



**ACT**  
Government

# Government Response to the ACT Taxation Review

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# Overview

The Government thanks the ACT Taxation Review Panel (the Panel) for its report. The review was commissioned following the release of the *Australia's Future Tax System* (AFTS) report of the review at the national level. The Panel has assessed the feasibility of reform proposed in the AFTS report.

The Panel's report has provided a comprehensive analysis of the Territory's taxation system in a wide range of contexts including, other jurisdictions' tax systems, the ACT's economic structure, its socio demographic composition, expenditure needs, and Government policy objectives.

The Panel has highlighted the challenges faced by State and Territory governments – narrow taxation bases, escalating cost of services and eroding GST revenue base. The ACT also faces those challenges.

The Panel has confirmed that the ACT's taxation mix is not out of the norm, taking into account its circumstances. The Territory's higher than average taxation effort funds above average expenditure on services. When compared to the size of the economy and incomes, the Territory is not a high taxing jurisdiction. Overall, the ACT's taxation system has relatively higher economic efficiency compared to other jurisdictions.

The Panel notes that States and Territories had to resort to inefficient taxes due to the history of Commonwealth-State financial relations. The case for reform of State taxes has been made in the AFTS report, and generally well accepted.

The need for joint Commonwealth and State/Territory action on long-term reform has been recognised by the Panel. The Government notes the Panel also suggests that measures could be taken that would improve the efficiency of the current system.

In essence, the Review argues for commencement of reform, without waiting for national action. It has analysed the feasibility of options that would set the Territory's taxation system on a path of structural reform.

The Government considers taxation reform important not only for economic and fiscal sustainability, but as supportive of its broader social and environmental policy objectives.

The Panel considers the ACT to be in the best position to pursue reform. The Government, however, accepts structural reform cannot occur immediately. It will require adjustments over a long-term.

The Government is mindful of the uncertain economic environment and fiscal challenges for the Territory, and indeed other jurisdictions. Taxation reform in such circumstances can be more difficult, but at the same time more pertinent.

The Panel has also argued for the nation's system of allocation of GST revenue to not be a disincentive for tax reform.

The Government notes the Panel's conclusion that, of all the States and Territories, the ACT is in the best position to pursue reform. It has ready access to the generally accepted efficient and broad tax base, that is land, and its relatively higher incomes provide capacity to support reform.

Reform of taxation is nevertheless challenging.

Of particular importance is revenue replacement, if reliance on inefficient taxes is to be reduced or abandoned altogether. The benefits of improved economic efficiency should not be at the expense of social costs that may arise from reduction in services.

The Government notes the Panel has assessed the feasibility of reform having regard to revenue replacement needs.

Overall, the Panel's work provides a very useful starting point for the Government to consider improvements in the fairness and efficiency of the current system, and for the community to engage in a conversation on the future taxation system in the Territory.

## Next Steps

The Government will hold roundtable discussions with the community over the next few months seeking feedback on the ACT Taxation Review, its recommendations and possible reforms moving forward.

This will provide the community with the opportunity to provide comment on the Review and will help inform the Government's long-term tax reform agenda.

# Government Response to the Panel's Recommendations

## Recommendation 1

Adopt taxation instruments and settings that deliver stable revenue growth proportionate with economic growth.

Agreed.

The Government notes the Panel's conclusion that the Territory's taxation system, like that of other States, is not sustainable in the long-term. The cost of some services is rising faster than the rate of economic growth; the GST base is eroding; major taxes are volatile, unfair, inefficient; and therefore unsustainable.

The Government is committed to ensuring that the Territory's taxation system delivers stable revenue growth proportionate with economic growth for sustainable priority services to the community.

## Recommendation 2

With regards to long term structural reform, over a period of time that is adequate for appropriate transition:

a) abolish duty on conveyances

Agreed in principle.

The Government notes the Panel's analysis and conclusions on the fairness and sustainability of this tax. Duty on conveyances comprises around one quarter of the total taxation revenue. Its abolition needs to be over a longer-term to ensure appropriate transition and adjustment by markets.

Identification of efficient and stable revenue replacement sources is also an important consideration of any reform of this tax.

b) retain a form of tax on payroll to maintain a diversified tax system

Agreed.

The Government will support the substitution of payroll tax as part of national reform.

