

Taxing debate on land in SA

Submission to the review of Land Tax (Miscellaneous) Amendments Bill 2019

Aggregating the land portfolios of property investors in South Australia, so that they pay tax on their investments as a whole, is a fair reform that will help to raise the revenue required to fund public services. Drastically reducing land tax rates in a way that primarily helps property investors with portfolios valued over \$1 million does the opposite.

Submission

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Summary

The subject of this submission is the Land Tax (Miscellaneous) Amendments Bill 2019, which follows the Government's previous reductions to land tax rates and an increase in the tax free threshold for property investors that were legislated in 2018.¹

The Bill seeks to close a taxation loophole that has allowed companies and private investors to disaggregate their portfolios using complex legal structures. The Bill also seeks to reduce the highest rate of land tax from 3.7% to just 2.4%. While The Australia Institute supports the aggregation measures, as they will make land tax liabilities fairer and more representative of a person or company's actual assets, we oppose the reduction in the top rate of land tax.

Our opposition to the cut is based on the fact that, when taken as a whole and including last year's legislated reductions, the Government's land tax reforms are expected to collect around \$70 million less revenue over the next three years when compared with the status quo.²

This debate has been taking place at a time when the South Australian Budget has had to reckon with significant write-downs in GST revenue.³ Despite this, the Government is attempting to further reduce land tax rates while simultaneously committing itself to delivering surpluses in this and future financial years.⁴

Australia Institute research released prior to the 2019 State Budget found that two out of three South Australian voters wanted the State Government to make up the \$517 million GST shortfall announced in the Federal Budget by increasing taxes on wealthier South Australians and property investors.⁵

The Australia Institute believes the Government should prioritise the adequate funding of the public services that many South Australians rely on, such as schools, hospitals and public transport over reductions to land tax rates. At most, any reductions in land tax rates

¹Lucas (2018) *State Budget delivers \$613.1m in tax cuts to lower costs, create jobs and drive investment*, https://d3n8a8pro7vhmx.cloudfront.net/liberalpartyofaustralia/mailings/1508/attachments/original/LUCAS_LOWER_COSTS.pdf?1536031911

²ABC News (2019) *SA Government to continue with land tax aggregation plan but will lower top tax rate*, <https://www.abc.net.au/news/2019-09-10/sa-government-to-cut-land-tax-but-keep-aggregation/11491372>

³Briggs (2019) *South Australia dealt half a billion GST sting in Federal Budget*, <https://www.abc.net.au/news/2019-04-03/south-australia-hit-with-half-billion-gst-sting-in-budget/10964512>

⁴Briggs (2019) *SA budget reveals debt will grow to make way for major infrastructure projects*, <https://www.abc.net.au/news/2019-06-18/sa-budget-handed-down-by-treasurer-rob-lucas/11220188>

⁵The Australia Institute (2019) *Polling – SA Budget funding*, <https://www.tai.org.au/content/budget-warning-state-gov-voters-reject-service-cuts-privatisation>

(including those introduced following last year's Budget) should only be implemented in such a way that would make the portfolio aggregation changes revenue neutral. However, as it stands, the reform package represents a reduction in state revenue at a time when funding of public services in South Australia is already under pressure.

Introduction

The Land Tax (Miscellaneous) Amendments Bill 2019 is just the latest in a series of changes to South Australian land taxation laws proposed by the South Australian Government.

In 2018, land tax laws were changed in South Australia to increase the tax free threshold from \$369,000 to \$450,000 while simultaneously reducing the tax rate from 3.7% to 2.9% for those with investments worth between \$1.2 million and \$5 million.

These changes were scheduled to take effect from July 1, 2020 and estimated to reduce land tax revenue to the Government by more than \$47 million each year.⁶

The Australia Institute opposed the 2018 reduction in land tax rates, pointing out that “choosing to forego revenue will have a lasting effect on whether our governments can afford to deliver the public services that many rely on.”⁷

The Land Tax (Miscellaneous) Amendments Bill 2019 would reduce the top rate of land tax even further, to just 2.4%, while also closing a longstanding land tax loophole that allowed investors to split their properties across multiple ownership structures and, by doing so, reduce their overall land tax liability.

