

17 October 2018

Mr David Nicol
Under Treasurer
ACT Treasury

Via Email: LVCReview@act.gov.au

Dear David,

Review of the ACT Lease Variation Charge

I refer to your letter dated 14 September 2018 inviting comments on the ACT Government's review of the Lease Variation Charge ('LVC').

Master Builders Association of the Australian Capital Territory ('MBA') members include commercial and residential builders, civil contractors, suppliers and subcontractors, and professionals involved in the property and construction industry. Each of these members are indirectly impacted by the impact of LVC. Our members also include property developers. These members are directly impacted by LVC.

The MBA welcomes the review of the LVC. Our members report to us a number of negative impacts of LVC. In summary these concerns include:

1. The LVC is a tax on development. The amount of the LVC impacts directly on the cost of development, and therefore the cost of housing, commercial buildings, industrial buildings and community infrastructure. The amount of LVC needs to be carefully considered so that the cost of development is not unreasonably high. The impact of the LVC on housing affordability is a critical concern given that housing in the ACT is already significantly impacted by a range of other Government taxes and charges, and the high price of land in the ACT.
2. The method of calculating the LVC lacks transparency. With few exceptions, to calculate the amount of LVC requires a valuer to determine a pre and post development approval value, and determine a charge based on the difference, after obtaining agreement from the ACT Government. This method of calculation means that the amount of LVC cannot be calculated with any certainty when a project feasibility is being assessed. This lack of transparency and certainty of the LVC charge is a fundamental problem with the current LVC system.

3. Related to point two above, the administrative cost to determine the LVC charge is high. These administration costs include valuers, planning consultants, and in some cases lawyers, just to determine the LVC amount. These costs are incurred by both the applicant and Government. Not only is this administrative cost unreasonably high, but time delays are often incurred while the LVC amount is being determined which causes overall costs to increase.
4. Recent increases in LVC, such as the increase from \$7,500 to \$30,000 on certain residential leases, have been introduced without industry consultation and without a reasonable transition period. This has caused market distortions, impacts on housing affordability, and a rush of development applications to avoid the charge increase which is still causing workload impacts in the development assessment team.
5. Finally, the money collected from LVC is allocated to general revenue. There is no nexus between the money collected and the suburbs or community infrastructure that benefit from the LVC. This should be reviewed.

There have been a number of reviews of the Australian tax system, which can help guide the review of the ACT's LVC system. In a December 2009 Report to the Treasurer, a number of review objectives were identified. The review of Australia's future tax system "*required the Review to make judgements about ... the trade-offs that arise between the goals of fairness, efficiency, simplicity, sustainability and policy consistency*".¹

The review objectives and corresponding objectives for the LVC review are outlined below:

Australian Review Objectives	LVC Review Objectives
The tax system must be capable of raising sufficient revenue to fund the expenditure required of future governments.	The beneficiaries (such as community or physical infrastructure) of LVC should be identified and the forecast revenue raised by LVC used to fund the identified infrastructure, rather than LVC being allocated to general revenue.
Revenue should be raised from taxes that are least detrimental to economic growth and that support a diverse economic structure.	The amount of money raised by LVC each year should not increase as a result of this review. The impact of LVC should not cause a detrimental impact on the ACT economy, our competitive position compared to competing jurisdictions, and should not cause detrimental social impacts (eg. housing unaffordability).
People in similar circumstances should be treated in a similar way under the tax and transfer system.	LVC should be calculated based on the development type, not the lease type. The current system means that development proposals for the same land use can pay different LVC depending on the lease type.

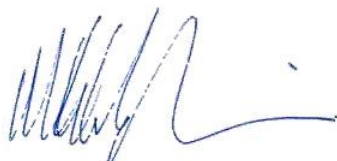
¹ Australia's future tax system: Report to the Treasurer, Part One Overview, http://taxreview.treasury.gov.au/content/downloads/final_report_part_1/00_AFTS_final_report_consolidated.pdf, December 2009.

Australian Review Objectives	LVC Review Objectives
Policy settings should be coherent and reflect a greater emphasis on simplicity and transparency than is presently evident.	The LVC system should be simplified. LVC charges should be codified wherever possible.
Policy design should be integrated with technology to raise revenue efficiently, enhance social outcomes through tax design and improve the experience of people and business in interacting with the system.	The administration of LVC should be considered as part of this review. An online system to calculate LVC should be investigated, and the current system of both the applicant and the ACT Government engaging valuers to calculate the charge should be eliminated.
The design of the system and the assignment of revenue within the federation should support effective government and clear accountability of governments to citizens.	The principles and benefits of the LVC should be transparent and clearly articulated to the ACT community.
The design and governance of the system should ensure that the benefits of reform are enduring.	The design and governance of the LVC system should be economically and socially sustainable.

Thank you for considering our submission. We would welcome the opportunity to discuss our submission in greater detail with the review team.

We may be contacted on (02) 6175 5900 to arrange a review meeting.

Yours sincerely,



Michael Hopkins
Chief Executive Officer