



**Australian Government**  

---


**Commonwealth Grants Commission**

**2020 REVIEW**

**LAND REVENUE**

**STAFF DRAFT ASSESSMENT PAPER**  
**CGC 2018-01/03-S**

**APRIL 2018**

Paper issued	20 April 2018
Commission contact officer	Dermot Doherty, 6229 8816, <a href="mailto:Dermot.Doherty@cgc.gov.au">Dermot.Doherty@cgc.gov.au</a>
Submissions sought by	<p>31 August 2018.</p> <p>Submissions should be emailed in Word format to <a href="mailto:secretary@cgc.gov.au">secretary@cgc.gov.au</a> .</p> <p>Submissions of more than 10 pages in length should include a summary section.</p>
Confidential material	<p>It is the Commission's normal practice to make State submissions available on its website under the CC BY licence, allowing free use of content by third parties.</p>  <p>Further information on the CC BY licence can be found on the <a href="http://creativecommons.org">Creative Commons website</a> (<a href="http://creativecommons.org">http://creativecommons.org</a>).</p> <p>Confidential material contained in submissions must be clearly identified or included in separate attachment/s, and details provided in the covering email. Identified confidential material will not be published on the Commission's website.</p>

# CONTENTS

---

<b>LAND REVENUE</b>	<b>1</b>
<b>2015 REVIEW APPROACH</b>	<b>1</b>
How was revenue capacity assessed?	2
GST redistribution	3
<b>ISSUES AND ANALYSIS</b>	<b>4</b>
Which revenues should be included in the category?	4
What are the drivers of revenue capacity?	7
Which source of data should the Commission use to assess revenue capacity?	12
Other issues considered	15
<b>CONCLUSION AND WAY FORWARD</b>	<b>15</b>
Proposed assessment structure	15
<b>ATTACHMENT A: STATE LAND BASED TAXES</b>	<b>17</b>

# LAND REVENUE

- 1 The paper provides Commission staff proposals for the assessment of Land revenue for the 2020 Review.

## 2015 REVIEW APPROACH

- 2 The Land revenue category comprised revenue from taxes on land ownership. Revenue from the transfer of land ownership was included in the Stamp duty category.
- 3 The land based taxes included in the category were: Land tax on residential investment, commercial and industrial land; property based Fire and Emergency Services Levies (FESLs); metropolitan levies<sup>1</sup>; and the ACT's replacement revenue<sup>2</sup>.
- 4 Some land based taxes were not included. They comprised revenue from planning and development levies, and parking space levies. Planning and development levies were not included because the driver of those levies was the value of properties under development, data that were confidential and not available. Parking space levies were treated as user charges. These revenue streams were assessed equal per capita<sup>3</sup> (EPC) and included in the Other revenue category.
- 5 Table 1 shows the composition of the Land revenue category in 2016-17. The income producing property component comprised revenue from Land tax. The general property component comprised revenue from the other land based taxes included in the category.

---

<sup>1</sup> Metropolitan levies comprised Victoria's Growth Areas Infrastructure Contribution (\$175 million in 2017-18) and Metropolitan Improvement Levy (\$162 million in 2017-18), Western Australia's Metropolitan Region Improvement Tax (\$95 million in 2017-18) the ACT's City Centre Marketing and Improvements Levy (\$2 million in 2017-18).

<sup>2</sup> The ACT is replacing conveyance duties with general rate revenue. The revenue included in the category was the part of ACT general rate revenue that replaced conveyance duty.

<sup>3</sup> An EPC assessment means States are assessed to have the same revenue capacity per capita. An EPC assessment does not change States' GST shares.

**Table 1 Land revenue by component, 2016-17**

Component	Revenue	Proportion of total revenue
	\$m	%
Income producing property (Land tax)	8 253	78
General property (other land based taxes)	2 363	22
Total	10 616	100

Source: Australian Bureau of Statistics, Government Finance Statistics, Cat No 5512.0.

## How was revenue capacity assessed?

- 6 The way States imposed Land tax differed from the way they imposed other land based taxes. The main differences were whether:
- certain properties were exempt (for example, principal places of residence)
  - the value of a land owner's land holdings was aggregated.
- 7 These differences were material. Consequently, the Commission developed different capacity measures for each component.

