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ACT broad-based land tax a “no brainer” for other govts

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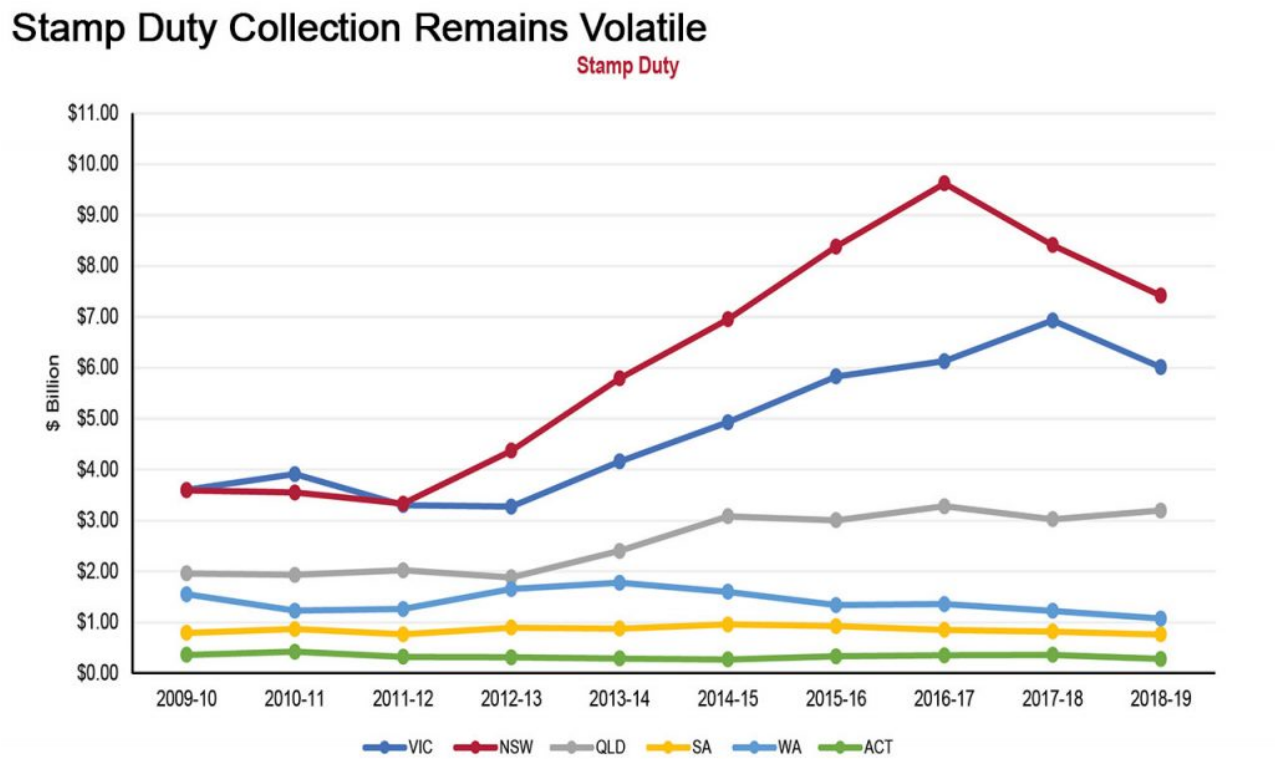
Liz Jordan September 30, 2020

STATE governments looking for certainty in revenue streams are advised to follow the ACT’s lead and transition away from volatile stamp duty collections towards a more reliable broader based land tax, a move that a valuation and advisory firm describes as a “no-brainer”.

According to analysis by m3property, all states with the exception of Queensland experienced a decline in stamp duty revenue during 2018-19 in comparison to 2017-18, with Victoria and NSW experiencing declines of 13.3% and 11.8% respectively.



Source m3property

Report authors Amita Mehra and Grant Jackson said the volatility of revenue collection from stamp duty made it difficult for states to manage budgets and long term planning.

NSW raised almost 28% of taxation revenue from stamp duty during the property market boom in 2017-18 – one third greater than a decade prior – before revenue dropped sharply.

“This is not an isolated case and it’s the type of volatility that makes it extremely difficult to manage budget projections and policy implementation

> “Indeed, given the very significant contribution stamp duty has and often does make to the bottom line of state budgets, a shift to a more reliable and more predictable income stream appears very much a no-brainer.” Mehra said.

The report looked to the example of the ACT government for reform. The territory moved to a new tax mix in 2012, which included switching duties, including the Conveyance Duty, also known as stamp duty, to provide a stable and sustainable revenue source.

