The Taxation Burden on the Australian New Housing Sector

Introduction

In 2011 HIA commissioned an independent report into the taxation of the housing industry, with a particular focus on new housing.

The report, entitled *Taxation of the Housing Sector*, was prepared by the Centre for International Economics (CIE). CIE collated information on all the taxes that eventually contribute to the final price of a new home, with figures then verified with a large number of residential building businesses. A computable general equilibrium model was then used to analyse the overall tax burden by industry sector and to also examine a number of tax scenarios.

The CIE Report

The CIE report represents the most comprehensive analysis of the taxation of Australia's housing industry undertaken in many years. The results provide compelling evidence not only of a residential (new home) building sector that is very heavily taxed, but of a sector that is close to the most highly taxed of any in Australia.

The results reflect a 'bottom up industry approach' to analysing the direct, indirect, and hidden taxes levied on new housing, in addition to a rigorous quantitative modelling of the taxation of housing within the wider framework of the 111 sectors which comprise the aggregate Australian economy.

The report provides compelling evidence that, on virtually any basis of measurement, and in both absolute and relative terms, the taxation burden borne by Australia's residential building sector is excessive.

It is not only the Commonwealth Government that extracts large amounts of taxation from housing and the residential building sector. State and local governments also rely heavily on taxes and charges on residential properties for their revenue.

The taxes analysed include (among others)[1]: the stamp duties levied at different points in the housing supply chain; a raft of levies and compulsory fees; the excessive portion of a range of fees, charges and levies; as well as the generic taxes levied across all sectors such as income taxes, fuel taxes, payroll taxes, and import duties. GST and the final stamp duty payment cascade on top of these already high taxes, escalating them further.

Key points

- In 2007-08 across all tiers of government the taxation of housing contributed almost $40 billion dollars to revenue, which equates to 11.3 per cent of total local, state and Commonwealth government revenue.
- This makes housing, in absolute terms, the second largest contributor of tax to Australian governments.
- Among Australia's largest industrial sectors (those 27 sectors with a value added of more than $10 billion), the residential building sector is the second most heavily taxed in relative terms.
- The average tax burden on the residential building sector is estimated at around 31 per cent of the value of output. This compares with an economy-wide average of 24.4 per cent.
- On virtually any basis of measurement, the taxation burden borne by Australia's residential building sector appears disproportionately large.
- New housing accounts for around 1.2 per cent of value added in the economy but contributes 2.8 per cent of government taxation revenues.
- In terms of GST alone, the residential building sector accounts for 13 per cent of all GST revenue raised by the Commonwealth Government.

[1] A definition of the taxes analysed by CIE can be found on page three.

- When all taxes are included, the taxation on a new house in Sydney is an estimated 44 per cent ($268 000) of the purchase price (see table below). For Melbourne the figure is 38 per cent ($184,000) and for Brisbane the figure is 36 per cent ($191,000).

- The inefficient portion of taxes on a Sydney dwelling reaches almost $142,000 for a newly constructed house in a Greenfield location (see table below).

- The most inefficient tax is levied at a state level, namely stamp duty.

- Stamp duty revenue from new homes is larger (in absolute dollar terms) than the GST revenue from new homes.

- Simulations using CIE's model of the Australian economy indicate that most of the burden or incidence of taxation on housing falls on home buyers.

- Due to the inefficiency of stamp duties, a mere $500 million cut to this tax would create a $738 million benefit to consumers and up to a $51 million benefit to producers (see table below). Complete removal of stamp duties would obviously have a significant benefit not just for home buyers, but to the economy as whole.

- As an example:-
    - for a young couple in Sydney (based on national average take-home income in the 25 to 34 year age cohort), the cost of financing the extra cost of a home due to taxes amounts to around one third of their after-tax incomes.

    - In their first year this young couple have to pay double this when they pay stamp duty.

