



COMMONWEALTH GRANTS COMMISSION

DRAFT ASSESSMENT PAPER CGC 2003/2

LAND REVENUE

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INTRODUCTION

1. This paper presents a draft assessment for the Land Revenue category for the 2004 Review. It builds on the staff proposals set out in Discussion Paper *CGC 2002/13, The Land Revenue Assessment* and responds to State comments provided in submissions and at the 2002 conferences.

1999 REVIEW ASSESSMENT METHOD

Definition of the category

2. The Land Revenue category comprised State taxes on the ownership of land where the taxes are based on the assessed value of the land. It included property levies used to finance the planning and development of land within the metropolitan region.

3. Table 1 shows the standard revenue for the five years of the 2003 Update period. In 2001–02, Land Revenue totalled \$2 283.9 million (or \$116.53 per capita). This represented 4.68 per cent of State own-source revenue.

Table 1 STANDARD REVENUE FOR LAND REVENUE

	1997–98	1998–99	1999–2000	2000–01	2001–02
Standard revenues (\$pc)	110.48	108.27	105.77	113.94	116.53
Share of State own-source revenue (%)	5.33	4.58	4.37	4.68	4.68

The revenue base

4. The revenue base was the estimated site value of rateable commercial and industrial land as at 1 July of each year. Because land tax was progressive, there was an adjustment for differences between States in the value distribution of the site value of properties.

5. **Land values.** Land values of commercial and industrial sites were supplied by State Valuers General. There were differences between States in their approach to valuing land. To achieve comparability of land valuation across States, the Commission engaged the General Manager of the Australian Valuation Office to review and adjust the valuation data supplied by States. States supported this approach.

6. **Value distribution adjustment.** Because States levied land tax at progressive rates, differences between States in the value distribution of commercial and industrial land

affected their capacity to raise revenue. States that had relatively more highly valued commercial and industrial land had a revenue raising advantage. The Commission calculated and applied a value distribution adjustment factor to the consultant's estimate of the site value of each State's commercial and industrial land.

7. Table 2 shows the calculation of the revenue base for the FAG assessment for the 2003 Update.

Table 2 REVENUE BASE FOR 2003 UPDATE

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
A. Commercial and industrial land values									
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
1997-98	40 086	22 227	13 216	8 483	5 002	1 293	1 219	985	92 511
1998-99	39 101	25 164	14 355	10 674	5 098	1 061	1 174	1 065	97 692
1999-2000	45 979	27 948	14 681	10 870	5 051	1 246	1 246	1 187	108 208
2000-01	46 847	29 215	15 354	11 346	5 287	1 081	1 271	1 351	111 753
2001-02	49 949	32 502	17 831	11 823	5 637	1 040	1 358	1 380	121 520
B. Value distribution adjustment ^(a)									
1997-98	1.1549	0.8894	0.9516	0.9343	0.6549	0.4639	1.0958	0.7441	1.0000
1998-99	1.1792	0.8690	0.9446	0.9797	0.6481	0.4229	1.0197	0.7211	1.0000
1999-2000	1.1662	0.9023	0.9177	0.9433	0.6011	0.4118	0.9297	0.7556	1.0000
2000-01	1.1829	0.8792	0.9156	0.9466	0.6120	0.4171	0.9882	0.7128	1.0000
2001-02	1.1539	0.8997	0.9606	0.9550	0.6168	0.3988	0.9844	0.7193	1.0000
C. Revenue base = A * B									
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
1997-98	46 295	19 768	12 577	7 926	3 276	600	1 336	733	92 511
1998-99	46 108	21 867	13 561	11 331	3 304	449	1 197	768	98 584
1999-2000	54 396	25 403	13 472	11 133	3 036	513	1 147	897	109 997
2000-01	55 414	25 686	14 058	11 638	3 236	451	1 256	963	112 701
2001-02	57 636	29 243	17 128	11 291	3 477	415	1 337	993	121 520

Source: 2003 Update Working Papers, Volume 2, page 60.

