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The role of recurrent land taxes and revenue trends in Australia

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Recurrent land tax and revenues

- What land tax is and is not / salience
- Overview of the tax reform agenda and where land tax fits
- Competing imposts for land tax revenue
- What we need to do to reform land tax

Federated Structure

Australia

Canada

United States

India

Brazil

Argentina

Germany

Structure of Government



Unitary Structure

New Zealand

Denmark

Sweden

United Kingdom

Chile

China

Most of African
Continent



Tax reform challenge for Australia

- Low taxing country overall
- Disproportionate tax mix among the OECD countries
 - Aging population
- Centralised tax system (Fiscal Federalism)

OECD tax effort % GDP rankings 34 countries

Organisation for Economic Cooperation and Development

2012	Income Tax		GST/VAT		Overall Tax Effort	
Australia	5 th	15.9%	29 th	7.7%	29th	27.3%
OECD Average		11.4%		10.8%		33.7%
Lowest	Slovak Republic		United States		Mexico	
Highest	Denmark		Hungary		Denmark	

The term land tax is often taken to mean different things.

Recurrent tax assessed on a number of different bases

- State land tax
- Local government rates

Transaction tax

- Conveyance stamp duty – transaction tax

Bases of value comparison

Property Valuation methods permitted to be applied

<i>Group^a</i>	<i>Method</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA^b</i>	<i>SA</i>	<i>Tas</i>	<i>NT</i>
A	Assessed Annual Value (AAV)						√	
	Annual value (AV)					√ ^c		√
	Capital improved value		√					
B	Capital value					√	√	
	Improved capital value							√
	Gross rental value (GRV)				√			
C	Net annual value (NAV)		√					
	Site Value (SV)		√	√		√ ^c		
D	Land value (LV)	√					√	
	Unimproved capital value (UCV)							√
E	Unimproved value (UV)				√			

^a Various terms used across jurisdictions to describe methods that are essentially the same and these are grouped together.

^b Two methods are used in Western Australia, but these are restricted by land type: UV for rural only and GRV for non-rural only.

^c The AV and SV methods can be used in South Australia if the council declared rates for that land on that basis for the previous financial year,
or if the council declares rates for that land on the basis of capital value for the previous three financial years.

Facts and perceptions about land tax

- State land tax
 - Imposed on approx. 15% of property across Australia
 - Exemptions PPR, Investor threshold and primary production land
 - Viewed as a consolidated revenue tax / non-earmarked
- Local rates
 - Apply to over 98% of property across Australia with very few exemptions
 - Much debate over its perception as a benefits received impost vs. capacity to pay tax

