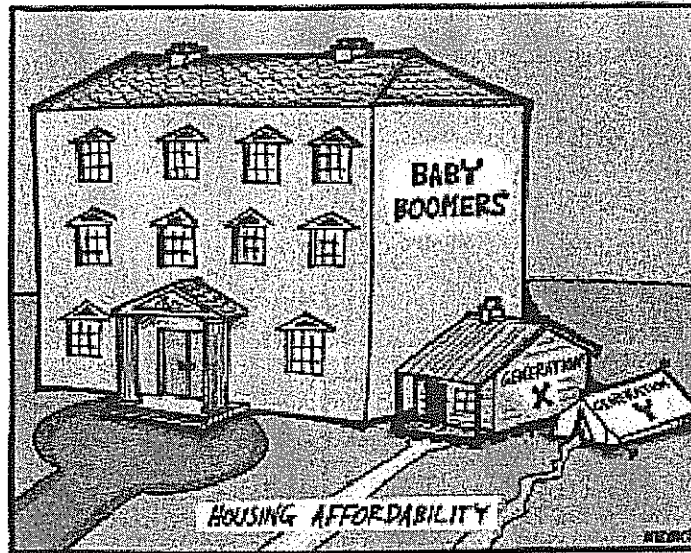


# Time To Rethink Stamp Duty:

by Jessica Irvine



WHAT if I told you there was a way to make housing more affordable, cut congestion on our roads, lower joblessness, boost productivity and stimulate economic activity?

Would you do it?

No, is the answer if you are federal assistant Treasurer David Bradbury. Mr Bradbury thinks a proposal by state treasurers to abolish their stamp duties on property sales in return for a bigger slice of the federal government revenue is "ridiculous" and "ham-fisted".

First up, this is particularly unfair given it was the Treasurer, Wayne Swan, who tasked the state Treasurers to investigate options for reform of inefficient state taxes like stamp duty.

Second, on a scale of one to evil, stamp duty is the green-vomit spraying, head-spinner of the tax toolbox.

The Ken Henry review recommended the complete abolition of stamp duties. This should be funded, he said, by an extension of "broad-based consumption taxes" (that's the GST to you and me, although the review was expressly forbidden from mentioning the GST) or by extending land tax to residential properties.

Land tax is an efficient tax because land is immovable - it can't up and leave. And land is pretty hard to hide, so tax avoidance is less of an issue.

Stamp duty, by contrast, is a tax on transactions. And guess what, when you tax a transaction, people don't want to do it as much.

As an aside, have you ever wondered why it's called stamp duty? In colonial days, a physical stamp had to be attached, or impressed, to all contracts before they became legally binding. A fee was charged every time and such "stamp duties" were a major source of revenue for the early colonies, applying on a host of transactions, including wages, cheques and sales of beer, cattle and pigs.

Most of these duties have since been removed, but stamp duty on property sales is one a handful remaining.

Stamp duty on property is particularly inefficient because it means fewer houses are transacted than would otherwise be the case. This means people stay in homes that don't meet their needs, at a cost to their happiness, but also broader society for a number of reasons.

By keeping people in homes to which they are unsuited, stamp duties lead to an inefficient use of the housing stock, pushing up prices. Our needs for housing change over our lifetimes. We are, if we're lucky, born into a family home. In our 20s, we move out into flats or apartments. At some point, we start a family, requiring a bigger home. When the kids move out, we downsize to smaller, easier to maintain properties. People also move house to be closer to a job or when relationships break down.

But when stamp duty is charged, some older people don't downsize. Given the lack of supply of new homes, young couples are increasingly forced to raise children in apartments or cramped living conditions.

Stamp duty also hurts affordability for young people because it means more people choose to renovate their existing

# **“it is an unfair tax because it taxes people not according to their ability to pay but depending on how often they move.”**

homes, rather than moving to a bigger one. This ups the size of all homes, in turn making them less affordable, not to mention expanding their footprint on the environment.

Stamp duty also leads to higher unemployment by discouraging unemployed people from moving to a job in a different city. It may also stop employed people from moving to a better paying job.

If people do change jobs, but stay in homes far away from their new work, they face longer commutes, creating greater road congestion. As anyone who has ever been stuck in traffic knows, congestion imposes a cost on all commuters and the economy through lost production.

Stamp duty is a huge upfront cost for first home buyers just at the time when their budgets are most stretched.

And it is an unfair tax because it taxes people not according to their ability to pay but depending on how often they move. About half of all homeowners have occupied their home for nine years or less. About 18 per cent bought within the last three years and 26 per cent have been in their home for more than 20 years. People who get divorced, have children or are in insecure work are more likely to need to move.

For older Australians, staying in large homes can leave them property rich, but cash poor. Without unlocking the equity in their home, they may need more government support than if they downsized.

## **The case for abolishing stamp duty is compelling.**

It's just a question of how. Stamp duty makes up about a fifth of state government revenue and abolishing it would blow a \$13 billion hole in state budgets. It is completely irresponsible for the federal government to dismiss so out of hand the attempts by state treasurers to remodel their inefficient taxes. The federal government controls the levers of our most powerful and efficient taxes, like personal income tax, company tax and the GST. A proper tax debate would keep all these options on the table for funding the abolition of stamp duties, given their perverse effect on housing affordability, traffic and jobs.

No one every said tax reform was easy. Only that all Australians would benefit from a more efficient tax system.

**9 years**

**Median time that homeowners will spend in a home before moving on**

**18%**

**Per cent of homeowners who bought in the last three years**

**26%**

**Per cent of homeowners who have owned their homes for 20 years or more**

**\$12.6 billion**

**Revenue to be raised through stamp duty by state governments this financial year**

**\$150 billion**

**Revenue from personal income taxes last financial year**

**\$68 billion**

**Revenue from company taxes last financial year**

**\$46 billion**

**Revenue from the goods and services tax last financial year**

**\$26 billion**

**Revenue from excises on petrol, beer and tobacco last financial year**

**\$7 billion**

**Revenue from taxes on superannuation last financial year**