

# Victoria spends on Road, Rail - Pity about the Stamps.

by David Collyer

The Napthine government has just re-promised the road and rail projects that were delayed by weak revenues after the Victorian Treasury dramatically lifted the state's projected surplus, largely due to very high Stamp Duty revenues on booming property prices and transaction volumes.

Treasury and Finance data in the budget update shows expected revenue from land transfer duty (Stamp Duty) in the current year rising from \$3459 million to \$3908 million and \$4143 million, not the \$3708 million predicted next year- a delightful windfall that allowed the Napthine government to announce a \$24 billion building blitz to shrink the city and serve a fast growing population.

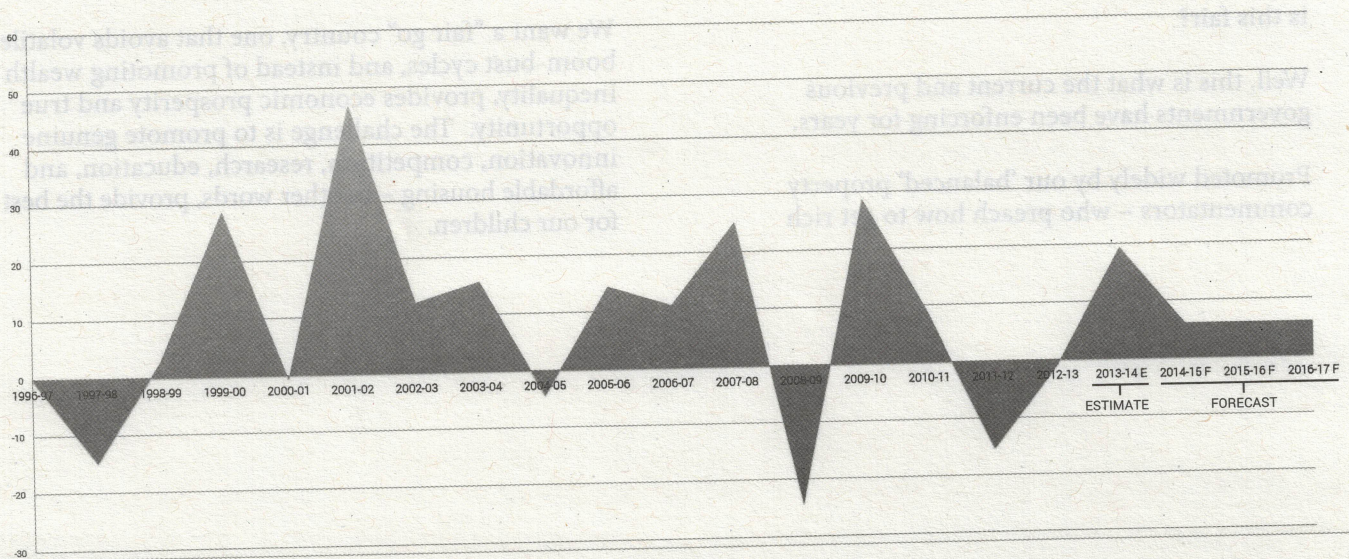
Windfall? Maybe so in political terms. But it imposes a very heavy burden on property buyers - over and above the money diverted to Treasury.

In *The Excess Burden of Australian Taxes* commissioned by the Australian Treasury, KPMG Econtech says conveyancing Stamp Duties:

- Drive a wedge between producer and consumer prices of property
- Cause some people to switch to renting rather than owning their property
- Cause people to adjust their property consumption less frequently

KPMG estimates the Median Excess Burden at 34 cents in the dollar and the Average Excess Burden at 31 cents. So Victoria's \$3.4 billion take cost citizens \$4.5 billion. The difference is an out-and-out loss - hard earned dollars destroyed forever.

## Victoria Stamp Duty Revenues percentage change



It gets worse. KPMG acknowledges its computer model only captures the cost of the first distortion above and underestimates the total cost. It does not put a price on the very real costs imposed on those obliged to rent or trapped in unsuitable housing by the Stamp Duty impost.

The study says business passes its Stamp Duty costs on and its incidence falls on labour incomes, while residential purchases flow straight to increased prices. In other words, workers pay – twice.

The sins of this very bad tax don't end there. The revenue stream is utterly unpredictable, dramatically rising and falling with transaction volumes. Treasury forecasts steady Stamp Duty revenue growth of 6 per cent a year for the next three years, but no year in the last fifteen was remotely like that. Any result from -25 to +45 per cent is possible.

Treasurer O'Brien is writing giant multi-year construction contracts on this wildly gyrating revenue stream.

Some government revenues and expenditures operate with virtue as automatic stabilizers, moderating and steadying the overall economy. Stamp Duty cannot make this claim. It just flails around injuring people.

There is a better revenue base available to Victoria today: State Land Tax. Just remove its exemptions, thresholds and wheezes and consign Stamp Duty to the scrapheap. State Land Tax has deadweight losses of nil, so no wasted lives or people trapped in and out of housing.

And hey, guess what? These massive road and rail projects are instantly self-funding.

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*"The neoclassical economists' view of their proper role is rather like that in The Realtor's Oath, which includes a vow "To protect the individual right of real estate ownership." The word "individual" is construed broadly to include corporations, estates, trusts, anonymous offshore funds, schools, government agencies, institutions, partnerships, cooperatives, the Duke of Westminster, the Sultan of Brunei, the Medellin Cartel, Saddam Hussein, congregations, Archbishops, families (including criminal families) and so on, but "individual" sounds more all-American and subsumes them all. This is a potent chant that stirs people to extremes of selfrighteousness and siege mentality when challenged."*

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– Mason Gaffney Professor of Economics  
University of California,  
Riverside (1923 -)