



**SUBMISSION TO THE REVIEW  
OF THE AUSTRALIAN  
TAXATION SYSTEM**

**PREPARED BY**

**THE URBAN DEVELOPMENT INSTITUTE  
OF AUSTRALIA (UDIA)**

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# 1. Introduction

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The Urban Development Institute of Australia (UDIA) welcomes the opportunity to provide input into the Review of the Australian Tax System.

The tax system is the cornerstone of the Australian economy and the foundation from which the polity governs. Its design is critical to the performance of the economy in general – impacting on overall investment, investment between asset classes, incomes of businesses, households and individuals.

UDIA nationally represents more than 4000 companies directly employing more than 400,000 Australians. UDIA has five state offices around Australia and is the peak body of the urban development industry.

Many UDIA members, who are major stakeholders in the development industry and make considerable contributions to economic activity, operate at a national level. The current tax (and levy) system varies dramatically between states and creates a significant burden on investors who must negotiate the disparate regulatory and economic frameworks. This places a significant and unnecessary burden on investment and productivity.

UDIA strongly believes that Federal intervention is required to reform the taxation system and drive an agenda for deregulation and microeconomic reform for the property and development sector. Successful taxation reform has been delivered in many other industry sectors and the importance of the property and development industry to the national economy warrants a comprehensive reform program driven by the Federal Government.

This submission focuses on the impact that the prevailing tax system has on urban development – investment in urban development and the shape of cities but most importantly housing affordability for all Australians.

It addresses these issues within the following sections:

- Property Taxation in Australia
- Tax System Design and Grants
- Stamp Duty
- Land Tax
- Local Government Rates and Charges
- State Government Development Levies
- Capital Gains Tax
- Capital Allowance Regime and Green Housing

UDIA recognizes the role of taxation serves in funding infrastructure and providing services to communities. However, UDIA believes that reform is required in the taxation framework for property and has articulated a range of tax design principles it believes should be applied to improve the tax system. For the tax system to operate effectively and for reforms to meet desired purposes the tax system should reflect the following principles:

**Taxes on development should only exist if:**

- **they have a clear purpose;**
- **they are observably transparent;**
- **they are inter-generationally and geographically fair; and**
- **they facilitate, rather than actively work against, other policy objectives such as labour and housing mobility, savings imperatives and social stability.**

The urban development industry welcomes the review of Australia's taxation system and looks forward to working with the Commonwealth Government to create a system that has the robustness to raise the public finance necessary to provide vital public services while also encouraging investment and generating jobs in our communities.

## 2. Recommendations

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This submission provides a comprehensive suite of recommendations for the improvement of the tax system as it relates to the urban development sector. These recommendations are outlined below.

### **RECOMMENDATION 1 – Simplify and improve the transparency and knowledge base of the tax system as it relates to property development.**

The Review should consider the impact of taxation on the property and development sector, including:

- § cross jurisdictional compliance costs;
- § the transparency of tax regimes applied on the sector at all three levels; and
- § the hidden or obscured application of taxation regimes on the cost of housing in Australia.

UDIA believes the Review should make clear recommendations on harmonizing the system of the taxation of property, creating greater transparency in the system and simplifying the application of the taxes.

### **RECOMMENDATION 2 – Quarantine First Home Owner Grants to new homes.**

To remove tax design anomalies and distortions – but more importantly to achieve better employment outcomes, the first home owners grant should be quarantined to new homes and not extended to existing residential property under circumstances where the goal of the fiscal measure is to stimulate new home construction activity.

### **RECOMMENDATION 3 – Include Levies and Stamp Duties in GST Cost Base Calculations to Improve Housing Affordability.**

As a matter of urgency, the Review should recommend to include local government levies and stamp duties in the cost base of GST application to the development process.

### **RECOMMENDATION 4 – Immediately reduce rates of stamp duty as they apply to property transactions.**

Work with the State Governments to create a uniform, low rate of stamp duty that is applicable nationally.

### **RECOMMENDATION 5 – Reduce stamp duty compliance costs by creating uniform stamp duty legislation nationally.**

The Government should also recommit to creating a single stamp duty regime through the harmonization of legislation between jurisdictions.

