1.4 TAXATION REFORM

The 2012-13 Budget commences a major long term reform of the Territory's taxation system, following the recommendations of the ACT Taxation Review.

The key elements of the strategic reform are:

- abolishing transaction taxes;
- adopting General Rates as a broad based land tax for revenue replacement;
- improving the progressivity of the revenue replacement base, i.e., General Rates;
- abolishing nuisance taxes; and
- simplifying the overall taxation system.

The reform of the Territory's taxation system needs to take place over the longer term to allow the economy and households time to adjust to structural change. The Government will undertake a staged approach to reform.

The 2012-13 Budget outlines the first tranche of reform, over a 5-year period, to initiate the long term structural change of the Territory's taxation system.

The reform package has been developed to make the ACT's tax system fairer, simpler and efficient. It is also designed to maintain revenue neutrality annually over the 5-year tax plan period. This will preserve capacity for government services, and social and economic benefits that flow from those services.

A number of inefficient taxes will be abolished and replaced with fairer, broader based taxes such as General Rates. Revenue replacement is to be accompanied by improvement in the progressivity of the system, so that the effects of reform are distributed equitably.

The key reform measures to commence in 2012-13 include:

- abolishing duty on insurance over 5 years;
- phasing out conveyance duty;
- abolishing commercial land tax;
- reducing payroll tax;
- abolishing duty on short term leases;
- abolishing duty on transfer of sub leases; and
- aligning treatment of wholesale unit trusts with NSW.

These reforms will be funded through:

- increased General Rates for the commercial and residential sectors; and
- adjustments to the Utilities Network Facilities Tax to reflect land value appreciation.

The reform package also includes adjustments to a number of concessions schemes as targeted assistance measures to cushion the impacts of reform:

- in 2012-13, the maximum General Rates rebate for pensioners is increased to $565, an increase of 18 per cent;
- the income eligibility threshold for the Home Buyer Concession Scheme is increased by 25 per cent. The lower property value threshold for full concession is increased. The scheme will be limited to new dwellings, land for first home and significantly renovated homes;
- the Pensioner Duty Concession Scheme is extended, with an increase in property value thresholds; and
- the eligibility for the Rates Deferral Scheme is extended to non-pensioners whether working or retired, subject to age, income, assets and equity criteria.

Chapter 3 provides further detail on the reform. Further information on the key reforms included in this Budget is available in *A Fairer, Simpler, and More Efficient Tax System.*