

# **Redesigning Federal – State - Local Tax Frameworks**

The Property Council welcomes the Henry Review into Australia’s Future Tax System.

The discussion papers – *Architecture of Australian Tax and Transfer System* and the recent consultation paper – highlight the archaic nature of the current tax framework.

For instance, 90% of all revenue is generated by ten taxes, with the balance collected from a further 115 taxes.

A major effort is required to rationalise and modernise these taxes. The result will be a more productive, competitive economy that will probably lift medium term tax revenues.

The Property Council has embarked on a major initiative in league with the Business Coalition for Tax Reform (BCTR) to develop a rigorous framework for comprehensive tax modernisation.

In the interim, two initiatives are proposed:

1. meet the original promise of the GST, which was to **eliminate Australia’s most inefficient business taxes**. Eight of the original nine taxes slated for reform have been eliminated or scheduled for elimination. The least efficient impost, **stamp duty on commercial property conveyances**, remains and should be removed; and
2. **commit to a new wave of tax reform** to eliminate inefficient state taxes as part of a new intergovernmental agreement and modernise the business tax system.

## **Why Eliminate Stamp Duty on Commercial Conveyances?**

- Stamp duty is the least efficient of all business taxes according to every economic analysis undertaken in the past decade.<sup>1</sup>
- It would be ironic if the only tax not to be reformed as part of the 1999 GST IGA was the least efficient tax with the highest dead weight costs.
- There are many property taxes that provide for the differential treatment of residential and non residential property sectors – it is specious for the states and territories to argue that commercial and residential conveyances should be taxed in an identical manner.

<sup>1</sup> *Axing the Alcabala: a program for a 21<sup>st</sup> century state tax system*, Access Economics (2004)

**The Voice of Leadership**



- There is no threat to existing state or territory revenue collections – the abolition of stamp duty on commercial conveyances has always been slated to occur only when growing GST revenues totally cover the cost of reforming the tax.
- Reform of inefficient business taxes is an important element of reforming federal-state finances and, thereby, helping to modernise the Federation and end the blame game.

### **A Plan for Modernising the Business Tax System**

There is a critical over-reliance on property taxes which has **grown** since the introduction of the GST.

High taxes jeopardise housing affordability and expose state Governments to revenue volatility.

GST growth can and should be used to abolish inefficient property taxes.

Australian state and federal Government should commit to a new wave of tax reform to eliminate inefficient state taxes as a part of a new intergovernmental agreement.

Government can also boost the efficiency and competitiveness of the industry by:

- supporting the current negative gearing and CGT regimes;
- simplifying the capital allowances regime;
- encouraging the states to rationalise state property tax provisions;
- adopting green tax incentives including accelerated (green) depreciation;
- simplifying the GST margin scheme and valuation rules;
- clarifying GST adjustment rules regarding a change of purpose for property under Division 129; and,
- clearing up nuisance GST issues that unnecessarily burden the industry.

Together with the BCTR the Property Council is currently examining opportunities for comprehensive reform of business taxes. A further submission to the Henry review will be made in March 2009.

**Redesigning Federal-State-Local Tax Frameworks–  
Recommendations:**

- First:** Eliminate stamp duty on commercial property conveyances.
- Second:** Commit to a new wave of tax reform to eliminate inefficient state taxes as a part of a new intergovernmental agreement.
- Third:** Support the current negative gearing and CGT regimes;
- Fourth:** Simplify the capital allowances regime;
- Fifth:** Encourage the states to rationalise state property tax provisions;
- Sixth:** Adopt green tax incentives including accelerated (green) depreciation;
- Seventh:** Finalise the GST reforms:
- simplify the GST margin scheme and valuation rules;
  - clarify GST adjustment rules regarding a change of purpose for property under Division 129; and
  - clean up nuisance GST issues that unnecessarily burden the industry.
- Eighth:** Consider the Business Coalition for Tax Reform’s proposals on business tax modernisation.

**Sources:**

*State Business Tax Reform – Seeding the Tax Reform Debate*, Centre for International Economics, for the Business Coalition for Tax Reform (2009, forthcoming)

*Quantifying the Fiscal Capacity and Economic Benefits from Property Tax Reform in Victoria*, Access Economics (2009, forthcoming)

*A Cost Benefit Evaluation of Reducing Taxes on Property in South Australia*, Hudson Howell (2009, forthcoming)

*Australia’s Future Tax System: Ending the Property Tax Squeeze*, Property Council of Australia’s submission to The Review Panel for Australia’s Future Tax System Review (October 2008)

*Improving Australia’s Tax System: Tackling the Growing Property Tax Burden*, Property Council of Australia’s submission to the Ergas Review of Australia’s taxation system (August 2008)



•  
•  
•  
•  
•  
•  
•

*Tax Nation: Business Taxes and the Federal-State Divide*, Business Council of Australia (2007)

*Axing the Alcabala: a program for a 21<sup>st</sup> century state tax system*, Access Economics (2004)

# **BCTR Recommendations**

## **(Business Coalition for Tax Reform)**

### **Recommendation 1**

That the installation cut-off date for the investment allowance be extended by at least twelve months to 30 June 2011, and the acquisition date should be extended to 30 June 2010.

### **Recommendation 2**

The investment allowance incentive should be extended to expenditure that is deductible under Div 43 of the ITAA 1997.

### **Recommendation 3**

A deduction for a bad debt should be available if, at the time of lodgement of the income tax return, the debt has been written off as bad.

### **Recommendation 4**

Australia should introduce limited loss carry back rules. These rules should be developed in consultation with business, and might involve both a time limit (e.g. two years) and a cap (e.g. no more than 50 per cent of tax paid might be refundable).

### **Recommendation 5**

The same business test should be redesigned in consultation with business so that it operates as a better mechanism for distinguishing between business and tax driven changes in ownership.

### **Recommendation 6**

Interest withholding tax should be abolished.

### **Recommendation 7**

Withholding tax in respect of lease payments made to non-residents should also be abolished.

### **Recommendation 8**

The definition of the term "instalment income" should be broadened so that, having regard to what other factor might be a more appropriate proxy for taxable income, the Commissioner may grant approval for the use of a different factor.

**The Voice of Leadership**