TRANSCRIPT

LEGISLATIVE COUNCIL ECONOMY AND INFRASTRUCTURE COMMITTEE

Inquiry into Land Transfer Duty Fees

Melbourne – Wednesday 24 May 2023

MEMBERS

Georgie Purcell – Chair
David Davis – Deputy Chair
John Berger
Katherine Copsey
Jacinta Ermacora
David Limbrick
Bev McArthur
Tom McIntosh
Evan Mulholland

PARTICIPATING MEMBERS

Gaelle Broad
Georgie Crozier
Sarah Mansfield

WITNESSES

Mr Xavier Rimmer, Acting Parliamentary Budget Officer,

Mr Ross Hutchings, Acting Director, Policy Analysis and Advice, and

Ms Louise Barth, Principal Analyst, Parliamentary Budget Office.

The CHAIR: I declare open the Legislative Council Economy and Infrastructure Committee's public hearing for the Inquiry into Land Transfer Duty Fees. Please ensure that mobile phones have been switched to silent and that background noise is minimised.

I would like to begin this hearing by respectfully acknowledging the Aboriginal peoples, the traditional custodians of the various lands we are gathered on today, and pay my respects to their ancestors, elders and families. I particularly welcome any elders or community members who are here today to impart their knowledge of this issue to the committee or who are watching the broadcast of these proceedings. I also welcome any other members of the public watching via the live broadcast.

We will commence by introducing committee members just very quickly, starting with Ms Broad.

Gaelle BROAD: Gaelle Broad, Member for Northern Victoria.

John BERGER: John Berger MP, Southern Metropolitan Region.

David DAVIS: David Davis, Southern Metropolitan Region.

The CHAIR: Georgie Purcell, Northern Victoria.

David LIMBRICK: David Limbrick, South East Metro.

Bev McARTHUR: Bev McArthur, Western Victoria Region.

Tom McINTOSH: Tom McIntosh, Eastern Victoria Region.

The CHAIR: Welcome. Thank you for coming along today. All evidence taken is protected by parliamentary privilege as provided by the *Constitution Act 1975* and further subject to the provisions of the Legislative Council standing orders. Therefore the information you provide during the hearing is protected by law. You are protected against any action for what you say during this hearing, but if you go elsewhere and repeat the same things, those comments may not be protected by this privilege. Any deliberately false evidence or misleading of the committee may be considered a contempt of Parliament.

All evidence is being recorded. You will be provided with a proof version of the transcript following the hearing. Transcripts will ultimately be made public and posted on the committee's website.

For the Hansard record, could you all please state your full name and the organisation you are appearing on behalf of.

Xavier RIMMER: Xavier Rimmer, Acting Parliamentary Budget Officer for the Parliamentary Budget Office.

Ross HUTCHINGS: Ross Hutchings, Acting Director of Policy Analysis and Advice.

Louise BARTH: Louise Barth, Principal Analyst, Parliamentary Budget Office.

The CHAIR: Thank you very much. We now welcome your opening comments but ask that they be kept to a maximum of 10 to 15 minutes to allow plenty of time for questions and discussion.

Xavier RIMMER: Thanks very much, Chair, and thanks for the opportunity – for inviting the PBO to make a submission and to appear before this inquiry. I will keep my comments fairly brief and try to allow plenty of time for questions, and I will generally stick to the points we made in our submission.

First, however, I thought I would introduce our office a little bit. The Parliamentary Budget Office is an independent office of Parliament. We were established in 2018. We are independent of government, and we are not aligned with any political party. Everything we do in our day-to-day work is guided by our Act, which is, overarchingly, driven by three principal objectives. Of the objectives, one of them is to inform policy development and public debate in Parliament and across the Victorian public. This submission and appearance to the committee is an ideal opportunity for us to deliver on this objective, and again I thank you for the opportunity. As an independent office, in our submission we do not provide policy recommendations; we do not comment on the merits of policies. We do, however, examine land transfer duty as a significant tax for Victoria and look at the most frequently proposed alternatives throughout the literature and through economic commentary.

I would also like to note that in yesterday's budget the government announced significant policy reform in this space, moving commercial and industrial property to land transfer duty from land tax. All the economic literature suggests that this would result in economic gains. Differentiation between different types of land may result in some undermining of those gains. Nonetheless it is an economically efficiency improving reform. While it is a substantial reform, I would note that residential properties particularly account for most land transfer duty transactions and the vast majority of the value of land transfer duty levy revenue.

