



AUSTRALIAN
CAPITAL TERRITORY

**LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL
TERRITORY**

**GOVERNMENT RESPONSE TO THE
STANDING COMMITTEE ON PUBLIC ACCOUNTS**

REPORT NO. 5

**INQUIRY INTO THE
RATES AND LAND TAX AMENDMENT BILL 2003**

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Treasurer
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INTRODUCTION

The Standing Committee on Public Accounts tabled its report (Report No.5) on the Inquiry into the Rates and Land Tax Amendment Bill 2003 on Tuesday 17 June 2003.

The Committee made four recommendations. The Government has responded to all the recommendations.

RESPONSE TO COMMITTEE COMMENTS

The Standing Committee on Public Accounts conducted an inquiry into the *Rates and Land Tax Amendment Bill 2003* and tabled their report in the Assembly on 17 June.

There are a number of aspects of the report that are flawed and are addressed as follows:

1. The report states that the proposed system could have an adverse economic effect on already economically disadvantaged groups, yet provides no evidence to support this statement. Under the proposed rates system pensioners will continue to receive their current benefits and low income earners will be better off in the sense that they will have certainty in their rates bills and will no longer be subject to the wild fluctuations that occurred as a result of AUV movements under the previous system.

Under the proposed system, existing concessions and rebates continue. In addition, the categories of people eligible for concession will be extended to those who need to move for retirement, health or disability reasons, or where the Commissioner for ACT Revenue is satisfied that the move is for "compelling compassionate" reasons. These concessions were agreed to by the Government in response to concerns raised by the committee. However they do not appear to have been taken into account in the commentary of the report.

It should also be noted that there are currently 167 deferments in place for pensioners and other owners suffering substantial financial hardship. This

scheme is publicised in the pamphlets issued with the rates assessments every year to all ratepayers and is offered to owners who contact the Revenue Office seeking assistance with their rates arrears. The deferment scheme has been in place for many years and applied under the previous government's rating system. It will continue to operate under the new rating system.

2. The Committee appears to have misunderstood the intent of the proposed system in relation to AUV's. The report states that *AUV's will be calculated on a different basis for "long-term" and "new" homeowners*. This is incorrect and illogical. It should be further noted that the new rating system will apply equally to all classes of land, not just "homes".

The AUV is calculated on the same basis for all properties, regardless of their ownership status, that is the rolling three-year basis of valuations which are independently assessed on an annual basis. The difference between "long-term" and "new" owners is that the current AUV will not be used to calculate the rates charge for "long-term" owners. This will simply be based on the previous year's charge plus an adjustment for CPI. Only rates charges for "new" owners will take the updated AUV into account. In effect, the impact of AUV changes on existing owners will be deferred until the property is sold, and used to calculate the rates for new owners.

3. The report asserts that *"long-term" homeowners will be disadvantaged if AUV falls*. This is not correct. As previously announced, the Government's intention is and always has been to modify the rating factor applied to "new" owners to moderate the movements in these charges. This amendment will also ensure that rates for "new" owners cannot be less than rates for "long-term" owners. The minimum increase for "new" owners will be a CPI increase on the last rates levy applied to that parcel of land. This is in line with the previous rating system where the average increase in rates charges was CPI, but there were greater fluctuations as a result of AUV movements.

4. The report states that the Committee examined rating systems and concessions within other jurisdiction with a similar demography to the ACT. Unfortunately, the paper provides no analysis of these systems against our own.

If this analysis had been provided, it would have demonstrated that the Pensioner concessions available in the ACT are already very competitive with compared to other municipalities. This fact also does not appear to have been considered in the submissions made to the PAC committee.

The ACT concession cap of \$250 is the most generous of all jurisdictions that impose a state-wide concession on rates (Vic, WA, SA and NT). Also, there is no concession cap applied to people in the ACT who were pensioners prior to 1 July 1997, with this group receiving a full 50% rebate on their rates which will be transferable if they move home.