### *Income producing property component (Land tax)*

- 8 States imposed Land tax on residential investment, commercial and industrial land. The tax applied to the combined value of a land owner's taxable land holdings. States generally exempted principal places of residence and land used for primary production, general government<sup>4</sup> and charitable purposes. Some States imposed a foreign owner surcharge.
- 9 Revenue capacity was assessed using the combined value of taxable land holdings by value range.<sup>5</sup> These data were provided by State Revenue Offices (SROs). A number of adjustments were made to the data.
- The ACT applied its land tax on a per property basis. As it did not aggregate a land owner's taxable land values, its land values were increased by 2%.
  - The Northern Territory did not impose land tax and so was unable to provide land value data. Its taxable land values were set equal to 0.6% of the sum of other States.
  - Taxable land values below \$0.3 million were assessed equal per capita because of State concerns about their ability to reliably separate taxable from non-taxable land at value ranges below their tax free thresholds.

---

<sup>4</sup> There were exceptions. South Australia imposed Land tax on its public housing authority and Tasmania imposed Land tax on local governments.

<sup>5</sup> A land owner's value of taxable land holding was the total value of their land holdings less any exempt land holdings (such as their primary principal place of residence).

- A 25% discount was applied to the assessment because of Commission concerns about the reliability and comparability of SRO data.<sup>6</sup>

10 Table 2 shows the derivation of the component factor for 2016-17. It shows the per capita value of taxable land holdings in New South Wales, Victoria and Western Australia exceeded the average (\$54 562 per capita) and so they were assessed to have above average revenue raising capacity in that year.

**Table 2 Calculation of component factor, 2016-17**

		NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Value of taxable land holdings	\$b	558	407	167	144	32	7	8	8	1 330
Value of taxable land holdings per capita	\$pc	71 578	65 118	34 231	56 057	18 484	13 763	18 597	32 440	54 562
Raw factor (a)		1.312	1.193	0.627	1.027	0.339	0.252	0.341	0.595	1.000
Component factor (b)		1.234	1.145	0.721	1.021	0.504	0.439	0.506	0.696	1.000

(a) A State's raw factor is its per capita value of taxable land holdings divided by the average per capita value of taxable land holdings.

(b) The Commission applied a 25% discount to the assessment. Thus, the component factor was the average of the raw factor (with a 75% weight) and an EPC factor (with a 25% weight).

Source: Based on land value data provided by SROs.

### General property component

- 11 States imposed other land based taxes on residential (including principal places of residence), commercial and industrial land. These taxes were imposed on a per property basis (that is, there was no aggregation of land holdings).
- 12 These taxes comprised property based FESLs, metropolitan levies, and the ACT's replacement revenue. They were mostly annual property taxes. The exception was Victoria's Growth Areas Infrastructure Contribution, which was a one-off tax. These taxes were based on a fee per property, a proportion of the property's value or both.
- 13 Initially, the Commission proposed assessing revenue capacity using total land values, but the level of revenue was not large enough for an assessment to be material. Therefore, the component was assessed EPC in the 2015 Review. That is, States were assessed to have the same revenue capacity per capita (a component factor of 1.000).

### GST redistribution

14 Table 3 shows the extent to which the assessment moves the GST distribution away from an EPC distribution in 2018-19. It shows GST revenue is redistributed from

<sup>6</sup> Adjustments are made (by States and the Commission) to SRO data to improve its comparability. The need for adjustments is the reason for the Commission's concerns about the reliability of SRO data.

States with an above average revenue raising capacity (New South Wales, Victoria and Western Australia) to States with a below average revenue capacity.

**Table 3 GST redistribution, Land revenue, 2018 Update**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Income producing property	-450	-234	406	-173	266	95	64	25	857
General property	0	0	0	0	0	0	0	0	0
Total	-450	-234	406	-173	266	95	64	25	857
Total (\$pc)	-56	-36	81	-66	153	182	154	101	34

Source: Commission calculation.

## ISSUES AND ANALYSIS

15 There are three assessment issues to be resolved for the 2020 Review. They are:

- which revenues should be included in the category?
- what are the drivers of revenue capacity?
- which data source should the Commission use to assess revenue capacity?

### Which revenues should be included in the category?

16 As a starting point, the Commission would include all revenues raised on land ownership in the Land revenue category. Table 4 lists States' land based revenues, other than Land tax. If all of these revenues were included in the category, it would increase its size by about \$200 million.

17 From this starting point, there may be reasons for excluding a revenue stream, for example, if:

- the revenue is deemed to be a user charge
- the revenue is deemed to be for another level of government
- a decision is made to gather all FESLs together and assess them in another category.

