



Council Ref:

Your Ref:

Date: Friday, 27 June 2008



Review of State Taxation  
Independent Pricing and Regulatory Tribunal  
PO Box Q290  
QUEEN VICTORIA BUILDING NSW 1230

Redleaf Council Chambers  
536 New South Head Road  
Double Bay NSW 2028  
Correspondence to  
PO Box 61  
Double Bay NSW 1360  
DX 3607 Double Bay  
records@woollahra.nsw.gov.au  
www.woollahra.nsw.gov.au  
**Telephone: 61 2 9391 7181**  
Facsimile: 61 2 9391 7044

Dear Sir/Madam,

### **Submission - Review of State Taxation**

Thank you for the opportunity to comment on the Tribunal's (IPART) Draft Report to the Treasurer *Review of State Taxation*.

This submission is limited to recommendations 2 and 7 contained in the draft report, viz:

2. *Over a two year period, the payroll tax exemption for local councils should be removed and a corresponding increase in municipal rate-pegging limits should be phased in.*
7. *In the short term, the statutory contributions by insurance companies to fund fire services should be replaced by a corresponding increase in the contributions by local councils, with a phased implementation and accommodating increases in the municipal rate cap.*

Council strongly opposes both recommendations. The report does not take a holistic view of taxation in NSW and seeks to 'hide' more State taxation in council rates. The report's reference to the 'national tax system' does not appear to have carried through to the recommendations above. This lacks transparency and accountability and should not be further considered. It is simply taxation by stealth, not true reform.

#### Removal of payroll tax exemption for local government

As part of this review, the Premier has asked IPART to look at the relative efficiency of the taxes in NSW and in doing so, recommend options for improving the NSW tax system's performance. The report notes that payroll tax is already one of the State's most efficient. The need to review it at all is called into question. It is apparent that the only reason Recommendation 2 is to fund Recommendations 1 and 3.



The Report argues that:

*“For both payroll tax and land tax, the current tax base is considerably narrower than the potential tax base. The efficiency of these taxes could be substantially improved by broadening their bases through the reduction or removal of exemptions and concessions. This would improve their equity, as the current exemptions and concessions place a disproportionately high tax burden on those businesses and individuals who are liable to pay the tax, and provide substantial benefits to those who are not.”*

The recommended removal of the exemption would do nothing to improve equity. It would simply transfer the alleged inequity to those businesses and individuals who are liable to pay council rates and provide substantial benefits to those who are not. As mentioned at the outset, the recommendation does not take a holistic view of State taxation.

It is not clear how ‘efficiency’ gains are achieved by removing only one exemption, local government, from the range of exemptions and concessions in the legislation. Local government is but one of eight Divisions of the Payroll Tax Act relating to exemptions. For true efficiency gains all exemptions and concessions would need to be removed. Attention is again drawn to the statement in the report that payroll tax is already one of the most efficient State taxes. This is purely a revenue raising exercise, estimated in the report at \$180m.

#### Replacing insurance companies to fund fire services with increased local government contributions

Currently local councils contribution some 12% of fire services funding while insurance companies contribution some 74%. The State directly funds only 14%. This recommendation proposes a sixfold increase in local councils’ contributions. The report argues that:

*“Insurance duty and fire services funding contributions are the least efficient State taxes. Both these revenue sources penalize those who are prudent enough to take out insurance, and so encourage underinsurance and non-insurance. In addition, significant free rider problems are associated with the fire services funding arrangements, where non-contributors benefit from the provision of fire services without contributing to the cost through insurance policies.”*

Again, how is this improved in an overall taxation sense by transferring the leakage to ratepayers v non ratepayers?

The mere thought of transferring this cost to a land value based taxation regime is abhorrent. The State had an opportunity to redress the current inequities in fire services funding in 2004 with the Public Accounts Committee’s inquiry into Fire Service Funding. I have attached Council’s submissions to the Committee as part of this submission but restate our position briefly below.

- Inherent inequities in using land values for the distribution of the local government proportion of Fire Brigades funding, skewing it toward those municipalities and shires with relatively higher land values with no regard for the services provided to or risks associated with those areas

- Non-rateable properties not contributing to the local government proportion of funding, for example, schools and properties owned by schools, Church properties and non-GBE government properties

Non ratepayers in local government communities already receive free access to library services, beaches and parks and heavily subsidised access to sporting fields. This recommendation will add free access to fire services to the list.

Council strongly supports a review of fire services levy funding to introduce an equitable funding mechanism and commends the South Australian model.

#### Financial impacts of the recommendations

Council's current payroll exceeds \$20m per annum. Payroll tax, even at the reduction rate of 5.75% would represent an additional cost of \$1.2m on our community.

Council's current contribution to fire services funding is \$1.7m. A sixfold increase in this amount would impose an additional \$10.2m contribution on our community.

Together, the recommendations could cost Council at least \$11.2m. Council has a rate base of \$26.37m levied on 25,500 rateable properties. The reference to relaxation of rate pegging to facilitate this cost shifting equates to an increase in rates of over 40% at a cost of \$439 per rateable property. An increase of this magnitude would not be offset by possible reductions in insurance premiums.

This is simply not sustainable. The potential impact on lower income families and individuals, particularly pensioners, is substantial.

#### Conclusion

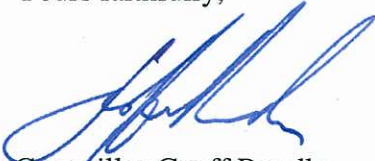
The report acknowledges that the recommended removal of the payroll tax exemption for local councils would be contentious. This is certainly the case. The tribunal will receive many submissions reflecting on the, at best, tenuous arguments supporting its removal. Removal of one of eight classes of exemption will not improve efficiency to any great extent, nor will equity between payers and non-payers be improved. The inequity will remain between ratepayers and non-ratepayers. This is simply a revenue raising exercise.

Recommendation 7 should simply be replaced with one that promotes revisiting the 2004 Public Accounts Committee inquiry into fire services funding. The current recommendation will compound the effects of an already inherently inequitable funding methodology. The argument that equity between payers and non-payers will be improved is again flawed. Non ratepayers already have access to free and heavily subsidised services and facilities. This will add fire services to that list.

The financial and potential social consequences of the recommendations do not appear to have been considered fully. Simply saying that rate pegging could be relaxed to phase in this cost shifting is not sustainable. In Woollahra it would result in an over 40% increase in rates at an average of \$439 per property. This increase would not be offset by possible savings in insurance premiums. The impact of this, particularly on pensioners, would be significant.

Neither recommendation 2 or 7 has merit and should not remain in the Tribunal's final report.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Geoff Rundle', written in a cursive style.

Councillor Geoff Rundle  
Mayor