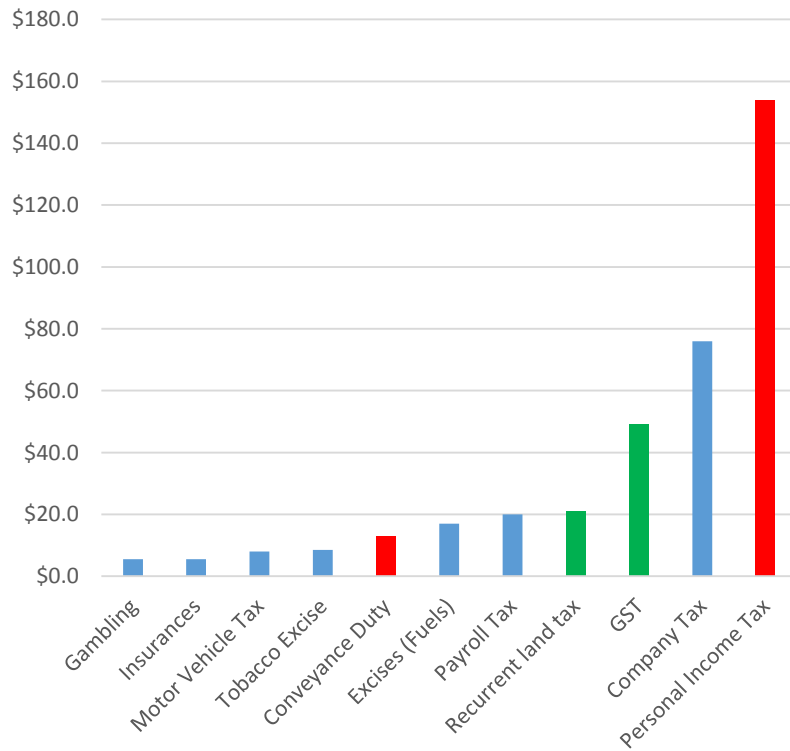
Salience of land tax

- Land tax is one of the more contentious taxes internationally, due to visibility and taxpayer perception. Most PAYEE taxpayers are not custom to paying taxes.
- 80 percent of taxes are near invisible to the taxpayer at point of collection.
- Employers are the largest tax collection agency worldwide:
 - income taxes
 - payroll taxes
- Retailers and service providers include the GST within the cost of goods and services

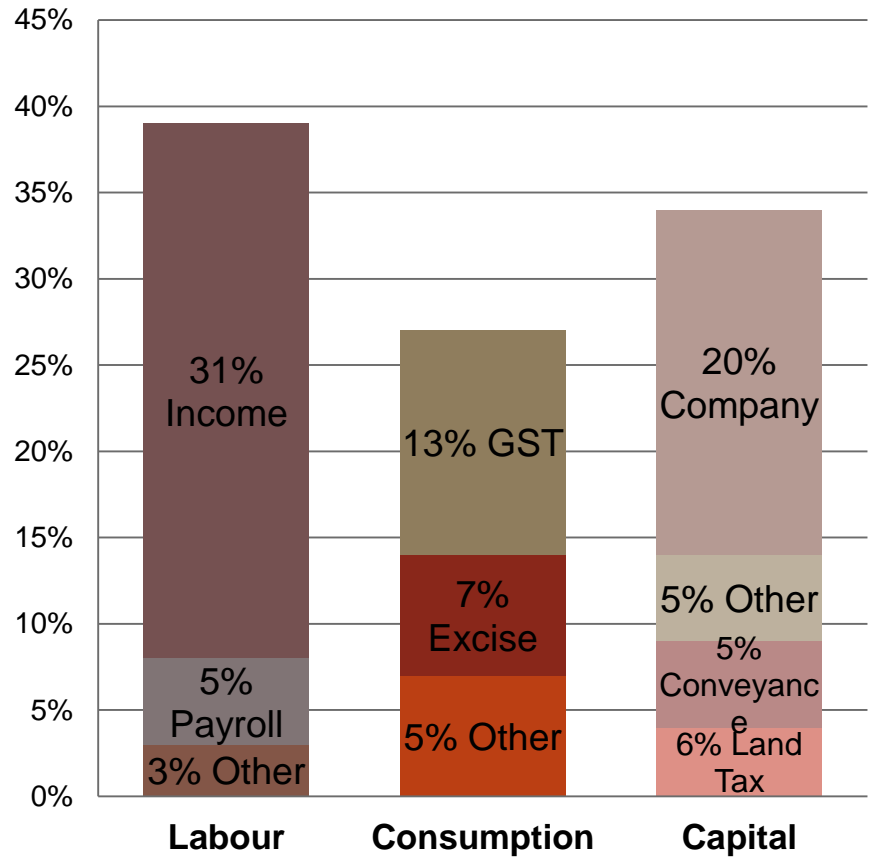
Tax mix & revenues

2014

Total tax collected 2014 \$430 bn



Australian Tax Grouping



Working Age Ratio & Labour Taxes

ABS: ABS: cat No 3222

Year	No working : Population over 65
1970	7.5 : 1
2010	5 : 1
2056	3 : 1

Tax revenue collected by tier of government in Australia

Fiscal Federalism

	Commonwealth	State	Local
1990-91	79.1%	17.4%	3.6%
2000-01	81.9%	15.2%	3.0%
2010-11	80.5%	16.2%	3.5%

