

Land tax

Review outcomes

- The following changes were made to the assessment.
 - The Northern Territory’s estimate of land values will be distributed across value ranges using the average distribution of South Australia, Tasmania and the ACT instead of the average distribution of all states. This more closely reflects the distribution of Northern Territory land values than the national average.
 - The adjustment to the ACT’s land values to recognise it does not aggregate land holdings in applying land tax will be discontinued on materiality grounds.
- The Commission considered but did not change the following.
 - A 12.5% discount will be retained because there remains a degree of uncertainty as to the accuracy of the adjustments made by states to improve the comparability of their land values data. The discount will not be increased as the evidence does not suggest a deterioration in the quality of state land values data.
 - The number of value ranges will be retained because a further split is not expected to make a material difference to the assessment and would require the collection of additional data from the states.
 - Foreign owner land tax surcharges will continue to be assessed in the land tax assessment.
 - Victoria’s COVID-19 debt recovery surcharge will be assessed in the land tax assessment.
- As part of the Commission’s forward work program, it will consider how the complexities and uncertainties associated with implementing elasticity adjustments in revenue assessments, including land tax, might potentially be addressed in preparation for the next review.

Introduction

- 1 On 6 July 2024, the Commission published the [Draft Report](#) for the 2025 Methodology Review.
- 2 The Draft Report included a detailed analysis and response to issues raised by states and territories (states) in their [submissions](#) on the Commission’s [consultation paper](#).
- 3 State submissions on the Draft Report can be viewed [here](#).
- 4 This chapter includes:
 - an overview of the issues considered throughout the review
 - the Commission’s response and decision on each issue
 - GST impacts of method changes.

- 5 A description of the assessment method, incorporating changes made in the 2025 Review, can be found in the land tax chapter of the *Commission's Assessment Methodology*.

Issues considered

Data quality and appropriateness of the low (12.5%) discount

- 6 In response to state comments, the Commission considered the case for a discount to the land tax assessment and its appropriate level. The 2020 Review applied a low (12.5%) discount to recognise concerns with the comparability of the state revenue office land value data. This was a reduction from the 25% applied in the 2015 Review, to recognise improvements in data quality, particularly Queensland's ability to update its land value data across value ranges annually.

State views

- 7 Some states were supportive of the Commission's proposal to retain the 12.5% discount and some states said it should be removed. Two states said it should be increased to 25%.
- 8 New South Wales said, while the data had not deteriorated since the 2020 Review, the decision to reduce the discount in the 2020 Review was not justified based on the quality of the data. It said the Commission should reverse the 2020 Review decision and apply a medium (25%) discount in the 2025 Review.
- 9 In support of its case, New South Wales compared relative growth in Australian Bureau of Statistics (ABS) land values data with the change in the Commission's value distribution adjustment.¹ It said the value distribution adjustment should not remain stable, but instead reflect the changes in states' relative land price growth. It said its analysis inferred state revenue office data understate land price growth in Victoria and Queensland and overstate land price growth in New South Wales and South Australia. New South Wales said it is incumbent on the Commission to verify the integrity of the data in circumstances where the movement in tax revenues does not align with the movement in land values.
- 10 New South Wales said the percentage variations between states' shares of ABS land values and state provided land values are significant and would have a very large impact on the distribution of GST. It said, on a year-by-year basis, the variations between 2018–19 and 2022–23 suggested significant data anomalies that warrant further investigation.

¹ The Commission's value distribution adjustment recognises the difference in assessed revenue capacity when considering the overall national average tax rate and the national tax rate in each value range. Because states impose higher rates of tax to higher-valued properties, a bigger value distribution adjustment recognises a greater share of values in the higher ranges.

- 11 In its tranche 1 submission, Victoria supported the continuation of the discount at 12.5%. In its submission on the Draft Report, it said the discount should be increased to 25%, on the basis that the relationship between assessed revenue and actual revenue for the 7 states that impose land tax had become more volatile since the 2020 Review.
- 12 Queensland said New South Wales made significant unsubstantiated claims in its tranche 1 submission. Queensland said the comparability of the data is likely to have increased since the 2020 Review as state revenue offices have become more practised in making the adjustments aimed at improving comparability.
- 13 Queensland said state taxable land values and ABS land values were expected to grow at significantly different rates because they were not comparable. It said revenue growth was affected by the frequency of land parcel revaluation and the impact of 3-year averaging in Queensland. Therefore, land tax revenue growth in an individual year was not fully comparable to total taxable land value growth. Queensland also said the New South Wales analysis exacerbated the comparability issues because it used COVID-19 affected years.