Examples of findings from the CIE Report

Cost of a new house by component — Sydney

Component	***Amount***
	$
Direct taxes	75 422
GST	49 392
Stamp duty	24 228
Land tax	1 457
Council rates	345
Indirect (generic) taxes on resources: capital, labour and land	86 180
Paid on direct inputs	34 269
Paid on intermediate inputs	51 911
Hidden and ambiguous taxes	106 276
Excessive infrastructure charge[a]	27 801
Zoning restrictions	40 381
Planning delays and uncertainties	38 094
Total tax component	267 879
Untaxed resource component	371 654
Total dwelling cost	639 533

[a] Incorporating only that part of the infrastructure charge which may be deemed excessive. Includes $3,000 for the installation of the National Broadband Network.

Source: TheCIE 2011.

Potential scale of inefficient or excessive tax on a dwelling

	Sydney	*Melbourne*	*Brisbane*
	A$ per dwelling	**A$ per dwelling**	**A$ per dwelling**
Stamp duty	24 228	22 156	10 073
Land tax	1 457	1 117	909
Excessive land price	40 381	19 789	9 493
Planning delays and uncertainties[a]	38 094	22 609	23 297
Excessive portion of infrastructure charges	24 801	-	20 557
National Broadband Network	3 000	3 000	3 000
Building code excesses	9 583	10 926	11 609
Total — Greenfield	**141 545**	**79 597**	**78 938**
Stamp duty	23 718	16 248	10 194
Land tax	2 971	463	1 931
Excessive land price	11 087	7 174	9 391
Planning delays and uncertainties[a]	37 426	21 371	23 630
Excessive infrastructure charges	2 818		13 696
National Broadband Network	Na	Na	NA
Total — Infill	**78 020**	**45 257**	**58 843**

[a] Estimated through removing excessive delays and uncertainties. Therefore, estimates also reflect resulting reduction in other taxes such as the GST.
Data source: TheCIE 2011.

Notional impact on price (cost to purchaser) from removal of taxes — Greenfield housing

Item	**Sydney**	**Melbourne**	**Brisbane**
	$/dwelling	$/dwelling	$/dwelling
Current cost of house to home buyer	639 533	511 202	534 726
Scenario 1: less direct property specific taxes (stamp duty, GST, land tax)	-81 855	-68 521	-60 523
Scenario 2: less ambiguous taxes (excessive part of charges)	-118 637	-72 381	-90 835
Scenario 3: less hidden indirect taxes	-196 524	-114 579	-120 109
Scenario 4: less generic taxes	-267 916	-180 250	-189 159
Notional post-sale cost of dwelling	371 617	330 952	345 567

Data source: TheCIE 2011. Note, numbers may not match precisely with estimates in table 3.3 due to sequencing of taxes

Benefits to consumers and producers of a $500 million cut in stamp duty

	Construction		*Dwellings*		*Overall in housing*	
Simulation	*Gain to consumers*	*Gain to producers*	*Gain to consumers*	*Gain to producers*	*Gain to consumers*	*Gain to producers*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*
Stamp duty	531	37 ~ 51	207	95 ~ 167	738	37 ~ 51

Data source: Estimates by TheCIE based on CIE-REGIONS simulations.

Definition of taxes used by the CIE

In its report CIE categorises taxes as follows:

- Explicit direct and indirect taxes – taxes levied solely to raise general government expenditure such as payroll tax, stamp duty and income taxes;
- Ambiguous taxes – the excessive portion of what would otherwise be a user charge. This includes the excessive portion of charges such as infrastructure charges, long service leave levies and so on; and
- Hidden taxes – the excessive portion of arrangements that increase the cost or reduce the profitability of building new housing in an attempt to achieve other social objectives. This includes, for example, where building standards are set at overly stringent levels or where minimum energy efficiency ratings are set above the economically efficient level.

This categorisation is based upon Productivity Commission definitions of what constitutes a tax. For example in its 2001 Inquiry Report, *Cost recovery by government agencies*, the Commission notes that:

"A fee-for-service is a direct charge for the provision of a service. The general principles are that: a fee must reflect the costs of the service provided; and the service must be rendered to, or at the request of, the party paying the account. If these principles are not met, then a purported fee-for-service may amount to a tax…"