17 October 2008

Mr Dr Ken Henry AC,
Chair (Secretary to the Treasury)
AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

By email: AFTSubmissions@treasury.gov.au

Dear Doctor Henry

Federal Review into Australia's Future Tax System

Thank you for the opportunity to provide a submission to the inquiry into Australia's future tax system.

The Property Council of Australia is the peak body representing the interests of owners and investors in Australia's $320bn property investment sector.

The Property Council strongly supports reform that will relieve unwarranted pressure on an overburdened property sector and improve our global competitiveness.

Our attached chart book submission outlines the Australian tax system's impact on the property industry and broader community. Specifically:

1. there is a critical **over-reliance on property taxes** which has increased since the introduction of GST;
2. commercial conveyancing duty is one of the most **inefficient state taxes**;
3. high taxes are **jeopardising housing affordability** and **exposing** state governments to **revenue volatility**;
4. GST growth can & should be used to **abolish inefficient property taxes**;
5. Government can also boost the efficiency and competitiveness of the industry by:
    a. **simplifying capital allowances**;
    b. **rationalising state tax provisions** across the states; and
    c. **adopting green tax incentives** including accelerated (green) depreciation.
6. Australian Governments should commit to **a new round of business tax reform** in consultation with industry, underpinned by a new inter-governmental agreement.

Reforming state property taxes to end over reliance on property revenue is a crucial step toward improving the economic health of the nation.

We are keen to discuss this matter with you.

In the interim, please do not hesitate to contact me on 0407 463 842.

Yours faithfully,

Peter Verwer
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PROPERTY COUNCIL of Australia

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Australia's Future Tax System: Ending the Property Tax Squeeze

For the:
The Review Panel for Australia's Future Tax System Review

17 October 2008

The **Voice** of Leadership

Property Council of Australia – Level 1, 11 Barrack Street, Sydney
Phone: 02 9033 1900 Fax: 02 9033 1966 ABN 13 008 474 422

PROPERTY COUNCIL of Australia

Contents

Executive Summary

Around 11 million Australians have a direct stake in commercial property through their superannuation, life insurance or managed funds. That is one in every two Australians or over two thirds of the nation's adults.

The property industry helps underpin the retirement savings and economic prosperity of Australia.

Higher taxes reduce retirement savings and increase the cost of doing business.

This chart book illustrates the impact of federal, state and territory taxes on the property sector and broader community.

It shows that Australia's indirect property tax system is one of the world's worst – our heavy (and increasing) reliance on these inefficient imposts requires urgent reform.

The main findings are:

- The States and Territories rely too heavily on property taxes for revenue.
- Australia's dependence on property tax revenue is out of line with other OECD countries.
- Australia's reliance on property taxes as a proportion of all state and territory taxation has increased fivefold since 1980;
- Since the introduction of the GST, the states and territories have collected $18.6 billion more in property taxes than they originally budgeted. Of 64 budgets handed down since GST was introduced the states have underestimated the property tax haul on 57 occassions – 90% of the time. Instead of reforming property taxes as GST revenue increases, they became more reliant on them;
- Since the GST was introduced, property tax revenues from land tax and conveyancing duty have more than doubled and are growing at twice the average rate of the other state taxes combined.
    - land tax revenue has increased 134% and conveyancing stamp duty has increased 200%.
    - local government property rates have increased 39%.
    - development levies also increased sharply.
- 86% of small business want the GST used to phase out inefficient taxes – in line with the original GST promise;
- Stamp duty on commercial conveyances, land tax and developer levies are economically inefficient and unfair taxes that cry out for reform. Stamp duty on commercial property conveyances is the least efficient indirect tax.

- High taxes are a major cause of Australia's chronic housing affordability crisis – up to 34% of dwelling costs comprise property taxes and compliance costs.
- Taxes on new homes are now greater than land costs across the country.
- The tax component of a new home is bigger than the land cost.
- The negative gearing and CGT regimes are not unique to Australia. Negative gearing, in particular, enhances the supply of housing for rent and blosters the savings of middle Australia.
- Government can also boost the efficiency and competitiveness of the industry by:
  - simplifying capital allowances;
  - rationalising state tax provisions across the states; and
  - adopting green tax incentives including green depreciation.

Please note that this Chart Book Submission maps out the Property Council of Australia's key themes for tax reform

We can provide further detailed technical research in relation to all issues.

We are also participating in a more comprehensive exercise under the banner of the Business Coalition of Tax Reform (BCTR).

The BCTR project is examining major tax reform scenarios and will provide options for funding each reform scenario.

Recommendations

Six Point Plan

Industry Consultation

1. Australian governments consider the forthcoming Business Coalition for Tax Reform (BCTR) model for comprehensive business tax reform (See Appendix A and B).

Government Consultation and Agreement

2. The Council of Australian Governments (COAG):

    a) set a timetable to eliminate stamp duty on commercial conveyances, based on agreed GST windfall triggers;

    b) commit to a root and branch modernisation of the business tax system including the elimination of indirect property taxes.

    c) commit to a new system for dividing up the GST revenue between the States and Territories.

    d) set a five year target to reduce Australian government reliance on indirect taxes to OECD levels.

    e) commit all states and territories to undertake five yearly reviews of the indirect tax systems with the objective of reducing their reliance on high dead weight taxes and reducing compliance costs.

    f) commit to rationalising state tax provisions in relation to:

        i) stamp duty;

        ii) land tax/land rich provisions;

        iii) unit trust definitions and corporate reconstruction including stamp duty relief for "top hatting".

3. The Australian Governments ratify a new Inter-governmental Agreement to give effect to COAG's tax reform program.

4. Australia should retain its negative gearing and capital gains tax regimes.

5. Australia should simplify the capital allowance regime.

6. Australia should speed up the greening of the built environment by providing tax incentives including green depreciation.

Reading this Chartbook

1. Executive Summary	The main findings of this Chartbook.
2. Recommendations	The six point plan for property tax reform.
3. International Comparisons	How Australia's property taxes compare with OECD nations.
4. National Taxes	The importance of negative gearing, capital gains tax concessions, capital allowance simplification and green tax incentives.
5. State & Territory Property Taxes	The facts regarding Australia's over-reliance on property taxes and how it affects the industry, economy and community.
6. The Way Forward…	Simple property tax reforms that will improve business & the economy.
7. Appendix A: BCTR Business Tax Reform Project	An outline of the BCTR project that will provide government with detailed practical options for tax reform.
8. Appendix B: BCTR Principles For Tax Reform	Nine tax design principles for effective tax reform.

International Comparisons

Australian Governments are Over-reliant on Property Taxes

Around 11 million Australians have a direct stake in commercial property through their superannuation, life insurance or managed funds. That is one in every two Australians or two thirds of the nation's adults.

The property industry helps underpin the retirement savings and economic prosperity of Australia.

Higher taxes reduce retirement savings and increase the cost of doing business.

The states and territories rely too heavily on property taxes for revenue.

Direct Property taxes comprise **9.1%** of total tax revenue in Australia.

In 2006/2007, property tax made up **40.6%** of the tax revenue of the states and territories.

Property Taxes are out of Kilter with OECD Averages

Australia's dependence on property tax revenue is out of kilter with other OECD countries.

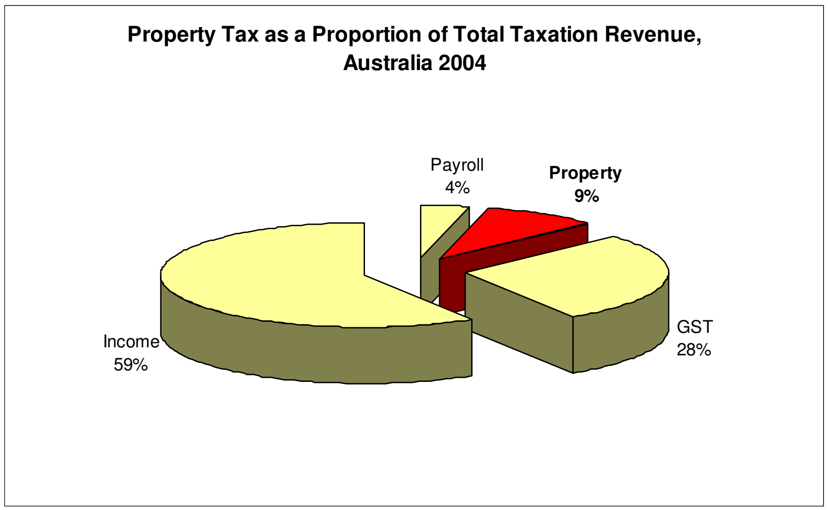
This graph depicts property taxes as a percentage of GDP.

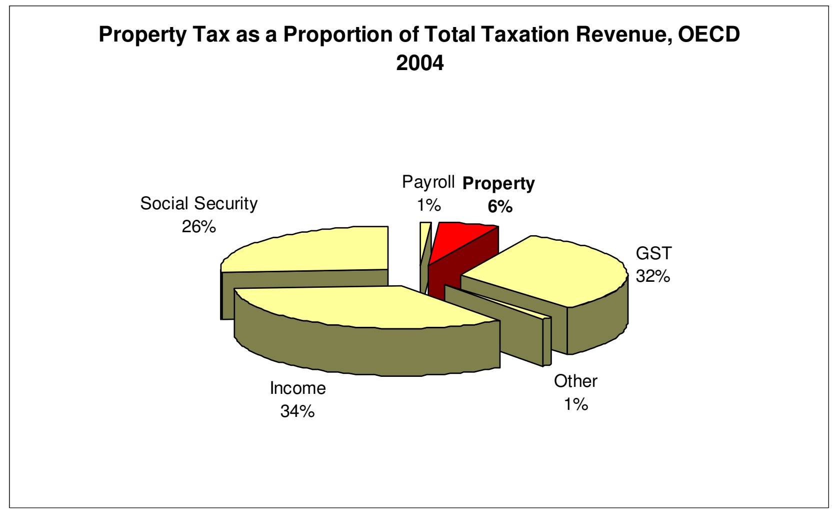
It shows that Australia relies far more on these inefficient taxes than other OECD countries.