**Table 4 Land based revenues other than Land tax**

State	Tax	Basis of tax	Purpose
NSW	Parking space levy	Fixed fee per parking space	To reduce congestion in key business districts and to help meet the cost of building better public transport
Vic	Fire services property levy	Fixed charge and a proportion of capital improved property value	Supports the State's fire services
	Congestion levy	Fixed fee per parking space	To reduce traffic congestion
	Metropolitan improvement levy	Proportion of land value	Finances the development, management and maintenance of parks, gardens trails, waterways and zoos
	Metropolitan planning levy	Proportion of the cost of the development	Finances the Victorian Planning Authority
	Growth areas infrastructure contribution	Fixed fee per hectare	Supports infrastructure in Melbourne's newest suburbs
Qld	Emergency management levy	A fixed charge per property The charge varies by property and location	Supports the Queensland Fire and Emergency Services
WA	Emergency services levy	Proportion of property's gross rental value	Supports Western Australia's fire and emergency services
	Metropolitan region improvement tax	Proportion of land value	Finance expenditure by the Western Australian Planning Authority on road reserves, parks, and recreation areas
	Perth parking levy	Fixed fee per parking space	To manage the level of private vehicle access to the city and to finance key transport infrastructure and services within central Perth
SA	Emergency services levy	Fixed charge and a proportion of property's capital value	Placed into a dedicated fund for the exclusive use of the emergency services
Tas	Fire services levy	Proportion of property's assessed annual value	Finances the Tasmania Fire Service
ACT	Fire and emergency services levy	Fixed charge and a proportion of a property's average unimproved value	Finances all fire and emergency services
	City centre marketing improvements levy	Proportion of land value	Finance events, promote activities, capital improvements and provide cleaning and security services in the City and Braddon districts

Source: State budget papers.



- 18 ***What is a user charge?*** In its Government Finance Statistics (GFS) the ABS describes:
- tax revenue as revenue arising from compulsory levies imposed by government. There is usually no clear and direct link between the payment of taxes and the provision of goods and services
  - a user charge is voluntary and required. That is, the person who pays the charge gets something specific in return.
- 19 The Henry Tax Review agreed, saying user charges represent voluntary exchanges, while taxes rely on the coercive powers of the government.<sup>7</sup>
- 20 The land based taxes that appear to satisfy this user charge definition are:
- planning levies
  - development levies (not shown in Table 4)
  - Victoria’s Growth areas infrastructure contribution.
- 21 Planning levies and development levies are required before permits are issued. Liability for Victoria’s Growth areas infrastructure contribution arises when an event is triggered, such as transfer of title, subdivisions or building permits.
- 22 Commission staff do not consider that the hypothecation of revenue from FESLs satisfies the definition of a user charge. Those paying a FESL do not receive something specific in return — they do not ‘automatically’ receive fire and emergency services.
- 23 Commission staff propose to recommend the Commission treat planning and development levies and Victoria’s Growth areas infrastructure contribution as user charges and exclude them from the Land revenue category.
- 24 ***Revenue of another level of government.*** As part of its tax reforms, the ACT is phasing out conveyance duty and replacing it with general rates. General rates are normally a local government tax, but the ACT does not have a separate local government sector. When local governments raise land based taxes on behalf of State governments (for example, their collection of property based FESLs), the revenue raised is included in the Land revenue category.
- 25 In the 2015 Review, South Australia and the ACT said the replacement revenue should be included in the Land revenue category as this treatment would be similar to the treatment of property based FESLs. The Commission agreed. It included the revenue in the general property component because the ACT imposed its replacement revenue on all properties and the value of a land owner’s land holdings was not aggregated.

---

<sup>7</sup> *Australia’s future tax system*, Part 2 Detailed Analysis, Volume 2, Section E-1 User charging and taxation, page 325.

- 26 The replacement revenue is material for the ACT (\$25 million or \$65 per capita in 2015-16). Commission staff propose to continue including the revenue, provided the ACT is able to provide an estimate of it.
- 27 ***Should all FESLs be assessed in the same way?*** States impose FESLs on property, insurance products and motor vehicles. In recent years, a number of States have replaced their insurance based FESLs with property based FESLs.
- 28 In the 2015 Review, New South Wales and Victoria said all FESLs should be assessed together, regardless how they were collected. They said it would undermine policy neutrality if a State's choice on how to raise FESLs led to a different assessment.
- 29 An alternative view is that property based FESLs broadly target landowners and policy neutrality would be undermined if similar land based taxes were treated differently. New South Wales' recent experience, in deciding not to move to a property based FESL, would suggest property based and insurance based FESLs are not the same.
- 30 The definition of average policy used by the Commission in the 2015 Review led to property based FESLs being assessed with other land based taxes. As the Commission is retaining this definition for the 2020 Review, Commission staff propose to recommend the Commission assess property based FESLs in the Land revenue category, insurance based FESLs in the Insurance tax category and motor vehicle based FESLs in the Motor taxes category.