### **RECOMMENDATION 6 – Commit to the phase out stamp duty on property taxation over the next decade.**

A longer term commitment should be made to remove stamp duty over the next ten years and replace it with GST.

**RECOMMENDATION 7 – Address the vertical fiscal imbalance and remove impediments to local government revenue raising (especially with respect to rate pegging).**

UDIA recommends that the Review consider the impact of structural impediments to local government revenue raising on the efficiency of the taxation system, with particular reference to rate pegging and the capacity to deliver infrastructure for new urban growth strategies.

**RECOMMENDATION 8 – Consider financing models that bring forward the returns on infrastructure finance to match the upfront investment (such as asset value capture) to reduce reliance on development levies.**

UDIA recommends that the Review consider the impact of local government development contributions on investment in urban development and on housing affordability. Specifically the Review should consider:

- § the efficiency and equity of local government levy collection and corresponding infrastructure delivery models:
- § the impact of upfront local contribution charges on investment and the capacity for the introduction of deferred payment of levies; and
- § the potential for direct Commonwealth investment in local infrastructure through the application of long-term low interest debt vehicles paid back by Councils over a broad temporal base.

**RECOMMENDATION 9 – Harmonise land tax regimes, reduce rates and over the next decade commit to combining the land tax regime with the local government rate system.**

The urban development industry believes that land tax rates should also be lowered (as with stamp duty) but responsibility for revenue raising should be co-ordinated with local government rates to provide incremental and ongoing revenue streams for infrastructure development that will help reduce reliance on grants and one off levies.

**RECOMMENDATION 10 - It is recommended that the integrity of the Capital Gains Tax System be retained to provide investors with certainty, especially under existing economic conditions.**

A number of commentators have suggested that CGT rate on investment property be removed as it encourages residential price escalation. If this were true there should be an abundance of rental properties. An examination of ABS data has revealed no increase in the proportion of rental properties.

**RECOMMENDATION 11 – Use the capital allowance regime to promote investment in sustainable housing technologies.**

To improve take up and investment in sustainable and to promote green housing it is recommended that the review consider creating a new definition for environmentally sustainable fixtures, fittings and buildings and recalibrate the effective lives of such assets to better align investment with sustainable policy objectives.

### 3. Property Taxation in Australia

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Australia has one of the world's highest rates of property ownership. It has one of the highest levels of urbanization and also has one of the world's highest rates of property taxation.

Australia's urban population concentration underlines the importance of urban investment in promoting efficient and productive cities. While recently somewhat overshadowed by the dramatic expansion of the resources industry in Australia, the role of cities in driving long term economic growth warrants particular consideration as part of the Review.

In Australia, property taxation has a high appeal to tax administrators and legislators as a form of revenue raising relative to other sectors for a number of reasons. These include:

- property is immobile therefore making it difficult for investment to respond to increasing tax rates;
- it also is the subject of detailed asset registers, making it extremely difficult to avoid; and
- it is also typically levied on an ad valorem rate making the absolute burden of such taxes fall on the wealthiest and the tax take rises with the appreciation of property asset values.

What is not often recognised is that property taxation has far wider economic ramifications than simplicity of revenue raising. Inefficient tax systems can create inefficient and unaffordable cities because:

- They can distort the development and rejuvenation of urban environments by providing a disincentive to investment (against other asset classes) in the first place.
- Taxes that are applied to property transactions can lock in an investor or a home owner and provide a disincentive to upgrade or move (creating obsolete stock and constraining supply).
- High levels of property taxation impact on housing affordability and rental costs for all Australian households.

