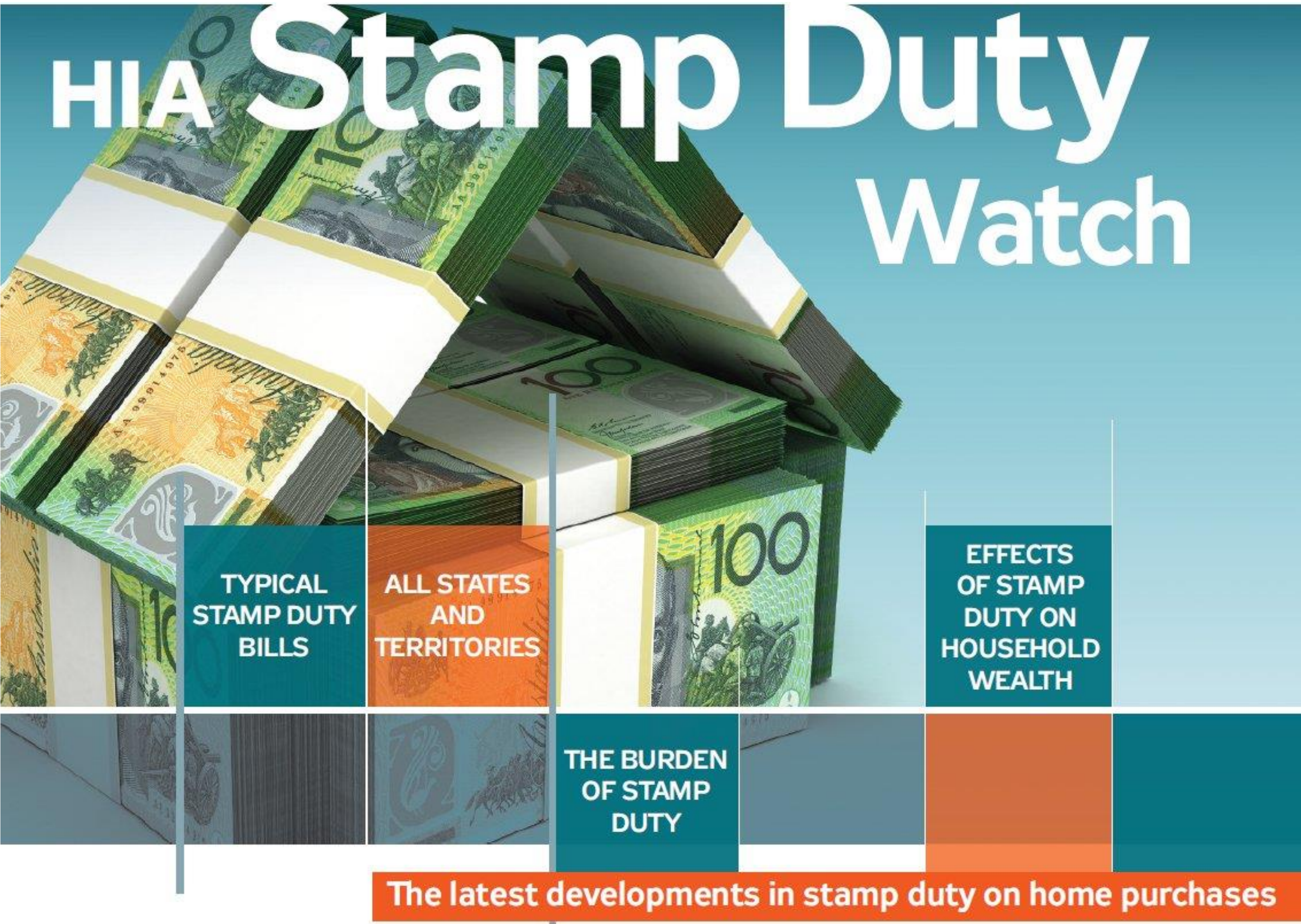

HIA Stamp Duty Watch
TYPICAL STAMP DUTY BILLS
ALL STATES AND TERRITORIES
THE BURDEN OF STAMP DUTY
EFFECTS OF STAMP DUTY ON HOUSEHOLD WEALTH
The latest developments in stamp duty on home purchases

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

The loss of revenue from the immediate transition and various credits and concessions can either be covered by State government debt – given its superior borrowing capacity and ability to borrow far more cheaply compared to any household or business – or through a higher short term rate for the replacement tax.