Land transfer duty is important to the Victorian government. In 2021–22 it accounted for around a third of Victoria's state tax revenue and 12.5 per cent of overall state revenue. While it is large, it has relatively high instability. Firstly, it is linked to the housing market and its fluctuations, which means that it has relatively high instability compared to taxes that are more generally linked to the economy, like payroll tax, and it is affected by movements in both prices and transaction volumes in the housing market, meaning it has higher volatility than other property market taxes like land tax. Land transfer duty has also grown significantly over time. In 2014–15 it was worth about half what it is in 2021–22. This reflects strong growth in the housing market, which is obviously a positive in an economic sense, but it also reflects bracket creep as there has been limited reform made to the tax settings since 2008.

Governments levy taxes like land transfer duty to raise revenue and they tend to spend that on services and infrastructure. Most if not all taxes have an economic cost. This economic cost arises because it distorts incentives and the decision-making of businesses and individuals, and these distortions result in less optimally allocated resources across the economy and an economy that is smaller than it would have been in the absence of the tax.

Economic theory and literature suggest that land transfer duty is a particularly inefficient tax. For every dollar of tax raised, it has a relatively large negative impact on the economy, and multiple modelling exercises and theoretic explorations of this have found that it is the most inefficient tax in Australia. Land transfer duty is inefficient because it is a tax on capital or capital allocation. Capital is the most mobile of the factors of production and most easily able to respond to a negative price incentive like a tax; it discourages property transactions and results in suboptimal allocations of the housing stock and a potential reduction in investment and creation of housing stock. It can mean things like people who would otherwise move to areas of higher employment opportunity or closer to services, or those who might move away from those areas as they downsize into retirement, may choose not to make these moves.

The economic literature is fairly consistent on three things, as I have suggested. Land transfer duties are a relatively inefficient tax. There are economic benefits from moving to more efficient taxes to be gained, and the most efficient alternative tax, generally speaking, is a broad-based land tax. Governments have many choices to make in how they design an alternative to land transfer duties and in doing so that will guide how efficient the new tax is. In our submission we consider the options for designing a land tax and the options for transitioning from land transfer duty to that land tax. For a land tax, governments need to consider factors like how a new land tax might interact with existing land taxes and more broadly with the tax settings of the state. They need to consider what tax base will be targeted – will the tax base target the unimproved value of land or the capital improved value of land – and they need to design the nature of the tax schedule. Will it be a flat tax rate applied to all properties, a progressive tax rate, a tax rate that is differentiated on a geographical basis or potentially on a property use type basis?

The most economically efficient and simplest option we identified in our submission is replacing land transfer duty and the existing land tax with a single broad-based land tax levied on unimproved land values with no progressivity. While it is the most economically efficient and administratively simple, it may fall down in some considerations around equity concerns and considerations. Options to add a new broad-based tax alongside existing land tax arrangements or other changes that a government may choose to implement to try and address equity concerns would likely reduce the economic gains from reforming from land transfer duty to land tax, but nonetheless it would likely deliver aggregate gains, even in a compromised model.

There is nothing in the economic literature that suggests there are sufficient compromises that can be made to a land tax to make it as inefficient, or even approximating close to inefficient, as land transfer duty. So the transition, as we have discussed, will realise economic efficiencies and welfare improvement in the long run, but there are impacts in the short run and how we get there really matters. Some of the concerns that can be raised by constituents in this area are: double taxation, where someone who has recently purchased a property and paid land transfer duty may become liable for a land tax, and there are levers to try and ameliorate that concern; there may be financial hardship faced by people, particularly lower income or lower wealth property owners, who face a financial imperative to move when they had no pre-existing expectation or desire to do so; and potentially government can have revenue shortfalls in the transitionary period.

