

Submission to the Legislative Council Economy and Infrastructure Committee Inquiry into Land Transfer Duty Fees



Legislative Council Economy and Infrastructure
Committee
The Parliament of Victoria
Melbourne

Re: Inquiry into Land Transfer
Duty Fees

Dear Honourable Members,

The Melbourne New Progressives is a people-driven movement working to create a bigger, better Melbourne. We want to live in the version of Melbourne that truly earns the title of World's Most Liveable City.

In this submission we focus particularly on point (1)(d) within the Inquiry's Terms of Reference, noting the troubling effects of land transfer duty fees on housing supply and development.

We extend our strong support for replacing current land transfer duty fees with a broad-based tax on the unimproved value of land, as has been laid out by Federal and State-level Inquiries and recommendations in recent years. A land value tax is a more equitable, greener, and more consistent way to raise revenue, and will lead to better outcomes for Victorians, Victoria and the government.

These outcomes include stable state revenues unaffected by housing churn, which will in turn offer current and future Victorians a greater freedom of movement, and an opportunity for a higher quality of life, no matter where in the state they choose to live.

Thank you for taking your time with our submission. We look forward to engaging with you throughout the Inquiry process and beyond.

Yours sincerely,



Jonathan O'Brien
Lead Organiser
YIMBY Melbourne
contact@yimbymelbourne.org.au

Introduction

Land transfer duty fees (commonly known as stamp duty) are a burden on homebuyers and discourage homeowners and renters from moving. Current exemptions provide a hand-out to the already well-off, and create an additional barrier to social mobility. Stamp duty is an inconsistent funding source for the government because it is highly dependent not only on housing prices, but also on the number of house sales that occur in a given year. These issues among others have led the Australian Treasury to estimate the marginal excess burden of taxation via stamp duty at 72 cents per dollar raised¹.

Land transfer duties are a burden on homebuyers and discourage homeowners and renters from moving. Whether we're talking about a family that needs an extra bedroom, a family moving into a new city, or older couples downsizing, stamp duty is an additional burden that prevents households from finding the right space for them. The more often a person has to move, the more stamp duty they will inevitably have to pay.

As of December 2022, the stamp duty payable on the median house price in Melbourne is \$56,810². This is more than 50 percent of the median Melbourne household's income, meaning that to purchase a home in Victoria is to pay more than half a year of your whole household's income in up-front taxes. Moreover, land transfer duties are regressive because they force families on lower incomes to spend proportionally more on housing costs than wealthier households.

This is a huge extra cost added on top of already soaring house prices, which are increasingly out of reach for a large number of Victorians, young and old, as house prices surpass ten times the median annual wage in Melbourne³.

As a replacement for stamp duty, the Melbourne New Progressives endorse a consid-

ered implementation of a broad-based land value tax. Land value taxes provide a fairer, more efficient, more reliable source of revenue that encourages higher density-living which makes vibrant communities and supports Victoria's iconic public transport network. Building more density is important to make cities greener, and to house the roughly 5 million new residents our great state is expecting over the next 35 years⁴.

As the ACT did in 2012⁵, instigating a gradual transition away from stamp duty and towards a land value tax is a proven way to make this change, avoiding any sudden shocks and preventing double-taxation for home-owners. We firmly believe that this is the best, most equitable way to replace stamp duty in a way that serves citizens and their government alike.

Land transfer duty fees: a chilling effect on housing supply and development

In their submission to the House of Representatives Standing Committee on Tax and Revenue Inquiry into Housing Affordability and Supply in Australia, Master Builders Association (MBA) submitted evidence that the cost of stamp duty in Melbourne is equivalent to 5.7% of a median-priced house for a first home buyer—in excess of \$50,000⁶.

The Reserve Bank of Australia noted in their submission to the same Inquiry the effects of this cost beyond the homebuyer⁷. Specifically, the RBA notes that high stamp duty disincentivises people from moving, leading to an underutilisation of housing stock. One specific example of this underutilisation is retirees who retain a family-sized home to avoid land transfer duty fees as a major cost of moving. Harvard-based Opportunity Insights have also found low income households are able to rise up in the income ladder, if opportunities to move exist⁸. They find that barriers in the housing search process are a central driver of residential segregation by income.

