The Hon Rob Lucas MLC

Government of South Australia

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TRS19D1096

Hon Stephen Mullighan MP
Member for Lee
Unit 1, 62 Semaphore Road
SEMAPHORE SA 5019

lee@parliament.sa.gov.au

Dear Mr Mullighan

APPLICATION UNDER THE *FREEDOM OF INFORMATION ACT 1991*

I refer to your application made under the *Freedom of Information Act 1991* (FOI Act), dated 9 May 2019.

Your application seeks access to:

> *"All minutes, briefings and correspondence titled 'Deloitte Report – Land Tax Implications from an upward revaluation in land values in SA' as described on the Objective document management system, between 12 July 2018 and 9 May 2019."*

The legislative prescribed timeframe to determine this application has expired and is now deemed to have refused you access to all documents relevant to your application. I refer to my letter dated 26 May 2019 where I sought additional time to make my determination.

The purpose of this letter is to advise you of my determination. An extensive search was conducted within this office. A total of 1 document was identified as answering the terms of your application.

I grant you access in part to 1 document; a copy of which is enclosed.

Document 1 is a briefing prepared by DTF for my information, on a report prepared by Deloitte for the Property Council of South Australia entitled 'Land tax implications from an upwards revaluation of official land values in South Australia'

Both the Deloitte Report (Attachment 1) and the 2015 State Discussion Paper on land tax (Attachment 2) are publicly available and therefore have not been provided to you.

Please note, in compliance with Premier and Cabinet Circular PC045 - *Disclosure Logs for Non-Personal Information Released through Freedom of Information* (PC045), the Department of Treasury and Finance is now required to publish a log of all non-personal information released under the *Freedom of Information Act 1991.*

In accordance with this Circular, any non-personal information determined for release as part of this application, may be published on the DTF website. A copy of PC045 can be found at the following address: https://dpc.sa.gov.au/resources-and-publications/premier-and-cabinet-circulars. Please visit the website for further information.

As I am determining this application as Principal Officer, Section 29(6) of the Act does not provide for an internal review. If you are dissatisfied with my determination you are entitled to exercise your rights of external review with the Ombudsman.

Alternatively, you can apply to the South Australian Civil and Administrative Tribunal. If you wish to seek a review, Section 39(3) of the Act states you must do so within 30 calendar days of receiving the determination.

If you require any further information, please contact Vicky Cathro on 8226 9769.

Yours sincerely

Rob Lucas

Hon Rob Lucas MLC
Principal Officer

7 January 2020

DTF:Treasurer

From: Alexandropoulos, Pantelis (DTF)
Sent: Friday, January 11, 2019 3:25 PM
To: DTF:Treasurer
Cc: Pribanic, Tammie (DTF); Reynolds, David (DTF); Hocking, Stuart (DTF); Raymond, Greg (DTF)
Subject: A993128 - DELOITTE REPORT - LAND TAX IMPLICATIONS FROM AN UPWARD REVALUATION IN LAND VALUES IN SA
Attachments: A993128 - DELOITTE REPORT - LAND TAX IMPLICATIONS FROM AN UPWARD REVALUA....pdf; Attachment 1_Deloitte report_land tax revaluation impacts (A993128).pdf; Attachment 2_discussion paper_land tax (A993129).pdf

Categories: Naveena

Good afternoon,

Please see the attached Minute and Attachments regarding "DELOITTE REPORT - LAND TAX IMPLICATIONS FROM AN UPWARD REVALUATION IN LAND VALUES IN SA", for the Treasurer's consideration.

