DE-SILOING AND DEFINING RECURRENT LAND TAX REVENUE IN AUSTRALIA

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ABSTRACT: Australia has capacity to increase effort from recurrent land taxation while reducing less efficient transaction taxes on property. The objective of increasing land tax revenue is thwarted by a number of factors of which this paper examines the impost of recurrent land tax by state and local government as they compete for the same tax base. This paper examines land tax revenue collected by state and local government between 2001 and 2012 inclusive, with trends measured at the beginning, middle and end of this period. The paper finds that revenue is progressively increasing from state land tax as a total share of recurrent land tax revenues. However, Australia still lags the advanced OECD economies in total revenue collected from this source as a percentage of GDP and as a percentage of total tax. It concludes that while Australia remains one of the few countries to impose a dual land tax across two tiers of government, it is not likely for land tax to make the necessary contribution in reforming Australia's tax system under the current two tier structure. It further shows that local government is, more likely, the acceptable tier of government to collect and administer this tax into the future.

KEY WORDS: Tax revenue, land/site value, recurrent land tax

1. INTRODUCTION

The emphasis of this paper is on the fast emerging need for tax reform in Australia and the contribution land tax should make as part of the tax reform agenda, it positions land tax within the broader tax system. This brings forward the need to consider the framework in which land tax operates and opens the debate for de-siloing of the tax system at the sub-national government level. While vertical fiscal imbalance is put forward as one of the key planks for reform, the overriding emphasis is that as a low tax country, Australia must improve its overall tax effort of which recurrent land taxation is one of the key taxes that must contribute to this reform.

In addressing tax effort, the key objective of this paper is to demonstrate that land tax reform is limited while this tax is being collected and administered by two tiers of sub-national government. It is

asserted that the current arrangement impacts the functionality, efficiency, equity and acceptability of the tax by the taxpaying public and in their current form, impacts the principles of 'good tax design' that are to be addressed in bringing this tax into the 21st Century in Australia.

While debate builds over individual taxes which must contribute to broader tax reform, including the Goods and Services Tax, a tax on consumption, the taxation of capital and in its least distortive form, land must also contribute to the reform agenda. As a sub-national (state and local) government tax, Australia has significant room to improve revenue from this source in bringing this tax in line with other advanced Organisation for Economic Co-operation and Development (OECD) countries. Rather than all the heavy lifting of tax reform incumbent on the Commonwealth, sub-national government has capacity to contribute to tax reform from the bottom up through modernising recurrent taxation of land.

The reform of land tax would encourage the reorganisation and reform the administration of this tax across state and local government in Australia. While debate has recently centred on constitutional recognition of local government, the greater imperative is managing the limitations that the states impose on local government revenue raising capacity from land tax. At present the States are unable to evolve and reform their own recurrent land tax due to its salience, while revenue from this source at the local government level varies significantly across Australia and in particular across capital cities.

As set out in Table 1, in addition to the overall tax collected in Australia being below the OECD average, the tax mix varies across the broad tax categories. In summary, consumption taxes are well below the OECD average as a percentage of Gross Domestic Product (GDP), while income taxes are above the average. This brings to the fore, the need to reform the tax mix as well as the overall tax effort in Australia of which we now focus on recurrent land taxation.

Table 1. Australia's Tax Mix as a Percentage of GDP.

2012	**Income tax**	**GST/VAT**	**Recurrent land tax**	**Overall tax effort**
Australia	5th 15.9%	29th 7.7%	9th 1.4%	29th 27.3%
OECD average	11.4%	10.8%	1.0%	33.7%

Source: OECD Tax statistics 2012.

2. DEFINING THE BASIS OF VALUE AND PRINCIPLES OF TAXING LAND

Recurrent land tax is defined as a tax on capital and in Australia is divisible into two broad categories of state land tax and local government rating, of which a distinction between these is elaborated on in the next section of this paper. This section focuses on the basis of value used to assess recurrent land tax in Australia and defines some of the limitations and challenges confronting the determination of the basis of value used to assess this tax. It first commences by distinguishing the use of the term land and property tax for the purposes of articulating its application as a recurrent tax, it then introduces the various bases of value on which the tax may be assessed.

Recurrent land taxation exists in contrast to other forms of taxes levied on property that are imposed on transactions in the form of conveyance stamp duty by the States. Conveyance stamp duty is defined by Mangioni (2016) as a mobility tax which impacts the efficient use and occupation of property and in particular housing. It is further noted that the revenue from conveyance stamp duty progressively increased during the 1970s to replace revenue from death duties which was progressively phased out. It is further noted that while transfer stamp duty was being increased, it is not applied to intergenerational transfers of property, further adding to the burden of those paying this transfer tax (ibid).

In contrast to other OECD countries which impose recurrent land tax at the local government level, Australia levies land tax at both state and local government levels. Australia is one of the few OECD countries which predominantly levies this tax on land in contrast to other bases of value including assessed annual income and capital improved value. When land tax was introduced in Australia it was assessed on the unimproved capital value (UCV) of land, meaning the value of land in its en-globo or original un-touched state (Mangioni, 2006). Through the progression of time, as more land became urbanized and was the subject of clearing, excavation, leveling and retention, UCV became less relevant and by 1990, five States had moved to either Land Value (LV) or Site Value (SV) as the base of state land tax. In 2010 Queensland was the last state to move from UCV to SV for the assessment of state land tax as per Table 2.