Pending national action across all jurisdictions, and an appropriate revenue replacement base being available, the Government accepts the Panel's suggestion to retain a form of tax on payroll.

The Government acknowledges the potential for reforms, apart from harmonisation with other jurisdictions that benefit the Territory's businesses and its economy.

**c) abolish duty on general insurance and life insurance, and**

Agreed.

The Government is mindful that taxes on insurance are considered to be a highly inefficient method of raising revenue. They create incentive not to insure and are not sustainable due to pressures on governments to compensate and support after the event.

The abolition of the duty has significant budget implications, and the Government will consider changes in the Budget context.

**d) adopt a broad-based land tax as a base for revenue replacement.**

Agreed in principle.

### **Recommendation 3**

**Pursue measures and steps in the short-term that, individually and combined, make progress towards long-term structural reform.**

Agreed.

The Government is committed to ensuring that the Territory's taxation system meets the needs of the community now and into the future.

The case for structural reform of the State and Territory taxations systems has been made earlier, and more recently in the AFTS report. The Panel has suggested that rather than major changes, measures and steps can be taken in the short-term that make progress towards structural reform.

The Government will consider these suggestions in the context of future Budgets.

### **Recommendation 4**

**To the extent possible, ensure that there are no disincentives for households and businesses to locate within Territory borders as opposed to the surrounding region.**

Agreed.

The Panel has highlighted the potential fiscal and economic costs if the surrounding regions attract population growth in preference to the ACT.

The region and its economy have strong links to the Territory's economy and its labour market. The ACT's high quality services, particularly in health and education, are attractive for people to locate in the region.

The Government strives to maintain its taxation and broader policy settings, as competitive as possible, to ensure that households and businesses do not face any disincentives to locate within the ACT as opposed to the surrounding region.

## **Recommendation 5**

**Engage the Commonwealth Government and seek its support in pursuing any taxation reform.**

Agreed.

As a small jurisdiction, the Territory is in a unique position to undertake taxation reform. It has access to an efficient and broad tax base (i.e., land) not readily available to other States. It has a highly productive population with relatively higher incomes, and as such, has the capacity to absorb the distributional impacts of reform.

The Government will continue to engage with the Commonwealth Government and seek support for leading the nation in undertaking reform.

## **Recommendation 6**

**Seek Commonwealth support in ensuring that taxation reforms do not impose unintended penalties through the application of the GST distribution process.**

Agreed.

Taxation reform will need to be undertaken in a way that does not penalise the Territory for undertaking such reform.

The ACT will engage with the Commonwealth Government in order to ensure that the benefits of the reform are retained by the Territory, and that it is not unduly penalised through the Commonwealth Grants Commission's distribution methods.

## **Recommendation 7**

**Use the Lease Variation Charge and a broad-based land tax as instruments for land value capture. Taxation settings should ensure sufficient revenue to support the necessary investment in infrastructure and services.**

Agreed.

The Government agrees with the principle of land value capture. The Government notes that Lease Variation Charge, besides being an effective instrument, in fact embodies the principle of land value capture.

Recognising its importance, and in order to simplify its administration, the Government has reformed the system through codification.

As noted in response to Recommendation 2(d), the Government agrees in principle with the adoption of a broad-based land tax. As recognised by the Panel, such a tax is already in place in the Territory in the form of general rates.

## Recommendation 8

Duty on motor vehicle transfers should be continued. A road user charge system would be best progressed through a national agreement between all the States and Territories.

Agreed.

The Government recognises duty on motor vehicle transfers falls in the category of transaction taxes which have high economic efficiency costs.

Any reform of road use charges, however, needs to be pursued at the national level in order to ensure consistent and fair revenue replacement.

## Recommendation 9

Pursue the introduction of parking fees in the Parliamentary Triangle.

Agreed.

The Government remains committed to introducing parking fees in the Parliamentary Triangle so as to ensure equity with the central business district and other major employment hubs. The Government will continue to work with the Commonwealth to develop a way forward on this issue.

## Recommendation 10

Abolish conveyance duty. In doing so:

- pursue at least a 10 year, and up to a 20 year, transition plan to ameliorate the impact of the change on households
- have due regard for conveyance duty paid in the years leading up to the change, and
- recognise the significance of the change and consult with the community on the transition plan.