Source: OECD *Revenue Statistics: 1965-2006* (2007)*
*figures up to the end of 2005

The OECD is less Reliant on Property Taxes

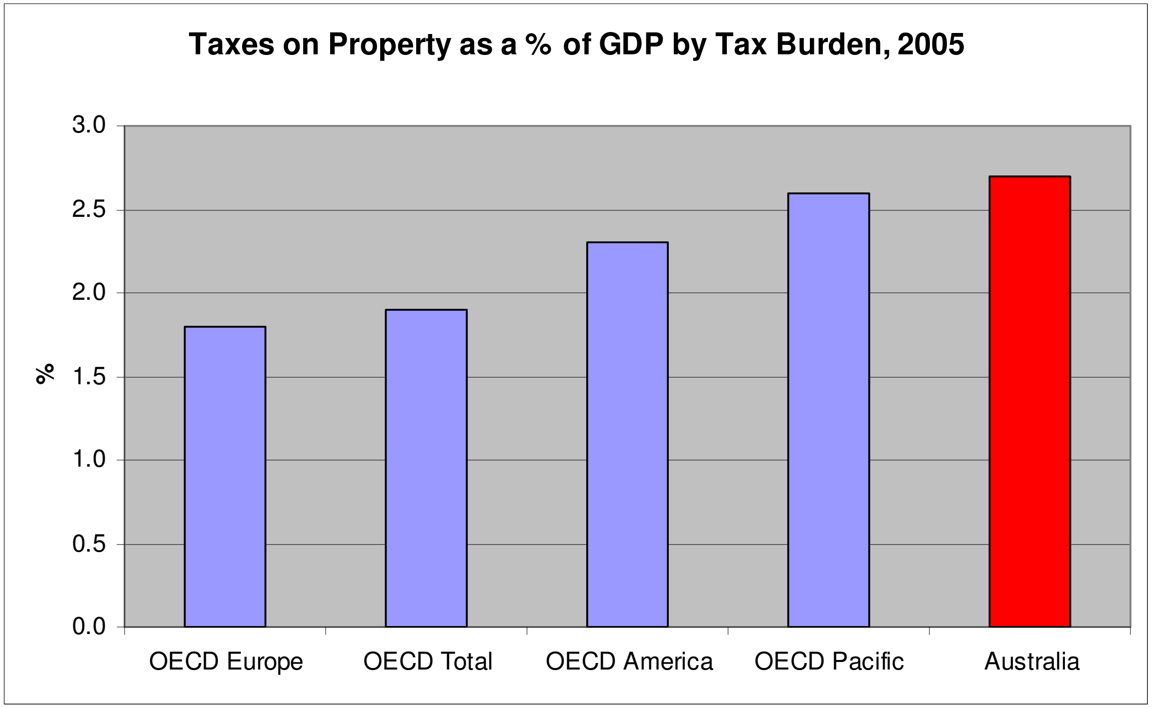
Australia is more reliant on property taxes than other OECD nations, based on the average share of property taxes and total taxation.





Source: OECD *Revenue Statistics*, 2007.

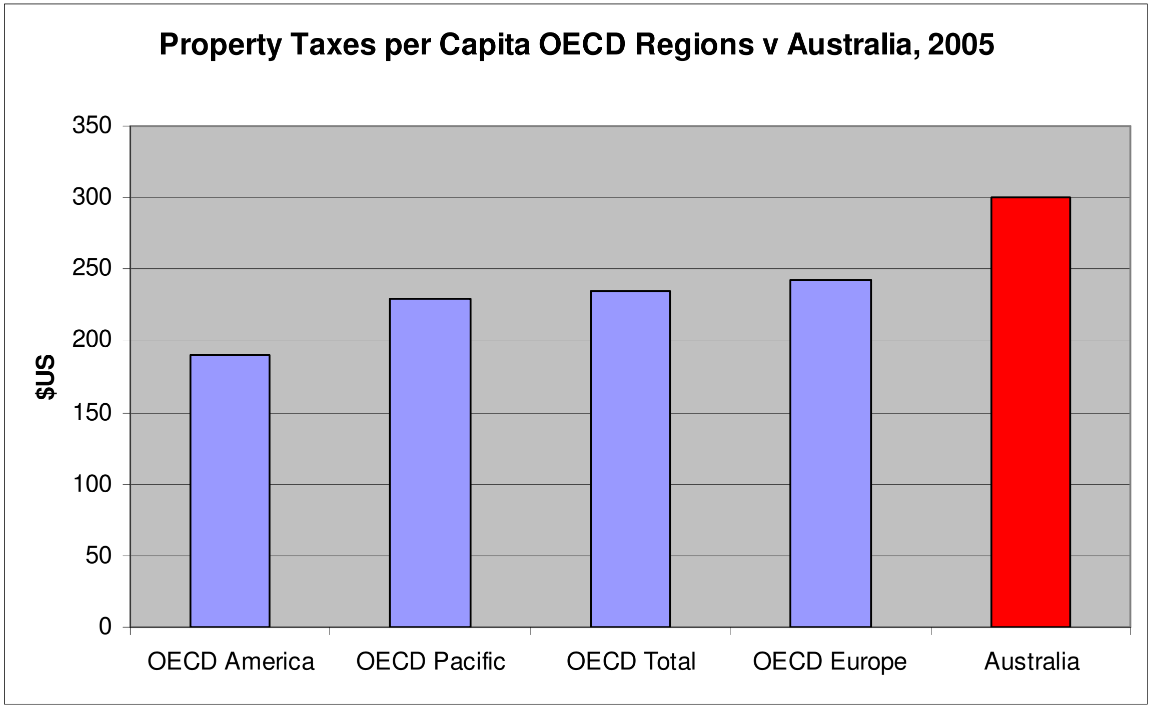
Australia's Reliance on Property Taxes is the Highest of all OECD Regions.



Source: OECD *Revenue Statistics*, 2007*
*figures up to the end of 2005

Australians Pay More Property Taxes per Capita than our OECD Competitors.

The overwhelming majority of these Australian property taxes are inefficient indirect taxes.



Source: OECD *Revenue Statistics* (2007)*
*figures up to the end of 2005

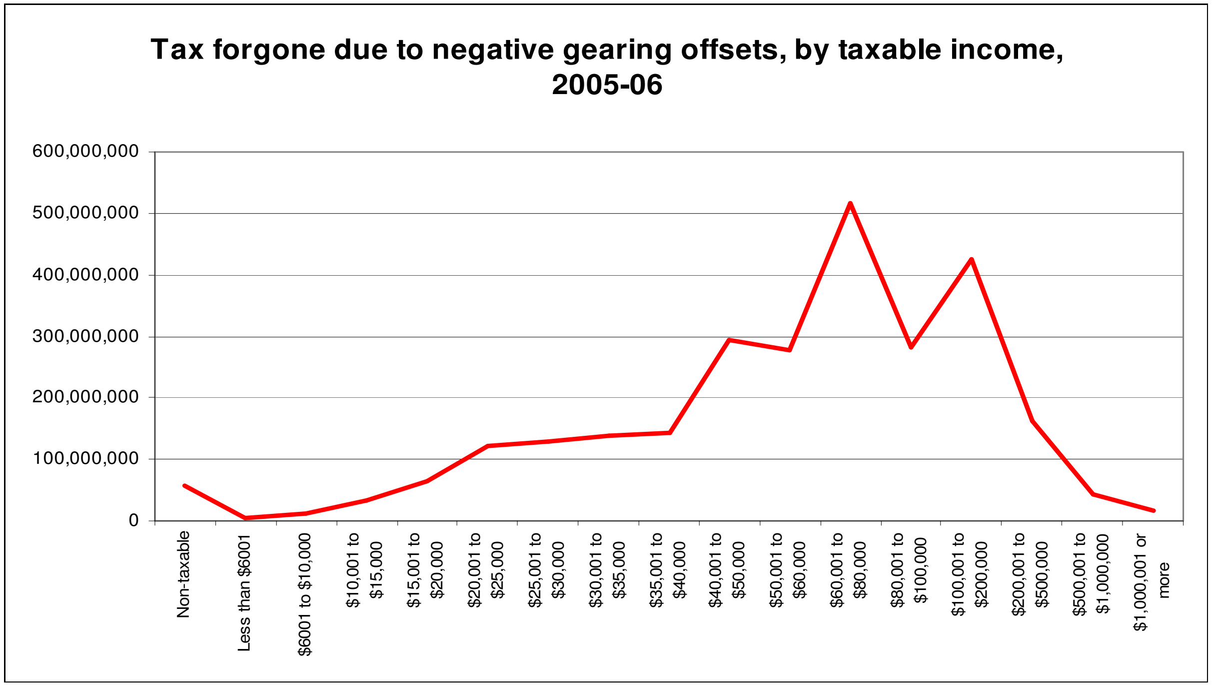
National Taxes

The Negative Gearing and CGT Concession Regimes are Virtuous

Negative Gearing reduces the property tax burden and helps provide a steady stream of essential housing-for-rent.

The annual cost to revenue of negative gearing is around **$2.7 billion.** These figures are for **2005-2006,** which are the most recent statistics available for analysis.

Who benefits from negative gearing? Than answer is middle income earners. The biggest users of negative gearing earn between **$60,000 and $80,000.**



Source: ATO, Australasia Economics 2008

The Negative Gearing and CGT Regimes are not Unique to Property

The capital gains tax regime and concessions cover the majority of asset classes including property.

The capital gains tax regime does not favour any one asset class.

CGT concessions for property help maintain an affordable supply of houses to the market.

Asset Type	CGT Discount after 12 months
Shares	☑
Units in a Trust	☑
Collectables (eg Jewellery)	☑
Personal use assets (eg furniture, boats)	☑
Investment Property	☑

Many Countries Allow Negative Gearing and CGT Concessions

Contrary to popular belief, Australia's negative gearing and CGT regimes are not unique. In fact, other countries provide several concessions not available to Australian taxpayers.