Kind regards

Pantelis Alexandropoulos
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MINUTE

Rec'd 11/1/19
File No: T19/016
Physical ID: TRS19D0086

Government of South Australia

Department of Treasury and Finance

MINUTES forming ENCLOSURE

Doc No A993128

To The Treasurer

DELOITTE REPORT - LAND TAX IMPLICATIONS FROM AN UPWARD REVALUATION IN LAND VALUES IN SA

Timing: ROUTINE — For information

Recommendations/Issues: It is recommended that you:

- Note the following information on a report prepared by Deloitte for the Property Council of South Australia entitled *Land tax implications from an upwards revaluation of official land values in South Australia.*

Noted

Rob Lucas

Hon Rob Lucas MLC
Treasurer

14/1/19

Key Points:

- DTF has received a copy of a report prepared by Deloitte for the Property Council of South Australia entitled *Land tax implications from an upwards revaluation of official land values in South Australia.*
- The report does not seek to estimate the potential magnitude or impact of the revaluation initiative being undertaken by the Valuer-General. Instead the report provides scenarios showing the potential impact on land tax liabilities and total land tax collections from different rates of growth in site values.
- In particular, the report focuses on the impact of progressivity and the indexation of land tax thresholds in the current land tax rate structure when land tax ownerships grow at rates that vary from the average growth in site values.
- It would appear that the report has been prepared to highlight concerns about the potential impact on land tax bills where a property liable for land tax is significantly revised up, relative to average growth in site values. However, if a property

SOUTH AUSTRALIA

is undervalued relative to its true value, then that property has benefitted from a lower relative tax bill compared other ownerships.

- The report does not mention the land tax reforms being introduced by the Government from July 2020 which will provide land tax relief of $47 million per annum. This will provide the largest level of relief for ownerships valued above the existing top tax free threshold ($1.2m), which appears to be the main area of concern in the report. ?

- While the report talks about the impact of the annual threshold indexation policy on land tax bills for ownerships with valuations that move at rates that vary from the average, it does not highlight the fact that indexing thresholds delivers a reduction in land tax bills for all taxpayers compared to what they would otherwise be liable for (assuming site values are increasing). For example, the indexation of land tax thresholds in 2017-18 is estimated to have reduced total private land tax collections by $21 million in 2017-18 compared to the level of revenue that would have been raised if thresholds had not been indexed.

Rate structure in South Australia

- South Australia has a progressive land tax rate structure, with land tax levied on the aggregate value of land within an ownership.

- Progressive tax structures apply because of the view that the value of the property is a reasonable, albeit not perfect, measure of capacity to pay. The owner of land has the choice of whether or not to rent out the property, further develop a property or hold the property with the intention of benefitting from the capital appreciation in the long term.

- Under a progressive land tax structure, aggregation of property holdings is required to provide equity between ownerships of similar value. For example, a landowner with one property valued at $1,000,000 pays the same amount of land tax as a landholder who owns two properties valued at $500,000 each.

- All jurisdictions, apart from the NT which does not levy land tax, have progressive land tax rate structures. All jurisdictions other than the ACT aggregate property holdings.

- Since 2011-12, land tax thresholds have been indexed in line with average annual growth in South Australian site values as determined by the Valuer-General (if average site value growth is static or negative, thresholds do not change). This policy aims to reduce the impact of bracket creep resulting from site value increases from year to year.

