ACT Government

Australian Capital Territory

BUDGET 2016–17

FOR CANBERRA

Tax Reform

IMPACT OF REFORMS TO DATE STAGE 1

In the 2012-13 Budget, the ACT Government began a 20-year program to reform the Territory's taxation system. The first stage of reform – from 2012-13 to 2016-17 – concludes in this Budget. The second five-year stage of reform starts in 2017-18.

Over the 20 year tax reform program inefficient taxes like conveyance duty and insurance duty are being abolished and the revenue foregone is being replaced through the general rates system.

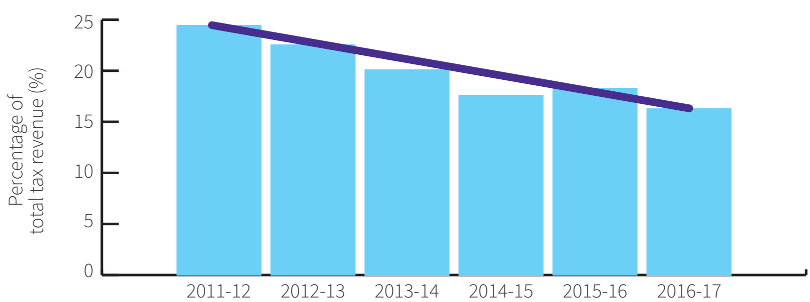
The switch from duties to rates will ensure that we have a stable source of revenue to fund high quality services into the future. It also ensures our economy is stronger – creating more jobs.

The 2010 Henry Tax Review found that states and territories levied some of the worst taxes in Australia. It recommended that revenue from these taxes be replaced with more efficient taxes, such as a broad based land tax. It estimated that these reforms would deliver significant economic benefits through increased productivity. Later reports from Deloitte Access Economics, the Grattan Institute and the McKell Institute, in the context of the ongoing tax reform debate, have also acknowledged that abolishing inefficient taxes will deliver economic benefits including productivity improvements. The ACT is the only jurisdiction in Australia undertaking these reforms.

The chart below shows that over the first stage of tax reform, inefficient taxes (conveyance and insurance duties) have been reduced from 24 per cent to 16 per cent of overall tax revenues. While we are transferring our revenue source from an inefficient to an efficient tax base, we are not increasing revenue overall. The ACT is still a relatively low taxing jurisdiction. Our own source tax revenue is the second lowest of any jurisdiction in Australia in terms of share of Gross State Product. In some years, total revenue collected from conveyance duty may be greater than a previous year, even though the conveyance duty rates for each transaction will reduce every year. This is due to a range of market factors, including changes to property prices, the number of properties sold and the composition of property types transacted, i.e. houses, units and commercial properties. In 2015-16 for example, the share of conveyance duty as a per cent of the total tax mix increased slightly (from 15.8 per cent in 2014-15 to 17.4 per cent in 2015-16) as a result of a number of large commercial transactions.

It illustrates why conveyance duty is a volatile revenue source, and is not a sound revenue base on which to rely for future budgets. Notwithstanding annual variations, the impact of reduced duty rates will result in total conveyance duty revenue collections declining over the medium term.

Figure 1 Conveyance and insurance duty revenue as a percentage of total tax revenue



REVENUE NEUTRALITY

The ACT Government is not increasing the "tax take" although we are changing the "tax mix" from inefficient transaction taxes like conveyance, to efficient taxation on land values. That is, we are not increasing overall tax revenue.

The chart below shows the estimated total revenue that would have been received from general rates, conveyance and insurance duties if tax reform had not been implemented, and compares it with the actual revenues that have been achieved under tax reform from 2012-13 to 2014-15, and the estimated outcomes for 2015-16 and 2016-17.

Over the first stage of reform, total general rates, conveyance and insurance duty revenue is estimated to be $24 million less than what it would have been under the no-reform scenario over the first five years of tax reform.