Land tax is regarded as an efficient way for governments to raise revenue, especially when compared to other property taxes such as stamp duty. That is partly because land is an “immobile” tax base – which means investors cannot take their land and move it to a lower-tax jurisdiction. Land taxes are also less volatile than stamp duties, because they are only affected by changes in property values, while stamp duty revenues are affected by property values and transaction volumes.⁸

The Government’s plan to close the land tax disaggregation loophole will serve to make the collection of this tax more efficient and more equitable. That is a positive outcome for the South Australian community and should be supported.

⁶Lucas (2018) *State Budget delivers \$613.1m in tax cuts to lower costs, create jobs and drive investment*, https://d3n8a8pro7vhmx.cloudfront.net/liberalpartyofaustralia/mailings/1508/attachments/original/LUCAS_LOWER_COSTS.pdf?1536031911

⁷ Schultz-Byard (2019) *The true cost of South Australia's tax cuts*, <https://indaily.com.au/opinion/2019/03/06/the-true-cost-of-south-australias-tax-cuts/>

⁸ Henry (2010) *Australia's Future Tax System: Final Report - Chapter 6*, http://taxreview.treasury.gov.au/content/finalreport.aspx?doc=html/publications/papers/final_report_part_1/chapter_6.htm; Janda (2013) *Time to stamp out inefficient duties*, <https://www.abc.net.au/news/2013-02-01/janda-stamping-out-inefficient-duties/4496356>

The further reductions to the top rate of land tax represent a significant and unnecessary hit to state revenues that would be better spent maintaining public services.

Public opinion on land tax

The Australia Institute regularly conducts research measuring public opinion in relation to important issues.

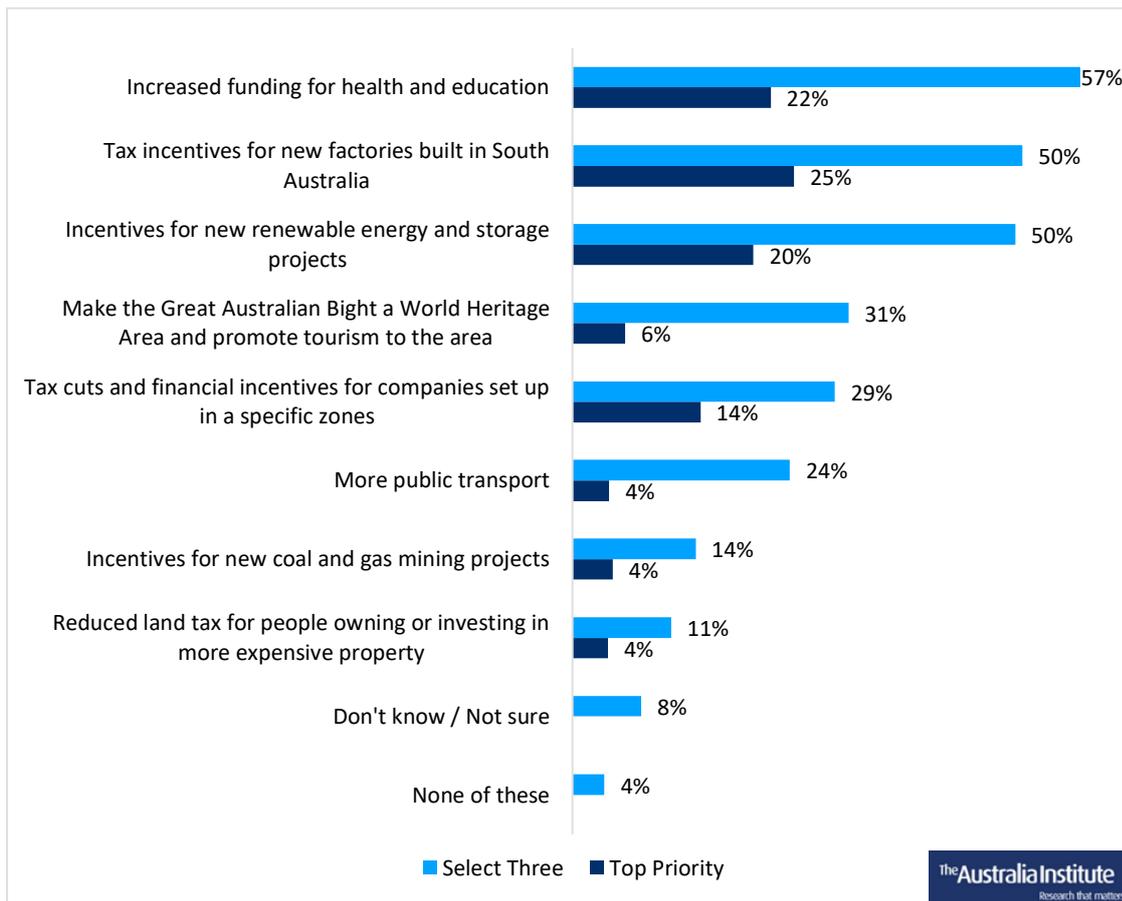
Polling undertaken in April 2019, ahead of the State Budget, found that two out of three South Australian voters want the State Government to make up the \$517 million GST shortfall announced in the Federal Budget by increasing taxes on wealthier South Australians and property investors. The second most popular way to make up the GST shortfall was for the tax cuts announced in last year's State Budget to be reversed.⁹

