3.3 TAXATION REFORM

The Government is committed to making the Territory's taxation system fairer, simpler and more efficient for the future. The ACT Government is the only jurisdiction in Australia to go down the path of major tax reform. Significant reforms to the Territory's taxation system commenced in the 2012-13 Budget.

The first tranche of major reforms announced included:

- abolishing duty on insurance policies over five years;
- abolishing conveyance duty over 20 years;
- abolishing commercial land tax;
- increasing the tax free threshold for payroll tax; and
- making residential land tax and the general rates system more progressive.

These reforms are being undertaken in a staged approach to allow ACT households and the economy time to adjust. Reforms have been funded through General Rates to ensure revenue neutrality overall, while preserving capacity for government services and ensuring future generations do not bear the higher economic costs of an unfair and inefficient tax system.

To assist households and cushion the impacts of taxation reform, a number of concession schemes were provided in the 2012-13 Budget. These measures included:

- expanding the Home Buyer Concession Scheme;
- extending the Pensioner Duty Concession Scheme;
- increasing the rates rebate scheme; and
- expanding the eligibility for the Rates Deferral Scheme.

These tax reforms and targeted assistance measures have all been implemented.

Each year the Government will announce a rolling five year strategy for tax reform. This will be announced later in 2013 and will propose conveyance rates for 2017-18 which does not form part of the forward estimates.

Building on the First Tranche of Reform from 2012-13

The reforms to abolish conveyance duty and duty on insurance policies will continue in 2013-14. These reforms are outlined below.

Duty on Insurance

The 2012-13 Budget announced the abolition of duty on insurance policies over a five year period. As part of the 2012-13 Budget, the Government reduced duty rates on general insurance from 10 per cent to 8 per cent, and duty on life insurance from 5 per cent to 4 per cent.

From 1 July 2013, the Government will reduce duty on insurance policies from 8 per cent to 6 per cent, and duty on life insurance from 4 per cent to 3 per cent. The reduced rates for insurance duty in the budget forward years are shown in Table 3.3.1.

Table 3.3.1
Duty on Insurance Taxes

	2013-14 (%)	2014-15 (%)	2015-16 (%)	2016-17 (%)
General insurance	6	4	2	0
Life insurance	3	2	1	0

Households and businesses with insurance will save 4 per cent on general insurance over the first two years of reform. For example, an ACT household paying around $2,500 per year in insurance will save around $100 as a result of this reform. In addition, the reduction on insurance will lead to lower GST on insurance as GST applies to State and Territory taxes on insurance products.

Conveyance Duty

The Government is abolishing conveyance duty over the next 20 years. This will mean that the conveyance duty rates are progressively reduced each year during that period.

The 2012-13 Budget outlined the duty rates for the first five years of reform. The rates will reduce again in 2013-14 commencing 5 June 2013. These rates are shown in 3.3.2 below.

Table 3.3.2
Conveyance Duty Rates

2012-13	Threshold	2013-14	Reduction	2014-15	2015-16	2016-17
2.4	Up to $200,000	2.2	0.2	2.0	1.8	1.48
3.75	$200,001 to $300,000	3.7	0.05	3.5	3.0	2.5
4.75	$300,001 to $500,000	4.5	0.05	4.15	4.0	4.0
5.5	$500,001 to $750,000	5.0	0.5	5.0	5.0	5.0
6.5	$750,001 to $1,000,000	6.5	0	6.5	6.5	6.5
7.25	$1,000,001 to $1,649,999[1]	7.0	0.25	7.0	7.0	7.0
7.25	$1,650,000 and above	5.5[2]	1.75[2]	5.5[2]	5.5[2]	5.5[2]

Notes:
1. From 5 June 2013, the abolition of conveyance duty on large properties above $1.65 million will be accelerated – this is a 2013-14 Budget tax reform initiative.
2. The 5.5 per cent rate is a flat rate.

The table below shows the duty payable through lower conveyance duty rates for a range of property values. For example, a house valued at $500,000 experienced a reduction of $2,450 in 2012-13. Duty on a similar house will fall by a further $950 in 2013-14 meaning an overall decrease of $3,400 since the start of tax reform.

Table 3.3.3
Conveyance Duty by Threshold

2011-12		2012-13	2013-14	2014-15	2015-16	2016-17	Savings in 2012-13	Additional savings in 2013-14
	Property value thresholds ($)	**Duty Payable ($)**						
5,500	**200,000**	4,800	4,400	4,000	3,600	2,960	700	400
9,500	**300,000**	8,550	8,100	7,500	6,600	5,460	950	450
20,500	**500,000**	18,050	17,100	15,800	14,600	13,460	2,450	950
34,875	**750,000**	31,800	29,600	28,300	27,100	25,960	3,075	2,200
49,250	**1,000,000**	48,050	45,850	44,550	43,350	42,210	1,200	2,200

General Rates

The 2012-13 Budget announced changes to the General Rates system to make it more progressive. Over the 20 year tax reform period, the revenue lost from the abolition of inefficient taxes will be replaced through changes to the General Rates system.