Figure 2 Total cumulative general rates, conveyance and insurance duty revenue

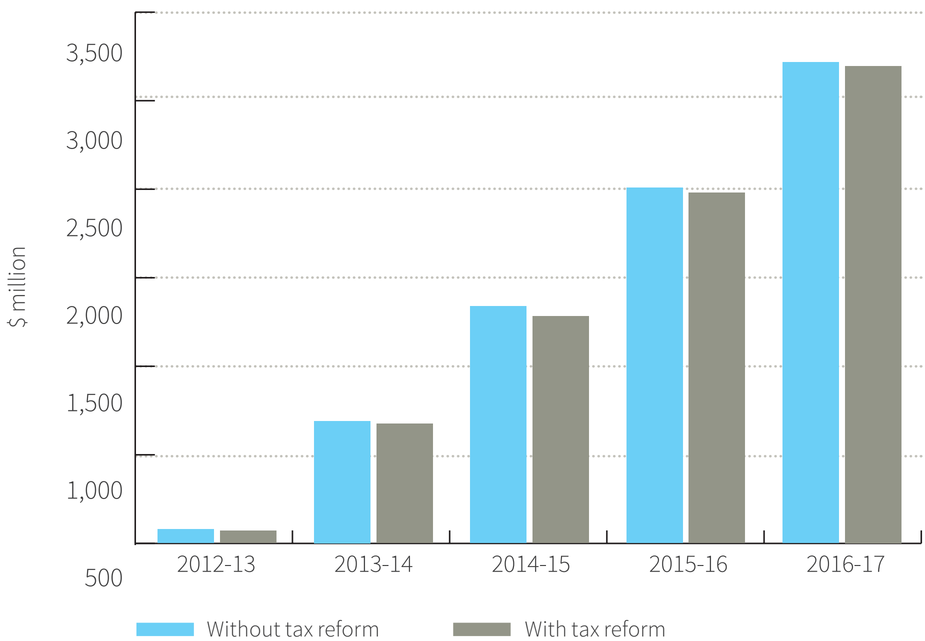


Table 1 Reduction in conveyance duty for Stage 1 (2011-12 to 2016-17 for various property values)

	2011-12	2016-17 (Stage 1)	
Property value	Duty ($)	Duty ($)	Reduction (%)
$300,000	9,500	5,460	-43
$400,000	15,000	9,460	-37
$500,000	20,500	13,460	-34
$600,000	26,250	18,460	-30
$700,000	32,000	23,460	-27
$800,000	37,750	29,210	-23
$900,000	43,500	35,710	-18
$1m	49,250	42,210	-14
$2m	116,750	101,800	-13

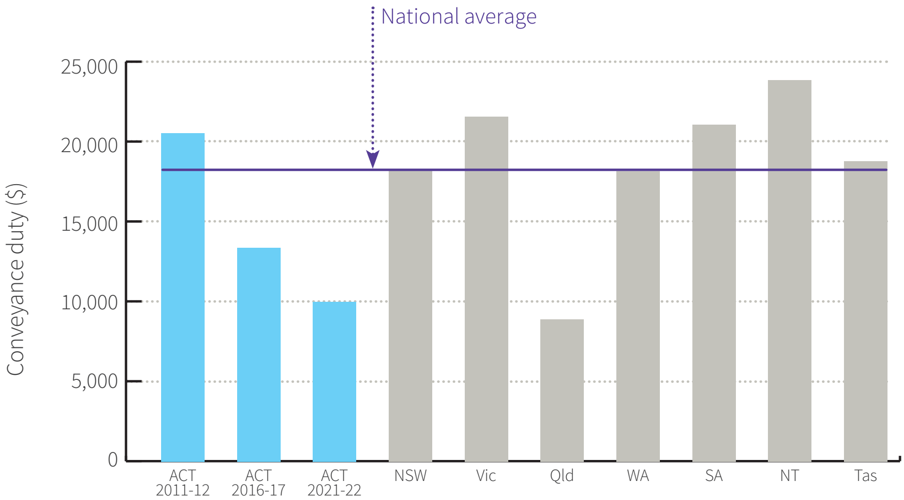
The table above shows that the reductions in conveyance duty have been greater for lower value transactions.

We have cut conveyance duty by more than 30 per cent for three-quarters of residential properties and half of commercial property transactions as a result of the first stage of tax reform.

Because of the Government's tax reforms to date, the conveyance duty charge for most residential properties in the ACT is already significantly lower than the national average, and the lowest of all jurisdictions except Queensland's rate for owner occupier properties.

Figure 3 on page 6 shows a comparison of conveyance duty charges for a $500,000 property in each jurisdiction.

Figure 3: Conveyance duty payment for a $500,000 property



Note: The rate used for Queensland is the owner occupier rate. A higher rate is applied by the Queensland Government for investment properties.

Abolishing Insurance Duty

Insurance duties will be completely abolished from 1 July 2016, making the ACT the only state or territory to have completely abolished this tax. Prior to tax reform, a 10 per cent duty was levied on all general insurance premiums and 5 per cent on life insurance. The removal of this duty will assist households and businesses in the ACT to better afford the level of insurance cover they would prefer and reduce the level of under-insurance. For a household spending $3,000 on insurance each year, the annual saving is $300.