While land/site value is the dominant basis of value, at the local government level, options exist for recurrent land tax to be assessed on a number of different bases in some states. In the states of South Australia and Victoria rates are predominantly determined on Capital Improved

Value. As set out in Table 2, the labels and bases of value vary from state to state in the imposition of this tax. Despite some states having the same label of value, i.e. site value is used in Victoria and Queensland, however, different statutory definitions of value within Valuation of Land legislation exist in each of these States.

Table 2. Bases and Premise of Value Used to Assess Recurrent Land Taxes.

Stamp Duty (Transfer Tax)		
Basis of value	**Application of the tax**	
Market value or transfer price of the property, whichever is the higher.	Tax imposed by each State in Australia which applies to the purchase of property. It is a consolidated revenue tax and not earmarked to any service or purpose.	
Land Tax (Recurrent Tax)		
State	**State Govt Land Tax**	**Local Govt Council Rates**
New South Wales	Land Value	Land Value
Queensland	Site Value	Site Value
Victoria	Site Value	Capital Improved, Site, Annual Value.
South Australia	Site Value	Capital Improved, Site, Annual Value.
Western Australia	Site/Unimproved Value	Gross Rental Value *
Tasmania	Land Value	Gross Rental Value *
Northern Territory	N/a	Unimproved Capital Value
ACT	Unimproved Value	Unimproved Value
Perceived objective/purpose	General purpose or consolidated revenue tax	Quid pro quo tax for local services provided
Value premise	Market value of the land which includes land improvements as defined within various state valuation of land statutes, i.e. excavation, retention, filling and servicing of land.	
Valuation Method	Direct comparison where vacant land sales exist. Paired sales analysis and cost method with the use of improved sales.	

Note: *Denotes the option of assessing council rates on more than one basis across different LGA's.
Sources: State Valuation of Land legislation across Australia.

While the term value is assumed to mean market value as it appears in each of the definitions referred to in this section, it is highlighted in McCluskey *et al.* (2010) that the base on which the capital improved value (CIV) is assessed, is not always theoretical market value and that practical application in the study conducted by McCluskey *et al.* may depart from the theoretical maximum. This is further highlighted by Mangioni (2013) that the value used in the determination of land and site value, may also depart from market value where highest and best use does not underpin the basis of value. Suffice to say, that the various bases of value used to assess recurrent land tax across Australia are not without issue and impact the economic efficiency of this tax within and across rating and taxing jurisdictions (Mangioni, cited in Australia's Future Tax System (AFTS), 2010).

It has been long asserted that taxing land is the optimal base on which to assess a recurrent tax on property. Among the canons of taxation, Blaug (1999) espoused economic efficiency and equity as key principles of taxation to be addressed in the design of taxing land. Economically, land is accepted to be the most efficient base on which to assess a tax, as its value is largely determined by virtue of its location and land value cannot be distorted by improvements that are not the highest and best use of the land.

Mangioni and Warren (2014) define the economic efficiency of a recurrent tax as being attributed to the use of land, and in highly urbanized locations, this use is defined by reference to the improvements on the land where they have been determined to be of highest and best use. Their argument is sustained on the basis that improvements on land that either represent highest and best use or are assessed on improvements that reflect highest and best use, will result in an economically efficient tax. The second principle of taxation underpinning land as the basis of value is that of equity. As the price paid for land reflects its value, the alignment between price and value of which location is the main attribute of value, establishes land value is the best arbiter for the assessment of an equitable tax.

In its economic application while land is the optimal base, equity in taxation is sub-divisible into vertical and horizontal spheres and these spheres are often interchanged. In the review of land value, the relevant sphere of equity is horizontal equity as the principles are applied to land value and its determination in a consistent and transparent manner. Horizontal equity does not take into account the variable circumstances of the individual taxpayer (Mangioni, 2011). These two principles are

again visited briefly under the review of capacity-to-pay and benefits-received aspects of equity in the impost of this tax in the next section.

3. THE EVOLVING RATIONALE OF RECURRENT LAND TAX IN AUSTRALIA

This section addresses the evolution of land tax in Australia and the diverging rationale between its impost as a capacity-to-pay versus a benefits-received tax. It further explains the fiscal relationship between state and local government and the impact on revenues from land tax across sub-national government. It defines the challenges confronting two tiers of government that collect revenue from the same tax base and demonstrates that under the current dual imposition of this tax, it is more accepted by taxpayers when imposed by local government. This is in contrast to its imposition by state government, a rationale that has progressively evolved since federation.

Australia has a federated structure of government, comprising commonwealth, state, and local government. Land value taxation was first introduced in Australia in the colony of Victoria in 1877, followed by Tasmania in 1880, South Australia in 1884, New South Wales in 1895, Western Australia in 1907, and Queensland in 1915 (Herps, 1988). Soon after Australia's federation in 1901, this tax was imposed by all three levels of government across Australia and was progressively vacated by the states from 1906, strengthening local government's opportunity to collect this tax in conjunction with the Commonwealth (Simpson and Figgis, 1998).

In 1942 the Commonwealth removed the states' powers to collect income taxes and in 1952 ceased imposing land tax, allowing the states to resume collection of this tax in conjunction with local government (Smith, 2005). A dual state and local government recurrent land tax system exists today across the six states of Australia. The Northern Territory imposes council rates but does not impose a territory land tax. Mangioni (2016) highlights that this dual impost is outdated, with recurrent land tax divested to local government as the sole collector and administrator in the United States, Canada and New Zealand.

Table 3 sets out the evolution of government, the evolving uses and taxation of land which facilitates its development. The last column of this table sets out the perceived rationale, being the least defined but often most controversial aspect of the tax. The top half of Table 3 shows that between 1788 and the late 1880s, land tax was administered by the States, formerly referred to as colonies, which was the initial single tier of

government. This was a simple structure in which land tax was established as a means of providing revenue for services and the settlement and expansion of Australia's colonies (Daly, 1982).

