Northern Territory Government Revenue Discussion Paper Submission

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About Prosper:
Prosper Australia is an independent, not-for-profit organisation campaigning for economic justice. Our reform agenda derives from the work of nineteenth century philosopher, Henry George. Prosper's mission is to influence revenue policy by educating policy makers and the general public in the economics of locational advantage. We argue for lower costs and greater efficiencies through the removal of deadweight taxes, and the utilisation of the most efficient and equitable tax bases available to Governments; property rights in land and natural resources.

Introduction

Prosper Australia thanks the NT Government for providing an opportunity for public participation in the difficult task of revenue and tax reform. Understandably the Territory is facing difficult times ahead with the recent changes to GST distribution. This challenge also presents an opportunity for the Territory to create a more efficient, equitable, sustainable and independent revenue framework. Ambitious tax reforms will enhance the resilience and future prosperity of the Territory.

Prosper Australia also thanks Wayne Wood for his excellent submission. We endorse and recommend it to the inquiry as a comprehensive and detailed response in policy areas, which we do not consider in our own submission.

Prosper's submission briefly responds to each section of the discussion paper regarding NT own-source revenue, but focuses primarily on land value taxation, betterment taxes and resource rents (royalties). Prosper recommends the following reviews to the inquiry:

- Productivity Commission's recent 5 year review (paper no.10: *Land Use Efficiency*),
- 2012 ACT Taxation Review
- 2010 "Henry Review" (Australia's Future Tax System Review).

We recommend our 2016 report *The First Interval – Evaluating ACT's Land Value Tax Transition*[1] for an assessment of the ACT's ongoing tax reforms.

We also recommend our 2017 submission to the Australian Government's Review of the Petroleum Resource Rent Tax (PRRT)[2]

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[1] Murray 2016*, At the First Interval: Evaluating the ACT's Land Value Tax Transition.* Prosper Australia.
https://www.prosper.org.au/wp-content/uploads/2016/09/The-First-interval-Evaluating-ACTs-Land-Valur-Tax-Transition.pdf

[2] Prosper Australia February 2017, submission to the Review of the Petroleum Resource Rent Tax (PRRT) https://static.treasury.gov.au/uploads/sites/1/2017/06/R2016-001_Propser-Australia.pdf

Areas for Review

1. Property and Land Taxes

1.1 Phase out stamp duties

Recommendations:

- Abolish **non-property related taxes** (e.g. Insurance Duties), before reducing property based stamp duties.
- Phase out stamp duties on capital equipment (e.g. plant and equipment) and real estate in favour of holding taxes or council rates on land values.
- Remove first homeowner grants and discounts as these capitalise into higher prices.

The Northern Territory Government is among the most Stamp Duty dependent governments in Australia. The discussion paper highlights that while stamp duties are inefficient taxes and penalise property transactions, they have some small merit in penalising speculative land flipping, and aligning with capacity to pay. These advantages, however, can be found in capital gains taxes on real estate, or a well designed deferral scheme in an annual land tax (or rates) system. Crucially, capital gains and recurrent land taxation do not incur the same deadweight costs and disadvantages of stamp duties.

Stamp duties should be reduced in favour of either a tax on unimproved land value (levied by either Territory or via municipal government council rates), or capital gains taxes on real estate. As stamp duties fall primarily on land, reductions in other taxes (e.g. insurance duties) should take priority over a reduction in stamp duties.

Contrary to popular understanding, stamp duties are ultimately paid by *vendors*.[3] Because land supply is inelastic, where a stamp duty is imposed, buyers must factor the tax into the price they are willing/able to pay for land, lowering the price of land. When stamp duties are cut, buyers merely increase their capacity to borrow and bid up prices. The same applies to homeowner (in reality vendor) grants[4] and stamp duty discounts.[5] Recent data from NSW and Victoria show an increase in both volume of sales to first homebuyers and the amount borrowed by first home buyer since the extension of stamp duty exemption in those states.[6] Putting more money in the hands of buyers results in buyers bidding up the price of a fixed land supply, vendors being the ultimate beneficiary. These measures do not improve affordability.

