

COMMONWEALTH GRANTS COMMISSION (CGC) 2010 REVIEW

CGC STAFF EMAIL OF 22 DECEMBER 2009

OPTIONS FOR FINALISING THE LAND TAX ASSESSMENT

SOUTH WALES TREASURY COMMENTS

DECEMBER 2009

The Commission has asked States to comment on two options: the use of State Revenue Office (SRO) data or State Valuer General (VG) data on land values as the revenue base for the land tax assessment.

The SRO data was investigated as an alternative source of data for the calculation of a Value Distribution Adjustment (VDA) rather than as a revenue base for the land tax assessment.

In Position Paper 2008/06 the Commission considered the VG data was not sufficiently reliable to sustain a VDA assessment. As outlined in our submissions on the land tax assessment, New South Wales agrees with that conclusion. New South Wales considers that the alternative – the SRO data – also is not sufficiently reliable for that purpose.

Our view is that the Commission should adopt its original position and not assess a VDA in the land tax assessment.

The SRO data is unreliable for the assessment of a value distribution adjustment because:

- it is incomplete since some State SROs cannot provide reliable data on land holdings valued below their respective tax free threshold, and the Northern Territory, since it does not levy land tax, can provide no SRO data at all
- States aggregate land ownerships for land tax purposes in different ways, producing difficulty in providing land holdings data on a comparable basis and
- SRO data is directly influenced by State policy.

If the Commission considers that a VDA will “improve the equalisation outcomes” it should heavily discount, by at least 50 per cent, the VDA assessed with SRO data because of the data problems outlined above.

Background

In an email of 22 December 2009 CGC staff sought State comments on options for finalising the land tax assessment in the 2010 Review.

The Commission presents two options:

- use State Revenue Office (SRO) data on land values as the revenue base or
- use State Valuer General (VG) data on land values as the revenue base.

On conceptual grounds the Commission is inclined to use the SRO data as the revenue base because the data are on a land holdings basis – that is individual land parcels are aggregated to common land holders – and States levy land tax on an aggregated basis (so that landholders who own multiple properties do not gain the benefit of multiple tax-free thresholds).

This submission provides New South Wales' response to those options.

Purpose of the data

We consider that neither the SRO data nor the VG data provides a reliable or fit for purpose data set on which to base a value distribution assessment.

The main reason the SRO data was investigated was as an alternative to the unsatisfactory VG data in the calculation of a value distribution adjustment factor.

In our view, the purpose in finding alternative sources of data for State land values was not for establishing the revenue base for land tax, but for constructing the so-called Value Distribution Adjustment (VDA).¹

In Commission Position Paper 2008/06, *2010 Review, Land Tax*, the Commission said that it:

... does not intend to assess a VDA for land because:

- it is not clear that the average policy is to have progressive rates of tax; and
- we do not have reliable data on which to base a VDA assessment.

In the absence of data it is difficult for the Commission to advocate a methodology beyond a common effective rate of tax. We note that even to do that will require us to impute the differential impact on the ownership of principal residences.

¹ It is argued that since States have progressive land tax rate structures, States with land value distributions skewed toward lower land values will have disabilities in raising land tax revenue compared to those with land values skewed toward higher land values, and an adjustment is therefore required. As outlined in our submissions on land tax, New South Wales has argued that since progressivity varies across States and is a matter of individual State policy, no such adjustment is necessary.

To move beyond this point we would require data on the actual distribution of holdings of taxable properties. We accept that this creates an incentive for those States who might lose from a VDA, not to provide that data. However, the Commission will consider using partial data where they are available if they will improve the equalisation outcomes and are consistent with its assessment guidelines.²

SRO data was therefore pursued as a possible avenue for allowing the calculation of a VDA. We consider that the SRO data does not overcome the problem of the lack of reliable data on which to base a VDA.

The SRO data

The advantage of the SRO data is said to be that they are on a holdings basis that States actually use to levy land tax.

However, the “holdings” basis of the data is subject to uncertainty to a degree that casts doubt its reliability and fitness for purpose. There are three main problems.