Country	Owner Occupied Housing			Investment Housing				
	Imputed Rent Taxation	Interest Deductibility	CGT	Negative Gearing	Ability to Carry Back Losses	Ability to Carry Losses Forward	Ring Fencing of Losses	CGT Concession
Australia	No	No	No	Yes	No	Yes	No	Yes
Canada	No	No	No	Yes	Yes	Yes	Partial	No
France	No	No	No	Partial	Yes	Yes	Partial	Yes
Germany	No	No	No	Partial	Yes	Yes	Partial	Yes
Japan	No	No	Yes	Yes	No	Yes	Partial	Yes
Netherlands	Yes	Yes	No	No	No	No	No	No
NZ	No	No	No	Yes	No	Yes	No	Yes
Sweden	No	Yes	Yes	Yes	No	No	Partial	Yes
UK	No	No	No	No	Partial	Yes	Partial	Partial
US	No	Yes	Partial	Partial	No	Yes	Partial	Partial
Source: Ernst & Young, October (2008), French data Ernst and Young, *Negative Gearing* (2006)								

The Capital Allowances Regime Can be Simplified

The capital allowances regime is vital to encourage:

1) investment in crucial property and infrastructure projects.

2) investment to modernise and improve property facilities.

However, the capital allowances regime is extremely complex to administer.

Compliance reports can now take twice as long to complete than in 2000.

It costs industry and the Australian Tax Office millions of dollars in compliance and administration each year.

A number of simple reforms can be implemented to quickly reduce the compliance burden for industry and simplify government administration without significantly impacting revenue.

The Current Regime	A Simplified Regime
☒ Time consuming calculations for system components	☑ Treat complete systems as one asset
☒ Too many depreciation rates for similar assets	☑ Pool similar assets to reduce complexity ☑ Band similar assets under average depreciation
☒ Valuing land & buildings on purchase is subjective & confusing	☑ Clarify classification between buildings and depreciable assets
☒ Difficult to calculate asset values on purchase	☑ Use common multiplying factors to calculate market values
☒ Too many pools of assets with low values	☑ Write off assets under $1,000
☒ Unclear when you can write off assets after purchase	☑ Clearer guidelines for immediate asset write offs in year one
☒ Unclear when to capitalise repairs	☑ Clearer guidelines for claiming repairs after purchase

Green Tax Incentives Provide a Second Plank to the CPRS

The government has committed to deep emissions cuts by 2050.

The building sector accounts for around **23%** of greenhouse gas emissions.

In the medium term, with improved technology and building design:

- new commercial buildings and their occupants could use **up to 70%** less energy;
- new dwellings could **halve** their eco footprint compared to current performance.
- retrofitted existing commercial buildings could improve their efficiency by 30% to 35% over the next decade.

However, there is a major timing mismatch between investing in energy efficiency and the lower energy costs that justify such major investments.

Australia has **330 million square metres** of existing commercial building stock and the fastest way to achieve substantial emissions cuts is to improve the energy efficiency of those buildings.

The government needs to provide the property industry with tax incentives to speed up the adoption of efficient technologies.

The government should re-introduce accelerated depreciation incentives to fast track efforts to rebuild existing building stock to a higher environmental standard:

- **Plant, fixtures and fittings** should be **written off at two to three times** the ATO effective life rates (including current concessions).
- **Building amortisation** allowances should be at least **doubled**.

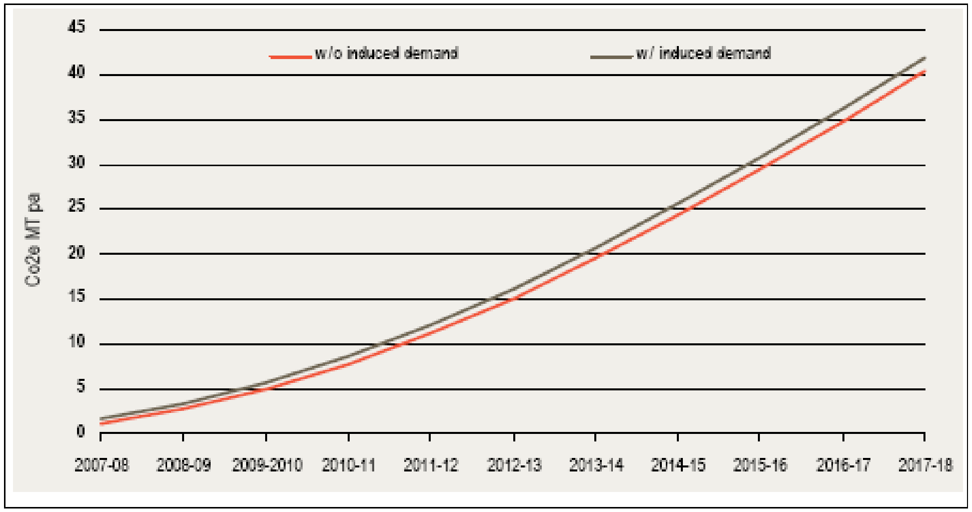
Green depreciation is likely to reduce green house gas emissions by around **203Mt** over 11 years.

This is equivalent to **removing 6.4 million cars from the road *each* year** for the next decade.

A recent report by the Australian Sustainable Built Environment Council (ASBEC) shows that a major improvement in energy efficiency would lift annual carbon abatement from 8 MT per year (CPRS only) to 60 MT per year (with incentives such as targeted accelerated depreciation).

(ASBEC, *The Second Plank – Building a Low Carbon Economy with Energy Efficient Buildings",* 10 September 2008).

Savings of greenhouse gas emissions through green depreciation



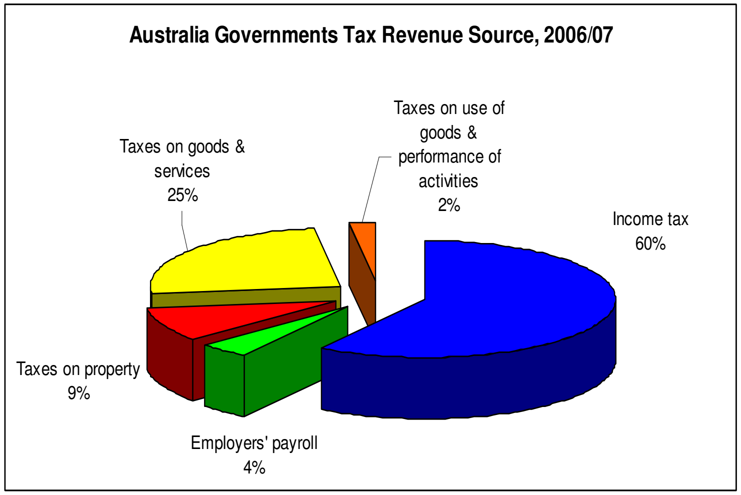
Source: The Centre for International Economics, *Green Depreciation* October 2007

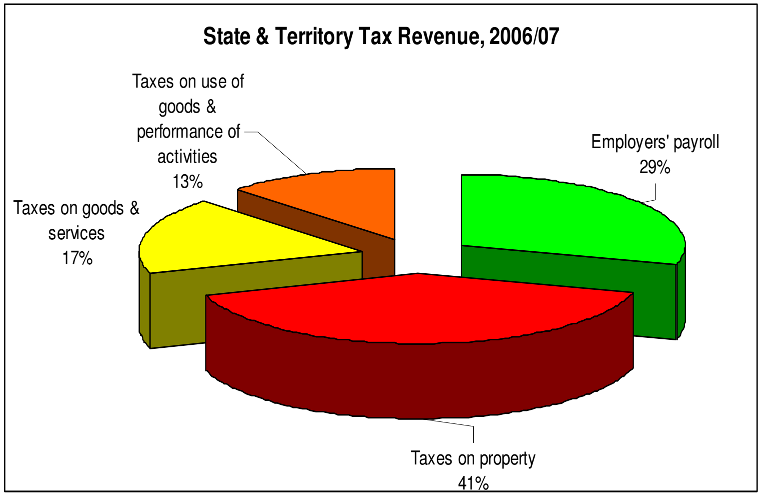
State & Territory Property Taxes

States & Territories Rely too Heavily on Property Taxes for Revenue.

Property contributes **9.1%** of total tax revenue in Australia – providing the third largest source of tax revenue after income tax and GST (**60%** and **25%** respectively).

The vast majority of property tax is collected by state and territory governments, accounting for the lion's share **(40.6%)** of their tax revenue. State and Territory governments collect more in property taxes than payroll tax **(29%).**



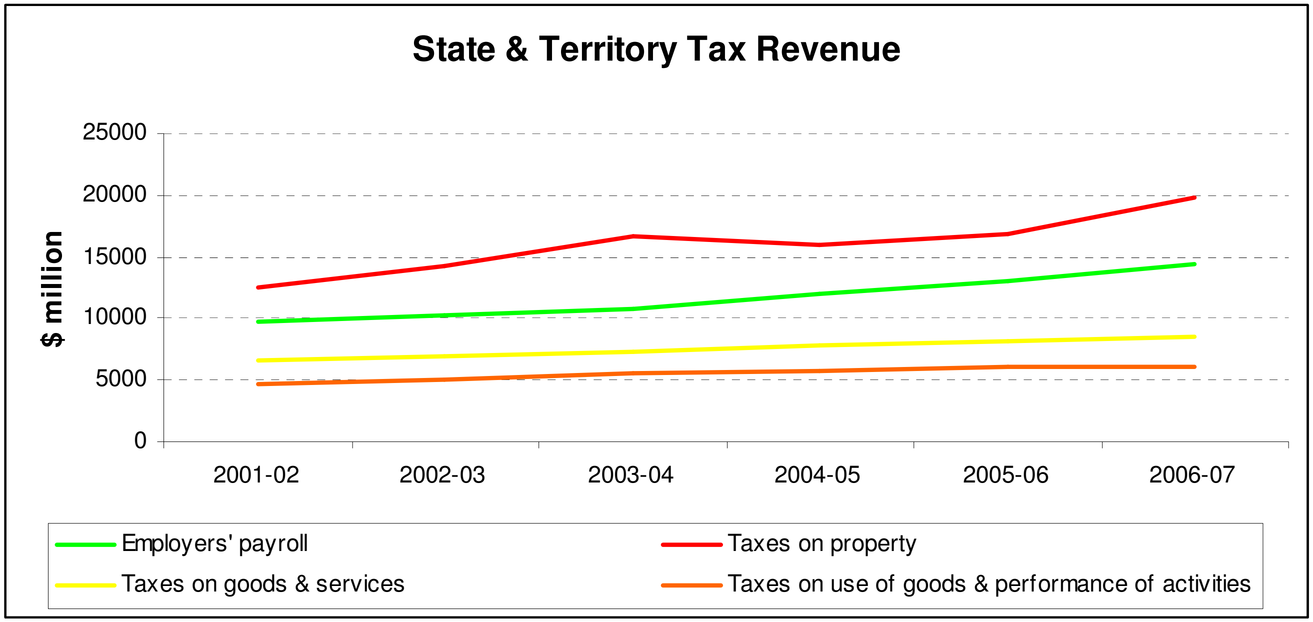


Source: ABS, 5506.0 - Taxation Revenue, Australia, 2006-07

Australia's Property Tax Burden is Growing

The proportion of tax revenue our industry generates across all three spheres of government has grown by **52%** between 2001/2002 and 2006/2007.