	Commonwealth	State	Local
Total taxation raised (A)	81.7%	15.3%	3.0%
Total tax-funded own-purpose expenses (B)	40.3%	55.2%	4.5%
Degree of VFI (=A/B)	2.03	0.27	0.71

United States	40.6
Canada	41.5
OECD Ave 2012	54.5
Belgium	56.4
Austria	66.3
Australia	81.7
Mexico	81.9

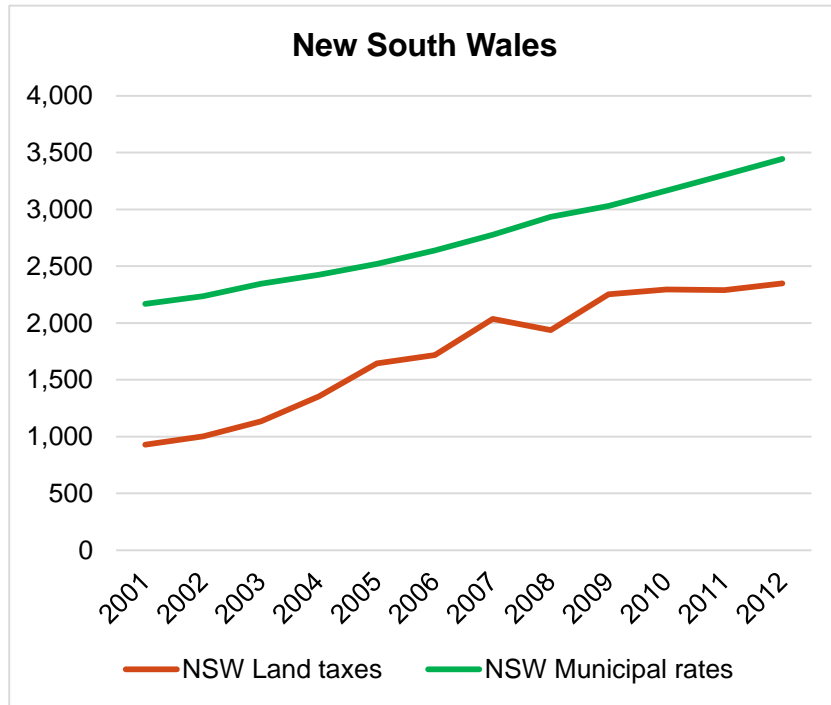
International Recurrent Property Tax Revenue Trends 1965-2010

	1965	2010	% change total tax collected		1965	2010	GDP % change	Rank in OECD countries
Portugal	0	1.9	...		0	0.6	...	20
Italy	1.7	1.5	-16.5%		0.44	0.62	40.4%	19
Finland	0	1.9	...		0	0.65	...	18
Netherlands	1.02	1.8	77.3%		0.334	0.7	109.6%	17
Korea	...	3.2	0.79	...	16
Sweden	0.025	1.7	-6868%		0.008	0.793	9812%	15
Ireland	12.2	3.2	-74.2%		3.05	0.87	-71.5%	14
Spain	0.45	2.7	511%		0,066	0.88	1235%	13
Poland	...	3.7	1.2	...	12
Belgium	0.027	2.8	10363%		0.008	1.229	15262%	11
Denmark	4.9	2.9	-41%		1.5	1.4	-6.2%	10
Australia	6.8	5.5	-18.5%		1.4	1.42	1.1%	9
Iceland	1.7	5.2	212%		0.4	1.9	320%	8
New Zealand	8.3	6.6	-20.9%		2.0	2.1	4.4%	7
Japan	5.2	7.7	49.3		0.9	2.1	131.6%	6
Israel	-	7.2	...		-	2.3	...	5
France	1.9	5.7	200%		0.7	2.5	268%	4
United States	13.7	12.2	-11%		3.4	3.0	-10.4%	3
Canada	11.9	10.1	-15.5%		3.0	3.1	2.1%	2
United Kingdom	11.2	9.8	-13%		3.4	3.4	-0.4%	1
<i>Unweighted average</i>								
OECD-Total	3.8	3.25	-15.4%		0.95	1.05	9.9%	Ranking