As outlined in the National Housing Supply Council's *'State of Supply Report 2008'*, there is an undersupply of housing in most Australian capital cities. While the causes of undersupply are wide, property taxation has a significant and pervasive influence. Taxation impacts on both the demand and supply sides of the of the property market and is manifest as housing affordability. Diagram 1 below illustrates and projects the undersupply of housing in the Australian property development sector for the next 20 years:

**Diagram 1: Projection of Demand-Supply Gap using Medium Supply and Medium Household Growth Projections, 2008 – 2028.**

Year	Medium Supply Projection	Medium Household Growth Projection	Gap Between Underlying Demand and Dwelling Construction	Cumulative Gap Including Initial Gap Due to Homelessness and Vacancy
Number of Dwellings				
2008	129,000	149,000	n/a	85,000
2009	129,000	152,000	23,000	108,000
2010	130,000	153,000	23,000	131,000
2011	131,000	155,000	24,000	155,000
2012	131,000	155,000	24,000	179,000
2013	132,000	156,000	24,000	203,000
2014	133,000	156,000	23,000	226,000
2015	133,000	157,000	24,000	250,000
2016	134,000	157,000	23,000	273,000
2017	135,000	157,000	22,000	295,000
2018	135,000	156,000	21,000	316,000
2019	136,000	157,000	21,000	337,000
2020	137,000	156,000	19,000	356,000
2021	137,000	156,000	19,000	375,000
2022	138,000	155,000	17,000	392,000
2023	139,000	154,000	15,000	407,000
2024	139,000	152,000	13,000	420,000
2025	140,000	149,000	9,000	429,000
2026	141,000	145,000	4,000	433,000
2027	142,000	143,000	1,000	434,000
2028	142,000	139,000	-3,000	431,000

*Source: National Housing Supply Council, State of Supply Report 2008, p133.*

One of the factors that warrant consideration in the Review is how taxes and development levies are obscured in the overall cost of housing by the aggregated application of levies at a number of points throughout the development process.

The UDIA welcomes a review of the Australian taxation system. It is timely that a review of the tax system and its design is reviewed for the property development sector. The taxes and charges that apply to the urban development sector are:

- GST
- Stamp duties
- Land taxes
- State government development levies
- Local government development levies
- Local government rates

Indirect taxes are typically levied by State and local jurisdictions. The separation of responsibilities has led to different rates across the country, different laws and regulations and different applications of those laws. The property tax system is complex and has inordinate compliance costs. Many UDIA members operate on a

national basis and suffer significantly from the associated compliance costs of the disparate jurisdictional approaches to taxation between the States and local councils.

Each jurisdiction within Australia places a high value on property taxation as a revenue source and as such, there has been little appetite for reform. UDIA believes that Australia's reliance on property taxation as a revenue source is a legacy of Australian fiscal federalism. This legacy should be reconsidered and recast in light of changes in spending and taxing responsibilities of the different levels of government over time.

This existing approach to intergovernmental finance impacts on the sector's capacity to contribute to productivity and economic growth. It compromises the investment viability and certainty for urban development. UDIA strongly believes that Federal intervention is required to begin microeconomic reform through targeted intervention in the tax and regulatory framework for the property sector.

**RECOMMENDATION 1 – Simplify the tax system as it relates to property development.**

The Review should consider the impact of taxation on the property and development sector, including:

- § cross jurisdictional compliance costs;
- § the transparency of tax regimes applied on the sector at all three levels; and
- § the hidden or obscured application of taxation regimes on the cost of housing in Australia.

UDIA believes the Review should make clear recommendations on harmonizing the system of the taxation of property, creating greater transparency in the system and simplifying the application of the taxes.

## 4. Tax System Design and Grants

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Over the many iterations of tax reform over decades, property taxation has remained the area of least progress. The reason is that housing affordability and home ownership is such an important issue for all Australians.