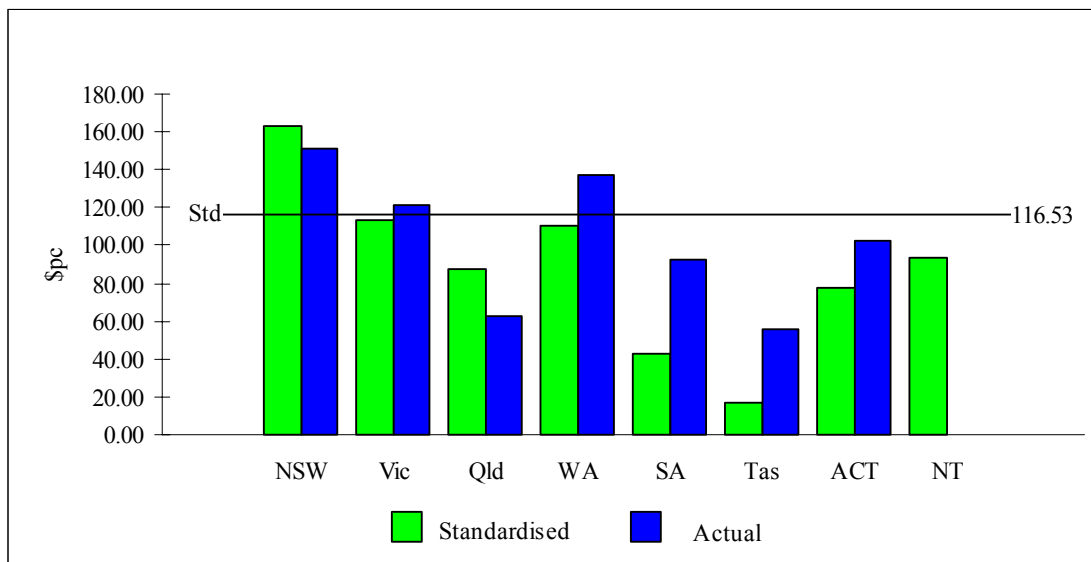
Importance of the category

8. Table 3 shows the grant share effects of the Land Revenue assessment in the 2003 Update. Compared with an equal per capita distribution, the category redistributed \$371.6 million in grants from New South Wales to the other States. Figure 1 shows the results of the assessment for 2001-02.

Table 3 GRANT DISTRIBUTION OF LAND REVENUE COMPARED WITH AN EPC DISTRIBUTION, GST RELATIVITIES

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redistributed
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Change in grant	-371.6	50.0	133.3	6.1	116.9	48.9	11.2	5.1	371.6

Figure 1 LAND REVENUE: STANDARDISED, ACTUAL AND STANDARD REVENUES PER CAPITA, 2001–02



MAIN ISSUES FOR THE REVIEW

9. The main issues for the 2004 Review were:
 - (i) the inclusion of non-principal residential properties in the revenue base;
 - (ii) tax capitalisation of land values;
 - (iii) the impact of differences in price levels;
 - (iv) whether Victoria's actual valuation data should be used;
 - (v) the treatment of mining tenements; and
 - (vi) the impact of differences in the stock of public housing and defence housing.

THE REVENUE BASE FOR COMMERCIAL AND INDUSTRIAL PROPERTIES

10. **Preliminary State views.** States supported the current approach to assessing commercial and industrial land capacity using commercial and industrial land values, adjusted for differences in the value distribution of commercial and industrial land values. Some of them said the revenue base should be broadened to include an assessment of non-principal residential properties, this is discussed in the next section.

11. **Commission decision.** The Commission accepts that the conceptual approach to assessing States' capacity to raise revenue from commercial and industrial properties is established and accepted by States. For that reason, and subject to discussion in the next section, the Commission has decided to continue to assess the revenue base for commercial and industrial properties using commercial and industrial land values, adjusted for differences in the value distribution of commercial and industrial land values.

INCLUSION OF NON-PRINCIPAL RESIDENTIAL PROPERTIES IN THE REVENUE BASE

12. **Preliminary State views. Western Australia** said the current measure of land revenue base did not accurately capture States' relative revenue raising capacities. It said the base should be extended to include non-principal residential properties.

13. **Preliminary proposal.** In *Discussion Paper CGC 2002/13*, Commission staff found that a large proportion of taxable values related to non-principal residential properties. They said these values should be included in the revenue base. If non-principal residential properties were to be included as a separate component in the revenue base, data on the land value of non-principal residential properties would be required. Given that land taxes are progressive and there is a tax-free threshold in most States, these data would need to be provided by value range. Commission staff said they would seek additional information from the States to determine whether the land value of non-principal residential properties could be included in the revenue base.

14. **Further State views.** Most States supported including taxable non-principal residential properties in the land revenue base because they comprised a large share of taxable land revenues. However, their support was contingent upon the availability of robust and comparable data.

15. **New South Wales** doubted whether all States could provide reliable, consistently measured and robust data.

16. **Victoria** supported the inclusion of non-principal residential properties. It said land values should be aggregated for taxation purposes rather than valuation purposes because the standard policy was to assess land tax liability based on aggregate ownership. It said States' Revenue Office data were a better source of data than Valuers' General data, because Revenue Office data were based on aggregated ownership and included non-principal residential properties.

17. *Queensland* said the Commission should continue the existing method, if State data were not complete or comparable.

18. *Western Australia* said the conceptual case for including non-principal residential properties was conclusive and it was essential to include this class of property in the assessment. It did not agree with the *Discussion paper CGC 2002/13* suggestion that a threshold adjustment was required because it was not standard policy to exempt lower value non-principal residential properties from land tax.

19. *South Australia, Tasmania, the ACT* and the *Northern Territory* supported including the land value of non-principal residential properties in the revenue base. South Australia and Tasmania said if States could not provide data, the Commission could use an alternative indicator such as the ABS data on Housing Stock, Rental Investors Survey or the ABS Housing Survey.

Analysis and evaluation

20. *Analysis and evaluation.* The standard policy among the States is to tax non-principal residential property — all States except the Northern Territory (it does not have land taxes) tax it. Five States provided data on the revenue they raised from this source in 2001-02. Table 4 shows that, on average, 30.7 per cent of land revenues were raised from non-principal residential properties in 2001-02. The proportions in earlier years varied from 30 per cent to 32 per cent.

Table 4 LAND TAX COLLECTIONS, 2001–02

	NSW	Vic	Qld	SA	ACT	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Commercial and industrial land	544.3	448.5	127.3	40.3	16.3	1176.6
Non-principal residential land	322.2	77.5	89.5	15.0	16.3	520.5
Total	866.5	525.9	216.8	55.2	32.6	1697.0
	%	%	%	%	%	%
Proportion commercial and industrial	62.8	85.3	58.7	73.0	50.0	69.3
Proportion residential investment	37.2	14.7	41.3	27.2	50.0	30.7

Source: State data returns.