At a state level, property taxes account for the largest and fastest growing source of tax revenue.



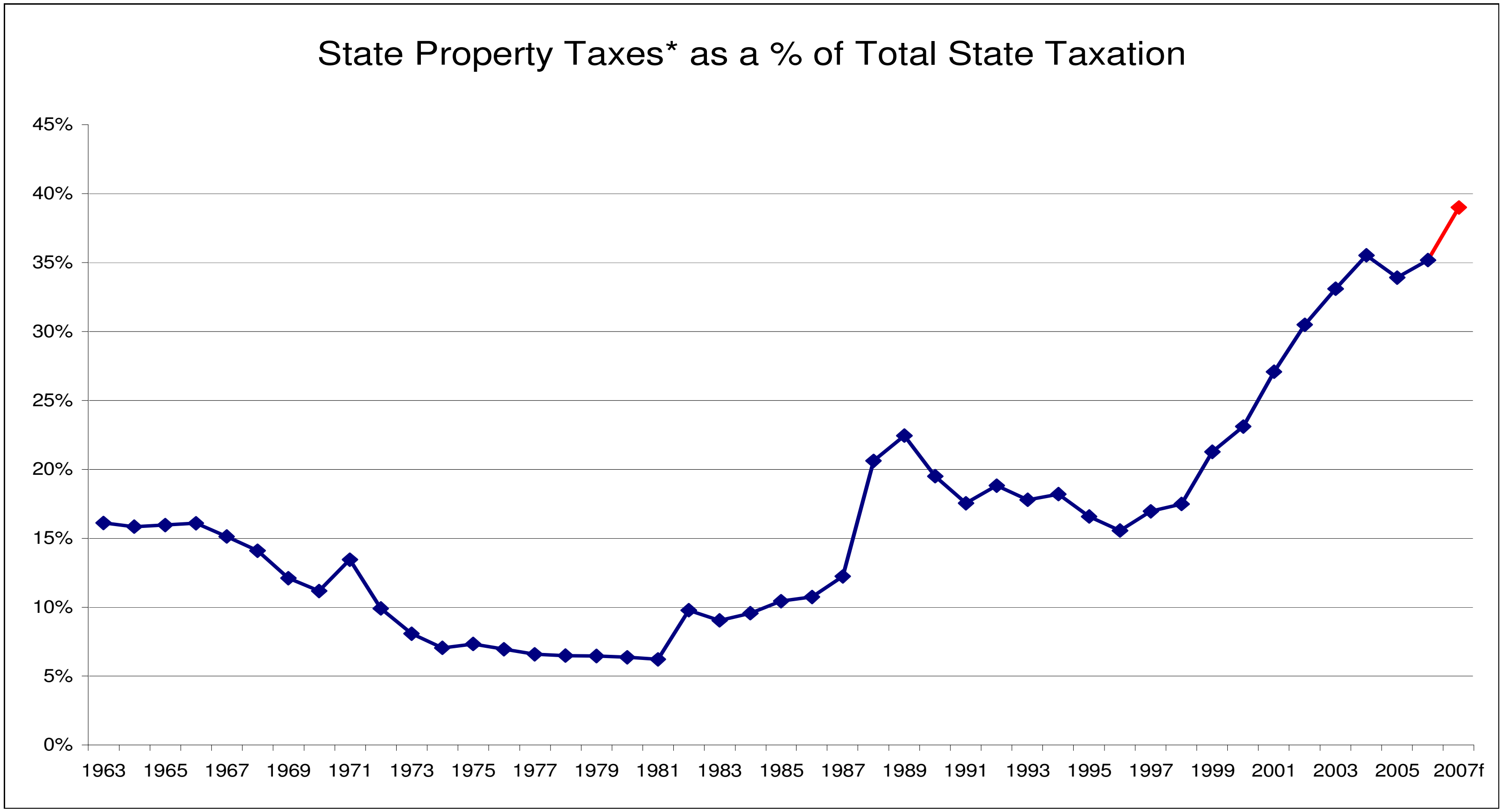
Source: ABS, 5506.0 - Taxation Revenue, Australia, 2006-07

Australia-wide, **$29.2 billion** in property tax revenue was collected in 2006/2007, comprising:

- **$15 million** at the Commonwealth level,
- **$19.8 billion** at the State and Territory level, and
- **$9.4 billion** at the Local Government level.

The Property Tax Addiction has Grown Massively

State and territory reliance on property taxes has increased **fivefold** during the past quarter century.

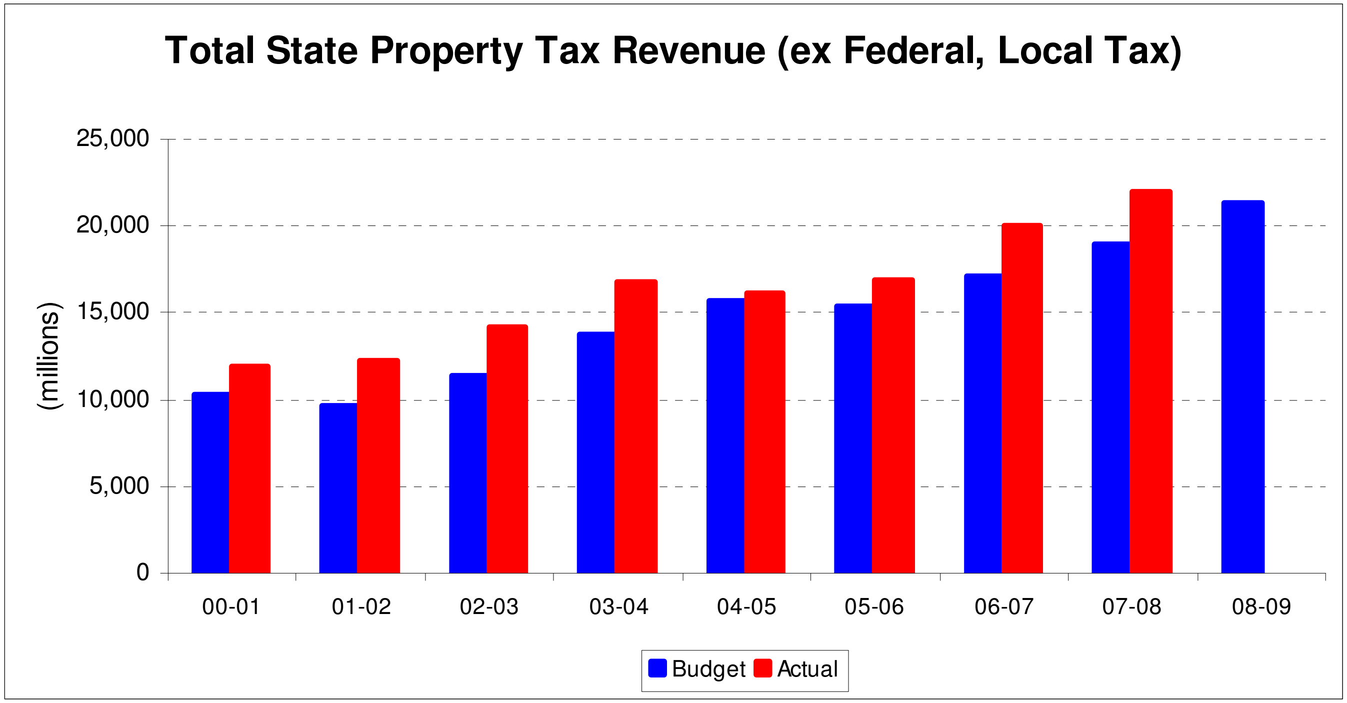


*Land Tax, Stamp Duty on Conveyancing, marketable securities, metro improvement levies, fire/emergency levies, taxes on immovable property.

Source: ABS, Customised Research to the end of 2006, f = forecast based on state budget estimates

2008/2009 State budget estimates indicate property taxes will contribute around **39%** of the tax revenue of the states and territories.

Property tax revenue collected at the state level has grown almost two fold since the introduction of the GST. In 2007/2008 property accounted for **$22 billion**, almost double the **$12 billion** in revenue it generated in 2000/2001.