- Since ownerships of land valued below the land tax threshold are not subject to land tax, the NSW Office of State Revenue (OSR) does not collect reliable data on land ownership for land valued below the land tax threshold (\$368,000 for the 2009 land tax year, which would cover most of the 2008-09 financial year revenue). OSR has data in relation to land ownership for land taxpayers who are not eligible for the tax free threshold, such as non-concessional companies and special trusts, and some other partial information, but does not have a completely reliable data set for otherwise taxable land ownerships below a land tax threshold that is significantly higher than that of other States (for example, Victoria had a general tax-free threshold of \$250,000 for the 2009 land tax year, South Australia \$110,000, Tasmania \$25,000 and had no tax free threshold).
- States aggregate land ownerships for land tax purposes in different ways, producing different record keeping systems and difficulty in providing land holdings data on a comparable basis. We are concerned that, despite the best efforts of all concerned, the data provided by SROs has not been provided on a comparable and consistent basis.

In some States jointly owned property is assessed separately in the hands of joint owners. In other States, joint owners are assessed together as if they are a single owner (the “primary” taxpayer), and each joint owner is assessed separately (as a “secondary” taxpayer) for their interest in the jointly owned property and any other land holdings. To prevent double taxation on land included in assessments for both the primary taxpayer and the secondary taxpayer, a secondary taxpayer is entitled to a deduction which relates to the taxpayer’s interest in the jointly owned land.

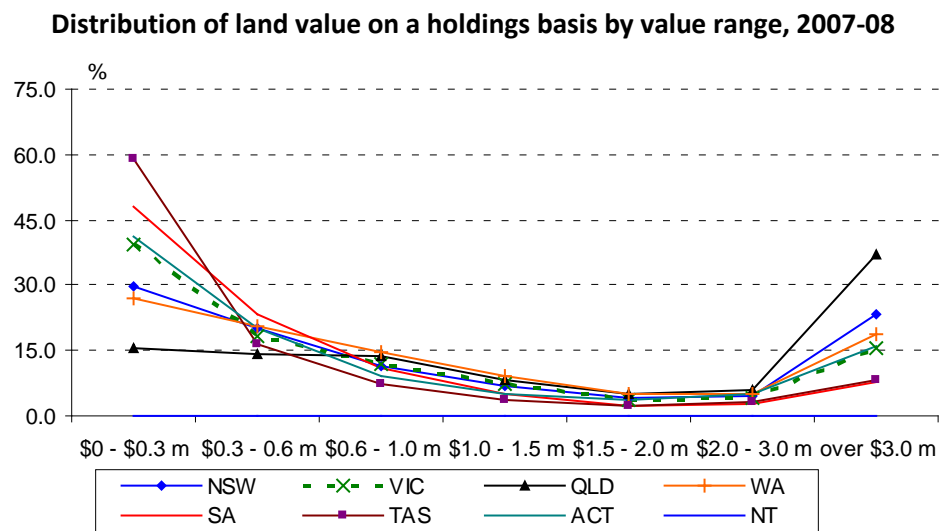
² CGC, Commission Position Paper 2008/06, *2010 Review, Land Tax*, September 2006, pp. 7-8.

New South Wales has attempted to produce data based on land holdings on a comparable basis to that of other States. However, doing so has required a considerable degree of manipulation of the data. We are concerned that the approach may not have been consistent across all States, and that data is not comparable.

- Data for one jurisdiction has to be estimated. The Northern Territory does not levy land tax, so there are no SRO data.

The effects of these problems on the data can be seen in the outcomes it produces and the variability of the extent of actual revenue that the data appears to capture.

The following chart provides a representation of the CGC's Table 3, with more aggregated value ranges.



Certain features of the chart are surprising given expectations concerning relative land prices.