21. The size of the revenue raised from non-principal residential properties (about 30 per cent) is large enough to warrant a separate assessment of non-principal residential capacity in the Land Revenue assessment. This would mean the Land Revenue category would have two components:

- (i) a non-principal residential land component (30 per cent) — this component would relate to land revenue from non-principal residential properties; and

- (ii) a commercial and industrial land component (70 per cent) — this component would relate to land revenue from commercial and industrial properties.

22. Ideally, the Commission would want to aggregate land holdings by owner (regardless of whether they were non-principal residential and/or commercial and industrial properties), because that is the standard practice of the States. While Valuers General can provide comparable land values, their data are not aggregated. While Revenue Offices can provide aggregated land data, their data valuations are not necessarily comparable. For this review, we have not aggregated land holdings. The Commission does not have information to determine the impact on State budgets of aggregating land holdings and does not know whether it is material.

23. ***Commission decision.*** The Commission accepts that a strong conceptual basis exists for assessing States' capacity to raise revenue from non-principal residential properties. The conceptual case is supported by State data which show that revenue from this source is a large proportion of State land revenues. The data indicate that revenue raised from non-principal residential properties has a big impact on State budgets and the Commission considers this impact to be material. For that reason, the Commission has decided to:

- (i) include a non-principal residential land component in the Land Revenue assessment in the 2004 Review;
- (ii) for the 2004 Review, set the weights for the commercial and industrial land component and the non-principal residential land component according to their share in land revenue (70 per cent and 30 per cent of the category standard respectively); and
- (iii) for future years, to use the actual revenue shares to determine the weights for each component.

Availability of non-principal residential land data

24. State taxation policies of non-principal residential land are broadly the same as those of commercial and industrial land — a progressive tax on land value above an exemption threshold. The non-principal residential land capacity could be assessed in a way consistent with the assessment of commercial and industrial land capacity. If it were, the revenue base would be non-principal residential property values adjusted for differences between the States in the value distribution of those properties. An adjustment for differences in the value distribution of properties is warranted because non-principal residential land is subject to the same exemptions and progressive tax rate structure as that which applies to commercial and industrial land.

25. The assessment of commercial and industrial land capacity uses data supplied by State Valuers General. These data were supplied by value range to allow the Commission to assess a value distribution adjustment. The assessment of non-principal residential land capacity requires similar data for non-principal residential properties. In

December 2002 the Commission sent a special data request to the States. As part of this request the Commission asked States to provide non-principal residential land data for 1997–98 to 2001–02 by value range.

26. New South Wales, Queensland and Western Australia provided data for the five years commencing 1997–98. Victoria, South Australia and the ACT provided data for the four years commencing 1998–99. New South Wales and Victoria expressed concerns regarding the accuracy of their data and Queensland said it was concerned that its data might not be comparable with those of other States.

27. Tasmania provided total land values by value range for the five years commencing 1997-98. It was not able to separate out the value of non-principal residential properties. Tasmania said that, from 2002-03 onwards, it might be able to provide the required data.

28. The Northern Territory provided estimated land value of privately owned non-principal residential properties for 2001–02 only, by value range.

29. Table 5 shows the value of non-principal residential land data provided by the States. Table 6 shows the proportion that these values comprise of total taxable values — the combination of non-principal residential land values and commercial and industrial land values.

Table 5 VALUE OF NON-PRINCIPAL RESIDENTIAL LAND DATA PROVIDED BY THE STATES

	NSW	Vic	Qld	WA	SA	Tas ^(a)	ACT	NT
	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b
1997–98	31.5	..	11.5	8.2	..	1.6
1998–99	33.0	13.3	13.0	8.9	8.4	1.4	1.2	..
1999–2000	33.8	15.5	14.0	10.1	8.3	1.6	1.6	..
2000–01	32.9	20.9	15.0	11.1	8.7	1.5	1.7	..
2001–02	35.1	22.1	15.6	12.4	7.7	1.4	2.2	0.9

(a) The figures for Tasmania are the difference between its total taxable land value (including commercial/industrial and residential land value) it provided and its commercial and industrial land value assessed in the 2003 Update.

Source: State data returns.

Table 6 NON-PRINCIPAL RESIDENTIAL LAND DATA AS A PERCENTAGE OF TAXABLE LAND VALUES^(a)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
1997-98	44.0	..	46.6	49.3	..	55.1
1998-99	45.8	34.6	47.4	45.4	62.3	57.2	51.3	..
1999-2000	42.4	35.6	48.8	48.0	62.1	55.7	56.1	..
2000-01	41.3	41.7	49.4	49.5	62.3	58.8	57.8	..
2001-02	41.3	40.5	46.7	51.1	57.6	57.4	61.9	40.4

(a) Taxable land values is the sum of non-principal residential values and commercial and industrial values.

30. **Land value data.** State data on non-principal residential land values were incomplete. To include non-principal residential properties in the Land Revenue assessment, Commission staff had to estimate the missing data.

31. Tasmania provided total taxable land valuation data (non-principal residential properties and commercial and industrial properties). Commission staff estimated its non-principal residential land values by deducting its commercial and industrial land values (supplied by its State Valuer General) from its total taxable land values.

