28 February 2018

Department of Treasury and Finance
Revenue Discussion Paper
GPO Box 154
DARWIN NT 0801

By email: RevenuePaper.dtf@nt.gov.au

RE: NORTHERN TERRITORY REVENUE DISCUSSION PAPER

NT Shelter is the Northern Territory's peak body for affordable housing and homelessness. Our members are specialist homelessness services organisations, community housing providers and other stakeholders engaged with the provision of appropriate and affordable housing for all Territorians.

We welcome this opportunity to provide our views on options for the Northern Territory Government to improve its own-source revenue base and future proof the Government's capacity to deliver the services necessary for all Territorians.

Context

At a rate of 15 times the national average, the level of homelessness across the NT remains utterly unacceptable. The provision of safe, appropriate and affordable housing for all Territorians remains elusive for many and at the current rate of funding (Commonwealth and Territory combined) will remain so for a long time to come. The challenges in front of the Northern Territory Government in addressing housing disadvantage are enormous and widespread. Significant, ongoing and increased investment will be necessary in respect of:

(a) Capital works for social housing and remote housing (land servicing, housing related infrastructure, new home builds, house modifications)

(b) Maintenance of existing assets – including challenges with run-down and damaged stock

(c) Maintenance, upgrades and new builds for suitable facilities for those who are homeless or at risk of homelessness (e.g. crisis accommodation shelters, transitional housing, supported accommodation, youth foyers etc.)

(d) Funding for specialist homelessness service providers to meet growing demand

These funding needs will apply across all geographies and demographics including remote housing, town camps, regional communities and urban areas.

There are a considerable number of initiatives under development including an urban community housing strategy, $1.1 billion remote housing program, 5-year homelessness strategy, social housing head leasing initiatives and stock transfers. In addition, there are a range of other NTG initiatives that will require a housing response such as the implementation of recommendations from the Royal Commission into Youth Detention, the Domestic, Family and Sexual Violence Framework and others.

The current level of overall funding for specialist homelessness services is inadequate and is not meeting demand. Indeed, the demand for specialist homelessness services increased by 13% in the previous year, significantly higher than the national increase of 3%[i]. The level of unmet demand is unacceptably high. It is far higher than other states and territories at 45.3% of total clients compared to 23% nationally[ii].

In its recent report to the Commonwealth Government in respect of remote housing, the expert panel noted that of the 5,500 additional homes needed by 2028 to reduce overcrowding in remote Australian communities, over half of these were in the NT:

> "the jurisdiction with the lowest capacity to meet this pressure[iii]."

In terms of homelessness services, our Pre-Budget Submission to the NT Government, we have highlighted the need for NTG to increase the level of funding for specialist homelessness services beyond its current level of $22.6 million.

Funding from the Australian Government

We appreciate that the focus of the Discussion Paper is to give consideration to own-source revenue.

Nevertheless, it is important to note that any reduction in Commonwealth funding to the States and Territories will have profound implications for the capacity of the NT Government to provide services. This is particularly acute given the extent to which the NT relies on Commonwealth payments.

We therefore need to emphasise two key points:

(i) There are threats to the amount of funding that the NT Government will receive under Specific Purpose Payments and Partnership Agreements in relation to housing and homelessness funding (NHHA and NPARH);

(ii) The NT Government needs to press for a greater share of funding from the Commonwealth based on need, and not on a *per capita* basis.

The Commonwealth Government is currently in negotiations with the States and Territories in relation to a new National Housing and Homelessness Agreement (NHHA).

Under the current National Affordable Housing Agreement (NAHA) Specific Purpose Payment and the National Partnership Agreement on Homelessness (NPAH), the Northern Territory received $18.8 million for the 2015-16 year. This represents just 1.3% of total Commonwealth funding of $1.439 billion.

With the demand for specialist homelessness services more than twice, and in most cases three times, that of other states and territories on a per capita basis, an $18.8 million allocation from a $1.4 billion national fund, given the affordable housing and homelessness challenges across the Northern Territory, is overwhelmingly inadequate and inequitable.

We maintain that the Northern Territory needs to receive a level of funding from the Commonwealth commensurate with need.

We take this opportunity to again urge the NT Government to press for a more reasonable allocation in current NHHA negotiations.