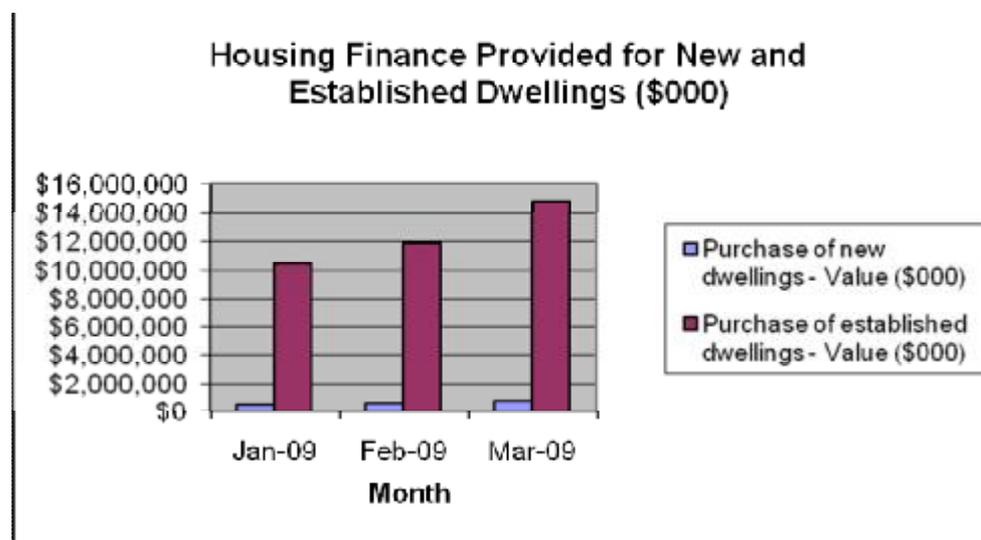
There is a general lack of understanding of the cumulative impacts of taxes and development levies on urban development. In particular, the relatively robust fundamentals of the Australian housing market and the absence of dramatic market failures have contributed to an attitude of complacency amongst governments in regard to the impacts of taxation on the sector.

### 4.1 The First Home Owners Grant

This grant was applied to first home owners – but it has had, and continues to have, a design defect. New property attracts GST but existing property doesn't. There was no double taxation on existing properties and therefore no need for a first homeowners grant for existing properties – from a tax design perspective. Either the grant should be confined to new home owners only or GST should apply to the sale of existing homes to deliver tax neutrality.

This design fault has created substantial distortions within the residential property asset class and continues to do so. The diagram below highlights investment in new and existing properties and illustrates the problem.

**Diagram 2: Investment in New and Existing Residential Properties**



NB This disparity is problematic when reviewed in the context of other factors that influence the demand for new investment in urban development. Australia has experienced strong population growth, driven in part by record immigration. This has been combined with a declining household formation rate which has increased the demand for housing dramatically.

From a pure tax design perspective, stamp duty should be removed on residential property and GST should be charged. (Under this scenario, there would need to be transitional arrangements that provide a new home owners grant to reflect the bringing forward of stamp duty revenue in the form of a GST.)

However, it would probably be more practical to phase the swap out of stamp duty to GST.

#### **RECOMMENDATION 2 – Quarantine First Home Owner Grants to new homes.**

To remove tax design anomalies and distortions – but more importantly to achieve better employment outcomes by way of employment in the construction and supporting industries, the first home owners grant should be quarantined to new homes and not extended to residential property, and indexed.

The savings from this measure should be used to offset the impact of stamp duty on all residential property transactions.

#### **4.2 Relationship Between Stamp Duty and GST – Cost Base Issues**

The calculation of GST paid on land for development displays some fundamental flaws in design. As a principle the tax system should remove problems of taxes that tax an existing tax – whether they be State or Federal Taxes. These design problems are most problematic in cost base definitions.

Such a problem exists in the cost base for land for development for GST purposes. When GST is paid on land, it is calculated on the land selling price less acquisition cost. The land selling price includes state and local government levies and stamp duties. This has the problem of paying higher taxes than should be the case and is a simple design problem. The cost base should include government levies and stamp duties not the selling price.

Below in Diagram 3 below is an example of how this double taxation impacts on the land development industry and housing affordability.

