Proposed Changes to Land Tax Aggregation

Background

Land tax is one of the most important sources of "own-state" tax revenue for the South Australian government, contributing $645m to the budget in 2019-20 and accounting for 14% of state tax revenue. Economists generally regard land tax as being one of the most efficient taxes in terms of having the least impact on economic decision-making, while it also tends to be a progressive tax as (particularly given the exemption for the primary residence) it is a tax on a store of wealth which applies more to those with more assets.

Aggregation

Land tax is applied on the basis of the "aggregated" value land holdings of a person or business, that is, on the total value of the land they own rather than on each individual property (noting again that the primary place of residence is exempt from this calculation).

Aggregating land holdings ensures that land holders are treated equitably where they have total land holdings of equal value. For example, a landowner with one property valued at $1m pays the same amount of land tax as an owner with two properties worth $500,000 each.

In South Australia, all land held in common ownership is aggregated, but land held under different ownerships is taxed as a separate property/entity. This creates an incentive for owners to hold land under different ownership arrangements in order to minimise their tax liability. This is particularly the case for businesses with multiple corporate entities, but such schemes can also be used by "mum and dad" investors. For instance, a couple with common finances could minimise land tax by owning one property together, another in a trust with themselves as beneficiaries, a third owned by a trust with themselves and a child as beneficiaries, a fourth in trust with themselves and a different child as beneficiaries, etc.

The table below shows the difference these arrangements make in land tax payments in a hypothetical example of four properties each worth $500,000.

	Tax Payable per year	
	Different Ownership	Common Ownership
Property 1	$545	
Property 2	$545	
Property 3	$545	
Property 4	$545	
Total Tax Payable	**$1,635**	**$39,070**

Source: SA Revenue Land Tax Calculator as at 7 July 2019
https://www.revenuesa.sa.gov.au/taxes-and-duties/land-tax/calculators/calculate-land-tax-2019-20
Disclaimer: This is a simplified hypothetical, tax liabilities may change depending on particular circumstances.

The outcome in the hypothetical example above is grossly inequitable, and the amount of tax avoided is particularly high because the value of each property is just above the tax-free threshold – meaning only minimal tax is payable on each property. However, if all properties were valued under the $391,000 threshold, the trust structure would allow no tax to be paid on $1.5m of land holdings!

Proposed Changes
Changes proposed in the 2019-20 South Australian state budget are designed to address this obvious inequity and restore revenue and integrity in land tax aggregation. The changes proposed will allow the government to look through different ownership structures to see who is the true or beneficial owner of the property. The aggregation is then calculated on the total of that person's land interests.

To ensure the integrity of these changes, a surcharge is also proposed on certain trusts where the land interests or beneficiaries are not disclosed or can't be identified.

The changes will bring an estimated $40m per year into the state budget (partially off-set in later years by decreases in the top rate of land tax).

The changes are budgeted to come into effect from the end of the 2020-21 financial year and will bring South Australia into line with Victoria and New South Wales where such aggregation arrangements already apply.

SACOSS supports these changes as being necessary to ensure the fairness and integrity of land taxes, and to raise necessary revenue. Without the revenue from these changes, SACOSS is concerned that there will be further cost saving measures resulting in cuts to vital services.