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Economy and
Infrastructure Committee

Land transfer duty fees

Inquiry

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About the Committee

Functions

The Legislative Council Economy and Infrastructure Committee inquires into and reports on any proposal, matter or thing concerned with agriculture, commerce, infrastructure, industry, major projects, public sector finances and transport.

The Committee consists of members of the Legislative Council from the government, opposition, and other parties.

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Terms of reference

Inquiry into land transfer duty fees

On 22 February 2023, the Legislative Council agreed to the following motion:

That this House requires the Economy and Infrastructure Committee to inquire into, consider and report, within six months of the House agreeing to this resolution, on issues around land transfer duty fees and its instruments within the *Duties Act 2000*, including but not limited to —

(1) analysing the current situation regarding the land transfer duty tax, and reviewing –

  (a) impacts on labour and capital mobility;

  (b) revenue predictability;

  (c) efficiency of resource allocation;

  (d) effects on housing supply and development;

  (e) overall tax efficiency;

(2) examining potential alternatives to land transfer duty, assessing models from interstate and international jurisdictions, noting the pros and cons of various proposed or implemented solutions; and

(3) any other matters.

Chair's foreword

Land transfer duty fees, or stamp duty as it is commonly known, is a highly contentious tax. It is paid by the purchaser of any non-exempt property, and as a result increases the cost of buying property. It has been argued throughout this inquiry that it is inefficient, unpredictable and inequitable. Unfortunately, it also represents a significant percentage of the Victorian State government's budget. It is therefore difficult to eliminate without impacting current service delivery.

During this inquiry, the Committee has heard from a range of industry and professional associations, companies, tax experts, community organisations and individuals expressing strong views and proposing different solutions to the problems raised by stamp duty. What became clear to the Committee is that the question of whether or not stamp duty is the most appropriate way to tax property is complex.

As a result, the Committee made 12 findings and made 3 recommendations to government in this report, but does not recommend any single solution. It did however recommend that the Government address the issue of bracket creep, which has increased the cost of stamp duty well beyond what was originally intended, and that the Government should pursue a national approach to the issue and, in the meantime, should investigate some state-based solutions, including the possibility of replacing stamp duty with a broad-based land tax. The Committee looks forward to the Government's consideration and response.

I would like to thank the people who made the effort to make high quality and thoughtful submissions and those who gave the Committee their time and expertise appearing before the Committee in public hearings to give evidence. The evidence received was of a high standard and significantly enhanced the Committee's understanding of the issues.

I would also like to thank my Committee colleagues for the professional and courteous way they approached the inquiry from the start. There were different perspectives among members, but at all times there was a collegiate approach taken and I greatly appreciate the manner in which the Committee members conducted themselves throughout the inquiry.

Finally, I would like to thank the Secretariat of the Committee for the professional and exemplary support they have provided to the Committee throughout the inquiry. Committee Manager Michael Baker, Inquiry Officer Caitlin Connally and the administration team of Senior Administration Officer Julie Barnes and Administration Officer Sylvette Bassy all made an enormous contribution to the Committee's work and I and the Committee greatly appreciated their efforts.

Georgie Purcell MLC
Chair

Findings and recommendations

2 Stamp duty in Victoria

FINDING 1: Stamp duty is a volatile tax that is affected by housing turnover and price and the resultant unpredictability makes it difficult for governments to budget and to prepare forward estimates. **18**

FINDING 2: Stamp duty distorts behaviour because it discourages or makes it more difficult for people to move house for new employment or to downsize because the additional cost of stamp duty added to the purchase price or rent may be prohibitive or a disincentive. **21**

FINDING 3: The impact of stamp duty in affecting individuals decisions has broader implications as it can limit efficient allocation of housing stock and thus affordability. **25**

FINDING 4: Stamp duty is not an equitable tax, with a small percentage of people carrying the burden of a significant proportion of the state budget. In addition, those carrying the burden are disproportionately younger people with fewer resources, as they are more mobile, and older people whose capacity to pay may be diminished as they reach retirement. **27**

FINDING 5: Stamp duty disproportionately affects divorcees, in particular women who have lost their home due to divorce. **27**

FINDING 6: Bracket creep contributes to the negative effects of stamp duty. While the rate has stayed the same and property prices have risen, stamp duty has become a much larger impost than was originally intended. **30**

FINDING 7: The Committee recognises that there are serious flaws with stamp duty as it is currently imposed. It is inefficient because it can alter decisions made which can impact on tax revenue; it is unpredictable as it is based on turnover and property prices, which impacts on the government's capacity to budget into the future. **35**

3 Alternatives to Victoria’s existing stamp duty model

FINDING 8: The 2009 report *Australia’s Future Tax System* (the ‘Henry Review’) strongly recommended that all jurisdictions abolish stamp duty and replace it with a broad-based land tax. To date, no state has adopted this recommendation. **47**

RECOMMENDATION 1: That the Department of Treasury and Finance model and publish the findings of ‘switch on sale’, ‘credit’ and ‘gradual transition’ proposals. **47**

FINDING 9: The phased transition model slowly transitions stamp duty to a new land tax. However, without proper measures there is a risk that new property owners will experience double taxation. **55**

FINDING 10: Indexing stamp duty rates could minimise bracket creep. However, the viability of indexation as a solution to addressing issues with stamp duty in the long-term is unclear. **68**

FINDING 11: The Committee notes previous recommendations to replace stamp duty with land tax across all jurisdictions. In addition, an interim measure to address issues with bracket creep is through indexation. **68**

RECOMMENDATION 2: That the Department of Treasury and Finance should regularly review stamp duty rates to adjust for bracket creep. **68**

FINDING 12: National reform of stamp duty would better address its negative impact on housing affordability, economic mobility, and market efficiency, for more Australians. Implementing comprehensive and uniform reforms is an opportunity to promote housing accessibility and affordability, stimulate economic growth, and create a fairer and more efficient housing market for all Australians. **70**

RECOMMENDATION 3: That the Victorian Government:

- should consider additional measures to increase housing supply, including strengthening housing targets
- advocate for a national approach to stamp duty reform, recognizing its potential to address housing affordability and accessibility nationwide
- as an interim measure until a national commitment is made, urgently explore state-based reform options, including conducting an investigation into the feasibility of abolishing stamp duty and implementing a broad-based land tax as an alternative. **70**

What happens next?

There are several stages to a parliamentary inquiry.

The Committee conducts the Inquiry

This report on the Inquiry into land transfer duty fees is the result of extensive research and consultation by the Legislative Council Economy and Infrastructure Committee.

The Committee received written submissions, spoke with people at public hearings, reviewed research evidence and deliberated over a number of meetings. Experts, government representatives and individuals expressed their views directly to us as Members of Parliament.

A Parliamentary Committee is not part of the Government. The Committee is a group of members of different political parties (including independent members). Parliament has asked us to look closely at an issue and report back. This process helps Parliament do its work by encouraging public debate and involvement in issues.

You can learn more about the Committee's work at: https://new.parliament.vic.gov.au/get-involved/committees/legislative-council-economy-and-infrastructure-committee.

The report is presented to Parliament

This report was presented to Parliament and can be found at: https://new.parliament.vic.gov.au/get-involved/inquiries/landfeesinquiry/reports.

A response from the Government

The Government has six months to respond in writing to any recommendations made in this report.

The response is public and put on the inquiry page of Parliament's website when it is received at: https://new.parliament.vic.gov.au/get-involved/inquiries/landfeesinquiry/reports.

In its response, the Government indicates whether it supports the Committee's recommendations. It can also outline actions it may take.

Chapter 1
Introduction

1.1 Background to the inquiry

On 22 February 2023, the Legislative Council agreed to the following motion:

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- (a) impacts on labour and capital mobility;
- (b) revenue predictability;
- (c) efficiency of resource allocation;
- (d) effects on housing supply and development;
- (e) overall tax efficiency;

(2) examining potential alternatives to land transfer duty, assessing models from interstate and international jurisdictions, noting the pros and cons of various proposed or implemented solutions; and

(3) any other related matters.

1.2 Definitions

Land transfer duty, which is payable on most transactions that result in a change of ownership of land and associated real estate assets, is better known as stamp duty. In this report, the committee will refer to it as stamp duty, unless it is referred to in a quote as land transfer fees or duty.

Stamp duty is generally applied according to a dutiable amount, broadly defined as the price paid or the market value of a property. The dutiable value includes both the value of the land and the value of any capital improvements such as a building.

Stamp duty liabilities are calculated on a sliding scale starting at 1.4% of transactions valued at $25,000 and rising to 6.5% depending on the value of the transaction and the date a contract is entered into.[1]

1 Department of Treasury and Finance, *Submission 50*, p. 7.

More details about stamp duty and how it is applied in Victoria provided in Chapter 2.

Land tax, on the other hand, is an annual tax based on the total taxable value of all the land you own in Victoria. Land tax currently does not apply to the property owner's principal place of residence. When the total taxable value of the land (other than the principal place of residence) a property owner owns is equal to or above the $300,000 threshold ($25,000 for trusts) they must pay land tax.[2]

Further discussion about land tax can be found in Chapter 3 of this report.

1.3 Submissions and public hearings

Following the referral from the Legislative Council of the terms of reference on 22 February 2023, the Committee advertised for submissions with newspaper and social media posts. In early March, the Committee wrote to key stakeholders seeking submissions to the inquiry. By the deadline of submissions on 14 April, the committee had received 54 submissions. The Committee then held public hearings commencing on 28 April, with further hearings being held through May and into late June. At the end of the public hearings, the Committee had heard evidence from 31 witnesses over 4 hearing days.

While a number of the submissions were useful in simply providing opinions on the desirability or otherwise of stamp duty, the substantive submissions received were of high quality and were extremely useful for the Committee in forming its views.

All of the public hearings were held in Melbourne and were conducted by a combination of in-person evidence and remote evidence via Zoom. The Committee is grateful to all of the submitters and to all of the witnesses who gave up their time and expertise to give evidence at the public hearings.

1.4 Scope of the Inquiry

With less than six months from commencement to the tabling of the report, the Committee did not have sufficient time to do detailed analyses on all elements of the terms of reference. Therefore, the Committee took a more focused approach to the inquiry and paid most attention to themes that were repeating throughout the submissions and the evidence given.

It should be noted that the Committee has not intended to undertake a broad review of the state taxation base. While Land Tax is referenced in detail in the report, this is because it was the most widely supported alternative to stamp duty in the literature, submissions and in public hearings. Chapter 3 of this report considers the views expressed on Land Tax in detail.

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2 State Revenue Office, *Paying land tax for the first time*, 2023, <https://www.sro.vic.gov.au/land-tax/paying-land-tax-first-time#:~:text=frequently%20asked%20questions-,What%20is%20land%20tax%3F,preceding%20the%20year%20of%20assessment> accessed on 29 May 2023.

Other taxes, such as the Windfall Tax, payroll tax or other sources of state government revenue have not been considered in this inquiry.

The committee has focused largely on Term of Reference 1, where the impact of stamp duty on labour and capital mobility, revenue predictability, efficiency of resource allocation, the effects on housing supply and development and the overall efficiency of stamp duty as a tax base are considered.

While reference is made to some models from other jurisdictions, there are limitations on such comparisons because of the financial arrangements in place in Australia. The particular tax and revenue relationship between state governments and the Commonwealth government make some international comparisons somewhat tenuous.

As a result, the only external jurisdictions that the Committee looked at have been changes made by NSW and changes being made in the ACT. A number of submissions referred to these jurisdictions and the Committee has made reference to them, albeit without a detailed analysis.

The inquiry heard more evidence about the overall tax efficiency or otherwise of stamp duty and this has been the focus for much of the report. There has also been significant commentary about the equity issues surrounding stamp duty and some of the negative impacts that it may have on both individuals, families and some industries.

1.5 The Report

The report is based on evidence provided in submissions and in the public hearings. In Chapter 2, the Committee considers stamp duty in the current Victorian context as well as a brief summary of its history.

The chapter largely focuses on views expressed about the limitations and negative impacts of stamp duty, largely focusing on its volatility, unpredictability and inefficiency as a form of revenue. While they were some submitters and witnesses who were not convinced that stamp duty should be abolished or replaced, there was a very strong thread throughout the evidence that there were better alternatives for the state government then stamp duty, which was seen as inefficient, unpredictable and inequitable.

Witnesses and submitters highlighted negative impacts not only on individuals who we're responsible for paying stamp duty on property purchases, but also on the broader economy, labour and capital mobility and on housing supply and development. There is also discussion about the perceived inequity of the tax, as the burden of it is carried by a relatively small percentage of the population.

The Committee touches on recent changes to stamp duty that were announced in the 2023–24 State budget. However, as these were announced very late in the inquiry, and after all of the submissions had been received, views on their impact were preliminary in nature and therefore there is only limited scope for witness and Committee comment.

In Chapter 3, the committee considers in more detail some of the alternative approaches to stamp duty that were suggested by submitters and witnesses during the inquiry.

Broad-based land tax, which aims to shift the tax burden from property transactions to land ownership, providing a more stable and equitable revenue source for governments, is considered.

The Chapter also discusses the 2009 Henry Review, a landmark report entitled *Australia's Future Tax System*. The Henry Review was a comprehensive examination of Australia's tax system. The report recommended that all jurisdictions abolish stamp duty and that governments transition to a new land tax.

A model discussed in the Henry Review, the phase-out/phase-in model, is also discussed as it has also been raised consistently in the submissions and evidence presented in this inquiry. The related issue of double taxation, where during a phase out/phase in period people are required to pay both the outgoing tax and the incoming tax, is also covered in Chapter 3. Another of the models canvassed by the Henry review, the Switch-on-sale model, is also discussed in this chapter. Under this model, existing land tax exemptions are retained by current landowners, only coming into effect for new purchasers. New purchasers are not required to pay stamp duty. The chapter also considers the third model discussed in the Henry Review, the Credit model, in which stamp duty is immediately replaced with a broad-based land tax, but recent property purchasers are granted a credit against future land tax liabilities.

All of these various alternatives to stamp duty were raised in submissions and in public hearings during this inquiry.

Chapter 3 also expands on issues raised in relation to the rate of stamp duty, and in particular ways of managing bracket creep, which has seen stamp duty revenue grow disproportionately as property prices rise.

Finally, Chapter 3 addresses the important issue of a national approach to taxation. Stamp duty is not simply a Victorian state government issue, but a national one, and the interconnectedness of state and commonwealth finances means that a national approach is preferable.

Chapter 2
Stamp duty in Victoria

2.1 Introduction

This Chapter's focus is only on stamp duty, its role in the context of the Victorian budget, its history, and its various impacts, both to individuals and the economy overall. Alternatives to stamp duty, such as a broad-based land tax, are discussed in detail in Chapter 3. The issues discussed below were the subject of substantial commentary in both submissions and in evidence given at public hearings.

2.2 Stamp duty in the Victorian context

Discussion of the budgetary elements of any state government in Australia needs to be undertaken in the context of a federal financial framework. The Commonwealth Government collects around 80 percent of the taxes raised in Australia, with the States collecting about 15 percent and the balance collected at the local government level. The taxes collected by the Commonwealth are then partly redistributed to the States in the form of grants.