CHANGES IN **RESIDENTIAL GENERAL RATES** TO DATE FOR HOUSES & UNITS

Table 2 shows the changes in residential rates by district over the first five years of tax reform.

Average general rates are $452 higher compared to what they would have increased by in the absence of tax reform. This increase has been partially offset by the abolition on insurance duty. For example, a household spending $3,000 on insurance a year will save $300 in insurance duty.

Rates increases are also offset by savings in conveyance duty – these savings far exceed the increases in rates. About 10,000 households in the ACT benefit from lower conveyance duty each year. For example, the duty on a $500,000 home is now $7,040 less than before tax reform began.

It is important to note that from 2016-17, increases in general rates will moderate because there is no need to fund the abolition of insurance duty.

In 2016-17, general rates will increase by an average of 4.5 per cent for residential properties and by an average of 7 per cent for commercial properties.

The increase in general rates has been greater for houses than units over the first stage of tax reform because units have significantly lower average unimproved land values than houses.

Table 2 Change in average residential general rates 2011-12 to 2016-17 by district - Houses and Units

	All			Houses			Units		
District	2011-12 ($)	2016-17 ($)		2011-12 ($)	2016-17 ($)		2011-12 ($)	2016-17 ($)	
		without reform	with reform		without reform	with reform		without reform	with reform
ACT	1,276	1,448	1,900	1,406	1,595	2,152	847	961	1,156
Belconnen	1,169	1,326	1,714	1,257	1,426	1,883	815	925	1,098
Gungahlin	1,067	1,211	1,534	1,119	1,270	1,641	833	945	1,076
North Canberra	1,346	1,527	2,124	1,783	2,023	3,025	801	909	1,100
South Canberra	1,787	2,028	2,807	2,492	2,827	4,333	997	1,131	1,335
Tuggeranong	1,158	1,314	1,685	1,225	1,390	1,787	803	911	1,132
Weston Creek	1,319	1,497	2,034	1,377	1,562	2,129	827	938	1,187
Woden Valley	1,452	1,647	2,247	1,710	1,940	2,721	861	977	1,232

IMPACT OF TAX REFORM ON HOUSEHOLDS

General rates would have increased without tax reform, as rates were indexed to the Wage Price Index before tax reform.

The table below provides an example of the impact on a typical household. It shows that rates would have increased by $172 without tax reform. It also shows that insurance duty would continue to be charged. This example does not consider the impacts of reducing conveyance duties. If this family buys a home in 2016-17, they will save $7,040 in conveyance duty on a $500,000 home.

Table 3 Estimated impact of tax reform on a household, excluding conveyance duty cuts

	2011-12 ($)	2016-17 ($)	Difference ($)	Difference (%)
With tax reform				
General Rates	1,276	1,900	624	49
Insurance Duty	221	0	-221	-100
Total	**1,497**	**1,900**	**403**	**27**
No tax reform				
General Rates	1,276	1,448	172	13
Insurance Duty	221	300	79	36
Total	**1,497**	**1,748**	**251**	**17**

IMPACT OF TAX REFORM **ON BUSINESS**

The impact of tax reforms on businesses will vary depending on the circumstance of each business. The scenario on page 10 gives an example about how tax reform impacts on businesses. The scenario also takes into account other reforms that will impact on the business sector.

CASE STUDY

Business in a town centre office

This case contemplates a medium-sized ICT services company that employs about 60 people. The company has an ACT payroll of $5 million.

The company is more than $18,500 better off per year because of the ACT Government's tax reforms.

The business pays professional indemnity insurance premiums (through an ACT insurance provider) of $5,870 per year and employer liability premiums of $64,530 per year (excluding duty on insurance). The company has six vehicles, and currently pays comprehensive motor vehicle insurance premiums of $8,300 per year (excluding duty on insurance).

Table 4 Medium sized ICT company

Property value	2011-12 ($)	2016-17 ($)	Difference ($)	Difference (%)
Tax reform				
Property taxes and levies[1]				
General rates	8,325	41,589	33,264	400
Land Tax	13,360	0	-13,360	-100
Duties on insurances				
Duty on motor vehicles' insurances[2]	830	0	-830	-100
Duty on employer liability[3]	587	0	-587	-100
Duty on professional indemnity[4]	6,453	0	-6,453	-100
Other taxes				
Payroll tax[5]	239,750	205,500	-34,250	-14
FESL	3,581	7,285	3,704	103
Sum of selected taxes and levies	272,886	254,374	-18,512	-7

[1] Based upon a commercial property with a constant AUV of $933,000. This has been held constant over the years to provide a comparable basis.

