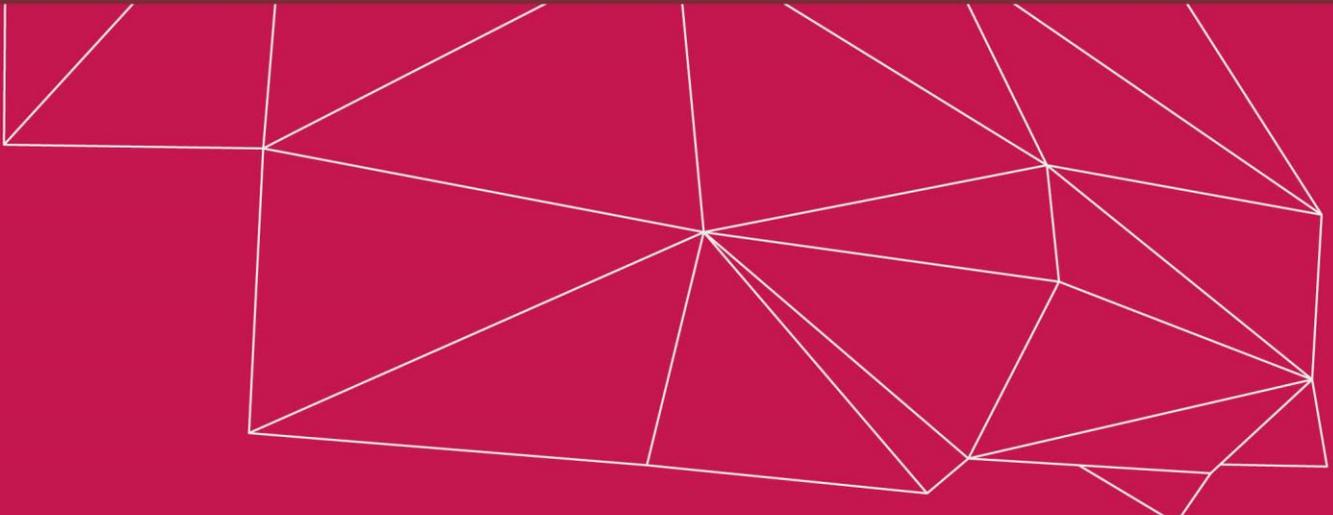


# Queensland response to Significant changes since the Draft Report



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## 1.0 Preface

Queensland Treasury acknowledges the extensive work of the Commonwealth Grants Commission (Commission) in undertaking the 2020 Methodology Review (the Review).

This response captures Queensland's understanding of the Commission's decisions presented in the paper on *Significant changes since the 2020 Review Draft Report* (the paper), and the State's responses. Noting that the Commission continues to deliberate changes, we would welcome further discussion to ensure that all positions are properly understood.

## 2.0 Major changes

### 2.1 Disaster recovery expenses

#### Additional changes

The Commission has agreed with Queensland's position and concluded that local governments' disaster recovery expenses are unavoidable costs for states.

For the final report (affecting GST revenue in 2020-21 and beyond), the Commission has decided to revert to including state expenses incurred for local government recovery as part of the assessment. Also, the Commission will fully unwind the method change made in the 2019 Update.

#### Queensland's position

Queensland strongly supports the Commission's decisions.

As per Queensland's response to the draft report, state funding for local government recovery is necessary and assessing these expenses is consistent with the principles of horizontal fiscal equalisation.

### 2.2 Stamp duty on conveyances: unit trusts

#### Additional changes

In addition to the positions in the draft report, the Commission has decided to remove the unit trust adjustment. The Commission has accepted that there are now fewer legislative differences and noted that it is not clear to the Commission if Queensland's choice of a unit trust scheme rather than a land holder/ land rich provision leads to a materially different value of property transferred. Queensland's unit trust provisions are broader than other states' land holder/ land rich provisions.

The decision to remove the adjustment is the most substantive change to the *Stamp Duty on Conveyances* assessment proposed in this paper. Other minor changes are detailed in section 3.5 below.