To reduce improve land/housing affordability for first homebuyers, tax policy needs to focus on *reducing the purchasing power of competing buyers*. Tax policy should also focus on

[3] https://grattan.edu.au/news/stamp-duty-cuts-wont-help-house-price-affordability/

[4] https://www.theaustralian.com.au/business/business-spectator/built-on-the-backs-of-first-home-buyers/news-story/7d92bd56233cb98fa3730012e9c3ff9f

[5] http://www.abc.net.au/news/2017-03-06/first-home-buyer-tax-breaks-wont-help-affordability/8328766

[6] https://www.corelogic.com.au/news/first-home-buyers-should-exercise-caution/

improving the effective land supply, via annual holding taxes on the land. This helps push idle or underutilised land onto the market, curtailing speculative holdings, and provide more land for development.[7]

1.2 Introduce a broad based land value tax, council rates

Recommendations:

- Introduce flat *ad valorem* council rates on unimproved land value, or a broad based land value tax.
- Levy as much land tax as feasible, at a minimum the average taxing effort of local governments (a 0.5% rate).
- Provide stamp duty credits against future land tax, to avoid double taxation.
- Alternatively, phase in Council Rates (or Land Tax) overtime to ease transition.
- Levy land tax on the per m^2 value of unimproved land as recommended in the Australia's Future Tax System Review and by AHURI.[8]
- Minimise exemptions. Do not create tax-free thresholds. Flat tax rates and fewer thresholds are better, as progressivity comes from the land value base itself.
- Do not impose fixed component rate charges.
- Adopt annual valuations.
- Collect property taxes at the lowest level of government to reduce salience.[9]
- Incorporate a deferral mechanism for owner-occupiers, as done in the ACT.
- Investigate use of Tax Escrow to reduce salience.[10]

The recent decline in the Territory's property market has resulted in deteriorating turnover. Reducing stamp duties in favour of annual land taxes would help improve turnover and aid a slumping property market, as the annual land tax would improve transactions by incentivising higher land use. Stamp duties ultimately are paid by vendors in the form of lower prices, by lowering buyer capacity to pay for land which is in fixed supply. So any effect on declining prices due to the introduction of land tax would mostly be offset by reductions in stamp duties.

A greater use of the land tax base in the long run will mean lower rents, higher land use, more affordable land, and more efficient and equitable economy. This will ensure the Territory's tax base grows in line with the economy while enhancing growth. The Territory should use its mandate to align with the rest of Australia, by introducing local government rates.

1.2.1 Use unimproved capital value

Introducing *ad valorem* council rates on the unimproved land value of is the simplest, most efficient approach for the Government to adopt. The Government should rule out Capital Improved Value as a possible tax base.

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[7] https://www.prosper.org.au/wp-content/uploads/2015/12/11Final_Speculative-Vacancies-2015-1.pdf
[8] https://www.ahuri.edu.au/research/final-reports/182
[9] Cabral, M. and Hoxby, C., 2012. The hated property tax: salience, tax rates, and tax revolts (No. w18514). National Bureau of Economic Research.
[10] Ibid.

Empirical evidence[11] repeatedly demonstrates that rating on the Unimproved Land Value leads to superior economic and equity outcomes for ratepayers and communities. These outcomes include lower rents (including commercial), increased construction volumes, improved capital intensity, beneficial inward migration, higher agricultural output, fewer vacant lots, and lower rates burden for the vast majority of ratepayers (especially low value properties).[12]

1.2.2 Managing the transition

Double taxation may arise from a shift in the tax base from stamp duties to rates. As stamp duty rates are very high in the Northern Territory, this is a policy area that needs some consideration. There are two policy strategies that can be applied (potentially simultaneously) to manage the transition to a broad based land tax, both of which are considered in recent South Australian Tax Review:

1. Provide credits for recently paid conveyance duties to offset future annual property tax liabilities. All landowners could be credited with the amount of stamp duty paid, and then have deducted the hypothetical land tax they would have paid since the date of purchase. In addition to preventing double taxation, this provides an appropriate transition period, and gives households time to prepare for rates.
2. Apply the land tax immediately to all future buyers, while simultaneously abolishing stamp duty. This way the land tax capitalises into future purchases, offsetting the price rises caused by stamp duty cuts. Gaps in revenue could be offset with bonds or selling special securities.[13] If taking this approach, the Territory should also aim to phase all properties to land tax irrespective of whether they have transferred. Otherwise, there will be a disincentive for existing landowners to sell their land tax free property, adding pressure on Government cash flow.