**Diagram 3. Example of Double Taxation of Land Development**

	<b>Current GST Margin Scheme</b>	<b>Broadened GST Margin Scheme</b>
Land Selling Price	\$297,344.00	\$297,344.00
less		
Land Acquisition	\$58,824.00	\$58,824.00
Stamp Duty		\$3,325.00
State and Local Government Levies and Charges (SIC, S73, S94 etc)		\$70,530.00
Total	\$238,520.00	\$164,755.00
GST Payable	<b>\$21,683.64</b>	<b>\$14,977.73</b>
<b>GST paid on State and Local Taxes and Levies</b>	<b>\$6,705.91</b>	<b>0</b>

**RECOMMENDATION 3 – Include Levies and Stamp Duties in GST Cost Base Calculations to Improve Housing Affordability.**

As a matter of urgency, the Review recommends to include local government levies and stamp duties in the cost base of GST application to development land.

**RECOMMENDATION 4 – Changes to the Taxation Regime should be subject to a Housing Affordability Impact Assessment.**

Improving Housing Affordability is a key policy priority of the Federal Government, however changes to the taxation regime, such as the recent decision to change the calculation of GST on Real Property, can adversely impact on housing affordability. Therefore it is recommended that any changes Taxation Regime that relate to the housing and property sector be subject to a Housing Affordability Impact Assessment.

## 5. Stamp Duty

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Stamp duty is a transaction based tax that applies to investors and residential property owners alike. There is little relationship between the rates or absolute revenue raised from the tax and the services provided by the Government.

Stamp duty has a lock in effect providing an impediment to housing mobility. The high transaction costs associated with purchasing or selling property reduce consumers' capacity to better access employment opportunities and in turn creates higher travel demands. It also prevents housing turnover between consumers that is critical to delivering urban renewal which is needed to support redevelopment in established areas and to allow existing housing to better match the housing needs of the community.

The significant downturn in the urban development sector, and therefore Government revenues from stamp duty provide a good example of the unreliability of stamp duty as a sustainable, predictable revenue source. The cyclical nature of stamp duty makes governments vulnerable to a level of volatility in the market that is not as prevalent in broader based, lower charges, such as the GST. This impacts on strategic infrastructure planning and financing and therefore the productivity of our cities and regions.

The difference in rates between stamp duty for property and other asset classes makes housing less affordable than other assets – distorting the investment decision making process.

Ideally, the urban development industry would prefer the removal of stamp duty altogether for all transactions immediately. However, given the reliance of State Governments on stamp duty as a revenue source, a practical alternative is to harmonise rates for all transactions and secure an inter-governmental agreement to phase out stamp duty in the medium term.

The stamp duty system should be replaced by a broad based tax such as the GST in the longer term.

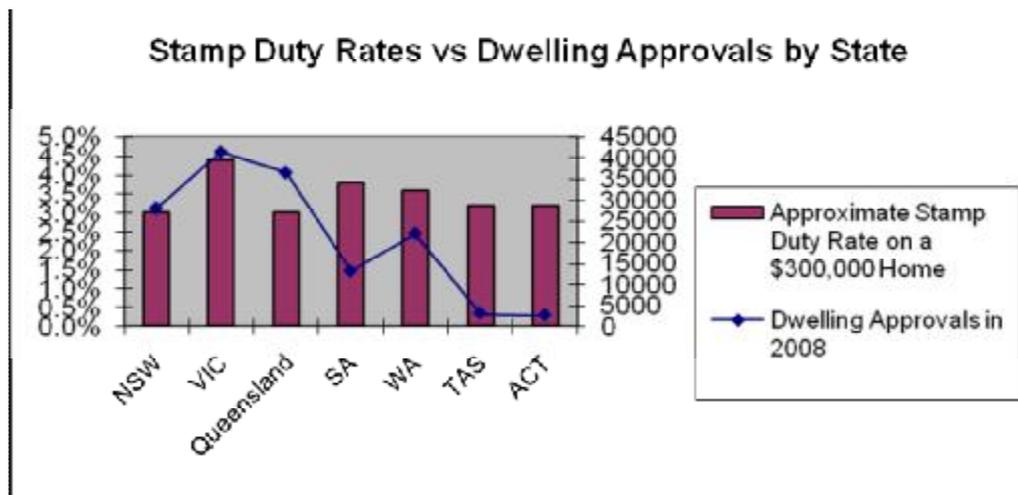
### **A Uniform System of Stamp Duty**

Despite many attempts to harmonise stamp duty legislation and rates over the past two decades, there remain 7 different stamp duty regimes and a multitude of different rates that apply to property and other assets.