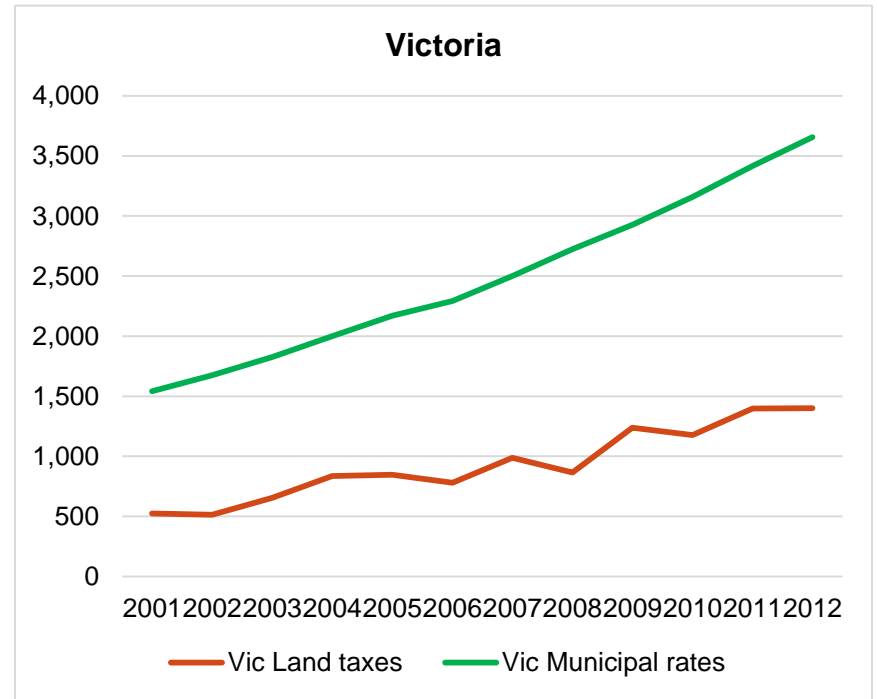
Tax relativity and volatility: Rates, Land Tax & Conveyance Stamp Duty



Emerging trends NSW & VIC



Rates 2.5-3% p.a.



Rates 6.5-7% p.a.

State control of annual rate increases

Victoria

- Rate capping



- *Restricts increases in rates on a property by property basis*

New South Wales

- Rate Pegging



- *Restricts increases of total rate revenue within an LGA*

Emerging competition

- Which level of government in Australia (state or local) should impose and be the beneficiary of increases in revenue from recurrent land tax.



Can increases be shared between state and local government?

Fiscal lunacy: States imposing rate capping and pegging while imposing state land tax on 15 per cent of property.

AFTS 2010 (Henry Review)

- States need to increase tax revenue from property i.e. principle place of residence.
- Remove / freeze land tax thresholds across all states.
- Levy / tax collected by local government through the rating system on behalf of the States.
 - Rationale for this approach is the perception that local rates are closely aligned to services which impact on the value of property.
(McClusky & Plimmer)
 - This is in contrast to state land tax in which there is little or no perceived connection to any services.

Which tier of government imposes, collects and is the beneficiary of this tax

Country	Improved Value	Land Value	Building Value	Income ARV	Area	Revenue Ownership	Revenue Collection
United States	X					Local/State	Local
New Zealand	X	X				Local	Local
Australia	X	X				Local/State	State / Local
United Kingdom	X			X		Local/Central	Local
Canada	X					Local/Prov	Local
Hong Kong	X			X		Local	Local
Denmark	X	X	X			Local/Region	Local
Finland	X	X	X			Local / Central	Central / Local
Czech Republic					Land & Bldg	Local	Local
Estonia		X	X			Local	Local
Poland					Land & Bldg	Local	Local
Latvia		X	X			Local	Local
Lithuania		X	X			Local	Local
Hungary					Land & Bldg	Local	Local
Slovenia					Land & Bldg	Local	Local
Slovakia					Land & Bldg	Local	Local
Kenya		X				Local	Local
South Africa	X	X				Local	Local