1.2.3 Rate structure and thresholds

Striking an *ad valorem* council rate on unimproved land value is fair, efficient and simple to administer. However, another option for the Government to consider is a fixed percentage levy on the unimproved land value of all properties. Unlike striking a rate to raise a fixed sum of revenue, the land tax fluctuates with property market, and acts as a countercyclical stabiliser. Land value taxes rise when the property market heats up, reducing overleveraging, excessive price rises and asset bubble formation. Subsequently land tax revenues fall during price declines, to support the market and prevent major collapses in prices (as is currently happening).

Progressive rates should be applied with caution. Firstly, progressive rates are unnecessary as the unimproved base itself is progressive, with higher value properties facing more land tax proportionally due to the increases in land rent. Secondly, as has been pointed out in many tax reviews, levying progressive rates on the landholder level can discourage institutional investment in property development. Finally, when progressive land tax is

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[11] http://thedepression.org.au/lvrg-studies/
[12] http://www.prosper.org.au/wp-content/uploads/2007/11/aius-report.pdf
[13] https://australiancentre.com.au/publication/property-tax-transition/

imposed, bill shock is a much greater risk as bracket creep can push taxpayers into accelerating land tax payments. This increases risk of tax revolt.

Where it is imposed, a progressive land tax should be assessed on the per m^2 value of a location, *not* the aggregated value of an individual's landholdings. The practice of levying land tax on the value of aggregated holdings (as done in Victoria, for example), discourages institutional investment. It is often cited as a barrier to the delivery of affordable housing through build-to-rent schemes. Assessing liability on per m^2 values also ensures that any land price falls due to land tax are concentrated in high value urban areas, which tend to experience faster growth.

There is no good policy rationale for having a land tax-free threshold and exempting low value landholdings from land tax. Low value holdings by their nature face low land tax burdens.

Minimum rates (fixed charges) are highly regressive, and amount to low value locations subsidising higher value locations within the taxing jurisdiction. Government services automatically capitalise into the unimproved land value, more service delivery results in correspondingly higher land values. The Territory should avoid this retrograde practice.

1.2.4 Valuation frequency

Annual valuations ensure equity among ratepayers; accurately reflect the taxable capacity of each site; accurately reflect prevailing economic conditions; and, prevent bill shock.
The public would not accept biennial assessment of taxable income, nor should landowners accept biennial assessment of land values.

1.2.5 Reducing salience of rates

Tax salience is one of the greatest threats to land and property based taxation, such as council rates. The Territory should consider measures to ensure reforms are equitable and politically sustainable.

Research has shown that property taxes are generally most accepted at the lowest level of government, where the benefits-received can be more closely associated with tax payments. Devolve taxation to the lowest level of Government, and preference the term “council rates” over “land tax”.

Owner-occupiers, especially those on low or fixed-incomes, often object to council rates. One solution for this is to adopt a deferral mechanism as done in the ACT, and index the deferrals at the NT Government bond rate. These deferral mechanisms can be quarantined to low income owner-occupiers, or widely expanded to further reduce saliency.

Broader deferrals will make the rates impost more akin to a stamp duty accrued over time rather than by transaction, which while an improvement over existing stamp duties, is less optimal. Another option for deferral is to only permit deferrals for low-income recipients and those who have finished paying their mortgages. This can incorporated into *Tax Escrow,* by which the mortgagee collects the rates on behalf of the landowner.

The Government should consider the incorporation and (potentially mandatory) use of *Tax Escrow* to reduce land tax salience. Tax escrow bundles rates into mortgage and insurance payments, so ratepayers have a less accurate idea of what payment portion is rates. Given that rates/land tax reduce the capitalised price of land, in effect for future buyers, rates supplant a portion mortgage payments with a tax liability. For future buyers subsequent mortgage repayments would in fact service rates and repayments with little change in ongoing costs. Once a mortgage has been paid in full rates could then be made deferrable (given their visibility), and to provide security for homeowners. Essentially, tax escrow enables the ratepayer to avoid the pain of “writing a cheque to the government.”

1.3 Principal place of residence exemptions

Recommendations:

- Consider Land Taxes, even if Principal Place of Residence exemptions are appropriate.