The Government's submission to this inquiry advised that in the 2021–22 financial year, approximately half of Victoria's total general government sector revenue and income came from Commonwealth grants, at just over $40 billion.[1] State taxation in the same year accounted for approximately one third of total general government sector revenue and income, or just over $30 billion.[2]

Of this state taxation revenue, less than half was from property related taxes, such as land tax and/or stamp duty. The balance of the state taxation comes from payroll taxes and taxes on the provision of goods and services, such as gambling taxes, motor vehicle taxes and taxes on insurance.

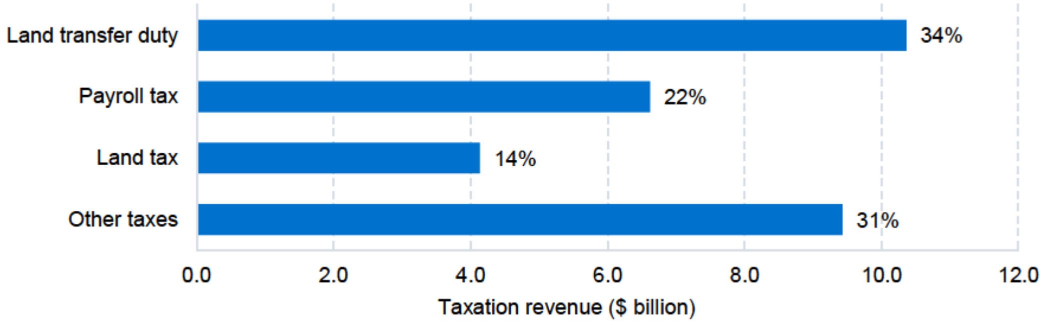
As can be seen in the figure below, stamp duty is a substantial contributor to the Victorian taxation base.

1 Department of Treasury and Finance, *Submission 50*, p. 5.

2 Ibid.

2

Figure 2.1 Composition of Victorian state taxation revenue in 2021–22



Source: Department of Treasury and Finance, *Submission 50*, p. 6.

Stamp duty revenue was $10.4 billion in 2021–22, which constituted about 34% of Victoria state tax revenue. In historical terms, this was a higher amount then the five year average (2016–17 to 2020–21) of $6.3 billion or 27% of state tax revenue.[3]

According to the Government submission, this increase can be attributed to record low interest rates, strong sentiment and government incentives supporting the Victorian property market in 2021–22.[4]

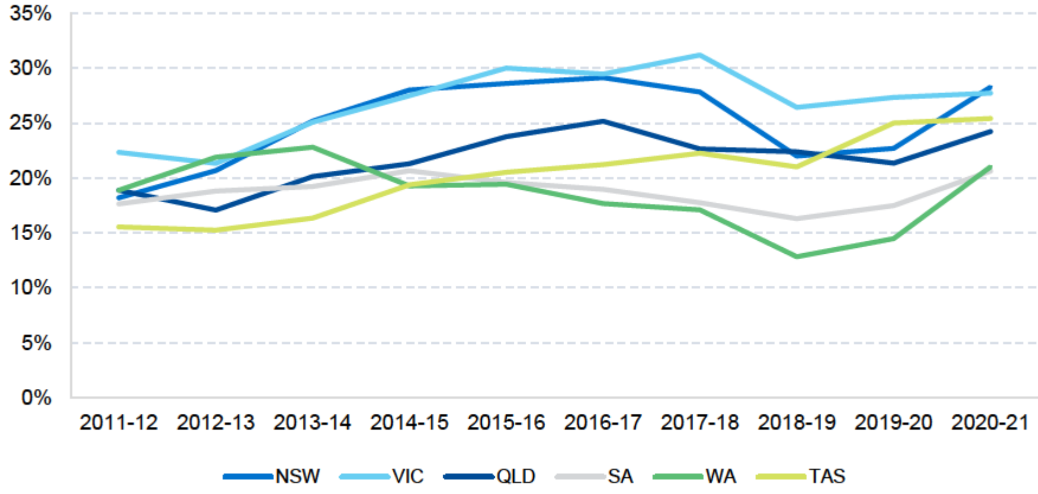
Given the very significant percentage of the state's budget that stamp duty represents, it is generally acknowledged that replacing it would be a substantial challenge. The issues surrounding such a challenge are discussed in detail in Chapter 3 of this report.

The significance of stamp duty to the state's revenue is not unique to Victoria. It represents a substantial percentage of the revenue of all States. As stated in the Government submission, it tends to be higher in states with higher property prices. As house prices increase, so does stamp duty revenue. For example, as the graph below illustrates, as house prices in Brisbane and Hobart have increased, the revenue percentage from stamp duty has increased and has gotten closer to the traditionally more expensive cities of Sydney and Melbourne. The increase in property prices is also due to a lack of adequate supply.

3 Ibid.

4 Ibid.

Figure 2.2 Land transfer duty revenue as a share of government taxation revenue, 2011–12 to 2020–21

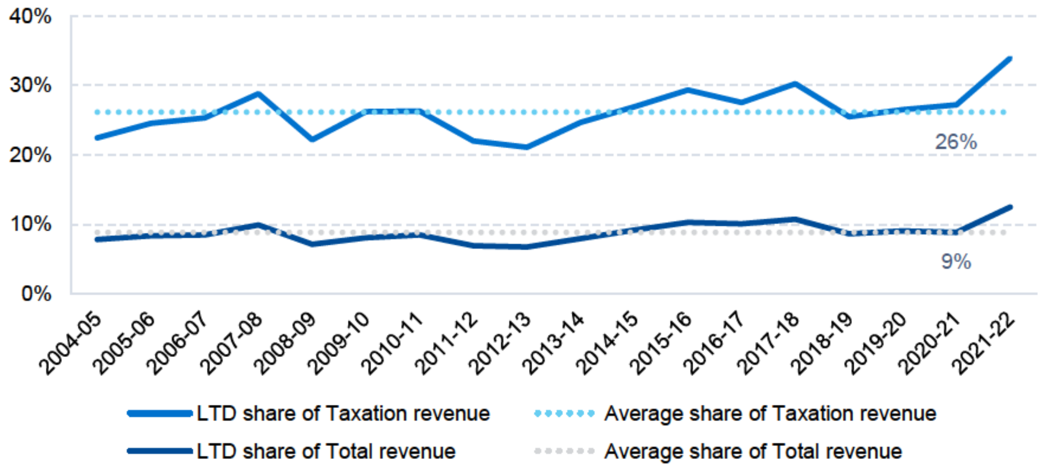


Source: Department of Treasury and Finance, *Submission 50*, p 6

According to the Government submission, stamp duty revenue has increased over time, from $2.3 billion in 2004–05 to $10.4 billion in 2021–22. The submission states that 'over the same period, the size of Victoria's economy has increased by around 123 per cent, and Victorian dwelling prices have increased by 153 per cent'. The submission states that 'stamp duty revenue has thus increased as a share of gross state product from 1.0 per cent in 2004–05 to 2.0 per cent of GSP in 2021–22'. It further suggests that following elevated revenue levels in 2021–22, stamp duty is 'expected to decline as a share of GSP to around 1.5 per cent in 2022–23, which would be more representative of recent trends.'[5]

This progression in the relative increase in stamp duty revenue is illustrated in the following chart provided by the DTF submission.

Figure 2.3 Stamp duty share of Victorian government taxation and total revenue



Source: Department of Treasury and Finance, *Submission 50*, p. 5.

5 Ibid., p. 3.

Regardless of future fluctuations, it is clear that stamp duty represents a very substantial source of revenue for the Victorian budget. Any removal of stamp duty will need to be accompanied by an equivalent alternative revenue stream to enable Victorian governments to meet their financial needs.

2.3 The history of stamp duty in Victoria

Property-based taxes have been levied in Victoria since early in its history, with Land tax first being introduced in 1877. It was designed to break up large land holdings and was established by the *Land Tax Act 1877*. In 1879, legislation for the granting, management and collection of stamp duties is introduced.[6]

In 1895, the Victorian government began collecting state income tax, which continued until 1942 when the Commonwealth Government passed legislation effectively removing from the states the right to collect income tax and establishing a national uniform tax system. At this time, and in order to compensate the states for losing their income tax revenue, a system of annual grants from the Commonwealth was introduced.

The legislation related to Stamp Duty was administered by the Stamp Duties Office, which was initially a branch of the Attorney General's Department. The Stamp Duties Office operated as an independent body for most of its existence until it was merged with the State Taxation Office in 1992 and the position of Commissioner of State Revenue created.

Stamp duties are taxes applied to transactions, and there were a significant number of them originally. The Inter-Governmental Agreement on Federal Financial Relations in 1999 established a new national taxation system, which included the elimination of a number of inefficient taxes including:

- Financial Institutions Duty,
- Stamp Duty on marketable securities,
- Debits Tax
- Stamp duty on non-real non-residential conveyances
- Stamp duty on leases
- Stamp duty on mortgages, bonds, debentures and other loan securities,
- Stamp duty on credit arrangements, instalment purchase arrangements and rental arrangements,
- Stamp duty on cheques, bills of exchange and promissory notes

6 State Revenue Office Victoria, *History of state taxation*, 2023, <https://www.sro.vic.gov.au/history-state-taxation> accessed 1 June 2023.

Despite these significant reforms, stamp duty on property transactions remain. In 2000, the *Duties Act 2000* (Vic) was enacted. In this legislation, existing stamp duties were replaced by a number of new or amended duties, including:

- duty on transfers and transactions concerning dutiable property
- an anti-avoidance provision, charging duty at the rate applicable to transfers of land on the acquisition by a person of an interest consisting of certain shareholdings in a private company, or unit holdings in a unit trust scheme, which has substantial land holdings
- financial sector (transfer of business) duty
- lease instruments duty
- hire of goods duty
- mortgages duty
- insurance duty
- motor vehicle duty
- miscellaneous duty on the sale of cattle, calves, sheep, goats, pigs and carcases.[7]

One of the features of the changes made at the time was the recognition of the need to recognise inter-state transactions so that people undertaking transactions across state borders are not paying a tax twice on the same transaction.

Under the *Duties Act 2000*, duty is charged on transfers of dutiable property, and on the following transactions:

- a declaration of trust over dutiable property;
- a surrender of an estate in land;
- a vesting of dutiable property by a court order or an order of the Registrar of Titles;
- the conversion of long-term leases into fee simple under section 153 of the *Property Law Act* 1958;
- the granting of a lease with provision for future transfer or sale where consideration is paid or agreed to be paid; and
- any other transaction that results in a change in beneficial ownership of dutiable property other than a change in beneficial ownership of an estate in land as a result of the issue, transfer, redemption or cancellation of units in a unit trust scheme.[8]

One key issue to note is that, according to state tax consultant, Joanne Seve, ‘apart from some minor adjustments to Transfer Duty thresholds in 1998 and 10 years later, in 2008, there have not been any changes to the thresholds or the rates of Transfer

7 *Duties Act 2000* (Vic) s Explanatory Memorandum.

8 Ibid.

Duty in Victoria over the past 25 years, except that a premium rate of 6.5% was introduced for dutiable values exceeding $2M, on 1 July 2021. Even prior to 1998, the thresholds and rates had not markedly changed for many years.'[9] The lack of adjustment in the thresholds to which stamp duty applies has led to substantial increases in the relative cost of stamp duty.

2.4 The impact of stamp duty

Submissions received by the Committee have painted a somewhat bleak picture of the impact of stamp duty. It has been described as an inefficient, unstable and unfair tax that has a distorting effect on commercial activities and on key community welfare issues. In this section, the Committee addresses some of the quite broad reaching impacts of stamp duty on the community.

The Committee then discusses the question of the efficiency of stamp duty.

2.4.1 Impacts on labour and capital mobility

One of the negative impacts of the imposition of stamp duty on property transactions that was identified by a number of submissions and witnesses was that it made it more difficult for people to move house for new employment because the additional cost of stamp duty added to the purchase price or to rent.

Professor Robert Breunig, the Director of the Tax and Transfer Policy Institute at the Australian National University, told the Committee in a public hearing that:

> We want people to be able to change jobs and switch jobs in order to be able to find better employment, and part of that might involve moving. Stamp duty provides an additional cost to moving, so it is going to lower the efficiency of the allocation of labour in the labour market. It is also an unfair tax. We are kind of used to it in Australia, but it is very strange that we tax people who move and we do not tax people who do not move.[10]

The Victorian Chamber of Commerce and Industry also linked stamp duty with limiting mobility for employment, telling the Committee in its submission that stamp duties 'discourage individuals with the relevant skills from moving to the locations with the right jobs. This reduces labour productivity and therefore harms our businesses and overall economy.'[11]

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9 Joanne Seve, *Submission 18*, p. 1.

10 Robert Breunig, Director, Tax and Transfer Policy Institute, public hearing, Melbourne, 11 May 2023, *Transcript of evidence*, p. 38.

11 Victorian Chamber of Commerce and Industry, *Submission 54*, p. 3.

The Housing Industry Association in its submission suggested that when there is competition between states for workers 'stamp duty impedes labour mobility at a time when Victoria urgently needs more workers' It said:

> Employment and earnings prospects in Victoria need to be considerably superior to those existing in other states to offset high stamp duty costs.[12]

The HIA expanded on this point, suggesting that:

> Currently, jurisdictions with lower hurdles to home ownership, such as Queensland, have a distinct advantage over Victoria. Employment and earnings prospects in Victoria need to be considerably superior to those existing in Queensland to offset the additional $39,000 in stamp duty payable by people wanting to buy a home in this state.[13]

This issue was a recurring theme in a number of submissions. The Committee heard that the impact of stamp duty on people's decisions related to where they live in relation to their employment is not simply a theoretical issue, but one that affects the lives of Victorians. The Committee has been told that decisions about where to live affect not only individuals' working lives but their family lives as well, as traveling too far to get to and from work can have a detrimental effect on their family. It can also have a community-wide effect in increasing traffic congestion, with its broader negative impacts. For example, one submission told the Committee that:

> We have moved house several times to be located closer to work and the current stamp duty arrangements have always provided hesitation to accepting this decision. It is common for most people to work in an organisation for 3 to 5 years and with employment hubs now decentralised around Melbourne and into Regional areas a review of stamp duty would better enable to allow families to move closer to their location of work. For myself, the family benefits of being located close to work are unsurmountable. Notwithstanding the wider congestion benefits this has to our road & rail infrastructure.[14]

The issue of the pressure placed on the environment and infrastructure of long commutes, caused by people not being able to relocate closer to their work, was also raised by the Real Estate Institute of Victoria (REIV), saying in its submission:

> When place of employment or education for homeowners changes significantly, stamp duty is an impediment to relocation. As a consequence, greater pressure may well be placed on Victorian transport infrastructure and systems at a cost to government and the environment. Longer commutes place strain on individuals, their families and potentially on the health system. [15]

In addition to impacting on the decisions people make in relation to moving closer to work, a number of submissions raised the issue of how stamp duty might discourage older people from downsizing, thus leaving them in housing that is no longer fit for

12 Housing Industry Association, *Submission 45*, p. 4.

13 Ibid., p. 9.

14 Jarod Mills, *Submission 11*, p. 1.

15 Real Estate Institute of Victoria (REIV), *Submission 37*, p. 6.

purpose as their children leave home. As people approach or enter retirement, with its consequent reduction in income, the high cost of stamp duty is seen by many as a disincentive to purchasing a smaller and more appropriate property.