Our submission outlines the four main transition mechanisms that are available. It is not an exhaustive list. So, firstly, there is the gradual phase in, which is the ACT model. I am sure you have heard a lot about that over the course of these hearings. This is where the land transfer duty rate is slowly reduced over time and the land tax rate is raised to a point of sustainability. The benefits of this option are that it can be designed in a way that does not have revenue shortfall and it can be designed in a way to try to avoid double taxation. It takes a long time, though, and the longer the time it takes potentially the more able it is to adapt to equity considerations. There is another option of deferral to next sale, where at the next sale of a property the property becomes liable for land tax and is thereafter liable for land tax. There are two sorts of forms of that: one where that property becomes permanently a land tax property or one where ownership of that property becomes land tax and the decision can be remade subsequently. There is also a voluntary opt in, where a property purchaser can choose whether to pay land tax or land transfer duty, and this is something akin to the model that the New South Wales government was looking at. Those two options tend to have more likely implications around government revenue in the transitionary period, and indeed the New South Wales government has noted the seeking of support from the federal government to help finance the transition. Finally, the fourth scheme is the credit option, where land transfer duty is immediately abolished and land tax is imposed immediately, but people who have recently – under some definition of ‘recently’ – paid land transfer duty are provided with credits to offset some portion or some period of time of their land tax liabilities.

These options are not mutually exclusive and governments could choose to make a blended version of these – although there is limited literature on the transition and there are limited examples of major transitions away from land transfer duty. Ultimately, governments choose when designing an alternative tax and designing how to get to that tax on three key principles – of efficiency, equity and simplicity. In the transition world, the faster the transition the earlier you realise the economic benefits and the sooner and the greater the economic benefit might be, but the slower transitions can be better designed to address specific stakeholder or equity considerations.

We decided in our submission to dig down from the macro-economic view or the theoretical and modelling view of this and look at how certain stakeholders might be impacted differently. As we have suggested, there are aggregate benefits to be had, and to some extent – a greater or lesser extent depending on the stakeholder – all individuals in Victoria would benefit from a faster paced and larger economy. Generally, stakeholders who get the most benefit, though, are those who are looking to enter the property market or to transact one property for another – people selling a home to move into another home. There are concerns that some people face, as I noted, around those who have a financial imperative to move when they would prefer not to – when that move might take them away from the services and the employment opportunities that could benefit them and help them to improve their wellbeing.

There is a bit more ambiguity when it comes to landlords and to renters, as we noted in our paper, but landlords will generally have a greater flexibility over their portfolio. There is less incentive to hold property necessarily, depending on the option that is designed. An opt-in or a transaction-based transition period could provide an incentive for landlords to hold onto properties longer than they might otherwise, resulting in a deviation from their revealed preference for how long they would hold those properties, and taxing the improved capital value rather than the unimproved capital value could provide a disincentive for landlords – but also for all property owners – to invest in capital improvements on properties.

It is quite difficult to estimate the likely impact for renters and for rental prices. However, the weight of the literature suggests that it would probably result in reduced rental prices as more people move out of the rental market because it becomes easier to get into the property purchasing and there are greater capital flows into housing development, increasing the supply side. So you have an amelioration of the demand side and something of an improvement in the supply side of rental properties.

So in summary, land transfer duty is a large and important source of revenue for the Victorian government. It is more volatile than other tax revenue sources, and it is more distortionary than other taxes. It results in a higher economic cost, and it is harder to plan with. Designing and implementing an alternative tax is complex and requires not just aggregate economic theory considerations but also considerations of the winners and losers and the various stakeholders. It is potentially costly for government and stakeholders, particularly in the transition phase, but it is ultimately efficiency-enhancing, resulting in benefits to the entire economy.

Again, I thank the committee for the opportunity to present on this matter, and I am happy to take any questions you may have.

The CHAIR: Thank you very much. Well, we might just work around the room with about 5 minutes each. Did you have any questions, Ms Broad?

Gaelle BROAD: No. That was an excellent presentation. Thank you.

The CHAIR: Ms Copsey.

Katherine COPSEY: Thank you. Thanks for your presentation. We have heard a little bit about seeking Commonwealth assistance around any revenue streams. I am interested if you have any comments on whether that adds to the complexity of a state considering a switch away from stamp duty and also in, yes, just commentary that there are not barriers to states going it alone. We are seeing some states and territories make that move unilaterally.

Xavier RIMMER: Yes. So we have not spent a lot of time looking into the interactions between the state and federal governments. I mean, I guess as a general observation you would argue that if you need to have a separate level of government, an additional level of government, involved, it is likely to result in additional complexity in terms of delivering a solution. In the transition models that we outlined and others that are available the potential reliance on federal government support or other revenue stream support really comes down to how you design, how you get from one to the other. Generally speaking, in our submission we assumed everyone wants to be revenue-neutral by the time they finish transitioning, and there are transitionary options that allow you to do that over time.