The 2013-14 Budget builds on this reform, by continuing to use the General Rates system as the mechanism for replacing revenue lost through the abolition of inefficient taxes. For the residential sector, a series of four thresholds and rating factors were introduced from 1 July 2012. The four thresholds introduced in the 2012-13 Budget will continue, however, there will be a change to the rating factors and the fixed charge.

The 2012-13 Budget also introduced progressivity in the commercial General Rates system. Three different thresholds and marginal rates were introduced. The thresholds will remain the same as in the 2012-13 Budget, however, there will be changes to the rating factors and the fixed charge.

The thresholds and marginal tax rates for the General Rates in the residential and commercial sectors are shown in Tables 3.3.4 and 3.3.5 below.

Other Reforms

Significant reform was undertaken in the 2012-13 Budget to residential land tax, payroll tax and the Utilities Network Facilities Tax. No further reform will be undertaken to these taxes in the 2013-14 Budget.

2013-14 Tax Reform Measures

The 2013-14 Budget will introduce new tax reform initiatives.

These changes form part of the next step towards achieving the long-term objectives of tax reform, while further supporting Canberra businesses, households and the local economy.

The reforms included in the 2013-14 Budget are outlined below.

Conveyance Duty

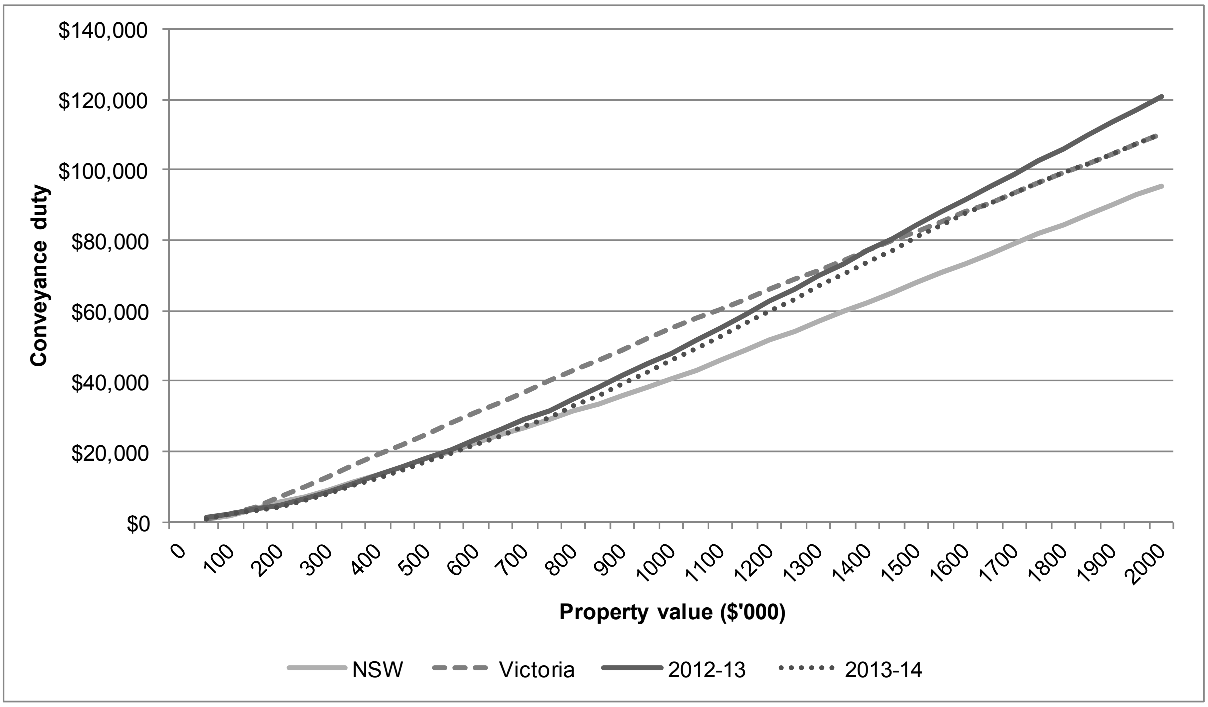
In the 2013-14 Budget, the Government is further accelerating the reduction in conveyance duty for properties valued over $1.65 million. For properties valued above this amount, a flat rate of 5.5 per cent will be applied. This will significantly reduce the amount of conveyance duty payable for these properties.