32. Commission staff estimated missing non-principal residential land value data for Victoria, South Australia, the ACT and the Northern Territory using total residential land values provided in the consultant's report to the 2003 Update. Table 7 shows the total residential land values provided by the consultant. Commission staff assumed that a State's total non-principal residential land values grew at the same rate as its total residential land values. Table 8 shows the non-principal residential land values assessed for each State.

Table 7 RESIDENTIAL LAND VALUES

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b
1997-98	250.3	130.0	86.1	52.5	27.2	6.2	7.2	3.0	562.5
1998-99 ^(a)	280.1	155.5	90.4	56.8	28.2	6.0	7.8	3.0	627.7
1999-2000	309.8	180.9	94.8	61.1	29.1	5.8	8.4	3.1	692.9
2000-01	339.8	163.4	98.2	97.3	33.5	5.7	10.6	3.4	752.0
2001-02	347.2	228.0	110.8	75.1	37.2	5.9	12.6	3.5	840.2

(a) Estimated using halved growth rate from 1997-98 to 1999-2000.

Source: Report on State Revenue Sharing Relativities 2003 Update — Supporting Information, p505.

Table 8 ASSESSED NON-PRINCIPAL RESIDENTIAL LAND VALUES

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b
1997-98	31.5	11.1*	11.5	8.2	8.1*	1.6*	1.1*	0.8*	74.0
1998-99	33.0	13.3	13.0	8.9	8.4	1.4*	1.2	0.8*	80.0
1999-2000	33.8	15.5	14.0	10.1	8.3	1.6*	1.6	0.8*	85.6
2000-01	32.9	20.9	15.0	11.1	8.7	1.5*	1.7	0.9*	92.9
2001-02	35.1	22.1	15.6	12.4	7.7	1.4*	2.2	0.9	97.3

* Indicates value estimated by Commission staff.

33. **Value distribution adjustment data.** States were asked to provide non-principal residential property numbers and land values by value range for five years to enable Commission staff to calculate the adjustment. Not every State was able to provide the data for all years. While a value distribution adjustment for non-principal residential properties has been calculated in a way consistent with the calculation of the commercial and industrial adjustment, some estimation was required.

34. The non-principal residential land value distribution adjustment was calculated by comparing a State's notional revenue collections under a multiple tax rate regime with its notional revenue collections under a single tax rate regime. A State's revenue collection under a multiple tax rate regime was estimated by:

- (i) calculating an average effective tax rate for each value range and applying it to the total land value of its non-principal residential properties in that range; and
- (ii) summing across all value ranges.

35. A State's revenue collection under a single tax rate regime was estimated by calculating an overall effective tax rate and applying it to the State's total land value of non-principal residential properties.

36. Because some States were unable to provide land value data for all years, Commission staff estimated land value data for the years they were missing. In those cases, Commission staff also estimated the distribution of the estimated values by value range. For Victoria, South Australia and the ACT, Commission staff distributed their total 1997-98 value using their 1998-99 values by value range, which the States provided. For the Northern Territory, their 2001-02 distribution was used for all years.

37. Some States, the larger ones, provided data on the revenue they collected from non-principal residential properties by value range. These revenues were used to calculate Australian effective rates of tax by value range. This approach underestimated the effective rates of tax because revenue data were not available for all States.

38. Table 9 shows the 2000-01 value distribution adjustment factors assessed using this approach. A value larger than 1 for a State means that, compared to the standard, it has a greater proportion of its land value located in the high value ranges, and vice versa.

Table 9 VALUE DISTRIBUTION ADJUSTMENT FACTORS, 2001-02

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
1997-98	1.3055	0.7311	1.0061	0.8873	0.4285	0.8128	0.5651	0.5900	1.0000
1998-99	1.2792	0.7568	0.9908	0.9243	0.5028	0.8293	0.6203	0.6347	1.0000
1999-2000	1.2475	0.7760	0.9925	0.9911	0.5431	0.8611	0.7342	0.6411	1.0000
2000-01	1.2049	0.8387	1.0302	1.0241	0.6197	0.9341	0.7821	0.6769	1.0000
2001-02	1.1773	0.8545	1.0037	1.0189	0.6694	0.9279	0.8287	0.6822	1.0000

39. These data should be viewed as indicative. Aside from the issue of missing data, there are some unusual differences in States' distribution of values by value range. For example, in 2001-02, 2 per cent of Victorian values are in the \$1 million to \$10 million value range. 18 per cent of Tasmanian values fall within the same range. Also some States qualified the data they provided. States' non-principal residential data including their data by value ranges will need to be reviewed before the completion of the 2004 Review.

40. In his report for the 2003 Update the consultant said States took different approaches to the valuation of strata titled properties. New South Wales, Queensland, Western Australia and the ACT carried out valuations of the parent title, and the rating/land tax liability was determined on the basis of the individual unit entitlements within the body corporate. Victoria, South Australia, Tasmania and the Northern Territory assessed separate land values for individual strata. Victoria, South Australia and the Northern Territory are able to aggregate individual titles and they included only the parent title when providing commercial and industrial land valuation data to the Commission. The consultant said that a similar aggregation of residential strata title would not be possible with any accuracy, in particular for Victoria. He also said that in Tasmania it was not possible to estimate the number of 'parent' parcels or the number of strata per property.