Separate polling undertaken in March 2019 found that South Australians overwhelmingly think increasing funding for public services is a far more effective policy for encouraging jobs and economic growth than the SA Government's land tax cut for property investors.¹⁰

⁹ The Australia Institute (2019) *Polling – SA Budget funding*, <https://www.tai.org.au/content/budget-warning-state-gov-voters-reject-service-cuts-privatisation>

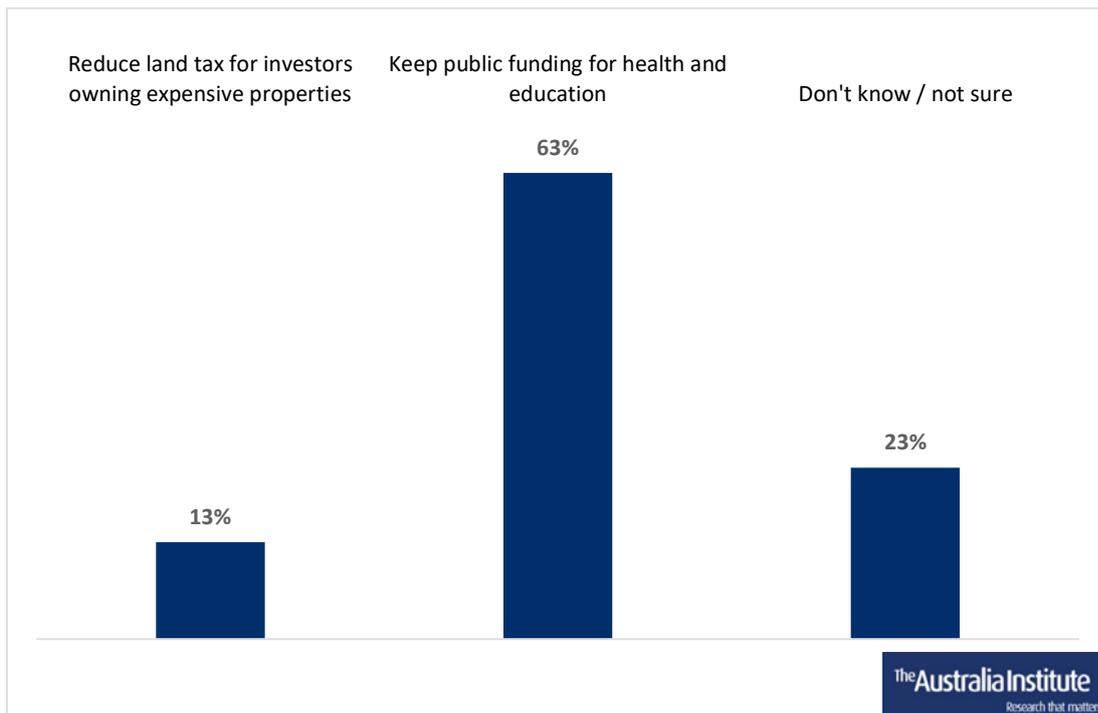
¹⁰ The Australia Institute (2019) *Polling – South Australia policies for jobs and investment*, <https://www.tai.org.au/content/poll-sa-voters-don-t-buy-tax-cuts-property-investors>