The ACT's model is a model that can be easily calibrated and designed as a revenue-neutral model, and similarly a credit scheme can be designed in that way. It brings its own complexity – so, avoiding the complexity of dealing with another level of government brings its own complexity in that you need to monitor this really carefully – and the other problem with being perfectly revenue-neutral, as I noted, is that land tax transfer duty is not a particularly stable tax. It is a volatile revenue source, and you have to estimate, year ahead, how much you think you are going to get from that and therefore how much you are giving up. So, revenue neutrality can be difficult to achieve, and there can be some shortfalls or potential overshoots in revenue each year.

So, as I suggest, you are correct. There are states that are definitely going – or the ACT is going this on their own in that respect, and their system is one of several that could be designed to do that without federal government support.

Katherine COPSEY: In assessing some of the options for transition I am particularly interested in what you have observed around credit – a credit model as a transition – and also whether there are any observations you have gained from the literature around what you might think is the best time of transition – time frame – to aim for, given some of the existing examples in your analysis.

Xavier RIMMER: Yes. Well, the problem is there is a relative paucity of examples, and you know, we have sort of read and scanned very broadly and listened to the proceedings of this committee, indeed. There is no optimal pricing theory that says how long this transition should be to necessarily perfectly understand balancing the different competing priorities. As I suggested earlier though, the shorter time frames have benefits. They achieve economic advantages more quickly. They get you through transitionary shortfalls in revenue more quickly, but they might fall foul of equity considerations. So, if you offered a credit scheme that would offset someone's land tax liability, but for three years as opposed to for 10 years, there could be strong arguments made around the equity and the fairness for someone who has just paid land transfer duty prior to that. We have done a pretty comprehensive scan to try and see other examples other than the ACT and the proposed example in New South Wales, and there certainly were some changes made in New Zealand, I believe it was, a number of years ago –

David DAVIS: They have low stamp duty.

Xavier RIMMER: Yes, it was a far smaller tax than Victoria had. There were some similar charges in Canada, but it is not really an analogous thing so it is very difficult to say exactly how long it should be. Were it my remit to try and investigate that number particularly, I think I would want to spend more time considering the likely winners and losers out of this, and there is probably quite a complex modelling exercise to be conducted to look at that, to look at different kinds of households, different kinds of business entities and how they would fare from this and what would be a least-cost or least-compensation-required outcome.

Katherine COPSEY: Thank you.

The CHAIR: Thanks, Ms Copsey. Mr Mulholland.

Evan MULHOLLAND: Thank you. Thanks for appearing before us today and for your submission. There is a common sort of theme, hearing from the majority of witnesses, warning that we could end up with double taxation. There was actually one that supported that. How do we avoid this idea of double taxation, going through this kind of reform?

Xavier RIMMER: Yes, look, it is a good question, and it is regularly raised and levelled, particularly at the ACT transition – again, a paucity of examples means we sort of focus in on the one. There is always the option for double taxation, and you can design your scheme in a way that does not facilitate that. It is very difficult to design it and have a decision of government today not be overassumed by another decision in the future, so there are always options that even the best laid plans today may not play out.

That being said, there is also the perception of double taxation that is not necessarily accurate, and with the ACT there is some element of an example of that in that case. The ACT designed a declining land transfer duty tax rate and rising municipal rates, effectively. I think it is important to note that the municipal rate rises will outstrip the land transfer duty reductions, but that is because they are doing more than just replacing land transfer duty in the ACT example; they are replacing some insurance charges and various other taxes as well. The perception of double taxation can be compounded by something that is pretty consistent in an Australian environment, which is that the housing market grows – and grows rapidly. The ACT housing market has grown particularly rapidly during the period of transition that they have been going through.

Now, how can you stick to your tax rate reduction schedule and avoid that perception? Potentially by doing more around bracket creep in the intervening periods. But in the ACT people are paying a lower tax rate than they were previously. They are paying that lower tax rate on a housing stock that is valued much higher than it was previously, so there is an element where there is a perception of that. I think avoiding actual double taxation in an ACT-style model requires discipline to stick to a schedule to achieve the transition that a government sets itself out to achieve. But also, similarly, in a credit-based scheme it requires that the government or whoever undertakes that undertakes serious consideration of what the valuation of the credit scheme should be.

The CHAIR: Thanks, Mr Mulholland. Mr Berger.

John BERGER: I do not have any questions at this point.

The CHAIR: No questions? Great. Mr Davis.