Land tax was introduced to fund the establishment of towns and associated infrastructure, including roads and community facilities and at this point its understanding as a tax for services was established (Brennan, 1971). During the pre-federation colonisation of Australia, there was little debate on the rationale for the payment of land tax, as the importance of bringing land into production was the initial purpose for alienating land from the Crown and was well accepted by settlers. In the mid-1800s legislative provisions were enacted in each colony for local government to be formed and in the late 1800s local government was given powers to levy land tax in conjunction with the States. Local government rationalised the imposition of rates for the maintenance of roads, street lighting and rubbish collection, services that were informally managed by the colonies (Pearson, 1994).

As the states progressively reintroduced land tax after the Commonwealth took over the collection of income taxes in 1942, a subtle divergence emerged in the rationalisation and acceptance of land tax by taxpayer's pre and post federation periods across Australia. This is traced back to the initial alienation of land which was achieved through grant, sale or leasehold interests in land. With each of these options, the State retained the right to collect a rent, impose tax, regulate the use of land and retain the first option to purchase the land back from landholders (Allen, 2000). In the initial period of alienation it was apparent that increases in the value of land were attributed directly to services provided which increased the value of land, in conjunction with the produce generated from the land.

As land traded among settlers a market developed, the price for land was progressively determined by free-settlers. As land traded several times, the nexus between the increases in value resulting from the provision of infrastructure became more disparate and the rationale for the payment of land tax moved to a tax for the use and maintenance of services (Mangioni, 2016). As the value from infrastructure and services progressively became capitalised into the value of land, the link between land tax and the cost of funding its initial provision raised questions in the minds of taxpayers, who no longer made the link between the tax and its initial purpose for the capital funding of infrastructure.

Table 3. Evolution and Structure of Government and Land Tax.

Govt			Period	Purpose	Mechanism / Base	Rationale
State			(1788 – 1850) Dispossession from Indigenous owners, initial use and development	Promote initial development / subdivision and break-up of large estates	Planning laws permitting development Taxation mechanism (Land Value Tax) Reflects potential highest and best use)	Neutral facilitation of land use change
						Encouragement of development and land use
			(1850 – late 1800s) Stable settlement	Finance provisions for existing and new services	Benefits tax	Earmarked to services
Commonwealth	State	Local	1884 Local Gov't Formed under municipalities Act 1884 (1901 – Present) Federation Redevelopment / re-urbanization and expanding city	Redevelop and changes in land use patterns	Planning laws permitting changes in use and re-development Taxation mechanism (Land Value Taxation Highest and best use)	Neutral facilitation
						Transition
						Distorted force land use change
			Stable Settlement	Finance Provisions for existing & new services	Benefits Tax (Council / Special Rates)	Earmarked to services

Source: the Author.

The second part of Table 3 highlights the purpose and rationale for the property tax across the tiers of local and state government post federation. While local government had built a rapport with the tax paying public as the provider of local services, the re-entry of state government in the imposition of land tax during the 1950s resulted in the perception of the tax being a consolidated revenue tax, with little or no connection to services. For local government more definition exists in the imposition of

rates, which may comprise general rates, special rates and separate recurrent charges for garbage collection, water and sewer services. Special rates are mainly used for the provision of infrastructure that facilitate these services, which may be imposed within specific locations of residents that directly benefit from the relevant services.

Mangioni (2016) defines this as a critical turning point in the impost of recurrent land taxes in Australia. While other countries began divesting this tax, Australia introduced competition for the same tax base when the states resumed their impost when it was surrendered by the Commonwealth. To date, much debate surrounds the rationale for the impost of recurrent land tax at both the state and to a lesser degree local government levels across Australia. Mangioni (2016) defines what ultimately drives the debate of whether recurrent land tax constitutes an earmarked benefits-received tax or a capacity-to-pay consolidated revenue tax, which rests in the perception of the taxpayer. Buchanan (1993:70-71) makes an important point in the perception of the benefits-received principle, which suggests that embracing choice based on distributional features for general interests of the community is doomed to failure. This is attributed to the strict limitations of earmarking of tax revenue by government. While tax earmarking is favored by politicians to sell new taxes, it is frowned upon by tax economists charged with managing the diverse and evolving needs of a modern economy.

Mangioni (2013) defines that the perceived level of micro-application of the benefits-received principle is broader in its adoption by taxpayers, until a local service fails or is not delivered, which impacts the tax/ratepayer directly. It is further added that as most property owners are Pay-As-You-Earn-Employees PAYEE, they are not accustomed to paying tax and hence the salience of land tax and in particular local government rates is highly visible and scrutinized, particularly in its application to the principle place of residence. This has brought into question the tax principles of equity and efficiency in the impost of land taxes and in particular tax foregone on the principal place of residence. This is primarily due to the exemption from state land tax of the home across Australia, while the states increasingly impose rate capping and pegging on increases in local government rates (Mangioni, 2016).

While 20 per cent of state land tax revenue is generated from residential property in Australia, non-domestic property carries the dominant contributory burden of state land tax, which impacts the principle of equity in its imposition across the various land use categories. It is well founded that some level of oversight is needed in the impost of recurrent land tax over residential property, particularly of the place of residence.

However, Mangioni (2016) highlights that in Australia the relativity between local government rates and household income is low among the advanced OECD countries. This opens the question as to which tier of government, state or local are best positioned to define the level of tax to be applied to property and in particular residential property. While the recommendation of AFTS (2010) is to raise more tax revenue from recurrent land tax in Australia, the door remains open as to how this recommendation is to be applied.