#### Queensland's position

Queensland strongly opposes the Commission's decision to remove the unit trust adjustment for the transfer duty assessment base and recommends the 3% adjustment be retained for states with extended unit trust provisions. A summary of duty regimes is provided in the table below, which demonstrates that significant differences remain, suggesting that the adjustment should be retained.

Firstly, Queensland's unit trust provisions are an extension to the transfer duty base and are not a replacement for land holder/ land rich provisions, which Queensland also has. The unit trust provisions operate in addition to the landholder duty provisions in Queensland.

Secondly, the purpose of the Commission's adjustment is to account for transactions captured by some states' legislation that are additional to 'average policy' and should therefore not be included. Without the adjustment, Queensland will be assessed on transactions that other states do not tax.

Queensland's private unit trust provisions apply to trusts that hold directly or indirectly any Queensland dutiable property (not just land in Queensland). There is no land value threshold and no limit to the minimum percent interest to be held in linked entities before trust assets are counted. In addition, there is no minimum level of an

acquisition threshold. Other states have a minimum threshold for the value of land being held in the trust (between \$0.5 million and \$2 million) and an acquisition threshold generally between 20% and 50%.

Queensland's widely held public unit trust provisions also vary greatly from other states. Like private unit trusts, there are differences in the minimum value of land held in the trust, the minimum interest held in the trust and the acquisition threshold where a widely held unit trust no longer satisfies the relevant spread of ownership conditions.

Summary of duty regimes –landholder duty and Qld trust provisions

States	QLD	NSW	VIC	SA	WA	NT	ACT	TAS
<b>UNLISTED COMPANIES</b>								
Minimum land in jurisdiction	\$2m	\$2m (unimproved value)	\$1m	Any	\$2m	\$0.5m	Any	\$0.5m
Land rich test	None	none except 80% for primary production	None	None	None	None	None	None
Minimum % interest to be held in linked entities before their assets are counted	50%	50%	20%	50%	90% (listed subsidiary) 50% (unlisted subsidiary)	20%	50%	50%
Acquisition threshold	50%+	50%+	50%+	50%+	50%+	50%+	50%+	50%+
<b>PRIVATE UNIT TRUSTS</b>								
Minimum land in jurisdiction	None	\$2m (unimproved value)	\$1m	Any	\$2m	\$0.5m	Any	\$0.5m
Land rich test	None	None, except 80% for primary production	None	None	None	None	None	None
Minimum % interest to be held in linked entities before their assets are counted	N/A	50%	20%	50%	90% (listed subsidiary) 50% (unlisted subsidiary)	20%	50%	50%
Acquisition threshold	Any	50%+	20%+	50%+	50%+	50%+	50%+	50%+
<b>LISTED COMPANIES + LISTED PUBLIC UNIT TRUSTS (PUTs)</b>								
Minimum land in jurisdiction	\$2m	\$2m (unimproved value)	\$1m	Any	\$2m	\$0.5m	Not dutiable	\$0.5m
Land rich test	None	None, except 80% for primary production	None	None	None	None		None

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States	QLD	NSW	VIC	SA	WA	NT	ACT	TAS
Minimum % interest to be held in linked entities before their assets are counted	50%	50%	20%	50%	90% (listed subsidiary) 50% (unlisted subsidiary)	20%		50%
Acquisition threshold	90%+	90%+	90%+	90%+	90%+	90%+		90%+
Concessional duty	10% of 100% duty*	10% of 100 % duty*	10% of 100% duty*	10% of duty	None	None		10% of 100% duty*
<b>WIDELY HELD PUTS</b>								
Minimum land in jurisdiction	None	\$2m (unimproved value)	\$1m	Any				
Land rich test	None	None, except 80% for primary production	None	None				
Minimum % interest to be held in linked entities before their assets are counted	N/A	50%	20%	50%				
Acquisition threshold	On becoming a private unit trust	90%+	90%+	90%+				
Concessional duty	None	10% of 100 % duty*	10% of 100% duty*	10% of duty				
<b>Notes:</b>								
<ul style="list-style-type: none"> <li>Qld trust provisions</li> <li>A blank cell indicates that the category of entity does not exist in the jurisdiction</li> <li>"No duty" indicates that the category exists in the jurisdiction but that no duty is payable on dealings</li> <li>* denotes that, regardless of actual % acquired, concessional duty is 10% of duty on acquisition of 100% of assets.</li> <li>From 1 July 2018, SA abolished duty on transfers of land used other than for residential or primary production. Accordingly, from 1 July 2018, SA's landholder provisions apply only to interests in residential and primary production land.</li> </ul>								