This not only disadvantages them by leaving them in houses that are too big and unmanageable but will also limit the availability of houses for growing families.

According to the Property Council of Australia:

> land transfer duty discourages existing property owners from downsizing to more appropriate housing, as they would be trading on comfort and size, yet still required to pay a large land transfer duty sum on any new purchase.[16]

This view was also put to the Committee in the Housing Industry Association's submission which stated that stamp duty:

> distorts the decisions of households to move in and out of homes that are either too large, too small or even too costly for their needs. For retirees, the prospect of 'downsizing' by leveraging the profits from the sale of an empty large family home to buy a smaller, more affordable one is diminished when stamp duty erodes a large portion of that profit.[17]

Dr Michael Fotheringham of the Australian Housing and Urban Research Institute (AHURI) echoed this view in a public hearing, telling the Committee:

> There is a real barrier to downsizing. We want people to use our housing more efficiently. We are worried about empty nests. If we want people to move out of what used to be the family home before the kids grew up and moved out, removing stamp duty and having a land tax model helps with that.[18]

The distortions created by stamp duty were discussed by a number of submitters and witnesses during the inquiry. Mr Brendan Coates, Economic Policy Program Director at the Grattan Institute, told the Committee at a public hearing that:

> Stamp duty is one of Australia's most costly taxes. It is a substantial share of the Victorian government's budget revenue, but it is very costly because it generates big distortions in how people behave that affect their lives and then ultimately affect their wellbeing. So whether that be people choosing not to downsize in a situation where they probably should, to get a house that better suits their needs or to upsize their home in order to support a growing family, and it leads to a misallocation of the housing stock as well. It leads to people buying larger homes when they first buy a home on the basis they do not want to upgrade later in the future.[19]

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16 Property Council of Australia, *Submission 42*, p. 6.

17 Housing Industry Association, *Submission 45*, p. 8.

18 Dr Michael Fotheringham, Managing Director, Australian Housing and Urban Research Institute, public hearing, Melbourne, 28 June 2023, *Transcript of evidence*, p. 22.

19 Brendan Coates, Economic Policy Program Director, Grattan Institute, public hearing, Melbourne, 11 May 2023, *Transcript of evidence*, p. 22.

Although much of the discussion about the disincentive to downsize was around stamp duty, the Secretary of the Department of Treasury and Finance suggested that there may be other factors in play making downsizing less attractive, namely the impact of the assets test on pensions. Mr Martine told the Committee in a public hearing that:

> You do have examples of people who are on the full pension, asset rich, income poor, and that is an impediment to releasing some of that housing stock, particularly in the inner suburbs of cities around the country. So you might have single pensioners in a five-bedroom house. It is not worth their while selling it and downsizing because the difference they get on the sale – they have got to put in investments, the bank or whatever – gets picked up in the asset test.[20]

He said:

> I actually think the biggest impediment is not the stamp duty element, there are some Commonwealth taxation and pension issues that I think are the real impediment there.[21]

On a more macro-level, a direct impact of more expensive housing as a result of stamp duty raised in evidence is the attraction of labour to the state to support general economic growth.

Mr Keith Ryan of the Housing Industry Association told the Committee during a public hearing that:

> We would suggest that if the Victorian government is going to look at enhancing the attractiveness of Victoria as a place to work, cutting stamp duty for commercial and industrial is a great start, but realistically you also need to remove the barriers to entry for the workforce – give them the ability to more easily buy residential property in Victoria. One of the best ways to achieve that, and to also encourage an improvement in the supply of housing in general, is to look at replacing over time stamp duty for residential property.[22]

This view was expressed in a number of submissions. The Victorian Chamber of Commerce and Ind Industry (VCCI) said in its submission that:

> Mobility will increase if transfer duty is reduced or removed. Existing systems in society can affect mobility and a vibrant economy should enable individuals to have the freedom to move depending on employment, services or personal requirements.[23]

The VCCI extended the point beyond labour mobility and suggested that the impact of stamp duty on mobility was also felt by older people whose children had left home and who were restricted in their capacity to move to smaller more appropriate housing due

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20 David Martine, Secretary, Department of Treasury and Finance, public hearing, Melbourne, 28 April 2023, *Transcript of evidence*, p. 9.

21 David Martine, Secretary, Department of Treasury and Finance, public hearing, Melbourne, 28 April 2023, *Transcript of evidence*, p. 9.

22 Keith Ryan, Executive Director, Victoria, Housing Industry Association, public hearing, Melbourne, 24 May 2023, *Transcript of evidence*, p. 32.

23 Victorian Chamber of Commerce and Industry, *Submission 54*, p. 3.

to the cost. This issue was addressed by a number of other submitters and is discussed more in a later section on housing supply.

As indicated earlier, the issue of labour mobility was a recurring theme throughout the inquiry. Submitters from Deakin University told the Committee in their submission that stamp duty:

> increases the costs of moving, which can distort households' decisions about where to live and work. By restricting labour mobility, for instance, (stamp duty) deters some workers from moving to areas with higher productivity industries, or to areas with severe skills shortages. This results in the loss of economic efficiency due to the misallocation of labour resources.[24]

This impact on mobility was acknowledged by government in a public hearing. The Secretary of the Department of Treasury and Cabinet, Mr David Martine, told the Committee that:

> Land transfer duty can influence property decisions through transaction volumes and capital investment. On volumes, land transfer duty increases the cost of transacting property and therefore can reduce the number of transactions. This can negatively impact on household and labour mobility.[25]

It is not only mobility of people that stakeholders have argued are affected by stamp duty. According to a number of submitters and witnesses, the mobility of capital is also negatively impacted by taxes on transactions such as stamp duty.

Because stamp duty is a tax on transactions, which are discretionary, rather than on land, which is fixed and exists regardless of decisions that owners make, it is argued that investment decisions are likely to be affected by the level of stamp duty imposed on the purchase of property. Therefore, it is argued that stamp duty will affect capital investment. As stated by the Parliamentary Budget Office in its submission:

> In economic terms, land transfer duty is inefficient because it is a tax on capital allocation. Capital is highly mobile, so tax arrangements can have a large impact on individuals' decisions.[26]

Mr Martine told the Committee that 'on capital investment, land transfer duty taxes capital improvements as part of the total value of a property, and so it can impact on the capital investment made in property.'[27]

In its submission, the Parliamentary Budget Office stated that stamp duty is 'often considered a tax on transactions — from an economic perspective, it is a tax on capital allocation. The imposition of the tax affects individuals' decisions to buy and sell

24 Yan Liang Jeff Hole, and Xueli Tang, *Submission 33*, p. 4.

25 David Martine, *Transcript of evidence*, p. 3.

26 Parliamentary Budget Office, *Submission 53*, p. 5.

27 David Martine, *Transcript of evidence*, p. 3.

properties, meaning the allocation of capital is distorted from its optimal use.'[28] The submission went on to suggest that:

> As a capital tax, land transfer duty is applied to a highly mobile factor of production and is, therefore, highly inefficient – for a given revenue, it has a large impact on economic output and the standard of living of individuals.[29]

The Urban Development Institute Australia Victoria (UDIA) said in its submission that the National Housing Finance and Investment Corporation (NHFIC) recently called for the removal of the stamp duty, as it directly impacts housing mobility, and its removal would increase the efficient use of existing national housing stock. It stated that:

> Stamp duty discourages capital mobility because it penalises turnover. This also limits the effective mobility of the Victorian labour market, which would otherwise be much more responsive to changes in the job market.[30]

Professor Bruenig provided a very clear illustration of the risk posed by stamp duty in terms of capital investment decisions. He said in evidence that:

> So if I put a high tax on capital investment, that capital can say, 'Well I'm not going to invest in Victoria' or 'I am not going to invest in Australia, I'm going to go and take my capital and invest in Indonesia.' So we think capital is very mobile, and that when we tax it we have to be careful of taxing it, because it can quickly go somewhere else.[31]

2.4.2 Revenue predictability

Another criticism levelled at stamp duty is its instability and the difficulty for governments to predict the revenue that will be generated. This is a significant problem in preparing forward estimates and developing expenditure plans into the future. Stamp duty revenue is dependent on both property prices and transaction volumes and fluctuations in either or both of these factors will affect the amount of stamp duty revenue collected.

In its submission to the inquiry, the Department of Treasury and Finance discussed the difficulties in estimating stamp duty revenue, stating:

> Revenue forecasts provide critical context to governments to inform their decision-making on budgeting and revenue policy. While having accurate forecasts for all revenue sources is important, land transfer duty typically contributes around 9 per cent of total general government sector revenue each year, and its cyclical volatility can disproportionately affect overall revenue forecast errors when compared to most other sources of taxation revenue.[32]

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28 Parliamentary Budget Office, *Submission 53*, p. 18.

29 Ibid., p. 20.

30 Urban Development Institute Australia (Victoria), *Submission 35*, p. 3.

31 Robert Breunig, *Transcript of evidence*, p. 39.

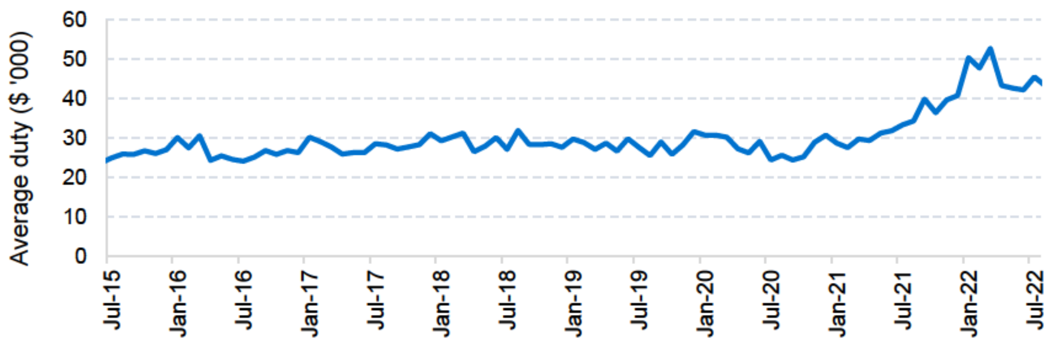
32 Department of Treasury and Finance, *Submission 50*, p. 14.

On the volatility of the tax base, the submission stated that the 'volatility in land transfer duty revenue is linked to fluctuations in property prices and property settlement volumes, both of which require forecasting' and that:

> average land transfer duty revenue moves up and down with changes in property prices … and is therefore subject to property market cycles. Non-residential properties, while having a smaller share of the volume, tend to be higher-value properties and can have an outsized effect on average property prices, and therefore average duty.[33]

Figure 2.4 below shows the fluctuations in stamp duty collections over a seven year period. While there is a reasonably consistent revenue stream for much of the period, increased property prices created a substantial increase over the last two years of the cycle, with a steep downturn at the end of the cycle. The volatility apparent here makes forecasting particularly difficult.

Figure 2.4 Average land transfer duty for all transactions, June 2015 to June 2022



Source: Department of Treasury and Finance, *Submission 50*.

This volatility was raised by a number of stakeholders during the inquiry. As suggested by the submitters from Deakin University, the volatility of demand for housing, which is largely outside of the State government's control, causes volatility in stamp duty revenues complicates the management of state finances.[34]

The Parliamentary Budget Office illustrated this volatility in its submission to the inquiry. It stated that:

> Since at least 2009—10, annual variations in land transfer duty have generally been larger than other major Victorian taxes. Land tax has also experienced occasional relatively large variations, some of which partly reflect the Victorian Valuer-General revaluing land biennially until 2019—20, when it began doing so annually. Payroll tax more closely reflects the overall economy, specifically wages and employment, and is therefore much less volatile. The standard deviation in revenues summarises this result and provides a measure of volatility of these taxes in recent years.[35]

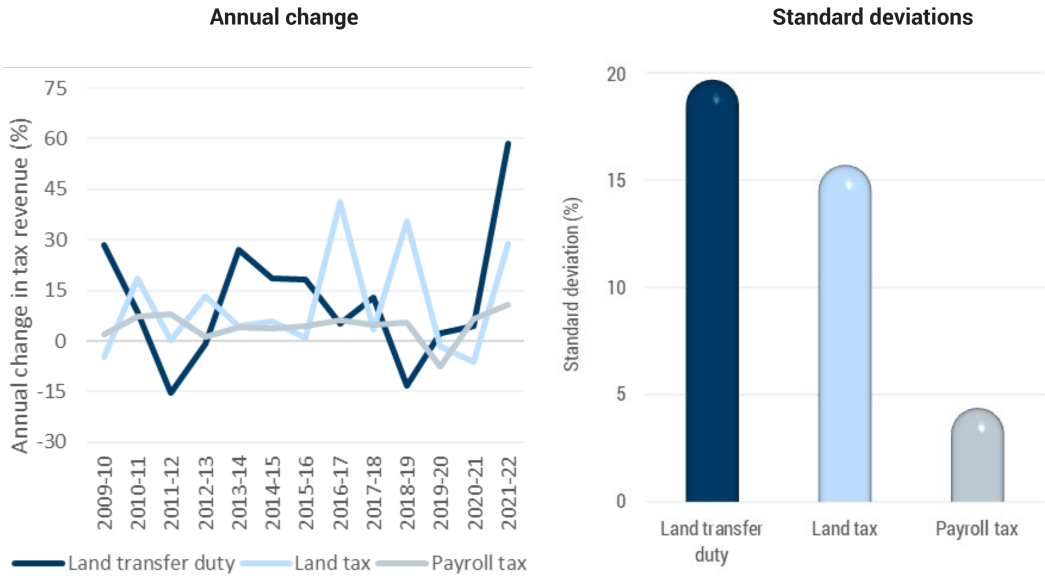
33 Ibid.

34 Jeff Hole, *Submission 33*, p. 4.

35 Parliamentary Budget Office, *Submission 53*, p. 16.

The PBO provided a graphical illustration of the Tax revenue volatility of stamp duty (Land Transfer Duty) as against other state taxes, Land tax and Payroll taxes.

Figure 2.5 Tax revenue volatility



Source: Parliamentary Budget Office, *Submission 53*.

The Grattan Institute in its submission summarised the inherent volatility of stamp duty in the following terms:

> They depend on both property prices and turnover. Any slowing of property sales when the property market cools punches a big hole in state and territory budgets – as the recent property slowdown in Victoria has shown.[36]

In the graph below, the Grattan Institute illustrates the volatility of stamp duty relative to other state taxes. This shows that stamp duty is far more volatile and unpredictable than any other tax. It should be noted that the 'Property levy' in the graph shows the revenues that would have been raised with a broad-based property levy of 0.5 per cent applied to unimproved land values had it been in place since 2000–01.

