LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Vicki Dunne MLA (Chair), Tara Cheyne MLA (Deputy Chair)
Nicole Lawder MLA, Bec Cody MLA

Inquiry into commercial rates

Submission cover sheet

Submission No: 052

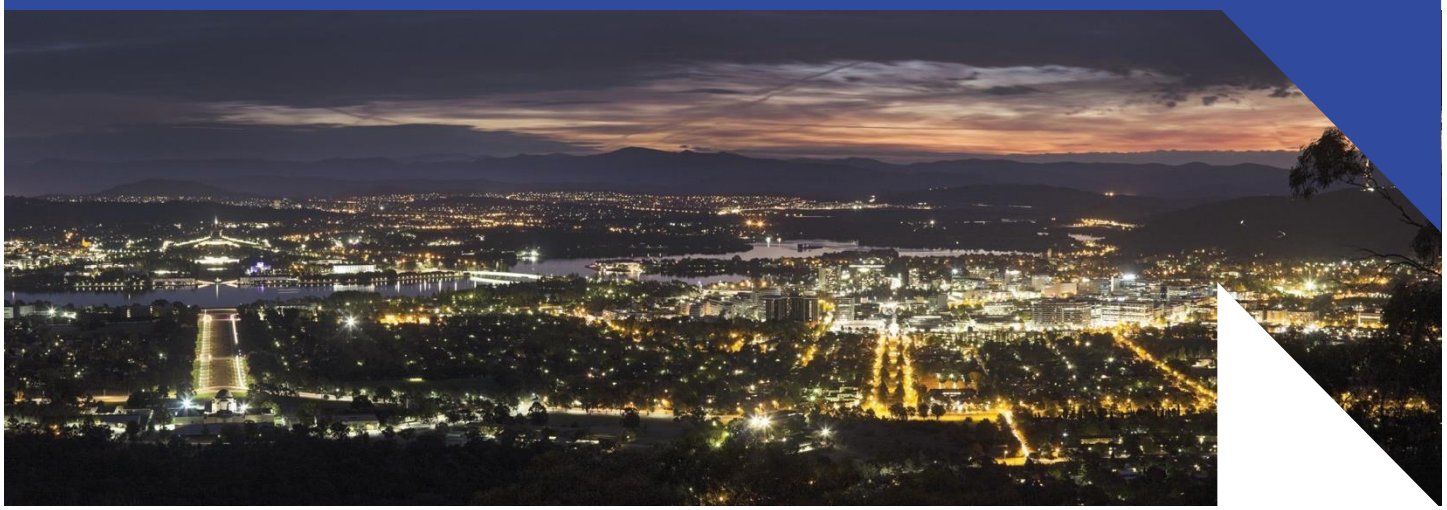
Submitted by: Master Builders Association of the ACT

On: 14 February 2019

Authorised for publication: 27 February 2019

MASTER BUILDERS
AUSTRALIAN CAPITAL TERRITORY

SUBMISSION TO INQUIRY INTO COMMERCIAL RATES



14 FEBRUARY 2019

MBA Office
1 Iron Knob Street, Fyshwick

Background

Thank you for allowing Master Builders Association of the ACT (**Master Builders**) the opportunity to make a submission to the Committee on Commercial rates.

Representing around 1,200 commercial and residential builders, civil contractors, suppliers, subcontractors, professionals and students, commercial rates have a significant impact, both directly and indirectly, on the building and construction industry.

The level of commercial rates, in combination with all ACT government taxes and charges, directly impacts the cost of construction and the cost of running a construction business, especially for those construction businesses such as suppliers, subcontractors and civil contractors that require large storage or manufacturing yards.

The level of taxation, the stability of the tax regimes, and its transparency also has a significant impact on the ACT's attractiveness as a place to invest. The local building and construction industry relies heavily on investment as a key driver for economic growth and job creation.

While Master Builders recognises the objectives of the ACT's long-term taxation reform process, the way the reforms have been implemented has negatively impacted on our sector and the ACT economy. While there are some "winners" from the reform process, including those acquiring new property and paying lower stamp duty, there are many more "losers", particularly many businesses who owned or leased property prior to the tax reform introduction and have subsequently incurred the burden of commercial rate increases.

Summary

- Master Builders initially supported the ACT's tax reform agenda announced in 2012; however, its implementation has caused impacts which were not envisaged or disclosed to local businesses when the reforms where first announced.
- Greater safeguards are recommended to protect property owners from the sharp increases in commercial rates. This includes but is not limited to the establishment of a taskforce with representatives from both government and industry to undertake a review of the commercial rate settings and current tax reform process. Rates ought to be frozen whilst this taskforce undertakes the review to provide existing property owners with certainty.
- Greater transparency and certainty of the tax reform implementation, and the taxation calculations, is recommended. There is currently no visibility for property owners as to the amount of rates likely to be charged at the conclusion of the ACT long-term taxation reform process.

History of Reforms and Initial Objectives

The tax reforms were announced by Treasurer Andrew Barr in the 2012/13 budget papers after a review of the ACT's tax system led by former Treasurer Ted Quinlan.

In June 2012, Mr Barr said:

> *In this Budget the Government is starting a long-term reform of the Territory's taxation system, to make taxes fairer, simpler and more efficient.*
>
> *The taxation reform plan is broadly revenue neutral – it's not about raising the overall amount of tax the Government receives.*
>
> *The Budget signals the confidence we have in our economy and our labour force. It helps create the right conditions for the private sector to grow, innovate and create jobs*.[i]

Since the commencement of the tax reform process, the ACT economy has grown substantially, with strong growth in the private sector. Since December 2012, 13,700 jobs have been created[ii].

