3.2 2012-13 TAXATION REFORM

The Government is commencing a major reform of the Territory's taxation system in the 2012-13 Budget.

A number of reforms to key taxes will commence in 2012-13. This chapter provides an outline of the key initiatives and their impact on the budget.

A Fairer, Simpler and More Efficient Tax System: 5-Year Plan

The Government is committed to a fairer, simpler and more efficient tax system for the Territory.

Reform of the Territory's taxation system needs to be measured to allow the economy and households to adjust to structural change. Taxes on property transactions in particular need to be phased out over a longer term in order to reduce potential distortions in the market.

Accordingly, the Government has decided to adopt a staged approach to reform.

The 2012-13 Budget outlines the first tranche of reform to initiate the long term restructuring of the Territory's taxation system.

The reform Plan has been designed to support key policy objectives of the Government to:

- support the economy, businesses and jobs;
- improve housing affordability; and
- reduce households and business costs.

Broadly, under the reform:

- transaction taxes are to be phased out over periods ranging from 5 to 20 years;
- General Rates have been adopted as a broad and efficient revenue replacement base;
- a number of nuisance taxes are removed; and
- the progressivity of existing taxes is improved.

The reform package has been designed to be revenue neutral overall. It will maintain the overall social and economic benefits that flow from Government services and expenditure.

The Plan has a strong focus on fairness and equity. The distributional impacts of reform, in particular revenue replacement, are ameliorated through improving the progressivity of the revenue replacement base, the General Rates, and utilising the concession system.

The reform package includes a set of targeted assistance measures to cushion the impacts of reform on pensioners and concession card holders. Some measures are extended to non-pensioners to support ageing in place.

The main measures included in the *A Fairer, Simpler and More Efficient Tax System* are:

- abolishing Duty on Insurance taxes over five years;
- phasing out Conveyance Duty over 20 years;
- abolishing commercial Land Tax and combining it with commercial General Rates;
- making General Rates more progressive;
- making residential Land Tax more progressive;
- reducing the amount of Payroll Tax paid by businesses; and
- legislative changes, including aligning the landholder provisions with NSW.

An outline of each of these components is provided below.

Reform Measures

Conveyance Duty

The Government will abolish Conveyance Duty over a 20 year period. Over the next five years, tax rates will be progressively reduced to phase out Conveyance Duty in the longer term.

The reduction in the marginal tax rate will focus on the lower tax brackets. A new intermediate tax bracket is also introduced between $750,001 and $1 million.

The tax brackets and reduced tax rates will be applicable to both residential and commercial sector transactions.

The benefits of reduced tax will flow to all properties with a value below $1.2 million in the first year of reform, increasing to $3.8 million in the fifth year.

Table 3.2.1 below provides the marginal tax rates over the next five years.

Table 3.2.1
Conveyance Duty Rates and Thresholds

CURRENT SYSTEM		**TAX REFORM**					
Thresholds ($)	**Rate (%)**	**Thresholds ($)**	2012-13	2013-14	2014-15	2015-16	2016-17
Up to 100,000	2.0						
100,001-200,000	3.5	Up to 200,000	2.4	2.2	2.0	1.8	1.48
200,001-300,000	4.0	200,001-300,000	3.75	3.7	3.5	3.0	2.5
300,001-500,000	5.5	300,001-500,000	4.75	4.5	4.15	4.0	4.0
500,001- 1,000,000	5.75	500,001-750,000	5.5	5.0	5.0	5.0	5.0
		750,001-1,000,000	6.5	6.5	6.5	6.5	6.5
Above 1,000,001	6.75	Above 1,000,001	7.25	7.0	7.0	7.0	7.0

Table 3.2.2 shows the estimated savings in the amount of Conveyance Duty payable at a range of property thresholds over the next five years. For example, in 2012-13, a property valued at $500,000 would receive a benefit of $2,450. By 2016-17, this benefit would increase to $7,040.

Table 3.2.2:
Estimated saving in Conveyance Duty after reform

CURRENT SYSTEM until 5 June 2012		NEW SYSTEM 6 June 2012	1 July 2013	1 July 2014	1 July 2015	1 July 2016	Savings in 2012-13
Property value thresholds ($)	Duty payable ($)	Duty payable ($)					
100,000	2,750	2,400	2,200	2,000	1,800	1,480	350
200,000	5,500	4,800	4,400	4,000	3,600	2,960	700
300,000	9,500	8,550	8,100	7,500	6,600	5,460	950
500,000	20,500	18,050	17,100	15,800	14,600	13,460	2,450
750,000	34,875	31,800	29,600	28,300	27,100	25,960	3,075
1,000,000	49,250	48,050	45,850	44,550	43,350	42,210	1,200

The new rates will commence on 6 June 2012.

