

POLICY BRIEFING

The case for tax reform: Stamp Duties and Land Tax



This ACOSS Policy Briefing sets out the case for tax reform to stamp duties and land tax in Australia.

The reform proposed by ACOSS is to move away from reliance on stamp duties on property transactions for State and Territory revenue, and to move towards reliance on a well-designed broader land tax as a revenue base for the States. The principle of a shift from stamp duties to a broad-based Land Tax has broad support, including most recently by the National Reform Summit, held between ACOSS, the ACTU, the Business Council of Australia, the Australian Industry Group, and the Australian Chamber of Commerce and Industry¹.

In the view of ACOSS, ideally, such a reform should minimize exemptions and broaden the Land Tax base as widely as possible in order to yield greater revenue for State governments and lessen distortions in the market. Generally speaking, the wider the Land Tax base the greater the positive impacts on housing affordability and rents.

However, reform would need sufficient flexibility to limit inequities and prevent people on low incomes from being forced to pay a new tax which they might not be able to afford.

Accordingly, a broader Land Tax would need to be coupled with appropriate concessions, deferrals and exemptions for low income groups, such as pension and other income support recipients and people who are 'asset rich and income poor'.

Reform would also need to take account of the fact that existing owner occupied landholders have already paid Stamp Duty and may consider it unfair if they are immediately required to pay further taxes on their property. One way to deal with this problem is to allow credits for Stamp Duty paid in the recent past when determining the rate of Land Tax that should apply to those affected by the reform.

Exemptions for charitable and other community service organisations would need to be considered (and this issue will be discussed in a forthcoming ACOSS tax reform discussion paper).

Current requirements which levy Land Tax on the basis of a land-owners aggregate holdings should be replaced with a regime which levies taxes on each individual

¹ Available on the ACOSS website at: <http://acoss.wpengine.com/wp-content/uploads/2015/08/National-Reform-Statement-full.pdf>

property, to encourage investment in new rental housing, especially by institutional investors who are able to offer greater security of tenure for tenants.

Land Tax and Stamp Duty reform should incorporate a sufficient transition period to ease the impact on those newly required to paid Land Tax and avoid any instability in housing markets. Over this period, broader Land Taxes would be gradually phased in while property Stamp Duties are gradually phased out. States and Territories may require additional support from the Commonwealth to cover fiscal gaps that arise as Stamp Duties and phased out and broader Land Taxes phased in. This reform is expected to yield a significant 'fiscal dividend' for the Commonwealth, which it would share with States and Territories in this way, consistent with previous micro-economic reforms.

Below is the direction of the reform. The reform should be pursued as a central feature of improving the Federation, recognising that both the Commonwealth and the States and Territories have an interest in achieving the policy outcomes as does the Australian community.

Transition away from property Stamp Duties towards a broad-based Land Tax

Goals

- + Strengthen and stabilise the State and Territory tax base to enable them to fund services and accurately budget for future spending.
- + Maximize the use of economically efficient taxes and reduce inefficient ones, strengthening future economic growth and jobs.
- + Improve housing affordability and put downward pressure on rents.
- + Remove barriers to entering the housing market.
- + Encourage greater investment in new housing stock.

Main weaknesses of the present tax system

- + Land Taxes raise over \$6 billion nationally, while property-based Stamp Duties raise \$13 billion.²

² Local Government rates, which also use the land base, raise \$14 billion annually.

- + States and Territories are increasingly reliant on property Stamp Duties to raise much needed revenue to fund essential services.
- + Stamp Duties are an unstable, inconsistent and largely unpredictable source of revenue as collection levels are tied to volatile housing markets.
- + By forcing property purchasers to pay up front, Stamp Duties inhibit the ability of new homebuyers to enter the market and lead to higher mortgage repayments.
- + Stamp Duties are a tax on mobility: they discourage older people from downsizing after retirement and make it harder for workers to take up jobs in other locations.
- + Land tax regimes contain broad exemptions for owner-occupied housing, distorting the housing market and placing upward pressure on rents and reducing the potential Land Tax revenue base by 75%.
- + Land taxes are also levied on the aggregate value of a land owner's holdings rather than the individual property – this discourages broader investment in housing (especially by institutions), again placing upward pressure on rents.
- + The lack of ongoing taxation of the value of land also discourages downsizing and other transfers of property ownership.
- + The present tax structure for owner-occupied housing - with Stamp Duty paid on purchase and no Land Tax payable annually - benefits households with significant accumulated housing wealth over those seeking to enter the housing market, including first home buyers.

Reform proposal

Option:	Expected impact:	Revenue impact:
<p>States and Territories to progressively replace property based Stamp Duties with broad-based Land Taxes, based on the following principles:</p> <ul style="list-style-type: none"> • Longer term abolition of property Stamp Duties • Broadening Land Tax by ending owner-occupation based exemptions 	<ul style="list-style-type: none"> • More secure revenues for State and Territory Governments. • Less rapid growth in house prices and rents. • Greater transfer activity in housing markets. • Greater investment in new housing. • Stronger growth in the economy over the long term, 	<p>Revenue neutral for State and Territory Governments; with potential for greater revenue in the long term depending on Land Tax</p>

Option:	Expected impact:	Revenue impact:
<ul style="list-style-type: none"> • Progressive rate scales based on the value of each property, without aggregation for multiple properties³ • Exemptions, deferrals and/or concessions for low income-earners • Gradual reform, with potential for fiscal gaps to be covered by Commonwealth support 	<p>yielding a fiscal dividend for the Commonwealth⁴</p> <ul style="list-style-type: none"> • Fair treatment of people on low incomes and community organisations. • Extending Land Tax to owner-occupied housing would disproportionately impact the top 20% of households (by income), who would pay on average five times the Land Taxes paid by the lowest 20%, even in the absence of exemptions, deferrals, or a progressive Land Tax rate scale.⁵ • People entering the housing market for the first time or moving house more often would be better off. 	<p>thresholds and rates.⁶</p> <p>A less volatile tax base for States and Territories than Stamp Duties.</p>

³ An alternative option is to aggregate the value of multiple properties for individual investors only (and not institutions such as superannuation funds).

⁴ Modelling by KPMG for NCOSS and the NSW Business Chamber suggests that replacement of property Stamp Duties with Land Tax in NSW would increase Gross State Product by more than 1%, add around 10,000 additional jobs, and raise the living standard of an average household by more than \$1,400. <https://www.ncoss.org.au/news-and-events/media-releases/switch-stamp-duty-for-land-tax-to-boost-housing-affordability-and>

Media reports suggest that Treasury predicts a long-term economic gain nationally of 1.5% of GDP, or \$24 billion. <http://www.afr.com/news/politics/turnbull-pushes-efficient-taxes-20160404-gnxqso>.

⁵ Grattan Institute (2013), 'Renovating housing policy.' See also Grattan Institute (2015), 'Property taxes'. Note that ACOSS is not advocating specific Land Tax thresholds or rates at this stage.

⁶ Existing property Stamp Duties and Land Taxes raise approximately \$21 billion per annum. Freebairn et al (2015) 'Reform of State taxes in Australia', Melbourne School of Government.