41. The consultant said the strata issue would be a concern if residential data were used by the Commission.

42. **Commission decision.** The Commission accepts that a conceptual basis exists for using State non-principal residential land value data as the measure of their capacity to raise revenue from non-principal residential properties. Data are available from most States for most years. While the data are limited, the Commission considers the data to be sufficiently indicative of State capacities for it to be used as the revenue base measure. The limited data point to non-principal residential properties having an impact on State budgets that is not only material, but different from the impact of commercial and industrial properties. Therefore, the Commission proposes to:

- (i) assess the revenue base for the non-principal residential land component using non-principal residential land values, adjusted for

differences in the value distribution of non-principal residential land values;

- (ii) use non-principal residential land values where they were provided by States and estimate missing land values using total residential land value data;
- (iii) assess the non-principal residential value distribution adjustment using non-principal residential land values by value range and, where they are available, revenues collected from non-principal residential properties by value range; and
- (iv) engage a consultant to review the data provided by States for the 2004 Review to improve data comparability and consistency including the estimation of missing data.

Improving data quality

43. The Commission is concerned about the consistency and comparability between States of non-principal residential property data by value range. For the 2004 Review, it intends to engage a consultant to review the data provided by the States with the aim of improving the data comparability.

44. Commission staff will continue to work with the States and the consultant to improve the quality of non-principal residential land data over time. In particular, the strata title issue and the aggregation issue are two areas which will be investigated.

45. The consultant will work with States and Commission staff on issues of concern related to non-principal residential property data. These issues include;

- (i) the availability of non-principal residential property data for the final calculation for the 2004 Review, including by value range;
- (ii) the consistency and comparability of non-principal residential land values between States;
- (iii) the treatment of strata titles; and
- (iv) aggregation of land value by same owners.

OTHER ISSUES

Tax capitalisation

46. ***Preliminary State views.*** *New South Wales* said the land tax assessment did not take into account the capitalisation of tax into the tax base (the site value).

47. **Preliminary proposal.** In *Discussion Paper CGC 2002/13*, Commission staff said in the absence of robust data on the extent of capitalisation in Australia, including information on whether that extent would vary from State to State, any capitalisation adjustment would be heavily reliant on Commission judgement. Therefore, they proposed not including a capitalisation adjustment in the assessment.

48. **Further State views.** *New South Wales* said an elasticity adjustment should be introduced into the land tax assessment to account for differences in States' land tax rates and tax free thresholds. It also said that on transparency, policy neutrality and consistency grounds the Commission should clearly state its decisions on the relationship between its assessments of all revenue bases and States' tax policies.

49. *New South Wales* also provided further work by its consultant, Professor Neil Warren, in support of its view that land taxes were capitalised into land values.

50. The *Northern Territory* stated that the Commission should investigate whether the tax capitalisation effect was of significant size to warrant an elasticity adjustment.

51. *Victoria, Queensland, Western Australia, South Australia* and *Tasmania* agreed with the Commission staff's view that, given the uncertainties and lack of definitive empirical evidence, a capitalisation adjustment should not be introduced. *Victoria* argued that there was evidence of the lack of capitalisation of tax rates in property values. *Victoria's* taxable values grew by 46.23 per cent compared with 20.27 per cent in *New South Wales*, despite *Victoria's* higher marginal tax rates.

52. **Analysis and evaluation.** Tax capitalisation is similar in nature to the elasticity issue. As discussed in *Draft Assessment Paper CGC 2002/13 Mining Revenue*, the Commission accepts the conceptual case that State taxation regimes affect the level of economic activity. However, to be able to analyse this effect properly, the Commission would require a general equilibrium model of State economies, which it does not have. In the absence of such models, it is not convinced that selective elasticity adjustments would move equalisation in the right direction or by the right magnitude. So, the Commission is not attracted to making selective elasticity adjustments for differences in State rates of tax.

53. **Commission decision.** The Commission does not accept the conceptual case has been established for assessing selective elasticity adjustments. There is no doubt that State expenditure and taxation regimes affect the levels of economic activity. However, it is not at all clear that these effects could be estimated with any reliability (in respect of either direction or the magnitude) by a series of selective adjustments. For these reasons, the Commission has decided not to assess an elasticity (tax capitalisation) adjustment in the Land Revenue category.

Impact of differences in price levels on assessments

54. **State views.** *New South Wales'* consultant questioned the appropriateness of the calculation of average effective tax rates in the context of differences in price levels

between States and potential grant seeking behaviour by States with little land value in some value ranges.

55. **Western Australia** said the commercial and industrial land values provided by New South Wales and Victoria were understated relative to that of Western Australia's because the value distribution adjustment did not take into account the standard policy of aggregating commonly owned properties in calculating land tax liability.

56. **Analysis and evaluation** The Commission calculates its standard effective tax rates using a weighted average approach. A State's influence on an average effective rate is determined by its share of the land value in that value range. The Commission concludes that there is little potential for grant seeking behaviour.

57. The issue raised by Western Australia was addressed by the consultant in his report to the 2003 Update. In his report, the consultant amended Western Australia's commercial and industrial land values for 1997 to 2001. As a result, the commercial and industrial land data are more comparable between States.

58. Ideally, the Commission would want to aggregate land holdings by owner, because that is the standard practice of the States. However, it has been unable to obtain comparable aggregated land value data. The Commission does not have information to determine the impact on State budgets of aggregating land holdings and does not know whether it is material.