Agreed in principle – to be considered in future reform.

As noted in response to Recommendation 2(a), the Government acknowledges the unfair and volatile nature of this tax.

The Government also agrees that any reform of this tax will need to be over a very long-term, possibly extending to 20 years. Such a time frame is important so as not to create distortions in the market.

The Government is committed to not only pursuing a taxation system that is fair and efficient, but also through a path that is fair and consultative.

## Recommendation 11

Address the impacts on low income households from the substitution of the tax through the concessions system, with a possible expansion of the current rebate scheme.

Agreed.

The Government remains committed to ensuring that implementing a fairer taxation system does not adversely impact on lower income households. In principle, a progressive taxation system should have regard to households' ability to pay. The Government recognises that, notwithstanding progressive tax rates, there will be households that may be adversely impacted by reform.

The Panel's proposal to utilise the current concession and rebate system to ameliorate any impacts of the reform on low income households is a confirmation of the robustness of the system. The Government will utilise both progressive tax rates as well as rebates and concessions to cushion the impacts of any reform measures on low income households.

## Recommendation 12

For households not eligible for rebates, allow deferral of rates as an option, based on age and asset tests.

Agreed in principle.

The Government has a Rates Deferral Scheme in place. In pursuing any reform, the Government recognises the need to expand the current eligibility criteria so that households ineligible for rebates are not unduly affected by taxation reform.

## Recommendation 13

Expand the Home Buyer Concession Scheme by:

- progressively reducing the marginal tax rates, and
- extending the threshold.

Agreed in principle.

The Home Buyer Concession Scheme in the ACT is targeted both at the property price range and income levels eligible for concession. The Government notes the Panel's recommendation suggests maintaining the targeted nature of the scheme.

Property value thresholds are updated every six months. The Government sees merit in adjusting the criteria of the scheme to support its policy objectives of targeted assistance, housing affordability and supporting increased supply of dwellings.

## Recommendation 14

Continue a Pensioner Duty Concession Scheme over the transition period, and adjust the property value thresholds to support ageing in place and access to housing choices within an area.

Agreed in principle.

The Pensioner Duty Concession Scheme was introduced for a limited period of time, and has been in place since 2008. The scheme supports older Canberrans to access accommodation appropriate to their needs. It also has the benefit of freeing up housing stock for families.

The Scheme has budget implications, and the Government will consider its continuation in the Budget context.

## Recommendation 15

Extend the eligibility criteria for Duty Deferral Scheme and provide an option to amortise duty over a period of ten years.

Agreed in principle.

The Government introduced a Duty Deferral Scheme as part of its *Affordable Housing Action Plan* to assist eligible households amortise transaction costs.

The Government notes that the Panel's recommendation is a practical measure to reduce barriers to move while other recommendations relating to the abolition of transaction taxes be implemented over a longer time frame, and will consider it as part of its future reform.

## Recommendation 16

Support ageing in place through expanding the Duty Deferral Scheme and deferral of rates, with outstanding tax liabilities recovered at the time of sale.

Agreed in principle.

The Government remains committed to supporting elderly Canberrans move to more appropriate housing within the Territory. The expansion of the Duty Deferral Scheme and the Rates Deferral Scheme will allow more Canberrans to age in place and move to more suitable accommodation as they get older.

These Schemes have budget and administrative implications and the Government will consider their expansion through the Budget.

## **Recommendation 17**

**Work towards national harmonisation of the payroll tax system.**

Agreed.

The Government remains committed to working towards harmonisation of the payroll tax system across Australia. The current harmonisation effort is generally limited to aligning definitions. The Government will also support, and participate in, any broader national reform as promulgated in the AFTS.

## **Recommendation 18**

**Over time, abolish residential land tax in its current form.**

Agreed in principle.

The Government notes the Panel's observation that land tax in its current form is unfair, as it discriminates on the basis of tenure. The tax, however, provides an important source of revenue to deliver essential services to the community. The abolition of this tax will require a fair, efficient and stable revenue replacement source.

The Panel has suggested a broad-based land tax – general rates for the ACT – as the main revenue replacement source for the more inefficient taxes. Any transfer of residential land tax to general rates will be subject to community consultation.

## **Recommendation 19**

**Transfer the commercial component of land tax to general rates on commercial properties.**

Agreed in principle.

