Australian Government

A tax plan for our future
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# TAX FORUM 4-5 October 2011

## STATEMENT OF REFORM PRIORITIES

### PARTICIPANT NAME AND POSITION

Peter Verwer, CEO

### ORGANISATION

Property Council of Australia.

The Property Council is the peak body representing the interests of owners and investors in Australia's $400 billion property investment sector. The Property Council serves the interests of companies across all four quadrants of property investment - debt, equity, public and private.

### STATEMENT OF PRIORITIES

The Property Council supports Government's initiative to prioritise further tax reform following the Henry Tax Review.

**1. The industry has two priority reforms for the tax and transfer system:**

   **a. abolish inefficient State taxes; and**

   **b. improve housing affordability and productivity through better tax design.**

The Property Council recommends that the tax forum resolve to **establish an independent tax reform implementation board with an independent chairperson from the business community** that will:

i. develop a package of fully designed model reforms as a basis for further community and business consultation;

ii. prepare a cost-benefit analysis for each reform package, using evidence-based research;

iii. develop a multi-year timetable for implementing such reforms based on fiscal capacity, including fiscal trigger points;

iv. develop an intergovernmental agreement that codifies short, medium and long-term reform goals and an implementation program based on fiscal capacity triggers and transitional compensation/adjustment mechanisms for States and territories; and

v. develop transitional arrangements that address the needs of all stakeholders.

In short, the Property Council sees the need for a long-term tax reform program that delivers dividends against milestones, which is driven by a special purpose champion, based on a National Competition Policy model.

**a. Abolish inefficient State taxes**

Australia is weighed down by an inefficient and overly complex tax system.

State governments are over-reliant on inefficient taxes that reduce national competitiveness, productivity improvements and the enhanced well-being of citizens. Property taxes are among the most inefficient State taxes.

The Henry Review, multiple Treasury briefing books, Productivity Commission reports and private sector-commissioned research prove that inefficient State taxes require reform.

Replacing inefficient State taxes with superior revenue sources is a crucial step toward improving Australia's national prosperity.

Inefficient State taxes are:

- volatile and unpredictable revenue sources;
- difficult and costly to manage;
- deadweight taxes that impede competitiveness and productivity improvements;
- unequally and unfairly applied; and
- inhibit the enhancement of social capital.

Previous research by the Business Coalition for Tax Reform (BCTR) analysed the impact of inefficient State taxes and concludes that the Australian community as a whole, including business, is substantially better off with more efficient taxes that enhance national productivity and prosperity.

Successful reform requires:

- agreement on clear and achievable aims and outcomes;
- fixed timelines to achieve outcomes over a defined time horizon;
- a significant package of tax reforms for real change; and
- Federal-State co-operation to establish efficient revenue sources.

It is vital to replace inefficient taxes with efficient broad-based taxes. The BCTR has commissioned independent research to look at an optimal tax mix package to replace inefficient State taxes.

This research will be provided to the tax forum.

The Property Council recommends Government:

- establish a completely independent tax reform review board, with an independent chairperson who is respected in the business community, to consult with industry and the community on the best mix of tax reforms;

- remove small, nuisance taxes, such as fire services levies;
- streamline existing State taxes to reduce compliance and administrative costs, including base-broadening measures, removing inequitable aggregation arrangements, adopting consistent methodologies and implementing online electronic compliance systems; and
- implement longer-term structural tax reforms underpinned by an inter-governmental agreement to remove inefficient State taxes and end State Government over-reliance on property taxes.

The first two initiatives give governments and taxpayers quick wins and significant short term change.

However, Australia also needs to invest in long-term reform programs that comprehensively rationalise inefficient taxes that reduce prosperity.

**b. Improve housing affordability and productivity through better tax design**

Tax reform can help deliver the basic shelter needs of ordinary Australians. The National Housing Supply Council's 2010 Report on the State of Supply reveals an annual housing shortfall of 20,000 – 30,000 homes per year. This undersupply is artificially increasing house prices and reducing affordability for all Australians.

The Henry Review, the Productivity Commission and independent research for the Residential Development Council (RDC) note that inefficient property taxes are a major contributor to Australia's endemic housing affordability crisis. These inefficient property taxes also reduce labour market flexibility and, therefore, impact on national productivity and the enhancement of social capital.

Government taxes and charges and compliance costs have increased markedly in Australia and thereby, reduce affordability. Tax costs outweigh the cost of land in every one of the 15 cities studied in 2009 by consultants to the RDC. In fact, in many of the cities studied, tax costs are several times the cost of land.

It is vital that all levels of Australian government commit to an independent review of housing affordability, including the contribution of taxes.

The Property Council recommends the Federal Government work with the States and territories to:

- increase the use of government borrowing, public-private partnerships, business improvement districts, and growth area bonds to fund infrastructure in preference to inefficient development levies;
- cap development levies in the short-term and abolish them in the longer-term;
- ensure that development levies are directly linked to the projects they are meant to fund;
- abolish inefficient State taxes;
- maintain negative gearing to stimulate investment in housing that is rented to the private

market place; and

- maintain CGT tax concessions as an ongoing proxy for the absence of inflation indexing.

**2. Financing the proposals**

The BCTR has commissioned independent research into possible tax design changes to replace inefficient State taxes. This research will be provided to the tax forum.

The cost of establishing an independent tax reform review board can be funded from combined government funds across all jurisdictions.

The Property Council's other recommendations can be financed by replacing inefficient and unfair taxes with a suite of broad based taxes that encourage economic efficiency and better spread tax burdens. Independent research indicates this can be achieved by:

- increasing GDP of between 1.1% and 1.7%;
- enhancing economic activity that translates into higher Federal (and State/Territory) government tax income;
- increasing productivity; and
- reducing reliance on volatile tax bases.

The research examines options for financing the removal of inefficient State taxes by:

- capturing the fiscal growth dividend from reform or reduction in bad taxes;
- reducing public sector compliance costs;
- increasing the efficiency (and therefore the revenue dividend) of more efficient taxes; and
- Commonwealth assistance to help finance State government tax reform.

## LIST OF ATTACHMENTS

Australian Government 'State of Supply Report 2011' http://www.nhsc.org.au/supply.html

Centre for International Economics 'State Business Tax Reform: Seeding the Tax Reform Debate' November 2008

Centre for International Economics 'Infrastructure Charges and New House Affordability' June 2009