



**NORTHERN TERRITORY VIEWS ON  
DATA OPTIONS FOR THE LAND TAX ASSESSMENT**

**2010 REVIEW**

**January 2010**

### **Key Points**

- The Territory notes that there are advantages and disadvantages to using either State Valuers' General (VG) or State Revenue Office (SRO) data but accepts the Commission's preference for SRO data as it more closely aligns with the actual land tax base.
- The Territory acknowledges that use of SRO data necessitates an estimate of the Territory's notional land tax base and accepts the use of VG data to estimate an appropriate land tax base for the Territory.
- In the event the Commission adopt VG data as the basis for the land tax assessment, the Territory considers further analysis is required before adjusting the proportion of rented properties by value range.
- The Territory continues to strongly support a value distribution adjustment (VDA) and suggests the Commission use VG data to proxy the Territory's land value distribution.
- The Territory does not support discounting on the basis that there is no evidence to support that error arising from the proposed assessment is biased towards an equal per capita distribution rather than a more differentiated outcome.

This submission details the Territory's views on land tax assessment issues raised in an email from Commonwealth Grants Commission (the Commission) staff received on 22 December 2009. The Commission is considering whether to use data from SROs or VGs as the revenue base for its land tax assessment.

### **Land Tax Base**

The Commission has indicated that, on conceptual grounds, it is inclined to use the SRO data as the land tax base. The Territory notes that there are advantages and disadvantages to using either VG or SRO data but accepts the Commission's preference for SRO data as it more closely aligns with the actual land tax base.

As the Territory does not levy land tax, the use of SRO data would necessitate an estimate of the Territory's notional land tax base. The staff email canvassed the option of setting the Territory's land values as a proportion of the total land values for other states using 2009 Update data (which is based on VG data) to derive the proportion. The Territory accepts this approach.

### **Private Renter Adjustment**

In the event that the Commission decide to base the assessment on VG data, the Territory considers a jurisdiction specific adjustment for the proportion of private renters remains appropriate. However, the Territory is not convinced that the additional adjustment for high value properties outlined in the staff email is justifiable.

The analysis referred to in the staff email matches Census rental data and VG land value data by percentile to determine whether people are less likely to rent high value properties. The analysis assumes that rental and value data has the same distribution. The Territory is concerned that the analysis does not account for the considerable differences in rental yields between states which results in similar value dwellings attracting significantly different rental returns.

Differing rental yields between jurisdictions are likely to skew the analysis as the correlation relies on similar rents corresponding to similar land values. Real Estate Institute of Australia (REIA) data shows that this is not case with annual yields on a three bedroom house from June 2008 to June 2009, ranging from 2.6 per cent in New South Wales to 3.9 per cent in the Territory<sup>1</sup>. Extrapolating from the REIA data, a \$500 000 dwelling in New South Wales would rent for around \$250 per week while in the Territory it would rent for around \$375 per week.

The above issue is also compounded by differences in value distribution between jurisdictions. For example, it is unclear whether any difference in the proportion of renters between value ranges is consistent between

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<sup>1</sup> Real Estate Institute of Australia, A Quarterly Review of Major Property Markets in Australia, September Quarter 2009.

jurisdictions, whether any difference is merely the experience of a small number of jurisdictions which dominate specific value ranges, or whether any difference is relative to each jurisdiction's value distribution rather than aligned with specific thresholds (e.g. people may be less likely to rent the top 1 per cent of properties by value regardless of whether that value is \$1 million or \$10 million). If any of the above issues impact, a national average adjustment will introduce a bias into the assessment.

The Territory also understands from discussions with Commission staff that the analysis was limited to houses. However, the proposed adjustment appears to be applied to both houses and units. The Territory considers further analysis is necessary before any adjustment to units is considered.

It is unclear how a jurisdiction specific private renter adjustment would be combined with the proposed value range private renter adjustment without introducing double counting. It would also appear to add significant complexity to the assessment.

### **Value Distribution Adjustment**

The Territory strongly supports the use of a VDA in the methodologies outlined in the staff email.

The Territory acknowledges that its VDA would need to be estimated if the SRO approach is adopted and considers there is a strong conceptual case supported by stamp duty on conveyances and VG data that the Territory's VDA should be less than one. The Territory suggests the Commission use VG data to estimate the Territory's VDA similar to the approach outlined in the staff email for estimating the Territory's notional land tax base.

### **Discounting**

Commission staff have indicated an "appropriate" discount will be applied to the per capita differences in the calculated revenue base between the states on data reliability grounds. The Territory does not support discounting on the basis that there is no evidence to support that error arising from the proposed assessment is biased towards an equal per capita distribution rather than a more differentiated outcome.