It is further noted from an economic and operational efficiency perspective that:

> "There are three key benefits of assigning the collection and administration of land tax to local government in contrast to the current two-tier system. Local government issues a rate notice for each property within its area; hence the operational efficiency of a single tier collecting the tax is simple…. The data matching between owner details, property description and built attributes is far more accurate at the local government level. While state land tax is taxpayer focused, with resources allocated to the management of exemptions, concessions and allowances, local government rates are property focused and are far more tolerantly accepted by taxpayers than state land tax." (Mangioni, 2016:346)

4. DEFINING THE IMPOST AND IMPROVING TAX EFFORT FROM LAND IN AUSTRALIA

This section of the paper summarizes the calls for the case to increase revenue from recurrent land tax and provides an international summary of Australia's current tax effort. It commences with the reasons for the current limitations impacting the collection of revenue from this source by state government.

In contrast to state land tax, which expends revenue through exemption of the principle place of residence, primary production land and provides a threshold for investors in each State, Mangioni (2016) highlights that council rates are imposed on all property with very few exceptions. This factor further strengthens the argument that local government rating ranks higher under the principles of equity and economic efficiency through the limitations on exemptions granted by local government. While it may be argued that differential rating can be used to distort the impost of rates

across the various land uses within a local government area, further elaboration of this is the subject of further research.

Despite the imposition of dual recurrent land tax in Australia, the tax revenue collected from both state and local government is low in contrast to other OECD countries including New Zealand, United States, Canada and United Kingdom, (OECD, 2010) as shown in Table 4. The fiscal benchmarks for measuring tax effort, is tax revenue as a percentage of GDP and tax revenue as a percentage of total tax collected. In line with earlier reviews into housing (Productivity Commission, 2004), the Australia's Future Tax System (AFTS, 2010) also known as the Henry Review, suggests that recurrent property tax has scope for further expansion in Australia with a reduction in inefficient taxes such as stamp duty transfers. Table 4 sets out the relativity of revenue from recurrent land taxes as a percentage of total tax collected within Australia, which represents 5.5 per cent of the total tax revenue collected, which is an amalgam of state land tax and local government rating as at 2009/10 (ABS, 2011-12).

Australia in contrast to the United States, United Kingdom, New Zealand and Canada has capacity to increase tax revenue from recurrent land tax. This capacity was further identified by AFTS (2010), though it was not stated as to which level of government (state or local) the revenue should be assigned. It is suggested that the States broaden their base of state land tax by including the principle place of residence, currently exempt from land tax in each state of Australia (ibid).

The states however, have been reluctant and have lacked direction as to how to best collect additional recurrent land tax revenue from property and in particular the principal place of residence. The impact on revenue from the exemption of the principal place of residence and the land tax threshold by state government, while imposing rate capping and pegging on local government rating, is stated by Mangioni (2016) to be the most regressive impediment to the reform of recurrent land tax in Australia.

Table 4. Recurrent Property Tax as a Percentage of Total Tax and of GDP.

	Percentage of total tax				**Percentage of GDP**			
	1965	**2010**	**% change**		**1965**	**2010**	**% change**	**Rank of OECD countries**
Denmark	4.9	2.9	-41%		1.5	1.4	-6.2%	10
Australia	**6.8**	**5.5**	**-18.5%**		**1.4**	**1.42**	**1.1%**	**9**
Iceland	1.7	5.2	212%		0.4	1.9	320%	8
New Zealand	8.3	6.6	-20.9%		2.0	2.1	4.4%	7
Japan	5.2	7.7	49.3		0.9	2.1	131.6%	6
Israel	-	7.2	…		-	2.3	…	5
France	1.9	5.7	200%		0.7	2.5	268%	4
United States	13.7	12.2	-11%		3.4	3.0	-10.4%	3
Canada	11.9	10.1	-15.5%		3.0	3.1	2.1%	2
United Kingdom	11.2	9.8	-13%		3.4	3.4	-0.4%	1
Unweighted average								
OECD-Total	**3.8**	**3.25**	**-15.4%**		**0.95**	**1.05**	**9.9%**	**Ranking**

Source: OECD Tax Figures 1965-2010. Note: Australia's figures are combined State land tax and local government rates.

5. RESEARCH METHOD

A qualitative research methodology comprising grounded theory and phenomenological research is used in undertaking the review of tax revenue collection from state land tax and local government rating. Kumar (1996:10) defines the application of qualitative research where "the purpose of the study is to describe a situation, phenomenon, problem or event." Creswell (2003:15) elaborates on the use of phenomenology to develop patterns and identify the relationship of meanings. Further, grounded theory is used for constant comparison of data with the objectives of maximising similarities and differences in information. The analytical construct of the grounded theory used in this paper as defined by Strauss and Corbin (1990:61) is the development of a theoretical construct for the reform of recurrent land tax revenues deduced from the

grouping and analysis of similar tax revenues collected by two tiers of government in Australia.

In this paper we review a 12 year span of land tax revenues across Australia imposed by local and state government and have included revenue from conveyance stamp duty to illuminate the volatility between these revenue sources. In monitoring trends in tax revenue collected by state and local government across Australia over the past decade, data has been sourced from the revenue statistics compiled by the Australian Bureau of Statistics between 2001 and 2012 inclusive. The three sources of tax revenues examined are state land tax, local government rates and conveyance stamp duty. These are compared over twelve years from 2001 to 2012 with the percentage change in revenue measured at 2006 and 2011. These results are set out in Table 5, with each States revenue from these three taxes. Table 5 is further supplemented by graphs of each source of land tax revenue and stamp duty on a state by state basis.