59. **Commission decision.** The Commission does not accept that a conceptual case exists for making adjustment for differences in price levels. It has decided that:

- no adjustment for differences in price levels is justified; and
- data comparability between States has improved and no further adjustment (related to Western Australia's concern) will be made.

Whether Victoria's actual valuation data should be used

60. **Preliminary State views.** **Victoria** argued that data from its actual biennial valuations should be used as the basis for the calculation of its value distribution adjustment. It said all land in Victoria was valued on a common date for the first time at 1 January 2000 and land would be valued biennially. This submission was made before the completion of the 2003 Update.

61. **Analysis and evaluation** In his report for the 2003 Update, the consultant accepted the Victorian proposition and used its data. He did so because he concluded the data reflected both current Victorian market conditions and the relativity of Victorian data to those of other jurisdictions.

62. **Commission decision.** The Commission considers that the conceptual case for using Victoria's actual valuation data was established in the 2003 Update. The consultant concluded that these data were the best available data for the assessment. The Commission has, therefore, decided to continue to use them in the 2004 Review.

Treatment of mining tenements

63. ***Preliminary State views.*** *Tasmania* argued that mining tenements were a source of revenue and, conceptually at least, should be included in the assessment.

64. ***Commission staff view.*** In the 1999 Review, the Commission decided that the standard policy was not to tax mining tenements. In *Discussion Paper CGC 2002/13* Commission staff said there was no evidence that the standard policy had changed and they concluded that mining tenements should continue to be excluded.

65. ***Further State views.*** *Queensland, Western Australia and South Australia* supported the Commission staffs' proposal to continue to exclude mining tenements. They said the standard policy was not to tax mining tenements.

66. ***Analysis and evaluation.*** Mining tenements should continue to be excluded from the revenue base because the standard policy is not to tax them.

67. ***Commission decision.*** The Commission does not consider that a conceptual case has been established for including the value of mining tenements in the revenue base. The evidence suggests that it is not standard practice to tax mining tenements. The Commission has, therefore, decided not to include them in the 2004 Review.

Effect of public housing and defence housing

68. ***State views.*** The ACT said past Australian Government policies meant it had a greater proportion of public housing (and a lower proportion of private rental housing) than other States. It argued for an adjustment to take account of the impact of past Australian Government policies on the volume of public housing (and thus the size of the private rental market). It said a similar adjustment was required for Defence housing. It argued that these adjustments would be required irrespective of whether non-principal residential land was included in the revenue base or not.

69. The ACT provided data showing it had a higher proportion of public housing stock and a higher proportion of defence housing stock, which they attribute to Australian Government policies. It said that, as a consequence, it has a reduced capacity to raise revenue from non-principal residential land of around \$4.5 million.

70. ***Analysis and evaluation.*** While it is true that past Australian Government policies may have had an impact in the years immediately following self government, it has been more than a decade since ACT self-government. The Commission considers that the ACT has had sufficient time to deal with legacy issues. It also considers that the effects of past Australian Government policies should diminish over time. It is not inclined, therefore, to accept arguments relating to past Australian Government policies which are being raised for the first time in this review.

71. Table 10 shows that the ACT has a higher proportion of private landlord rental properties than the Australian average. This suggests that the ACT may not have a reduced capacity to raise revenue from non-principal residential properties. Even if this were not the case, the use of State data on the value of non-principal residential properties

means that any reduced capacity would be reflected in a lower number and a lower total value of non-principal residential properties.

Table 10 PERCENTAGE OF HOUSING STOCK CLASSIFIED AS PRIVATE LANDLORD RENTER

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	%	%	%	%	%	%	%	%	%
1997–98	21.7	18.2	24.5	15.7	19.6	16.4	22.7	20.8	20.5
1998–99	21.9	17.3	23.7	14.6	21.4	18.4	21.5	17.8	20.3
1999–2000	21.0	17.0	24.7	16.7	20.0	17.0	22.4	19.4	20.1
2000–01 ^(a)	20.7	16.4	24.8	17.3	20.3	17.4	22.3	18.9	19.9
2001–02 ^(a)	20.3	15.9	24.9	18.0	20.5	17.8	22.2	18.4	19.7

Source: ABS, Australian Social Trends, various issues, Catalogue No. 4102.0.

72. **Commission decision.** The Commission does not consider that the conceptual case that the ACT has a lower capacity to raise revenue from non-principal residential properties has been established. The available ABS data and the use of State actual taxable data in the assessment suggest the ACT does not have a reduced capacity to raise revenue from these properties. The Commission has decided not to assess an adjustment for the ACT for the level of public housing and Defence housing stock.

PRELIMINARY 2004 REVIEW ASSESSMENT

73. The Land Revenue assessment method proposed for the 2004 Review is as follows:

- (i) continue to assess the revenue base for the commercial and industrial land component using commercial and industrial land values, adjusted by differences in the value distribution of commercial and industrial land values; and
- (ii) include a non-principal residential land component in the Land Revenue assessment in the 2004 Review;
- (iii) set the weights for the commercial and industrial land component and the non-principal residential land component according to their share in States' land revenue (70 per cent and 30 per cent of the category standard respectively for 2001-02 and earlier years);
- (iv) assess the revenue base for the non-principal residential land component using non-principal residential land values, including a value distribution adjustment calculated using non-principal residential land values data.