David DAVIS: I have got a couple of questions for you. First of all, I just want to compliment the PBO on the work it does, the professional way it goes about its work and indeed on its submission on this matter – and I will come to that submission in a second.

I do note that in the state budget just brought down yesterday, the funding for the PBO falls from $3.9 million to $3.4 million, a more than 12 per cent cut. I just wonder whether that savage cut for an independent agency will limit your ability to submit further to this inquiry or to other similar inquiries.

Xavier RIMMER: Look, on that matter I would say we are coming off a base of an election year, where we were provided additional funding beyond our typical annual appropriation. It is always a challenge to deliver a service that I think is unfairly priced – you know, we are free, so there is always demand outstripping supply. So, look, it is always a challenge for us. We are committed, though, to continuing to try and provide these kinds of analyses and services to committees and to members of Parliament in their costings and advisory pieces and also in the lead-ups to election periods.

David DAVIS: But an independent way of providing funding would help guarantee you the ability to submit to an inquiry like this.

Xavier RIMMER: Look, yes, that is a fair representation. And without having spent a lot of time myself considering this issue in the last few weeks, I would note that there is a report from the Ombudsman, IBAC and VAGO that has outlined a potential model for those sorts of arrangements that I believe has been discussed in various committees previously as well.

David DAVIS: I note it was our policy ahead of the election to move that way. But I do want to pick up a couple of points from earlier witnesses. You may or may not have seen what the Prosper/Henry George society people said about stamp duty. I do not know whether you saw that or not and whether you would want to comment, because their view is different from yours about the impact of land transfer duty on the economy. I would say that yours is the more common one, but theirs is – you may want to take that on notice even.

Xavier RIMMER: Look, I did see some of the commentary – obviously I was outside and transitioning between the office and here while some of that hearing was going on. They are not the only people I have heard making the suggestion that there is perhaps less of an economic argument to be made for residential property – economic gains from changing residential land transfer duty to something like a land tax. I would note, though, that there are a couple of points. It is probably true that there is less of a case, but I would still argue that there is an extremely strong case. Repeated economic modelling exercises in the last handful of years or the last decade have demonstrated almost universally that while non-residential land transfer duty has a higher cost to the economy than land transfer duty, it is not by any means an order of magnitude difference, and that other taxes like payroll tax, GST, personal income tax, company tax and land tax all have consistently lower costs to the economy, as they are estimated in what is called a marginal or an average excess burden, which is an economic measure of welfare.

I would also note that whilst there are other constraints on the housing supply markets, Australia is a small open economy that receives a significant portion of its financial capital from overseas. Financial capital flows to where it can get its best rate of return. A tax on capital, where capital is a highly mobile factor, may result in capital flowing into other uses or other jurisdictions. So I would suggest that while they make a reasonable point that there is a weaker argument on residential property, it is still a very strong argument.

David DAVIS: Okay. Thank you. Also on this vexed issue of the Canberra model, I think – tell me if I am wrong – what you are saying is there is no particular way to prevent us ending up with double taxation at the end of it, two forms of tax. I mean, the idea was to abolish stamp duty and end up with a land tax, including on family homes, but there is no particular way to prevent a future government landing us with the double.

Xavier RIMMER: Look, I mean, that is outside my jurisdictional ability to implement.

David DAVIS: You are not aware of a model that will actually prevent that?

Xavier RIMMER: I am not aware of a model that would prevent a government from making a decision to change what they were progressing through.

David DAVIS: Or even break its promise.

Xavier RIMMER: Yes.

David DAVIS: Thank you. And the final question relates to your submission. You talk about the effective rate of land transfer duty, picking up a 2008 figure and then moving through to a 2022 figure, lifting from 4.7 to 5.5 per cent. Effectively I think what you are pointing to with this is the bracket creep that has scooped in. I wonder if you might tell us the size of that bracket creep in billions and how much people are actually paying in bracket creep.

Xavier RIMMER: Yes, absolutely. I might just turn to Ross. Do we have that number with us?

Ross HUTCHINGS: We have an aggregate figure. We might have to take that on notice.

Xavier RIMMER: We can take that on notice. But you are correct: the shift in the effective tax rate that we are talking about there is reflective of both the increase in value of properties and very much a bracket creep factor as well.

The CHAIR: We might need to move on, Mr Davis, but we will come back to you if there is time. Mr Limbrick.