Staff propose to recommend the Commission:

- include all land based taxes in the Land revenue category, except those taxes deemed to be user charges
  - treat planning and development levies and Victoria's Growth areas infrastructure contribution as user charges
- include ACT replacement revenue in the category, provided the ACT can provide an estimate of the revenue
- include property based FESLs in the Land revenue category, insurance based FESLs in the Insurance tax category and motor vehicle based FESLs in the Motor taxes category.

## **What are the drivers of revenue capacity?**

- 31 Under a tax base approach, revenue capacity should be measured using the tax base that States use to impose land based taxes — land values or adjusted land values.
- 32 Western Australia disagrees. It said that land values are policy influenced. It said its

'land tax policy over the past decade illustrates that State tax bases are simply a means of taxing the capacity to pay of the community'.<sup>8</sup>

33 It argued that States change their land tax rates when land values rise faster than the community's capacity to pay land tax. In response to land value movements, Western Australia reduced its land tax rates between 2004-05 to 2008-09, left them unchanged between 2009-10 and 2012-13 and increased them between 2014-15 and 2015-16. Most States have altered their rates and/or threshold levels in the last decade.

34 Most State financial and assessment data are subject to some policy influence. A completely policy neutral approach would require the Commission to use external standards for its financial standards and disability assessments. In its position paper on '*The principle of HFE and its implementation*', the Commission said:

The Commission continues to have a strong preference for internal standards. However, in circumstances of extreme policy non-neutrality, where it is difficult to determine what average policy would be, the Commission may consider the use of external standards, if another suitable resolution cannot be found.<sup>9</sup>

35 It also said:

The Commission does not agree with the view that HFE can only be achieved with complete policy neutrality.<sup>10</sup>

36 While Commission staff accept State policies can affect land revenue and land values, the question is whether State policies are so different as to have a material and differential effect on State land values. If there was evidence of this, the Commission may have to reconsider the reliability of land value data.

37 However, the Commission has used land values as its capacity measure in each of its methodology reviews. It is unclear what other measure of capacity the Commission could use that is less policy influenced but still captures differences in States' revenue raising capacity. Commission staff propose to recommend the Commission continue to use land value data as the basis of the Land revenue capacity measure. If the Commission accepts Western Australia's concerns about the degree to which land values are policy contaminated, then it could consider applying a discount to the assessment.

---

<sup>8</sup> Western Australia's submission to the Commonwealth Grants Commission's 2020 Methodology Review, pages 18 and 19.

<sup>9</sup> CGC 2017-21, *The principle of HFE and its implementation for the 2020 Review*, paragraph 2.23.

<sup>10</sup> Ibid, paragraph 2.48.

Staff propose to recommend the Commission:

- continue to use land values as the basis of the Land revenue capacity measure.

## Land tax

- 38 Land tax is levied on the owners of land held on a specified date. The specified date in most States is 30 June. It is 31 December in New South Wales and Victoria. The ACT has a quarterly assessment of land tax. Most States value land for tax purposes on the basis of site values.
- 39 Most States impose land tax on the value of each land owner's combined taxable land holdings and they offer a general deduction threshold (meaning low value holdings are not taxed). The ACT imposes land tax on an individual property basis and offers no deduction threshold. The Northern Territory does not levy land tax.
- 40 This suggests adjusted land values should be used as the capacity measure for Land tax. Adjustments may be required to address State policies that:
- exempt a person's principal place of residence
  - impose the tax progressively
  - aggregate a land owner's taxable land holdings.
- 41 Table 5 shows the materiality of the first two differences. We do not have data that would allow us to test the materiality of aggregation. In its review of State taxes, South Australia stated that aggregation accounted for \$130 million (37.6%) of its \$346 million Land tax revenue in 2013-14.<sup>11</sup>

**Table 5 Materiality of different approaches to assessing Land tax, 2018 Update**

Effect of:	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Ave
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Exempt principal place of residence (a)	5	0	-13	-4	9	43	41	-67	4
Progressivity (b)	11	-8	17	2	-57	-17	-45	0	7

(a) This was calculated as the difference between an assessment based on ABS residential, commercial and industrial land value data and an assessment that included a proportion of residential land values. The proportion included was the proportion of households renting from private landlords.

(b) This was calculated as the difference between an assessment of taxable land holdings using the effective rate of tax for each value range and an assessment using the overall effective rate of tax. Taxable land values in value ranges up to \$0.3 million were assessed EPC, which is how they are currently assessed.

Source: State data returns. ABS land value data.

<sup>11</sup> Government of South Australia, *State Tax Review Discussion Paper*, February 2015, page 45.