74. Table 11 shows the calculation of the revenue base for both the non-principal residential land component and the commercial and industrial land component and the preliminary Land Revenue assessment.

Table 11 CALCULATION OF REVENUE BASE

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
A. Commercial/Industrial land values									
1997-98	40 086	22 227	13 216	8 483	5 002	1 293	1 219	985	92 511
1998-99	39 101	25 164	14 355	10 674	5 098	1 061	1 174	1 065	97 692
1999-2000	45 979	27 948	14 681	10 870	5 051	1 246	1 246	1 187	108 208
2000-01	46 847	29 215	15 354	11 346	5 287	1 081	1 271	1 351	111 753
2001-02	49 949	32 502	17 831	11 823	5 637	1 040	1 358	1 380	121 520
B. Commercial/Industrial land - value distribution adjustment									
1997-98	1.1549	0.8894	0.9516	0.9343	0.6549	0.4639	1.0958	0.7441	1.0000
1998-99	1.1792	0.8690	0.9446	0.9797	0.6481	0.4229	1.0197	0.7211	1.0000
1999-2000	1.1662	0.9023	0.9177	0.9433	0.6011	0.4118	0.9297	0.7556	1.0000
2000-01	1.1829	0.8792	0.9156	0.9466	0.6120	0.4171	0.9882	0.7128	1.0000
2001-02	1.1539	0.8997	0.9606	0.9550	0.6168	0.3988	0.9844	0.7193	1.0000
C. Adjusted land values = A * B									
1997-98	46 295	19 768	12 577	7 926	3 276	600	1 336	733	92 511
1998-99	46 108	21 867	13 561	10 457	3 304	449	1 197	768	97 711
1999-2000	53 622	25 217	13 473	10 254	3 036	513	1 158	897	108 170
2000-01	55 414	25 686	14 058	10 740	3 236	451	1 256	963	111 804
2001-02	57 636	29 243	17 128	11 291	3 477	415	1 337	993	121 520

Table 11 CALCULATION OF REVENUE BASE (continued)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
D. Standard revenue for the commercial and industrial component (70 per cent of actual revenue)									
1997-98									1441.9
1998-99									1430.4
1999-2000									1414.5
2000-01									1543.8
2001-02									1598.7
E. Revenue base commercial and industrial component = $D * C / C_{Aust}$									
1997-98	721.6	308.1	196.0	123.5	51.1	9.3	20.8	11.4	1442.0
1998-99	675.0	320.1	198.5	153.1	48.4	6.6	17.5	11.2	1430.5
1999-2000	701.2	329.8	176.2	134.1	39.7	6.7	15.1	11.7	1414.5
2000-01	765.2	354.7	194.1	148.3	44.7	6.2	17.3	13.3	1543.9
2001-02	758.3	384.7	225.3	148.6	45.7	5.5	17.6	13.1	1598.7
F. Non-principal residential land values									
1997-98	31 479	11 123	11 524	8 249	8 127	1 584	1 142	797	74 023
1998-99	32 999	13 299	12 960	8 882	8 410	1 420	1 234	812	80 016
1999-2000	33 826	15 466	14 012	10 053	8 269	1 565	1 592	827	85 611
2000-01	32 912	20 864	14 997	11 133	8 731	1 546	1 742	926	92 851
2001-02	35 127	22 085	15 617	12 359	7 654	1 403	2 205	935	97 383
G. Non-principal residential land - value distribution adjustment									
1997-98	1.3055	0.7311	1.0061	0.8873	0.4285	0.8128	0.5651	0.5900	1.0000
1998-99	1.2792	0.7568	0.9908	0.9243	0.5028	0.8293	0.6203	0.6347	1.0000
1999-2000	1.2475	0.7760	0.9925	0.9911	0.5431	0.8611	0.7342	0.6411	1.0000
2000-01	1.2049	0.8387	1.0302	1.0241	0.6197	0.9341	0.7821	0.6769	1.0000
2001-02	1.1773	0.8545	1.0037	1.0189	0.6694	0.9279	0.8287	0.6822	1.0000
H. Adjusted land values = F * G									
1997-98	41 094	8 132	11 591	7 320	3 483	1 288	645	470	74 023
1998-99	42 213	10 065	12 841	8 210	4 229	1 177	765	515	80 016
1999-2000	42 199	12 002	13 907	9 964	4 491	1 347	1 169	530	85 611
2000-01	39 657	17 498	15 451	11 401	5 410	1 444	1 362	627	92 851
2001-02	41 355	18 870	15 675	12 592	5 124	1 302	1 827	638	97 383

Table 11 CALCULATION OF REVENUE BASE (continued)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
I. Standard revenue for the non-principal residential component (30 per cent of actual revenue)									
1997-98									618.0
1998-99									613.1
1999-2000									606.2
2000-01									661.7
2001-02									685.2
J. Revenue base non-principal residential component = $I * H / H_{Aust}$									
1997-98	343.1	67.9	96.8	61.1	29.1	10.7	5.4	3.9	618.0
1998-99	323.4	77.1	98.4	62.9	32.4	9.0	5.9	3.9	613.1
1999-2000	298.8	85.0	98.5	70.6	31.8	9.5	8.3	3.8	606.2
2000-01	282.6	124.7	110.1	81.2	38.6	10.3	9.7	4.5	661.7
2001-02	291.0	132.8	110.3	88.6	36.0	9.2	12.9	4.5	685.2
K. Revenue base = E + J									
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
1997-98	1 064.7	376.0	292.8	184.7	80.1	20.1	26.2	15.4	2 060.0
1998-99	998.5	397.3	296.9	216.0	80.8	15.6	23.4	15.2	2 043.6
1999-2000	1 000.1	414.8	274.7	204.6	71.5	16.3	23.4	15.5	2 020.8
2000-01	1 047.8	479.4	304.2	229.6	83.2	16.5	27.1	17.8	2 205.5
2001-02	1 049.2	517.5	335.6	237.1	81.8	14.6	30.4	17.5	2 283.9

Sources: State data returns and estimates.