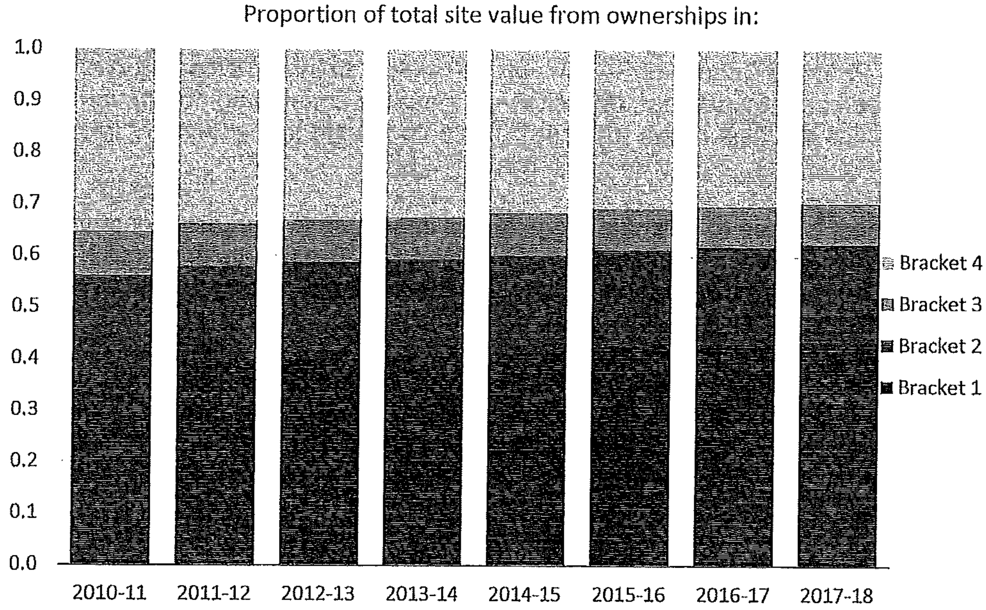
- As a result of the threshold indexation policy, where an ownership grows in line with average site values, the land tax liability of the ownership will generally grow in line with the underlying site value of the ownership.

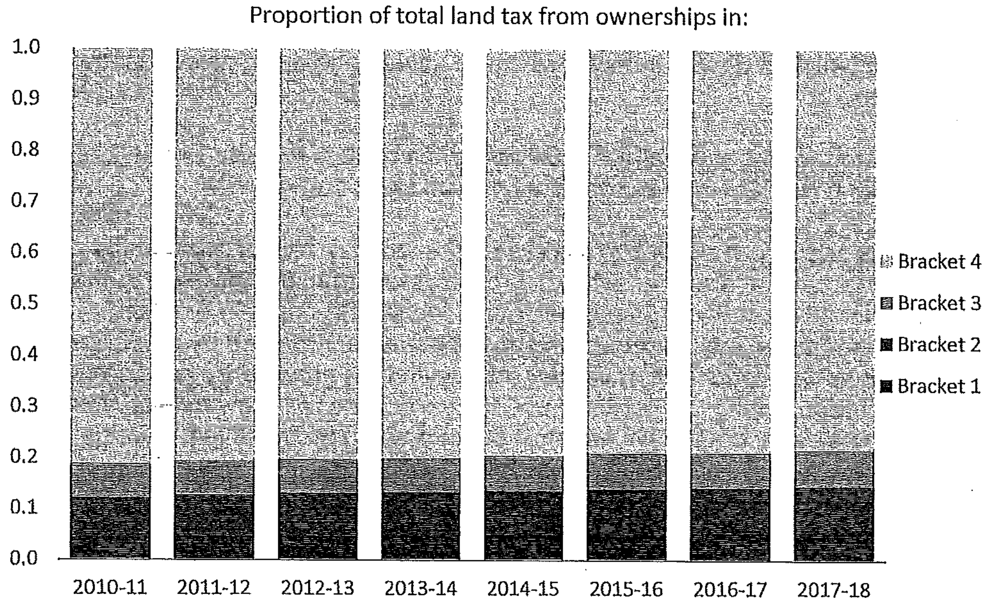
- However, if an ownership grows by more than the average, then the land tax liability will increase at a rate faster than growth in the underlying site value. This reflects the progressivity of existing tax rates. In addition, this impact can be larger if the ownership is pushed into a higher tax bracket, commonly referred to as bracket creep. Conversely, if an ownership grows by less than the average, the land tax liability of ownership will increase by less than the growth in the site value of the property (or potentially reduce depending on the relative growth).

- Without indexation of thresholds, taxpayers would be subject to higher land tax bills (when average site values are increasing).

