WESTON CREEK COMMUNITY COUNCIL

- Your Local Voice -

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8 May 2003

Mr Brendan Smyth, MLA
Leader of the Opposition
Chair
Standing Committee on Public Accounts
ACT Legislative Assembly
London Circuit
CANBERRA ACT 2601

Dear Mr Smyth,

Inquiry into the Rates and Land Tax Amendment Bill 2003

The Weston Creek Community Council (WCCC) has been actively involved in Weston Creek as a consultation conduit for the local community since 1991. The WCCC is a non-political, voluntary lobby group representing the residents of Weston Creek and is an informed, active and pragmatic contributor to public debates in Weston Creek. Our website (www.wccc.com.au) has further details about the WCCC.

The WCCC therefore is presenting this submission to the Committee for its consideration and deliberation. The WCCC also respectfully suggests that the Committee considered the WCCC proposal of "Deferred Rates". This proposal is different to that suggested by the current ACT Government and we believe that it would introduce a level of fairness and equity which is not apparent in the current proposal that the Government has before your Committee.

The Executive of the WCCC is available to discuss any of the above, and the attached comments, at a mutually convenient opportunity.

Yours sincerely

(signed)

Jeff Carl
Chairperson, Weston Creek Community Council.

Submission by the Weston Creek Community Council to the ACT Legislative Assembly Standing Committee on Public Accounts for the Inquiry into Rates and Land Tax Amendment Bill 2003

Introduction

1. The Weston Creek Community Council (WCCC) appreciates the opportunity to make a submission to the Standing Committee on Public Accounts on the subject of the proposed new rating scheme for the ACT.

2. The timing of our regular monthly meetings and the consultation period have only enabled us to call for suggestions through our website. However the WCCC has not had the opportunity to raise this issue at its regular public meetings but this will be done at the earliest opportunity. The WCCC will notify the Committee if there are substantial changes to points of view expressed in this submission.

3. The Community Council understands that the ACT Government's proposed changes to the present rating scheme will peg future rate increases to rises in the Consumer Price Index (CPI) regularly computed and published by the Australian Bureau of Statistics. This will apply to 'long term owners' on all properties which have not been sold or exchanged during the twelve month period commencing 1 July 2003. (No allowance appears to have been made for falls in the CPI. It is possible that this could happen.)

4. Where properties have been sold or exchanged in the twelve month period (with one exception see paragraph 5 below) the rates will be calculated on the average market value of the unimproved land with further increases in the rate being limited to the CPI after being held by the new owner for a further twelve months.

5. Where one partner in a long-term relationship dies and the property is inherited by the surviving partner the proposal assumes that there has been no change in the ownership of the property.

Advantages of the new proposal

6. The WCCC understands that the new proposal has been suggested to overcome the difficulty of some people, with limited means, being unable to pay the rates on their principal place of residence. This is especially the case where older people relying on pensions for their income are residing in locations where land values have risen markedly in recent years.

7. This is a genuine problem and one that needs a remedy. Faced with the present situation some older people will be forced to sell their homes, where they have been happy for many years and move to a new house or other accommodation, possibly in

an outer area where they would be isolated from their friends and relatives. Most pension schemes make allowances for increases in the cost of living and they are usually adjusted by the CPI and so increases in income should roughly parallel increases in rates. However the Public Accounts Committee will need to ensure that a mechanism is put in place in the legislation to time Commonwealth pension CPI movements with the suggested changes to the ACT rates CPI.

8. Surviving partners in long-term relationships are able to keep the current "concessional rates" of having rates only increase by CPI.

Disadvantages of the new proposal

9. Unfortunately, the proposal has a number of disadvantages and it may not always help the people it is intended to help. Paragraph 12 below will have an impact on the Budget for those relying social security.

10. The first disadvantage is that, as has been pointed out by many other commentators, that neighbours on roughly similar properties could be paying very different amounts in rates. There is no doubt that this will be the cause of significant comment in the community. This will happen when the property is sold/bought and the land value is readjusted.