The current National Partnership on Remote Housing (NPARH) ends on 30 June 2018 and the prospect of future Commonwealth funding remains uncertain. At stake is the prospect of the matching funding of $1.1 Billion over 10 years from the Commonwealth for remote housing and the potential matching of $500 million in housing related infrastructure spend. Needless to say, it is essential that an agreement with the Commonwealth to sure up this matched funding is finalised.

Expenditure on Social Services must not be cut

We anticipate calls from some quarters to cut NT Government expenditure on services as an alternative to the implementation of tax and royalties reform measures, especially where new proposed revenue raising measures are not in the interests of particular industry groups.

It is important that all potential impacts on the NT economy, including effects on business competitiveness, employment and investment, are fully modelled and understood prior to any decision to implement reform measures. NT Shelter does not have the capacity to model many of these impacts.

Cutting social services is not a viable option. As outlined above in relation to homelessness alone, current funded services cannot meet demand. We strongly support the position advanced by NTCOSS and others that cutting social and community services is not the way to achieve budget sustainability. Social and community services, including services for homeless persons and those at risk of homelessness, are vital for the economic and social development of the NT.

We further argue that cuts to social services would lead to increased disadvantage across the community, including higher levels of domestic and family violence, ineffective measures to improve early childhood development, increased homelessness and vulnerability, increased community dysfunction and decreased wellbeing generally. The Government would have no prospects of successfully implementing its social reform and housing agenda. For Aboriginal Territorians in particular, the result would be a “widening of the gap” between Aboriginal and non-Aboriginal Australians rather than closing the gap.

Property Tax Reform

NT Shelter considers there to be scope to introduce reform in this area and, in particular, a transition from conveyance duty to a broad-based, annual property tax.

Should the Government decide not to proceed with property tax reform (i.e. transition away from conveyance duty to a broad-based land tax), we would not support a reduction of stamp duty rates in the absence of offsetting reform measures which ensure that overall own-source revenue is not reduced. The Territory can ill afford to see a net reduction in own-source revenue.

In a similar vein, we do not support abolition of stamp duty on non-land business assets such as goodwill and licences or broader exemptions for corporate reconstructions in the absence of other compensatory reform measures.

Our support for reform through annual property taxes is subject to appropriate discounts or exemptions applying to low income earners, the use of land for charitable purposes and not-for-profit community housing, and strategies for minimising adverse impacts for Aboriginal owned or controlled land.

Conveyance Duty (Stamp Duty)

Q7.1 Are the current broad policy settings for conveyance stamp duties, focused on relatively high rates with concessions to assist home buyers, appropriate?

The Henry Review, Productivity Commission and others have recommended that the array of stamp duties on conveyance be abolished and replaced by a broad-based land tax, levied according to a progressive rate structure applied to individual land values per hectare[iv].

In the ACT, stamp duty was considered "the least efficient tax" as it imposed a burden of 43 cents in compliance, administration, and economic efficiency costs for every dollar of tax collected[v]. We suspect the situation in the NT would not be materially different in these respects.

Stamp duty affects housing affordability as buying a home is more expensive by the addition of the duty. The Australian Housing and Urban Research Institute (AHURI) has also outlined the impacts that stamp duties can have on the inefficient allocation of housing by constraining a household's capacity to move. This can arise in situations where householders would otherwise downsize or relocate for employment purposes etc.[vi]

NT Shelter has the following concerns with the continued operation of the current stamp duty regime:

(i) Stamp duty receipts are lumpy, difficult to forecast and thereby not a predictable form of revenue for NT Government, as noted in the Discussion Paper. This provides challenges for certainty around the quantum of funding available year-on-year for programs and services;

(ii) With conveyance duties in 2016-17 amounting to 14% of own-source revenue, the NT Government's total revenue is vulnerable in the event of a collapse in property prices (of course the corollary is also true and the ACT as well as a number of States have experienced revenue windfalls through soaring property prices).

(iii) Stamp duty rates in the NT are high in comparison to other jurisdictions and place a significant, added cost burden and mobility barrier for low to moderate income earners who would otherwise move to housing more appropriate to their circumstances e.g. empty nesters, older householders, downsizing for health and family related matters;

(iv) To provide greater opportunity for first home buyers to enter the market and offset some of the impact on seniors and carers, the current range of duty-relief exemptions and concessions results in forgone revenue of $24.1 million, almost one quarter of total receipts in 2016-17.