[2] An estimated constant premium of $8,300 for motor vehicle insurances.

[3] An estimated constant premium of $5,870 for employer liability.

[4] An estimated constant premium of $64,530 for professional indemnity.

[5] Assumes that the company has a constant payroll of $5 million in the ACT.

STAGE 2 REFORMS
2017-18 to 2021-22

Stage Two of the ACT Government's taxation reform program will start in 2017-18. The initiatives in Stage Two will build on the progress made in Stage One.

Conveyance duty rates will continue to be cut every year with the revenue foregone replaced through the general rates system.

The Government is committed to keeping taxes as low as possible and will not be increasing the overall amount of tax revenue raised through its tax reforms. The increases in general rates are used to offset the cuts to conveyance duty. Reforms in Stage Two to continue cutting unfair and inefficient transaction taxes will result in significant economic gains in the wider economy through increased productivity.

While the Government's tax reforms will make the ACT tax system fairer and more sustainable, the Government also recognises the need to provide support to families and individuals who need a helping hand. The Government will continue to provide concessions to households most in need of support.

COMMERCIAL CONVEYANCE DUTIES REMOVED FOR MOST TRANSACTIONS FROM 2018-19

The ACT Government is continuing to cut conveyance duty for commercial transactions.

We are removing commercial conveyance duty for all transactions under $1.5 million, by halving rates in 2017-18 and removing it entirely from 1 July 2018. This means 70 per cent of commercial transactions will not be liable for duty from 1 July 2018.

Even at the top threshold the ACT will be competitive with other jurisdictions.

Residential and commercial conveyance duty rates will be split from 2017-18 on.

Table 6 Commercial Conveyance Duty Rates

Threshold	2017-18 (%)	2018-19 (%)
Up to $200,000	0.7	0
$200,001 to $300,000	1.2	0
$300,001 to $500,000	1.9	0
$500,001 to $750,000	2.39	0
$750,001 to $1,000,000	3.15	0
$1,000,001 to $1,499,999	3.4	0
$1,500,000 and above[1]	5	5

Note: [1] The $1,500,000 and above rate is a flat rate.

Table 7 Interstate comparison of commercial conveyance duty in 2018-19

	Transaction value		
Jurisdiction	$0.5 million Duty ($)	$1.5 million Duty ($)	$10 million Duty ($)
ACT	0	0	500,000
South Australia	0	0	0
NSW	17,990	67,990	535,490
Victoria	25,070	82,500	550,000
Queensland	15,925	66,775	555,525
Western Australia	19,665	71,165	508,915
Northern Territory	23,929	74,250	545,000
Tasmania	18,248	62,685	445,185

RESIDENTIAL CONVEYANCE DUTIES **CONTINUE TO REDUCE EVERY YEAR**

The ACT Government will continue to reduce residential conveyance duty rates in the 2016-17 Budget, as previously announced, and over the next five year period of tax reform. Table 8 below shows the residential conveyance duty rate scale for 2016-17 and the next five years.

Table 8 Residential Conveyance Duty Rates

Threshold	2015-16 (%)	2016-17 (%)	2017-18 (%)	2018-19 (%)	2019-20 (%)	2020-21 (%)	2021-22 (%)
Up to $200,000	1.8	1.48	1.4	1.3	1.2	1.1	1.0
$200,001 to $300,000	3.0	2.5	2.4	2.3	2.2	2.1	2.0
$300,001 to $500,000	4.0	4.0	3.8	3.6	3.4	3.2	3.0
$500,001 to $750,000	5.0	5.0	4.78	4.56	4.32	4.1	3.9
$750,001 to $1,000,000	6.5	6.5	6.3	6.1	5.9	5.7	5.5
$1,000,001 to $1,454,999	7.0	7.0	6.8	6.6	6.4	6.2	6.0
$1,455,000 and above[1]	5.17	5.09	4.91	4.73	4.54	4.36	4.18

Note: [1] The $1,455,000 and above rate is a flat rate.

Table 9 Residential conveyance duty in 2011-12 and 2021-22

	2011-12	2021-22 (Stage 2)	
Property value	Duty ($)	Duty ($)	Reduction (%)
$300,000	9,500	4,000	-58
$400,000	15,000	7,000	-53
$500,000	20,500	10,000	-51
$600,000	26,250	13,900	-47
$700,000	32,000	17,800	-44
$800,000	37,750	22,500	-40
$900,000	43,500	28,000	-36
$1 million	49,250	33,500	-32
$1.1 million	56,000	39,500	-29
$1.2 million	62,750	45,500	-27

Table 9 shows that the conveyance duty payable on transactions on property below $500,000 will decrease by 51 per cent or more by the end of Stage Two of tax reform.