5. Another area of concern to the Government is that the report advocates the use of a *rating system based on improved value*, and asserts that it would be more closely linked to a person's income. However there is no evidence that this system is better than what is proposed, taking into account other factors, such as costs of valuations and administration, compliance costs, possible increased objection levels, disincentives for people to renovate or to optimise land use. While there are a few councils using the Improved Value system, by far the majority of councils use the unimproved value system due to its inherent superior features.

RESPONSE TO RECOMMENDATIONS

i. The Legislative Assembly should not pass the Rates and Land Tax Amendment Bill 2003:

Government Response:

The Government disagrees with this recommendation.

The default rates model is the cause of uncertainty and disparity amongst residents in the ACT. The Government's proposal alleviates both these problems for all residents by way of a CPI increase.

The default rates system is complex, and the allocation of rates to properties and suburbs requires thoughtful analysis. The Government has determined reforms that will redress the uncertainty and disparity for ratepayers. In contrast, the Committee has not made a judgment as to the necessity of these reforms.

Evidently inequities in the default system did not sway the Committee to seriously examine what has been proposed.

For example: A fundamental premise in the default rates model is that it drives rates that mirror the effect of the property market.

However in practice the method of assigning rates across Canberra suburbs works against this principle. This is especially true for suburbs happening to be at the lesser or greater end of the market experience.

Essentially distribution under the default rates model is a lottery. Exaggerating rates paid in suburbs at the highest demand, to the benefit of those at the lower end of the property boom who may not necessarily be poorly off in an upward trending market.

This has been the experience under the default rates model that despite increases in property value, some suburbs have experienced decreases in rates. This decrease comes at the cost of suburbs in higher demand.

Picture this skewed distribution in a falling property market. Rates would rise the highest in suburbs where property values fall the least. Rates would decrease for those properties where property values fall the greatest.

Hence the key purported benefit to the previous system, that rates revenue is closely linked with wealth accumulation, is neither true nor equitable in all circumstances.

Instead of attending to this experience on residents under the default rates model, the Committee has preferred to focus itself with two popular notions:

1. A perception of inequity in a differential rating scheme,
2. Speculation that new rates may dampen economic activity.

The Committee devoted more attention to these notions than was warranted. Neither argument features prominently as a persuasive basis in determining economic behaviour.

ii. In consultation with the Community, further evaluative work be undertaken to develop an alternative rating system or improve the current rating system to address the concerns raised in submissions and evidence taken through this inquiry:

Government Response:

The Government is disappointed with this recommendation as the Committee has not considered the effectiveness of the Government's reforms in addressing the inequities under the default rates model. Further many of the comments made in submissions appear to have been taken on face value, and no supporting evidence has been provided.

A number of the concerns raised have since been addressed by the Government through the proposed amendments to this Bill. In particular, the ability to amend the rating factor to moderate increases in rates charges to "new" owners will ensure that rates charges will not increase excessively and that "new" owners rates will not pay less than long-term owners of a property with the same AUV.

The Government has undertaken significant development work to put forwards an alternative system as proposed, and does not believe the Committee report provides sufficient basis to reject the Government proposal.

iii. The evaluative work undertaken (as recommended in (ii) above), include consideration of concessions, waivers and deferrals available in other jurisdictions; and

iv. upon completion of the evaluative work undertaken, that this work be presented to the Legislative Assembly for consideration:

Government Response:

As a matter of course, the Government regularly reviews concessions, waivers and deferrals provided, not only to ratepayers but also to other taxpayers. However, Government disagrees with this recommendation in line with recommendation (ii) and notes that the report makes no reference to the fact that the Government has already agreed to extend the concessions available to people in order to address the impact of the proposed system on the economically disadvantaged. Furthermore, the report again fails to recognise that the ACT already has a very generous concession scheme when compared to other municipalities in Australia.