

How to abolish stamp duties and make housing more affordable: AHURI



"We think this can make housing more affordable without sparking a dramatic fall in property prices or making rents less affordable," says Richard Eccleston. **Simon Bosch**



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by [Joanna Mather](#)

"Modest" annual property tax increases of between \$47 and \$130 a year over the next decade would be enough to fund the [abolition of stamp duties](#) in favour of a broad-based land tax, a move economists agree would make housing more affordable and add billions to the economy.

The independent Australian Housing and Urban Research Institute will launch the plan in Sydney on Thursday, arguing it represents a way through the political deadlock that has stymied tax reform.

University of Tasmania professor Richard Eccleston, who is leading AHURI's Pathways to Housing Tax Reform, said the plan was cost neutral for the states and would only have a small effect on household budgets.

"The result of the shift is equal to about 0.1 per cent of household income a year and our argument is that's not a massive imposition if you introduce it over 10 years," he said.

Recurrent residential property tax reform

	Threshold (baseline* reform, 6% rate)	Recurrent rate of tax needed to reduce transfer duty rate by 0.6ppt**	Median property price (\$)	Recurrent annual tax paid on median property (\$)
NSW	245,529	0.0317	653,697	129.24
Vic	110,905	0.0306	524,872	126.64
Qld	220,983	0.0383	424,966	78.12
WA	213,351	0.0248	481,605	66.61
SA	127,274	0.0342	381,059	86.88
Tas	143,078	0.0335	283,886	47.28

*Beyond this threshold, transfer duty is levied at 6%

**10% reduction in transfer duty over 10 years

SOURCE: AHURI

Under the proposal, a single 6 per cent transfer duty for all residential property sales would be introduced. A duty-free threshold would ensure more than 60 per cent of property purchasers at the lower end would pay less stamp duty.

This simplified duty system would lay the foundation for subsequent changes, such as surcharges on foreign investors or the purchase of premium properties.

Additional revenue

The researchers modelled the effect of higher duties on investors, the revenue from which could be used to fund further relief for owner-occupiers and first-home buyers.

Removing the duty-free threshold for investment properties would raise an additional \$5.4 billion in transfer duties revenue across Australia, for example.

"The result of the shift is equal to about 0.1 per cent of household income a year and our argument is that's not a massive imposition if you introduce it over 10 years," Richard Eccleston said. **Peter Mathew**

An investor buying a NSW property worth 1.5 times the median value would pay \$18,000 more than an owner-occupier in one scenario modelled by the researchers.

"We think this can make housing more affordable without sparking a dramatic fall in property prices or making rents less affordable," Professor Eccleston said.

The research team will soon release further work showing that a gradual reduction in the capital gains tax discount from 50 per cent to 30 per cent would result in a decline in after-tax income of less than 1 per cent per year for typical investors.

For the longer term, AHURI suggests a single annual property tax levied on the combined value of house and land, a novel approach given most experts use the unimproved value of land.

State governments collected a total of \$20 billion a year in property transfer duties in 2016, with NSW and Victoria the biggest beneficiaries.

Modelled scenarios

With this in mind, AHURI modelled scenarios in which transfer duties are gradually reduced while property tax is phased in, such that state budgets remain steady.

"The analysis reveals that a modest annual property tax of between \$47 and \$130 per annum on median value properties could fund a 10 per cent reduction in transfer duties," the research report says.

"This annual property tax could gradually be increased over a period of 10 to 20 years to offset the revenue currently sourced from existing transfer duties on residential property."

Professor Eccleston said bringing the plan to fruition would require national leadership and coordination.

"To use the scalpel and sledge hammer metaphor, we need a team of surgeons from all levels of government working together to deliver better outcomes," he said. "To date the surgery has been cosmetic and ineffective."

Labor's housing affordability policies include curbs on negative gearing and the capital gains tax discount.

Stamp duties are seen as some of the most harmful taxes because they discourage relocation for better jobs and downsizing. Most economists advocate replacing stamp duties with land tax.

The Grattan Institute's 2015 paper, [Property Taxes](#), found a national shift from stamp duties to a broad-based property tax would add up to \$9 billion annually to gross domestic product.

But the transition is hard because state governments, particularly in NSW and Victoria, are so heavily reliant on stamp duty revenue, although [the transition is under way in the ACT](#).

Shift the burden

PwC has previously modelled a proposal that would [allow purchasers to choose](#) between paying stamp duties up front or land tax in order to smooth the transition.

Professor Eccleston acknowledged that introducing any new tax was challenging but it was important to remember that "this is not an overall tax increase – it is introducing an efficient tax to replace an inefficient one".

"At the margin it will shift the property tax burden from younger home owners and aspiring purchasers to older home owners. That's good for intergenerational equity and home ownership," he said.

Before a land tax switch can begin to take place, Australia needs a harmonised system of property valuation and administration, the AHURI researchers suggest.

Australia is one of the few countries with two levels of government imposing taxes on land and property, and there is a clear case to integrate local government rates and state property taxes, the research report says.

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