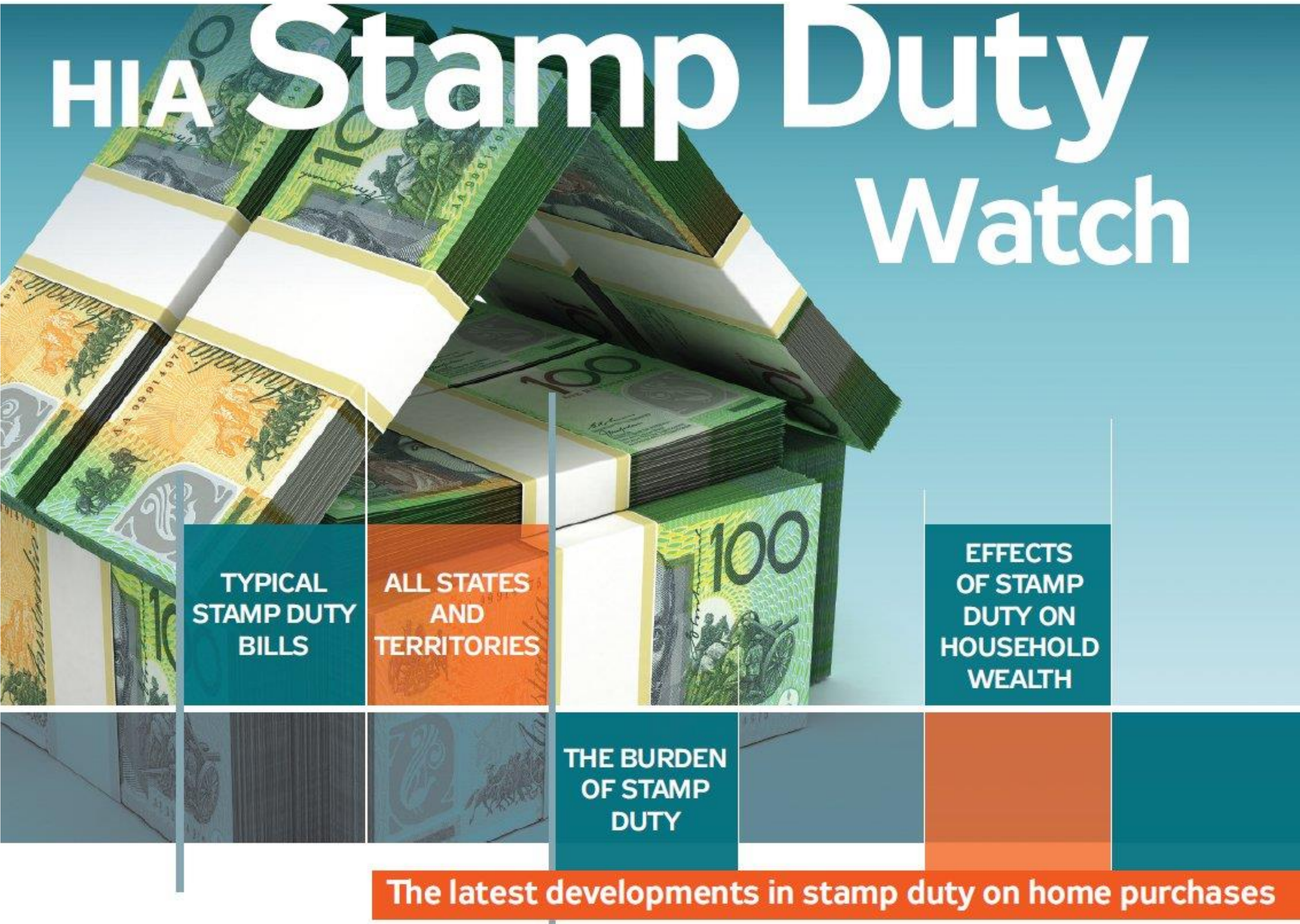
HIA Stamp Duty Watch
TYPICAL STAMP DUTY BILLS
ALL STATES AND TERRITORIES
THE BURDEN OF STAMP DUTY
EFFECTS OF STAMP DUTY ON HOUSEHOLD WEALTH
The latest developments in stamp duty on home purchases

**Winter 2020**

# IT IS POSSIBLE TO ABOLISH STAMP DUTY

Average home incurs more than $20,000 in Stamp Duty

There are few things upon which economists agree. Their opposition to stamp duty is one. Stamp duty is an inefficient, inequitable and unreliable tax.

The issue for policy makers isn't in getting agreement on the need to abolish stamp duty, it is getting agreement on how to abolish stamp duty. Stamp duty has accounted for almost 40 per cent of the revenue of some state governments and an alternative source of taxation is needed if stamp duty is to be removed. This alternative source can either be from increasing existing imposts or imposing new tax arrangements. There are a myriad of alternative taxation options that are more efficient and more equitable than stamp duty.

The transition from stamp duty to an alternative tax base is the difficulty.

Broadly speaking there are several approaches to help make this transition[1]:

- The gradual transition
- The switch-on approach
- The credit approach.

The **gradual transition** or Australian Capital Territory model is one option to phase in a broad-based tax gradually while phasing out stamp duty. The Australian Capital Territory is half-way through its chosen 20-year transition. This method addresses the risk of double taxation and minimises revenue shocks. The gradual transition approach does have an inherent risk. If it is abandoned before Stamp Duty is completely abolished, households are left with the worst of both worlds. They incur Stamp Duty on the purchase of a home and incur additional broad based tax imposts. It is essential that once this method is adopted that it is not abandoned. Our full review of this method of removing Stamp Duty is available here.

The **switch-on approach** sits at the other end of the spectrum, imposing a replacement tax and removing stamp duty immediately. Unfortunately this approach results in significant revenue losses for the state government in the short term. Those who have recently purchased property and paid Stamp Duty could be hit with a new, or an increase in an existing tax.

The **credit approach** offers a middle-ground. In this case, the transition from Stamp Duty to a replacement tax is immediate not phased, allowing all the efficiency losses from Stamp Duty to be dropped straight away and avoiding the risk of double-taxation. To compensate current property owners, 'credits' can be granted in lieu of cash payments. Deferrals or simple exemptions are other options. This can include for recent buyers, retirees, even farmers.

- Other concessions/add-ons to make the transition smoother could include:
- A 'tax holiday' that delays the introduction of the replacement tax.
- A temporary 'opt out' option for new buyers.
- Deferrals of the replacement tax (plus interest) until the property is sold.
- Making the new tax progressive, with lower value land uses like farming potentially exempt.
- Only levying the new tax until the equivalent of the upfront stamp duty has been paid over time, rather than in perpetuity.

[1] Prosper Australia, Designing the Transition, 2019