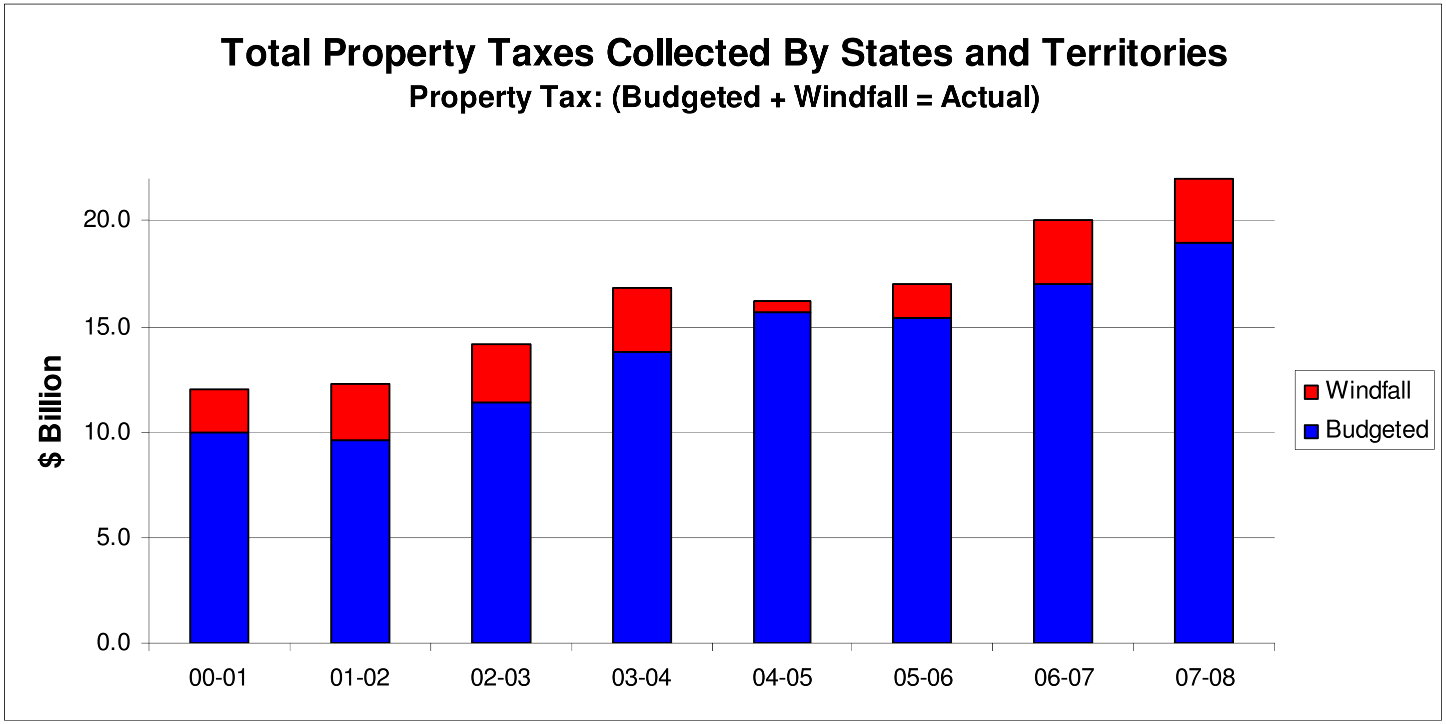


Source: State and Territory Budget Papers (land Tax, stamp duty on conveyancing, mortgages, leases, marketable securities, vendor duty, parking levies, metro improvement levies, fire/emergency levies, financial accommodation levies, debits tax, FID, other)

Tax Budget Windfall ≠ Property Tax Reform

The states and territories have consistently underestimated their haul from property taxes yet they have increased their reliance on property taxes.

Between 2000/2001 to 2007/2008, the states and territories have collected **$18.6 billion dollars of property taxes** more than the **$112 billion** they budgeted.



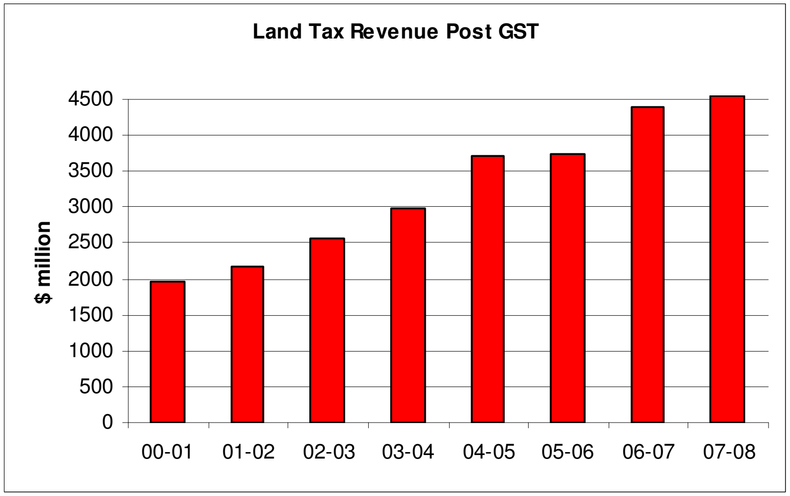
Source: State and Territory Budget Papers

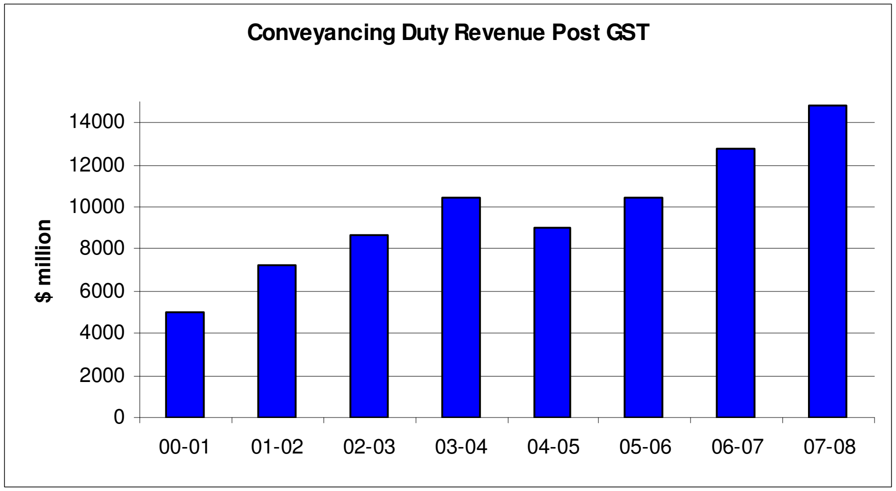
Conveyancing Duty and Land Tax Reliance = Revenue Risk

Since the introduction of the GST, property tax revenues from land tax and conveyancing duty have more than doubled and are growing at twice the average rate of other state taxes combined.

Since 2000, land tax revenue has increased **134%** and conveyancing stamp duty revenue has increased almost **200%.**

More recently, the coming downturn in property sales and values heralds a sharp decline in revenue. That's the problem with volatile indirect taxes.





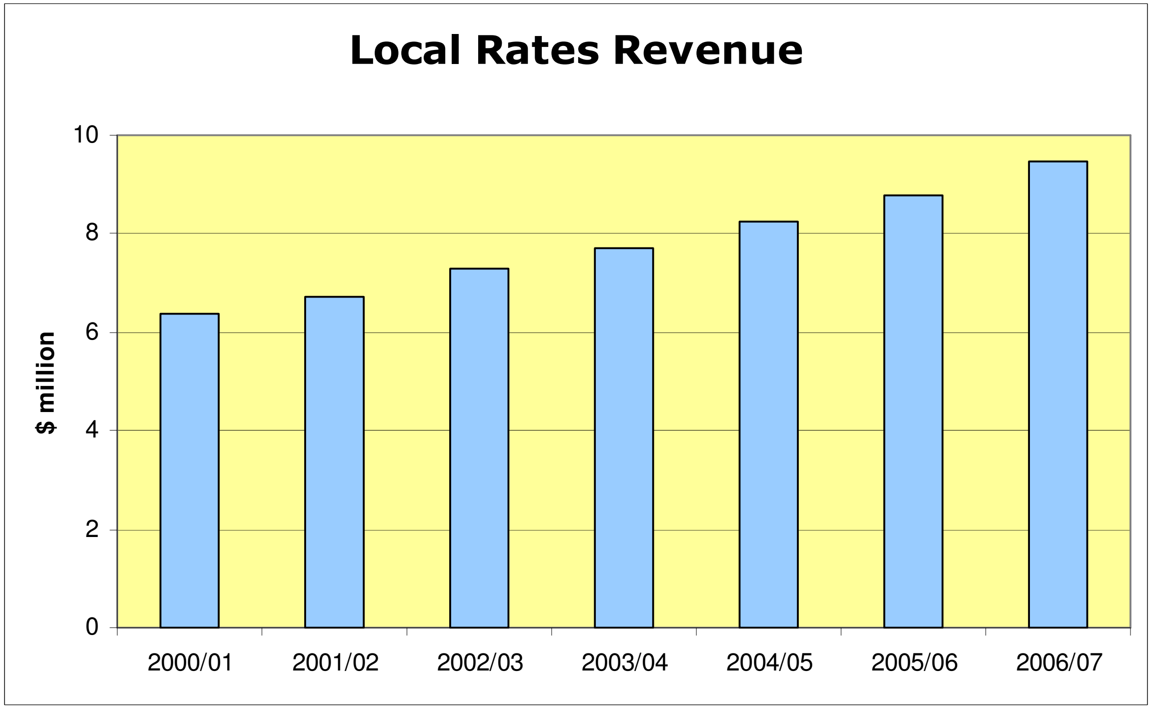
Source Data: State and Territory Budget Papers

Government is Inventing new Property Taxes… instead of reforming existing ones

Property taxes account for **100%** of local government revenue - **$9.4 billion** in 2006/2007.

Councils increasingly use levies on new developments to supplement their income.

Local government revenues from property rates have increased **39%** since 2000.