Despite the economic popularity of an alternative tax base other than stamp duty, the transition has posed a major barrier that can't be ignored. The transition is crucial and the above concessions can help smooth the reform and improve equitability and revenue objectives.

It is difficult for any state to abolish Stamp Duty in isolation. The Australian government has an important role to play as there are implications for GST revenues and possible inter-state distortions that require coordination.

What's wrong with stamp duty?

Stamp duty is one of the most inefficient, inequitable and unreliable taxes in existence. Recent Australian Treasury modelling found "the economic cost of collecting each additional dollar of revenue through stamp duty on property is 72 cents in the dollar, compared with 19 cents for the GST and virtually zero for a broad-based land tax".

The burden of this tax is borne by four main groups – home buyers, workers, families and retirees, and ironically, State governments – and spreads across the entire economy.

Home Buyers. Stamp duty is imposed on a small cohort of people precisely when they can least afford it. First home buyers have to take on larger mortgages to cover this additional cost. Other vulnerable households that – through a change in life circumstances – have to move into a more affordable home lose much of this affordability 'gain' to stamp duty.

Workers. Having to pay stamp duty every time you buy a house also discourages people from relocating to areas of superior employment or education and training opportunities. Some may tolerate a longer commute but this just represents another element of how stamp duty places real barriers to people achieving their full career and earnings potential, plus adding to costly congestion and urban sprawl.

Families and Retirees. One of the incentives of 'downsizing' for retirees is being able to sell the big empty family home, buy a smaller, more affordable home, and then live on the 'profit'. Stamp duty swallows up a big chunk of that 'profit', discouraging older Australians from moving into smaller homes more suitable for their changing needs. This limits the stock of family-friendly homes into which young families can up-size. It also prevents the redevelopment of older well-located family homes into more affordable higher density housing that makes better use of existing infrastructure, services and amenities.

State Governments. Stamp duty is a highly volatile, pro-cyclical source of tax revenue for State governments, subject to the whims of the property market. Even a small contraction in housing market activity or prices has a disproportionate impact on those revenues. This can then create or exacerbate a broader economic downturn if it forces the government to undertake fiscal austerity – ironically worsening the budget, not to mention the damage wrought by underfunded education systems and ageing infrastructure networks. This kind of volatility makes it harder to forecast revenues, undermining confidence and investment decisions by both the public and private sectors into the long term.

The Cost of Stamp Duty

Nationally the median-priced dwelling in May 2020 was $548,932 and produced a weighted average stamp duty bill of $20,767 – down by 2.2 per cent from six months earlier. This decline was on the back of a 2.0 per cent decline in dwelling prices over the same period.

Tasmania was the outlier with its stamp duty bill growing strongly on the back of strong dwelling price growth. The Northern Territory was the only other jurisdiction where the stamp duty bill also grew, but only marginally. All other jurisdictions saw their stamp duty bills decline, led by Queensland and Western Australia.

