

It's Time to Shift States to Land Tax

By Leith van Onselen

THE DECLINE IN STAMP DUTY RECEIPTS IS POSING PROBLEMS FOR AUSTRALIA'S STATE & TERRITORY GOVERNMENTS.

Stamp duty is an inherently volatile source of taxation revenue, since it is critically dependent on both the volume of housing transfers as well as the price at which those homes transact. During the early-to-mid 2000s boom, when both prices and transactions soared (see next chart), the states found themselves awash with cash, with total stamp duty collections rising by over 150% in the eight years to 2007-08. Since that time, however, stamp duty revenues have fallen by -18%, putting the squeeze on state and territory finances that had become accustomed to the good times.

The volatile nature of stamp duty receipts adds further weight to arguments for reform on both equity and efficiency grounds.

Stamp duties unfairly penalise people that move to homes that better suit their needs. Obvious examples include baby boomers downsizing from large family homes and young growing families upsizing to

bigger family-friendly homes. Such disincentives inevitably lead to an inefficient use of the housing stock, such as empty nesters occupying large homes with multiple spare bedrooms. Stamp duties also hinder labour mobility since they discourage workers from relocating closer to employment.

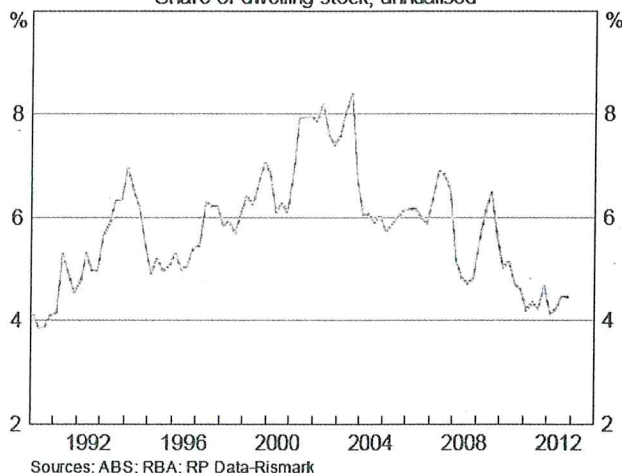
As shown in the above RBA chart, just over 4% of the housing stock is currently transacted annually. Accordingly, we have the crazy situation where a small minority of households are paying taxes that support services for the whole community – all for the privilege of moving to a home that better suits their needs!

As shown in the below chart, stamp duties can chew-up tens-of-thousands of dollars when purchasing a median priced home. Seeing as we all consume government services, wouldn't it then be fairer and more efficient to levy each household a much smaller amount, rather than penalising only a small minority with huge tax bills?

A fairer way of sharing the tax burden would be to abolish stamp duties and extend land taxes currently applied on investment properties to one's principal place of residence. As shown by the next chart, land tax receipts have proven to be a remarkably stable source of revenue when compared against stamp duties, since they are not affected by transaction volumes.

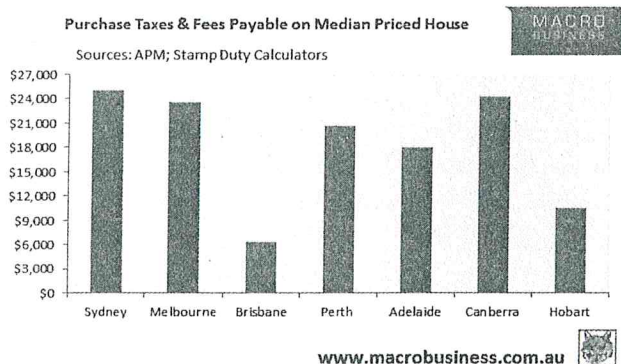
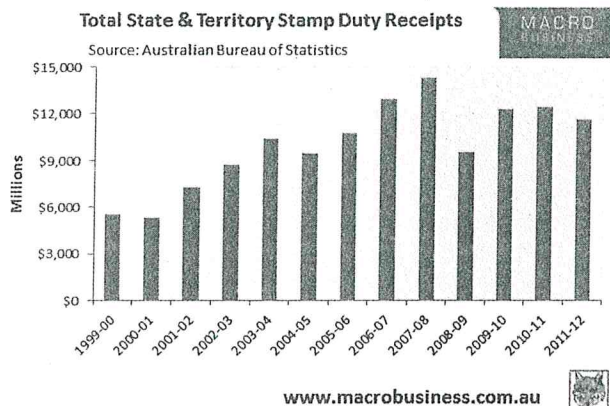
Broad-based land value taxes (LVT) would also assist in the provision of new housing via two channels. First, an LVT would help make infrastructure investments self-funding for governments, since any land value uplift brought about through increased infrastructure investment (e.g. new roads, trains, etc) would be partly captured by the government via increased LVT receipts. Accordingly, governments

National Housing Turnover Rate
Share of dwelling stock, annualised



would be more likely to facilitate development, rather than act to restrict it in a bid to save on infrastructure costs. Second, an LVT would penalise land banking and vagrancy, effectively increasing the supply of land in the process and bringing new homes to market more quickly.

As with any change to the tax system, there are transitional issues that would need to be worked through in shifting from stamp duties to a broad-based LVT.

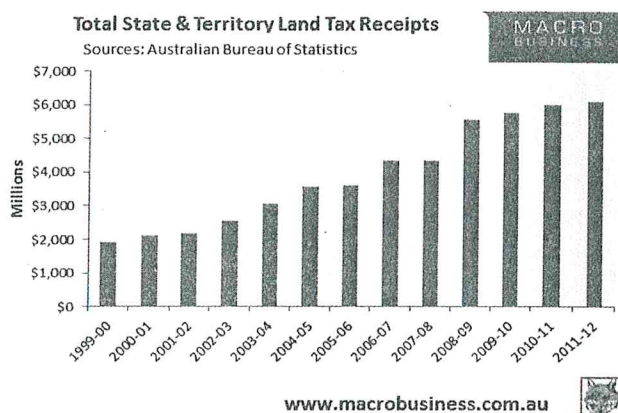


One concern is that those who recently purchased a property (and paid stamp duty) would be double-taxed via an LVT. A logical solution is to credit all

landowners with the amount of stamp duty paid and then deduct the hypothetical land tax they would have paid since the date of purchase.

Another concern is that asset rich, cash poor, retirees could be left with LVT bills they cannot pay, requiring them to sell their homes. A logical solution is to allow these people to accumulate their LVT liability, with the bill payable upon death (via the estate) or once the house is eventually sold (whichever comes first).

Last year, the ACT Government announced the bold (and sensible) plan to transition out of stamp duty over 20 years, replacing it with a broad-based land tax levied via an increase in property rates. Reforming stamp duty was also a



recommendation of the Henry Tax Review, which characterised stamp duty as an inefficient tax, and recommended replacing it with broad-based LVT levied on all properties.

The options are there, and with stamp duty revenues shrinking, it is in the state and territory governments' financial interest to pursue reform and change the tax mix.

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