David LIMBRICK: Thank you. And thank you for appearing today and your submission, which was very, very high quality. One of the things that you did not touch on in the submission, and a lot of the submissions and witnesses that we have heard from so far have mentioned it, is the idea of having some sort of deferred taxation option. So for people with low liquidity like, for example, a pensioner living in a valuable house, in order to have this politically viable sort of transition there would need to be some sort of way for people who did not have the liquidity to defer that. What sort of effect do you think that would have on the revenue neutrality? Because obviously that would not be a – it would affect the cash flow of how it would work so the government would have some increasing asset over time, which would effectively be the liability of the property owner, but the government would not actually see that revenue until the property was sold, presumably. How do you think that would affect this revenue neutrality over time?

Xavier RIMMER: So for a given design of a transitionary phase – and it is not something that we looked into in any specifically great detail, but I guess my comments on this will be in a more general sense – for any given design of transition mechanism, adding a mechanism like you are talking about would probably make it more difficult or less likely to achieve revenue neutrality through the transition mechanism. That being said, you know, every capacity or feature you add to a tax, including through the transitionary period, you could potentially balance with a different transition pathway. So there is nothing inherently about that model that says a government could not achieve revenue neutrality even in the transitionary period. It makes it more complex. It makes it potentially harder. It is possible that a higher burden might fall on other potential payers of land tax, or it might change the decision a government makes about which transition mechanism it would seek to employ. You know, if you did, for example, a reducing the tax rate – an ACT-style approach – the liability of each person who would be deferring their land tax liability would become smaller. It would be smaller in the earlier stages, meaning that that would have less of a revenue impact. For a given system, yes, but there is nothing that says you cannot design a system with that in it that necessarily cannot achieve that.

David LIMBRICK: Thank you. I really liked the way that you did the different case studies in the submission. One of the case studies which has been very topical is renters and how this might affect renters. You make, I thought, the very good point that it could actually reduce rents because you would be freeing up more bedrooms through more efficient allocation of housing and potentially more people moving to regional areas for, like, increased labour mobility, which would again free up rents. How significant do you think this effect would be? One of the scenarios which has been often talked about in this inquiry is, you know, empty-nesters living in a big house – inefficient usage of property. If that was all freed up, then presumably you would have more rental properties on the market, which would potentially lower rents. But do you think that is a significant thing, or is it difficult to quantify?

Xavier RIMMER: Look, it is quite difficult to quantify. I mean, all elements of this sort of stuff are really quite difficult to quantify. When you start getting into, I guess, the smaller components of this or the subcomponents of a broader economic implication it does become quite difficult to quantify. I think one of the other things I would, along those lines, caution is that frequently people look at a modelling result and say, 'We're going to get this many billions of dollars or this much percentage improvement in the economy,' and frequently it is more sensible necessarily to think about the directions that these are putting pressures on. And so I would suggest that it is relatively clear that they would place a downward pressure on rental prices without necessarily reducing the rate of return that landlords would receive on their properties. So that is to some estimation an unambiguously positive economic outcome for those agents – the extent to which, we are not sure. We did look in this space, and there are not a great deal of estimates. It would take a pretty complex exercise to try and estimate that in and of itself.

David LIMBRICK: You just mentioned landlords not necessarily getting a lower rate of return. How do you think that would work, because if the rents were lower, plus they were also paying more tax – well, potentially the same tax if it is revenue-neutral, then they would be paying the tax differently – wouldn't that lower the rate of return for landlords?

Xavier RIMMER: Potentially, but most likely not. Landlords are more likely to – so, if they are not going to pay a tax that is affected by capital, they are more likely to undertake capital improvements on their property and therefore be able to target their properties more suitably to rental market demand. Again, it is not necessarily clear that it is unambiguously true that they would, but the modelling and the literature just suggest that that would be the case. I can certainly take it on notice to provide a more detailed answer on that. It is not something we explored in great depth.

David LIMBRICK: Thank you.

The CHAIR: Thanks, Mr Limbrick. Mrs McArthur.

Bev McARTHUR: Thank you, Chair. Now, full disclosure: I represent a third of rural Victoria, so guess what? I am going to ask you what work you have done on how a change from stamp duty to a property tax will affect farmers, because they are price takers, not price makers, so this is a fixed cost in their bottom line. How are they going to bear that input cost without realising a product gain?

