

Supplementary Submission to Public Accounts Committee consideration of the rating methodology to establish rates for unit-titled residences

I am providing this supplementary submission (previous submission No.25) as I am concerned that the Committee, in its consideration of oral evidence, has not framed its questions consistent with fully addressing the inquiry's terms of reference.

I make this assertion following a review of the transcripts of the Committee's hearings on 13 June, 4 July and 11 July. At those hearings evidence as given by nine witnesses – selected by the Committee from the 97 submissions received.

Relevant Questions

My belief is that it is necessary to ask four questions in order to determine if the new rating methodology is sound. These are:

1. Does the general rating formula that applies to single dwelling residences meet the tax principles of efficiency, equity and simplicity?
2. If the general rating formula applied to single dwellings meets the tax principles of efficiency, equity and simplicity, why is the same formula not appropriate for multi-unit complexes?
3. Is the rating formula applied to multi-unit complexes since 1 July 2017 legally sound?
4. How could the rating formula be amended to meet the principles of efficiency, equity and simplicity?

Consideration of hearing evidence

The terms of reference of the Inquiry is directed at the 'methodology used to determine rates and land tax for unit-titled residences' with reference to a petition from the OCN.

Unfortunately, the critical issue – the methodology to determine the general rate for residences - has not been addressed from first principles in the Committee's consideration of oral evidence.

With the exception of evidence provided by Messrs Mann and Quinlan, the Committee's focus has been on peripheral matters.

It appears to me that at no stage has the Committee asked or satisfied itself that the current system for rating residences in the ACT is working effectively in terms of the objectives of efficiency, equity and simplicity.

It maybe that there is a general consensus in the Committee that the system is meeting these tax principles for single dwellings. As I noted in my submission, No. 25, that was the position reached by the Quinlan Review. Nonetheless, it may be appropriate to ask if these principles are still met in the circumstance where the general rate is required to raise additional revenue to offset revenue foregone from the phased removal of some stamp duties.

If the current rating system for single dwellings is working appropriately for those dwellings, why is not appropriate for multi-unit complexes? To date the Committee does not appear to have explicitly addressed this issue.

The reason why the old formula was viewed as not appropriate for units appears to come from the observation that 'units pay less in rates than single dwellings'. While this claim has been repeated by Committee members it is not correct.

Unit owners pay the same fixed charge as single dwellings. Prior to 1 July 2017 they paid the valuation charge on the same basis as all other residential property owners. Just as the valuation-based charge was not the same for all single dwelling owners it was not the same for individual unit owners. The valuation charge levied depends upon the unimproved land value of the block, or a unit owner's land entitlement.

In my submission I demonstrated that the valuation charge for unit owners in my complex was five times as much as that paid by neighbouring single blocks when measured on the basis of the general rate payable per square of land. (Submission 25 page 3)

The consideration of the equity the general rate for units vis-à-vis single dwellings has been confused by reference to the market values of properties. Market values are not relevant to the determination of the general rate.

If there is a concern that some households owning units with a high market value are paying less in general rates than persons in single dwellings which have a lower market value, then there are options to address that without creating other inequities.

This situation does not mean that the rating formula has failed. What it means, however, is that the Government has identified a group in the community which it believes has a capacity to make a greater contribution to Government revenues.

If the policy objective is to raise more revenue from unit owners what does this mean for the rating formula? First, the consistent treatment of units and single dwellings will not achieve the objective. Second, setting the valuation charge solely on the basis of unimproved land value will need to be modified.

The Committee did briefly explore the change to the rating formula with Mr Manns. The Committee also asked the Dunnetts whether 'the change to the formula maybe illegal'. Unfortunately, this was not explored further. In any event, the Dunnetts are not able to offer legal advice. The Committee should seek advice on this from the Government Solicitor. Mr Manns and I did touch on this in our submissions. Essentially, is it right at law to levy a tax based on the value of an asset which the taxpayer does not own?

[Where to from here?](#)

The tenor of the Committee's questions and comments leads me to the view that Committee members see merit in raising more revenue from unit owners.

My view is that a policy objective of raising more revenue from residential units can be achieved without distorting the general rating formula.

In my submission I noted that a new tax could be imposed on the body corporate of a strata plan which would raise an identical amount of revenue to that achieved by the measure introduced in the

2016 Budget. This approach, however, would be transparent as it would separately record the revenue gained from the new tax rather than washing it through revenue received from residential property owners' general rates.

The basic problem with a policy of raising more revenue from residential unit owners is that there is no benchmark to judge how much additional revenue should be extracted from unit owners.

The 2016 Budget rating formula for units, unlike the formula for single dwellings, does not treat all unit owners equally. A unit owner's valuation charge will not only depend on the unimproved land value of the complex, it will also depend on the number of units in the complex. This means that units which have similar market values will not necessarily pay the same general rate as other units with similar market values in other unit complexes.

Another alternative (not canvassed in my first submission) would be to retain the traditional formula for rating units but also to impose a percentage surcharge to the valuation-based charge. The percentage could be set on the basis of some relativity between the valuation charge of a 'benchmark' single residence and the valuation charge of a 'benchmark' unit. These benchmarks could be location or suburb based. An approach developed along these lines would overcome the distortion resulting from unit complexes not having the same number of units.

Conclusion

I encourage the Committee to adopt a principles-based approach to assessing the merits of the general rating formula. Second, if the Committee considers that there is a sound policy reason for raising more revenue from owners of residential units then I encourage the Committee to commission more work from Treasury on a suite of options to achieve that objective.

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