Properties below $500,000 account for about 60 per cent of residential transactions.

GENERAL RATES INCREASES **MODERATED & MORE EQUITABLE**

Unlike in other jurisdictions in Australia, rates revenue in the ACT pays for more than just municipal services – it helps to fund a broad range of services for Canberrans, including:

> Health;

> Education;

> Housing and community services;

> Roads and public transport; and

> Police and emergency services.

The tax reform program will ensure that we have an adequate and ongoing revenue source into the future to ensure Canberra remains the world's most liveable city.

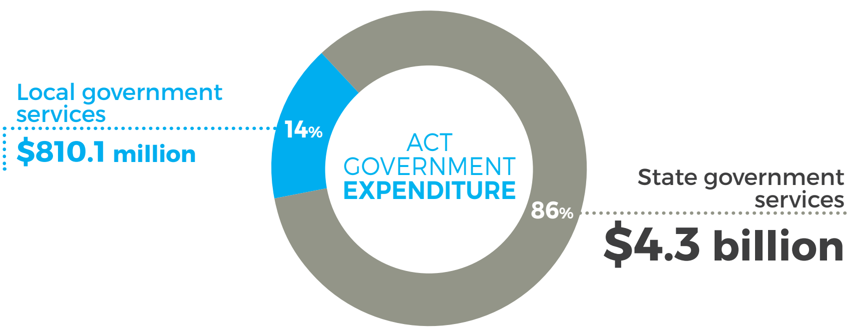
To rebalance the general rates system, a change in methodology for calculating general rates paid by units will make payments more equitable between units and houses.

Houses typically have relatively higher AUVs than units – despite often having similar market values. Table 10 below shows the difference in rates paid by a house in Charnwood and a unit in the City with the same market values.

From 1 July 2017, the Government will change the general rates calculation for multi-unit dwellings to base it on the total AUV of the land rather than the individual AUV of the unit (consistent with changes to Land Tax). This will make the increase in general rates for units higher than houses in 2017-18 and 2018-19 as the transition takes effect.

Table 10 2015-16 Comparison of general rates liability

Suburb	Property type	AUV	General rates	Market value
City	Unit	$130,000	$1,087	$500,000
Charnwood	House	$240,000	$1,489	$500,000
Difference	-	85%	37%	0%



For houses, the annual increases for the next five years of Stage Two tax reform will be 7 per cent on average. For units only, the change in the rates methodology will also add about $150 on average in 2017-18, and $115 on average in 2018-19. The increases will then revert to an average of 7 per cent from 2019-20 to 2021-22.

Overall, general rates for commercial properties will increase by an average of 6 per cent in each year from 2017-18 to 2021-22. This will provide certainty to the sector.

The actual increase for a particular property will depend on that property's AUV.

Efficient and stable revenue base

By 2019-20, conveyance duty revenue is estimated to decline to about 14 per cent of total tax revenue, a decrease from 20 per cent in 2011-12, and general rates is estimated to increase to about 29 per cent of tax revenue. The transition to an efficient broad based land tax secures a stable revenue base into the future which will allow the Government to plan for the future with greater certainty for spending on services and infrastructure.

Concessions

The Government offers a range of concessions to eligible households to assist with cost of living pressures.

A Pensioner Rates Rebate of up to $700 is available for pensioners in 2016-17. Pensioners in receipt of the rebate prior to 1997 will remain eligible for a 50 per cent rebate on their rates, capped at 2015-16 levels for amounts above $700.

The Rates Deferral Scheme allows eligible households to defer indefinitely all or part of the balance of their total rates charges after the rebate has been deducted. A low rate of simple interest is charged on deferred amounts.

The Pensioner Duty Concession Scheme and the Over 60s Home Bonus Scheme assist eligible pensioners and over 60s to move to accommodation more suited to their needs – for example, moving from a house to a townhouse – by charging conveyance duty at a concessional rate.

The Government also offers a range of other concessions to assist with cost of living. These include rebates on electricity and gas, rebates on water and sewage, discounts on motor vehicle licence and registration costs and discounts on public transport fares. Further details can be found by contacting Access Canberra on 13 22 81 or on the website: **www.assistance.act.gov.au**.