42 **Progressive rates of tax.** Most States impose land tax progressively (see Table 6 and Figure 1), with the tax rate increasing as the value of taxable land holdings increases. Provided the data allow, Commission staff propose to include an adjustment for the progressivity of land tax.

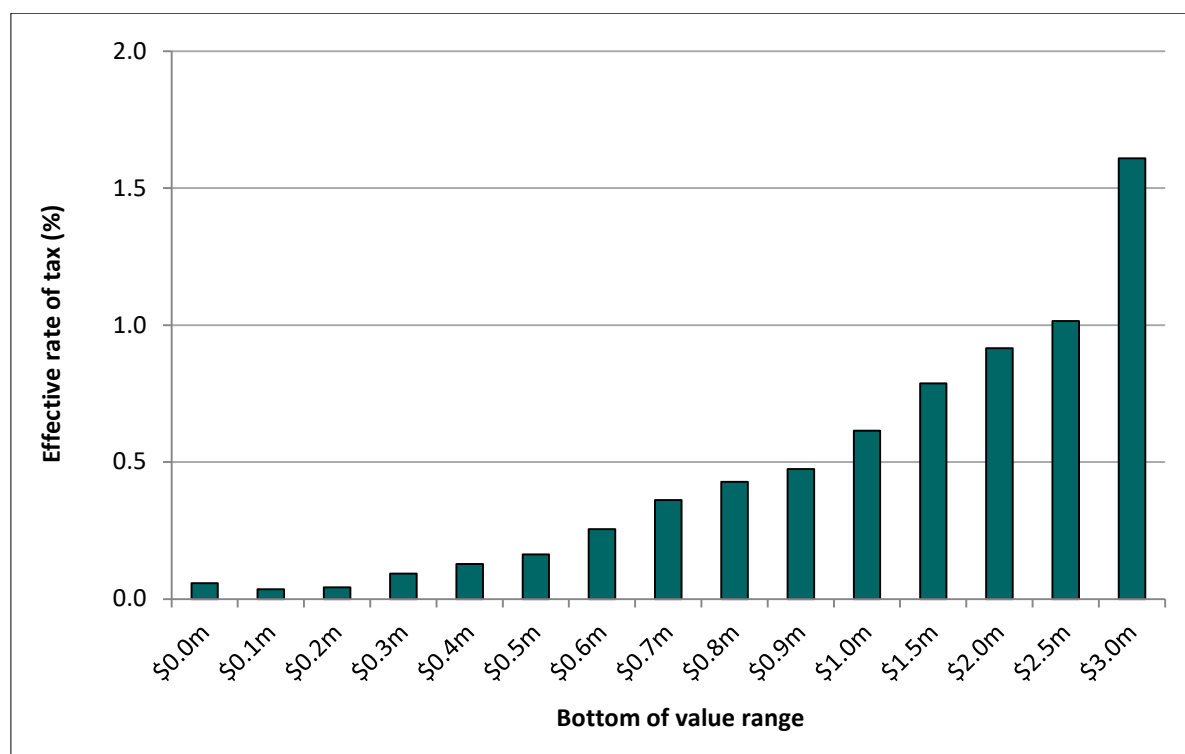
**Table 6 General land tax scales, 2016-17**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Minimum rate (a)	1.60	0.20	1.00	0.25	0.50	0.55	0.41	na
Maximum rate	2.00	2.25	1.75	2.67	3.70	1.50	1.23	na

(a) States, other than the ACT and the Northern Territory, offer a general deduction threshold.

Source: New South Wales Treasury, Interstate comparison of taxes, 2016-17, page 30.

**Figure 1 Progressive rate of Land tax, 2016-17**



Source: State Revenue Office data, 2016-17.

43 **Jointly owned land.** States differ in their treatment of jointly owned land.

- In New South Wales and Victoria, land held jointly is assessed and taxed as if it was owned by a single owner. The land value is allocated between the joint owners according to their interest in the land. Each person’s interest in the joint

land is aggregated with their other land holdings and they are taxed on the basis of their total taxable land value.<sup>12</sup>

- In Queensland, the value of land held jointly is allocated between each owner and aggregated with any other holdings. Each owner is taxed on the basis of their total taxable land value.
- In Western Australia, South Australia and Tasmania, land held jointly is assessed and taxed as if it was owned by a single owner. The assessment is kept separate from any other land owned individually or jointly by the joint owners. These States only aggregate the value of property when it is held by the same owner(s).
- The ACT taxes land owned jointly as if it was owned by one person. The ACT does not have a land tax-free threshold and does not aggregate the value of land held by an owner. Each property is taxed individually.