Chilling effects such as this are supported by Davidoff & Leigh (2013), whose research found that a 10% increase in stamp duty reduces population mobility by 6% over a three year period⁹. Other cited research indicates the negative effects stamp duty has on supply and development, through overall reduction in labour allocation efficiency and the mobility of human capital^{10, 11}.

While stamp duty is not the only factor driving Victoria's shortage of housing and new development, its effects are significant. The evidence cited above is in no way exhaustive, and we strongly advise the Legislative Council Economy and Infrastructure Committee to refer to the thorough evidence and recommendations most recently made public by both the House of Representatives Standing Committee on Tax and Revenue's 2022 Inquiry into Housing Affordability¹² and the NSW Pro-

ductivity Commission's 2021 white paper *Rebooting the economy*¹³, which we enumerate in the next section.

What's clear is this: land transfer duty fees are an inefficient, distortionary tax. They are expensive for Australians and their governments alike, reducing overall welfare by 72 cents for every dollar of revenue raised^{1b}. This figure is drawn from the Australian Treasury's 2015 report, *Understanding the economy-wide efficiency and incidence of major Australian Taxes*, a report in which they also state:

"Consistent with earlier studies, stamp duty on conveyances and the company income tax are the least efficient taxes (that is, they have relatively high marginal excess burdens), while the most efficient tax is a hypothetical broad based land tax."^{1c}

This finding informs the recommendation made in the following section of our submission.

Recommendation to the Inquiry: implement a broad-based land value tax

We recommend a land tax be fully implemented for all residential property as a replacement for land transfer duty tax. While the specifics of this implementation are outside the scope of our submission, several promising versions of this policy can be pointed to around Australia and the world. These include but are not limited to:

- The *ACT Taxation Review (2012)* which recommended abolishing stamp duty, with land tax being used to replace the lost revenue over a 20 year time frame^{6b}.
- The Grattan Institute has called for the replacement of stamp duty with land tax¹⁴,¹⁵. They recommend a progressive land tax that includes primary residences, based on the value of each property owned, separately rather than the combined value of all properties. They propose a phase in over 10 years similar to the ACT land tax reform, and allows asset rich, income poor households to defer payment of the land tax until the house is sold.
- The Productivity Commission's *Five-yearly Productivity Review (2017)*, recommended a phasing out of stamp duty in favour of land tax over several years, including provisions to allow households on low incomes to defer payment until sale of the property¹⁶. The PC notes that the constraint, in terms of phase-in period, is mostly political capital related. In an increasingly polarised electorate, this constraint could be relaxed. In effect this means a fast transition from stamp duty to property tax is possible.
- The *Henry Tax Review (2010)* recommended a broad-based land tax at a fixed rate to replace stamp duty¹⁷.

Of these implementations, we recommend most strongly the Grattan Institute's model where the tax changes are phased in over 10

years as a promising, positive path for reform in Victoria. In turn, we caution against the approach of New South Wales, which has opted to significantly weaken its recent land tax reform by restricting its reform to only apply to first home buyers, and by allowing land tax on primary residences to revert to stamp duty when a property is sold, instead of easing itself off stamp duty entirely.

Conclusion

Our submission strongly supports a move away from land transfer duty fees, and toward the more equitable and efficient broad-based land value tax.

Our recommendation mirrors those of the NSW Productivity Commission's 2021 *White Paper* (Recommendation 6.1) and the House of Representatives Standing Committee on Tax and Revenue's 2022 *The Australian Dream* (Recommendation 9). We include these below for your reference.

“Switching our tax mix to more efficient taxes, starting with the replacement of transfer duty with a broad-based land tax.”
14b

NSW Productivity Commission *White Paper* (2021), Recommendation 6.1

“The Committee recommends that state and territory governments replace stamp duty with land tax.