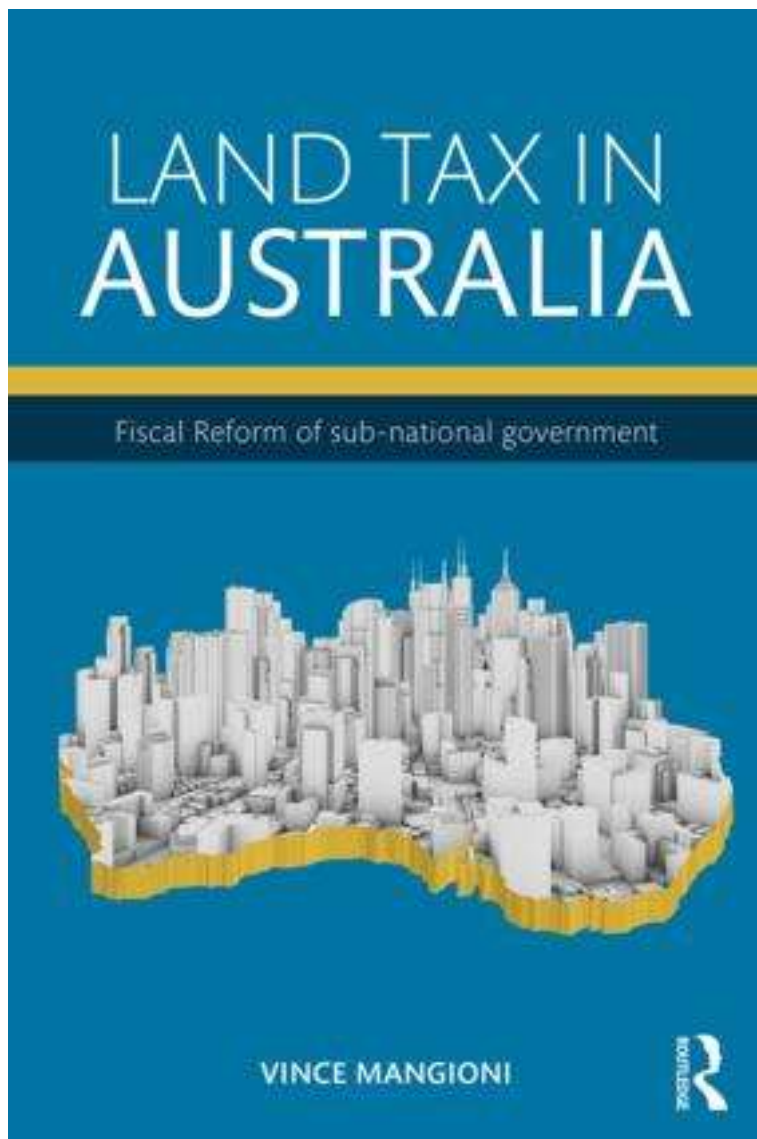
Key findings of property tax reform

Mangioni 2016 'Land tax in Australia: Fiscal reform of subnational government'

- The two tiered recurrent land tax structure in Australia is outdated and must be reformed with local government becoming the tax administrator and collector of recurrent land tax.
- Options are needed to assess recurrent land tax on more than one basis of value in some states that currently have one basis of value, with consistent biennial or triennial valuation cycles used.
- The progressive increase in recurrent land tax revenue to represent 3 per cent of GDP and approximately 9–10 per cent of total tax collected over the following five to 10-year period
- The progressive reduction of stamp duty rates to half of the present rates over a five-year period, with stamp duty imposed on all property bequeathed through Wills. A means test and provisions are to be made available to defer such payment for a defined period as determined by the states.
- Uniform options to quarantine local government rates above the 3 per cent of taxpayers' income until disposal of the property, with Commonwealth support for local government until outstanding rates are paid or recovered.