Q7.2 Should adjustments be made to the conveyance stamp duty rates or thresholds?

Increasing current dutiable rates to secure additional own-source revenue is probably not a sensible policy option given the current high rates in comparison with other states. Additionally, there would be a further exacerbation of the impacts on low to moderate income earners and, consequently, distortions in the efficient allocation of appropriate housing to householder needs.

An alternative measure, potentially operating as an interim measure in a transition to a broad based, recurrent land tax (see below) could be a redesign of the stamp duty system to achieve broader social and economic policy objectives. One such example is the introduction of a flat rate of duty to apply above a threshold property value (e.g. $400,000) which has the effects of:

(i) Exempting low value residential property transactions from stamp duty, and thereby benefitting lower income earners
(ii) Placing a greater tax incidence of conveyance duties to investors and those purchasing higher value properties
(iii) Dampening demand for investment properties due to higher transaction costs and increasing home ownership rates

Eccleston and others[vii] have outlined how such an approach could potentially operate. Provided the overall own-source revenue potential to the NT was not adversely affected and sensible thresholds for a common dutiable rate could be struck without dampening economic activity, reform in this area could provide a boost to household affordability in the NT for lower value properties.

There are already a number of incentives for first home buyers, principal place of residence rebates, and concessions for seniors, pensioners and carers. Nevertheless, based on Chart 7.1 in the Discussion Paper, a duty-free threshold of $400,000 would amount to a loss of revenue of approximately $7 million. Although much of the transaction volume in the NT is for property values of $400,000 or less, there would still appear to be considerable scope for cost recovery through stamp duty collection on transactions above this threshold (whether that be on high-value transactions and/or on investment property).

We cannot quantify with any certainty the resulting impacts but suggest there would be a greater propensity for householders to more freely move to housing that better suits their demographics (e.g. smaller houses for empty nesters, older residents) or to relocate for employment. This, in turn, would provide greater efficiency in housing allocation and better match supply with demand.

An alternative approach is the progressive winding back of stamp duty rates as part of a progressive transition to a broad-based land tax. For example, current conveyance duties can be cut by a percentage, or abolished, as tax reform unfolds over time. This has been the approach taken in the ACT since 2012. However, instead of applying a percentage reduction across all property value bands, policy priority in the first instance can be given to the abolition of duties on less valuable property as outlined above.

Recurrent, Broad-based Land Tax

Q7.3 What other improvements to the property tax system could be considered?

NT Shelter is broadly supportive of further investigations into how the NT Government might transition to a broad-based, recurrent tax on the unimproved value of land. This would most likely be in the form of a progressive tax on each land plot according to land values per square metre. This is consistent with the recommendations of the Henry Review and broad support elsewhere.

Lessons from the ACT tax review in 2010 and subsequent reforms are instructive. For example, a key consideration of any transition to more efficient taxes is amelioration of the distributional effects of changes for low to moderate income households[viii]. For example, flat rates of land tax (or a significant fixed component of the calculation base) have had a disproportionate impact on low income earners in terms of housing affordability as well as the purported benefits of participating in the housing market. This has reportedly been the case in the ACT in the transition period with relief from the progressive reduction of stamp duty rates offset by higher house prices driving increased duty revenue (and other cost of living factors).

Transitional arrangements therefore need to be carefully considered and managed.

Given the Territory's comparatively precarious situation in respect of own-source revenue, whether the NT Government would implement land tax reforms on the basis revenue neutrality or revenue growth is an important consideration. In other words, should revenue from a broad-based land tax merely compensate for the loss of conveyance (stamp duty) transaction revenue, or should there be a more aggressive approach?

In our view, the primary consideration for own-source tax reform should be safeguarding the Territory's capacity to provide the requisite level of quality social services plus a margin for safety. It will be a matter for the Government to ensure that there is sufficient diversification in own-source revenue to achieve this, and for the Government to model and assess the likely impacts on the range of impacted groups and interests. From our perspective, it will be most important to ensure that the burden of taxes and duties are not borne by those with the least capacity to pay i.e. those on low to moderate incomes and other vulnerable persons across the Territory.