Xavier RIMMER: So, what I would suggest about farmers is there are a couple of factors. Farmers, like all participants in the economy, would benefit from land transfer duty in the aggregate sense, the aggregate sense being that the economy would be larger. It would be growing faster; there would be greater demand. So they would benefit from that. They would also benefit any time they chose to purchase additional parcels of land to expand their farming operations; that would not be subject to land transfer duty as is currently the case. And anytime they sought to sell some parcel of land that they have, that would attract a higher price, because there would not be a wedge between the buyer and seller prices that is land transfer duty.

It is fair to say, though, that the marginal cost that the land tax would represent would represent an input cost to production. The way in which we think about land tax as being non-distortionary is that it does not change people's decisions to purchase or not purchase or their ownership position of land. It could potentially, as a cost to input production, have some impact on their ability to make a certain amount of return on a particular commodity or product or output, and that is true of all producers, not just farmers.

The detailed work, I would suggest, has not necessarily been done to determine whether in aggregate farmers would be worse off under this. There are countervailing forces at play. I would note agricultural land is a relatively small portion of the land transfer duty base at this stage, and so there is probably more work to be done in investigating: would they as a stakeholder be bearing an increased tax burden compared to what they currently are? You know, if everyone is subject to land tax and only those who previously transacted property were subject to land transfer duty, you might find that more are being subject to that. I would suggest here that significantly more detailed modelling exercises and work need to be done in that space.

Bev McARTHUR: I would agree. Significantly more work needs to be done, because at the moment rural ratepayers are bearing an increased burden in council rates because they have all had their rate-in-the-dollar increases, and the amount taken from farmers has increased by and large because values have gone up. But land values going up does not decrease their bottom line of being able to retrieve that money off their product sales, and their product sales are subject to market fluctuations and weather, so they are in a different situation altogether really to be able to pay an extra tax burden and be able to pass it on. A landlord may be able to pass it on, but a farmer may not.

Xavier RIMMER: I would say to that, though, that there is a difference between a rate-in-the-dollar rise of rates and a reform that would remove an economically inefficient tax and replace it with a more efficient one. There is no economic efficiency gain, no larger economy, because of a change in rates. There is a larger economy that farmers, like all participants in the economy, would benefit from.

Bev McARTHUR: You have talked about the pure land tax system requiring politics to be involved, not purely economics, and the adaptation to have a realistic chance of any government wishing to implement it. We have heard a lot about different models and different ways it could be done, so the question is: if we end up fudging a land tax, is it still worth doing? Would it be fair to characterise your position as saying that even the worst form of land tax is better than the existing transfer duty fees?

Xavier RIMMER: Perhaps not quite necessarily that. What I would suggest is that in isolation if we consider a land tax of almost any stripe it is going to be more efficient than land transfer duty. If you contrive to design an incredibly inefficient variety of land tax, you could make an argument that over some time frame, with additional transition costs, it becomes an unappealing prospect, or you might make an argument that a sufficiently inefficient land tax might still represent economic gains but be subject to risk around revenue streams that make it not worth doing. What I would suggest, though, is frequently we talk about the economic efficiency of taxes as an ordinal thing. So in Australia classically land transfer duty is the most inefficient, then some other tax on capital, like a company income tax. Then you get into taxes on labour, like personal income tax, and then things like real-wage taxes, which are effectively labour taxes, like payroll tax and goods and services tax, and then you get into more efficient taxes, like land. Intuitively it feels like it is a linear thing; we are just going down this line – it is not like that. Land transfer duty is orders of magnitude more inefficient than a land tax. There are arguments that certain kinds of land taxes can have an efficiency dividend for the economy – not really around residential land, however – but it is not a linear consideration. I cannot off the top of my head think of a land tax that I could design that is as inefficient as land transfer duty.

Bev McARTHUR: But you can tell us that there has been little or no work done on how it affects the agriculture sector?

Xavier RIMMER: I am not sure that is true. I think some work has been done. I think there was some consideration of it in various rounds of tax reform consideration by the Australian government. I believe there is a paper – it was not included as part of our submission – that has come out of the tax and transfer institute in the ACT, at least one, that considers, amongst other things, the impacts on regional land. What I would suggest, though, is that it is for governments to make decisions about how they design the tax and who they target with the tax. As we suggested earlier, we think that the Australian government's guidelines around tax consideration of equity, efficiency and simplicity are a really useful set of criteria in determining whether a tax reform is sound. And we would expect that any government making these kinds of reforms would consider those criteria.