11. The second is that the ACT Government may have to forego large revenues when it is clear that the business of government and the standards of the Canberra community will demand high levels of revenue in the future. If revenue is foregone from this source it may have to be found from another.

12. The third disadvantage is that an important source of revenue for the Territory will be tied to the CPI which may have no relation to actual cost increases being experienced by the government of the day. The present proposal will limit the ability of future Treasurers from being able to raise more revenue should the need arise, without once again changing the rating system.

13. Following on from the point made in paragraph 12 it is also clear that where future Treasurers decide to reduce revenue because of favourable economic circumstances it may not be wise to reduce charges to those receiving the rate concession but only to reduce charges to those who are paying rates on current market values. It would be logical to argue in these circumstances that the people who have paid rates only on CPI increases have already received a considerable concession but the Community Council believes that such a policy would be unpopular in the wider community.

14. Notwithstanding anything said in either paragraph 12 or 13, it is also clear that future ACT Governments will have the ability to vary the rate in the dollar of land valuation according to circumstances, but will be restricted to the increases/decreases in the CPI.

15. A further disadvantage of the Government's proposal as the WCCC understands it, is that revenue foregone will never be recovered. This comment ties in with the comment made in paragraph 10. Thus over a period of time, it is clear that similar properties in similar locations will yield the ACT Government different amounts of revenue. In

other words some people will pay more than others where there is no clear reason as to why this should be the case.

16. We also point out that the present rating system was devised so that those people with more means than others would pay more in rates. But here the principle is that higher rates bills are justified on the basis that properties differ in value and the better off generally live in the higher valued areas. The major beneficiaries of this proposal therefore will be those people who, for the most part, have been well off during their lifetimes, by being able to live in more fashionable suburbs than others. People living in outer suburbs or in less fashionable areas will receive a smaller benefit under this proposal.

17. The ACT Government's proposal is likely to affect the volume of property sales and therefore will affect revenue from stamp duty imposed on the sale of properties. Stamp duties from property sales have been a substantial part of ACT Government revenues. The proposal could also affect employment in the real estate industry as property sales slowed down.

Another proposal for consideration - "Deferred Rates"

18. It is possible to devise a more flexible approach to this problem where those who wish to take advantage of a rate concession would be free to do so while those who did not would be free to opt out of the scheme.

19. The major beneficiaries of the ACT Government's current proposal will be the heirs of the people concerned. In the ordinary course of events older people leave their properties to their successors and in many instances this is their sole asset. There is no reason why inheritors (except surviving partners) should receive a rate concession when, in many instances they themselves would have been in a position to pay. In other words the people likely to gain the most from the current proposal are more likely to be the beneficiaries of a deceased estate rather than the person for whom the concession was proposed in the first place.

20. Thus an alternative proposal would be that some people in the community would be able to defer their rate increases and that these would be recovered from the estate when the time came or when the property was sold. If they didn't wish to defer the payment of rates then they would be able to pay as they were due. Thus people opting to receive a deferred rates benefit would continue to pay rates (subject to existing concessions) which increase at same rate as the CPI with the remainder becoming the "deferred rate".

21. The Government might wish to offer a concession for "Deferred Rates" by foregoing interest on the value of rates owed. This is a very substantial concession and one that would encourage those eligible to take up the option of deferring rates.

22. Under this proposal people would be able to exercise an option to "Defer Rates". The Government could either decide to peg the rate bill to a fixed amount or let it rise in accordance with the CPI. The foregone revenue would be recovered at the time of probate or whenever the property was sold. The Government could agree not to charge interest on the outstanding monies, not charging interest is the concession.

Advantages of the "Deferred Rates" proposal

23. The advantage of "Deferred Rates" over the proposal put forward by the ACT Government is that equity and fairness will be preserved. Thus, over time, the Government could expect to get much the same revenue from similar properties in similar locations. This means that everybody in similar circumstances would be paying much the same in rates. As in the present system, where rates bills are expected to be paid, purchasers and builders of homes would be expected to take the differing values and likely rates bills into account when choosing where they will live.

