



Queensland Treasury Response to Commonwealth Grants Commission

Land Revenue

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SUMMARY OF QUEENSLAND'S POSITION

Queensland does not support the use of State Revenue Office (SRO) data in the land tax assessment as it is not comparable or fit for purpose. Conceptually, SRO data more closely reflects the actual land tax base, as it uses holdings rather than individual property values. However, State based policy differences in regard to aggregation of holdings, tax rates and thresholds, and the need to manipulate data in an attempt to align it with another state's policies, will prevent the creation of a robust assessment based on SRO data.

Ideally, a land tax assessment should be based on the holdings data on which land tax is raised, and theoretically a VDA could be appropriately applied. However, Queensland considers that the SRO data required to produce such an assessment is incomparable and policy influenced to the extent that any conceptual merit is significantly undermined. With no average policy for land holdings aggregation the Commission have arbitrarily designated the policy of one state as average policy. Materially different outcomes are likely if another state's policy were to be chosen as the 'average'.

The Commission also intend to calculate a VDA using revenue data that do not relate to the land values they are applied to. This leads to methodology decisions being driven by data issues and not by methodological quality. Queensland considers there is little point in basing an assessment on conceptual ideals that are not supported by the data.

Although it has some limitations, data provided by state Valuers General (VG) is comparatively robust and can be adjusted for policy influences. Unlike SRO data, VG data can be used simply and relatively reliably without the need to set an arbitrary average. VG data are relatively more reliable and comparable for the purpose of attempting to 'directly' measure states' revenue bases.

On balance therefore, Queensland believes that the most appropriate methodology is one based on VG data. If VG data are not used, Queensland believes the next best alternative would be an EPC assessment. Any attempt to use SRO data provided by states would make the 2010 Review method for land tax less reliable, less robust and inappropriate compared with the 2004 Review method and, if used, would need to be heavily discounted.

METHODOLOGICAL AND DATA ISSUES

SRO Data Issues

SRO data has a range of known problems, which significantly impact on interstate comparability. These range from inextricable policy influences, such as the interaction between taxation rates and thresholds, to non-existent data in the case of the Northern Territory. A further significant difficulty is faced when attempts are made to adjust SRO data to approximate the policies in place in another jurisdiction.

Each state uses a different method to aggregate holdings, and there is no average policy. The Commission has arbitrarily selected Western Australia's aggregation policies as the average and sought to collect data from all states on that basis, but there is no particular reason to consider Western Australia's treatment of joint ownerships to be 'average'. The Commission's consultant did not suggest Western Australia represented an 'average' policy. If another state's policy had been declared the 'average' substantially different holdings data are likely to have been produced. Queensland does not believe it is suitable to use data based on holdings when the average policy cannot be reliably determined. States' assessed revenue bases for land tax will not be representative of the average policy if SRO data are used.

The value of non-principle residence (NPR) exemptions cannot be measured below state thresholds. This is because eligibility for exemptions is only known when it is applied for by the resident, and holders below the tax-free threshold have no need to apply for exemptions. Queensland has attempted to estimate the value of some of these NPRs by excluding values where the owner holds one property only, and the residential postcode matches the parcel postcode.

However, Queensland is unable to make an estimate of the principle place of residence (PPR) component in the following circumstances:

- Residents that hold more than one parcel, aggregate value less than \$600,000; and
- Residents that hold one parcel valued below \$600,000 that do not meet postcode criteria.

The total value of these holdings is estimated to be in the order of \$100 billion – that is, from Queensland's total SRO value of land of around \$120 billion, there is another \$100 billion that may or may not be exempted from land tax. Queensland has no reliable basis for estimating the exempted proportion of this land. Such a high degree of uncertainty makes Queensland's data unsuitable for the Commission's purposes.

SRO data are subject to other policy influences that may not have been removed from the data provided to the Commission. For example, different states' policies for the grouping of companies and the treatment of trusts were identified by the Commission's consultant as being material, and would affect the allocation of holdings into value ranges. However, as they were not specifically addressed in the Commission's data request, different states may have treated these groups using different methods. Similarly, the Commission's request to treat joint owners using the same method as WA was unclear, and Queensland required a number of clarifications. Queensland believes it is likely that States have applied different interpretations to the Commission's request. The impact of other policy influences in the SRO data is unknown, but is expected to be material. Queensland does not support the Commission using data that is heavily policy influenced.

