RETAIL SECTOR TAX POLICY POSITION:
PROTECT RETAIL FROM FURTHER TAXES

1 ABOUT US

The **Australian Retailers Association (ARA)** – **www.retail.org.au / @retailaustralia -** is the retail industry's peak representative body representing Australia's $300 billion retail sector.

The **Shopping Centre Council of Australia (SCCA)** – **www.scca.org.au / @SCCA_Advcoacy –** is the national industry group for Australia's major owners, managers and developers of shopping centres.

The ARA and the SCCA have established a unique retail sector partnership to contribute to tax reform discussions in each jurisdiction and to help decision-makers better understand the critical issues and areas of common ground between our respective memberships (i.e. landlords and retailers – covering big and small businesses). This *Policy Position* provides a snapshot of our views and builds on our joint-submission to the Federal Government's *Re:Think Tax Discussion Paper* and agreement on the need to close the GST-loophole on imported tangible (i.e. the 'Low Value Threshold') and intangible (aka. the 'Netflix' tax) goods.

With retail having a presence in every city and town across the country, it is in the interest of all jurisdictions to support and maintain a strong retail sector. We know that, for instance, there is a 100% correlation with retail trade and GDP, and that retail employs over 1.2 million Australians of which 56 per cent of employees are women and more than 1/3 are under 24[1]. This demonstrates the vital role retail plays with regard to female workforce participation and youth employment.

To help ensure a strong retail sector, we believe that retail should be protected from further taxes.

2 CAUSE FOR CONCERN: SIMPLISTIC ANALYSIS (E.G. STAMP DUTY VS. LAND TAX)

We are keen to ensure our current tax contribution and role in tax generation – whether it's on land, labour or retail-sales - is well understood, particularly as we believe the retail sector is already heavily taxed. The **tax contribution and generation of a typical large shopping centre** is illustrated below:

TYPICAL LARGE SHOPPING CENTRE

SNAPSHOT: TAX GENERATION

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Land value: $44 MILLION
Land tax: $970,000
Council rates: $2.7 million
Fire Services Levy: $190,000

Moving Annual Turnover (Retail Sales): $465 million
GST estimation: $18 million

We are concerned with simplistic tax proposals, such as proposals to abolish stamp duty and replace it with land tax. Shopping centres, for example, do not transact frequently and the sector is broadly comprised of long-term investors. This means that 'holding' or operational taxes, such as land tax and council rates, can be more critical, distort investment, and should not be overlooked.

These operational taxes, including payroll tax for retailers, are our biggest concerns. Stamp duty does not appear to concern major shopping centre investors or distort investment and growth decisions.

3 RECOMMENDATIONS

The ARA and SCCA make six key recommendations to state and territory governments for consideration:

1. The retail sector should be **protected from tax increases** at the state and territory levels.
2. Land tax reform should principally focus on **broadening the tax base to incorporate currently untaxed land** value, not increasing the rate on existing tax payers.
3. **Statutory land valuation** processes should to be consistent across jurisdictions or, at the very least, informed by consistent fundamental principles (e.g. UCLV basis, standard objection processes).
4. Land tax and other statutory charges should be **recoverable from tenants** under relevant retail tenancy legislation.
5. Governments should **lower payroll tax impacts on retail employment**, with the aim of eventually removing the tax.
6. Governments should recognise the existing tax and infrastructure contributions made by shopping centres and **avoid 'value-capture' infrastructure models** which are, in effect, just land based property taxes.

[1] *Retail Workforce Study, Australian Workforce and Productivity Agency, March 2014, p. 13-14.*

4 TO DATE

Reform which leads to more money in the pockets of consumers is a good thing for shopping centres and their retailers, but any reform which increases taxes on landlords and their retailers can also come at a cost to retailers and their consumers.

It is our experience that governments can quickly abandon so-called 'tax principles' when faced with 'tax politics'.

Shopping centres and their retailers have, in the past, worn the brunt of tax increases at the expense of other property types and taxpayers, such as principal places of residence (PPoR) and primary production land. Shopping centres and their retailers bore the brunt of the transition to the Victorian Fire Services Property Levy.

Operational taxes, including land tax and payroll tax – which are paid year-in-year-out - are our biggest concerns.

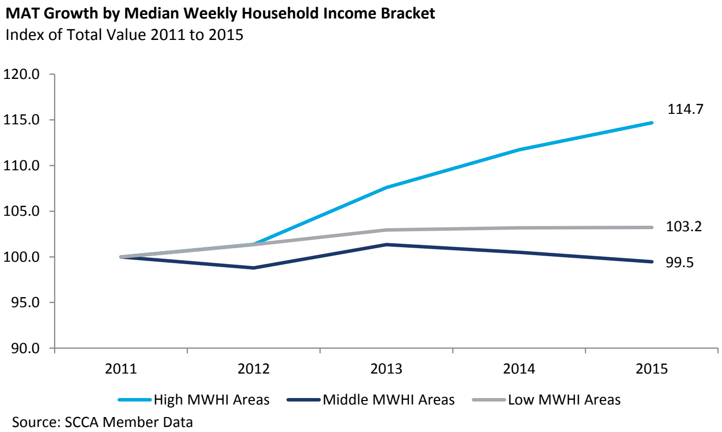
Stamp duty, particularly as it relates to shopping centre transactions, does not appear to concern major investors or distort investment and growth decisions.