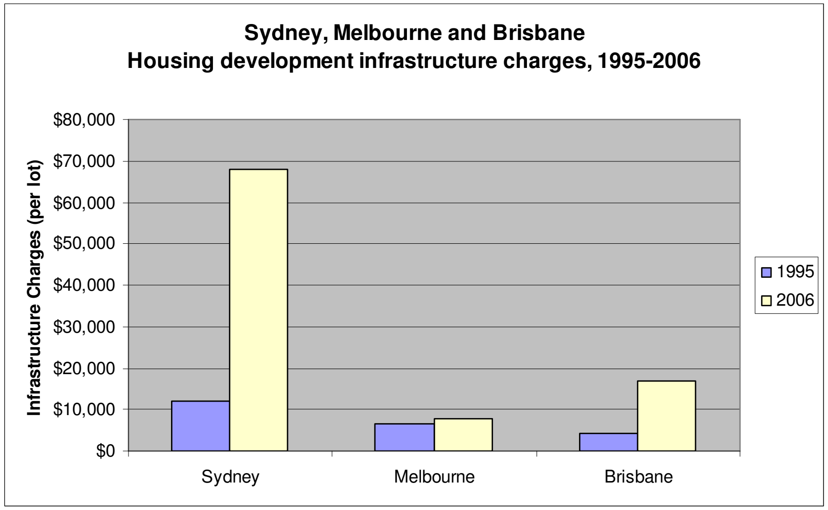
Source Data: ABS *Taxation Revenue* 2006-07

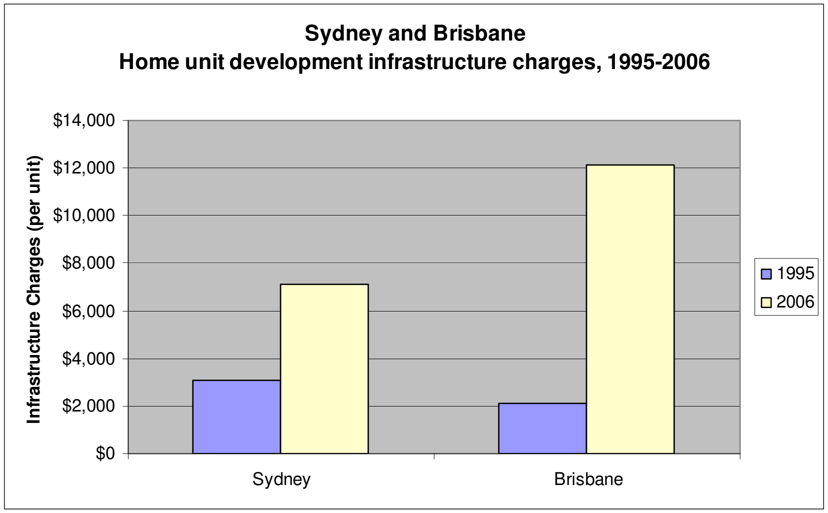
In the past 11 years, state and local governments in New South Wales, Victoria and Queensland significantly increased their reliance on upfront development levies.

For example, infrastructure charges for a typical new Sydney house rose from **$12,000** (in 1995) **to $68,000** (in 2006).

Similarly, infrastructure charges for a typical new Brisbane unit rose from **$2,000** (in 1995) **to $13,000** (in 2006).

The Property Council is currently updating these numbers.





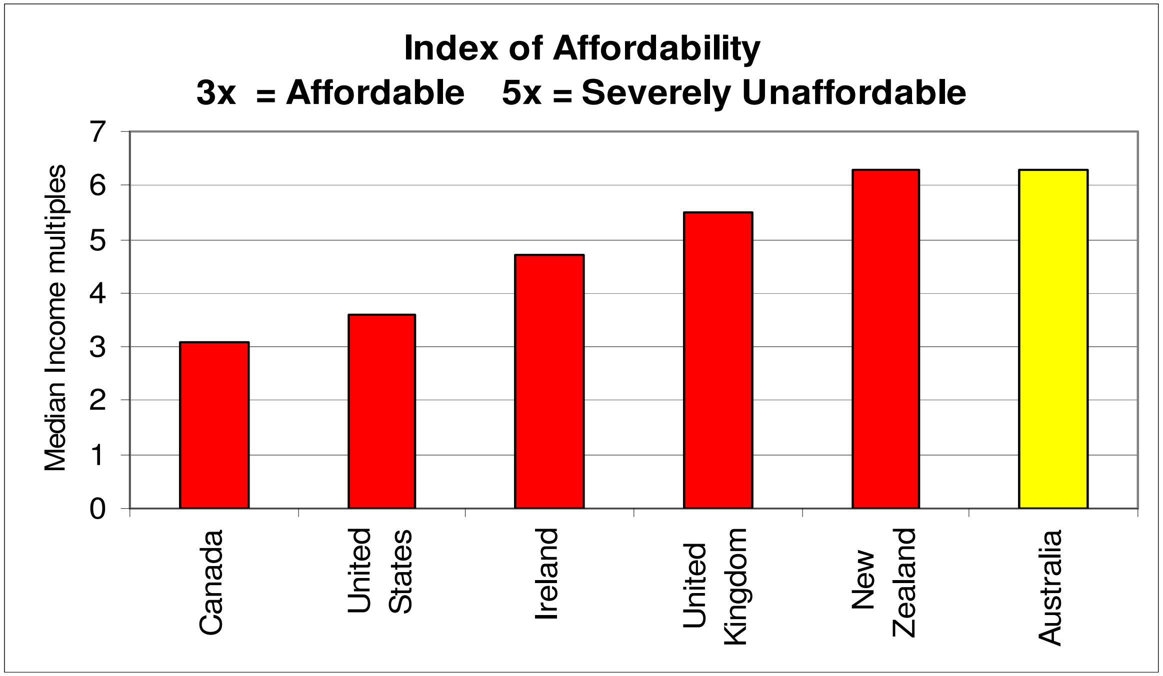
Source: Urbis JHD

These levies are reducing housing affordability in Australia.

Property Taxes Artifically Inflate Housing Prices

Typical Australian house prices are 6.3 times typical household incomes.

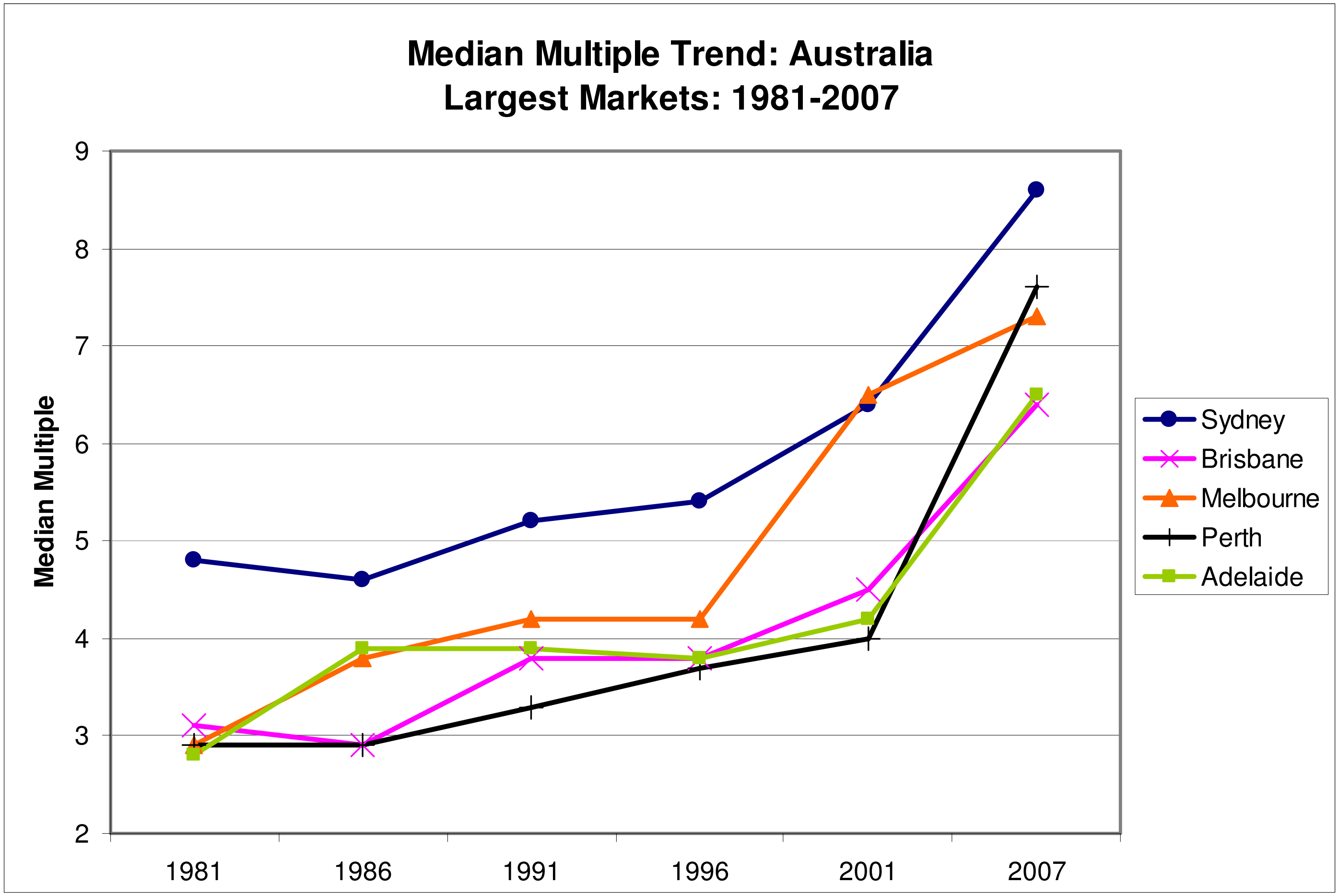
Historically, it took only three year's average income to pay for a typical house.



Source: *Demographia* (2008)
(The index divides median house prices by median household incomes.)

Houses are Unaffordable Across the Nation...

Housing costs in all Australian capital cities are at least six times income. These cities are chronically unaffordable.



Source: *Demographia* (2008)

What's Driving the Decline in Housing Affordability?

Artificial property taxes are a major cause of Australia's declining housing affordability.

Nearly 35% or $199,000 of a North West Sydney broad acre development is tax and compliance costs.