The objective of this comparison and analysis is to first identify the apportionment of recurrent land tax revenues to each the State and local government at the beginning of the study period of 2001. Secondly, to monitor any change in trends of this revenue between these two tiers of government over the following 12 year period to 2012.

6. OBSERVATIONS AND COMMENTARY

The overall trend across Australia shows stamp duty is an important source of revenue for state government and in the main with the exception of South Australia, is the dominant source of tax revenue derived from property. Further noted from trends in stamp duty is the volatility of revenue from this tax compared with revenues from local rates and land tax across each of the States. As the volume of revenue generated from stamp duty is significant, it is not replaceable with revenue from the recurrent land taxes in the short term, and will require a progressive phase in phase out over a significant period of 10 to 20 years.

State land tax produces the lowest total revenue from all three sources, however, it is the narrowest in its application applying to less than 15 per cent of property owners in Australia. The narrow application of the tax is attributable to the exemption of the principle place of residence and the investment threshold applied in each of the states. The total state land tax revenue derived from residential property is approximately 20 per cent of the tax revenue collected from this source across Australia. Despite being the lowest tax revenue generated of the three taxes, the revenue is closely aligned to movements in land or site values of non-residential property of

which land / site values are reassessed annually or bi-annually by the States.

Local government rates in contrast to land tax are paid by over 98 per cent of all property owners in Australia, it has the broadest base and lowest tax exemption. Revenues from council rates are the least volatile of the three revenue sources, while tied to value they are also impacted by rate pegging in New South Wales and increasingly will be impacted by rate pegging in Victoria into the future (Rural Councils Victoria, 2015). As operational arms of the states, the rates applied to land by local government, whether site or improved value across local government areas, may be varied annually to ensure rate revenues remain steady or in most cases does not exceed taxpayer's ability-to-pay. However further research is required to more concisely define what the tax limitation should be and more importantly how this is to be determined.

A further level of contrast is now made between state land tax and local government rates across the States. Table 5 sets out the relative changes in revenue between state land tax and local rates at the beginning 2001, middle 2006 and end 2012 of the 12 year period examined. It is noted that over this period, in each state with the exception of Western Australia, state land tax has increased as a percentage of revenue collected compared with local government rates. Between 2001 and 2006 this trend was noted across all states with the exception of Western Australia and Victoria. The largest increases in revenue from land tax as a percentage of local rates across the 12 years were noted in the states of South Australia and New South Wales. Western Australia in contrast showed a steady similar revenue trend between State land tax and local rates across the 12 year period.

It is apparent from this analysis that increases in revenue from recurrent land taxation across Australia over the past twelve years, have been in favour of state land tax over local government rates with the exception of Western Australia. This trend will likely continue over the next decade in States where increases in local government rates are either pegged or capped and in particular New South Wales and increasingly Victoria which remain pegged. This trend is likely to increase further in favour of the States if hypothecated ad hoc taxes are applied by the states through local government rating, a factor which has yet to impact trends in these two taxes.

While the trend from Table 5 shows that state land tax revenue is increasing at a faster rate than local government rate revenue and in particular this trend is noted between 2006 and 2012, the question is whether this trend is sustainable in favour of state land tax revenue. The

complexity of this question is further compounded by the fact that the States, while expected to reduce inefficient conveyance stamp duty revenue, are to replace this revenue with recurrent land tax as suggested by AFTS (2010). In contrast, while local government rates have some level of semblance with local services, the option remains as to whether additional land tax revenue may be collected by local government as agents for the States.

7. CONCLUSION

It was highlighted that recurrent land tax revenue in Australia is low in contrast to the advanced OECD economies and that Australia has scope to increase revenue from this tax while reducing inefficient taxes on conveyance stamp duty as recommended by AFTS (2010). It is proffered that increases in recurrent land tax revenue will need to largely be funded from the principle place of residence and removal of the investor land tax threshold. While some contribution could be made from removing the land tax threshold, such a move would need to be applied by each State to avoid tax competition which may impact on investment on the residential investment market.

It is further stated that under Australia's highly centralised tax system the States have the highest vertical fiscal imbalance and that increases in own source revenue are viewed as important by the state. The impact of reform for the states is further complicated by the need to reduce revenue from conveyance stamp duty while increasing revenue from land tax. It is highly unlikely that broadening the existing State land tax net to include the principle place of residence will be understood or acceptable to property owners under the rationale as a consolidated revenue tax.

As a result under the emerging taxing arrangements it is likely that increases in land tax revenue will further expand if hypothecated taxes are imposed by local government and collected on behalf of the States. This will particularly be the case, if additional revenue is to be derived from the principle place of residence. A hypothecated state land tax collected by local government as a fire service levy is one option. However, given the level of revenue required for infrastructure projects needed in each state, the opportunity to improve recurrent land tax revenue could be better coordinated nationally with revenue increases from land tax earmarked to infrastructure, if hypothecation was adopted.

If local government is not encouraged to maximise opportunities to broaden its revenue from land taxation, it may have little choice but to allow the states to broaden their revenue streams further from this source.

The salience of this tax does not provide a compelling case for the states to embark on this option, with more scope for this to be achieved by local government. As the Commonwealth Grants Commission have equalized revenue collected by central government across the states, the State Grants Commissions have a similar opportunity to equalize increased revenues collected across local government in Australia, should fiscal reform of land tax be achieved by de-siloing this tax.

In essence, local government may become self-funding once revenue capacities are determined within and across local governments collectively. To this end, the revenues granted to local government could be better directed to the states, while local government is potentially self-funded. This reform again largely hinges on the de-siloing of recurrent land tax and is the subject of further research in defining the acceptable fiscal tolerances in the expansion of land tax to include the principal place of residence.