The ARA and SCCA continue to support improving the integrity of the GST base, including the abolition of the $1,000 GST Low Value Threshold (LVT) on tangible goods imported from overseas and the introduction of the 'Netflix Tax' on intangible goods and services imported form offshore.

Both are necessary to ensure that there is a level GST playing field between domestic and international retailers.

5 THE GST – A COMMENT

Our analysis has revealed that an increase in the GST (taken 'off the table' by the Federal Government) may have had a disproportionate impact on shopping centres and their retailers in relatively low income areas. Shopping centres in areas where the population catchment earns below the *Median Weekly Household Income (MWHI)* - i.e lower income areas - already experiences lower retail sales growth than higher income areas.



An increase in the GST could place additional pressure on consumers and small businesses in lower income locations. This would have added another dimension to the potential impact of an increase in the GST and associated compensation arrangements.

6 CRITICAL ISSUES

The following details six critical issues about the incidence of the tax system on the shopping centre and retail sectors, including the disproportionate tax burden shared between landlords and their retailers. It also details the impact of so-called efficient taxes, such as land tax, can have on the feasibility of shopping centre investment and the increased costs carried by retailers in form of additional payroll tax if they want to grow.

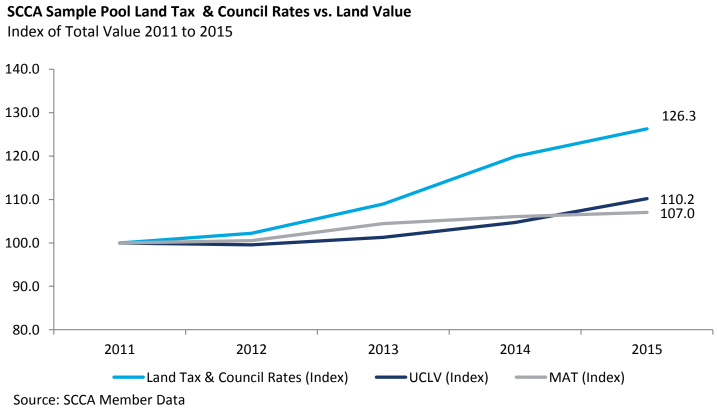
It also flags the growing risk of double and triple taxation as a result of the so-called 'value capture' infrastructure funding.

1: The retail sector shouldn't continue to be hit with tax double-dipping and ever-increasing taxation

Land is taxed multiple times – different levels of government dip into this tax base many times over.

The states raise land tax and charge emergency services levies, councils charge council rates and the Federal Government is looking at applying a 'value-capture' funding mechanism tied to theoretical increases in land value.

At a national level, land-based taxes paid by shopping centre owners and retailers already outstrip growth in unimproved capital land values and centre Moving Annual Turnover (MAT). This means that governments are already receiving windfall tax contributions over and above the underlying growth in land valuation and centre performance.



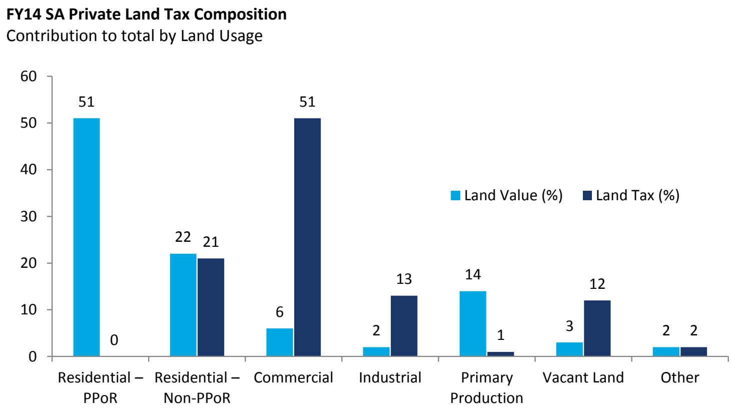
This is a concerning trend, and one which indicates that Australia's governments aren't thinking carefully enough about the relationship between the operational costs carried by landlords and how these costs ultimately impact shopping centre tenants.

2: Shopping centres and their retailers shouldn't continue to bear the brunt of disproportionate taxes

The result of the exemption of some land types and progressive tax rates, shopping centres and their retailers shoulder a disproportionate amount of the tax take by governments.