Commission response

- 14 The Commission has undertaken a range of analysis to test the quality of the state revenue office data. The principal alternative source of data on land values is ABS national accounts, albeit with some differences between the 2 collections. The Commission compared growth in state-provided land values to growth in ABS land values (adjusted to remove principal places of residence) since 2005–06. While there was volatility in some years, the 2 data sources showed broadly comparable growth in state land values over the period.
- 15 New South Wales said averaging states' shares of taxable land values across years can obscure some detail. However, the Commission observes that states' shares in the ABS data and the state revenue office data have been broadly consistent across individual years since 2010–11. Differences between the 2 data sources mean they will not be perfectly correlated over time. These include differences in scope (the ABS data include the value of government owned land and exclude vacant land) and method of compilation.² The method for removing principal places of residence from the ABS data, using a census-based estimate, is also less accurate than the state revenue office data.
- 16 New South Wales analysed the concordance between changes in the Commission's value distribution adjustment and adjusted ABS land values. It said states with above average growth in ABS land values would be expected to have a relatively faster increase in their value distribution adjustment. The Commission has replicated the

² State revenue office data are based on valuations by state valuers-general. The ABS models residential land values using the total value of dwellings then removing the improved value of dwellings. Total value of dwellings is calculated using the average sale price of dwellings in the reference period multiplied by the number of dwellings counted in the Census. The improved value of dwellings is modelled using the Perpetual Inventory Model.

New South Wales analysis for rolling 5-year intervals since 2010–11. The relationship between the relative change in ABS data and in the value distribution has strengthened over that period.

- 17 New South Wales said the Commission should verify data integrity where the movement in tax revenues does not align with the movement in land values. The Commission seeks data quality information with its state data requests and routinely follows up with states on any data anomalies. The Commission has the following observations on New South Wales' comparison of growth in revenue and land values:
- Queensland's comment that differences in states' valuation practices mean the revenue raised will not always align with the land values data provided to the Commission (adjusted to better reflect average policy) is relevant.
 - Growth in revenue will reflect changes in states tax rates. It can also reflect administrative issues with revenue collection. For example, New South Wales said its data for 2020–21 incorrectly included revenue that was not accrued in that year and was subsequently reversed.
 - New South Wales' analysis used years that were impacted by the COVID-19 pandemic and associated state responses to the pandemic. Some states offered tax rebates or deferrals in 2021–22. Payment of deferred liabilities (or the cessation of rebates) may have inflated the subsequent revenue growth in 2022–23.
- 18 The Commission considers state revenue office data on the value of taxable land holdings remain the best data for determining states' capacities to raise land tax. Those data capture the average policy to impose land tax on the combined value of a landowner's taxable land holdings (aggregation) and the common exemption for principal place of residence.
- 19 The Commission recognises those data can be affected by state tax policies that differ from the average. It asks states to make several adjustments to make the data more comparable, including a common date of valuation, consistent treatment of land holdings of joint owners (and of related companies) and exclusion of commonly exempt types of land. It also assesses equal per capita the revenue raised from taxable land holdings below \$300,000, since states' land holdings data can be less reliable below their own tax-free thresholds.
- 20 The Commission has not identified evidence to indicate data quality has significantly deteriorated since the 2020 Review that would warrant an increase in the discount. However, it considers that a 12.5% discount is justified given the degree of uncertainty as to the accuracy of the adjustments made by states to improve the comparability of the land values data.

Commission decision

- 21 The Commission will retain the discount of 12.5%.

Value ranges

- 22 In response to state comments, the Commission considered the number, and size, of value ranges in the assessment. In the 2020 Review, the Commission split the highest value range (\$3 million plus) into 3 separate ranges. The Commission disaggregated the value of taxable land holdings into these 17 value ranges to account for the progressivity of state land tax rates.

State views

- 23 Most states either supported or did not oppose retaining the size and number of value ranges. South Australia said the Commission should increase the number of value ranges in the higher ranges to account for recent growth in land values. Queensland said the Commission should review these ranges as part of its forward work program to ensure they are appropriately capturing differences between states on an ongoing basis.

Commission response

- 24 While average land values have increased in recent years, the split made in the 2020 Review did not make a material difference to the assessment in the 2024 Update. Any further split is not expected to make a material difference to GST distribution but would require the Commission to collect new data to test whether this is the case. Additionally, the choice and number of value ranges was made to ensure the assessment continues to capture the progressivity of land tax in updates until the next review without the need to change those ranges if states change their tax scales. Frequent change of value ranges would make data extraction more difficult for state data providers, without making a material difference to the assessment.

Commission decision

- 25 The Commission will retain the disaggregation of 17 value ranges.