Analysis of Deloitte model and process

- The results in the Deloitte report are based on a model they developed using information obtained by the Property Council of SA through a Freedom of Information request. This included information on the number, total site value and tax payable on non-government land tax ownerships by value range (or band). The data related to the 2016-17 land tax base.
- This Deloitte model is used to estimate the potential impact of an increase in site values on both land tax collections and average land tax liabilities. The results presented represent what the increase in land tax would be between 2016-17 and 2017-18 under the stylised examples.
- To allow for some simplified modelling of the impact of ownerships growing at rates that vary from the average growth rate, Deloitte have split the taxable site value of ownerships into equal quartiles. For example, if the total taxable site value of land subject to land tax in South Australia was $40 billion, the first quartile represents the first $10 billion of cumulative site value of the lowest valued ownerships.
- The scenarios modelled in the report include where all ownerships grow in line with average site value growth (scenario A to C), High-Low growth scenarios (Scenario D and E) and Low-High growth scenarios (scenario F and G). High-low is defined as growth in low ownerships values outpacing growth in high ownership values, that is, quartile 1 and 2 growing at rates higher than the average and quartile 3 and 4 growing at rates below the average). Low-high is growth in high ownership values outpacing growth in low ownership values.
- As previously noted, where ownerships increase in line by average site values land tax bills and collections will generally increase in line with site value growth.
- Under a high-low scenario modelled in the report, the land tax bills of ownerships experiencing faster than average growth will grow by more than the increase in the site values of the ownerships reflecting progressivity in the tax structure. In addition, depending on the relative level of growth this may be further impacted by properties moving into a higher tax bracket. Conversely for ownerships growing by less than the average, the increase in land tax liabilities and tax collections will grow by less than the increase in site values (or potentially negative depending on the relative site value growth).
- The Deloitte report implies that over the last 6 years, South Australia is most likely to have experienced a high-low ownership growth value situation.
- The graph below shows the site value of land subject to land tax and total tax collections by tax bracket (ie tax brackets within the existing tax structure) since 2010-11. It shows an increasing proportion of site value growth and tax collections within the lower tax bracket ranges which supports the high-low growth assumption. It is noted however, that this analysis would also be impacted by compositional changes in the tax base.





- To remove the effect of compositional issues, DTF also tested the growth in common ownerships between 2015-16 to 2017-18 (ie ownerships that were taxable in 2015-16, 2016-17 and 2017-18). Average growth in ownership site values for the lower quartiles were stronger than the highest quartiles over this period supporting the high-low growth outcome.

- The model used by Deloitte is a simplified version of potential land tax results given that the same growth rates are applied to all ownerships within a quartile. The actual growth rates of ownerships will vary significantly. The model does also not pick up changes in the composition of ownerships over the period, for example new ownerships, ownerships no longer liable and the disaggregation of properties within an ownership.

- DTF has not attempted verify all of the results in the report. However, based on some randomised checking of the selected calculations, the outputs in the report would appear to be in line with the order of results expected under the simplified set of assumptions used in the report.

- For internal modelling purposes, DTF generally utilises unit record data to improve the accuracy of results. However, simplifying assumptions are also required when attempting to project potential outcomes.

- The findings of the high/low analysis in Deloitte report are not inconsistent with the Valuer-General's revaluation initiative and consequential implications for land tax, namely:

    - it is important that land valuations are accurate and to the extent growth in land values has not been appropriately reflected in valuations, the current Valuer-General's revaluation initiative will address this;

    - the incidence effects on individual tax payers of the revaluation initiative will differ depending on how accurate their previous land valuations have been. To the extent residential properties are generally easier to value, the growth in site values in lower valued ownerships experienced in recent years may be more accurately reflecting recent market movements; and

    - due to their more complex nature, the previous Valuer-General had indicated that the accuracy of valuations for commercial and industrial properties are more likely to be below an acceptable level of accuracy than other property classes eg. residential land. As a result, if high valued commercial/industrial ownerships are revalued upwards as part of the Valuer-General's review, they will be subject to higher land tax but this just reflects more accurately the tax those property owners should have been paying based on the nature of the property.