- 44 Most States also have different grouping provisions for corporations. If corporations are grouped, the land holdings of each corporation in the group are combined and the combined land holding is assessed as if it was a single land holding owned by a single corporation. That is, land tax is calculated on the total taxable value of all land owned by members of a group. This is the tax that would be payable if a single company owned all the land.
- 45 The only data capable of capturing State policies in relation to aggregation, joint ownership and grouping provisions are the taxable land value data provided by SROs.
- 46 **Foreign owner surcharge.** Three States (New South Wales, Victoria and Queensland) have surcharges on their land tax for owners who do not usually live in Australia. The ACT will introduce a surcharge from 1 July 2018. A foreign owner can be an individual, a corporation or a trust.<sup>13</sup>
- 47 A separate assessment of this revenue stream would require the Commission to collect information on the properties held by foreign owners. Alternatively, the Commission could treat the surcharges like a progressive rate of tax. For the 2020 Review, Commission staff propose to recommend the Commission not undertake a separate foreign owner surcharge assessment. Thus, the surcharges will affect the Land revenue assessment through higher effective rates of tax.

---

<sup>12</sup> To avoid double taxation, individuals are able to claim any land tax paid on land held jointly as a credit towards their individual assessment.

<sup>13</sup> New South Wales has a surcharge of 2% on foreign owners, having increased from 0.75% on 1 July 2017. Foreign owners are not allowed to claim a tax free threshold or an exemption for a principal place of residence. New South Wales applies its surcharge to residential land. Victoria has an absentee owner surcharge of 1.5%, having increased from 0.5% on 1 January 2017. Victoria applies its surcharge to all land. Queensland has a 1.5% absentee owner surcharge, which it introduced on 1 July 2017. Queensland applies its surcharge to all land.

Staff propose to recommend the Commission:

- assess the Land tax component using adjusted land values
- adjust land values for
  - the scope of taxation, excluding land values relating to principal places of residence and land used for primary production, general government and charitable purposes
  - State policies on aggregation, including the treatment of jointly owned land, if it can be done reliably
  - the progressivity of Land tax
- not make a separate assessment of foreign owner surcharges, but allow the surcharges to affect the assessment through increased effective rates of tax.

### ***Other land based taxes***

- 48 Generally, States levy other land based taxes on a per property basis (that is, there is no aggregation of land holdings) and they apply these taxes to all residential, commercial and industrial properties.
- 49 Attachment A lists the land based taxes imposed by States and how they are imposed. It shows that most States impose a property based FESL and three States have improvement levies for their metropolitan areas.
- 50 Commission staff propose to recommend the Commission assess these taxes using the value of land for residential, commercial and industrial properties.

Staff propose to recommend the Commission:

- assess other land based taxes using land values for residential, commercial and industrial properties.

### **Which source of data should the Commission use to assess revenue capacity?**

- 51 There are two main sources of land value data, SROs and Valuers-General (VGs).
- SRO data have been used as the source of land value data since the 2010 Review.
  - VG data were the source of land value data prior to the 2010 Review.

- 52 In a December 2016 submission, Western Australia queried the land values being produced from SRO data. It said these land values were very different from those being produced by the ABS for its National Accounts publication.<sup>14</sup>
- 53 No data source is perfect. There are advantages and disadvantages of using each.
- VG data are likely to be more comparable between the States, but they less accurately reflect how States levy land tax. The VGs value each parcel of land separately. They can provide land values on a site value basis. They are not able to:
    - separate taxable residential land from non-taxable residential land
    - aggregate individual land owners’ total taxable land holdings.
  - SRO land holdings data more closely reflect how States levy land tax. SROs are able to exclude non-taxable land and to aggregate the land holdings of individual owners. However, each State’s data reflects the way it levies land tax — its scope and exemptions, its treatment of jointly owned property and its valuation approach. Consequently, SRO data are more affected by individual State policies and are less comparable across States.
  - The ABS constructs its own estimate for residential land values but uses VG data for commercial, industrial and rural land values. Its data are not aggregated by land owner, nor is it able to separate taxable from non-taxable land. Its values are on a site value basis. Commission staff are in discussions with the ABS on its land value series. Like the VG data series, the ABS series may require an adjustment to remove principal places of residence and an adjustment to impute some level of aggregation.

54 Table 7 sets out the main features of each data source.

**Table 7 Sources of land value data**

	SRO	Valuers-General	ABS
Basis of valuation	Various, but can convert to site values	Various, but can convert to site values	Market value
Principal place of residence	Excluded	Included, cannot identify to remove	Included, cannot identify to remove
Aggregation	Can aggregate land holdings	Cannot aggregate as cannot identify owners	Cannot aggregate as cannot identify owners
Treatment of joint properties	Different treatment in different States	Cannot identify owners	Cannot identify owners
Available by value range	Yes	Yes	Unknown

Source: State provided data.