For example, a property valued at $3 million would receive a saving of $28,000 in 2013-14 compared with 2012-13.

Properties valued below $1.65 million will continue to use the progressive rates system as shown in Table 3.3.2.

To offset the cost of this initiative (as with other tax reform initiatives) the Government will replace the lost revenue through the General Rates system.

Figure 3.3.4
Comparison of Conveyance Duty Payable with NSW and Victoria



General Rates

The General Rates system continues to be the mechanism for replacing revenue lost through the abolition of inefficient taxes – both the continuation of the reforms introduced in the 2012-13 Budget and the accelerated reduction of conveyance duty announced in this Budget.

Overall, General Rates on residential properties will increase by an average of around 10 per cent in 2013-14.

The thresholds and marginal tax rates for the residential sector for 2013-14 are shown in 3.3.4 below. The fixed charge will be increased to $626.

Table 3.3.4:
Residential General Rates

Threshold	2012-13 Marginal Rate	2013-14 Marginal Rate
0 to $150,000	0.2236%	0.2306%
$150,000 to $300,000	0.3136%	0.3241%
$300,000 to $450,000	0.3736%	0.3876%
$450,000 and above	0.4136%	0.4312%
Fixed Charge	$555	$626

General Rates on commercial properties will increase overall by around 20 per cent in 2013-14.

The thresholds and marginal tax rates for the commercial sector are shown in Table 3.3.5 below. The fixed charge will increase to $1,749. The thresholds will remain the same as in the 2012-13 Budget, however, there are changes to the rating factors.

Table 3.3.5
Commercial General Rates

Threshold	2012-13	2013-14
0 to $150,000	1.9070%	2.2069%
$150,000 to $275,000	2.2670%	2.6429%
$275,000 and above	2.6070%	3.5369%
Fixed Charge	$1,213	$1,749

Affordable Housing Package

The 2013-14 Budget will make reforms to improve affordable housing in the Territory. These changes include: retargeting the First Home Owner Grant to new homes only, expanding the Home Buyer Concession Scheme and retargeting the Land Rent Scheme by only offering it to eligible low income households. These reforms are outlined below.

First Home Owner Grant

The First Home Owner Grant will be retargeted to new and substantially renovated properties from 1 September 2013. The value of the grant will be increased from $7,000 to $12,500.

These changes will align the First Home Owner Grant with the Home Buyer Concession Scheme with a common objective of stimulating the construction of new housing in the Territory. It will also provide greater support to the construction industry. These changes will align the ACT with other states, including NSW, QLD, VIC and SA, who have implemented similar reforms to their First Home Owner Grant arrangements.

The current First Home Owner Grant will continue until 31 August 2013, to allow households already in the market to purchase an existing dwelling to have access to the grant.

Land Rent Scheme

The Land Rent Scheme was introduced in the Territory in 2008 to provide an alternative option for households to enter the housing market. Two different rental rates exist for those wishing to enter the scheme, including a discount rate of 2 per cent for low income households and a standard 4 per cent rate for all other households. The scheme underwent an external evaluation in 2012 and was found to be performing well.

As part of the 2013-14 Budget, the Land Rent Scheme will be modified to provide improved access to housing for low to medium income households, by retargeting the eligibility requirements to focus on those cohorts. From 1 October 2013, access to the scheme for new entrants will be available to applicants who meet the defined eligibility criteria. The eligibility criteria include:

- none of the lessees own other real property;
- the total income of lessees, is below the defined income threshold amount; and
- at least one of the lessees lives on the parcel of land under the lease.

New entrants will no longer be able to access the scheme at the standard rate. However, existing lessees currently in the scheme at the standard (4 per cent rate) will be able to continue in the scheme.

Home Buyer Concession Scheme

The Home Buyer Concession Scheme underwent significant reform as part of the 2012-13 Budget. The scheme was retargeted towards new houses only and the income threshold was significantly increased. As part of the 2013-14 Budget, the Home Buyer Concession Scheme is being further expanded to assist first home buyers in the Territory.

As part of these changes, the income eligibility criteria will increase from $150,000 to $160,000. The property threshold up until which a full concession is available will increase from the 25th to the 40th percentile. This will provide a full duty concession up to a property value of $425,000. A partial concession will be is available for property values up to $525,000 (the 65th percentile).

Further information on other concessions provided by the ACT Government is provided in Chapter 2.4 Cost of Living Statement.