36 Grattan Institute, *Submission 52*, p. 5.

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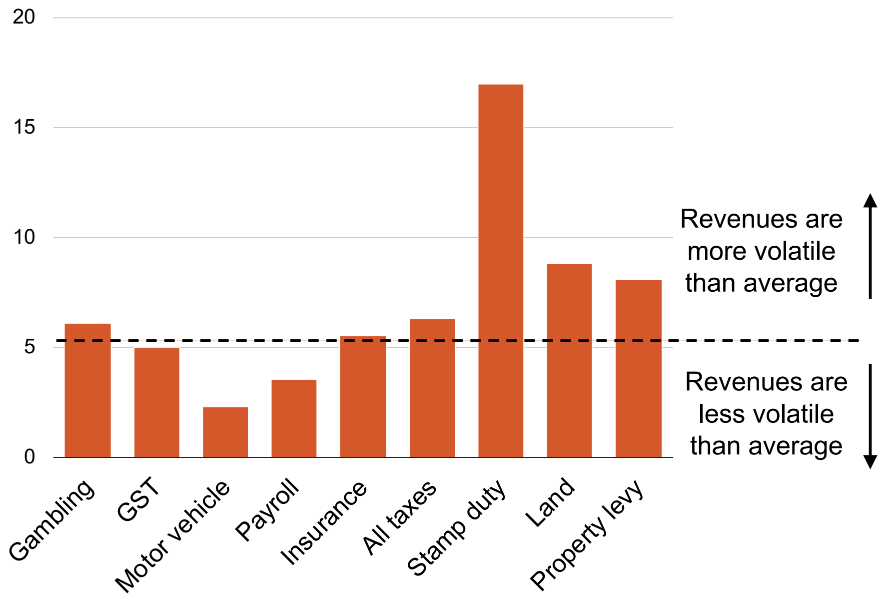
Figure 2.6 Tax revenue volatility – stamp duty relative to other state taxes



Source: Grattan Institute, *Submission 52*, p. 7.

The UDIA reinforced the view that stamp duty and its volatility as a revenue source posed a significant risk to the Victorian budgetary position, saying in its submission that:

> The State Government's overreliance on tax revenue from urban development, including through stamp duty, is throttling the State's economic productivity, and impacting the sector's ability to address Victoria's growing housing supply shortage … Additionally, changes to market conditions, including to price and volume of transactions make stamp duty revenue uniquely volatile. This is especially the case with significant market events – as we are experiencing now … Stamp duties has led to under-investment in the property sector and the insufficient distribution of property among the population.[37]

The Master Builders' Association highlighted the difficulties for government in relying on a volatile revenue source such as stamp duty, stating in its submission that:

> it depends on consumer choices to move homes. This makes it vulnerable to large swings from year to year and therefore less predictable. There are a number of disadvantages to this, including making government budgeting more difficult. Reliance on less stable sources of income may also result in higher borrowing costs for governments.[38]

FINDING 1: Stamp duty is a volatile tax that is affected by housing turnover and price and the resultant unpredictability makes it difficult for governments to budget and to prepare forward estimates.

37 Urban Development Institute Australia (Victoria), *Submission 35*, p. 3.

38 Master Builders Association Victoria, *Submission 34*, p. 2.

2.5 Overall tax efficiency

Another issue with stamp duty that has been a recurring theme in evidence received by the Committee has been the fact that stamp duty is considered to be a very inefficient tax. The efficiency of a tax is defined by how mobile the factor of production which is taxed. The more mobile the factor – how easily it can move into another use or jurisdiction in response to the tax – the more inefficient the tax. The more inefficient the tax, the larger the reduction in the size of the economy and household welfare.[39]

2.5.1 What makes stamp duty inefficient

The Parliamentary Budget Office said in its submission that stamp duty is 'among the most economically inefficient of all taxes.' The submission stated that in economic terms, (stamp duty) is inefficient because it is a tax on capital allocation. Capital is highly mobile, so tax arrangements can have a large impact on individuals' decisions.

As a result, it substantially distorts individuals' economic decisions, imposing a large cost on the economy'. It provides a disincentive for:

- property owners to move to a new location to take up improved employment opportunities
- retirees to downsize and make way for families to live in larger houses in areas close to employment centres.[40]

In a public hearing, Quentin Killian of the Real Estate Institute of Victoria told the Committee that a large part of the impact of stamp duty on decisions made by older Victorians is the fact that 'they are potentially at the end of their buying cycle. The thought of having to pay $50,000, $60,000, $70,000 in taxation to downsize is a real disincentive'.[41]

The PBO provided a numerical estimate of the cost of the inefficiency of stamp duty, telling the Committee that

> Recent economic modelling consistently confirms that a broad-based land tax is more efficient than land transfer duty. Estimates the economic welfare cost of land transfer duty suggest that to raise $1 extra will cause the economy to be between $0.34 and $1.96 smaller.[42]

The Tax and Policy Institute said in its submission that stamp duty 'is well known to be an inefficient tax that is harmful to the welfare of all Australians, including Victorians.'[43]

39 Parliamentary Budget Office, *Submission 53*.

40 Ibid., p. 5.

41 Quentin Kilian, Chief Executive Officer, Real Estate Institute of Victoria (REIV), public hearing, Melbourne, 25 May 2023, *Transcript of evidence*.

42 Parliamentary Budget Office, *Submission 53*, p. 5.

43 Tax and Transfer Policy Institute, *Submission 21*, p. 2.

The Institute called it 'the least economically efficient tax in Australia, in that the loss of well-being for each dollar of tax raised is higher than any other tax.'[44]

Specifically, the Institute explained that the reason stamp duty is so inefficient is because it distorts behaviour. It said:

> It encourages people to remain where they are and renovate, rather than upsize or downsize. This reduces liquidity in the housing market and reduces the mobility of labour. It also prevents some first homebuyers from entering the property market. All of these things reduce productivity and well-being.[45]

Another submitter to the inquiry, Ms Joanne Seve, a solicitor and state tax consultant, told the Committee in her submission that the increases in stamp duty due to bracket creep, with rate changes not being adjusted despite rising property prices, adds to the inefficiency of the tax. She said:

> Decades of failure to index Transfer Duty thresholds in Victoria has resulted in stamp duty bracket creep involving higher rates of Transfer Duty applying to land transfers than originally contemplated. This has had the effect of making Transfer Duty inefficient and inequitable. It works as a deterrent to property turnover and an impediment to the efficiency of the economy.[46]

In evidence in a public hearing, Ms Seve expanded on this issue, telling the Committee:

> stamp duty is an abominably inefficient tax and it is putting a handbrake on turnover. An obvious root cause of it is the bracket creep. The submission here is that if the rates of stamp duty are reduced, the handbrake on turnover is lifted. It is also submitted that when that occurs, there is actually an increase in supply for those who are then able to purchase a property and move.[47]

This view was strongly supported by the Property Council of Australia which said in its submission that it 'believes that land transfer duty fees are incredibly inefficient and harmful to the economy, deter potential investment to Victoria, and negatively impact labour and housing markets.'[48]

The Real Estate Institute of Victoria argued that stamp duties are an inefficient tax because

> they are narrow based. Meaning they are infrequent and target a small segment of society, thereby moving monies away from consumption-based taxes. Additionally, they distort the market by adding a significant burden to market participants. Participants may avoid market transactions by renovating, not moving, or not entering the property market.[49]

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44 Ibid.

45 Ibid.

46 Joanne Seve, *Submission 18*, p. 1.

47 Joanne Seve, public hearing, Melbourne, 11 May 2023, *Transcript of evidence*, p. 15.

48 Property Council of Australia, *Submission 42*, p. 1.

49 Real Estate Institute of Victoria (REIV), *Submission 37*, p. 5.

In terms of stamp duty's overall efficiency, REIV told the Committee that 'It is well established in economic literature that stamp duty is one of the most inefficient taxes with an estimated welfare cost of 35 cents lost for every dollar raised.'[50] It explained that

> This loss, referred to as welfare loss, refers to the decrease in social and economic well-being caused by imposition of the transfer of purchasing power from the taxpayer to the taxing authority.[51]

While the Department of Treasury and Finance acknowledged and supported the general view that stamp duty is inefficient and distorts behaviour, Mr Martine at a public hearing told the Committee that he considered property prices to be a significant impact on its impact. He said:

> The stamp duty on a $600,000 property is not an insignificant thing for the first home owner, but in terms of making those decisions on whether you are buying a property in the outer suburbs of Melbourne versus some of the inner suburbs, I suspect the key driver of that will be just the actual price of the property. You are probably looking at $600,000 versus $2 million or something like that.
>
> But every tax, particularly if you are taxing a transaction – there is no question that tax on a transaction can distort behaviours, because you have got to take them into account and you can avoid the tax by just not doing the transaction. So I would not pretend that it does not impact decision-making, but in the example you gave about the choice between the inner suburbs and the outer, I suspect the big driver is really just the absolute price of the property concerned.[52]

The Committee recognises that stamp duty is widely regarded as an inefficient tax which is based on decisions that people make, and that different decisions will lead to the tax not being collectable. Someone may choose not to purchase a new property because of the tax or may choose to invest elsewhere because of the tax. It therefore inefficient and provides a volatile and unpredictable stream of revenue for the government.

Evidence before the Committee also suggests that this inefficiency has a real world impact on housing availability and cost. Some of the advantages of stamp duty are that it is transparent and efficiently collected at low cost.

FINDING 2: Stamp duty distorts behaviour because it discourages or makes it more difficult for people to move house for new employment or to downsize because the additional cost of stamp duty added to the purchase price or rent may be prohibitive or a disincentive.

50 Ibid., p. 7.

51 Ibid.

52 David Martine, *Transcript of evidence*, p. 4.

2.5.2 Effects on housing supply and development

One of the recurring criticisms of stamp duty is that it misallocates available housing stock because people are more likely to stay in their houses and renovate rather than move or live in accommodation that does not suit their needs because the cost of stamp duty is a disincentive to relocate. The impact of this is that housing becomes more expensive to buy and, as a result, more expensive to rent.

Mr Matthew Kandelaar, Chief Executive Officer of UDIA Victoria, reinforced the inefficiency of stamp duty in evidence in a public hearing. Mr Kandleaars told the Committee:

> stamp duty itself I think is regarded widely as a bad tax and an inefficient tax. It is a tax on mobility. It is a tax which seems to have undue bearing on younger Victorians, who are generally more mobile. It is a tax which discourages mobility and transactions. It limits or inhibits housing supply.[53]

The Housing Industry Association told the Committee that stamp duty 'distorts the decisions of households to move in and out of homes that are either too large, too small or even too costly for their needs'.[54] The Association's submission stated that

> These distortions limit the stock of family-friendly larger homes available for young and growing families to up-size. It also prevents socially valuable higher density redevelopments in well-serviced areas.[55]

The submission further claimed that:

> This puts ever increasing pressure on urban infrastructure, services, and amenities to sprawl further outwards, adding pressure to already fast-growing peri-urban corridors and producing more carbon emissions than re-developments in existing suburbs.[56]

The HIA quoted the NSW Productivity Commission in describing the negative impact of stamp duty on property investment. It said:

> Stamp duty also has implications for property investment, as it taxes the market value of property, including improvements to the land. Investment decisions are based on the post-tax rate of return from the sale of property. Therefore, stamp duty reduces the incentive to deliver new supply and improve the quality of existing properties. The result is lower quality housing supply and further upward pressure on prices.[57]

The negative impact of stamp duty on housing availability was a common theme in the submissions to this inquiry.

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53 Matthew Kandelaars, Chief Executive Officer, Urban Development Institute of Australia, public hearing, Melbourne, 11 May 2023, *Transcript of evidence*, p. 5.

54 Housing Industry Association, *Submission 45*, p. 8.

55 Ibid.

56 Ibid.

57 Ibid.

The Victorian Council of Social Services, in its submission said that stamp duty, among other negative impacts:

> contributes to housing unaffordability, by increasing the upfront cost of housing, especially for first home buyers, and increasing the cost to investors, who pass those costs on to renters in higher rent costs[58]

The VCOSS submission further suggested that this impact was not limited to individual properties, but that stamp duty:

> discourages institutional investors from large-scale investment in the private rental housing market (such as build-to-rent programs), contributing to the shortage of affordable, long-term rental housing.[59]

Real estate company Ray White said in its submission that during COVID years, there was a 'significant increase in the demand for homes to purchase, a trend mirrored across Australia. During this period, greater demand existed than the supply of housing that was available, resulting in price increases in property across the country.'[60] However, after the end of the worst effects of the pandemic, demand has eased in sales, and there has been an increase in demand for rentals, 'due in part to increases in migration, the return of foreign students and an increase in demand for short stay accommodation.'[61]

According to Ray White, the availability of housing for sale and rent benefits all Victorians. In its submission it said:

> Increasing supply and turnover of residential sale and rental properties allows some smoothing of the highs and lows in the demand cycle, while also ensuring the appropriate individual, couple or family have the best opportunity to be in the home most appropriate for them … While construction and development drive much of the new housing capacity, it is our view that removing impediments to achieve the best use of already constructed property remains a significant opportunity to increase the supply of appropriate housing across Victoria.[62]

This view was supported by The Urban Development Institute of Australia, which said in its submission to the inquiry that:

> The return of post-pandemic interstate and international migration will add even greater pressure to the housing and rental markets. Land transfer duties not only impact the homeowner market but also affect Victoria's rental availability and cost.[63]

The Committee notes the UDIA material and evidence suggested a very high proportion of the cost of land is comprised of taxes, levies and charges placed on

58 Victorian Council of Social Service (VCOSS), *Submission 49*, p. 2.

59 Ibid.

60 Ray White, *Submission 48*, p. 2.

61 Ibid.

62 Ibid., p. 3.

63 Urban Development Institute Australia (Victoria), *Submission 35*, p. 4.

land by the State Government. The best estimates show that this is between 40 and 50 percent of the cost of land.

The Deakin University submitters, in their submission, said of housing affordability, which is linked to issues of availability, that ‘rising house prices, a tight rental market and falling rates of home ownership are causing consternation in the community, leading to calls for government intervention to make housing more affordable.’[64] The submission went on to say:

> These issues are related because if policy settings mean that the community is not getting the most value from its stock of property, both productivity and housing affordability will be adversely affected. Hence, improving the utilization of and investment in residential and non-residential land and building will produce substantial productivity gains and assist housing affordability.[65]

The REA group, which operates the real estate market website realestate.com.au, said in its submission to the inquiry that:

> stamp duty is an upfront cost, it imposes a substantial and immediate tax on purchases on top of the cost of a property. This upfront burden impacts the behaviour of buyers and sellers and creates an obstacle that limits supply by impacting affordability, mobility and both the appropriate use of existing stock and the development of appropriate new housing stock.

The submission tied the limitations on supply of housing directly to stamp duty, saying:

> Based on data from realestate.com.au, the increase in the dollar value of a property over the past decade has seen fewer homeowners attempt to list their properties for sale. We believe that a large driver of the reduction in people selling is due to the impost of stamp duty on their next purchase.