Current tax settings are not only hurting perceived 'big businesses'. New or increased taxes on shopping centres are also a tax on retailers, including 'small business' tenants, and consumers.

Data from South Australia (the only jurisdiction which we are aware has made this type of data publicly available) reveals the extent to which commercial property is being hit with disproportionate taxes:



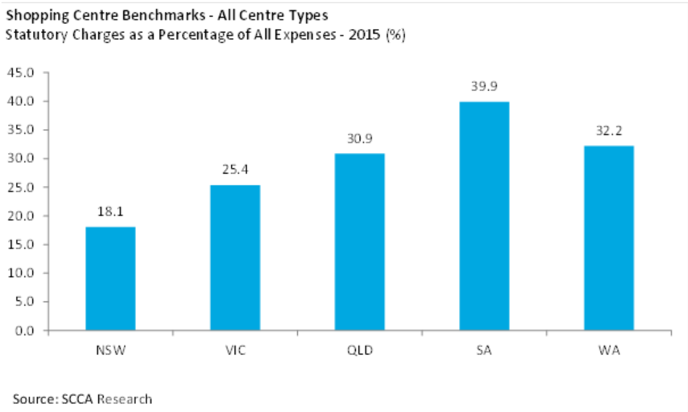
51% of land tax receipts in South Australia are paid for by commercial property, which only accounts for 6% of land value[2]. Further, while every dollar of land tax paid by a shopping centre represents $68 of commercial land value, every dollar of land tax paid by a primary production land holding represents $8,121 of primary production land value.

[2] *State Tax Review Discussion Paper*, February 2015, pg. 43

We would expect these ratios between value and tax take to be reasonably similar (even, potentially, more exaggerated) in other jurisdictions.

It is also important to acknowledge that the link between statutory land valuation and land tax receipts disproportionately impact shopping centres and their retailers as shopping centres are among the highest valued land holdings in each jurisdiction.

Increases in statutory charges also impact shopping centres retailers. Close to 40% of retailer occupancy costs in South Australia are the result of government taxes and charges. Even in NSW, close to 20% of retailer occupancy costs are the result of statutory charges.



3: Long-term investors shouldn't be taken for granted by being captured by year-in - year-out operational taxes

The reliability and consistency of shopping centre investment – including its tax contribution – is taken for granted, with governments layering up the operational taxes that need to be paid year in and year out.

This has a specific impact on shopping centres as they invest in activities that lessen their impact on council and state service providers e.g. fire suppression systems, waste management and security. This means shopping centres and their retailers end up contributing to government services that they don't generate a strong or consistent demand for.

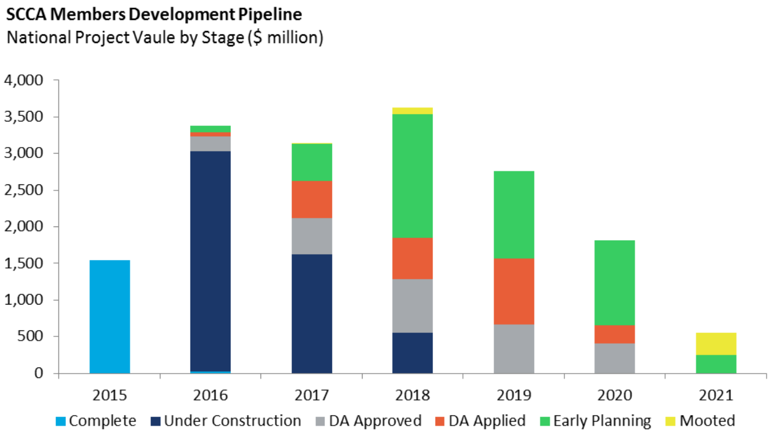
It is also a reality that shopping centres transact infrequently – on average, every 13 years. Even in sections of the market where transactions are more frequent, transaction taxes are not a barrier to investment decisions.

By way of example, over the three years since 2013, there have been around 300 transactions of retail property at a total value of around $15.5 billion.

This means that the abolition of stamp duty, with a corresponding tax shift to the land tax base to recover lost revenue, is not a priority or preferred reform option. A shift to a land tax base would leave open concerns regarding politically motivated increases in land tax rates and concerns about the statutory valuation process.