The revenue foregone through this reform will be replaced through the General Rates system.

General Rates

The Government will improve the progressivity of the General Rates system with the introduction of a number of tax brackets and increasing marginal tax rates.

The average increase in residential General Rates from revenue replacement is around $104 per dwelling. However, rates will reduce for 24 per cent of dwellings due to the introduction of progressive tax rates.

Commercial Rates incorporate commercial land tax for simplification and revenue replacement from commercial transaction taxes.

Reforms to the residential and commercial General Rates system are outlined below.

Residential Rates

From 1 July 2012, the new flat fixed charge will be $555 for all households.

The current $16,500 Averaged Unimproved Value (AUV) threshold is being abolished. Three thresholds (four tax brackets) are being implemented in order introduce progressivity into the system. The thresholds and marginal tax rates are shown in Table 3.2.3 below.

Table 3.2.3:
Residential General Rates Thresholds and Rating factor

CURRENT SYSTEM until 30 June 2012		NEW SYSTEM from 1 July 2012
Thresholds	**Rate (%)**	**Rate (%)**
0 to $150,000	0.2727	0.2236
$150,000 to $300,000	0.2727	0.3136
$300,000 to $450,000	0.2727	0.3736
Above $450,000+	0.2727	0.4136
Fixed charge	$555	$555

Overall, properties with an AUV below $200,000 will have a decrease in general rates.

Around 24 per cent of properties will incur a decrease in rates payable, with 76 per cent incurring an increase. This however, does not take into account the benefits received by households as a result of other reforms, such as reducing insurance duty.

The maximum General Rates rebate available to eligible recipients is being increased from $481 to $565, reflecting the changes to the general rates system. The increase of around 18 per cent is to cushion the impact of reform. The maximum rebate now fully covers the fixed charge.

The current Rates Deferral Scheme, allowing eligible households to defer payments of their General Rates, will be expanded to non-pensioners over 65 years of age. This will provide options to eligible households which do not qualify for concession to manage their costs.

Further details of this scheme are provided below.

Commercial Rates

Commercial General Rates are being reformed with the introduction of three tax brackets and increasing marginal tax rates.

From 1 July 2012, the fixed charge will be $1,213, and the $16,500 AUV threshold will be abolished. The new thresholds and rating factors are detailed in the Table 3.2.4 below.

Table 3.2.4:
Commercial General Rates Thresholds and Rating factor

CURRENT SYSTEM until 30 June 2012			NEW SYSTEM from 1 July 2012		
Thresholds	**Rating factor (%)**	**FESL rating factor (%)**	**Thresholds**	**Marginal Tax Rate (%)**	**FESL rating factor (%)**
0 to $16,500	0	0.3907	0 to $150,000	1.9070	0.4093
Above $16,500	0.7711	0.3907	$150,000 to $275,000	2.2670	0.4093
			Above $275,000	2.6070	0.4093
Fixed charge	$1,258		Fixed charge	$1,213	

The above thresholds and marginal tax rates also provide revenue replacement (or transfer) of commercial land tax.

This change will reduce administration costs for business and simplify the tax system. The transfer is cost neutral for individual businesses.

The revenue replacement also includes revenue foregone from commercial conveyance duty and duty on insurance for the commercial sector.

The average General Rates on a commercial property as a result of these reforms will increase by $1,211 with commercial properties below the average AUV incurring an increase in general rates ranging from $11 to $299.

Land Tax

The ACT Taxation Review recommended that over time the Government abolish residential land tax in its current form. The Government response agreed in principle to this recommendation. It noted that the current land tax system is unfair and discriminates on the basis of tenure.

The Panel also recommended that the Government transfer the commercial component of land tax onto General Rates on commercial properties. The Government response agreed to this recommendation, as it will reduce administrative costs for businesses and the ACT Revenue Office.

The Government is undertaking reform to the land tax system. It will increase progressivity of the residential land tax system to provide a fairer system. It will also transfer commercial land tax over to the General Rates charged on commercial properties.

Residential Land Tax

The Government is making the residential land tax system more progressive. Marginal tax rates are adjusted for 2012-13 to reduce the tax burden on properties between $80,000 and $400,000. This should reduce pressures on rents and improve rental affordability.

The new rates will commence on 1 July 2012. The new residential land tax rates are detailed in Table 3.2.5 below.