A submission from Victoria University echoed the view that stamp duty has a direct impact on housing stock. It stated that:

> While some new housing purchasers are exempt from paying TD (e.g., first home buyers that qualify for a first home buyer duty exemption or concession (FHBDECs) in Victoria do not pay the tax or pay a reduced rate) not all new housing transactions are exempt. The tax is therefore incident in part on new housing investment activity, and thus bears on housing supply.[66]

The Victorian Chamber of Commerce and Industry also made the point that because it is an obstacle to people selling their homes to relocate or downsize, research indicates that stamp duty leads to ‘around 340,000 property transactions are forgone each year’.[67] Further, the VCCI suggested that:

64 Jeff Hole, *Submission 33*, p. 1.

65 Ibid.

66 Victoria University) Associate Professor Jason Nassios and James Giesecke (Centre of Policy Studies, *Submission 38*, p. 5.

67 Victorian Chamber of Commerce and Industry, *Submission 54*, p. 4.

> Research indicates that the removal of stamp duties may lead to a short-term increase in housing prices, which would result in more investment into the sector. Construction costs may fall, which will lead to further investment in new housing stock. With stamp duties being removed, investors will see higher returns from purchasing in new property.[68]

The Committee also heard from The Melbourne New Progressives (now YIMBY Melbourne) that research has indicated a direct correlation between stamp duty and mobility, specifically that:

> a 10% increase in stamp duty reduces population mobility by 6% over a three year period. Other cited research indicates the negative effects stamp duty has on supply and development, through overall reduction in labour allocation efficiency and the mobility of human capital.[69]

In a public hearing, Mr Don Holloway of YIMBY Melbourne told the Committee that:

> The distortionary nature of stamp duty creates inefficient uses of housing supply all the time.[70]

This view was echoed my Mr Jonathon O'Brien, also of YIMBY Melbourne who told the Committee that stamp duty is:

> a bad tax. It is an inefficient tax. It reduces both the amount and the quality of housing supply, and it negatively impacts the fundamental goal of our organisation of creating housing abundance.[71]

The Committee has been told in a number of submissions that the housing shortage has impacts beyond those seeking to purchase a property to live in. It impacts on the high rents and even the availability of rental properties, particularly in regional Victoria. According to the Victorian Chamber of Commerce and Industry, 'housing shortages are impacting every part of our economy, from attracting staff to regional Victoria to housing migrant workers to fill vital skills shortages in certain industries.'[72]

The Housing Industry Association also told the Committee that stamp duty makes investment in new housing supply less profitable. It said in its submission that:

> A sizeable share of the sellers' proceeds is consumed by the tax. Multiple points in the development and construction process are also hit by stamp duty, including the sale of the land to the initial developer. This undermines housing affordability.[73]

FINDING 3: The impact of stamp duty in affecting individuals decisions has broader implications as it can limit efficient allocation of housing stock and thus affordability.

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68 Victorian Chamber of Commerce and Industry, *Submission 54*, p. 4

69 Melbourne New Progressives, *Submission 43*, p. 4

70 Don Holloway, YIMBY Melbourne, public hearing, Melbourne, 28 June 2023, *Transcript of evidence*, p. 2.

71 Jonathan O'Brien, YIMBY Melbourne, public hearing, Melbourne, 28 June 2023, *Transcript of evidence*, p. 3.

72 Victorian Chamber of Commerce and Industry, *Submission 54*, p. 4.

73 Housing Industry Association, *Submission 45*, p. 5.

2.6 The inequity of stamp duty

Another criticism of stamp duty levelled throughout the inquiry is the fact that it is inequitable, with the burden falling on a relatively small percentage of the population. It has also been suggested that this burden often falls on those least able to afford it, with young people and young families being more mobile in the community, and older people who may be of retirement age wanting to downsize as their children move out of home.

The view was put by a number of submitters that it is not fair to be taxing those people that move home more often than those that do not.

The Grattan Institute suggested that stamp duty is unfair in a number of ways, including calling it a 'de facto tax on divorce'[74]. In its submission, the Institute said:

> When the family home is sold to allow assets to be split, the separating couple each need to pay stamp duty if they purchase again. It's a big reason why more than half of divorced women who lose their home don't buy again.[75]

In a public hearing, Mr Coates of the Grattan Institute expanded on the issue of separation and divorce leaving certain people, and particularly women, unfairly impacted by having to pay stamp duty, saying:

> if you are a member of a couple, you lose your house as part of a settlement, which is often what happens because we have to separate the assets that come from the household when there is a divorce. If you are a woman, less than half of women buy again within a decade. So it is one of those things, those hurdles, that is not just contributing to making it harder to buy a home in the first place but also making it harder for people to get back into the property market if, due to life circumstances, they find themselves having to sell the home that they are otherwise in.[76]

Mr Coates also reiterated concerns about the fairness of stamp duty on younger people, telling the Committee:

> that stamp duty is also really unfair. It is a tax that tends to hit younger people much more, so we are in a situation where people will buy a home, they will pay a whopping great amount of stamp duty, they may upgrade in future, and with house prices having risen the way that they have, they are paying much more to upgrade than they were in the past. That is leading to a situation where you have got a larger share of the tax take coming from younger Victorians.[77]

74 Grattan Institute, *Submission 52*, p. 2.

75 Ibid.

76 Brendan Coates, *Transcript of evidence*, p. 23.

77 Brendan Coates, Economic Policy Program Director, Grattan Institute, public hearing, Melbourne, 11 May 2023, *Transcript of evidence*, p. 23.

Melbourne New Progressives, (YIMBY Melbourne) said in its submission to the inquiry that certain groups are more likely to carry the burden of stamp duty. It stated:

> Whether we're talking about a family that needs an extra bedroom, a family moving into a new city, or older couples downsizing, stamp duty is an additional burden that prevents households from finding the right space for them. The more often a person has to move, the more stamp duty they will inevitably have to pay.[78]

Even though Prosper Australia was unconvinced by many of the arguments for abolishing stamp duty, it did consider the issue of equity to be a valid argument for reforming the tax. In its submission, it stated that:

> It is unfair that those who transact more often pay more tax. Land tax is fairer than stamp duty, because the distribution of the tax burden depends on the value that society at large contributes to the landowner, which is expressed in the value of their land.[79]

Professor Breunig of the Tax and Transfer Policy Institute also highlighted the unfairness of stamp duty with a car parking analogy, telling the Committee in a public hearing:

> We are kind of used to it in Australia, but it is very strange that we tax people who move and we do not tax people who do not move. It would be as if you could park your car in downtown Melbourne and pay for 1 hour and then stay forever if you wanted to and never have to pay again, whereas somebody who moved their car from one parking spot to another would have to pay a second time, and that kind of does not make any sense.[80]

FINDING 4: Stamp duty is not an equitable tax, with a small percentage of people carrying the burden of a significant proportion of the state budget. In addition, those carrying the burden are disproportionately younger people with fewer resources, as they are more mobile, and older people whose capacity to pay may be diminished as they reach retirement.

FINDING 5: Stamp duty disproportionately affects divorcees, in particular women who have lost their home due to divorce.

2.7 Alternative views on stamp duty

While the majority of submitters saw stamp duty as an inefficient and volatile tax which had strongly negative impacts on both individuals and the economy generally, not everyone believed that it should be abolished. Some submitters, while acknowledging its faults, saw stamp duty as a better option than other revenue streams, with some changes to its administration.

78 Melbourne New Progressives, *Submission 43*, p. 3.

79 Prosper Australia, *Submission 41*, p. 2.

80 Robert Breunig, *Transcript of evidence*, p. 36.

2.7.1 Bracket creep

It has been suggested to the Committee that stamp duty, despite its flaws, is not the fundamental problem. The problem is the rate at which it is charged and that that rate has not changed in a very long time. This leads to what is referred to as bracket creep, which leads to much higher rates of stamp duty as property prices increase.

Ms Joanne Seve, a solicitor and state tax consultant, said in her submission that:

> Apart from some minor adjustments to Transfer Duty thresholds in 1998 and 10 years later, in 2008, there have not been any changes to the thresholds or the rates of Transfer Duty in Victoria over the past 25 years, except that a premium rate of 6.5% was introduced for dutiable values exceeding $2M, on 1 July 2021. Even prior to 1998, the thresholds and rates had not markedly changed for many years.[81]

Ms Seve suggested that it is this stagnation in thresholds and rates that has led to stamp duty becoming inefficient and inequitable. She said in the submission:

> Decades of failure to index Transfer Duty thresholds in Victoria has resulted in stamp duty bracket creep involving higher rates of Transfer Duty applying to land transfers than originally contemplated. This has had the effect of making Transfer Duty inefficient and inequitable. It works as a deterrent to property turnover and an impediment to the efficiency of the economy.[82]

In a public hearing, Ms Seve expanded on this issue suggesting that this issue of bracket creep has been identified as a problem for a long time in all jurisdictions but that no state or territory has properly addressed it. She told the Committee:

> Thirty-five years ago, in 1988, a Collins tax taskforce in New South Wales recommended that stamp duty brackets should be indexed. Nothing was done to that effect by any state or territory at that time. Twenty years later, in 2008, a New South Wales IPART review of state taxation recommended that stamp duty thresholds be indexed to avoid bracket creep so as to increase the efficiency of the tax. That report noted the adverse implications of bracket creep on housing affordability.[83]

81 Joanne Seve, *Submission 18*, p. 1.

82 Ibid.

83 Joanne Seve, *Transcript of evidence*, p. 13.

She said nothing has changed, adding:

> Fifteen years have passed since that IPART report and nothing has been done by any state or territory, with the exception that in New South Wales CPI indexation was introduced four years ago from 2019. However, that did not redress the bracket creep to that point, nor has it addressed the increases in property values. It has not kept up with it.[84]

Ms Seve illustrated the impact this bracket creep has had on the Victorian housing market. She told the Committee that property turnover figures over time clearly illustrate that high stamp duty rates have led to restrictions in turnover. Citing the Grattan Institute's submission, she stated that 'stamp duty rates in Victoria have effectively almost tripled in the last 15 years. So if you double the rates, that is a 100 per cent increase; and if you triple them, that is a 200 per cent increase … so it is having an adverse effect on turnover.'[85]

She told the Committee that she reviewed data as far back as 1992 and found that there were 12,000 transfers of vacant land in 1992 in Victoria and nearly 20 years later there were only 1000 more. In the same period, housing transfers have gone from 41,000 to 69,000.[86]

In summary, Ms Seve told the Committee that:

> the data is showing a significant adverse effect on turnover despite the fact that the state has been collecting significant revenue from major transactions and from buyers who can afford the stamp duty at these high rates. So it is no wonder that there is an outcry from industry bodies in particular that stamp duty is an abominably inefficient tax and it is putting a handbrake on turnover. An obvious root cause of it is the bracket creep. The submission here is that if the rates of stamp duty are reduced, the handbrake on turnover is lifted.[87]

Other submitters, while considering stamp duty should be replaced by alternatives, did also identify bracket creep as a factor in stamp duty impacting property turnover. The Parliamentary Budget Office said in its submission that:

> There has been significant 'bracket creep' – where increasing property prices push properties into higher tax brackets – since the government last substantively adjusted rates in 2008. Victoria now has the highest effective land transfer duty rate of all the states.[88]

Expanding on this point, the PBO's submission stated that 'Melbourne has experienced rapid property price rises over recent decades, growing at an average of 6.5% over the 20 years to 2022. These increases have pushed properties into higher tax rate brackets.'[89]

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84 Ibid.

85 Ibid.

86 Ibid.

87 Ibid.

88 Parliamentary Budget Office, *Submission 53*, p. 5.

89 Ibid., p. 11.

The submission explained that generally 'governments adjust taxes with progressive rate schedules to keep pace with inflation of the tax base. For example, the Australian Government may adjust income tax brackets and rates for wage increases, depending on the budget position and revenue requirements.'[90] It stated that

> Since 2008, the Victorian Government has not substantially adjusted land transfer duty rates. At that time, the Melbourne median house price was around $390,000, carrying land transfer duty of $18,470 – implying an effective rate of 4.7%.
>
> In 2022, the Melbourne median house price was around $930,000, carrying land transfer duty of $50,870 – implying an effective rate of 5.5% (assuming no liability for surcharge or eligibility for concessions).[91]

To put this in a national context, the submission stated that:

> In 2021, the National Housing Finance and Investment Corporation found that Victoria's overall effective land transfer duty rate, measured as the ratio of total revenue to total property sale values, was the highest of all states and territories.[92]

The Housing Industry also quantified the impact of bracket creep in its submission, telling the Committee that:

> By way of illustration, in 2003 the median house value in Victoria was $250,000 and the typical home buyer faced a $10,070 stamp duty bill. By the end of 2022, the stamp duty payable on the median house had climbed to over $40,000. This represents almost a 300 per cent increase. Over the same period, the average earnings of Victorians rose by less than 90 per cent … the threshold at which investment and commercial property owners pay land tax is indexed to the increase in values. The same approach should apply to stamp duty.[93]

FINDING 6: Bracket creep contributes to the negative effects of stamp duty. While the rate has stayed the same and property prices have risen, stamp duty has become a much larger impost than was originally intended.

2.7.2 Economic modeling deficiencies

The alternatives to stamp duty will be discussed in Chapter 3 in detail. This section simply acknowledges that not all stakeholders consider the removal of stamp duty is the solution to the issues of turnover, housing affordability or access.

Prosper Australia, an independent research institute focused on the management of land and other natural resources through taxation, told the Committee in its submission that it is unconvinced that stamp duty reform would be economically

90 Ibid.

91 Ibid.

92 Ibid.

93 Housing Industry Association, *Submission 45*, p. 10.

beneficial. This view is based on perceived flaws in the economic modelling that is generally used to determine the impacts of stamp duty. It said that:

> Estimates of the productivity gains from abolishing stamp duty have found large effects. However these are exclusively based on modelling within the Computable General Equilibrium (CGE) framework. Such models do not feature asset transactions and so are inherently incapable of identifying the economic effects of transaction taxes. We place low stock in these estimates. Some of these models also misrepresent the microeconomics of taxes on land.[94]

In a public hearing, Mr Tim Helm, Director of Research and Policy for Prosper Australia, told the Committee that:

> we actually think the economic merits of abolishing stamp duty are rather overblown. Although there is likely to be some improvement in productivity from not having this tax in place, we do not think we have any reliable evidence on which to conclude that this improvement is particularly large. This is quite a surprising and novel take, because stamp duty is, by popular consensus, a terrible tax. It is a very popular villain, and in the world of policy, we have all furiously agreed that it is the worst tax and is crushing economic activity[95]

In explaining the problem with using CGE models to evaluate the impact of stamp duty, Mr Helm told the Committee that:

> the problem is that stamp duty is a tax on asset transactions but in the models, the CGE models, there are no asset transactions. There is investment and production but no transfers of assets represented in the way the model equations are set up, so these models typically proxy stamp duty by a tax on the real estate industry, which makes the services of that industry more expensive. The services are treated as a necessary input to capital investment, so the models inevitably generate lower capital investment and lower state product as a result of the tax.

The problem then, according to Prosper Australia, relates to who is actually paying the tax. It argues that:

> In reality stamp duty is likely passed on to lower land values, so it is borne by the vendor. If it were borne by buyers instead, it would imply they are somehow irrationally paying more than the property is worth to them, which is not consistent with any accepted idea of asset pricing.[96]

In other words, Mr Helm said, 'stamp duty does not make buying land for housing or business investment any more costly. It is just borne by the vendor when they sell. So the investment effects in reality may well be small.'[97]

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94 Prosper Australia, *Submission 41*, p. 1.