This creates substantial compliance costs, distorts investment between asset classes and between jurisdictions.

Competitive federalism, especially as it applies to stamp duty rates in principle is welcomed. However, in reality there is no alignment in employment growth, immigration and housing demand, housing prices and stamp duty rates between jurisdictions.

Diagram 4.



**RECOMMENDATION 5 – Immediately reduce rates of stamp duty as they apply to property transactions.**

Work with the State Governments to create a uniform, low rate of stamp duty that is applicable nationally.

**RECOMMENDATION 6 – Reduce stamp duty compliance costs by creating uniform stamp duty legislation nationally.**

The Government should also recommit to creating a single stamp duty regime through the harmonization of legislation between jurisdictions.

**RECOMMENDATION 7 – Commit to the phase out stamp duty on property taxation over the next decade.**

A longer term commitment should be made to remove stamp duty over the next ten years and replace it with GST.

## 6. Local Government Rates and Charges

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### 6.1 Local Government Rates

The principal source of taxation revenue for local government is through the collection of property rates. Property rates are a broad, efficient means of taxation that provide a consistent and reliable revenue source for councils.

The property rate framework is different across state jurisdictions across Australia. For instance, in NSW, the State Government has (since 1977) maintained a tight regulatory regime on councils' capacity to raise revenue, intended to foster an efficient and prudent approach to fiscal discipline. Rate pegging was designed to encourage and indeed force councils to manage their capital and service expenditure in the context of a constrained and relatively inflexible revenue stream.

In Queensland there is no rate pegging and developer contributions were significantly smaller than they are in New South Wales.

This has forced councils to make more effective use of less stringent regulation of alternative revenue sources to supplement rate income. In the case of development contributions, this has significantly lessened housing affordability.

The prevailing inconsistencies between the revenue raising capacity of councils in different states impacts directly on the delivery of services and infrastructure and fiscal relationships with other levels of government, particularly in the context of grants and targeted financial assistance. This has contributed to an environment where the ability of councils to plan and commit to long term strategic fiscal policy has been compromised.

**RECOMMENDATION 8 – Address the vertical fiscal imbalance and remove impediments to local government revenue raising (especially with respect to rate pegging) and the capacity to deliver infrastructure for new urban growth strategies.**

UDIA recommends that the Review consider the impact of structural impediments to local government revenue raising on the efficiency of the taxation system, with particular reference to rate pegging.

### 6.2 Local Government Development Levies

A considerable proportion of urban infrastructure is funded through development contributions or levies. New South Wales has had the highest charges. This has a serious impact on housing supply and affordability.

Levies are sometimes introduced to capture part of the uplift in property values that result from rezoning or Government infrastructure investment. The reasoning is that the vendor should not benefit financially from a government decision to provide more housing. However, existing home owners adjacent to developments do not have to pay the levies or any type of betterment tax.

A levy is often termed as a “developer contribution” but in reality it is paid by the homebuyer in a rising market, or paid by the vendor in a falling market. In rising

markets levies have a compounding negative impact on housing affordability – in falling markets, levies restrict housing supply. Under both scenarios it creates sub-optimal outcomes in infrastructure provision and timing.

There are two types of levies: Infrastructure levies and Betterment or Upzone levies, which are sometimes mixed.

The intent of the betterment levies is value capture. Value capture is where the Government seeks to internalise the lift in land value resulting from a decision to rezone land for residential or employment purposes. The reasoning is that the vendor should not benefit financially from a government decision to provide more housing, or build an infrastructure item.

The local government development contribution framework has played an important role in the delivery of baseline infrastructure facilities to support new development – particularly where developers have been able to deliver infrastructure as in-kind agreements to credit against payment of levies or in fragmented areas where no single developer can afford to provide such infrastructure. The expansion of contributions plans to fund more advanced facilities has been reflected in a significant increase in the quantum of charges and significant disparities between contributions plans in different jurisdictions.