As noted by the Commission, SRO data are not available for the Northern Territory. The estimation of NT data would add a further level of uncertainty to an assessment based on SRO data.

Valuer General (VG) data

Queensland supports the use of VG data to measure the revenue base for land tax, as it is more comparable than state-provided SRO data, less policy influenced, and is a better measure of states' capacities to raise revenue from land tax. Although VG data are somewhat affected by State policy differences, such as some states assigning values based on unimproved values and others using site values, these differences are known and States are able to make simple adjustments to their data so that it is comparable. As SRO data are based on VG data, but with aggregation and exemption policies applied, SRO data effectively adds another layer of policy influences and uncertainty to VG data.

VG data are more robust as it does not require the arbitrary setting of one state's aggregation policies as the average. It can also be used relatively reliably across all value ranges, as it is not affected by difficulties in estimating exemptions below tax-free thresholds. For these reasons, VG data, as used in the 2004 Review methodology, more closely represents states' abilities to raise land tax than the Commission's adjusted SRO data, despite SRO data being the basis on which states raise land tax.

Although VG data requires the value of NPR to be estimated, this is not a disadvantage when compared to SRO data, which cannot reliably identify NPR land (as described above). The estimation of NPR using the proportion of private renters is also more policy neutral than attempts to identify the actual NPR values using SRO data, which are highly policy influenced.

Queensland believes a more reliable, robust and policy neutral outcome would be achieved if the Commission continued to use VG data to measure the revenue base, and estimated non-principle resident proportions using the proportion of private renters.

Value Distribution Adjustment (VDA)

Queensland believes that, ideally, the land tax assessment would use a VDA. All states that levy land revenue use progressive tax rates, and a conceptual case exists for the application of a VDA, and that such an adjustment is likely to be material. However, Queensland does not believe that either available data source supports the calculation of a VDA.

VDA based on SRO data

- States have provided revenue data by value range, sourced from SROs, but based on each individual state's aggregation policies. This means that the state-provided data on revenue collected by land value range does not match the land value data by value range for either data source. If effective tax rates are calculated by value range, this will not produce a sensible outcome, because the revenue collected in each range will not correspond to the land included in that range. This issue is apparent in the average tax rate calculation provided by the Commission, where states' tax rates by value range are not even broadly comparable with states' progressive land tax rates. A VDA calculated from mismatched data will not be accurate.

- As described above, SRO holdings data cannot reliably measure PPR exemptions. As the impact by value range will be different, the problem will be compounded if a VDA is applied. Also, as the aggregation policy chosen by the Commission is arbitrary, the value of holdings in different ranges is not representative of average policy.

VDA based on VG data

- Valuer General data are based on individual parcels of land, rather than the aggregated holdings of owners on which land tax is raised. If a VDA is calculated on individual parcels, it will not accurately reflect states' capacities to raise different levels of revenue from different holdings values.
- Further, adjustments applied to both VG and SRO data to improve comparability affect the accuracy of a VDA. For example, since Queensland's land values are designed to reflect 1 October of each year, Queensland adjusts its data in each range by 75% of the growth between years to estimate the value as of 1 July. This is reasonable when applied to the total land value, but is not accurate within value ranges. In reality, changes in property values would result in properties moving between value ranges, rather than simply increasing within value ranges.

CONCLUSIONS

Queensland has strong objections to the Commission using SRO data in its land tax assessment, as it is highly policy influenced and incomparable across states. Given the significant problems with SRO data, Queensland believes an EPC assessment would produce a more appropriate outcome than any assessment based on SRO data. If the Commission decides SRO data should be used, a substantial discount should be applied as the SRO data are not comparable or fit for purpose. However, it must be stressed that a discount applied to the use of SRO data will not satisfactorily overcome the significant problem of comparability, especially when a more robust data source is available.

Although VG data has some limitations, it could be used as the basis for the land tax assessment, as it is more reliable, robust and policy neutral than the SRO data. A VDA should not be applied as it would not produce a reliable outcome, regardless of the data source chosen. If a VDA is included in the final methodology, it should be heavily discounted due to data suitability/comparability issues.