Table 3.2.5:
Residential Land Tax rates

CURRENT SYSTEM until 30 June 2012		NEW SYSTEM from 1 July 2012
Average unimproved value	**Rate (%)**	**Rate (%)**
Up to $75,000	0.60	0.60
From $75,001 to $150,000	0.89	0.70
From $150,001 to $275,000	1.15	0.89
$275,001 and above	1.40	1.80

The new land tax rates will reduce the land tax payable by an average of $208 for 76 per cent of properties, while around 12 per cent of properties will incur an average increase of $602. The land tax burden of the remaining 12 per cent would be unaffected by the changes.

Commercial Land Tax

Commercial land tax is abolished from 1 July 2012. This revenue is transferred over to commercial General Rates.

Duty on Insurance

The Government will abolish duty on general and life insurance premiums over a period of five years, by reducing the rate of duty by 20 per cent per year. The new rates for the next five years are shown in Table 3.2.6 below.

Table 3.2.6:
Duty on Insurance Taxes

Current System until 30 June 2012		**NEW SYSTEM - Rates from 1 July (%)**				
	Rate (%)	2012	2013	2014	2015	2016
Duty on General Insurance	10	8	6	4	2	0
Duty on Life Insurance	5	4	3	2	1	0

Abolishing duty on insurance will reduce the cost of general and life insurance policies for all households and businesses in the ACT.

Households and businesses with insurance will save 2 per cent on insurance in the first year, increasing to 10 per cent in the final year of reform. For example, an ACT household paying $1,700 per year in insurance will save $34 in the first year of reform, increasing to $170 in the fifth year when the duty is fully abolished.

The Insurance Council of Australia has committed to working with the ACT Government to ensure that consumers are able to draw on the benefits of tax refrom.

In order to ensure that the benefits of abolishing this tax are passed to consumers, the Independent Competition and Regulatory Commission (ICRC) will be given a monitoring and reporting role.

This reform will commence on 1 October 2012.

Payroll Tax

The ACT Taxation Review Panel recommended retaining a form of payroll tax to maintain a diversified tax system. It also recommended that the Territory work towards national harmonisation of the Payroll Tax system.

To support businesses in the ACT, the Payroll Tax threshold will increase from $1.5 million to $1.75 million from 1 July 2012. The current rate of 6.85 per cent is being maintained.

Businesses with a payroll of $2 million will benefit, by paying $17,125 less per annum in Payroll Tax.

The ACT will be the lowest taxing jurisdiction for businesses with a payroll up to $4.7 million.

Utilities Network Facilities Tax

The ACT Taxation Review found that overall the Utilities Network Facilities Tax is an efficient tax as it is a tax on land consumed by the linear infrastructure of utilities. It is unlikely to distort investment decisions.

The tax rate will be increased to $921 per kilometre for the year ending 31 March 2013 and will be increased by changes in the wage price index for each subsequent year.

Targeted Assistance Measures

The Plan includes a number of targeted measures to assist households, and to cushion the impacts of taxation reform. Those measures are:

- increase in the rates rebate for eligible households;
- expansion of income and property value eligibility for the Home Buyer Concession Scheme;
- expansion of the Pensioner Duty Concession Scheme; and
- expansion of the Rates Deferral Scheme.

Rates Rebate

The general rates rebate is being increased from $481 in 2011-12 to $565 in 2012-13.

The change in the General Rates rebate will reduce the rates payable for around 71 per cent of the current capped recipients that live in a property with an AUV below $350,000, while alleviating the overall change in rates payable for the remaining 29 per cent.

Pre-1997 pensioners will continue to receive the 50 per cent rebate on their general rates. Revenue replacement increases for these recipients will be subject to 50 per cent rebate.

Rates Deferral

The rates deferral system allows eligible households to defer payments of their general rates on which a relatively low rate of simple interest is charged.

Households eligible for deferral of rates include pensioners, property owners suffering substantial financial hardship, and people with disabilities. Under the *Rates Act 2004*, pensioners have a statutory right to defer their General Rates payment.

Eligible households are able to defer their General Rates payment if they satisfy the eligibility criteria of age, AUV and income.

The rate deferral option is being extended to non pensioners over the age of 65 years. In addition to age, eligibility for deferral would be subject to income, asset and equity criteria. However, there is no limitation on whether an applicant is working or retired.

The criteria is:

- Age test: Lessees aged over 65 years of age will be able to access the scheme.
- Income test: Lessees' combined income must be below the annual average earnings ($80,770).

- Asset test: The unimproved land value must be higher than the 80th percentile value (currently around $390,000) to be adjusted annually.
- Equity test: Lessees must have at least 75 per cent equity in their home.

Home Buyer Concession Scheme

The Home Buyer Concession Scheme will provide more targeted assistance, improve housing affordability and increase supply of dwellings. These changes will also provide additional support to the property and construction sectors.