Elasticity adjustments

- 26 The Commission considered the case for elasticity adjustments in its revenue assessments, including the land tax assessment. Elasticity adjustments would recognise that a state's tax rate can affect the size of the relevant tax base. A state with an above-average tax rate may have a smaller observed revenue base than if it were to apply the average tax rate, and vice versa. In theory, if the elasticity effects on an observed revenue base could be reliably measured and were material, applying an elasticity adjustment would improve the policy neutrality of the assessment.
- 27 A more detailed discussion on elasticity adjustments can be found in the stamp duty on conveyances chapter of *Review Outcomes*.

State views

- 28 Most states supported not introducing an elasticity adjustment in the land tax assessment.
- 29 New South Wales said the Commission should incorporate an elasticity adjustment into the land tax assessment, as well as more broadly. It said the estimate produced by the Commission's consultants in the 2020 Review did not reflect that land tax is imposed progressively and only on a subset of properties. New South Wales provided analysis as evidence that an adjustment would be highly material. It said that, because the Commission does not have individual estimates for each range, an adjustment should only be applied to land values over \$5 million.
- 30 The ACT said that where there is a material impact, an elasticity adjustment should be made. It did not specify the land tax assessment as an assessment that would benefit from an elasticity adjustment.

Commission response

- 31 The Commission retested the materiality of applying the elasticity adjustment provided by the consultant to the 2020 Review to taxable land values. The adjustment was not material at the \$12 per capita data adjustment threshold. The Commission notes the issues raised by New South Wales regarding the subset of properties liable for land tax.
- 32 There are significant complexities and uncertainties involved in implementing an elasticity adjustment, and these need to be resolved before an elasticity adjustment could be reliably introduced in any revenue assessment. Further discussion of the issues involved in implementing elasticity adjustments can be found in the chapter on stamp duty on conveyances of *Review Outcomes*.

Commission decision

- 33 The Commission will not introduce an elasticity adjustment in the land tax assessment. The Commission's forward work program will consider how the complexities and uncertainties associated with implementing elasticity adjustments in revenue assessments, including land tax, might potentially be addressed in preparation for the next review.

Adjustment to the ACT's land value to recognise it does not aggregate land holdings

- 34 In response to state comments, the Commission considered the appropriateness and level of the adjustment to the ACT's land values to recognise it does not aggregate land holdings when applying land tax. Most states aggregate multiple land holdings of land holders when applying land tax, which moves the taxpayer's land holdings into a higher value range (subject to a higher rate of tax). In the 2020 Review, the

Commission decided to increase the ACT's total land values by 6% based on the ACT's estimate of the effect of aggregation on its revenue.

- 35 The ACT provided updated analysis that demonstrated its revenue would increase by 5.2% if it aggregated its land holdings in 2023–24. Based on that analysis, the adjustment was no longer material and the Commission proposed discontinuing it.

State views

- 36 New South Wales said that the effect of aggregation on its land tax revenue was 33%. While it recognised this did not reflect the exact experience of the ACT, it suggested the ACT's effect would be much larger than 6%. It did not oppose the adjustment being discontinued on materiality grounds.
- 37 Queensland, Western Australia and the ACT supported the Commission's proposal to discontinue the adjustment on materiality grounds. The ACT said removing the adjustment appropriately reflects the ACT's land tax regime which applies a fixed charge.
- 38 South Australia opposed the discontinuation of the adjustment. It said that aggregation accounted for around one third of South Australia's private land tax revenue in 2016–17, which was similar to the estimate provided by New South Wales. While it noted the ACT is likely to have a lower effect, it said aggregation was an important factor in most states' land tax regimes and the impact should be reflected in the assessment regardless of materiality.

Commission response

- 39 The Commission accepts the ACT's analysis that the effect of aggregation on its land tax revenue would be 5.2%. While it is lower than New South Wales' estimate, the figure reflects the particular circumstances of the ACT.
- 40 Land tax in the ACT includes both a variable component, similar to the other states, and a fixed charge. If properties were aggregated in the ACT, the revenue from the variable component would increase, as aggregated properties would be moved into higher tax brackets. If the fixed charge continued to be applied to each property, the total revenue from the fixed charge would not change. Relative to other states, the revenue from the fixed charge represents a large proportion of the ACT's land tax revenue. Therefore, aggregation is likely to have a smaller effect on land tax revenue in the ACT than in other states.
- 41 In addition, the ACT's land tax rates are above the national average for lower land values but below the national average for higher land values. This is likely to reduce the effect of aggregation in the ACT compared with other states.
- 42 Using the 2025 Review data adjustment materiality threshold, adjusting the ACT's land values by 5.2% would not have made a material difference in any year since the 2020 Review. The Commission does not expect an adjustment of this size to make a material change in the short to medium term.