24. At the same time those people who have genuine difficulty in meeting their rates obligations would be able to defer their rates bills and so not be forced to sell before they were ready to do so.

25. The Government would still have the flexibility to alter rate revenue either up or down as it wished with only a fraction of the whole revenue being tied up in deferred rates.

26. Under the "Deferred Rates" proposal existing Commonwealth concessions to old age pensioners and others could be maintained. The WCCC understands that these people and other people in similar circumstances already get substantial discounts off ordinary rates bills.

27. Surviving partners in long-term relationships would be able to maintain the deferred rates if they so wished.

Disadvantages of the "Deferred Rates" proposal

28. The "Deferred Rates" proposal comes with possible disadvantages. First among the disadvantages is that the payment of the rates may be viewed as a deferred debt. Thus if such a scheme were to be introduced, it should be made clear that the deferred rates charge is to pay a debt and is not an additional tax. This will have the effect of increasing the sale price of a house, however all taxes, charges and stamp duty, could if the Government so wished be calculated on the net value of the house (ie less the "Deferred Rates" component). If this was done it would avoid the criticism of deferred rates being a tax on a tax.

29. The second apparent disadvantage which could be raised, but under this proposal is removed, is that many older people rely on the equity in their house to buy their way into aged care centres and old peoples' homes. Even though, in the ordinary course of events and where no "Deferred Rates" were offered, these people would have paid rates, they are likely to resent not being able to go to their first choice of accommodation because the government of the day claimed back deferred rates from the sale of their house. The government could, of course, agree to a further deferment to allow people better choice of nursing home and other accommodation, but devising a suitable scheme to recover continuing deferred rates could be very difficult and protracted and even impossible. Many nursing homes have arrangements where the entry fee for the accommodation reduces in value over time and may even reduce to zero. In these circumstances the government may not be able to claim back the deferred rates. But not to claim deferred rates would be inequitable especially where

others have paid in similar circumstances. Therefore it would be necessary for the sale price of the house to include "Deferred Rates" (see paragraph 28).

30. The “Deferred Rates” proposal also may be more difficult to “sell” than the Government's proposal to limit all rate increases to CPI levels because the Government's scheme offers a much greater concession to 'long term owners'.

Summary and conclusions

31. The advantage of the ACT Government’s current proposal is that, provided people continue to live in the same property for twelve months or more, rates increases are foregone except for increases in rates tied to the Consumer Price Index. This is a very substantial concession to Canberra ratepayers.

32. On the other hand the foregone revenue is a substantial loss to the ACT Government. The proposal also restricts the ability of future Treasurers to raise or lower revenue as circumstances warrant without a change in the legislation. Future government costs may not rise in line with the Consumer Price Index and this may mean that the changes in revenue are not sufficient to maintain government services. The proposal also means that people living in similar properties with similar real values may pay very different amounts in rates and this raises the question of equity and fairness.

33. The "Deferred Rates" proposal means that all rates levied are subsequently collected even though there may always be amounts outstanding to be collected. This proposal has equity and fairness and it does allow affected people to defer selling their property until a more convenient time.

34. On the other hand we believe the "Deferred Rates" proposal may be popular and may mean that some people inheriting property will get what they expected, ie the value of the asset less the "Deferred Rates"

35. Both proposals allow for surviving partners in long term relationships to maintain either restricting rate increases to changes in the Consumer Price Index or to continue to defer payment of rates.

36. The "Deferred Rates" proposal offers more equity in the sense that because all the rates imposed are ultimately collected the burden on other sources of revenue is reduced. This is not the case with the Government’s proposal.

37. The “Deferred Rates” proposal also may be more difficult to “sell” than the proposal to limit all rate increases to CPI levels.

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