In summary, the current two tier land tax system operating across Australia engenders tax competition between the tiers of sub-national government in Australia. It has been shown that state land tax revenues have begun to outstrip revenue from local government rates, of which the former are collected from a narrow percentage of property across Australia. The economic and operational inefficiencies of the states which manage the vast range of exemptions, concessions and allowances, while expanding rate capping and pegging on local government does not embrace the core principles of good tax design needed to contribute to fiscal reform in Australia.

Table 5. Percentage Change in Land Tax Revenue as a Percentage of Local Government Rate Revenue across Australia 2001 – 2012.

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Qld stamp duty ($m)	700	1 056	1 382	1 863	1 728	1 949	2 542	2 912	1 806	1 978	1 933	2 023
Qld Land taxes ($m)	230	231	279	313	419	404	485	610	838	1 033	1 042	1 013
Qld Municipal rates ($m)	1 210	1 281	1 369	1 461	1 559	1 736	1 925	2 096	2 285	2 438	2 666	2 805
% change in revenue	**Base 19%**					**23.3%**						**36%**
Vic stamp duty ($m)	1 284	1 885	2 116	2 446	2 337	2 671	2 961	3 706	2 801	3 604	3 910	3 379
Vic Land taxes ($m)	525	515	655	837	848	780	989	865	1 238	1 178	1 398	1 401
Vic Municipal rates ($m)	1 543	1 676	1 827	2 001	2 170	2 294	2 500	2 724	2 927	3 159	3 416	3 656
% change in revenue	**Base 34%**					**34%**						**38.3%**
NSW Stamp duty ($m)	2 267	3 119	3 677	3 918	3 282	3 237	4 166	3 938	2 736	3 739	4 045	3 764
NSW Land taxes ($m)	929	1 001	1 136	1 355	1 646	1 717	2 036	1 937	2 252	2 296	2 289	2 350
NSW Municipal rates ($m)	2 168	2 236	2 347	2 424	2 521	2 638	2 776	2 935	3 030	3 166	3 303	3 445
% change in revenue	**Base 43%**					**65.1%**						**68.2%**
WA Stamp duty ($m)	624	647	833	1 207	1 218	1 906	2 037	2 243	1 008	1 615	1 039	1 340
WA Land tax ($m)	221	226	260	280	315	313	386	415	562	519	516	548
WA Municipal rates ($m)	669	705	754	801	869	928	1 001	1 088	1 220	1 317	1 454	1 581
% change in revenue	**Base 33%**					**33.8%**						**34.6%**
SA Stamp duty ($m)	295	354	428	578	561	600	721	909	721	787	784	683
SA Land tax ($m)	140	140	157	198	256	291	332	375	510	553	576	588
SA Municipal rates ($m)	545	589	641	683	738	785	834	886	958	1 019	1 086	1 161
% change in revenue	**Base 26%**					**37.1%**						**50.6%**
Aust Stamp Duties ($m)	5 340	7 283	8 745	10 388	9 472	10 788	12 923	14 289	9 526	12 294	12 229	11 657
Aust Land taxes ($m)	2 103	2 172	2 553	3 059	3 583	3 613	4 358	4 346	5 565	5 767	6 005	6 103
Aust Municipal rates ($m)	6 441	6 808	7 276	7 726	8 237	8 788	9 476	10 194	10 938	11 645	12 506	13 265
% change in revenue	**Base 32.7%**					**41%**						**46%**

Source: ABS Taxation Statistics 2001-2012.