- Queensland and Western Australia are shown to have lower proportions of land holdings in the lower value ranges than New South Wales. Given relatively higher land prices in New South Wales, New South Wales could be expected to have a proportion of land holdings in the lower value ranges at least around the same level as Queensland and Western Australia.
- Queensland has the highest proportion of properties in the highest value range. Again given relatively high land values in New South Wales, it could be expected to have a proportion of properties in the highest value range at least on a par with Queensland.

The distribution of land values by value range in the CGC's Table 3 combined with total SRO land values from the CGC's Table 1 and the average tax rates by value range from the CGC's Table 2, allows a calculation of the notional revenue collected in each State by

value range in 2007-08. Summing notional tax collected by value range in each State provides an estimate of total notional land tax revenue in each State.

The results of that calculation are presented in the following table and the notional tax collections based on the SRO data are compared with actual land tax revenue collections for each State in 2007-08 provided in the 2009 Update.

The ratio of notional tax collected to actual tax collected varies from a low of 65 per cent in South Australia to a high of 102 per cent in Queensland. This variability suggests that the holdings data may not be consistent across jurisdictions, even allowing for some variability in rates of joint ownership across the States.

Notional revenue collected at average State tax rates by value range, 2007-08								
	NSW	VIC	QLD	WA	SA	TAS	ACT	TOTAL
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
\$0.0 to \$0.1 m	0.0	0.0	0.0	0.0	0.0	7.2	3.9	11.1
\$0.1 m to \$0.2 m	0.0	0.0	0.0	0.0	7.8	10.0	9.1	26.8
\$0.2 m to \$0.3 m	0.0	18.8	0.0	0.0	12.6	5.2	8.6	45.3
\$0.3 m to \$0.4 m	22.0	14.6	14.2	0.0	8.1	3.9	6.8	69.5
\$0.4 m to \$0.5 m	75.9	11.4	16.9	7.6	8.7	3.3	4.5	128.3
\$0.5 m to \$0.6 m	84.0	18.2	18.1	6.1	8.4	3.0	3.7	141.4
\$0.6 m to \$0.7 m	83.7	14.7	18.3	5.2	7.6	2.5	2.6	134.6
\$0.7 m to \$0.8 m	75.9	12.0	17.1	4.2	7.9	2.0	2.1	121.2
\$0.8 m to \$0.9 m	61.2	15.1	17.1	3.6	7.7	1.7	1.3	107.8
\$0.9 m to \$1.0 m	56.5	13.4	17.6	6.2	7.4	1.5	1.4	104.0
\$1.0 m to \$1.5 m	199.8	55.1	71.0	30.1	29.7	5.0	4.5	395.1
\$1.5 m to \$2.0 m	137.1	36.9	48.9	22.0	19.6	3.2	3.7	271.3
\$2.0 m to \$2.5 m	85.9	32.6	38.5	19.8	14.0	3.1	3.0	196.9
\$2.5 m to \$3.0 m	68.5	26.4	27.5	16.2	11.1	1.9	1.8	153.4
\$3.0 m Plus	855.6	517.8	317.4	307.2	93.8	12.6	16.6	2,120.9
TOTAL	1,806.1	787.1	622.5	428.1	244.3	66.2	73.5	4,027.7
Actual revenues 2007-08	1,938.6	968.1	609.5	490.6	375.3	70.7	73.0	4,525.8
Notional revenue/actual revenue %	93.2	81.3	102.1	87.3	65.1	93.6	100.6	89.0

Finally, the main conceptual weakness of the SRO holding data is that they are policy influenced. The property holdings encompassed in the SRO records are the direct result of State policy and will reflect State differences in land tax legislation.

We do not consider that either data set is consistent with the assessment guidelines which state that data should be fit for purpose and of suitable quality implying, amongst other things, that the data are comparable across States.

In Position Paper 2008/06 the Commission stated the VG data was not sufficiently reliable data on which to base a VDA assessment. The arguments in this paper suggest that the Commission should recognise that the alternative – the SRO data – also is not sufficiently reliable.

If the Commission considers that a VDA will “improve the equalisation outcomes” it should heavily discount, by at least 50 per cent, the VDA assessed with SRO data based on the data problems outlined above.