Bev McARTHUR: Just in conclusion, can I place on record my thanks to the PBO for the work you do and for the work you have done and to the previous PBO chief officer.

The CHAIR: Thank you very much, Mrs McArthur. Ms Ermacora.

Jacinta ERMACORA: Thank you. I have no questions, Chair.

The CHAIR: Thank you very much. Mr McIntosh.

Tom McINTOSH: I feel like I am compelled to ask a question now, after all that. I just wanted to follow up from the last submission, the last hearing – there was talk about the furphy of a double tax. Obviously there has been some talk about different models and whatnot. There may be perhaps in any model that is designed – two, three taxes, four taxes, one tax, whatever it might be – but is it the value of the tax and comparing values, as opposed to the number of taxes? I think that comment, the furphy of a double tax, the comments that have been put – is that what should be focused on?

Xavier RIMMER: Look, generally speaking I think that is probably a fair characterisation. Coming from an economic approach to the impacts of a tax, the things you consider most are what are the changes that that tax is likely to impose on incentives and therefore decisions made by actors in the economy. You could have a dozen small taxes on something, but if they add up to have an aggregate impact that is smaller than a single large tax, the number of taxes is not necessarily material. I mean depending on how they are designed, it can be. But again going back to that framework of equity, efficiency and simplicity, multiple taxes probably makes administrative compliance for businesses and individuals with multiple taxes more complex than fewer taxes. That being said, you can certainly, I imagine, envisage a world where fewer taxes might resolve inequity or distributional differences.

Tom McINTOSH: Yes. So you probably could not draw a line that two taxes equals more tax, for example. You could not just draw that straight correlation. You would have to actually look at what any tax system or number of taxes – one or more – you would have to actually look at what it consists of.

Xavier RIMMER: Yes, and it also depends on what you mean by more tax. If you mean how much tax someone is paying – that is true if you mean how much tax someone is paying, but also it can be true if you are talking about how much of an economic impact the aggregate tax burden has on an individual or on an economy –

Tom McINTOSH: And the value is what should be assessed, not –

Xavier RIMMER: Yes. There is no straight line – two taxes good, three taxes bad, sort of thing. It does not –

Tom McINTOSH: Yes, thanks. I very much appreciate that, and I appreciate the submission and your time.

Xavier RIMMER: Thank you.

The CHAIR: Thanks, Mr McIntosh. I think we just have a couple more quick questions from other members. Ms Copsey.

Katherine COPSEY: Thank you. You have assessed various options in this paper against different outcomes that we can pursue through design of the taxation system and some of the commentaries around whether there is a preference for simplicity and efficiency versus equity. I guess just looking at the table that assesses the transition options and looks at –

I wonder if you can give some commentary: if a government chose to pursue equity to remedy some of the historic inequality that we have seen occur through stamp duty and its application – more frequent payment by particular cohorts – it would seem to me, looking at that table, that the credit option for transition provides flexibility in terms of addressing some of those historic inequities.

Xavier RIMMER: Look, perhaps, but I mean –

Katherine COPSEY: It comes down to the design of course, and the desired outcomes.

Xavier RIMMER: Yes, exactly. It is sort of always the eternal appeal on this: it depends on how you design the tax. What I would suggest, though, is if you design a tax that gets you to a land tax from a land transfer duty, as is the general conceit of our submission, then once you have gone through the transitionary period you are in the same world under any of those transition models. The more efficiently you design the tax, it does not necessarily have any impacts on the equity considerations once you get to that point. People are paying land tax on a property they own. If they transact to a higher value property, they will probably pay more; if they transact to a lower property value, they will probably pay less. The equity considerations rather more strongly come out in the transitionary period. And the credit scheme is one that would provide equity against I guess what might be viewed as the unfair re-taxation of someone who has just engaged or recently engaged with the prevailing tax system at the time, but it is not necessarily one that is more supportive of people who transact more frequently, except insofar as to say that people who transact properties more frequently have probably transacted a property just before the transition of the taxes began. Look, there are a lot of considerations that you can make in those. The transition mechanisms we have sketched out in that paper are rather broad and general, and governments can easily bespoke elements of those if they have particular equity considerations.

The CHAIR: Great. Thanks, Ms Copsey. I think that is all the questions, unless our members on the screen have anything to ask. I am nervous to ask again. No? All good. Well, thank you very much for coming along today and for your very detailed submission and responses to our questions.

Witnesses withdrew.