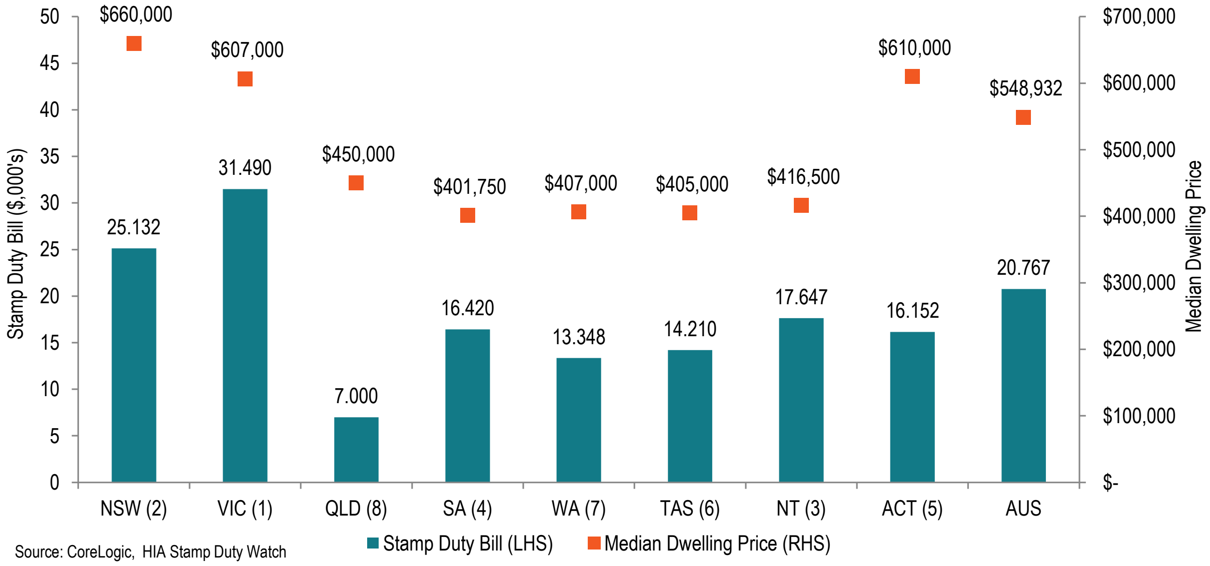
- Victoria imposes the largest stamp duty bill, even with only the third highest median dwelling price of $607,000, the state has a stamp duty bill of $31,490. This is down by 2.4 per cent on six months ago.
- By comparison, NSW has the most expensive median dwelling price of $660,000 but a lower stamp duty bill of $25,132, down by 2.6 per cent on six months ago. NSW saw the second largest fall in median dwelling prices at -4.2 per cent, more dramatic than the fall in the state's stamp duty bill.
- The Australian Capital Territory, being half way through its 20-year transition away from stamp duty, has only the fifth-ranked stamp duty bill in the country of $16,152, down by 1.3 per cent on six months ago despite dwelling prices being up by a further 1.1 per cent. At $610,000, the median dwelling price is even higher than Victoria, behind only NSW.
- Queensland has the lowest stamp duty bill at just $7,000 on a $450,000 median price dwelling. This is down by 4.8 per cent on the stamp duty bill six months ago – the nation's fastest decline – following a decrease of 3.2 per cent in the median dwelling price.

The other jurisdictions – South Australia, Western Australia, Tasmania and the Northern Territory – are at the lower end of the spectrum in terms of median dwelling prices but their respective stamp duty bills are well above Queensland and even consistent with the much pricier Australian Capital Territory market:

- South Australia has a median dwelling price of $401,750 and a stamp duty bill of $16,420, down by 1.7 per cent on six months ago.
- Western Australia has a median dwelling price of $407,000, producing a stamp duty bill of $13,348, down by 4.4 per cent in line with the 5.3 per cent decline in dwelling prices over the last six months.
- Tasmania saw the largest increase in its stamp duty bill, up by 9.5 per cent from six months earlier to $14,210. This was consistent with Tasmania also having the fastest dwelling price growth over the same period, up by 8.0 per cent to $405,000.
- The Northern Territory was the only other jurisdiction where the stamp duty bill increased, though up by only 0.6 per cent to $17,647. This is an especially moderate increase considering that dwelling prices in the Northern Territory increased by 2.8 per cent over the same period to $416,500.

The chart below shows the variation in stamp duty bills on a median-valued dwelling across the jurisdictions.