## 3.0 Minor method changes

### 3.1 Mining revenue

#### Additional changes

In contrast to the draft report, the Commission has decided not to move grants in lieu of royalties to the Commonwealth payments category because to do so will breach the direction from the Australian Government.

#### Queensland's position

Queensland notes the Commission has been directed to not change the Mining assessment. Queensland refers the Commission to its previous position on this matter, particularly regarding how this directive limits potential improvements to horizontal fiscal equalisation.

### 3.2 Welfare

#### Additional changes

In contrast to the draft report, the Commission has decided to:

- measure other welfare expenses on an equal per capita basis instead of introducing the IHAD. The Commission has decided that available evidence does not support the conceptual case that most service users are from a low SES background. IHAD data would have distributed a small amount of GST revenue to Queensland due to higher relative disadvantage, but this would have been offset by the IHAD data also having a lower measure of regional disadvantage.
- continue to recognise service delivery scale and regional costs in the child protection and family services assessment. Service delivery scale recognises that services in small communities do not benefit from economies of scale and regional costs recognise that states with more remote communities have greater costs due to factors such as more expensive labour or travel costs. Queensland generally receives additional GST revenue from the inclusion of service delivery scale and regional costs.

In addition to the positions in the draft report, the Commission has decided to recognise cross-border use by New South Wales (NSW) residents of the Australian Capital Territory's (ACT) other welfare services, and vice versa. This will only impact the GST revenues of those two states.

#### Queensland's position

##### *Other welfare expenses assessed on an EPC basis*

Queensland does not oppose the Commission's proposal to assess other welfare expenses on an equal per capita basis. However, it is conceptually sound that the Commission considered that the level of disadvantage of service users could impact on a state's service delivery costs. While IHAD has proven to not support this case, Queensland recommends the Commission continue to investigate other measures. Also, given the Commission's decision to not use IHAD data for the SES status, Queensland recommends that it would be inconsistent to use the regional cost factor based on IHAD population.

#### *Recognition of cross-border impacts on other welfare*

Queensland does not oppose recognising cross-border use of ACT welfare services by NSW residents. The conceptual case is well-established and consistent with the Commission's treatment of other services types.

#### *Recognition of service delivery scale and regional costs for child protection and family services*

Queensland supports recognising service delivery scale and regional costs in the child protection and family services assessment. There is no conceptual basis for why regional or service delivery scale factors would not be applied to these services.

### **3.3 Services to communities**

#### **Additional changes**

In addition to the positions in the draft report, the Commission has decided to:

- change the definition of a small community for the purpose of water subsidies from a community with up to 1,000 people to a community with up to 3,000 people as they are also eligible for these services. Queensland Treasury estimates that this change could include an additional 420 communities across Australia of which 105 are within Queensland (25%).
- remove the 25% discount applied to regional cost factor for water subsidies assessment. This change will ensure consistency across assessments for how regional costs are accounted and will increase the amount regional costs are reflected in the Commission's assessment, benefiting Queensland.

In contrast to the draft report, the Commission has decided to retain the current wage cost adjustment for the assessment of water subsidies and remote electricity subsidies. The wage cost adjustment accounts for interstate wage differences impacting the cost to state governments when providing services.

#### **Queensland's position**

##### *Definition of small communities*

Queensland supports changing the definition of small communities to those with populations up to 3,000. This definition will more accurately capture the communities that receive water subsidies.

##### *Removal of discount for regional costs*

Queensland supports removing the discount applied to the regional cost factor for water subsidies. This change will better reflect the additional expenditure requirement for states with significant regional populations receiving subsidies.