“The Committee recommends states and territories replace stamp duty with land tax. This should be implemented over time, avoiding those who have already or recently paid stamp duty facing double taxation through the replacement land tax. This change would increase housing turnover, remove an unnecessary obstacle to home ownership and stabilise government revenues.”^{13b}

House of Representatives Standing Committee on Tax and Revenue, *The Australian Dream* (2022), Recommendation 9

The Melbourne New Progressives extend our gratitude to the Legislative Council Economy and Infrastructure Committee for considering our submission to this Inquiry. We very much look forward to seeing positive tax reform that will help build a bigger, better Melbourne for all. ▲

Endnotes

- ¹ Cao, L. et al. "Understanding the economy-wide efficiency and incidence of major Australian taxes" *The Australian Government the Treasury*, April 2015, <https://treasury.gov.au/publication/understanding-the-economy-wide-efficiency-and-incidence-of-major-australian-taxes>
- ² "Domain House Price Report - December 2022." *Domain*, <https://www.domain.com.au/research/house-price-report/december-2022/>. Accessed 13 Apr. 2023.
- ³ "Housing Unaffordability Hits Grim New Peak." *Australian Financial Review*, 18 Sept. 2022, <https://www.afr.com/property/residential/housing-unaffordability-hits-grim-new-peak-20220916-p5bimk>.
- ⁴ *Population Projections, Australia, 2017 (Base) - 2066* | Australian Bureau of Statistics. 22 Nov. 2018, <https://www.abs.gov.au/statistics/people/population/population-projections-australia/latest-release>.
- ⁵ ACT Government. *ACT Taxation Review*. May 2012, https://www.treasury.act.gov.au/___data/assets/pdf_file/0004/423409/tax-review-may2012.pdf.
- ⁶ House of Representatives Standing Committee on Tax and Revenue. *The Australian Dream*. 2022, https://www.aph.gov.au/Parliamentary_Business/Committees/House/Former_Committees/Tax_and_Revenue/Housingaffordability/Report/section?id=committees/reportrep/024864/78750#footnote52ref
- ⁷ House of Representatives Standing Committee on Tax and Revenue. *The Australian Dream*. 2022, https://www.aph.gov.au/Parliamentary_Business/Committees/House/Former_Committees/Tax_and_Revenue/Housingaffordability/Report/section?id=committees/reportrep/024864/78750#footnote3ref
- ⁸ "Creating Moves to Opportunity." *Opportunity Insights*, 3 Aug. 2019, <https://opportunityinsights.org/paper/cmto/>.
- ⁹ Davidoff, Ian, and Andrew Leigh. "How Do Stamp Duties Affect the Housing Market?" *Economic Society of Australia*, vol. 89, no. 286, Sept. 2013, <http://www.andrewleigh.org/pdf/StampDuty.pdf>.
- ¹⁰ SQM Research. *Stamp Duty: The Relationship to Australian Housing Affordability and Supply*. 1 Oct. 2021, https://sqmresearch.com.au/Stamp_Duty_2021.pdf.
- ¹¹ Housing Industry Association. *Housing Industry Association 2023-2024 Pre-Budget Submission*. Housing Industry Association, 2023, <https://hia.com.au/our-industry/-/media/files/newsroom/submissions/2023/hia-federal-budget-submission2023-24.pdf>.
- ¹² House of Representatives Standing Committee on Tax and Revenue. *The Australian Dream*. 2022, https://www.aph.gov.au/Parliamentary_Business/Committees/House/Former_Committees/Tax_and_Revenue/Housingaffordability/Report.
- ¹³ NSW Productivity Commission. *Rebooting the Economy*. <https://www.productivity.nsw.gov.au/sites/default/files/2022-04/Productivity-Commission-White-Paper-2021.pdf>.
- ¹⁴ Coates, Brendan. *State Property Tax Reform: Balancing Economic Principle and Political Realism*. <https://grattan.edu.au/wp-content/uploads/2017/10/SA-Federalism-and-Tax-Future-Directions-for-Property-Tax-Reform-for-web-28-August-2017.pdf>. Adelaide.
- ¹⁵ Daley, John, et al. *State Orange Book 2018 Policy Priorities for States and Territories*. 2018, <https://grattan.edu.au/wp-content/uploads/2018/10/911-State-Orange-Book-2018.pdf>.
- ¹⁶ Australian Government Productivity Commission. *Shifting The Dial 5 Year Productivity Review*. 2017, <https://www.pc.gov.au/inquiries/completed/productivity-review/report/productivity-review.pdf>.
- ¹⁷ *Australia's Future Tax System Review Final Report* | Treasury.Gov.Au. <https://treasury.gov.au/review/the-australias-future-tax-system-review/final-report>. Accessed 13 Apr. 2023.