95 Tim Helm, Research and Policy Director, Prosper Australia, public hearing, Melbourne, 24 May 2023, *Transcript of evidence*, p. 2.

96 Ibid.

97 Ibid.

Mr Helm argued that the numbers generated by the various models may not mean anything and that 'modellers have shoehorned stamp duty; they have done their best to shoehorn stamp duty into a model that fundamentally cannot include it'.[98]

It is not the Committee's intention in this report to engage in a debate about the relative merits of economic modelling techniques, although it recognises that such discussions are important in establishing baseline understandings. The focus has been on views about the merits of stamp duty in terms of its efficiency, revenue predictability and equity.

It was generally accepted among stakeholders and submitters that, as stated by the REA group, 'Stamp duty is a large source of revenue for Victorian state and local governments and to remove it would require a viable alternate source of revenue'.[99]

Despite the flaws, stamp duty comprises more than a quarter of the state budget and therefore would need to be either replaced by another source of revenue, or budget expenditure reduced. Alternative sources of revenue are discussed in Chapter 3.

2.8 Recent changes to stamp duty

In the 2023–24 State budget, the Victorian government announced that it will be phasing out stamp duty for commercial and industrial properties from 1 July 2024. Stamp duty will be replaced by an annual 1% tax on the preview of properties called the Annual Property Tax.

According to government announcements made since the State budget, the lump-sum stamp duty system for commercial and industrial properties will transition to an annual property tax from 1 July 2024.[100]

Under these reforms, from the middle of 2024, commercial and industrial properties will transition to the new system as they are sold, with the annual property tax to be payable from 10 years after the transaction. The first purchaser of a commercial or industrial property after 1 July 2024 will be able to choose to either pay the property's final stamp duty liability as an upfront lump sum, or transition to an annual payment immediately by opting to pay fixed instalments over 10 years equal to stamp duty and interest with a government-facilitated transition loan.

The announcement stated that the new arrangements will not apply to the current owner of any commercial or industrial property purchased before 1 July 2024. However, once a property enters the new system after this time, stamp duty will never again be payable on a transaction and the annual property tax will apply. The annual property

98 Ibid.

99 REA Group, *Submission 39*, p. 4.

100 The Hon Daniel Andrews, *Stamp Duty Reform to Boost Business, Industry and Jobs*, media release, Premier of Victoria, Melbourne, 23 May 2023.

tax that will ultimately replace stamp duty for commercial and industrial property will be set at a flat 1 per cent of the property's unimproved land value.[101]

The Government's stated rationale for the change is to increase the efficiency of the tax and to help businesses expand and create new jobs.[102]

The Victorian Chamber of Commerce and Industry have supported the change, with CEO Paul Guerra being quoted as saying:

> The Victorian Chamber has been working with the State Government on this landmark and generational productivity reform which businesses across Victoria will welcome. This is exactly the type of progressive tax reform that is required to free up stamp duty charges which will accelerate building upgrades, stimulate investment in commercial property and free up more capital.[103]

While the reform was only announced the day before Committee's hearings, the general response from witnesses was positive. Mr Tim Helm of Prosper Australia saw it as a very positive step, telling the Committee in its public hearing that:

> We support the reform that abolishes commercial and industrial stamp duty, replacing it with a land tax. In fact we are applauding this reform. We think that freeing up business land transfers is likely to be more important for productivity and investment than on the residential side. Also, in terms of a stamp duty replacement, the flat rate tax is the best possible design.[104]

Mr Helm suggested that, while they haven't had a chance to undertake a detailed analysis of the numbers and the potential cost to the budget, their initial view was that:

> a 1 per cent rate seems about what we would expect for neutrality. We also like the transition model; it is a good compromise. The final duty payment keeps the revenue rolling in while the payment by instalments for the final duty payment spreads out the cash flow, which could be particularly helpful for small business buyers of property. And after that first purchase, there is no more tax discouraging fast turnover. So it is a good reform and a good model for implementing it.[105]

The Parliamentary Budget Office also indicated that this was a positive reform, with Acting Parliamentary Budget Officer, Mr Xavier Rimmer telling the Committee that:

> 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.[106]

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101 Ibid.

102 Ibid.

103 Ibid.

104 Tim Helm, *Transcript of evidence*, p. 5.

105 Ibid.

106 Xavier Rimmer, Acting Parliamentary Budget Officer, public hearing, Melbourne, 24 May 2023, *Transcript of evidence*, p. 15.

Mr Rimmer did, however add a caveat that while this was a substantial reform:

> residential properties particularly account for most land transfer duty transactions and the vast majority of the value of land transfer duty levy revenue.[107]

This point was echoed in evidence by the Housing Industry Association, who saw the change as a very good start. At a public hearing, Mr Keith Ryan told the Committee that:

> The announcement by the Victorian government that they will be working towards a removal of stamp duty for commercial and industrial properties is very much welcomed by the Housing Industry Association. We see it as a very good decision and, more importantly, a good start.[108]

Mr Ryan did however suggest that while the reform would be beneficial, it represented a reform for a relatively modest percentage of properties. He said:

> We would make the point, though, that this is only one part of the stamp duty. I was told yesterday that maybe 15 to 20 per cent of stamp duty revenue for property comes from commercial and industrial property. The bulk of the volume, as well as the quantum, is still obviously with residential property.[109]

Clearly, as the announcement was made during the Committee's public hearings, and will not take effect for more than a year after this inquiry, no analysis of the real impact of this reform will be able to be undertaken for some time.

However, the Committee considers that this is a generally positive reform that has been met with approval from most of the stakeholders that engaged with this inquiry.

2.9 Committee comment

The Committee acknowledges that stamp duty is an inefficient, volatile and inequitable tax. It is a tax that is levied on transactions that are discretionary, and people can avoid them by not taking certain actions, like buying property; it is volatile because revenue from the tax is dependent on both the prices of properties and the turnover or sales of property – both of which can be out of the government's control; and it is inequitable, in that only people purchasing property are required to pay it, meaning they are carrying a disproportionate tax burden.

However, the Committee also recognises that stamp duty represents a very significant revenue stream for the state government. Approximately 27% of the state's revenue is generated by it and it would be impossible for the State government to provide anything like its current functions without this revenue stream, or one that replaces it.

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107 Ibid.

108 Keith Ryan, *Transcript of evidence*, p. 32.

109 Ibid.

The Committee accepts too that one of the issues with stamp duty is that the rate has remained the same for a long time and has not been meaningfully adjusted to take into account higher property prices. This has had the effect of making stamp duty a much more significant cost in the purchase of property, and this can have the effect of discouraging people from buying and selling property. This has implications for housing availability and affordability.

The Committee also understands that the level of stamp duty reliance is greater in Victoria than it is in comparable jurisdictions.

In the Committee's view, any substantial change to the tax mix that would enable stamp duty to be reduced or eliminated entirely would require it to be replaced by another revenue stream.

In the next Chapter, some of the alternative tax options that have been suggested through the inquiry are discussed.

FINDING 7: The Committee recognises that there are serious flaws with stamp duty as it is currently imposed. It is inefficient because it can alter decisions made which can impact on tax revenue; it is unpredictable as it is based on turnover and property prices, which impacts on the government's capacity to budget into the future.

Chapter 3
Alternatives to Victoria's existing stamp duty model

3

3.1 Introduction

In recent years, there has been a growing recognition of the need to explore alternatives to stamp duty. Stamp duty, a tax imposed on property transactions, has faced criticism for its adverse effects on housing affordability, market efficiency, and economic mobility. Various reviews and inquiries have proposed different alternative approaches to address the issue of stamp duty, however, few jurisdictions have undertaken reform.

David Martine, Secretary for the Department of Treasury and Finance discussed the complexities of replacing stamp duty due to its significant contribution to state revenue:

> So let us say stamp duty goes, we are looking at probably a $6 billion to $8 billion replacement. Now that does not mean the government of the day chooses just one revenue source to replace that. It may be a combination of things. It may ultimately be a bit of GST increase; there might be a bit of land tax. The South Australian government transitioned out of stamp duty over a three-year period on commercial and industrial, and they actually did not replace it with anything that impacted commercial or industrial. So there are all sorts of different options available to a government. Based on where we are at the moment, you are probably looking at around $8 billion.[1]

> **If you wanted to get rid of stamp duty, you would have to find about $8 billion from different sources, which as I said may be one source or it might be five different sources.**
>
> David Martine, Secretary, Department of Treasury and Finance, public hearing, Melbourne, 28 April 2023, *Transcript of evidence*, p. 12.

This Inquiry received evidence on several possible alternatives to Victoria's current stamp duty model. The alternative most frequently considered by stakeholders was abolishing stamp duty and replacing it with a broad-based land tax. Under this model, property owners would be subject to an annual tax based on the unimproved value of their land, rather than paying a one-time fee during property transactions. Advocates argue that a land tax would distribute the tax burden more evenly, promote housing affordability, and reduce market distortions caused by stamp duty. It would also provide a stable and predictable revenue stream for the government, helping to address budget volatility and enhance long-term financial planning. However, critiques

1 David Martine, Secretary, Department of Treasury and Finance, public hearing, Melbourne, 28 April 2023, *Transcript of evidence*, p. 12.

of the model were concerned about the viability of land tax to replace duty revenue, and that it would not achieve its desired outcome of better equity and affordability in the housing market.

Another alternative recommended to the Committee was a shift towards a higher reliance on the Goods and Services Tax (GST). GST is a consumption-based tax levied on a wide range of goods and services. Increasing the GST rate or broadening its base could potentially generate additional revenue that could be used to offset the reduction or elimination of stamp duty. However, this option requires careful consideration to ensure that any changes to the GST system are fair, equitable, and do not disproportionately impact low-income households.

Overall, any consideration to alternatives to stamp duty must aim to improve housing affordability, streamline/simplify the tax system, and foster a more efficient and equitable property market.

3.2 Broad-based land tax

Replacing stamp duty with a broad-based land tax is a policy proposal that has gained growing attention in debates on tax reform. This alternative approach aims to shift the tax burden from property transactions to land ownership, providing a more stable and equitable revenue source for governments. Stakeholders in support of this option argued that it could address the issues of housing affordability, market distortions, revenue volatility, and administrative complexities associated with stamp duty. However, this approach was criticised by others and there was caution about the efficacy of this approach.

Box 3.1 What is a broad-based land tax?

A broad-based land tax (often referred to simply as 'land tax') is a recurring, annual tax based on land value as opposed to a single upfront fee payable when land is transferred.

Source: Legislative Council Economy and Infrastructure Committee.

In its submission, the Tax and Transfer Policy Institute stated that a broad-based land tax is 'efficient' because it makes it 'difficult for individuals to change their behaviour to avoid paying the tax'.[2] The submission further stated that:

> A broad-based land tax would also enhance equity compared to stamp duty, redistributing gains in asset prices more fairly across the economy. Wealth inequality would also be reduced by taxing land. Gains from public investment in infrastructure, which increase private property prices, could also be recouped and re-distributed.[3]

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2 Tax and Transfer Policy Institute, *Submission 21*, p. 4.

3 Ibid.

At a public hearing, Michael Fotheringham, Managing Director, Australian Housing and Urban Research Institute stated a transition to land would be an 'improvement for a whole range of reasons', namely:

> For first home buyers it eases entry into home ownership. At the other end of the age scale, downsizing is much easier if that hurdle does not play a role again. It allows labour force mobility to be much more manageable because people can move to where their jobs are a lot more easily if there is not an enormous lump sum attached to the purchase of properties. It is more financially manageable, easier for the banking system and easier for everybody.[4]

> **For a new and broad-based land tax to be efficient and simple, it should apply at the lowest possible rate to the broadest possible amount of land, and this should be a single rate.**
>
> Tax and Transfer Policy Institute, *Submission 21*, p. 4.

The Committee notes the evidence in the Australian Housing and Urban Research Institute's paper, including its paper The Spatial and Distributional Impacts of the Henry Review Recommendations on Stamp Duty and Land Tax that shows the distributional impacts of a shift from stamp duty to land tax are uneven affecting some municipalities more differently than others.

Similarly, the Master Builders Association Victoria believed that a recurring land tax would help 'guide [Victoria] toward more efficient land usage outcomes'. The Association also noted additional benefits of a transition to land tax:

- encourages households to 'right-size' their home
- land resources could be utilised more fully
- expand opportunities for the building and construction industry in developing and supplying new homes.[5]

The Real Estate Institute of Victoria (REIV) described other potential benefits of a broad-based land tax:

> - Create more efficient and equitable taxation distribution that enables greater housing accessibility.
> - Provide a more stable and predictable government revenue source.
> - Avoid the inefficient and disproportionate effects of house price bracket creep due to increasing median house prices.[6]

4 Dr Michael Fotheringham, Managing Director, Australian Housing and Urban Research Institute, public hearing, Melbourne, 28 June 2023, *Transcript of evidence*, p. 14.

5 Master Builders Association Victoria, *Submission 34*, p. 5.

6 Real Estate Institute of Victoria (REIV), *Submission 37*, p. 4.

The REIV recommended that stamp duty be replaced with a broad-based land tax, and that Victoria introduce a ‘staged transition to a broad-based tax’. It suggested an 11-year transition could be ideal because it reflects the average buy-sell cycle.[7]

Representatives from the REA Group discussed with the Committee the advantages of abolishing stamp duty in favour of a land tax. The Group contended that replacing stamp duty with land tax would make the housing market more accessible, with potential buyers being able afford properties sooner. Owen Wilson, Chief Executive Officer of the REA Group, explained:

> Currently, the purchase of a property is not just mortgaged for the purchase price, it is the purchase price plus the stamp duty. New buyers not eligible for stamp duty relief begin their property journey paying more than the property’s market value, locking them in unless the value of that property increases. The removal of stamp duty and the subsequent removal of barriers to purchase is also likely to make investment in residential property more attractive and afford investors the opportunity to purchase sooner, increasing the supply of much-needed rental properties.[8]

YIMBY Melbourne were also supportive of a transition to land tax because it could serve as an incentive to use land resources better in Victoria. Jonathan O’Brien told the Committee that:

> land tax … sometimes gets derided as a grandmother tax, because it functions as a new tax on those who have held property for a long time. But we see a tax like this, one that incentivises rather than disincentivises a better use of scarce resources such as land, as a good tax … We have to use land better, and we have to enable our ageing population to feel okay about moving and downsizing so that housing can be better allocated to those who need it most in the moment.[9]

However, not all stakeholders were supportive of transitioning to a broad-based land tax.

The Victorian Farmers Federation had ‘strong reservations towards the imposition of a broad-based land tax’, stating that:

> Property owners are potentially subject to three different taxes on land - stamp duty, land tax and local government rates. These taxes make up approximately 9 per cent of taxation in Australia which is almost double the OECD average of 5 per cent. Not only is land a significant asset for farmers, it is also the working capital of a farm enterprise. The comparatively high rate of tax for landowners falls disproportionately on the agricultural industry. This can be seen through the disproportionate impact that local government rates have on farm businesses compared to others …[10]

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7 Ibid.

8 Owen Wilson, Chief Executive Officer, REA Group, public hearing, Melbourne, 11 May 2023, *Transcript of evidence*, p. 44.