2004 REVIEW DRAFT CALCULATIONS***Grant share effects***

75. Table 12 shows the change in redistribution when non-principal residential land values are included in the Land Revenue assessment.

Table 12 EFFECT ON GRANT DISTRIBUTION — LAND REVENUE

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2003 Update	-371.6	50.0	133.3	6.1	116.9	48.9	11.2	5.1	371.6
2004 Review Draft	-370.8	108.3	111.7	-8.1	101.0	41.1	10.4	6.4	378.8
Grant change	0.8	58.3	-21.7	-14.2	-16.0	-7.8	-0.8	1.3	60.5

76. Compared with the 2003 Update Land Revenue assessment, the inclusion of non-principal residential land value in the assessment would result in a change in redistribution of \$60.5 million. New South Wales, Victoria, and the Northern Territory would receive a higher share of equalisation grants. Queensland, Western Australia, South Australia, Tasmania and the ACT would receive a reduced equalisation grant.

Revenue raising capacity ratios

77. Table 13 shows the revenue raising capacity ratios for the proposed 2004 Review assessment method for 2001-02, as compared with those in the 2003 Update.

Table 13 REVENUE RAISING CAPACITY RATIOS, 2001-02

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
2003 Update	1.3998	0.9715	0.7526	0.9494	0.3692	0.1414	0.6682	0.8008	1.0000
2004 Review Draft	1.3558	0.9147	0.7847	1.0609	0.4622	0.2651	0.8096	0.7532	1.0000

Standardised revenue

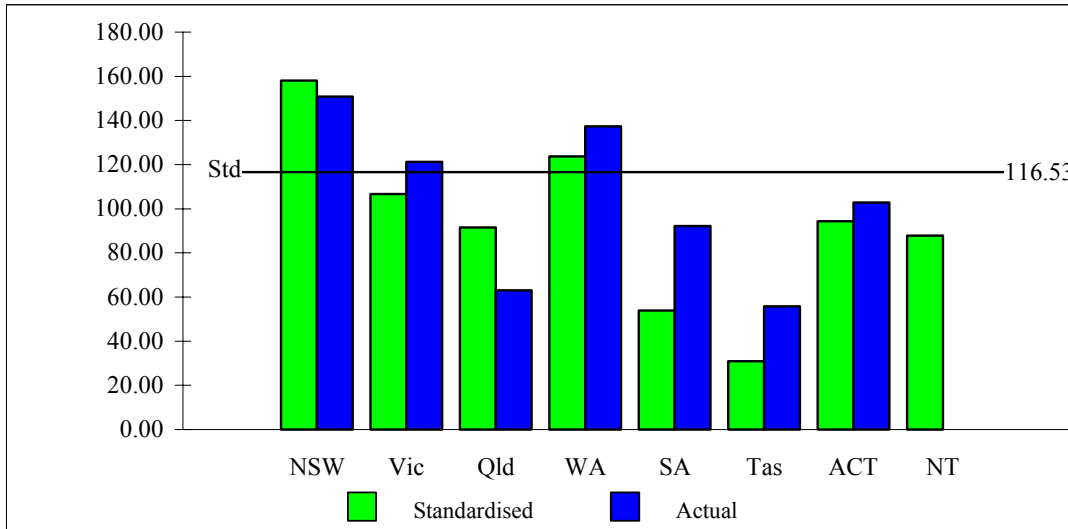
78. Table 14 shows the actual and standardised revenues under the proposed 2004 Review assessment method for 2001-02, as compared with those in the 2003 Update.

Table 14 ACTUAL AND STANDARDISED REVENUES, 2001-02

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Std
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual revenue									
2003 Update	150.80	121.20	62.96	137.37	92.13	55.72	102.81	0.00	116.53
2004 Review Draft	150.80	121.20	62.96	137.37	92.13	55.72	102.81	0.00	116.53
Standardised revenue									
2003 Update	163.12	113.21	87.71	110.63	43.03	16.47	77.86	93.31	116.53
2004 Review Draft	158.00	106.59	91.44	123.63	53.86	30.89	94.34	87.77	116.53

79. Figure 2 presents the actual, standard and standardised revenue for 2001-02 under the new assessment method.

Figure 2 LAND REVENUE: STANDARDISED, ACTUAL AND STANDARD REVENUES PER CAPITA, 2001-02



Reality check

80. The results show standardised revenues are relatively consistent with actual revenues for most States, allowing for the differences in revenue effort. Queensland had the lowest effective tax rate, while South Australia and Tasmania had the highest rates. The Northern Territory does not collect land tax.

Updateability

81. The proposed Land Revenue assessment uses commercial and industrial land values and non-principal residential land values. For each new update, land value data by value range will be sought for the latest year. These data are provided by States.