Broad based land value taxes or council rates on site values *without exemption* should be the first preference. However where Primary Place of Residence exemptions are deemed appropriate, it is worth noting that land taxes are still efficient and have little negative impact.

Property interests often claim that land tax exempting owner-occupier land drives up rents and makes housing less affordable. This is fundamentally incorrect.[14] Land taxes that exempt owner-occupiers merely reduce the capacity for investors to outbid owner-occupiers for land.

Prudent investors capitalise any tax liabilities into their willingness to pay for the land.[15] If the investor’s willingness to pay falls below that of a competing owner-occupier, the owner-occupier secures the property.

When existing investors face new or increased land taxes, they can only charge more rent if there is an undersupply of rental properties available. They can induce an under-supply of rental properties by selling to prospective owner-occupiers, but this in turn reduces the demand for rental properties resulting in no net change in rental supply and demand. Every site which a land tax liable investor fails to purchase, is a site purchased by an owner-occupier.

The more revenue raised from land, less is needed to be raised from regressive and damaging taxes, such as GST and Payroll tax.

[14] http://blog.lvrg.org.au/2011/08/why-land-tax-cant-be-shifted-onto.html
[15] https://www.prosper.org.au/2017/12/08/does-taxing-investors-drive-up-the-rent/

1.4 Windfall rezoning gains (Betterment) taxes

Recommendations:

- Adopt the ACT's "Lease Variation Charge" for the Northern Territory

The ACT has a "Lease Variation Charge" in place that captures the pure economic rent accruing to developers from rezoning decisions. Rezoning windfalls are a public gift to landowners, and are been linked to "grey corruption" and poor town planning outcomes.[16] Currently this tax raises approximately $183m p.a. (on average) for ACT. Estimates for the Northern Territory put potential revenue from adopting the ACT's system at $84m p.a.[17] This source of revenue can be raised without any detrimental effects on property development, and is highly equitable.

2. Mineral and Petroleum Royalties

Currently the Territory utilises a value-based scheme for petroleum and a profits-based scheme for minerals, subject to some legacy schemes for certain mines.

The following recommendations conform to those made in our submission[18] to the Commonwealth Petroleum Resource Rent Taxation (PRRT) Review.

2.1 Mining Royalties

Recommendations:

- Adopt State Direct Financial Interests in projects to help enforce royalty collections and recover a greater share of the Territory's resource rents.
- Introduce a minimum royalty on a percentage of the market value of all mineral projects.
- Continue to quarantine deductions at the project level, do not aggregate deductions at the operator level.
- Remove negative net value transferability.
- Set maximum uplift rates for all costs to the Long Term Bond Rate.
- Ensure deducted project costs are "necessarily incurred".
- Increase the mineral royalty rate, up to the current PPRT rate of 40%.

2.1.1 Adopt State Direct Financial Interests

The world-leader in resource taxation, Norway, draws around half its government resource revenues from direct ownership stakes in private companies, along with its own State-owned oil operations (Statoil). When production licences are issued the government decides on a proportion of ownership stake to take, covering that share of investment and costs, and then

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[16] https://gameofmates.files.wordpress.com/2017/11/apsaccpaper2017.pdf
[17] *Murray 2016,* op. cit., p. 31
[18] *Murray 2016,*
https://static.treasury.gov.au/uploads/sites/1/2017/06/R2016-001_Propser-Australia.pdf

later “receives a corresponding share of the income from production licences” (Norwegian Petroleum Directorate, 2017). This system is known as State’s Direct Financial Interest (SDFI), and has generated 37% of the Norwegian government’s income from oil rents over the past ten years, which was NOK92 billion in 2015.

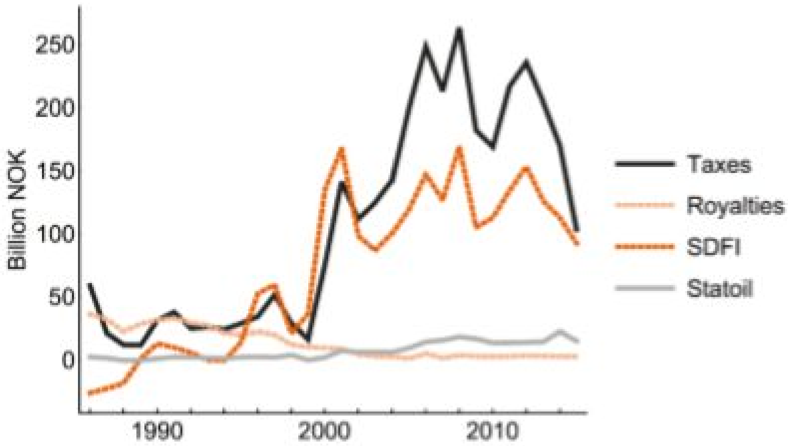

FIGURE 1: NORWEGIAN STATE REVENUE COMPOSITION FROM OIL AND GAS (STATISTICS NORWAY, 2016)

