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Economic Regulation Authority
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INQUIRY INTO MICROECONOMIC REFORM IN WESTERN AUSTRALIA
DRAFT REPORT

We welcome the opportunity to comment on this report. Our company has been in operation over 35 years, owning industrial properties that we lease out and manage ourselves. Our primary interest and expertise relates to land tax (and MRIT), so our comments will be focussed on this.

We are not opposed to land tax in the sense that we recognise that it is one of the very few efficient revenue raising measures for the State Government. Furthermore, we support broadening the tax base as stated in Option 1, but suspect that this is unlikely to be politically feasible.

Unlike many taxes that relate to capacity to pay (eg income tax), or other taxes that are triggered by a decision to buy (eg stamp duty on property transfers) and are known amounts that can be factored into a decision to purchase, land tax is an unavoidable tax that can, and sometimes has, varied greatly from year to year. *In our opinion, because land tax does not relate to capacity to pay, there is a greater onus on the Government to ensure that it is as fair as possible to all those who are caught within its net.*

Hence, on the issue of "fairness", we are totally opposed to the land tax aggregation principle. If a legal entity purchases another property, it automatically increases the tax on all other properties. Yet if the purchaser decides to create a separate legal entity and purchases a property under the new legal entity, there is no effect on the other properties they own under the different legal entity. Further, the new property still attracts a much lower land tax under the separate ownership compared to the same ownership. How is this fair?

- Both the CCI and the Property Council have also repeatedly called for the aggregation principle to be abolished.
- It is patently unreasonable that if there are two blocks, side by side, both the same size and zoning, and both worth let us say $1,000,000 that one could have land tax (on 2013-14 rates) as low as $700 whereas the other property could result in increasing a multiple land holder's land tax bill by as much as $24,300 (instead of $700) simply because of the aggregation principle and different ownership structures. (And the greater the value of the land, the worse the discrepancy. For instance, at $11,000,000 the minimum land tax is $142,470 and the maximum is $267,300.) The person being taxed the greater amount can do no more with the land than the person being taxed the least. They cannot get a higher rent than their next door neighbour competitor, and nor can they do more improvements than their neighbour to better their returns. Worse still, the person being taxed the higher amount is automatically in a worse financial position when times are tight or properties vacant.
- The unfairness of the aggregation principle is multiplied when you aggregate properties with zoning that only allows moderate development (eg residential) and tax them at the same rate as say a single property that allows much greater development (eg high rise office).
- For land tax purposes, the definition of "ownership" being related to the legal entity that holds the property is also patently unfair. There have been many avoidance strategies put in place by

those who have been able to do so (particularly big business). While there are anti-avoidance provisions in the legislation, only a token effort has been made to combat this. Unlike income tax for instance where all income is eventually attributed to the individual person no matter the legal entity that earned the money (eg in the form of company dividends, trust distributions etc) or payroll tax where related companies are grouped together, this does not occur with land tax. In our opinion, those most likely to be affected by the aggregation principle are the smaller investors or those who have held their properties prior to the mid 1990s (the issue of aggregation became a major concern between 1993 – 2000 when there were some major changes to the land tax brackets and rates).

- As an aside, from our research into this subject, no-one, including Treasury/Dept of Finance or other consultants who have been asked to comment on land tax (eg KPMG Econtech) has been able to develop a model that takes into account aggregation. That is, major decisions regarding land tax are being made on a group of land owners without the slightest idea how they will be affected.

We are opposed to any form of land tax that has such a wide dispersion of rates (0.0% - 0.57% in Option 1 and 0.0% - 2.91% in Option 2) and so many brackets (6 brackets in both options). Rates should be flattened and the number of brackets reduced to 2 – 3. The ideal is a single rate.

- In our opinion, flattening the rate and reducing the brackets helps mitigate avoidance of the aggregation provisions.
- There should be no exemption for land less than $300,000 and the lower rate should be increased. A minimum rate should be introduced (similar to Council Rates).
- Because of the way the land tax rates and brackets have been fiddled with over the last 20 years, one of the major failures has been the narrowing of the land tax base and placing more reliance on collections at higher aggregated values. This has created a major political headache as the potential for raising revenue has been restricted, and this was recognised in the draft report. However, based on our historical knowledge, the solution provided in the report will not be a panacea. It will encourage politicians and Treasury and Department of Finance officials to fiddle with taxpayers at the lower end of the scale for political reasons or continue to focus on targeting taxpayers in the higher brackets rather than fairly distributing the increases (and recent evidence of this can be seen in the 2014-15 Budget Fact Sheet Revenue and Savings Measures). A single flat rate covering everyone is less likely to be subject to this type of manipulation. We might add also, that under the current rates, someone with land valued at $300,500 is billed $0.50 land tax – a ludicrous position. If Option 1 is adopted, it would be $0.10 – even more ridiculous, and hence the need for a minimum rate.
- We note that the Synergies Report, shows that WA, in comparison to the other States, is way out of line in its minimum and maximum rates and where the maximum cuts in. The inequities and unfairness of the WA system is fairly evident if the figures are examined closely.

As a general observation, it is grossly unfair that land owners can be hit with a massive increase in land tax because of land revaluations, bracket creep or bracket changes, and/or changes in the rates. These changes in land tax costs are totally unpredictable and an unreasonable impost on business. It is made worse by the fact that the worse the economy, the worse the effect on the business. If the economy is bad, and say in our case we have vacant properties, the holding costs are huge. For a tenant or business that owns land, if the economy is bad and they are barely breaking even/making a loss, the land tax makes it worse.

We would welcome the opportunity to verbally discuss our comments above, if further clarification is required.

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Director