Stamp Duty Bill and Median Prices for Owner Occupiers (Non-FHB), May 2020



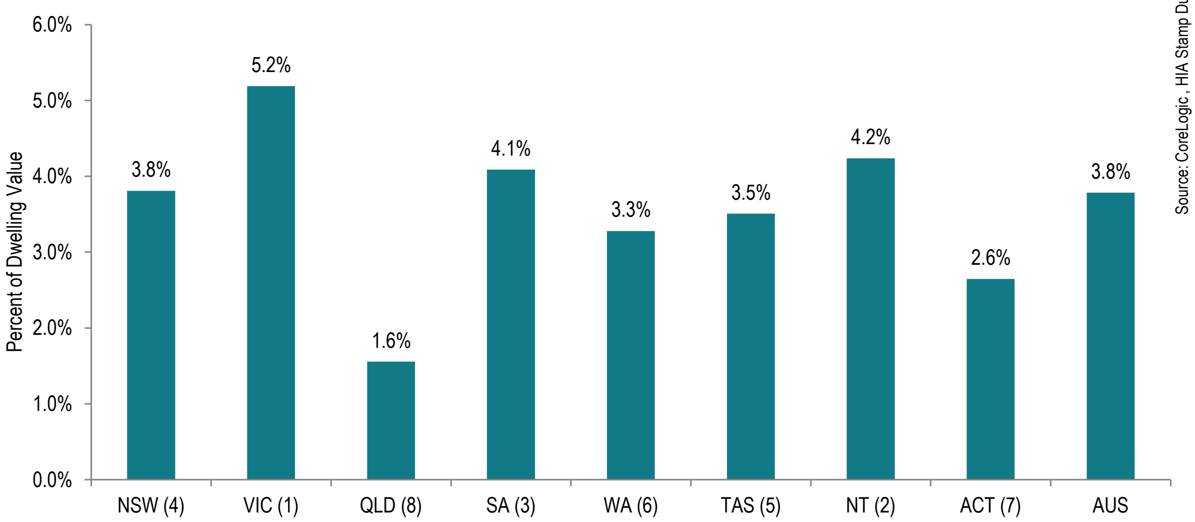
Source: CoreLogic, HIA Stamp Duty Watch

The Burden of Stamp Duty

The size of the stamp duty bill tends to be larger in markets with higher dwelling prices. The chart below compares the size of the typical stamp duty burden relative to the median dwelling price across the states.

- Nationally, stamp duty represents 3.78 per cent of the value of a median priced dwelling, down from 3.80 per cent in November 2019.
- Victoria, despite only being the third-ranked jurisdiction in terms of median dwelling price, carries the highest stamp duty rate of 5.19 per cent, consistent with the 5.20 per cent six months ago.
- NSW, despite being the most expensive jurisdiction in terms of median dwelling price, has only the fourth-ranked rate of stamp duty at 3.81 per cent, consistent with the 3.82 per cent six months earlier.
- The Australian Capital Territory's rate of stamp duty is even lower at 2.65 per cent, the second lowest in the nation and consistent with the 2.66 per cent six months ago. This low rate is driven by the Australian Capital Territory being half way through its 20-year transition away from stamp duty.
- Queensland has the lowest rate of stamp duty at just 1.56 per cent, down from the 1.60 per cent six months ago and consistent with recent falls in dwelling prices.
- South Australia and the Northern Territory have the highest rates of stamp duty behind Victoria, at 4.09 per cent and 4.24 per cent respectively, consistent with the 4.10 per cent and 4.23 per cent six months ago.
- Western Australia and Tasmania are just under the national average with stamp duty rates at 3.28 per cent and 3.51 per cent respectively. Western Australia is down from 3.33 per cent six months earlier on the back of dwelling price declines, while Tasmania is up from 3.45 per cent on the back of the only strong dwelling price growth in the nation.

Stamp Duty Burden - Percentage of Median Price Dwelling for Owner Occupiers (Non-FHB), May 2020



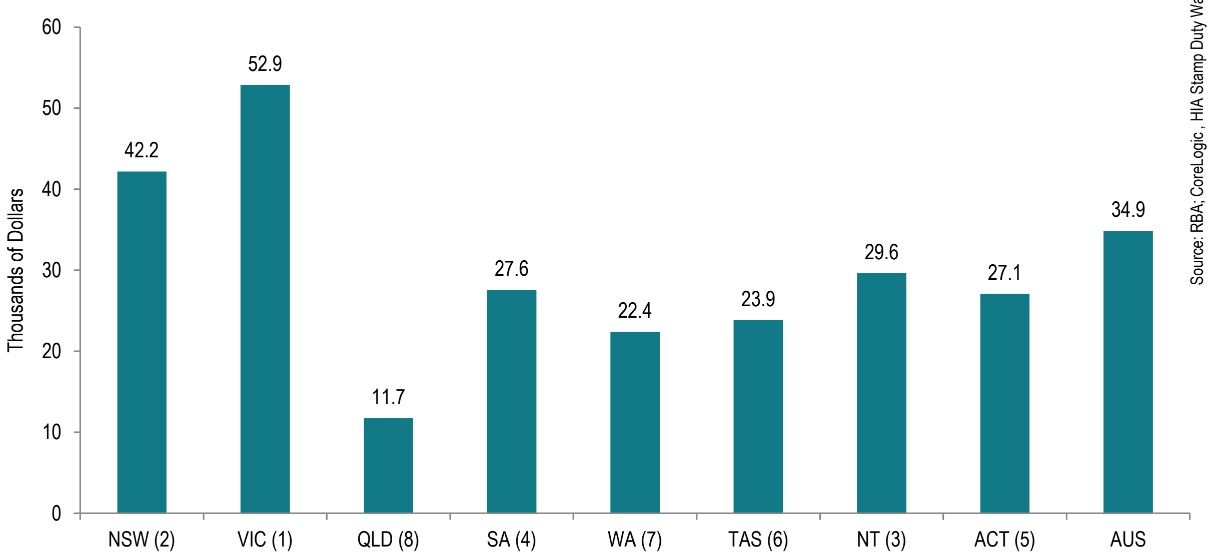
Stamp Duty and Financial Stress amongst Households

