Tax Reform – A fairer, simpler and more efficient tax system

In 2010 the ACT Government commissioned a review of the ACT taxation system to advise on the efficiency and sustainability of the Territory’s revenue collection, following the Henry Tax Review at the Commonwealth level. Both the ACT Review (the Quinlan Review) and the Commonwealth Review (Henry) concluded that the ACT’s tax system – like all other jurisdictions – is inefficient and unsustainable.

In the 2012-13 Budget, the ACT Government has announced major changes to the taxation system with a commitment to a fairer, simpler and more efficient tax system for the Territory.

These changes, which are revenue neutral, are important as the ACT’s taxation system allows the Government to support those in need, function effectively, and to make investments for the benefit of current and future generations.

A Fairer Tax System

The Government will abolish conveyance duty and insurance taxes.
Residential General Rates will be made more progressive – tax brackets and increasing marginal tax rates are being introduced.
Residential Land Tax is being made more progressive.

A Simpler Tax System

Abolish duty on general insurance
Abolish duty on life insurance
Phase out conveyance duty
Abolish Commercial Land Tax
Reduce Payroll Tax
Abolish duty on transfer of subleases
Align more closely with NSW wholesale unit trusts provisions

Increased General Rates – Commercial
Increased General Rates – Residential with enhanced concessions
Adjustment to Utilities (Network Facilities) Tax to reflect land value appreciation
A More Efficient Tax System

Tax reform will reduce the share of inefficient taxes and increase the share of more efficient taxes over the next five years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Efficient Taxes</th>
<th>Inefficient Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011–12</td>
<td>71%</td>
<td>29%</td>
</tr>
<tr>
<td>2015–16</td>
<td>62%</td>
<td>38%</td>
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</tbody>
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Reform Measures

The key reform measures are as follows.

- Duty on general and life insurance policies will be abolished over the next five years. The tax on general insurance and life insurance policies will be reduced by 20 per cent every year from 2012-13.
- A phase out of duty on conveyances will commence. The marginal tax rates will be adjusted every year to progressively reduce the duty. The changes will apply to both the residential and commercial sectors.
- Revenue replacement will be through the General Rates system for both the residential and commercial sectors. The progressivity of the General Rates system is being improved to make the revenue substitution more equitable.
- Commercial Land Tax is being abolished and substituted by an increase in commercial General Rates on a revenue and cost neutral basis.
- Residential Land Tax is being made more progressive to reduce the tax burden for properties below median price.
- The tax-free threshold for Payroll Tax is being increased to $1.75 million.
- Motor vehicle registrations will be based on environmental performance of the vehicles. This reform will commence in future years once the Green Vehicle Rating guide has been completed.
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ACT Tax Reform Fact Sheet

- A number of legislative amendments are included to improve the functioning and operations of various taxes. Significant amendments relate to:
  - Align more closely to landholder provisions in the *Duties Act 1999* with New South Wales.
  - The treatment of whole-sale unit trusts.
  - Abolishing duty on subleases.

**Targeted Assistance Measures**

The Plan includes a number of targeted support measures to ameliorate the impact of reform, or to improve access.

- The cap for General Rates Rebate will be increased from $481 in 2011-12 to $565 in 2012-13, an increase of 17 per cent. Pre-1997 pensioners subject to uncapped rebate, will continue to receive a 50 per cent rebate on any rates increase.

- Pensioner Duty Concession Scheme is being extended by three years. The property value thresholds are being increased with full concession available up to a value of $570,250 (the 75th percentile value) and partial concession up to $715,000 (the 90th percentile).

- The income threshold for Home Buyer Concession Scheme (HBCS) is being increased by 25 per cent to $150,000. The eligibility will be limited to new dwellings, land purchased for a first home, or significantly renovated dwellings.

- The Rates Deferral Scheme is being extended to non pensioners. The option will be available to people over 65, whether working or retired, with below average incomes and the unimproved land value above $390,000 (the 80th percentile). Households need to have at least 75 per cent equity in the dwelling to be able to defer the tax as a charge on the dwelling.

- The Duty Deferral Scheme will be available to those eligible for HBCS or First Home Owners Grant (FHOG).

**Further information**

Further information on these changes is available in the *A fairer, simpler and more efficient tax system* report.

To find out more on the ACT Tax Reform and how the changes may affect you, please visit [www.treasury.act.gov.au/TaxReform.shtml](http://www.treasury.act.gov.au/TaxReform.shtml), or contact us on (02) 6207 0028.