

**Response to Commonwealth Grants
Commission Position Paper 2008/06**

**Land Tax
2010 Review**

January 2009



Table of Contents

1. Introduction.....	2
2. Value Distribution Adjustment (VDA).....	2
2.1. The average policy of the States	2
2.2. The reliability of the land tax assessment.....	3
3. Conclusion	4

1. Introduction

The Commission's Position Paper 2008/06 *Land Tax* represents the second iteration of the Land tax assessment. It sets out the Commission's position on the assessment, and provides the basis on which the Land tax assessment will be taken forward.

Victoria supports the Commission's use of an actual tax base assessment for land tax. None of the proposed broad indicators were as practical or accurate as using the actual tax base. However, Victoria is concerned that the approach presented by the Commission does not reflect what States actually do and further consideration should be given to making an adjustment for differences in the distribution of land values to better reflect land tax regimes applied across the States.

2. Value Distribution Adjustment (VDA)

The Commission proposed not making an adjustment for differences in States' land value distribution because the way States structure their tax rates within the taxable part of the revenue base is a matter of policy choice.

As outlined by the Commission, the question of whether a VDA should be assessed requires consideration of three issues:

- a. whether the average policy of the States is to have progressive rates of tax;
- b. the reliability of the data on which a VDA would be based; and
- c. the likely impact of aggregation.

2.1. The average policy of the States

Victoria is strongly convinced that there are more similarities than differences across States in land tax policy (see section 2.2.) and the average policy is to have progressive rates of tax. Until recently, all the States imposing land tax, except for New South Wales, applied to a lesser or higher degree progressive land tax rates.

The recent announcement by New South Wales included in their 2008-09 mini-budget, introducing an additional 2 per cent marginal tax rate for property valued above \$2.25 million, strengthens Victoria's position even further. As a result of the measures announced in the NSW mini-budget, NSW now has a land-tax-free threshold for properties valued below \$368,000, charges a 1.6 per cent rate on properties valued between \$368,000 and \$2.25 million and a 2.1 per cent rate on properties valued above \$2.25 million. Effectively, the NSW land tax regime is now progressive.

Therefore, **it is indisputably average policy across the States for land tax to be imposed progressively.** The issue of whether to assess or not assess a VDA has now become a strict data-quality question.

2.2. The reliability of the land tax assessment

The Commission concluded that an assessment based on a VDA could not be made because the Commission is not able to address problems relating to data reliability on which a VDA would be based, aggregation, strata title as well as differences in the method of valuations.

As mentioned above, Victoria considers that there are more similarities than differences across States in land tax policy and that a VDA can be reliably assessed.

Tasmania, Victoria, Queensland and South Australia all aggregate their properties. Aggregation is based on legal ownership in all of the aforementioned States, with Tasmania and South Australia having very similar aggregation policies, whilst Victoria and Queensland have slightly more complex aggregation policies.

In relation to grouping, Tasmania and Victoria have very similar approaches to grouping, in that a corporation is grouped if they own more than 50 per cent of another corporation. Queensland and South Australia do not group corporations, however, as Victoria and Tasmania can provide land tax data on a non-grouped basis, this makes it possible to compare data across at least these four States.

Victoria and Queensland apply different rate rules to land held in trusts. South Australia does not recognise trusts for land tax purposes, however SA has the ability to provide data on trusts. Tasmania cannot provide data on trusts, however as revenue from trusts in Tasmania does not make a significant impact to land tax revenue, it will not be a significant issue for data comparability.

As regards the threshold, each State has a progressive rate of tax, with a tax free threshold. The States, except Queensland, have the capacity to provide data for properties below their tax-free threshold that would assist in data comparability. That Queensland cannot provide data is potentially problematic, however, Queensland is working towards finding a substitute.

The States have mostly common exemptions and concessions for land tax, particularly in the big ticket items such as principal place of residence, primary production land, Crown land (whether Local, State or Commonwealth government) and land vested in a public statutory authority. Together these exemptions amount for 90 per cent of Victoria's land tax exemptions in 2008-09.

Overall, these exemptions amount for the most land tax expenditure across the States. For example, the PPR and PPL exemptions alone account for 79 per cent of South Australia's land tax exemptions and 42 per cent of Queensland's (which has a much higher tax free threshold). In Tasmania (\$142 million) and WA (\$389 million) these two exemptions are also significant. The PPL exemption is 67 per cent of NSW land tax expenditures.

Where the States do not have common exemptions, the implications are very minor for data comparability purposes and most States can provide data on individual land tax expenditures.

Victoria, South Australia, Queensland and Tasmania are also able to provide annual data on an adjusted basis for the previous five years. Victoria recommends the

Commission consult the other land-tax-levying States on their ability to provide such data.

3. Conclusion

Victoria considers there is a strong conceptual case that progressive land tax scales is what States do and that there is good quality data available. Therefore, a Value Distribution Adjustment should be applied to the taxable part of the revenue base.