4: Land-tax is not benign and can distort investment decisions

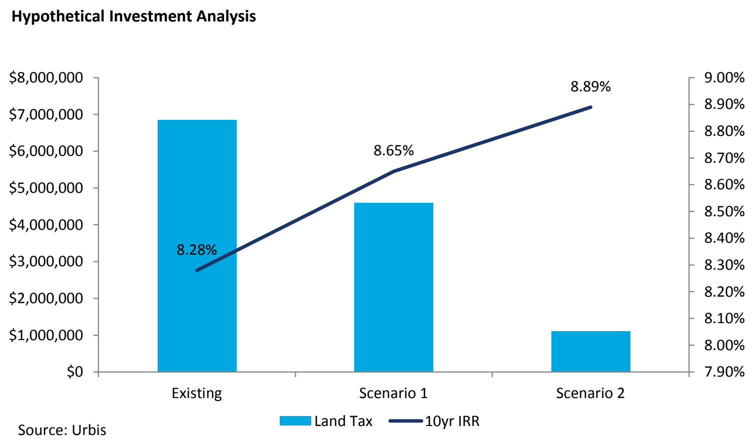
SCCA members have a multi-billion dollar development pipeline across the country for the years to 2021.



Source: SCCA Research

Despite claims it is an 'efficient' tax as its base is immobile, land tax is not a benign tax from an investment perspective. The so-called 'efficiency' of land tax is nobbled by the current incomplete tax base and progressive rate structure.

Additional income would be required to protect the Internal Rate of Return (IRR) of a prospective development as a result of any increase in land tax. This means that any increases in land tax could become a barrier that slows shopping centre redevelopment activity.



Source: Urbis

In addition to increases in land tax resulting in increased flow on costs to retailers, the potential slowing in the provision of additional retail floor space could also, ultimately, put pressure on rents.

5: Taxing retail wages is a disincentive to employment growth

Payroll tax has a considerable impost on retail businesses. It acts as a disincentive to increasing wage bills above the applicable threshold. This means that established and growing retail businesses can be hit with higher costs.

In a survey undertaken by the ARA in 2010, close to 50% of retail respondents indicated that the incidence of payroll tax had a 'major influence' on their decision as to whether to hire additional staff. 33% of respondents said it had 'some influence'[3].

The various applicable payroll tax rates, exemption thresholds and periodic and ad hoc rebate schemes also make it administratively cumbersome for retailers to ensure compliance.

State and territory governments should work with retail stakeholders to lower payroll tax impacts on employment and productivity with the aim of eventually removing the tax.

[3] *ARA, Submission to 2010 Federal Minimum Wage Review*

6: 'Value-capture' could just be another tax on land

'Value-capture' funding has been proposed as a so-called 'new' and 'innovative' method to fund infrastructure. While various models exist, we are concerned that 'value-capture' could simply result in yet another land-based property tax and yet another tax where shopping centre owners and their retailers carry a disproportionate burden.

A shopping centre's value – whether it's statutory value or market value - is already captured, taxed and 'shared' multiple times by Australia's governments. This includes capturing the value of any infrastructure projects.

There is also no credible method to properly isolate and quantify the contribution made by an infrastructure project, let alone a proposed *future* infrastructure project, to an asset's land value. In this regard, it would also be very challenging to credibly determine the value baseline or benchmark against which any supposed increase in value would be assessed.

Shopping centre owners also already make contributions to infrastructure at the development and redevelopment stage, and there is generally (and rightly) a nexus with infrastructure demand generation. Shifting to a value basis removes any need for a nexus between a contribution and infrastructure demand.

Progressing down the path of requiring a 'value-capture' component to be included in the funding mix of any given piece of infrastructure opens up the risk the state and territory government's will just be dipping into a tax base which has already been taxed multiple times.

As the tax base – i.e. land – sits with state and territory governments, the political risk associated with a possible land-based tax grab via 'value-capture' also sits with the states and territories.

7 THE RETAIL SECTOR

The retail and shopping centre sectors are major arms of the Australian economy which underpin and facilitate Australia's economic growth. They are important, consumer facing and employment generating sectors which reach every corner of the country.

- There is a 100% correlation between Retail Trade and GDP. The health of the retail sector reflects the general health of Australia's economy and the confidence of consumers.
- The retail trade employs over 1.2 million Australians. 56 per cent of employees are women and more than 1/3 are under 24[4]. This demonstrates that retail plays a vital role with regard to female workforce participation and youth employment.
- The SCCA's largest five members own and manage in excess of $75 billion in assets which encompass 28,600 retailers and achieve $53 billion in retail sales. Our members have a $10 billion national investment and development pipeline over the next three years and want to deliver this investment with confidence.

Shopping centres are extremely efficient hubs for local employment, community gathering, tax generation and infrastructure funding. A typical shopping centre pays close to $4 million in state and council land based taxes each year, and generates around $18 million in GST. Shopping centres and their retailers also contribute via Payroll Tax, the generation of Income Tax via retail employment, Stamp Duty on relevant transactions, and direct contributions to infrastructure provision.

8 CONTACT

The ARA and SCCA has more detailed information on the critical issues raised above and would be pleased to discuss them further.

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[4] *Retail Workforce Study, Australian Workforce and Productivity Agency, March 2014, p. 13-14.*