



TAX FORUM

4-5 October 2011

STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

Mayor Genia McCaffery, President and Adrian Beresford-Wylie, Chief Executive, ALGA

ORGANISATION

The Australian Local Government Association (ALGA) is the peak body which represents local governments (of which there are more than 560) at the national level

STATEMENT OF PRIORITIES

ALGA's Priority reform directions for the tax and transfer system

The Australian Local Government Association has a number of key priorities for reform of Australia's tax and transfer system, which were articulated in ALGA's submissions to the Henry Tax Review and in subsequent discussions with the members of the Review.

First and foremost ALGA has stated its view that as a general principle, any review of the tax system should include not just revenue raising but also tax revenue distribution. Tax revenue is raised by each of Australia's three levels of government. Those levels of government also have different roles and responsibilities and expenditure needs. Reform should focus on initiatives to build a stronger, fairer and simpler tax system but there should be complementary changes to revenue distribution to ensure that each level of government is appropriately resourced and that tax reform initiatives do not have unintended consequences in terms of exacerbating existing vertical fiscal imbalance issues, disadvantaging one or more levels of government or burdening one level of government with unacceptable costs.

Land Tax

Local government in Australia delivers a great range of services and infrastructure to local communities but current tax revenue from property rates is not sufficient to meet expenditure requirements. Property rates are local government's only taxation base and the capacity of councils to raise revenue through rates is constrained not only by rate capping in some jurisdictions but also by capacity to pay and, importantly, potential 'crowding out' because of state government efforts to fully exploit land tax revenues. While opportunities to reform land tax have been flagged by the AFTS Review, ALGA believes that the following principles must apply to any land tax reforms:

- There should be no reduction in the ability of councils to raise revenue through rates and local councils should be given the power to determine the most appropriate methodology for land valuation for rates and to set rate levels to achieve the best outcomes for individual local communities.



TAX FORUM

4-5 October 2011

- Local councils should not be used as a mechanism for collecting state land tax nor should the rate collection mechanism be used to collect levies for non-local government services, such as emergency services levies or insurance levies or subsidies.

Infrastructure Charging including Road User Charges

ALGA supports reform to the tax system to address infrastructure needs and believes that local infrastructure needs can, and should be met, through appropriate revenue streams. The current established practice of developer charges by local government in a number of state jurisdictions is a legitimate revenue stream for the provision of local infrastructure and should continue.

ALGA has been closely involved in the consideration of reform to road user charges and supports reform to heavy vehicle charging and revenue allocation with the objective of charging heavy vehicles for the actual costs they impose on road infrastructure and allocating appropriate revenues to the owners of the roads used by those vehicles, including local government for the use of local roads. Of the \$2.5 billion currently raised from heavy vehicles through road user charges there is little or no allocation to the owners and managers of the relevant local roads.

With regard to proposals for a congestion tax, while not advocating either for or against such charges, ALGA notes that the imposition of a congestion charge in any metropolitan area would have significant implications for transport and land use planning at the boundary of the congestion charging zone. Overseas experience is that these implications, which have significant impacts on local governments and their communities, have not always been effectively addressed. If initiatives are to be considered in Australian cities they must be thoroughly considered and planning implications fully addressed.

Comment on Potential State Tax Reforms

The AFTS Review has proposed that state taxes be reformed and in some cases abolished. While local government raises the majority of its own revenue through rates and fees and charges, substantial (albeit inadequate) revenue is provided through inter-governmental transfers from the other two levels of government. State governments provide councils with grants and other support and as a matter of principle any tax reforms which reduce state taxation revenue should not result in any reduction in support for local government. Compensating revenue streams (from the Federal Government if appropriate) to maintain local government resourcing must be established as part of any reform.

Carbon Pricing

ALGA supports the introduction of a market-based price for carbon pollution to help address the issue of human-induced global warming but recognises that the introduction of such an initiative must be accompanied by an effective program to assist affected local councils to meet the regulatory burden imposed by the scheme. For example, relatively small local governments which own landfills are likely to be subject to the Government's emissions charging regime and they have neither the staff nor financial resources to meet the regulatory demands of the system. A program of assistance with training and capacity building, similar to that put in place at the time of the



TAX FORUM

4-5 October 2011

introduction of the GST must be implemented.

ALGA supports complementary carbon offsets such as methane collection and flaring at landfills, which substantially reduces emissions (the primary goal of the Government's scheme). Councils which have limited resources should be supported to implement such projects rather than taxed at a level which prohibits such initiatives.

Childcare and Family Support

Many councils provide affordable childcare and ALGA supports the maintenance of an effective program of child care support to enable increased participation in the labour market by women. A reduction in child care support levels by the Commonwealth would potentially transfer costs to local councils in an unacceptable way.

Charitable Exemptions

Charities receive tax exemptions from all levels of government, including rate exemptions from councils. The AFTS Review did not consider reform to the laws determining charitable status but this remains a significant issue for many councils where charitable bodies run what are essentially commercial operations in competition with business but demand tax exemptions, thus reducing rate revenue for councils. There is room for reform in this area.

LIST OF ATTACHMENTS

ALGA's Submission to the AFTS Review

ALGA Submission to the AFTS Consultation Paper