There are structural and procedural inefficiencies that prevent councils from making best use of development contributions and this has resulted in the accumulation of unspent levies. These include:

1. the breadth and depth of the base for development contributions is often too narrow to allow for efficient revenue collection and can result in delayed and fragmented capital expenditure;
2. the scope of facilities included in contributions plans can be too broad, with only a proportion of the cost of each capital item apportioned to the revenue from development contributions. This means that councils are required to fund the remaining capital cost from existing consolidated holdings or other revenue streams; and
3. there are no third party review mechanisms to confirm that councils are making prudent assessments of infrastructure demands and ensuring efficient procedures and structures for delivering the infrastructure in a timely fashion. There are also no review mechanisms that can compel councils to spend accumulated funds.

While these structural problems are significant, the major constraint to the delivery of new housing is the quantum of the charges that are being applied at the initial purchase time of the new housing. The expanded application of local government levies has undoubtedly contributed to a higher cost of housing for consumers and a reduction in market activity, which has experienced consecutive years of record low dwelling production. The dramatic decline in dwelling supply in spite of the context of strong immigration has had a significant negative impact on housing affordability.

The lack of strong direction in regard to local development contributions from respective state governments, and the inconsistency of Federal capital grant initiatives have contributed to the widespread expansion of the use of local government development levies as the preferred financing model for infrastructure.

This model is inefficient, lacks transparency, and creates significant intergenerational and geographical inequities.

The application of levies creates significant intergenerational inequities for new homebuyers. Previous generations of homebuyers have benefited from the foresight of the public sector that invested in residential communities, providing an incentive for investors. Current governments demand that the investment for infrastructure be borne by new homebuyers.

New homebuyers are also paying rates covering costs applicable to existing development.

A more efficient and equitable model would utilise the application of broader based charges applied over a long period of time to fund and deliver infrastructure. This will assist in ensuring that the local authority is account to the rate paying community to actually deliver the infrastructure in a timely manner. It can be used to amortise the cost of providing infrastructure over the life of the asset, rather than requiring a full or majority capital contribution from the first user. This model also provides for a far greater role for rate payers in providing input into determining what infrastructure and facilities should be provided for the community.

One of the key constraints of the current contribution framework is that it requires payment of levies early in the development stage and as such it exposes developers to significant financial pressure from holding costs. It also requires that developers must source additional debt to pay the contributions at a time when many financial institutions have publicly declared their intention to reduce their exposure to the sector.

There are mechanisms that are available that would allow for the payment of development levies at the settlement of sale for a new residential lot, or the making of a strata plan, in the case of either a commercial lot or residential apartment. These mechanisms could be introduced with no regulatory or financial risk to a local council but with significant upside potential for investment and housing affordability. The fact that there has been little progress in this area is testament to the lack of leadership from all levels of government in driving reform.

UDIA recognises that local government development levies are not explicitly within the scope of this review. However, in the context of reviewing the impact of the tax system on housing affordability, their impact cannot be overlooked.

**RECOMMENDATION 9 – Consider financing models that bring forward the returns on infrastructure finance to match the upfront investment (such as asset value capture) to reduce reliance on development levies.**

UDIA recommends that the Review consider the impact of local government development contributions on investment in urban development and on housing affordability. Specifically the Review should consider:

- § the efficiency and equity of local government levy collection and corresponding infrastructure delivery models:
- § the impact of upfront local contribution charges on investment and the capacity for the introduction of deferred payment of levies; and

- § the potential for direct Commonwealth investment in local infrastructure through the application of long-term low interest debt vehicles paid back by Councils over a broad temporal base.

## 7. Land Tax

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The land tax arguments are similar to those used for Stamp Duty. The legislation is complex and different between jurisdictions. The rates are different across the country, thresholds are applied arbitrarily and there appears to be no nexus with tax application and services provided. The way it operates is more like a wealth tax rather than a true land tax.

It reduces project profitability and impacts on hurdle rates and therefore on investment in large urban revitalization projects and developments.

Although the issues are similar to stamp duty – the taxes are different in terms of revenue raising. Land tax is more analogous to local government rates than to stamp duty in application. Land tax is designed to be levied annually and based on the unimproved capital value of land under ownership. It does not apply to principal place of residence.