Households purchasing a home with a mortgage are essentially borrowing additional funds to cover the up-front cost of stamp duty. Given that state and territory governments are dependent on revenue generated by stamp duty, the revenue is dependent on the willingness and capacity of households to take on additional debt. The additional borrowing leads to an increase in the 'loan to value ratio' which can mean that home buyers are then required by their lender to take out additional Lenders Mortgage Insurance, which is typically capitalised onto the loan meaning even more borrowing and higher mortgage repayments.

The chart below summarises the additional mortgage repayments that a homebuyer would incur as a result of the additional borrowing required to cover the cost of stamp duty, based on a 30-year loan with an interest rate of 3.87 per cent.

- Nationally, stamp duty results in an additional $34,859 worth of mortgage repayments over the life of the loan, or an additional $1,162 per year.
- Victoria sees the biggest impact, with an additional $52,858 worth of repayments, or $1,762 per year.
- This is followed by NSW at $42,186 or $1,406 per year.
- The Northern Territory, South Australia and the Australian Capital Territory experience similar effects although much less dramatic than Victoria and NSW
    - An additional $29,622 of mortgage repayments in the Northern Territory, or $987 per year.
    - An additional $27,562 in South Australia, or $919 per year.
    - An additional $27,112 in the Australian Capital Territory, or $904 per year.
- Tasmania and Western Australia are a step further down, experiencing additional mortgage repayments of $23,852 and $22,405, or $795 and $747 per year.
- Queensland experiences the mildest effect with an $11,750 or $392 per year.

Additional Mortgage Repayments Resulting from Stamp Duty, May 2020



Stamp Duty Surcharges on Purchase of Residential Land by Foreign Buyers: Summary of Key Definitions and Concessions, June 2020

	Definition of Residential Land	Definition of Foreign Persons/Corporations	Specific Concessions	Relevant State Legislation	Other Notes
New South Wales	Does not include primary production land.	Substantial interest of 20% or 40% for two or more persons (same as FIRB's definition)	Australian-based developers who are also Australian corporations may be entitled to refunds on the surcharge in certain situations.	Duties Act 1997	In the 2017/18 State Budget the rate was increased from 4% to 8%; the land tax surcharge was also increased from 0.75% to 2%
Victoria	Excludes commercial residential premises.	Has a controlling interest in a corporation or trust which means owning more than 50% capital or shares or in a position to control more than 50% of the votes.	Commissioner, under a delegation from Treasurer, may exercise discretion to exempt a person with a controlling or substantial interest in that entity, if their commercial activities significantly add to Victorian housing stock supply.	Duties Act 2000	From the 1st of July 2019 the additional duty rate increases to 8%, up from 7%
Queensland	AFAD residential land does not include land used for hotel and motel purposes.	At least 50% of voting rights and/or issued shares.	Relief may be granted for "significant developments".	Duties Act 2001	From the 1st of July 2018 the rate is 7%, up from 3%; a 2% land tax surcharge also applies
South Australia	Excludes residential land used for a commercial purpose	Corporations not incorporated in Australia. 50% or more shares or voting rights held by foreign person.		Stamp Duties Act 1923	7% surcharge started on the 1st of January 2018, up from 4%
Western Australia	Land that is, capable of being, or intended to be, or used solely or dominantly for residential purposes or is zoned for residential purposes.	Corporations not incorporated in Australia or in which a foreign person has a controlling interest	Surcharge may exclude residential developments of ten or more dwellings.	Duties Act 2008	7% surcharge started on the 1st of January 2019, up from 4%

Source: Stamp duty-related legislation in each of the states individual support | local knowledge | national strength

ECONOMICS