9 Jonathan O’Brien, YIMBY Melbourne, public hearing, Melbourne, 28 June 2023, *Transcript of evidence*, p. 2.

10 Victorian Farmers Federation, *Submission 44*, p. 2.

Joanne Seve also had reservations about transitioning to land tax, believing implementing stamp duty indexes was a better solution. At a public hearing, she told the Committee that:

> Adding land tax to family homes will be multiple taxation of that non-income producing asset, which is a necessity of life – shelter. Removing stamp duty and extending land tax to the family home will actually incentivise speculation in property in the short term to the disadvantage of those who wish to remain in properties for the longer term, who would be subject to higher taxes unpredictably increasing over time as property values increase, unless Victoria or any other state that is considering this were to introduce a cap on it ...[11]

The Committee received evidence from individuals who were home buyers or potential buyers. There was a divide amongst these stakeholders about whether to support an annual land tax. For stakeholders opposed to the introduction of a new tax, many expressed concerns that the burden of stamp duty would not be alleviated by transitioning to a land tax. Box 3.2 provides excerpts for and against replacing stamp duty with a land tax.

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11 Joanne Seve, public hearing, Melbourne, 11 May 2023, *Transcript of evidence*, p. 14.

Box 3.2 Individuals views on replacing stamp duty with land tax

Stakeholders in support of transition to land tax

> **I would like to see stamp duty transition to yearly land tax to help ease the almost impossible burden of saving a house deposit.**
>
> Naomi Cameron, *Submission 14*, p. 1.

> **stamp duty is inequitable and discourages people from moving to more suitable/ appropriate housing. This issue would be alleviated by replacing it with an annual land tax for those buying a property to be their Primary Place of Residence only**
>
> Name Withheld, *Submission 51*, p. 1.

Stakeholders against transitioning to land tax

> **I do not want to see people losing their home because they cannot afford land tax.**
>
> Alanna Kioussis, *Submission 19*, p. 1.

> **Why are we asked to pay taxes/fees on money that has already been taxed. Abolish fees and land tax. Let those who want their own property have it.**
>
> Rob Brewer, *Submission 25*, p. 1.

> **I believe that an annual land tax will eventually create a greater divide between people and will ultimately diminish the opportunity for families to buy and occupy a home.**
>
> Jim Houlahan, *Submission 30*, p. 1.

> **If [stamp duty] was changed to an annual land tax fee there would be continuing resentment each time the bill was received and had to be paid along with rates and water rates – a costly exercise.**
>
> Laurice Paton, *Submission 31*, p. 1.

3.2.1 General principles for designing a broad-based land tax

Chapter 2 discussed in great detail the various issues with the current stamp duty system. It is clear that there are many issues to address, and the Committee shares the consensus of stakeholders that the current stamp duty system is inefficient and inequitable. However, it is essential that any recommendations to replace stamp duty must not introduce new issues that could place an additional financial burden on Victorians.

The taxation principles discussed in the previous chapter should inform the basis for any changes, whether that is reforming or replacing stamp duty. This chapter condenses the principles discussed in Chapter 2 into three key taxation principles (based on principles discussed in the Parliamentary Budget Office's submission):

1. Efficiency
2. Equity
3. Simplicity.

Alternatives to stamp duty are all considered within the context of these principles.

Additionally, numerous stakeholders advocated for further community engagement into designing a new stamp duty system or its replacement. At a public hearing, Quentin Kilian, Chief Executive Officer of the Real Estate Institute of Victoria (REIV), told the Committee that designing changes—including abolishing and replacing it with a different tax system—to stamp duty:

> would require extensive community and stakeholder engagement. REIV urges the committee to maintain this momentum and make this a wider discussion … We do not want to see short-term improvements paired with inequitable impacts on the communities that would feel the changes the most when it comes to their weekly mortgages and living costs.[12]

Similarly, the Australian Property Institute also advocated for public consultations prior to implementing any annual land taxes to replace stamp duty. Amelia Hodge, Chief Executive Officer, told the Committee that the:

> [Institute] suggest any reform requiring payment of an annual property tax, which is one of the elements proposed, and the amount of that tax is an important factor in determining an accurate valuation, but also any details of that tax and how that tax is made is publicly available or available to property professionals to enable the valuation profession to ensure the accuracy of these valuations.[13]

REIV also advocated that changes to stamp duty in Victoria involve cooperation and collaboration with the federal government to ensure 'accessible and realistic replacement models'.[14] Section 3.4 below considers the need for a national approach to reforming stamp duty.

12 Quentin Kilian, Chief Executive Officer, Real Estate Institute of Victoria (REIV), public hearing, Melbourne, 25 May 2023, *Transcript of evidence*, p. 16.

13 Amelia Hodge, Chief Executive Officer, Australian Property Institute, public hearing, Melbourne, 28 June 2023, *Transcript of evidence*, p. 24.

14 Quentin Kilian, *Transcript of evidence*, p. 16.

Interacting with existing land tax

> **A land tax model would also be a duplication of tax, as a tax is already levied on the land value by local government.**
>
> Evangelos Dritsas, *Submission 7*, p. 1.

Several stakeholders told the Committee if the Victorian Government adopts recommendations to transition stamp duty to a broad-based land tax, there must be consideration to how the new system may interact with existing land tax.

In its submission, the Parliamentary Budget Office explained that when designing a land tax to replace stamp duty:

> There are 2 general alternatives for implementation of a broad-based land tax in Victoria. A government could levy a new broad-based land tax to replace land transfer duty:
>
> 1. alongside existing land tax arrangements.
> 2. as a replacement for the current land tax.[15]

The Parliamentary Budget Office compared transitioning to a single broad-based land tax versus introducing an alternative tax alongside existing taxes against taxation principles.

Table 3.1 Comparison of land tax integration alternatives against taxation principles, Parliamentary Budget Office

Principle	Introduce alongside existing land tax	Single broad-based land tax
Efficiency	Efficiency improving as it increases the average efficiency of land tax arrangements by applying a non-distortionary additional land tax. However, the differential rates for different property types in existing land tax arrangements would still result in market distortions.	Most efficient as it converts existing land tax arrangements to be highly efficient by replacing a relatively inefficient version of land tax with a broad-based land tax. This would have minimal impact on the market and individuals’ decision making.
Equity	Preserves horizontal equity arrangements built into existing land tax: • owners of principal places of residence and farmland would face lower rates • owners of investment residential properties, holiday homes, commercial and industrial properties would face higher rates.	Potentially increases horizontal equity concerns for groups currently exempt from land tax – owners of principal places of residence and farmland – who would be transferred a large proportion of the tax burden from replacing land transfer duty.
Simplicity	Straightforward to administer as Victoria already has land tax administrative arrangement in place. Differential rates result in some complexity for landowners to understand liabilities.	Straightforward to administer as Victoria already has land tax administrative arrangement in place. Simple for landowners to understand liabilities.

Source: Parliamentary Budget Office, *Submission 53*, p. 19.

15 Parliamentary Budget Office, *Submission 53*, p. 19.

The Grattan Institute suggested that a transition to land tax should be based on existing methods for council rates rather than existing land taxes:

> Rather than copying existing state land taxes – which exclude more than half of all land by value, especially owner-occupied housing – the Victorian Government should fund the abolition of stamp duties through a property levy using the same method as current council rates.[16]

Interacting with existing land tax exemptions for primary production land

> **And ultimately what we are saying is, 'Please don't put us in a position where we have got to make payments based on the value of our land, where the value is completely arbitrary to our capacity to pay.'**
>
> Emma Germano, President, Victorian Farmers Federation, public hearing, Melbourne, 24 May 2023, *Transcript of evidence*, p. 58.

Some stakeholders discussed the importance of retaining land tax exemptions for primary production properties, currently in place in Victoria. These stakeholders told the Committee that any recommendations for a broad-based land tax should retain existing exemptions.

In its submission, the Victorian Farmers Federation stated, in the context of recent reforms in New South Wales, that:

> the NSW Government announced that farmland would be exempted from the proposed phase out of land transfer stamp duty. The principle that land tax should not be levied on primary production land is a long standing one that governments have consistently observed … Were Victoria to choose to go it alone and seek to fund the abolition of land transfer duty itself and replace it through a land tax (such has been the case in NSW), then it must ensure that primary production land remains exempt.[17]

The Federation expanded on their evidence at a public hearing, telling the Committee that whilst they generally supported transitioning from stamp duty to land tax it is important that primary production land is exempt because:

- it is a long established principle that tax should not be levied against primary production land
- primary producers are dependent on their land meaning 'any form of taxation on that land disproportionately impacts farm businesses'.[18]

16 Grattan Institute, *Submission 52*, p. 6.

17 Victorian Farmers Federation, *Submission 44*, p. 3.

18 Emma Germano, President, Victorian Farmers Federation, public hearing, Melbourne, 24 May 2023, *Transcript of evidence*, p. 55.

The Parliamentary Budget Office discussed some of the impacts for introducing a broad-based land tax to replace stamp duty. The submission noted that primary production land owners had 'raised concerns about the affordability of an annual tax due to the inconsistency of their cash flow'.[19] It considered integration effects for a land tax introduced alongside existing land taxes or a separate single broad-based land tax. The submission noted that in relation to farmland:

- introducing alongside existing land tax would preserve 'horizontal equity arrangements' because owners of farmland would face lower rates
- a separate broad-based land tax 'potentially increases horizontal equity concerns' for owners of farmland because they would be 'transferred a large proportion of the tax burden'.[20]

3.2.2 Henry Review (2009)

Throughout the course of the Inquiry, many stakeholders referenced the landmark 2009 report *Australia's Future Tax System* (the 'Henry Review'). The Henry Review was a comprehensive examination of Australia's tax system. The report recommended that all jurisdictions abolish stamp duty and that governments transition to a new land tax.

The Review considered reform options for state taxation systems, recommending that stamp duty be removed by 'switch[ing] to more efficient taxes, such as those levied on broad bases (including consumption and land)'.[21] The Review stated that:

> Ideally, there is no place for stamp duty in a modern Australian tax system. Stamp duties generate large efficiency costs, as they discourage turnover in property and tax improvements as well as land. The tax also imposes a higher burden on people who need to move, which is not equitable. The only positive feature of stamp duty — its relative simplicity — has long since ceased to justify its continued use in the face of the costs it imposes on Australian society.[22]

In its submission, Prosper Australia summarised three models the Henry Review discussed for transitioning from stamp duty to a broad-based land tax:

- **Switch-on-sale:** a full grandfathering model where current property owners are exempted from the new land tax until sale;
- **Credit:** applying the new land tax to all properties but granting some or all current property owners credit to be used in lieu of cash payments; or
- **Gradual transition:** phasing out stamp duty and phasing in land tax over time, as in the ACT.[23]

19 Parliamentary Budget Office, *Submission 53*, p. 35.

20 Ibid., p. 19.

21 Ken Henry et al., *Australia's future tax system: Volume 2*, report for Treasurer, Commonwealth of Australia, Canberra, ACT, 2009, p. 680.

22 Ken Henry et al., *Australia's future tax system: Volume 1*, report for Treasurer, Commonwealth of Australia, Canberra, ACT, 2009, p. 263.

23 Prosper Australia, *Submission 41*, p. 4.

Prosper Australia noted that there is 'no consensus yet of which of the three broad approaches suggested by the Henry Review is best'.[24] The Committee broadly agrees with this assessment, having received evidence on the merits and shortcomings of all three models.

Along with the Henry Review, the Parliamentary Budget Office's submission listed several other major reports which have recommended replacing stamp duty with a broad-based land tax, including:

- *State Tax Reform: Progress and Prospects* (Centre for Independent Studies, 2008)
- *Property taxes* (Grattan Institute, 2015)
- *Shifting the Dial* (Productivity Commission, 2017).[25]

FINDING 8: The 2009 report *Australia's Future Tax System* (the 'Henry Review') strongly recommended that all jurisdictions abolish stamp duty and replace it with a broad-based land tax. To date, no state has adopted this recommendation.

RECOMMENDATION 1: That the Department of Treasury and Finance model and publish the findings of 'switch on sale', 'credit' and 'gradual transition' proposals.

The following sections considers each of the models outlined in the Henry Review for transitioning from stamp duty to a broad-based land tax.

3.2.3 Phase-out/phase-in model

One of the three models discussed by the 'Henry Review', which was also raised by numerous stakeholders, was the 'phase-out/phase-in' (phased transition) model. Box 3.3 below provides an overview of the phased transition model.

Box 3.3 Transition model 1: phased-in/phased-out

Under this model (which is also referred to as the 'gradual transition model'), stamp duty rates are gradually reduced as land tax rates are increased. The length of transition can have significant impacts on its revenue performance.

Source: Legislative Council Economy and Infrastructure Committee. Based on information provided in the Department of Treasury and Finance's submission to the Inquiry.

24 Ibid., p. 6.

25 Parliamentary Budget Office, *Submission 53*, p. 5.

Under the assumption that if a phased transition model was adopted by Australian governments, the Henry Review recommended that:

> the level of stamp duty could annually step down by one-tenth of its current level and the level of land tax could step up by one-tenth of its ultimate level … for example, a house sold in the third year would pay 70 per cent of the full stamp duty on the transaction and 30 per cent of the assessed land tax each year for a specified period.[26]

The Review explained that the phased transition model would:

- reduce fiscal costs because some stamp duty collections would still occur during the phase-in period
- provide a 'measured phase-in over a predictable period and would avoid sudden jumps in liability'.[27]

The Parliamentary Budget Office examined the phased approach as a transition mechanism against the taxation principles (which were examined throughout Chapter 2). Table 3.2 below considers the phased transition against the principles.

Table 3.2 Phase-in/Phase-out, transition mechanism and taxation principles, Parliamentary Budget Office

Efficiency	Equity	Simplicity
Inefficient as land transfer duty stays in place for some time, depending on length of transition	Modestly equitable option as burden is not immediately transferred from buyers to property holders	Higher complexity depending on the speed of transition and how quickly the tax base expands

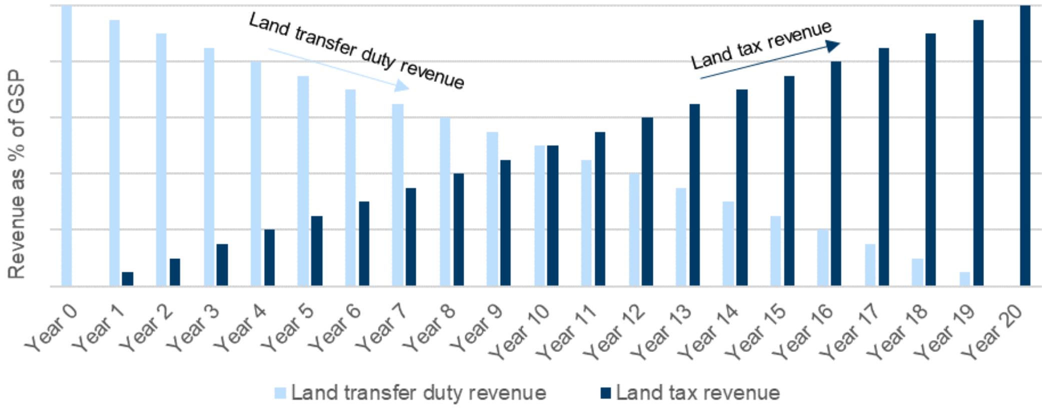
Source: Parliamentary Budget Office, *Submission 53*, p. 25.