Sufficient Reasons to Explore a Land Tax in Further Detail

We believe that there is sufficient merit in further investigation of the introduction of a broad-based land tax to replace the existing conveyance duties, or at least a portion of them. This is because of the potential for:

(a) Being a far more efficient tax
(b) Providing more certain and ongoing revenues for Government
(c) Declining land values would likely exceed the value of land tax payments and speed up developments in areas where land is relatively expensive, leading to more affordable housing[ix]

However, the potential benefits of introducing an annual tax on land ownership can be offset by tax free thresholds, significant exemptions for certain land uses, aggregation complexities etc. These are all noted in the Discussion Paper.

There are some additional questions and considerations that would need to be taken into account in designing and implementing property tax reform, including:

(a) Transitional arrangements for those who have recently paid stamp duty on the purchase of property;

(b) The effects of introducing a broad-based land tax on property owned under strata title;

(c) For administrative efficiency, economists argue that a land tax would apply to all properties, residential and commercial, whether they are owned as an investment or by an owner occupier. However, appropriate exemptions must apply for low income earners and where property is used for charitable purposes (note: charities with a land tax burden would need to be compensated otherwise they would be able to provide less services for the same amount of funding). There would in all likelihood need to be consideration of exemptions for aboriginal owned and controlled land, an aspect that is outside our area of expertise.

We recognise the attraction of leveraging existing rate-based systems already in place in local government as a vehicle for collection of an annual property tax. However, we do not believe it could fairly and equitably be applied to all ratepayers, without exemptions. This would provide additional, annual costs on low income earners who would struggle to pay additional taxes.

Options would appear to include the following:

(i) Apply a dutiable rate on the unimproved capital value of rateable land above 0.5%, set at a level that raises at least $105 million in annual revenue after allowing for exemptions / concessional relief for charitable groups, not for profit community housing providers, low income earners and others as appropriate;

(ii) That a land tax be applied in conjunction with a reduced stamp duty scheme, provided that the total revenue be no less than current revenue potential.

We also note there could be options with the introduction of a vacancy tax on unoccupied rental properties, but we suspect there would likely be difficulties with monitoring and enforcement. The very limited incidence of foreign-owned residential land and foreign investment in residential property is another consideration in whether a vacancy tax would be worth applying. On the other hand, it might be more beneficial to explore measures to incentivize owners of unoccupied properties to offer their properties up as affordable housing.

In conclusion, at face value there are various reasons why the NT should explore moving away from conveyance duties to a progressive, broad based tax on property. A report by the Australian Housing and Urban Research Institute in November 2017 came to the following conclusion:

"The report concurs with the significant body of research which finds that replacing property-related transfer duties with a broad-based recurrent property tax would contribute to housing policy goals and deliver a range of economic and social dividends.[x]*"*

However, implementation, transition and execution will be tricky. There would need to be widespread communication as well as consideration of the very real impacts for all stakeholders. We are concerned primarily with the needs of our most vulnerable persons and the organisations that support them. We acknowledge there are other stakeholders too.

On balance, we believe there is a sufficient case given the NT's fiscal position and vertical fiscal imbalance to examine all options available to it to improve its own-source revenue. Land tax reform is an area that needs to be part of the picture.

We look forward to working with the Government and all stakeholders on the potential design and application of reforms in respect of property taxes.

Yours faithfully

Peter McMillan
Executive Officer

References

[i] Australian Institute of Health and Welfare (2017), *Specialist Homelessness Services Annual Report 2016-17*
[ii] Productivity Commission, *Report on Government Services 2017*, January 2017
[iii] Commonwealth of Australia (October 2017), *Remote Housing Review: A review of the National Partnership Agreement on Remote Indigenous Housing and the Remote Housing Strategy (2008-2018),* page 2
[iv] Gavin Wood, Rachel Ong and Clinton McMurray, *AHURI Final Report 175: The impacts of the Henry Review recommendations on the private rental market*, September 2011, page 10

[v] J Stanhope and K Ahmed, Sydney Morning Herald, *Has the ACT Government kept its word on historic tax reform*? 8 September 2017

[vi] See for example AHURI

[vii] Richard Eccleston and others, *AHURI Final Report 290: Pathways to State Property Tax Reform*, November 2017

[viii] Stanhope and Ahmed (SMH), op.cit.

[ix] Gavin Wood, Rachel Ong, Melek Cigdem and Elizabeth Taylor, *AHURI Final Report 182: The spatial and distributional impacts of the Henry Review recommendations on stamp duty and land tax*, February 2012

[x] Eccleston op cit. page 3