Norway’s system is made more effective due to the interplay between SDFI and the resource rent tax. Buying into a project grants the government privileged access to operational matters and financial accounts, which privies the government to creative accounting. Even where taxes are minimised, the Norwegian public still receives a share of additional profits thanks to their status as an equity shareholder. SDFI acts as both an enforcement mechanism for their resource tax, and an insurance policy against tax dodging. We urge the NT Government to investigate the potential of SDFIs for the Territory.

2.1.2 Introduce a minimum value-based royalty

By itself, in its current form, the profit-based royalty system is suboptimal. The discussion paper rightly points out that many mines are effectively evading all royalty requirements, such as would not occur in a value-based system. A minimum value-based royalty ensures the Territory claws back a minimum amount of its resource rents from any given mine.

A minimum value-based royalty must avoid the pitfalls of the existing net-back method used to determine petroleum royalties. A minimum royalty will be ineffective if the net-back method allows a zero or negative resource value. The recommendations for addressing this issue are covered below (section 2.2.2).

Arguments around retrospective taxation and legacy systems for the new minimum royalty should also be ignored. Currently mines paying no royalties are extracting the Territory’s resources free of charge.

2.1.3 Tighten deductions

2.1.3.1 Retain deductibility quarantined to the project level

The Territory's current system of administering deductions on a project by project basis should be retained.

Allowing losses to be offset on a company-wide reduces competition and favours incumbents. Companies who already have PRRT liable projects have a higher return from exploration, crowding market entry for competitors who cannot deduct exploration losses from other PRRT projects (which is especially valuable with an uplift), with no further incentive for exploration.

The erosion of the resource rents tax (RRT) base arises as follows. The full market value of the resource rent occurs on a project-by-project basis. A company can realise the capitalised value of the resource rent through the sale of a single project. The resource rental base is diminished when the costs of unrelated exploration are allowed to be deducted from the profitability of specific projects.

For example, the Commonwealth's PRRT allows losses to become transferable credits on a company wide basis. This mechanism erodes the resource rental tax base without providing additional incentives for exploration. It behaves like "negative gearing for oil and gas exploration", in that transferring losses from investment property to wage incomes (rather than quarantining against future rental income) reduces the wages tax base.

2.1.3.2 Remove or reduce negative net value transferability

The sale of a mine with tax deductions attached capitalises into the purchase price and willingness to pay for the new miner. The new miner purchases not only the mine asset, but also purchases those deductions. Net negative value transfers erode the resource rent base.

The key consideration for policy is whether removing net negative value transfers will disincentivise investment by superior operators (or more likely speculators of higher commodity prices). The reduction of negative net value transferability may mean the net value of a failing mine is worth more on the company's books than the net value it receives if it sells it to a new miner.

If some form of transferability is to be retained, it should be based on some percentage of the existing deductions so they are proportional to the mine size.

2.1.3.3 Set level of uplift rates to the Long Term Bond Rate (LTBR)

A further flaw in the Commonwealth PRRT was the excessively generous uplift rates. The 15% uplift rate above the LTBR unnecessarily eroded the tax base. The excessive uplift rate, coupled with the company-wide transferability of losses and allowable deductions, allowed for significant tax avoidance when new investment was made by the project owner.

Contrast this to Norway's scheme which allows uplift on carry forward losses at a declared interest rate only (5.4% in 2017), and only for expenditure carried over for less than 4 years (Australia allows 5 years).

2.1.3.3 Ensure project costs deducted are "necessarily incurred"

Costs should only be deductible from RRT where they are "necessarily incurred", as per income tax. The Federal PRRT failed to use this principle, resulting in significant tax avoidance.

