# LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS
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## Inquiry into commercial rates

### Submission cover sheet

Submission No: 051

Submitted by: Capital Property Group

On: 13 February 2019

Authorised for publication: 27 February 2019

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13 February 2019

Standing Committee for Public Accounts
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Via email: ola@parliament.act.gov.au

Dear Committee

**ACT Legislative Assembly Commercial Rates Inquiry Submission**

Capital Property Group (CPG) is a significant landowner and long-term investor in Canberra of over 40-years with our total investment, in two current projects alone amounting to over $600m. CPG owns and is investing in the mixed-use development known as 'Constitution Place' on the corner of London Circuit and Constitution Avenue (Block 35 Section 100) as well as the Denman Prospect residential development in Molonglo Valley in addition to Canberra Airport.

CPG welcomes the inquiry into commercial rates announced by the ACT Legislative Assembly. Since the ACT Taxation review in 2012 and the subsequent changes to the ACT taxation system that followed, the shift of taxation burden to ACT rate payers and specifically commercial property owners has become significant. The current level of commercial rates levied and the lack of uncertainty around where commercial rates will finish after a 20-year time period indicated in the restructuring is of great concern.

The current taxation reforms have resulted in:

- Commercial rates being approximately nine times what residential rates are (residential rates are 0.57% compared to 5.1675% for commercial);
- Commercial rates levied at 5.1675% (this goes up to 6.156% when the Fire and Emergency Services Levy (FESL) and City Centre Marketing and Improvement Levy (CCMIL)) is added) on Average Unimproved Value (AUV) is akin to paying stamp duty on the unimproved land value every year, or put differently is the same as repaying for the site in less than 20 years;
- Commercial rates have gone up close to 200% when compared to 2012 levels (5.167% compared to 2.361%);

- Stamp duty has only changed materially for commercial property sold at $1.5m or under with no significant stamp duty relief for the balance of the commercial property market since the reform started (despite the 200% increase in rates as mentioned); and

- Referring to the 2017-2018 Budget Paper[1], the revenue raised from commercial rates will go from $172m in 2017-2018 to $214m in 2020-21 an increase of 7.5% per annum or 24% in 3 years. Whereas stamp duty raised on commercial property will only decrease from $74m in 2017-2018 to $71m in 2020-21, a small $3m or 4% decrease out of line with the increases in rates.

A key pillar of the 2012 Taxation review was that the *'program will not increase the overall tax burden on the ACT community, with only the foregone revenues resulting from the abolition of inefficient taxes being replaced through the efficient and equitable rates system'*[2]. The operative words in this statement is that the transition 'will not increase the overall tax burden' and will be 'equitable'.

Given the rate of commercial rates has increased over 200%, there has been no material reduction in stamp duty for commercial property over $1.5m and there is no clarity on where commercial rates will finish after the 20-year transition period. We ask the Committee to consider if this is equitable.

CPG and its affiliated companies are a family-owned organisation with a 40-year track record of investing in Canberra, we are long-term investors in Canberra passionate about seeing it grow and prosper. Unlike residential properties that turn over around about every 8-9 years, commercial property owners such as CPG have long-term investment horizons typically over 20-50 years and beyond. This taxation policy in effect is a tax on long term investment and supports short-term speculation as if commercial property is not traded owners get no benefit from a lower stamp duty rate. Worse still there is inherent inequity in purchasing property prior to any stamp duty relief then having to pay an ever increasing level of commercial rates, often increasing at around 10% per annum with no certainty on the escalating change in rates over time.

We request that the Committee review the suitability of this policy for long-term investment in Canberra and its equity, we also note that the ACT transitioning to a property tax system that is very different from the rest of Australia is risky and has the potential to disadvantage the ACT as an investment destination.

As an example, the council rates payable for commercial property in the City of Sydney is 1% on the unimproved land value and land tax is 1.6% above a threshold. Even without considering the threshold this is 2.6% of the unimproved land value, with stamp duty in NSW above the threshold of $1m at 5.5%. In the ACT, rates & taxes including the FESL & CCMIL are at 6.156%, more than twice that of Sydney, and owners who buy property for more than $1.5m still have to pay stamp duty of 5%! This is significantly out of step with other investment jurisdictions and will start to have consequences for the investment market in the ACT.

It is relevant to note that whether or not the higher rates are absorbed by landlords, hence creating lower net rents and lower property values or are passed onto tenants, this policy results

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[1] ACT Government 2017-2018 Budget Paper No.2, table 6.2.1, page 223

[2] www.revenue.act.gov.au/tax-reform

in the ACT being less competitive. It will be less competitive for new capital versus other jurisdictions and it will affect the competitiveness of ACT businesses that will be burdened with these ongoing costs, lead to a lower level of economic growth and ultimately less employment. We are now seeing evidence of multi-national private firms outsourcing their operations to Adelaide and Brisbane because the cost of doing business in the ACT is out of step with the balance of Australia.

The ACT taxation system unlike other state jurisdictions does not allow mixed-use developments when not unit titled, to be rated proportionally accordioning to their use. If a mixed-use development that is predominantly residential and has say a café on the ground floor, this results in the asset being wholly levied as commercial at 3.5 times the rates as if it were residential (this includes land tax and without land tax it is approximately 9 times more). This is illogical, lacks equity and should be amended by the ACT Government.

In summary, we recommend the Committee consider the following:

1. The level of increases in commercial rates is now at an unsustainable level, at considerable multiples to residential rates without an equitable reduction in stamp duty to offset it. Furthermore, there is no transparency or certainty of where commercial rates will end over the mooted transition timeframe;

2. Commercial property investment is typically a long-term investment that does not benefit from significant tax advantages with a reduction in transaction costs (stamp duty). Accordingly, this is a shift in taxation burden to long term commercial property ownership via rates will inequitably erode investment values and will affect long term investment in the ACT out of step with balance of the property taxation system in Australia; and

3. The rating system should account for mixed-use developments and assets.

We are of the opinion that the policy as rolled out lacks equity, lacks certainty and transparency and should be stopped immediately. We call for the ACT Government to move and commit to statutory rates (including rates, land tax, FESL, & CCMIL) as a percentage of AUV of no more that 4%. This will provide the required certainty to the investment and business community.

We also are of the strong view that the real underlying issue is the overall level of Government spending, which is causing the massive increase in rates in the ACT. Any review of the structure of rates within the ACT is meaningless without a significant reduction in the total amount the Government seeks to recover from rate payers.

We look forward to the opportunity to present at the hearings.

Yours sincerely

Stephen Carson
Chief Financial Officer