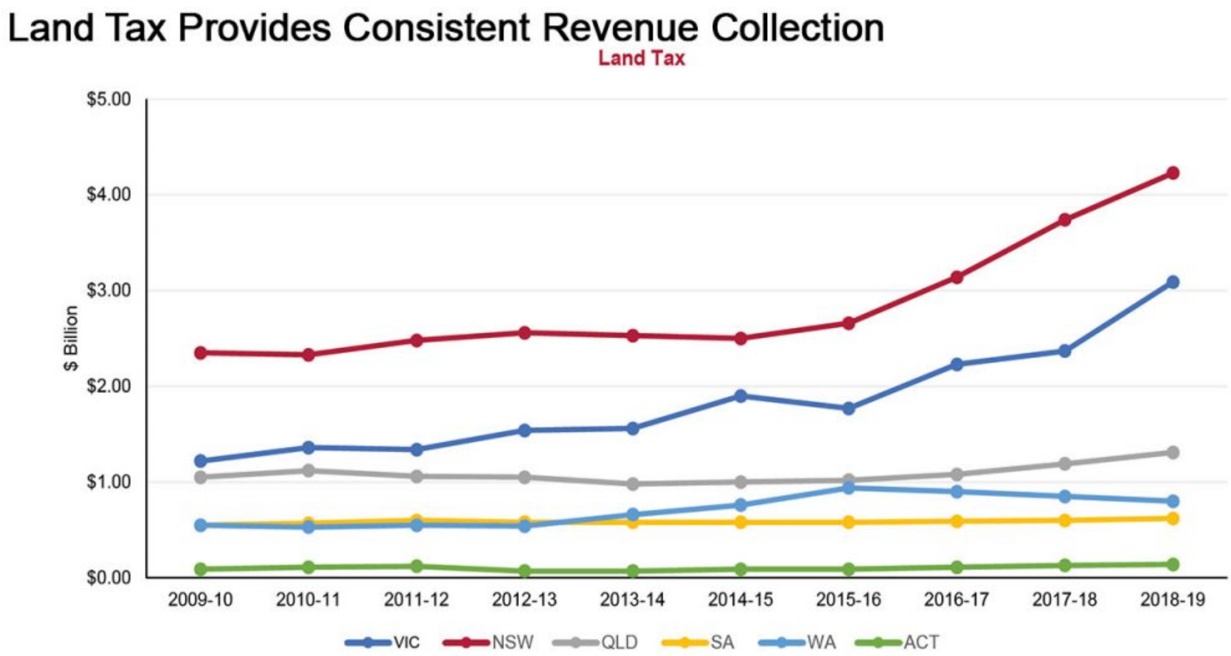
According to the ACT government’s 2019-2020 budget papers, the tax reform package has cut stamp duty to zero for commercial property transactions worth $1.5 million or less. Subsequently, about 70% of commercial property deals now involve no stamp duty.

Insurance duty has also been abolished, saving a household with $3,000 worth of insurance $300 each year, and raised payroll tax threshold to rose to $2 million, releasing 90% of ACT small and medium businesses from the added burden.

Australian Bureau of Statistics data shows the ACT's overall growth in revenue from general rates, conveyance duty and insurance tax combined has been both below the Australian average and significantly lower than NSW or Victoria since the changes were made.

Analysis by the HIA in 2018 concluded that the reform was also likely to have supported elevated levels of residential construction for both new home building and renovations in the ACT, and slowed the rate of home price growth.

Jackson said a broader-based land tax, including a wider range of properties, had the potential to not only create greater revenue certainty but create a more efficient, more equitable and more liquid property market.



Source m3property

In June, a report commissioned by NSW Treasurer Dominic Perrottet into state tax reform in the wake of COVID-19 recommended property stamp duty be scrapped in favour of land tax.

A pre-budget submission from the Taxation Institute of Australia's said stamp duty on real estate transactions should also be axed and replaced by broad-based land taxes. It also recommended getting rid of insurance duties, and fire and emergency services levies either axed or replaced, perhaps with a property levy.

> "Prima facie it appears quite a reasonable assertion that abolishing such a significant tax on transactions will provide property owners with a much greater incentive to sell and buy," Jackson said.

"The current stamp duty tax regime, I would argue, not only discourages people from buying and selling, and from downsizing to more appropriate and economically efficient accommodation, but also creates an artificially static and distorted property market where it prevents the exchange of properties between more appropriate users.

"People can't afford to move,"

Industry bodies welcomed the NSW government's decision in July to slash land tax rates in half for new built-to-rent projects over the next 20 years.

Transitional measures would be critical to any change. The ACT has adopted a phased withdrawal from Conveyance Duty over 20 years, at the same time as a rise in general rates, in order to avoid a budgetary black hole.

Jackson said this is "not a reform that can happen overnight".

"As the ACT measures have shown it will need to be phased in over a lengthy period taking into account the need to replace current stamp duty revenue."

An ACT government commissioned analysis of the impacts of tax reform is due to inform the 2022-2023 budget.

Abolition of stamp duty would likely require changes to exemptions to land tax, m3property said. Current exemptions across the various state jurisdictions include the principal place of residence, primary production and subdivided residential land, municipal and public land, and land owned by religious groups, societies, clubs and associations.