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AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir/Madam

Submission relating to the review of Australia's future tax system

We are aware that the Treasury is currently undertaking a review of Australia's tax system. This submission relates to matters that should be considered in the review relating to the spatial and land use consequences of taxation measures, and the resulting impacts on sustainability. It is hoped that the comments can be taken into account by the review panel in developing future directions for a tax system that is adapted to the issues Australia faces into the next century.

The submission is from Land & Environment Planning, an environmental planning consultancy with a strong emphasis on strategic land use and sustainability planning. We have been innovators in ensuring sustainability issues are addressed in development and planning. In particular, we recognise the close links between taxation and land use outcomes and the way that the taxation system interacts with strategic land use planning processes.

Background

Existing taxation arrangements send many signals which contradict effective environmental planning practice, and sustainable land use and management. It is suggested that the land use and spatial effects of the operation of the tax system need to be carefully considered.

The comments relate specifically to the impact of taxes on, and affecting land and its use. This is important for economic reasons because land use change is relatively slow, and many changes are permanent and irreversibly unsustainable. The main taxes involved are state land taxes and stamp duty on land transfer, local government rates, and capital gains taxes administered by the Commonwealth. The effect of these taxes is sometimes to undermine the objectives of state and local government land use planning processes, and to lead to unsustainable development and land management.

A further issue to be considered is the extent to which the proposed Carbon Pollution Reduction (CPR) scheme for greenhouse gas emissions trading should be directly linked to land use planning and approval mechanisms largely operated by the states. The CPR scheme will result in direct land use consequences and may not be as efficient in achieving the desired spatial outcomes as if it complements broader strategic land use objectives.

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Comments

Specific comments on the current operation of certain aspects of the tax system are as follows:

- 1 *Local government rates* - Local government land rates have historically been collected to provide services to land, with the effect that council's actively encourage development to increase revenue. With the diversification of the role of local government, and a range of functions being transferred from states, the link between local government funding and property based rates should be broken. Direct funding from the Commonwealth on the basis of needs and infrastructure priorities is preferred as a more equitable and efficient mechanism which does not cause a conflict of interest whereby councils actively support unsustainable development to gain revenue.
- 2 *State land taxes* - These tax land based on value rather than its use, and encourage maximise development on land, rather than its best use which might be for conservation or limited development. For reason of efficiency and equity, these taxes should be eliminated. If they are required, land taxes should take into account the use of the land, and personal dwellings should not be exempt.
- 3 *Stamp duties on land transfer* - High taxation of land transfers tends to hinder land transfer, and especially property amalgamations and boundary readjustments in rural areas which are important in facilitating better land management and sustainable land use. These represent an unfair tax on land when compared to other factors of production.
- 4 *Carbon pollution reduction scheme* - It is essential to recognise the link between operation of the CPR scheme with land uses, and specifically state and local land use planning processes. For example, as part of the preparation of a Statement of Environmental Effects, this provides a perfect opportunity to ensure that measures are introduced in buildings at the design stage to minimise energy use, to predict greenhouse gas emissions over the lifespan of the development, and to provide essential monitoring data on the effectiveness of the operation of the scheme. At the very least, there must be a framework that ensures that economic outcomes of the scheme complement and do not contradict land use objectives.
- 5 *Charges associated with land use planning regulation* - Different approaches to land use regulation between the states can have a considerable impact on the spatial location and environmental sustainability of activities or industries. There are also significantly different costs that apply, including developer charges and levies.

There is significant benefit in working towards a national land use planning system which would be administered by the states which ensures a consistent process and principles throughout Australia. This would also represent a significant economic reform which has potential to improve longer term sustainability outcomes, and should also be designed to be consistent with a uniform approach to natural resource management (including water management). This approach could be linked to taxes on resource use.

- 6 *Tax applying to land related insurance premiums* - Given the increased frequency of storm events and natural disasters as a consequence of climate change, insurance premiums should linked to location and spatial land use and development controls designed to minimise risk and mitigate climate change. Through tax arrangements linked to land use planning, systems could be put in place to support effective insurance of activities that locate to low risk areas (eg non-coastal, and flood free) and take steps to reduce energy use (eg energy efficient design and construction).
- 7 *Depreciation of assets* - Sustainable development and reducing greenhouse gas emissions requires a transition to more durable products and buildings. Current approaches to depreciation encourage less durability to give more depreciation deductions. It is suggested that depreciation rates used for taxation should be adjusted to provide an incentive to keep products longer and to repair them.

- 8 *Capital gains tax* - The exemption for capital gains tax on family homes has significantly contributed to rising house prices in major cities and declines in housing affordability. It also contributes to population mobility which contributes to higher than necessary greenhouse gas emissions. Housing should be viewed as an economic asset, not as a non taxable refuge for wealth.
- 9 *Fringe benefits tax* - The financial incentive to increase car use is a significant impact of taxation arrangements for motor vehicles, especially those included in salary packages. This is directly contributing to spatial effects such as traffic congestion, long distance commuting, and urban sprawl. The consequences of this are to create urban settlements which are more vulnerable to the impacts of climate change and resource scarcity.

Important reform proposals

A reformed Australian tax system land use should directly contribute to sustainable land use outcomes. Because of the long term or permanent nature of land use and development, these decisions result in long term structural economic consequences with permanent environmental impacts. Currently, many tax arrangements contradict effective environmental planning and management. The review of the tax system should take into account spatial implications for ecological and economic sustainability.

The national and local scales are the most effective levels for taking into account the consequences of tax on land and its use. The above examples provide an indication of the types of consequences that should be avoided. Consequent to the review of these specific taxes, there would be benefit in the following complementary measures:

- 1 Implementation of a common national land use planning system under Commonwealth legislation, administered by states. This must be designed to harmonise with the Commonwealth EPBC Act which provides a sound impact assessment framework. Links with the taxation system could be included by providing for taxation of certain types of unsustainable, energy intensive, or non-greenhouse neutral development assessed as part of established land use planning processes.
- 2 There must be a clear and unambiguous role for local government specified in the Australian constitution with direct Commonwealth funding so local government does not rely on taxation of land.

Conclusion

As indicated above, there are important issues relating to the governance of land use which need to be taken into account in framing new Australian tax system. If this is not done, one may expect unanticipated land use outcomes which do not meet long term sustainability criteria and will not support a settlement structure that encourage transport and development that minimises carbon pollution or that contradicts objectives of ecological sustainability.

Thank you for the opportunity to provide comments. I would welcome the opportunity to discuss any aspect of this submission in greater detail, and please feel free to contact me if you have any queries in relation to the above matters. The Land & Environment Planning website www.calli.com.au/lep also includes further information.

Yours sincerely

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