<sup>14</sup> ABS, *Australian System of National Accounts*, Cat No 5204.0.



- 55 In the 2010 Review and again in the 2015 Review, the Commission choose to use SRO holdings data on conceptual grounds, because it more closely related to how States imposed Land tax. All States, except the ACT and the Northern Territory, levy land tax on the aggregated land holdings of individual owners. The SRO holdings data are on this basis, the VG data are not. If VG data were used, the Commission would have to contemplate whether there should be an adjustment to remove principal places of residence and an adjustment to impute some level of aggregation. While the Commission had some concerns about comparability, it decided to source land value data from SROs.
- 56 Table 7 shows that only the SRO data allows for aggregation, although adjustments are required to make States' aggregation approaches more comparable. Western Australia's concern appears to be the reliability of data on the combined value of a land owner's taxable land holdings that flow out of these aggregation approaches.
- 57 Staff have two main concerns with the adjustment process:
- adjustments are made to the largest tax bases, those for New South Wales, Victoria and Queensland
  - there is no way to independently verify the reliability of these adjustments, which are made by States themselves.
- 58 It was due to these concerns about the reliability and comparability of adjusted SRO data that the Commission applied a 25% discount to the assessment. Unless a more comparable and reliable way of making these adjustments is found, it is possible that the Commission may continue to conclude that a discount is necessary should SRO data continue to be used for the assessment.
- 59 On the other hand, only the SRO data exclude principal places of residence. If VG or ABS data are used, an adjustment would be required to remove principal places of residence.<sup>15</sup> Staff do not yet know whether the ABS data can be provided by value range. The adjustment for progressive rates of tax requires land value data by value range. As part of the 2020 Review, staff propose to recommend to the Commission that it engage with States on which would be the most appropriate data source. This work could be undertaken via the Officer Working Party (OWP) process. The OWP could provide advice on which land value data the Commission should use and on the scope of any data collection the Commission might undertake. Commission staff propose an initial meeting in July.

---

<sup>15</sup> The Commission last used VG data as the source of its land values in the 2009 Update. It used ABS data on the proportion of private renters in each State to remove principal places of residence.

Staff propose to recommend the Commission:

- seek views from the Officer Working Party on which is the most appropriate source of land value data and what adjustments may be required to make States' measured tax bases comparable.

## Other issues considered

- 60 ***Elasticity adjustment.*** The Commission has engaged consultants to provide advice on whether it should consider reinstating elasticity adjustments and, if so, for which categories. The question whether an elasticity adjustment could be assessed in the Land revenue category will be addressed by that consultancy.
- 61 ***Discounting the assessment.*** The Commission introduced a discount in the Land revenue category in the 2010 Review and retained it for the 2015 Review. The discount reflected its concerns about the reliability of SRO data.<sup>16</sup>
- 62 The question whether a discount will be assessed in the 2020 Review will be addressed once the assessment method has been settled.

Staff propose to recommend the Commission defer consideration of:

- an elasticity adjustment until it has considered the consultant's report on elasticities
- a discount until the assessment method is settled.

## CONCLUSION AND WAY FORWARD

### Proposed assessment structure

- 63 Staff propose the following assessment structure for this category in the 2020 Review.

---

<sup>16</sup> The Commission assessed a discount because it accepted SRO data were affected by State policies and because it asked three States to adjust their SRO data to reflect a different treatment of jointly held properties.

**Table 8 Proposed Land revenue category structure**

Component	Disability	Influence measured by disability
Land tax	Value of taxable land	Recognises the additional revenue capacity of States with a greater total taxable value of land. (a)
	Progressive rates of duty	Recognises the additional revenue capacity of States with proportionally more properties in higher value ranges.
Other land based taxes	Value of land	Recognises the additional revenue capacity of States with a greater number of properties and greater land value

(a) Depending on the source of land value data, the total taxable value of land may be aggregated by land owner.

# ATTACHMENT A: STATE LAND BASED TAXES

1 This attachment sets out the land based taxes imposed by States.

**Table A-1 Land based taxes, New South Wales, 2017-18**

Taxes on land	Basis of collection	Amount
		\$m
Land tax	Aggregated value of each land owner's taxable land holdings.	3 685
Parking space levy	The levy is charged on parking spaces within a leviable district. It applies to residential and non-residential off-street parking space used or reserved for motor vehicles.	106

Source: Budget Statement, Budget Paper No 1, 2017-18, Table 5.4, page 5-7.