However, there have been a number of factors contributing to this growth including sustained above average population growth, Federal and Territory investment in infrastructure, the targeted economic development initiatives of the ACT Government, the introduction of international flights at the Canberra airport, and strong growth in Australia's economy.

Following the budget announcement, Mr Quinlan said [the taxation review report] "does not say that rates will triple."[iii] Unfortunately, rates have more than tripled since the tax reform process was initiated by the ACT Government in 2012 and continue to rise. Examples of the dramatic increase are outlined below.

In addition to increases in commercial rates a number of other increases in taxes, charges and fees have increased, or subsidies removed or reduced, including:

- Increases in Lease Variation Charges including a 500% increase for certain residential leases
- Reduction and announced ultimate removal of the First Home Buyer Grant
- The introduction of a capital contributions charge by Icon Water
- An increase in the Building Levy
- Increases in development application fees
- Increases in the fire and emergency services levy and the lifetime care levy

The ACT can now be described as a high cost city to invest and live. Recently the ACT has been reported as having the highest residential weekly house rents in Australia[iv] and the most expensive city to rent[v], and whilst vacancy rates in commercial premises in the CBD may be falling[vi], vacancy rates in industrial premises in outer suburbs such as Mitchell, Hume, Phillip and Fyshwick remain unsustainably high for property owners. Further, the lack of transparency in the calculation of commercial rates, now that the rates incorporate a component of land tax, is stifling growth and investment.

Feedback directly from Master Builders members indicates the level of commercial rates, and other government charges is unaffordable, unsustainable, and is causing local businesses to consider their options to lessen the impacts of commercial rates, including moving to nearby locations in New South Wales, downsizing their premises, delaying investment and expansion plans, and where possible, renegotiating their lease.

Several members have provided feedback that it is not only difficult to attract tenants to commercial premises in the ACT due to lower rents across the border in New South Wales, but that when tenants do lease premises they are highly unlikely to agree to pay for outgoings that include any component of commercial rates. This is for a number of reasons, namely that tenants are not required to pay exorbitant rates if renting a premises in nearby New South Wales, and secondly, there is no certainty or quantification surrounding the amount of rates they may be liable to pay if they agreed to have this included in the outgoings.

A number of case studies are outlined below, highlighting two key issues with the commercial rates imposed on property owners and the need for immediate reform.

Case Studies

Master Builders members have raised the following scenarios:

- A civil contractor based in Fyshwick owns premises that has an Average Unimproved Value of $748,000. In their most recent Rates Assessment Notice, they were required to pay $41,655.73. In comparison, a civil contractor based in Queanbeyan, owns premises that have a Rateable Land Value of $1,530,000 and they are required to pay $18,115.17 per annum. It is not sustainable for contractors to pay almost triple the amount of rates, noting that the value of the land in Fyshwick is half the value of the land in Queanbeyan, making the comparison closer to six times, which is even more grim. It is significantly more affordable to own and maintain commercial premises in New South Wales.
- The increase in commercial rates since 2012 has been disproportionate to the increase in land value and is entirely disproportionate to CPI increases. In 2014, a subcontractor situated in Hume was required to pay $175,979.58 per annum pursuant to their Rates Assessment Notices. The most recent Rates Assessment was for a total of $223,166.09 per annum, an increase of $47,186.51 (27%) in just four years. The subcontractor has suffered this increase despite no comparative increase in the value of their property, nor any decrease in other taxes or charges in relation to this property. As the subcontractor has been the owner of the property for many years, they were not privy to the reduction in stamp duty. If commercial rates continue to increase at this rate as part of the twenty-year review program, it will simply make owning commercial property in the ACT unsustainable and unviable.

Recommendations

Master Builders recommends that a joint taskforce be established, with representatives from both government and industry, to review the commercial rates in the ACT with regard to increasing transparency and certainty for property owners.

The mandate of the taskforce should be as follows:

- The taskforce members should consist of government, members of the business community and the property industry;
- The primary goal of the taskforce should be determining the effectiveness of the commercial ratings system and its impact on the businesses, the property sector and the economy in the ACT;
- The taskforce should consider the need for transparency and certainty in the application of commercial rates and charges;
- Specific issues for consideration by the taskforce are:
    - The reason for the significant increase in unimproved rate values applied to commercial and industrial properties, without substantiating evidence;
    - The impact of these significant rate increases on the 3 year rolling averages;
    - A fair and equitable approach to the application on a time limit of recovery of rates; and
    - The dramatic increase in rates across the ACT and the resulting impact on capital values.

Whilst the taskforce is considering the above issues, it is imperative that there be no further rises or amendments to existing commercial and residential rates in the ACT.

---

[i] https://apps.treasury.act.gov.au/budget/budget_2012-13

[ii] ABS, December 2018, 6202.0 Labour Force, Table 16. Labour force status by Labour market region.

[iii] Canberra Times, 11 October 2012, "Quinlan: Tax reform won't mean rates slug", https://www.canberratimes.com.au/national/act/quinlan-tax-reform-wont-mean-rates-slug-20121010-27du6.html

[iv] All Homes, 9 January 2019, "Canberra rental prices are now the highest of all the capital cities for houses", https://www.allhomes.com.au/news/why-canberra-is-now-the-most-expensive-capital-city-to-rent-a-home-793387/

[v] Financial Review, 10 January 2019, "Canberra overtakes Sydney as most expensive rental city: Domain Group", https://www.afr.com/real-estate/canberra-overtakes-sydney-as-most-expensive-rental-city-domain-group-20190103-h19or2

[vi]