Commission decision

- 43 The Commission will discontinue the adjustment to the ACT's taxable land holdings on materiality grounds.

Estimating the Northern Territory's tax base

- 44 The Northern Territory does not impose land tax and is unable to provide taxable land values. The Commission estimates the Northern Territory's values by applying its share of adjusted ABS land values to the taxable land values of the other states. The adjustment is updated annually.
- 45 For the 2024 Update, the Commission estimated the Northern Territory's share of taxable land values as 0.6% of the total land values provided by the other 7 states. It applied its estimate to states' taxable land values after adjusting for the progressivity of their tax rates. This approach implied the Northern Territory had the national average distribution of land values by value range.

State views

- 46 The Northern Territory said that 2020 Review methods overstated its assessed revenue. It said its distribution of land values across the value ranges more closely matched the distribution of the smaller states than the average distribution. It said the Commission should distribute its land values using the average distribution of South Australia, Tasmania and the ACT.
- 47 The Northern Territory provided the following supporting evidence.
- Darwin has the lowest median house price of any capital city and should not be expected to have a similar land value distribution to the major metropolitan centres.
 - The Northern Territory's assessed stamp duty base is, on average, the lowest per capita, of all states.
 - According to Valuer-General data, the Northern Territory has only 7% of its overall property values above \$10 million, compared to 14% nationally and 5% in the smaller states. It also has 42% of its land values in properties below \$300,000, compared to 15% nationally and 30% in the smaller states.
- 48 No state opposed the Northern Territory's proposed approach.

Commission response

- 49 The Commission agrees that the Northern Territory's distribution of land values is more likely to reflect the average distribution of the smaller states than the national average distribution.

Commission decision

- 50 The Commission will distribute the Northern Territory's estimated land values across the value ranges using the average distribution of South Australia, Tasmania and the ACT.

Land tax surcharges

- 51 In response to state comments, the Commission considered the appropriateness of including revenue from foreign owner land tax surcharges and Victoria's COVID-19 debt recovery surcharge in the land tax assessment.
- 52 All states that impose land tax have a foreign owner surcharge or equivalent.³ Some states increased the surcharge after the 2020 Review.⁴ In the 2020 Review, the Commission decided not to separately assess the revenue from foreign owner surcharges on materiality and practicality grounds. A separate assessment would have required state data on the value of foreign owned land by value range, increasing the complexity of the land tax assessment. Published data on the revenue raised from these surcharges suggested a separate assessment would not have been material. Instead, the Commission assessed the surcharges using its land tax revenue base.
- 53 Victoria introduced a COVID-19 debt recovery surcharge on land tax from 1 January 2024.

State views

- 54 South Australia said the increases to some states' foreign owner land tax surcharges and the introduction of Victoria's COVID-19 debt recovery surcharge did not require a change to the assessment method. It said Victoria's COVID-19 surcharge appeared to be an increase in the land tax rate and should be treated as additional land tax revenue.
- 55 Western Australia said the foreign owner surcharge revenue base is different from the land tax revenue base. It said the Commission should assess these revenues separately if material.

Commission response

- 56 Separately assessing the revenue from foreign owner surcharges is unlikely to produce a materially different assessment. The Commission considers assessing that revenue using the value of taxable land remains appropriate. It considers assessing Victoria's COVID-19 debt recovery surcharge using the value of taxable land is appropriate as it is levied on Victoria's land tax base.

Commission decision

- 57 The Commission will:
- continue to assess states' foreign owner land tax surcharges in the land tax assessment using the value of taxable land holdings
 - assess Victoria's COVID-19 debt recovery surcharge in the land tax assessment using the value of taxable land holdings.

³ Tasmania introduced a foreign investor land tax surcharge of 2% from 1 July 2022.

⁴ New South Wales increased its foreign owner surcharge from 2% to 4% from 1 January 2023.

GST impacts of method changes

58 The impact on the GST distribution from the method changes is shown in Table 1.

Table 1 Impact on GST distribution of method changes, land tax, 2024-25 to 2025-26

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
\$m	-22	-14	-4	-3	-1	0	4	39	43
\$pc	-3	-2	-1	-1	0	0	9	151	2

59 The largest impact on GST distribution was from the change to estimating the Northern Territory's tax base. Allocating its estimated tax base across the value ranges based on the average distribution of South Australia, Tasmania and the ACT increased its assessed GST needs.

60 The ACT's assessed GST needs were also slightly increased by the removal of the adjustment to its land values.