2.1.4 Increase the mineral royalty rate

Prosper Australia recommends the Northern Territory substantially increase its royalty rates from 20% to 40%, in line with the Federal PRRT rate.

The Norwegian resources rent tax takes 54% of the additional profits, after subtracting 24% company tax, and other uplifted deductions. This equates to a staggering 78% of total resource company profits, yet has not deterred investment in Norway's resources sector. When combining Norway's resources rent tax with its SDFI and state owned company (Statoil), Norway has managed to capture an astonishing 63% of total industry revenues. Contrast this to the (compromised) Federal PRRT of 40%, and (current) company tax of 30%, which totals a (hypothetical) tax of 70%.

Given the abolition of the Federal Minerals Resource Rents Tax, and the Territory's dire revenue situation, we believe that the policy is justified. The Territory can no longer afford to give away its resource rents to multinational corporations.

2.2 Petroleum Royalties

Recommendations:

- Prioritise practicality of implementation, ease of enforcement and minimisation of tax avoidance.
- Prioritise valuation mechanisms which are simple to administer and do not require complex calculations and estimations of resource values.
- Apply a transparent, universal administrative and compliance provision across all producers.

2.2.1 Prioritise simplicity by retaining value-based royalties

A successful royalty regime recaptures the resource rents arising from natural resource endowments. In theory, profit-based RRTs have some economic advantages, such as stabilising effects for highly cyclical industries. However, these advantages may be difficult to realise, as resource rent taxes are complex to administer and difficult to enforce. As previously discussed, a public equity stake can overcome compliance issues and Prosper recommend that the Territory show leadership and innovation in this area.

To ensure sufficient collection and compliance, the Territory should prioritise minimisation of tax avoidance over "efficiency" of the tax base. To this end, it is preferable to retain the existing value based royalty rather than to introduce a profit-based scheme.

Where a royalty regime is so "inefficient" it discourages extraction, it works to keep *finite* resources in the ground until such time that demand warrants extraction. The resource does not disappear and remains a fixed, public asset available to future generations.

If the considering a profit-based RRT, a minimum value based royalty should be retained also. This ensures that the Territory does not lose royalty revenue to tax avoidance. The NT Government can learn from the failures of the Federal PRRT, which has suffered base erosion due to various holes and excessive deductions via structure uplift rates.

2.2.2 Simplify valuation administration

The existing net-back method is a failure. This evinced by the capacity of valuation to yield a zero or even negative value for petroleum. Fundamentally, natural resources are extracted because they have value. Territorians should not be giving away their natural resources for free, let alone paying multinational companies to extract them.

For administrative simplicity, petroleum royalties should be levied as a fixed price per tonne/litre at the current export price, rather than wellhead prices. Extending the valuation point downstream - to the export price - avoids complicated shadow cost calculations. Royalty rates can then be applied universally to all producers, and address issues in the existing administrative framework.

Alternatively, independent valuation of well-head prices should be updated annually, with the royalty rate set against it, and applied to all petroleum companies.

2.3 Declared value system (Harberger Tax)

Unimproved resource value taxation, also known as a *declared value system* or *Harberger Tax,*[19] could effectively balance efficiency with effective enforcement. This is a market-based mechanism that eliminates the need for complex and opaque valuations of petroleum resources.

Under a Harberger Tax, each oil or gas producer self-declares the unimproved value of their resource assets each year. Self-assessed valuations are placed on a public cadastral map freely available to public and market competitors.

Oil and gas producers are required to pay a charge equal to the long-term bond rate, plus a small additional risk uplift (of 1-3%) of the self-assessed market value of the resource. To ensure the self-assessed market value is realistic, the government would have the right to

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[19] *Posner, Eric A. and Weyl, E. Glen, Property Is Only Another Name for Monopoly (January 31, 2017). Journal of Legal Analysis, Forthcoming. Available at SSRN: https://ssrn.com/abstract=2818494 or http://dx.doi.org/10.2139/ssrn.2818494*

purchase the project (and its improvements) for the declared unimproved value plus compensation at the tax depreciated value of structures.