**Table A-2 Land based taxes, Victoria, 2017-18**

Taxes on land	Basis of collection	Amount
		\$m
Land tax	Aggregated value of each land owner's taxable land holdings.	2 366
Fire services property levy	A property based levy collected with council rates. It comprises a fixed charge and a variable charge based on the capital improved value of the property. Eligible pensioners and veterans receive a \$50 concession. The revenue is hypothecated to supporting the State's fire services.	674
Congestion levy	The levy is charged to off-street parking and public car parking in two specified areas. Exemptions and concessions apply for residential parking, disabled parking and spaces provided free of charge for visitors and patients.	118
Metropolitan improvement levy	A charge included on the water, sewerage and drainage bills of residential and commercial properties. It only applies to properties within the area that was administered by the former Melbourne and Metropolitan Board of Works.  The charge is calculated by applying a fixed rate of tax to a property's net annual value. There is a minimum charge and the majority of rate payers pay the minimum.	162
Metropolitan planning levy	A planning permit application charge for the development of land in metropolitan Melbourne if the estimated cost of the development exceeds a threshold amount (\$1m in 2017-18).	27
Growth areas infrastructure contribution (GAIC)	A one-off contribution that helps provide infrastructure in Melbourne's expanding fringe suburbs. A GAIC is payable on certain 'events'. It is payable in relation to certain growth area land that has been zoned for urban use.  Different rates of GAIC apply to different types of land.	175

Source: Statement of Finances, Budget Paper No 5, 2017-18, Table 4.2, page 149.

**Table A-3 Land based taxes, Queensland, 2017-18**

Taxes on land	Basis of collection	Amount
		\$m
Land tax	Aggregated value of each land owner's taxable land holdings.	1 192
Emergency management levy	A property based levy collected with council rates. It is hypothecated to fund the Queensland Fire Service. The levy applies to all properties. It is based on the location and the category of the property.	508

Source: Budget Strategy and Outlook, Budget Paper No 2, 2017-18, Table 4.2, page 149.

**Table A-4 Land based taxes, Western Australia, 2017-18**

Taxes on land	Basis of collection	Amount
		\$m
Land tax	Aggregated value of each land owner's taxable land holdings.	846
Emergency Services levy	A property based levy collected with council rates. Eligible pensioners and seniors are eligible for a rebate. There is a minimum and maximum fee. The revenue is hypothecated to supporting the State's fire services.	337
Metropolitan Region improvement Tax	The tax is levied on the aggregated unimproved value of all land which is both liable for land tax and located within the boundaries of the metropolitan region.	95
Perth parking levy	The levy is charged on all non-residential parking bays within the Perth Parking Management Area. It is an annual fee.	58

Source: Economic and fiscal outlook, Budget Paper No 3, 2017-18, Table 2.1, page 260.

**Table A-5 Land based taxes, South Australia, 2017-18**

Taxes on land	Basis of collection	Amount
		\$m
Land tax — private	Aggregated value of each land owner's taxable land holdings.	850
Land tax — public	Aggregated value of land holdings of the Public Housing Authority.	373
Emergency services levy on fixed property	The levy is imposed on the capital value of land and buildings. It is collected by RevenueSA and placed into a dedicated fund for the exclusive use of emergency services. The levy comprises a fixed charge and a variable charge. A concession may be available for a principal place of residence for concession card holders.	215

Source: Budget Statement, Budget Paper No 3, 2017-18, Table 3.4, page 43.

**Table A-6 Land based taxes, Tasmania, 2017-18**

Taxes on land	Basis of collection	Amount
		\$m
Land tax	Aggregated value of each land owner's taxable land holdings.	105
Fire services levy	A property based levy collected with council rates. The levy is based on the assessed annual value. The rate varies across regions. There is a minimum levy. The revenue is hypothecated to supporting the State's fire services.	60

Source: The Budget, Budget Paper No 1, 2017-18, Table 5.5, page 90.

**Table A-7 Land based taxes, ACT, 2017-18**

Taxes on land	Basis of collection	Amount
		\$m
Land tax	Value of the property.	130
Fire and emergency service levy	The levy is charged on all rateable properties. It is hypothecated to cover costs associated with fire and emergency services in the ACT. A fixed fee applies to residential and rural properties. A marginal rate is applied to the average unimproved value of commercial properties.	73
City centre marketing and improvements levy	The levy is applied to all rateable commercial properties in the City and selected areas of benefit in Braddon. A marginal rate is applied to the average unimproved value of commercial properties. Different rates apply for retail core and non-retail core areas.	2

Source: Budget Outlook, Budget Paper No 3, 2017-18, Table 6.2.1, pages 223 to 224.