Total Dwelling Costs vs Government Costs
Australia, 2005

Area	Total Cost	Government Cost	Rank	Government %
North West Sydney	$570,240	$198,670	1	34.8%
South West Sydney	$544,115	$166,481	2	30.6%
Redland	$464,225	$135,799	3	29.3%
Tweed	$465,740	$113,836	4	24.4%
Canberra	$425,550	$108,011	5	25.4%
Maroochy	$412,475	$99,316	6	24.1%
Melbourne	$366,660	$91,135	7	24.9%
Perth	$373,700	$86,109	8	23.0%
Hunter	$361,240	$85,687	9	23.7%
Gold Coast	$391,775	$84,306	10	21.5%
Mandurah	$310,700	$84,212	11	27.1%
Ipswich	$319,325	$79,448	12	24.9%
Adelaide	$248,530	$53,003	13	21.3%

Source : UrbisJHD

What's Driving the Decline in Apartment Affordability?

A similar story applies to medium density development. Tax costs are higher than the cost of land.

Medium Density Government Takings
Australia, 2005

Area	Total Cost	Government Cost	Rank	Government %
Sydney	$570,240	$167,258	1	29.3%
Brisbane	$422,825	$113,849	2	26.9%
Perth	$457,700	$113,414	3	24.8%
Adelaide	$432,080	$111,653	4	25.8%
Maroochy	$345,200	$95,894	5	27.8%
Gold Coast	$319,325	$87,017	6	27.3%
Melbourne	$318,960	$65,662	7	20.6%

Source : UrbisJHD

Reform the Least Efficient Taxes First...

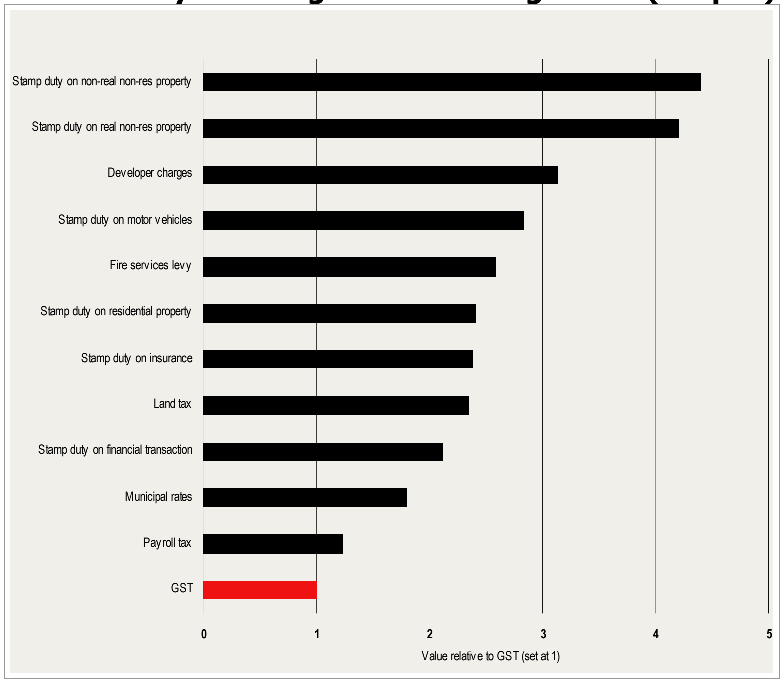
The States and Territories rely heavily on a host of inefficient property taxes for ongoing revenues.

Stamp duty on non-residential property is the most inefficient tax and removing it will deliver the biggest competitiveness dividend.

It is consistently the most inefficient tax in terms of its impact on competitiveness and the economy.

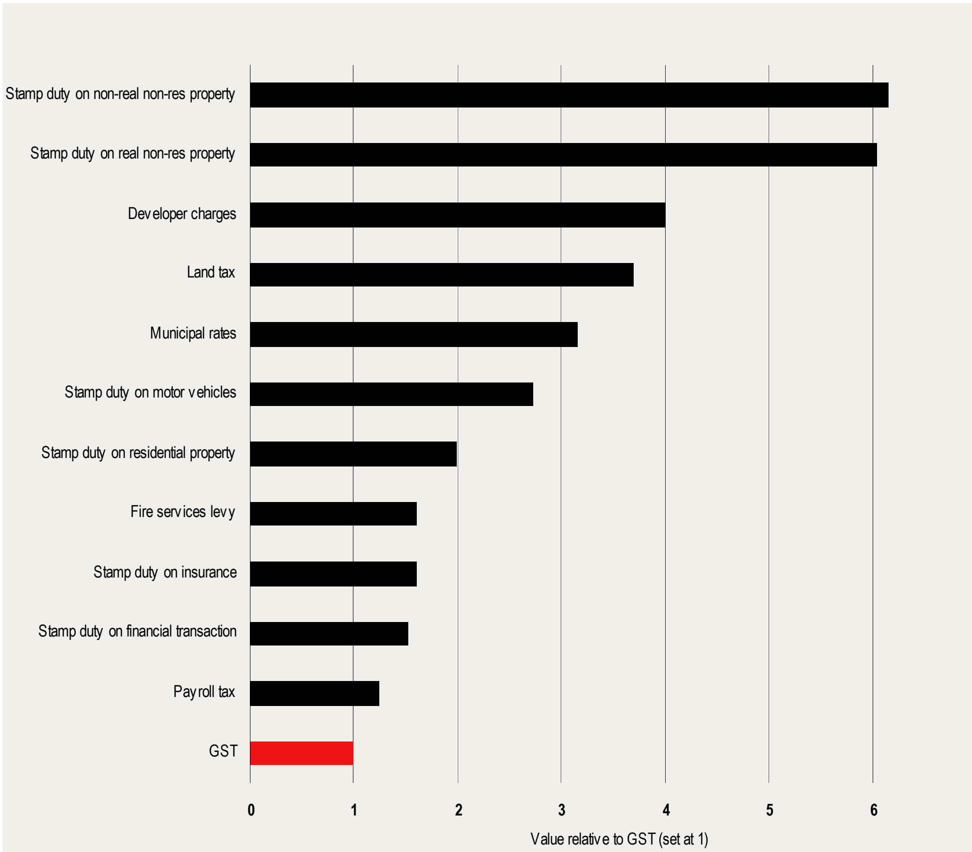
Inefficiency can be measured in terms of its impact on output, investment and exports. As the next three graphs show, stamp duty on non-residential property transactions is always the least efficient tax.

Inefficiency Ranking - Taxes and growth (output)



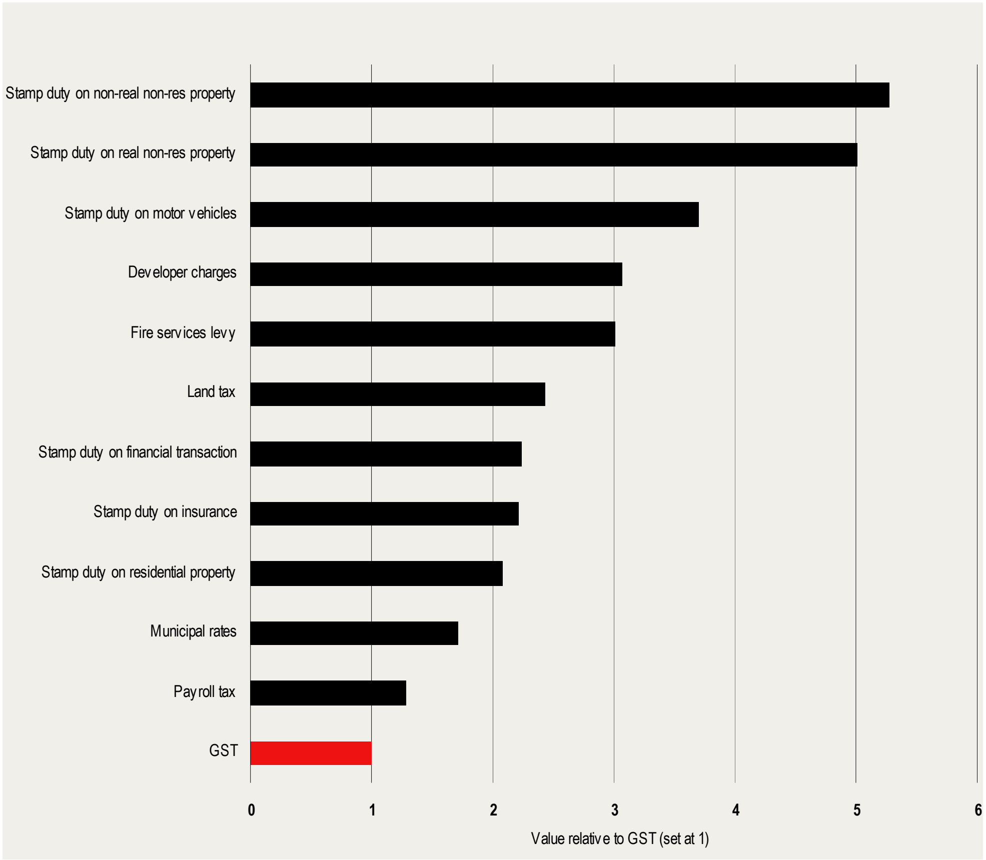
Source: CIE (Draft 2008)

Inefficiency Ranking - Taxes and competitiveness (investment)



Source: CIE (Draft 2008)

Inefficiency Ranking - Taxes and competitiveness (exports)



Source: CIE (Draft 2008)

