

# Key states put their stamp on tax reform leadership

by Adam Creighton

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Stephen Leonardi, Unsplash

Victoria and NSW are quietly working away on what would be one of the biggest, and most beneficial, pieces of tax reform since Federation.

And unlike the introduction of the GST in 2000, which was trenchantly opposed by Labor, this effort is laudably bipartisan.

NSW Liberal Treasurer Dominic Perrottet and his Victorian Labor counterpart, Tim Pallas, are pursuing the holy grail of tax reform: phasing out crushing stamp duties for property sales and replacing them with annual land tax.

The superiority of land over other taxes has been well known ever since Henry George published his brilliant and best-selling *Progress and Poverty* in the 1880s.

“Land tax, the most just of all taxes .... will raise wages, increase the earnings of capital, extirpate pauperism, abolish poverty, give remunerative employment to whoever wishes it, afford free scope to human powers, purify government, and carry civilisation to yet nobler heights,” he wrote enthusiastically.

About 100 years later, free-market economist Milton Friedman agreed, arguing that taxes on land were the “least bad” taxes.

Stamp duty on property transfers, which makes up about a quarter of states’ own tax revenue, costs the economy \$2.35 for every collected dollar, compared with 16c for land tax, according to the NSW government. It’s not hard to see why.

Stamp duty punishes people for moving, while locking households and businesses into their properties for longer than they would like.

Land taxes also offer a far more stable revenue stream for state governments than stamp duties, which can gyrate wildly depending on the state of the housing market, making budgeting difficult.

Abolishing it would boost the number of property transactions in NSW by 25 per cent, freeing up spare bedrooms equivalent to 70,000 houses, according to a report commissioned by NSW Treasury in 2017, as households were freed to move where they wanted to live.

Land tax, by contrast, can’t reduce the quantity of land. Avoidance is impossible; unlike income, it can’t be hidden.

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*Taxing the unimproved value of land, which is estimated by councils, rather than the property value encourages productive development of the land, perhaps including higher-density dwellings — to spread the tax burden across more taxpayers.*

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And broadbased land taxes have the virtue of being very hard, politically, to increase because they are salient and directly affect many voters.

However good the economics, the politics of introducing them are challenging. Governments prefer hidden taxes. Stamp duty is paid by most of us infrequently — maybe only once. It’s also overshadowed by the price of a home, typically paid with borrowed money. It’s far less salient than having to stump up even a much smaller sum annually.

The ACT, halfway through a 20-year tax reform process of its own, is trying to phase out stamp duty too.

NSW and Victoria would be wise to proceed differently. The ACT is gradually ratcheting up land tax while slowly reducing stamp duty – infuriating home owners without even the carrot of immediate abolition of stamp duty.

It would be far better to give buyers the choice, sparing anyone who doesn't want to pay land tax, and neutralising inevitable "tax on the family home" arguments. NSW and Victoria should give buyers the option of paying land tax on their new property, or sticking with stamp duty.

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*The choice of paying \$40,000 upfront for a median Sydney house or say \$2500 a year in land tax will be an easy one for many: land tax, please, by a mile. An annual land tax rate of about 0.5 per cent of the unimproved land would be enough to replace stamp duties.*

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Here's the kicker though: that property would thereafter be a "land tax property". Any future buyer of it would not have the option to pay stamp duty instead.

Over time, many years, the entire stock of land would be subject to the new regime. A little over 3 per cent of the housing stock turns over each year. A transition period, perhaps in a few select suburbs of Sydney or Melbourne, would reveal what share of buyers opt for land tax.

Governments could also permit land tax to be deferred until the sale of the property, in certain circumstances. And buyers might be given a credit for any stamp duty paid towards their land tax obligations.

Federally, there appears little appetite for tax reform, unless you count the return of some bracket creep in four years' time. But the federal Coalition could help Victoria and NSW – and encourage other states to reform their systems too – by tweaking the GST distribution formula.

NSW reckons it would lose \$1bn a year in GST payments from a switch to land tax. The arcane formula that divvies up the consumption tax among states and territories would penalise a state for eschewing stamp duty, based on the thinking a state that forgoes stamp duty is delib-

erately passing up a taxation opportunity.

Even if the commonwealth doesn't help, states shouldn't fear going into deficit to pull off the change – an argument that equally applies federally.

The piddling interest cost of public debt would be dwarfed by the long-term economic benefits of replacing a highly damaging tax. States can borrow almost as cheaply as the federal government, about 1.3 per cent for 10 years.

There's a strong moral case for taxing land relatively more, beyond the economics. As former Treasury secretary John Stone told *The Weekend Australian*:

*"A land tax is not only harder to avoid and more efficient, but also surely more equitable, since the 'social dividend' that accrues to land owners, particularly in our major cities, simply via the effluxion of time as growth occurs around them, is really impossible to justify".*

In September, households across Australia owned land (as distinct from the property sitting on top of it) worth \$4.9 trillion, up \$1.2 trillion in a decade. The increase had very little to do with individual effort or innovation.

A comprehensive tax on unimproved land was part of the Labor Party's platform from 1891 to 1905. Conservatives are increasingly seeing the benefits too.

Britain's new Chancellor of the Exchequer, Rishi Sunak, is mulling over a switch from taxing small businesses to their landlords. "Business rates", paid by business tenants based on the rent they pay for their shop, could be replaced with a direct tax on the landlords.

Premiers Gladys Berejiklian and Daniel Andrews have the chance to leave a significant reform legacy, far beyond anything achieved by the federal government for at least 20 years.

Together they could help restore faith in politics too, putting the national interest above the petty, highly partisan debates that frustrate voters.

Article courtesy of *The Australian*.