The Home Buyer Concession Scheme will apply to the sale of new land or the construction of a new house. An eligible property will include:

- new homes;
- substantially renovated homes; or
- vacant blocks of residential land.

The eligibility income criteria will increase from $120,000 to $150,000.

The property threshold up until which a full concession is available will increase from the 20th to the 25th percentile. This will provide a full concession up to a value of $385,000 and a partial concession for properties to the value of $450,000.

These changes will come into effect from 6 June 2012.

The current Home Buyer Concession Scheme will continue until 31 August 2012 to allow households already in the market and considering/negotiating purchases to have access to the concession if the purchase is for an existing dwelling.

Pensioner Duty Concession Scheme

The Pensioner Duty Concession Scheme was introduced in 2008 to support older Canberrans to access accommodation appropriate to their needs. It was introduced for a period of 3 years, subject to evaluation at the end of this period.

The ACT Taxation Review Panel recommended that the scheme be continued and that the property value thresholds be adjusted to support ageing in place and access to housing choices within an area.

The Government Responses agreed to this recommendation. It noted that the scheme provides support for older Canberrans to access accommodation appropriate to their needs and freeing up housing stock for families.

The Pensioner Duty Concession Scheme is extended for 3 years. The property value threshold for full concession has been increased to 75th percentile value in the market for dwelling or land. A partial duty concession will be provided up to the 90th percentile.

The thresholds will continue to be determined from the ACT housing market transactions.

This reform will commence 6 June 2012.

Duty Deferral

The ACT Tax Review recommended that a Duty Deferral Scheme be introduced to allow eligible households to defer the payment of their Conveyance Duty. It also recommended that duty be amortised over a period of 10 years.

The Duty Deferral Scheme will be available to recipients of either the First Home Owners Grant or the Home Buyer Concession Scheme. Properties up to the median value will be able to access the scheme.

Future Reform – Motor Vehicle Registrations

The Government has agreed to link the Motor Vehicle Registration with the environmental performance of the vehicle.

These reforms will provide incentives to purchase more environmentally efficient vehicles over time.

At present, the Green Vehicle Guide only provides information on the environmental performance of new vehicles sold in Australia from 2004. The ACT will continue to work with the Commonwealth Government to further develop this guide and implement the reforms once the guide is complete.

Table 3.2.7
Taxation Reform

	2012-13 $'m	2013-14 $'m	2014-15 $'m	2015-16 $'m
Revenue Foregone				
Abolish Duty on General Insurance	-9.29	-19.33	-30.17	-41.84
Abolish Duty on Life Insurance	-0.43	-0.9	-1.4	-1.94
Phase Out Duty on Conveyances				
Residential Sector	-5.2	-6.54	-12.12	-18.15
Commercial Sector	-2.46	-2.98	-4.86	-6.49
Extend Payroll Tax Threshold	-6.81	-7.27	-7.75	-8.27
Abolish Commercial Land Tax	-54.58	-56.66	-58.78	-60.95
Total Revenue Foregone	**-78.77**	**-93.67**	**-115.07**	**-137.65**
Revenue Replacement				
Adjust Utilities Network Facilities Tax Rate	3.16	3.32	3.49	3.67
Increase General Rates	75.62	90.35	111.58	133.98
Total Revenue Replacement Impact	**78.77**	**93.67**	**115.07**	**137.65**
Net Budget Impact	**0**	**0**	**0**	**0**

Legislative Measures

Land Rent Scheme

Recent legislative amendments to the Land Rent Scheme will help improve its operation and further reduce barriers to entry in the ACT residential property market.

Community Housing Canberra will now be able to access the scheme at the 2 per cent discount rate.

Households whose circumstances change will be able to immediately move from the 4 per cent to the 2 per cent rate.

Other changes will help streamline existing processes and reduce the administrative burden on the ACT Revenue Office.

Legislative changes to the *Duties Act 1999* clarify that the dutiable value of a land rent lease is the same as a normal crown lease.

This will ensure that the leases are treated in the same manner as other crown leases and attract the appropriate duty as intended under the scheme.

Short-term Subleases

Duty will not be payable on transfers of subleases with a term less than 30 years.

This will remove a nuisance tax on the ACT business community and streamline the asset transfer process and reduce regulatory and compliance burdens on ACT businesses.

Wholesale Unit Trusts

Wholesale unit trust schemes are used by national and international investors. Simplifying landholder provisions will improve the ACT's attractiveness to large wholesale investors, increase our investment competitiveness and appropriately more closely align the ACT with NSW reducing the administrative burden on trust companies and simplify compliance in landholder provisions.

Further information on the tax reform package is available in *Towards a Fairer, Simpler and More Efficient Taxation System.* This package also includes information on the distributional impacts of tax reform.