Land tax as a percentage of rate revenue

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Qld stamp duty	700	1,056	1,382	1,863	1,728	1,949	2,542	2,912	1,806	1,978	1,933	2,023
Qld Land taxes	230	231	279	313	419	404	485	610	838	1,033	1,042	1,013
Qld Municipal rates	1,210	1,281	1,369	1,461	1,559	1,736	1,925	2,096	2,285	2,438	2,666	2,805
% change in revenue	19					23.3						36
Vic stamp duty	1,284	1,885	2,116	2,446	2,337	2,671	2,961	3,706	2,801	3,604	3,910	3,379
Vic Land taxes	525	515	655	837	848	780	989	865	1,238	1,178	1,398	1,401
Vic Municipal rates	1,543	1,676	1,827	2,001	2,170	2,294	2,500	2,724	2,927	3,159	3,416	3,656
% change in revenue	34					34						38.3
NSW Stamp duty	2,267	3,119	3,677	3,918	3,282	3,237	4,166	3,938	2,736	3,739	4,045	3,764
NSW Land taxes	929	1,001	1,136	1,355	1,646	1,717	2,036	1,937	2,252	2,296	2,289	2,350
NSW Municipal rates	2,168	2,236	2,347	2,424	2,521	2,638	2,776	2,935	3,030	3,166	3,303	3,445
% change in revenue	43					65.1						68.2
WA Stamp duty	624	647	833	1,207	1,218	1,906	2,037	2,243	1,008	1,615	1,039	1,340
WA Land tax	221	226	260	280	315	313	386	415	562	519	516	548
WA Municipal rates	669	705	754	801	869	928	1,001	1,088	1,220	1,317	1,454	1,581
% change in revenue	33					33.8						34.6
SA Stamp duty	295	354	428	578	561	600	721	909	721	787	784	683
SA Land tax	140	140	157	198	256	291	332	375	510	553	576	588
SA Municipal rates	545	589	641	683	738	785	834	886	958	1,019	1,086	1,161
% change in revenue	26					37.1						50.6
Aust Stamp Duties	5,340	7,283	8,745	10,388	9,472	10,788	12,923	14,289	9,526	12,294	12,229	11,657
Aust Land taxes	2,103	2,172	2,553	3,059	3,583	3,613	4,358	4,346	5,565	5,767	6,005	6,103
Aust Municipal rates	6,441	6,808	7,276	7,726	8,237	8,788	9,476	10,194	10,938	11,645	12,506	13,265
% change in revenue	32.7					41						46



- **Part I: Status Quo and the Emerging Challenge**, 1: Advance Australia Fair, 2: Evolution Economics and Status Quo of Taxing Land,
- **Part II: Land Tax Assessment and Administration in Australia**, 3: Definitions and Bases of Value, 4: Valuation of Land and Assessment of Land Tax, 5: Principle Place of Residence, 6: Business Use, Investment and Development Land, 7: Objections Appeals and Enforcement,
- **Part III: Recurrent Land Tax – International Case Studies**, 8: United States and Canada, 9: United Kingdom – England and Ireland, 10: Denmark, 11 New Zealand,
- **Part IV: Reforming Land Value Taxation and Fiscal Reform of Subnational Government in Australia**, 12: Reforming Land Tax Under the Status Quo, 13: Realigning Australia’s Tax System: Blue Sky Reform

Benefits of earmarking land taxes to infrastructure in Australia

- In contrast to education, infrastructure lags behind in Australia as an alternate source of earmarking revenue from land taxes.
- The fact of whether someone uses infrastructure or a specific piece of infrastructure is not the test of whether a taxpayer should contribute to funding it. It is the option value afforded by the opportunity to use it, which is factored into the value of their land that is the best arbiter for the assessment of a land tax.
- Land taxes (rates) are not strictly a benefits-received tax, its not only about ratepayers street or suburb, its about contributing towards the broader tax pool of consolidated revenue i.e. capacity to pay tax