Whether the average policy of the States is to have progressive rates of tax. Commission staff concluded it was not clear the average policy is to have progressive rates of tax.*

SA response:

In South Australia's view, it is clear beyond doubt that all States together with the Australian Capital Territory have progressive land tax structures. (Land tax does not apply in the Northern Territory.)

Under progressive tax structures, the average tax rate increases with land value.

Lower value properties attract lower average tax rates compared to higher value properties.

All States (but not the ACT) have tax-free thresholds ranging from \$24,999 in Tasmania to \$600,000 in Queensland (for resident individuals).

The existence of tax-free thresholds means that for all States, as property value increases, average land tax rates also increase. This applies even in jurisdictions where there is a single flat rate of tax above a tax-free threshold (as applied in New South Wales in 2008-09 and prior years - see Table 1).

Note, however, that in its 2008-09 Mini-Budget, New South Wales announced the introduction of an additional tax bracket the effect of which will be to increase the degree of progression in its tax scale. From the 2009 land tax year, a marginal tax rate of 2 per cent will apply to that part of taxable land holdings in excess of \$2.25 million (compared with a marginal rate of 1.6 per cent on taxable land value below \$2.25 million).

Table 1 Average land tax rates by jurisdiction, 2008-09

	NSW	VIC	QLD		WA	SA	TAS	ACT	
			Resid	Comm				Resid	Comm
\$200,000	0.00	0.00	0.00	0.00	0.00	0.13	0.51	0.85	0.98
\$500,000	0.47	0.16	0.00	0.80	0.09	0.35	0.97	1.14	1.29
\$750,000	0.85	0.23	0.27	1.10	0.14	0.72	1.31	1.23	1.39
\$1,000,000	1.04	0.30	0.45	1.25	0.16	1.14	1.61	1.27	1.44
\$2,000,000	1.32	0.60	1.05	1.47	0.39	2.42	2.05	1.34	1.52
\$3,000,000	1.41	0.83	1.25	1.50	0.66	2.85	2.20	1.36	1.54
\$10,000,000	1.54	1.82	1.25	1.50	1.26	3.44	2.41	1.39	1.58

In five of the six States, the progression in the rate scale is further accentuated by progressive marginal tax rates although, in the case of Queensland, the progression ceases at land values above \$3 million (resident individuals) and above \$2.25 million (companies and trustees).

With marginal tax rates, a property's land value is broken down into segments and taxed at higher marginal rates as each value increment increases. For example, in South Australia, a property with a land value of \$500,000 attracts no tax on the first \$110,000 of value; the value increment between \$110,000 and \$350,000 attracts a marginal tax rate of 0.3 per cent while the value increment between \$350,000 and \$500,000 attracts a higher marginal rate of 0.7 per cent.

The fact that all States have tax-free thresholds and five out of the six States also apply a tiered tax structure with marginal rates that increase with land value puts beyond doubt that the average land tax policy is to apply progressive tax structures.

Although the Australian Capital Territory's land tax structure does not have tax-free thresholds, it does have progressive marginal tax rates.

As previously argued by South Australia, it is inconsistent to make an adjustment for the tax-free threshold but not for other value ranges.

2. Reliability of the data on which a value distribution adjustment would be based

The Commission has stated in the Position paper on land tax that holdings-based data is required in order for a value distribution adjustment to be made.

SA response

South Australia is able to provide a value distribution of taxable land ownerships on an aggregated basis.

That said, South Australia does not agree that a value distribution adjustment is only required if aggregated ownership data is available.

Differences in value distributions affect the measurement of relative taxable capacity.

While these differences may be more apparent in aggregated ownership data they are also evident in single holding based data.

If all jurisdictions are not able to provide land value data on an aggregated ownership basis, there is still a case for making a value distribution adjustment against single holding value distributions.

For South Australia, Table 2 compares the distribution of individual properties (excluding land used for the principal place of residence and primary production land) with the distribution of aggregated taxable ownerships.