The Way Forward…

Honour the 1999 GST Deal

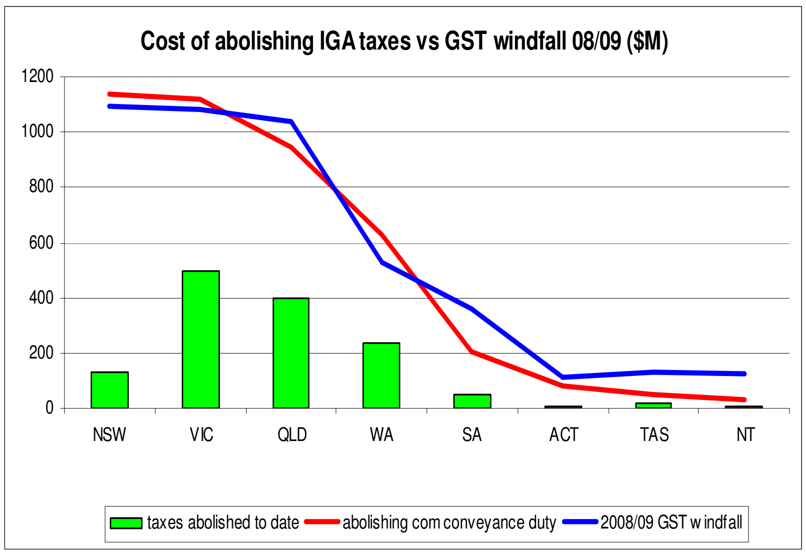
The GST deal with the states and territories in 2000 paved the way for the abolition of nine state-based taxes however:

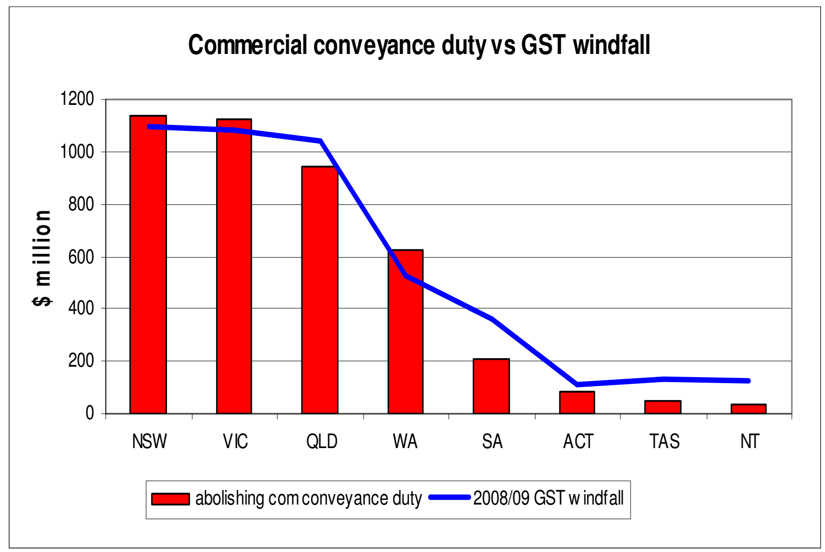
i. the timetable for complete abolition of eight of these taxes stretches into 2011;

ii. growing GST revenue far exceeds the cost of tax cuts delivered to date; and

iii. no state or territory has timetabled the abolition of commercial conveyancing duty.

As a first step to tax reform, the Australian governments should agree on a timetable for abolishing state commercial conveyancing duty in line with growing GST revenue. This is an achievable reform.





Source Data: Commonwealth, State and Territory Budget Papers

The States can Afford to Reform Property Taxes

The States now receive more GST revenue than originally forecast when GST was introduced. The extra GST revenue is increasing each year and now almost equals the cost of abolishing commercial conveyancing duty.

In 2008/2009, property transfer duty is estimated to be **$14.2 billion** including an estimated **$4.26 billion[1]** in commercial conveyancing duty.

In 2007/2008 the states received **$3.6 billion** more GST than the federally guaranteed minimum amount[2] of **$39,038 billion.** This windfall is expected to increase to **$4.5 billion** in 2008/09.

Forecast and Actual Growth in GST revenue growth since 2000-01 ($millions)

GST Year	GST NSW $	GST VIC $	GST QLD $	GST WA $	GST SA $	GST TAS $	GST ACT $	GST NT $	Total GST $	GMA[2] (totals) $	Amounts to states over GMA $
2000-01	7,258	5,099	4,658	2,375	2,279	988	473	1,226	24,355	27,138	**0**
2001-02	8,132	5,593	5,019	2,518	2,477	1,060	544	1,290	26,632	30,709	**0**
2002-03	9,080	6,365	5,888	2,910	2,859	1,247	616	1,515	30,479	31,380	**0**
2003-04	9,667	6,961	6,553	3,158	3,146	1,394	658	1,681	33,219	32,172	**1,047**
2004-05	9,884	7,346	7,329	3,624	3,293	1,435	680	1,730	35,323	33,354	**1,969**
2005-06	10,362	7,833	7,689	3,804	3,442	1,496	723	1,834	37,182	35,654	**1,528**
2006-07	11,034	8,573	8,049	3,978	3,591	1,573	768	1,985	39,552	37,440	**2,112**
2007-08	12,008	9,318	8,596	4,013	3,944	1,677	856	2,219	42,930	39,038	**3,592**
2008-09	13,088	10,250	8,745	3,945	4,170	1,741	914	2,428	45,280	40,803	**4,477**
***Estimates**											

Source: Australian Federal Budget 2006-2007, 2007-2008, 2008-09

[1]Estimates (Commercial conveyancing estimated to be 30% of all conveyancing duty)

[2]Guaranteed Minimum Amount– annual state GST revenue estimates guaranteed by the federal government until 30 June 09. It ensures state revenues do not fall below the estimated revenues states would have received under the old grants system if the states not undertaken tax reform when the GST was introduced.

Australian SMEs Want the GST Deal Honoured

A survey of 1000 SMEs across the country shows that inefficient indirect taxes are hurting the economy. SMEs want action.

The GST deal was designed to reform business taxes, which would improve our international competitiveness. There is unfinished business to be completed.

Support for honouring the IGA between the Australian government and states and territories to phase-out all nine business taxes (as listed in the IGA).	**86%**
Preference for a two versus six year phase out of indirect taxes.	**79%**

Source: Eureka Research *Small business decision-maker survey findings* (2005)

Reform Inefficient State Business Taxes

Tax reforms that focus on national competitiveness and long run dividends are vital to the future success of Australian business and the economy.

The Australian Governments should commit to a new wave of state business tax reform that will:

- abolish inefficient state taxes including commercial conveyancing duty and developer levies;
- reduce land tax to a single low flat rate prior to phased abolition;
- rationalise state property tax legislation across the states.

The Australian Governments should agree to:

- **Honour existing reform commitments** under the Inter-Governmental Agreement (IGA);
- **Commit to a new IGA** to timetable priority state tax reforms that improve competitiveness and community well being;
- **Immediately commit to a program of tax design & compliance reforms** that have a neutral or low cost to revenue;
- **Implement Supplementary tax reforms** funded from existing state revenues.

The Property Council supports the BCTR business tax reform project and the BCTR principles for tax reform. (see Appendix A and B).

The business tax reform project will provide government with:

1) clear and practical reform options;
2) analysis of alternative funding needs;
3) practical timeframes for implementation.

Modernise the Federation AND the Tax System...

Stamp duty and land tax on property is collected by all states however, the definitions and provisions for stamp duty are different in each state.

Property owners who invest across Australia or from overseas incur substantial legal and administrative costs to comply with different complex state tax provisions.

It makes investment in some states unattractive and uncompetitive.

This inhibits capital investment in Australian property.

All state governments should adopt a standard set of property tax rules and definitions in relation to:

- stamp duty on property;
- land tax and land rich provisions;
- unit trust definitions and corporate reconstruction exemptions including stamp duty relief to restructure under a head trust (top hatting).

Australia should retain its negative gearing and capital gains tax regimes.

Australia should simplify the capital allowance regime.

Australia should speed up the greening of the built environment by providing tax incentives including green depreciation.

This will:

1) reduce business compliance costs and overheads;
2) encourage increased direct property investment in the states and territories;
3) help establish Australia as an attractive investment destination for international capital; and
4) underpin the supply of affordable housing.

Appendix A: BCTR Business Tax Reform Project

The BCTR has commissioned an **independent broad-scale review of state business tax reform options** which will provide Government with clear, practical analysis of alternatives **for a new round of business tax reform**.

The research project will take into account:

- what has worked and what does not work in previous tax reform;
- the financial and economic capacity for real tax reform;
- the economic and political dividends from reform;
- appropriate timeframe for reform.

In line with the BCTR principles for tax reform (See Appendix B), the project will **identify a number of tax reform packages** and comprehensively examine:

- **the context and key issues for reform** including:
  - the current state of play in state business tax reform;
  - the current impact of taxation arrangements.
- **the elements of reform** involving:
  - benchmarking each reform package against growth, efficiency, competitiveness and price stability;
- **the economic case for reform** using econometric modelling to map the impact of the reform options
- **the fiscal capacity for reform** using econometric modelling to take into account factors such as:
  - the economic fundamentals in each state;
  - current debt levels and expected changes; and
  - current and potential changes in credit ratings.

Appendix B: BCTR Principles for Tax Reform

- The design of the tax system should result in a robust and stable revenue base.
- The tax system should support Australia's international competitiveness and support a growing and vibrant business sector, and minimise the tax administration burden on all businesses.
- The tax-transfer system should, to the maximum extent possible, be consistent with broader government policy objectives in areas such as climate change, the emissions trading system, population policy, globalisation and technological change.
- The design of the tax-transfer system should endeavour to minimise distortionary effects on behaviour, including workforce participation, rates of saving, and engagement in entrepreneurial and commercial activities. It should also be consistent with the traditional principles of equity, simplicity (or eliminating unnecessary complexity) and efficiency.
- Where the design of the tax-transfer system involves making trade-offs between competing policy objectives, this should be done in an open and transparent way.
- The design of the tax-transfer system should be flexible so that it can adapt to changing domestic and international circumstances.
- To the maximum extent possible, the most inefficient of taxes levied by the commonwealth, state, territory and local governments should be removed.
- The imbalances between the spending responsibilities and revenue raising powers of the different levels of government should be addressed in a way that is simple, transparent and provides sufficient certainty for each level of government.
- States should be financially motivated to improve efficiencies in service delivery, to ease administrative burdens and duplication of effort for taxpayers and to remove inefficient taxes.

Contacts

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