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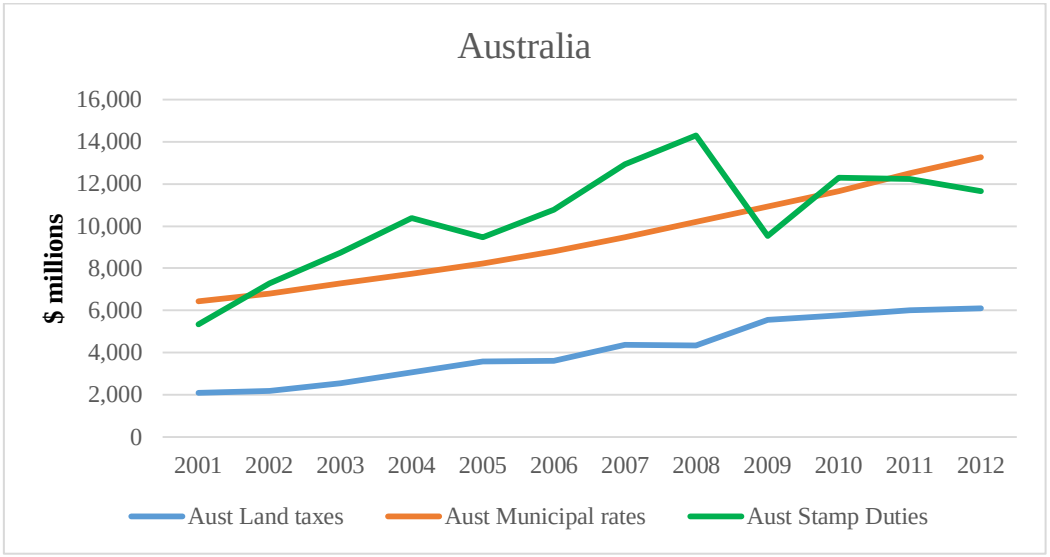
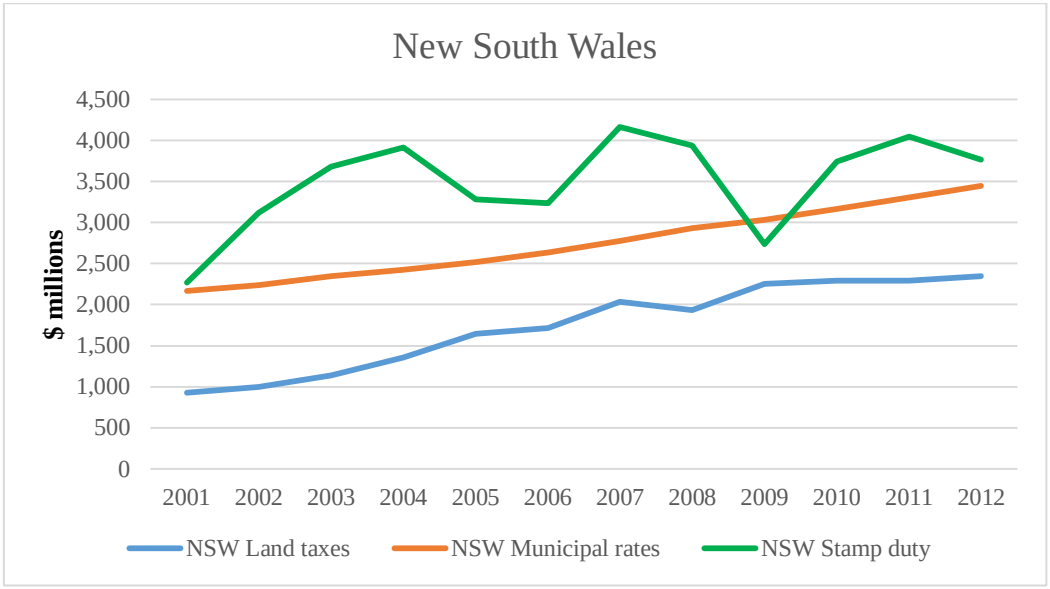
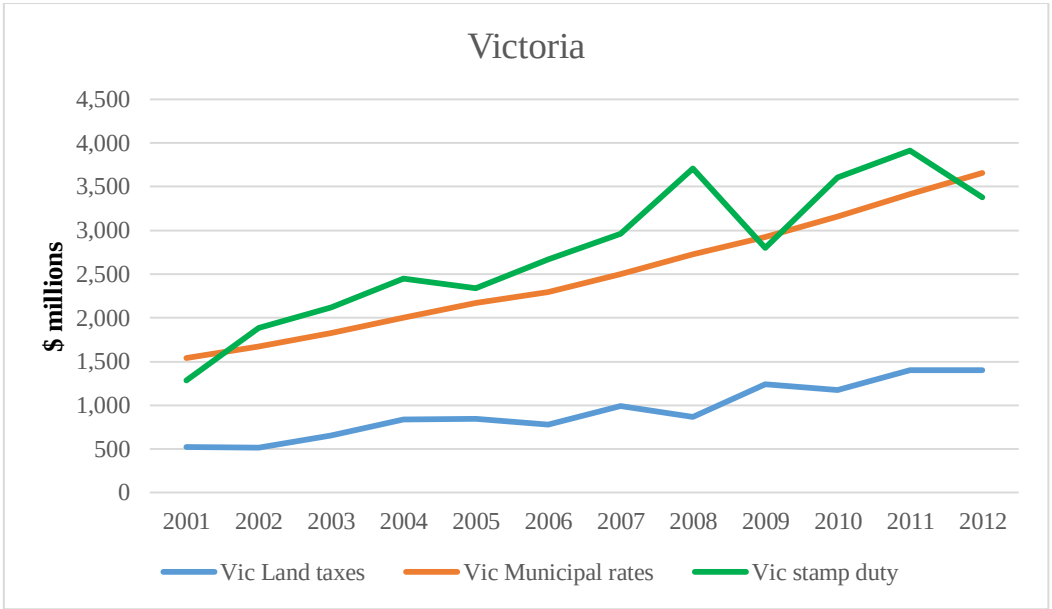
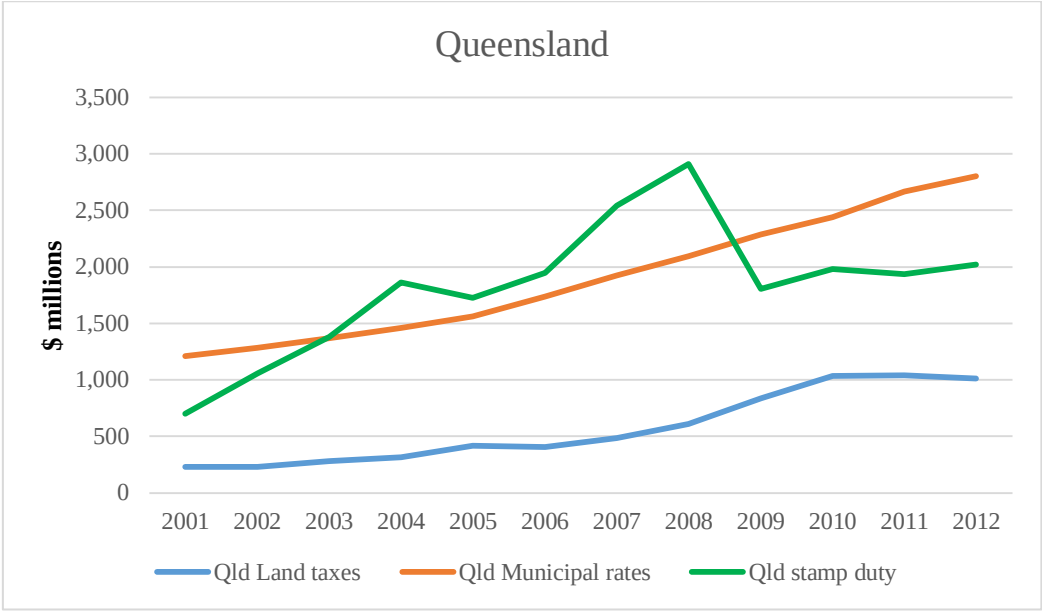
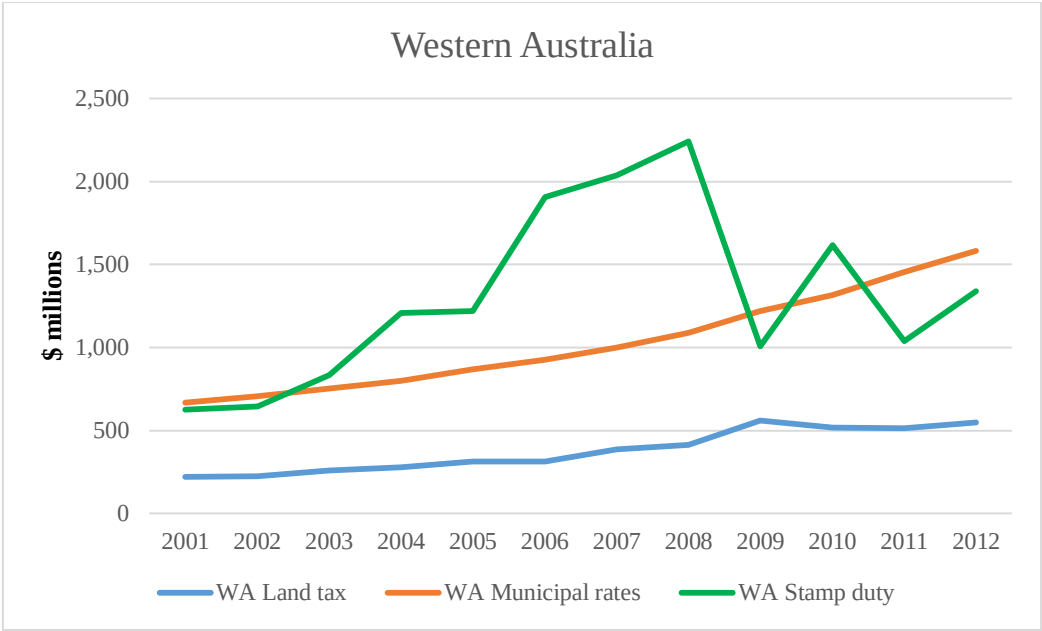
Appendix 1. Land Tax Revenue State Comparative Figures Australia (NSW, Vic, Qld, SA & WA Combined) 2001 to 2012.

