

DRAFT SECOND READING SPEECH

HON. PETER GUTWEIN MP

Land Tax Amendment Bill 2017

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The Land Tax Amendment Bill 2017 amends the section of the *Land Tax Act 2000* that apportions assessed land value between principal residence land and general land to provide a fairer, simpler and taxpayer favourable approach to the apportionment of such land.

Mr Speaker,

In Tasmania, a zero rate of land tax is applied to land classified as principal residence land. However, if principal residence land is also used for other purposes at 1 July, the assessed land value of the land is required to be apportioned between principal residence land and general land, such that the land is proportionally taxed.

Currently, the apportionment of land between principal residence land and general land is made under section 26 of the Act, which provides three different methods of apportioning the assessed land value of land. The apportionment method applied at the current time depends on each taxpayer's specific circumstances and each apportionment method produces a different land tax liability.

Mr Speaker,

Taxation legislation often requires amendment to maintain currency and administrative effectiveness by addressing issues that emerge over time.

The State Revenue Office has identified difficulties and unnecessary complexity in the interpretation and application of the principal residence land apportionment provision as part of the day-to-day administration of the *Land Tax Act 2000*.

After considering advice on the current section 26, the Government considers that the existing apportionment provision lacks sufficient clarity, is overly complex and unreasonably disadvantages taxpayers where the use for other purposes occurs inside the principal residence dwelling.

To remedy this, the Government proposes to introduce a single method for apportioning assessed land value between principal residence land and general land. This method will calculate the area of land used for principal residence purposes as a percentage of the total land area; removing two of the existing methods that apportion land value based on the floor area of the principal residence dwelling used for principal residence and other purposes.

The Land Tax Amendment Bill 2017 provides for this by repealing subsection 26(2)(a), (b) and (c) and replacing the current three apportionment methods with a single method.

Mr Speaker,

The amendments proposed in this Bill are expected to reduce the land tax liability of most currently affected taxpayers.

The apportionment method proposed in the Bill will effectively apply the current apportionment method that typically results in the lowest land tax liability as the sole basis of apportionment. Under the proposed method of apportionment, it is expected that a large number of affected taxpayers will fall below the land tax threshold, meaning that they will no longer be subject to land tax on their principal residence land.

Mr Speaker,

The impact of the proposed changes where a taxpayer is better off is demonstrated through the following example.

A taxpayer owns a single story house and leases an area of that house as at 1 July. For the purpose of simplicity there is no common use area in this example.

The land area is 1 000 square meters. The house area is 100 square meters and the rented area is 25 square meters. The value of the land is \$400 000.

Under the current administration of the Act, the taxpayer would be subject to subsection 26(2)(a), which apportions the assessed land value of the principal residence land on the basis of the floor area of the dwelling.

This means that the taxpayer would be liable for land tax on 25 per cent of the assessed land value of the land, that is, 25 square meters divided by 100 square meters. This would equate to land tax payable on an assessed land value of \$100 000, which is based on \$400 000 multiplied by 25 per cent. In this example, the land tax payable would be \$462.50.

Under the proposed subsection 26(2), the taxpayer would be subject to apportionment based on the total area of the land.

This means that, assuming no other areas are used exclusively for other purposes, the taxpayer would be liable for land tax on 2.5 per cent of the land value, that is, 25 square meters divided by 1 000 square meters. This equates to land tax payable on an assessed land value of \$10 000, which is based on \$400 000 multiplied by 2.5 per cent.

In this case, the taxpayer would not incur a land tax liability at all, as the total taxable value of the land is less than the tax-free threshold of \$25 000.

Therefore, in this example, the taxpayer would be \$462.50 better off under the proposed amendments to the Act.

Mr Speaker,

The proposed method of apportionment will also reduce red tape by simplifying apportionment of land tax on principal residence land and will provide for consistency between taxpayers; with one apportionment method to apply to all circumstances.

Given the movement to a single method of apportionment using land area, subsection 26(2A) of the Bill also clarifies what land area means for the purposes of the new provision by identifying that it includes the floor areas of any structures on the land that are above or below ground level.

Mr Speaker,

In summary, the Land Tax Amendment Bill 2017 will reduce the land tax liability for the vast majority of taxpayers who are required to pay land tax on an apportioned basis in respect of principal residence land. It will also reduce red tape and provide a consistent method of

apportioning the assessed land value of principal residence land where that land is also used for other purposes.

The amendments will take effect from 1 July 2017, to provide certainty for taxpayers in relation to the land tax assessments for the 2017-18 financial year.

Mr Speaker,

I commend this Bill to the House and recommend it be read a second time.