##### *Application of wage costs for water and electricity subsidies*

Queensland does not oppose applying interstate wage cost differences to water subsidies and remote electricity subsidies. However, it is still unclear whether subsidies paid to water or electricity providers are influenced by wage levels. The Commission should provide states with the underlying supporting information.

## 3.4 Investment

### Additional changes

In addition to the positions in the draft report, the Commission has decided to:

- remove the capital cost factor applied to negative assessed investment. States that have a decreasing population are assessed to require negative investment, i.e. sale of assets. While the capital cost factor is applied, the assessment assumes that a state can receive above asset value when selling assets because the capital construction costs can be higher in that state. This is not the case, supporting removal of the capital cost factor.
- revise the way regional costs are applied to investment capital cost factors. Capital regional costs factors are currently derived from a combination of Rawlinson’s location-based construction cost factors, as well as the Commission’s assessment of regional cost influences for recurrent expenditure. Instead, regional costs will be specific to each individual recurrent expense assessment. The Commission considers that the change removes the need to measure regional costs separately in the investment assessment, which both improves simplicity and avoids double counting of regional factors relating to investment.

### Queensland’s position

#### *Removing capital cost factors applied to negative assessed investment*

Queensland does not oppose removing the capital cost factor from negative assessed investment. This inflates the potential asset sale price and does not reflect the economic reality of public asset sales.

#### *Changing how regional costs are captured in capital costs*

Queensland does not oppose replacing the recurrent regional cost factor with an assessment that includes regional costs in each individual recurrent expense assessment. This change improves transparency of the assessment. However, the Commission should ensure this change will not under-estimate higher construction costs in regional and remote locations.

## 3.5 Stamp duty on conveyance: other changes

### Additional changes

In addition to the positions in the draft report, the Commission has decided to:

- introduce a 10% adjustment to the assessment of value of land rich transactions because most states apply a concessional rate of 10% of the general duty rate to land rich transactions. The adjustment benefits states with a greater share of land rich transactions.
- discontinue an off-the-plan adjustment for Victoria. Victoria, the only state to offer this concession, has provided its off-the-plan transaction-by-purchase-price data and the adjustment is no longer required.
- expand the value ranges of conveyance duty on dutiable transactions up to “\$5,000,000 plus” to better reflect differences between states’ capacities to levy stamp duty on expensive land and other dutiable transactions.

## Queensland's position

### *Land rich adjustment*

Queensland supports applying a 10% adjustment to land rich transactions because this reflects what states do.

### *Off-the-plan adjustment*

Queensland does not oppose discontinuing this adjustment.

### *Expanding the stamp duty value ranges*

Queensland supports expanding the value ranges of stamp duty on conveyances. The new value ranges align more closely with actual transfer duty rates nationally, and more accurately measure the capabilities of states to leverage tax on large value dutiable transfers.

## 3.6 Land tax

### Additional changes

In addition to the positions in the draft report, the Commission has decided to:

- increase the ACT land aggregation adjustment from 2% to 10%. The adjustment will correct differences in ACT's method of aggregating an entity's land holdings for taxation, which would otherwise reduce land holding tax values compared to other states. This change will benefit all states except the ACT.
- increase NT's estimated land holding value rate from 0.6% to 0.8% of total land holdings in Australia based on ABS land value data. NT does not raise revenue through land tax. However, as it is average state policy to do so, the Commission will assess NT as having potential revenue through land tax. This adjustment updates the value of potential land tax NT can generate and will benefit all states except NT.
- expand the land tax value ranges from "\$3,000,000 plus" up to "\$10,000,000 plus" to better capture differences between states. This adjustment means land holdings above \$3 million will no longer be assessed collectively. This will also better account for higher value land (which is taxed at a higher rate).

## Queensland's position

### *ACT land aggregation adjustment*

Queensland does not oppose implementing a 10% adjustment.

### *NT land value holdings adjustment*

Queensland does not oppose increasing NT's land value holdings adjustment.

### *Expanding the land tax value ranges*

Queensland supports expanding the value ranges of land tax. The new value ranges align more closely with actual land tax rates nationally, and more reasonably measure the capabilities of states to leverage tax on very high value land.