Revaluation initiative and estimated budget impacts

- The revaluation initiative being undertaken by the Valuer-General is designed to improve valuation accuracy to address concerns that rating and taxing valuations used to raise both State and Local Government revenue were no longer sufficiently accurate and relative.

- The value of a property is often considered to reflect the owner's capacity to contribute, and serves as the mechanism to equitably distribute tax liabilities across the community, with the equity of the system linked to the accuracy of the valuations.

- Where a property is revalued upwards as part of the initiative this implies that they were benefitting from a relatively lower valued land tax bill than other ownerships.

- The estimated impact of the revaluation initiative on land tax collections has been factored into the budget and are updated annually to reflect the most recent information available from the Valuer-General. The 2018-19 Budget Statement noted that land tax collections will be impacted by the revaluation exercise, stating that:

    "Underlying site values subject to land tax are expected to grow by around 3-5 per cent per annum over the forward estimates period. This incorporates the expected impact of the property revaluation exercise being undertaken by the Valuer-General, which is estimated to increase land tax collections by around $19 million by 2021-22."

- The impacts on site values (and therefore land tax bills) are based on the Valuer-General's estimates of the incremental impact of the revaluation initiative (over and above the changes which would occur as part of the standard general valuation).

- <u>Efficiency of land tax and reform options</u>

- The Deloitte report includes a section on 'policy implications'. This includes a statement that "*Achieving a revenue neutral outcome following an increase in site values (due to a revaluation) would require land tax rates to be reduced. An effective way to achieve this would be to reduce rates progressively in the higher marginal tax brackets.*"

- This is consistent with the changes to land tax that are being introduced by the Government from 2020, which reduce the top rate of land tax from 3.7% to 2.9% for the value of ownerships between the existing top threshold ($1.2 million) and $5.0 million. However, the report does not make any mention of the changes that are being introduced.

- It is also noted that the options to achieve a revenue neutral outcome contained in the report are based on no increase in total land revenue between years. That is they do not allow for natural growth in site values (excluding revaluation effects) leading to an increase in land tax collections.

- While land is an efficient base to tax given it is a fixed and immobile, the efficiency of land tax in South Australia is reduced due to exclusions from the base (eg principal place of residence and primary production), progressive tax rates and aggregation. This is noted in the Deloitte report. However, the same points apply to all land tax regimes in Australia, not just South Australia.

- The report mentions a number of reform options to improve the efficiency of land tax, including shifting to a flatter rate of tax or a per square metre value of land tax. There are a range of factors that would need to be considered under such reforms, particularly incidence effects. A State Tax Review Discussion paper released in 2015 provides information on a number of the options raised in the South Australian context, including potential incidence effects and the impacts on state revenue. An extract of the relevant sections is provided at Attachment 2 for information.

- It is also noted that the Deloitte report states that land tax revenue as a proportion of total tax revenue in South Australia is higher than in every other jurisdiction – an average of 14 per cent over the period 2007-2017, compared to between 8 per cent and 11 per cent for other jurisdictions (page 13/14). South Australia is the only jurisdiction that applies land tax to its housing authority, which distorts this comparison. If land tax paid by the South Australia Housing Trust is excluded from the analysis the proportion of land tax revenue of total taxation revenue in South Australia reduces to an average of 9.7 per cent over the period analysed, broadly consistent with other jurisdictions.

T Pribanic

Tammie Pribanic
<u>EXECUTIVE DIRECTOR</u>
<u>BUDGET AND PERFORMANCE</u>

11 January 2019

Contact Officer:	Greg Raymond
Telephone:	8429 3193
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Attachments:

1. Deloitte report: *Land tax implications from an upwards revaluation of official land values in South Australia*

2. Extract from 2015 State Tax Discussion Paper – land tax