There are different treatments of the application of land tax rates, especially with respect to aggregation and purpose of use. Often, property developers can pay far higher rates of land tax (than intended) because a small portion of their land is zoned for commercial use but the rate will apply to the whole subdivision. We believe that this is an unintended consequence of a complex land tax regime.

**RECOMMENDATION 10 – Harmonise land tax regimes, reduce rates and over the next decade commit to coordinating the land tax regime with the local government rate system. Standardise the local government rating system across Australia.**

The urban development industry believes that land tax rates should also be lowered (as with stamp duty) but responsibility for revenue raising should be handed over to local government to provide incremental and ongoing revenue streams that will help reduce reliance on grants and one off levies.

Land tax and stamp duties or other property related tax should be used for property related infrastructure development.

## 8. Capital Gains Tax

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The Capital Gains Tax regime has improved over recent years. Capital Gains Tax significantly impacts on investment returns and risk taking within the economy in general.

UDIA believes that while not perfect, the CGT treatment of assets held for more than 12 months is a reasonable way to separate productive and speculative investment and reduce the lock in effect to investments.

The removal of complex cost base calculation has also improved compliance costs of capital gains tax.

Finally, the exemption of business sales from capital gains tax has also ensured that there is no disincentive to investment and improvements in businesses.

Now that improvement to the capital gains tax regime have been made, certainty for investors is critical.

**RECOMMENDATION 11 - It is recommended that the integrity of the Capital Gains Tax System be retained to provide investors with certainty, especially under existing economic conditions.**

A number of commentators have suggested that CGT rate on investment property be removed as it encourages residential price escalation. If this were true there should be an abundance of rental properties. An examination of ABS data has revealed no increase in the proportion of rental properties.

## 9. Capital Allowance Regime

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To ensure that investment takes place in any asset class it is vital that the tax system takes account of obsolescence. Recognition of obsolescence, depreciation or wasting assets is critical for property investment.

There has been significant changes in depreciation regimes over the past decade – the depreciation regime more accurately reflect the economic lives of larger assets than any other time in the past.

There is contention on what constitutes and economic life of an asset. This is particularly prevalent in the property sector where properties can exist for one hundred years but they become obsolete after 20 years.

The urban development industry welcomes depreciation write offs for new developments in fixtures and fittings.

However, the application of the capital allowance regime can be extended to achieve further public policy objectives that are consistent with good economics and sustainability.

Often the take up of sustainable technologies in housing development can lag market leading technologies because adoption of the technologies adversely impact on housing affordability. Public policy makers have tried to resolve this issue by offering one off grants for sustainable technologies like rainwater tanks, solar heating and the like.

Sustainable building technologies are vital in the upfront investment in development, but due to affordability and obsolescence they are not adopted to the extent that policy makers would like, inclusion in the capital allowance regime would improve take up of such technologies.

### Alternative to capital allowances regime:

Given the desire of the Government to improve Australia's management of greenhouse emissions, from raw material extraction to retail consumption, taxation measures can support these broader policy objectives. With the industry commitment to move to sustainable building technologies we would also suggest that Government provide incentives by way of the increasing tax deductions for expenditure on qualifying sustainable building technologies. This uplift in deductions could mirror those that exist for eligible expenditure on Research and Development.

### **RECOMMENDATION 12 – Use the capital allowance regime to promote investment in sustainable housing technologies.**

To improve take up and investment in sustainable and to promote green housing it is recommended that the review consider creating a new definition for environmentally sustainable fixtures, fittings and buildings and recalibrate the effective lives of such assets to better align investment with sustainable policy objectives.

## 10. Conclusion

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UDIA welcomes the opportunity to provide input into the Review of Australia's Tax System that is presently being conducted by the Commonwealth Treasury. Tax reform is critically important to the property development and by redressing design anomalies and making structural changes to intergovernmental financial arrangements – Governments around Australia have the opportunity to contribute to more affordable housing for all Australians and more efficient cities.