A Harberger tax provides an incentive to competitors to approach and negotiate with government for the purchase undervalued assets. The government is then able to buy the asset at the declared rate, and sell it to a competitor at the market rate, taking a further share of rents for the public.[20]

2.4 Public resource ownership leases

The government could also choose to retain public resource ownership by offering leases. Lease rights to extract and sell the petroleum for a set number of years (e.g. 5 years) are auctioned. Upon lease expiration, the Territory could auction the rights again for the next 5 yrs (which might include some tax depreciated value of structures).

3. Pastoral lease, mining and petroleum title rents

Recommendations:

- Regulate land use to ensure ecologically sustainable carrying capacity.
- Renew leases frequently through a competitive market tender system. Alternatively, use a declared value system.
- Recover licensing costs from land rents rather than fees.

We note that the Territory Government is in the process of amending the *Pastoral Land Act 2016* to adopt Unimproved Estimated Carrying Capacity (UCC) as the basis for pastoral leases. On the face of it, UCC simplifies administration and ensures capital improvements undertaken by lessees aren't penalised by rental increases. However, it remains unclear how the *pastoral lease rent factor* will be calculated. Calculation of rents must be linked to changes in the market value of the leases.

It is unclear how rents will be collected when subleases are issued. Prosper expects that sub-leases for more intense uses such as agriculture, horticulture, forestry, and aquaculture will attract the kind of windfall gains associated with rezonings. The Territory should ensure that windfall gains from subleases are captured in increased ground rents, and not by the existing lessee.

Furthermore, the issue of *ecological* carrying capacity is underdeveloped in the current legislation. Levying rents on UCC may create an incentive to overgraze. Rather than levying rents solely UCC, the government should provide clear and binding regulation to prevent degradation of pastoral lands. This is not unlike town planning regulations, which shape the highest and best use of land. The legal limitations on the land use will directly capitalise into leaseholder willingness to pay, and thus reflect in lower market rents and leases. Where the number of participants in rental tenders is too thin to reflect an accurate market value, a declared value system should be considered as an alternative.

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[20] *Murray 2016* op. cit., p. 7

Mining and petroleum title rents appear to be largely based on cost recovery principles. Rather than charging flat rates for certain licenses, Prosper recommends investigating structuring revenue recovery from the land rents upon which exploration is to take place.

4. Gambling Taxes

Recommendations:

- Tax the economic rent accruing to license owners.
- Capture as much economic rent as practical

Prosper Australia makes no comment on virtue of legalised gambling. However when gambling regulations fix the number of firms, machines etc. the state creates monopoly conditions. Economic rents accrue to scarce gambling licenses. The government should recover these economic rents, and ensure that super profits are redirected into the treasury. The funds can be used to promote responsible gaming, and assist problem gamblers.

When significant economic rents are available through a state-created monopoly, there is a real risk of vested interests undermining public regulation and taxation. Tasmania provides a well publicised example: economic rents have been privately appropriated to the loss of all residents and to the benefit of one family in control of gambling licenses.[21] When economic rents are left on the table it leaves more profits to be redirected into lobbying for more generous tax concessions and regulation.

5. Other Taxes

Recommendations:

- Reduce distortionary, inefficient and regressive taxes.

5.1 Payroll Tax

Payroll tax is a direct tax upon employment. Payroll Tax ultimately increases the cost to business of employing workers, resulting in unemployment and lower wages for workers. Given that larger companies (including the resources and wagering industries) pay the majority of payroll tax under existing thresholds, it seems appropriate that cuts in payroll tax be offset by changes in royalties and gambling taxes.

5.2 Motor Vehicle Taxes

Motor Vehicle Taxes are incredibly regressive, especially in the Northern Territory where auto dependence is widespread. Registration acts as a de facto poll tax, and stamp duties

21 https://www.theage.com.au/politics/federal/no-risk-the-family-who-owns-tasmanias-gambling-industry-20180202-h0slct.html

on vehicles transfers further make acquiring cheaper second hand cars more costly. Both should be reduced to reduce the cost of living pressures on families and business.

5.3 Insurance Duties

Insurance taxes are regressive, inefficient and incentivise underinsurance. This tax has been phased out by the ACT in favour of local council rates. The Territory should follow suit.

5.4 Banking Taxes

Banking taxes are detrimental to savings and investment. The Northern Territory should avoid banking taxes for this reason, especially given the need for growth and investment in the Territory. If such a levy is to be introduced, it should target major “Too Big to Fail” Banks that benefit from the implicit subsidy of Australian Government protection.