



Legislative Council Economy and Infrastructure Committee

Inquiry into Land Transfer Duty Fees

Hearing Date: 24 May 2023

Question[s] taken on notice

Directed to: Parliamentary Budget Office

Received Date: 9 June 2023

1. **David Limbrick, page 19**

Question Asked:

To provide a more detailed answer to: “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?”

Response:

Replacing land transfer duty with a broad-based land tax would result in a changed set of economic drivers in the property market. Impacts on individual landlords would depend on how they respond to these new drivers.

Landlords seeking to purchase new investment properties could acquire them at a lower cost, as they would no longer be required to pay land transfer duty. They may receive a higher rate of return on their lower-cost investment, even factoring in land tax payments and potentially lower rental prices.

Existing landlords who choose to retain ownership of their existing stock of properties may face a reduced rate of return on their historic investment due to land tax payments, and potentially lower rents. However, because property prices would be expected to rise, these landlords would also have the option of selling their investment properties for a higher capital gain.

We identified an additional question on notice in the hearing transcript, and have provided an answer below.

2. David Davis, page 18

Question Asked:

“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.”

Response:

The Victorian Government has not substantially adjusted land transfer duty rates since 2008, other than adding a premium rate of 6.5% for properties valued over \$2 million in 2021.

In 2021-22 (latest actual data), total land transfer duty revenue was \$10,361.1 million. We estimate that as much as 11.6% of this revenue, or \$1,196.8 million, could be attributable to ‘bracket creep’. This estimate is derived from the difference between actual revenue and revenue that would have been generated had land transfer duty thresholds been indexed by median house price growth since 2007-08 (but leaving the new \$2 million threshold unchanged).

Almost all buyers of property in Victoria are affected ‘bracket creep,’ other than a very small proportion purchasing properties valued under \$25,000 – these purchasers continue to pay land transfer duty at the lowest rate of 1.4%.