Table 2: Distribution of land tax base

	Distribution of land value on a single holding basis (a)	Distribution of taxable ownerships on an aggregated basis (b)
	%	%
0 to 100,000	18.6	11.7
100,000 to 250,000	38.7	29.5
250,000 to 500,000	22.3	25.4
500,000 to 1m	9.8	16.5
above 1m	10.5	16.9
Total	100.0	100.0

(a) Site value excluding primary production and principal place of residence land

(b) Taxable land (excluding primary production and principal place of residence land as well as land exempt under section 4 of the *Land Tax Act, 1936*)

Key points to note are that:

- Most of the South Australian land tax base relates to single properties/aggregated ownerships with site values below \$500,000.
- Aggregation has the effect of shifting more of the tax base into higher value ranges (in excess of \$500,000).

Even if other jurisdictions have comparably shaped value distributions, known differences in property values mean that South Australia would have relatively more of its land tax base valued below \$500,000 than, say, the eastern States.

Application of a standard tax structure would deliver a relatively lower revenue-raising capacity for South Australia.

Whether by reference to single holdings or aggregated ownerships, there is a case for retaining a value distribution adjustment.

Setting first threshold

South Australia is able to provide taxable land ownership data below its first threshold of \$110,000. We understand that most jurisdictions are also able to provide land ownership data below their first threshold.

However, establishing a first threshold at \$359,000 (ie consistent with NSW's first threshold) would be acceptable.

We recognise that Queensland, which has a significantly higher threshold for resident individuals of \$600,000, may need to adjust its taxable land ownership data below its threshold to try and accurately reflect its land tax base. It is considered that an appropriate mechanism to estimate taxable land ownerships below the threshold could be agreed if necessary.

3. *Aggregation*

The Commission has expressed concerns in the Position paper on land tax that States differ in the way they aggregate land.

SA Position

Just as States differ in the setting of their land tax scales so States may differ in the way taxable properties are aggregated. Aggregation is, nevertheless, a practice common to jurisdictions.

The Position paper also includes data on the distribution of households by value of holdings of (i) non-principal place of residence land, and (ii) non-residential property holdings in order to demonstrate the likely impact of aggregation.

This analysis shows that the distribution of households, by value of property held, is heavily skewed to households that do not own any property.

It is not clear how this adds any analytical value.

Rather, what needs to be established is the extent of differences between jurisdictions in the distribution of taxable land ownerships and the degree to which aggregation may compound these differences.

Aggregation affects smaller investors (eg, “mum and dad” investors) as well as larger land owners. Companies and managed funds are more likely to use different company structures to avoid the impact of aggregation whereas smaller investors are less inclined to do so.

It is relevant that in Table 2 (above), the effects of aggregation are apparent in relatively low value brackets. Even at the \$250,000 to \$500,000 value bracket, aggregation has the effect of increasing that bracket’s share of the tax base from 22.3% (single holding basis) to 25.4% (aggregate ownership basis).

Summary of South Australia’s position

The preferred data source for measuring the land tax base is to use tax-based data showing the distribution of actual taxable ownerships on an aggregated basis. This is the basis on which land tax is assessed. Most jurisdictions apply some form of aggregation and some form of tax rate progression (as measured by average land tax rates).

Whether the tax base is measured by reference to aggregated ownerships or single holdings (using Valuer-General data), a value distribution adjustment is required.

Data availability on land holdings aggregated by owner

(Issues raised by Commission staff in Commission Paper “Inquiry into data availability on land holdings aggregated by owner”)

South Australia confirms that it is able provide data on rateable land holdings aggregated by owner. Data is available that would meet the Commission’s specifications as set out in the data request guidelines, with the exception of the adjustments requested for strata title developments.

The data guidelines require an adjustment for individual strata titles within a development to be revalued as one entity; South Australia is unable to provide rateable land holding data for strata title holdings in this form.

South Australia will supply the aggregated ownership data on a basis that is consistent with the way we apply the tax. That is, aggregate for tax purposes those strata units in a development that are owned by the same person, or company, or where a strata unit is held with other taxable property, but not aggregate the entire strata development (where the units in that development are owned by different parties).

South Australia's Valuer-General has, in response to the Commission's request, previously supplied data which adjusts the reporting of strata title land to ensure that each strata development is counted only once as a single aggregated entity, even where there are different owners for individual strata units. A strata development and its total value were categorised to the land use ownership for which the greatest component of its site value related. Data in this form would be inconsistent with the rateable land holding data and could distort the land valuation distribution.