Figure 1: Thinking of the following proposals, which do you think would be the most effective ways to create jobs and drive investment in South Australia?



When asked to choose between keeping funding for health and education or reducing land tax for property investors, nearly two thirds of voters (63%) thought that keeping funding for public services is a more effective way to create jobs and encourage investment in South Australia than a tax cut for property investors (13%).

Figure 2: Dollar for dollar, which do you think would be a more effective way to create jobs and drive investment in South Australia?



This research has shown that across the community, the level of support for broad cuts to land taxes is very low while support for greater funding for public services is high. The community's position should be taken into account when forming public policy on these issues.

Stamp duty to land tax swap

In 2012, the ACT Government introduced a 20-year plan to phase out stamp duty and insurance taxes and to offset the revenue lost with increases to land taxes, known in the ACT as “general rates”.

There are no council rates in the ACT as there is no local government. Instead, the territory government sets general rates for properties in the ACT; there are no exceptions for the principal place of residence.¹¹

Recently, The Australia Institute undertook an examination of the progress and public response to the implementation of that policy as a part of a broader research project relating to policies in the ACT.¹²

That research found trading stamp duty for land tax replaces an inefficient and inequitable tax with one that is expected to encourage property to be allocated more efficiently.

National polling undertaken by The Australia Institute in November 2018 showed that there was majority support for replacing stamp duty with a land tax among voters for each political party.¹³

Nearly 3 out of 5 Australians (57%) supported the reform and just 23% were opposed.

The Australia Institute recognises that, while publicly popular, stamp duty to land tax swaps are considered politically difficult to implement. South Australia’s property taxation structure also differs from the ACT in a range of ways. Despite those factors, we encourage the South Australian Government to initiate a discussion about potential property taxation reforms that reduce the state’s reliance on stamp duty in exchange for increases in taxation elsewhere.

¹¹ In the ACT, the term “land tax” is used exclusively for an additional tax on residential properties that are not owner occupied, on top of general rates.

¹² Browne (2019) *Canberra: Laboratory of democracy*, <https://www.tai.org.au/content/canberra-shows-australia-progressive-policies-nationally-popular-and-proven-work>

¹³ Browne (2019) *Canberra: Laboratory of democracy*, <https://www.tai.org.au/content/canberra-shows-australia-progressive-policies-nationally-popular-and-proven-work>

Conclusion

The Government's proposed changes to land tax aggregation are a common sense reform that should be supported on the grounds of fairness, transparency and equal accountability.

The repeated, substantial cuts to the rates of land tax payable in this state, on the other hand, represent a significant and untenable hit to revenue for the state.

There is strong public support for policies that would see wealthy South Australians and property investors paying more, not less, and strong opposition to public service cuts and privatisation.

Additionally, South Australians overwhelmingly think increasing funding for public services is a far more effective way to create jobs and drive economic growth than cutting the rate of tax being paid by property investors.

Considering the importance of maintaining revenue to adequately fund public services, The Australia Institute supports the Government's proposed changes to aggregation practices. The Australia Institute does not support the reductions in the rate of land tax being levied on South Australian property investors on the same grounds.