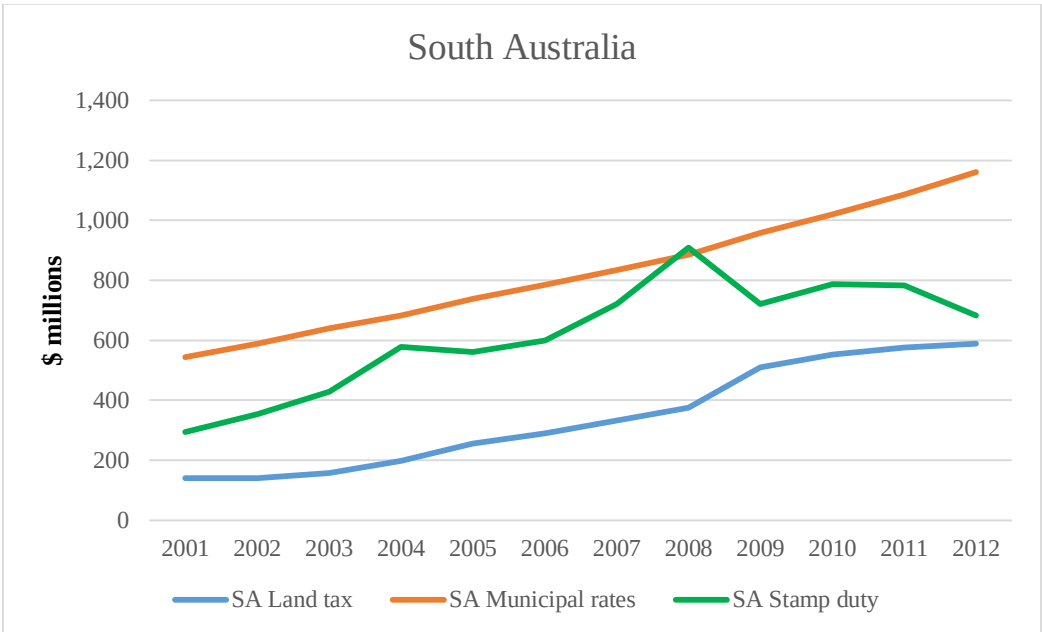







Queensland
$ millions
3,500
3,000
2,500
2,000
1,500
1,000
500
0
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012
Qld Land taxes
Qld Municipal rates
Qld stamp duty


Western Australia
$ millions
2,500
2,000
1,500
1,000
500
0
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012
WA Land tax
WA Municipal rates
WA Stamp duty


South Australia
$ millions
1,400
1,200
1,000
800
600
400
200
0
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012
SA Land tax
SA Municipal rates
SA Stamp duty