The Government considers there is merit in transferring the commercial component of land tax to commercial rates, as it will reduce administration costs for businesses as well as the ACT Revenue Office.

In pursuing this simplification, it will be important to ensure that the differences in tax rates between commercial land tax and commercial rates do not result in shifting tax burden between businesses. In practice, this could be achieved through introducing progressive rating factors as indeed suggested by the Panel.

## Recommendation 20

Adopt 'site value' of land as the valuation basis for the determination of rates, land tax, and Lease Variation Charges. The site value should exclude improvements on the land (such as buildings and sheds) but include improvements to the land by way of clearing, filling, grading, draining, levelling or excavating of the land.

Agreed in principle.

## Recommendation 21

Levy general rates via a two-part charge incorporating an element to meet the cost of basic city services, and a progressive general taxation component contributing to general revenue.

Agreed in principle.

The Government notes while a two-part charge system is currently in place for general rates, the Panel's proposal relates to the nature of those parts being altered.

The Government notes the potential to improve the progressivity of the rating system highlighted by the Panel. This will indeed be essential if some of the more inefficient but relatively progressive taxes are substituted by increases in general rates as proposed by the Panel. The Government will consider improvement of the rating system in the context of its reform program.

## Recommendation 22

Abolish duty charged on general insurance and life insurance premiums, with general rates as the revenue replacement source.

Agreed.

The Government acknowledges the Panel's conclusion that duty on insurances is not a sustainable form of revenue raising. Relatively lower insurance rates in the lower income quintiles highlighted by the Panel are a matter of concern, and it would be beneficial to encourage insurance.

The Government considers the Panel's proposal to adopt general rates as a revenue replacement source is reasonable with relatively lesser shifts in taxation burden across households.

## Recommendation 23

In order to ensure that the benefits of insurance tax reform are passed to the consumers, establish a monitoring and regulatory role for the Independent Competition and Regulatory Commission.

Agreed in principle.

The Government considers it is important that any benefits of reform are passed to the consumers and not retained as business or company profits. As such, any reform pursued will have the necessary regard to appropriate mechanisms being explored, including regulatory means and market mechanisms.

## Recommendation 24

Retain the Ambulance Levy, however, review its administration.

Agreed.

## Recommendation 25

Consider increasing gambling machine taxes, having regard to the impacts of the prospective reform at the national level, and the contribution clubs make to the community.

### Alternative Recommendation 25 from the Chair

Consider increasing gambling machine taxes only after the impacts of the prospective reform at the national level have been assessed, and there has been an objective and independent evaluation of how the Canberra clubs industry applies the revenues derived from poker machines.

Noted.

The Government notes the Panel's conclusions that gambling taxes have very low efficiency costs, and that changes in tax rates and settings are unlikely to change gamblers' behaviour, in particular the incidence of problem gambling.

The Panel has highlighted the potential for increased revenue from these taxes. This could reduce the need for revenue replacement for other inefficient taxes, and will be consistent with the reform directions proposed in the AFTS, i.e. to tax economic rents while removing inefficient taxes.

The Government considers that it would be unreasonable to commence reform of gambling machine taxes until after the ACT mandatory pre-commitment trial period is completed.

## **Recommendation 26**

Consider a two-part tariff on gaming machines comprising a licence fee per machine and a progressive tax component.

Agreed in principle.

The Government considers a licence fee is appropriate to recover some of the costs of regulation and administration. With regards to improving progressivity, the Government considers it would be unreasonable to commence reform until after the ACT mandatory pre-commitment trial is completed.

## **Recommendation 27**

Use the concession system to ‘cushion’ the distributional impacts of reform through the transition period, and on an ongoing basis.

Agreed.

The Government is strongly committed to ensuring that households on low incomes are not unduly affected by taxation reform.

There is scope to improve the progressivity of the efficient tax base (general rates), and as such, low to moderate income households could be protected through the design of the reform. The impacts for such households could also be cushioned through the concessions and rebate system.

## **Additional Recommendation from the Panel Chair**

Consider allowing poker machines in Casino Canberra.

Not agreed.

The ACT has a community gaming model that precludes poker machines in Casino Canberra. The Government notes the casino licence was granted, and accepted by the operator, on this basis.





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