Modelling on the phased transition model provided by the Parliamentary Budget Office showed that with the right implementation the approach could be revenue neutral year-on-year, avoiding shortfalls as shown in the other options (see Sections 3.2.5 and 3.2.6 below). Figure 3.1, from the Parliamentary Budget Office's submission, shows modelled revenue outcomes for a phased transition approach, using a 20-year transition period.

26 Ken Henry, *Australia's future tax system: Volume 1*, p. 269.

27 Ibid.

Figure 3.1 Revenue performance of phased transition model, Parliamentary Budget Office modelling



Source: Parliamentary Budget Office, *Submission 53*, p. 22.

The Parliamentary Budget Office explained that the phased transition approach could:

> minimise revenue impacts, by calibrating reductions in land transfer duty rates with land tax rate increases. This option could potentially target year-on-year revenue neutrality, however differences in the volatility of land transfer duty and land tax may result in some years with less or more revenue raised.[28]

It further noted that reducing the transition time could offset some of the issues associated with the model, particularly:

- potential for double taxation on property owners that have recently paid stamp duty
- financial hardship or relocation pressure for low-income property owners unable to pay land tax.[29]

The Henry Review also discussed the effects of limiting the transition period, stating:

> Limiting the period over which discounted land tax applies, perhaps to 10 years, reflects the fact that the discount will have lock-in effects eventually. After this period, the percentage paid in land tax could gradually phase up to the full rate. Similarly, people who never transact could remain fully exempt for a period, say 15 years, with the tax then gradually phased in, in line with the time periods applied to others.[30]

28 Parliamentary Budget Office, *Submission 53*, p. 23.

29 Ibid.

30 Ken Henry, *Australia's future tax system: Volume 1*, p. 269.

The need for limiting a phase transition period was somewhat echoed by the Real Estate Institute of Victoria (REIV) who believed that longer transition would confuse members of the public and make it possible for future government to change arrangements.[31] In its submission, REIV made it clear that a 'short transition is desirable' recommending an 11-year transition period, stating:

> This period could be based upon average "hold period" of houses (the average duration of time a household retains a house after purchase before reselling it for whatever reason). For example, some sources suggest the average period households remain in a property is approximately 11 years. On this basis, an 11-year transition rate could be reasonably argued.[32]

Conversely, the Victorian Council of Social Service (VCOSS) supported a slow transition if the Victorian Government adopted a phased transition. Its support for a slower transition was predicated on the belief that 'sudden changes to property taxes can risk causing housing market instability and can reduce government income in the short term', VCOSS noted that the Australian Capital Territory (ACT) had adopted a 20-year transition from stamp duty to a broad-based land tax.[33]

Several stakeholders discussed the ACT's phased transition model, including its advantages and disadvantages. Box 3.4 below describes the ACT's model which is in its 11th year of transition.

31 Real Estate Institute of Victoria (REIV), *Submission 37*, p. 9.

32 Ibid.

33 Victorian Council of Social Service (VCOSS), *Submission 49*, p. 3.

Box 3.4 Australian Capital Territory's phased transition from stamp duty

In 2012–13, the ACT commenced a 20-year transition from stamp duty to a broad-based land tax. The transition's aim is to abolish stamp duty through a slow transition to land tax and general rates revenue. By adopting a slower transition, taxpayers were given longer periods to adjust to new property tax rates. Changes to stamp duty, and consequential land tax increases, are delivered in five-year stages.

The Parliamentary Budget Office provided an overview of ACT tax reforms, including conveyance duty and land tax.

Table 3.3 ACT tax reforms, Parliamentary Budget Office

Tax	Reform
Conveyance duty	• initially the reform announced 5-years of rate reductions from 2012–13 to 2016–17, with a view to phasing out completely over 20 years • reductions in the marginal tax rate focused on the lower tax brackets • revenue forgone through this reform replaced through general rates system
General rates	• introduced new tax brackets to increase progressivity of the general rates system • overall rates increases focused on higher value properties
Land tax	• introduced new tax brackets to increase progressivity of the residential land tax system, but broadly revenue-neutral • commercial land tax abolished, revenue transferred to the general rates charged on commercial properties
Duty on insurance	• abolished by reducing the rate of duty by 20 per cent per year over 5 years

Source: Parliamentary Budget Office, *Submission 53*, p. 32.

In a 2019–20 Budget statement, the ACT Government stated that the reforms are 'broadly revenue neutral over time, with reduction in revenue from phasing out stamp duty being replaced through gradual increases in general rates'.

Source: ACT Government, *Budget 2019–20: ACT Tax Reform Program on Track*, ACT, 2020; Parliamentary Budget Office, *Submission 53*; Grattan Institute, *Submission 52*; Department of Treasury and Finance, *Submission 50*.

At a public hearing, Prosper Australia discussed that shortening a phased transition period could result in unfair treatment of recent homebuyers. Tim Helm, Research and Policy Direct at Prosper Australia, argued that it was unlikely that the 'ACT could have run a 10-year transition without significant unfairness for people that bought just before the beginning of the transition':

> In the ACT's transition, which is over 20 years, they have gone with quite a conservative – a long, slow – transition. We have looked at the numbers, and the objective of speeding up that transition would be to realise any efficiency gains faster and also to move to a more equitable tax system more quickly. But as you compress that transition period for phasing out stamp duty and phasing in land tax, you end up with some

> unfairness around the most recent buyers, who only receive a certain number of years tax free, even if they have just paid stamp duty, which ends up creating a rationale for making a credit for the most recent buyers.[34]

Concerns with unfair taxation were raised by other stakeholders as well, in particular some stakeholders explained that under the ACT's transition model some property owners have experienced 'double taxation'. The next Section discusses double taxation concerns with the phased transition model in greater detail.

3

> **Their approach to transition is certainly a slow one — 20 years is a slow transition. They are heading down that path, but it is not without its complexities and challenges. There is no question about that.**
>
> David Martine, Secretary, Department of Treasury and Finance, public hearing, Melbourne, 28 April 2023, *Transcript of evidence*, p. 9.

YIMBY Melbourne contended that an extended transition, such as the ACT's approach, slows downs the benefits of transitioning to a land tax. Don Holloway told the Committee that:

> land tax is most effective when it is broad-based, and the slower you make that transition, the longer you delay the benefits of it. So transitioning all housing over to a land tax and then just offering the ability to defer payment of the land tax might be an option, so wait until the house sells and then you can pay the land tax if you do not have an income. We need to consider how these tax reforms affect everyone, and while that sort of change would help those households that are asset rich, income poor, the current regime is not working for younger people.[35]

At a public hearing, Joanne Seve told the Committee that the ACT's transition to land tax has seen periods where stamp duty revenue increased, despite the intention of the transition to slowly reduce stamp duty as land tax rates increase. Ms Seve stated:

> there was not a decline in the revenue collected from stamp duty when the rates were being reduced, and they were not reduced holistically; it was more in middle brackets in the ACT. Furthermore, the ACT has deferred the abolition. So we have got a double taxation situation happening there, with rates having been introduced.[36]

This was acknowledged by the ACT Government. In its 2013–14 Budget Paper, the ACT Government noted that:

> Future increases in conveyance revenue are anticipated as turnover in the property market increases in response to the duty cuts.[37]

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34 Tim Helm, Research and Policy Director, Prosper Australia, public hearing, Melbourne, 24 May 2023, *Transcript of evidence*, p. 5.

35 Don Holloway, YIMBY Melbourne, public hearing, Melbourne, 28 June 2023, *Transcript of evidence*, p. 9.

36 Joanne Seve, *Transcript of evidence*, p. 14.

37 ACT Government, *ACT Budget 2013–14 Paper No. 3*, Canberra, 2014, p. 67.

Box 3.5 below provides excerpts from some of the evidence the Committee received regarding the ACT's transition model. This is not an exhaustive list of all of the stakeholders who provided evidence on the model.

Box 3.5 Stakeholders views on the ACT's transition from stamp duty

> **What they did is they reduced stamp duty really dramatically on houses in the lower price suburbs, and they kept it pretty high in the high-price suburbs. Then they brought in a land tax that was pretty high in the high-price suburbs but pretty low in the low-price suburbs. So they actually did a kind of shift of the tax burden from lower income people with lower asset values to higher income people …**
>
> Robert Breunig, Director, Tax and Transfer Policy Institute, public hearing, Melbourne, 11 May 2023, *Transcript of evidence*, p. 39.

> **Analysis of the ACT's tax reform concluded that the slow transition led to housing becoming less affordable for poorer households in the short term**
>
> Tax and Transfer Policy Institute, *Submission 21*, p. 3.

> **it demonstrates a relatively frictionless and equitable way of making the transition than grandfathering or making a complete transition at a point in time with a hard cut-off**
>
> REA Group, *Submission 39*, p. 11.

> **The burden of the ACT's tax changes has been particularly large on businesses … This is effectively a land transfer duty sized tax that is payable every year.**
>
> Property Council of Australia, *Submission 42*, p. 14.

Risk of 'double taxation'

Many stakeholders expressed concern about the risk of double taxation which could occur during a slower transition. The Committee shares these concerns, noting the significant burden this could place on property owners. However, the Committee believes that there are options available for the Victorian Government to manage its transition—should it abolish stamp duty—that would minimise these risks.

The Committee was consistently told that if a phased transition is not managed well then new homebuyers may experience double taxation, their stamp duty concentration and land tax.[38]

Generally, 'double taxation' refers to a situation where a government imposes a tax on the same property or income. In the context of the Inquiry, double taxation risks were focused on potential scenarios where recent property owners are subject to both stamp duty and a broad-based land tax.

38 See: Real Estate Institute of Victoria (REIV), *Submission 37*, p. 9.

Robert Carling, a Senior Fellow at the Centre for Independent Studies, told the Committee that under the ACT transition some properties have been 'subject to both transfer duty and increasing land value tax'. In his view, the ACT's transition had definitely resulted in double taxation for some property owners; noting that the 'way the ACT Government has implemented it, the reductions in transfer duty have been quite slow, whereas the increases in rates have been more rapid'. Mr Carling recommended that the opt-in model was a better alternative than a phased transition, stating:

> You still have double taxation in the sense that at the same time government will be collecting substantial revenue from both types of tax, transfer duty and land value tax, until the transition is completed, but at least each individual taxpayer will be only under one regime or the other, so you avoid double taxation in that sense.[39]

Acting Parliamentary Budget Officer Xavier Rimmer also stated that there was 'some element' of double taxation in the ACT's transition. At a public hearing, the Committee was told that:

> 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.[40]

It was suggested to the Committee that the ACT's more gradual transition from stamp duty resulted in its double taxation issues, experienced by some of the property buyers in that jurisdiction. David Martine, Secretary of the Department of Treasury and Finance, acknowledged that:

> I guess by definition, if you are slowly bringing down stamp duty and replacing it with an increasing rate, then you will have a period over that 20 years that you do have both. But their objective is, based on their start date, that in nine years time the last of the stamp duty will then wash through the system and it is purely just an annual amount. But like all of these taxes – I mean, a government can choose at any time to introduce land taxes regardless of whether one is transitioning out of stamp duty. But certainly in the ACT example their policy objective, which has not changed for 10 years or 11 years, is that by year 20 stamp duty will be zero.[41]

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39 Robert Carling, Senior Fellow, Centre for Independent Studies, public hearing, Melbourne, 24 May 2023, *Transcript of evidence*, pp. 24–25.

40 Xavier Rimmer, Acting Parliamentary Budget Officer, public hearing, Melbourne, 24 May 2023, *Transcript of evidence*, p. 16.

41 David Martine, *Transcript of evidence*, p. 9.

Prosper Australia suggested that addressing the 'structural unfairness' of stamp duty cannot be solved by a different 'transitional unfairness' (i.e., land tax). It argued that a 'transparent and fair treatment of recent duty payers thus seems important to signal that the reform in general is based on rational, principled grounds'.[42]

Several stakeholders suggested that the credit model could be a solution to double taxation. The Committee considers this model in greater detail in Section 3.2.6 below.

However, other stakeholders believed that the phased transition could be designed to avoid double taxation.

Melbourne New Progressives (now called 'YIMBY Melbourne') believed the ACT's model does in fact prevent double taxation, stating:

> instigating a gradual transition away from stamp duty and towards a land value tax is a proven way to make this change, avoiding any sudden shocks and preventing double-taxation for homeowners. We firmly believe that this is the best, most equitable way to replace stamp duty in a way that serves citizens and their government alike.[43]

Acting Parliamentary Budget Officer Xavier Rimmer explained that risks of double taxation could be avoided by addressing risks of bracket creep during the transition period. In the context of the ACT model, he stated that:

> 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.[44]

It is important that any transition from stamp duty—or other tax systems—is fair and equitable. Transitions should consider risks for transitional unfairness and mitigate these as much as possible. It is essential that in trying to address the burden of stamp duty on potential property owners, that the government does not introduce a different burden on recent property owners.

FINDING 9: The phased transition model slowly transitions stamp duty to a new land tax. However, without proper measures there is a risk that new property owners will experience double taxation.

42 Prosper Australia, *Submission 41*, p. 18.

43 Melbourne New Progressives, *Submission 43*, p. 3.

44 Xavier Rimmer, *Transcript of evidence*, p. 16.

3.2.4 Switch-on-sale model (including opt-in variation)

The third model discussed in the Henry Review is the 'switch-on-sale'. Box 3.6 below provides a brief description of the credit model as an option for transitioning from stamp duty to land tax.

Box 3.6 Transition model 2: Switch-on-sale

Under this model, existing land tax exemptions are retained by current landowners, only coming into effect for new purchasers. New purchasers are not required to pay stamp duty.

A variation of this model, called the 'opt-in variation' allows new purchasers to choose between paying the one-off stamp duty fee or paying land tax.

Source: Legislative Council Economy and Infrastructure Committee. Based on information provided in the Department of Treasury and Finance's submission to the Inquiry.

The Henry Review described the switch-on-sale model as a 'more flexible way of managing the transition'. The Review suggested that buyer behaviour would influence which option was taken up, noting:

> Purchasers who intended to move again soon would probably choose to pay land tax while purchasers who intended to live in the house for many years would probably choose to pay stamp duty.[45]

The Review described some of the advantages of the switch-on-sale model, namely:

- access to housing would be 'immediately improved' because home buyers do not need to factor in stamp duty fees
- property purchasers have more options
- existing concessions and exemptions can still be retained for purchasers opting into stamp duty fee
- for those opting into stamp duty, revenue shortfall could be reduced during transition to land tax.[46]

The Review also noted a potential downside of the switch-on-sale model stating that 'the transition could be very protracted unless some end dates were specified'.[47]

The Parliamentary Budget Office's submission explained that the opt-in model would not 'immediately abolish stamp duty' and that 'transition would be slow'. It provided

45 Ken Henry, *Australia's future tax system: Volume 1*, p. 267.

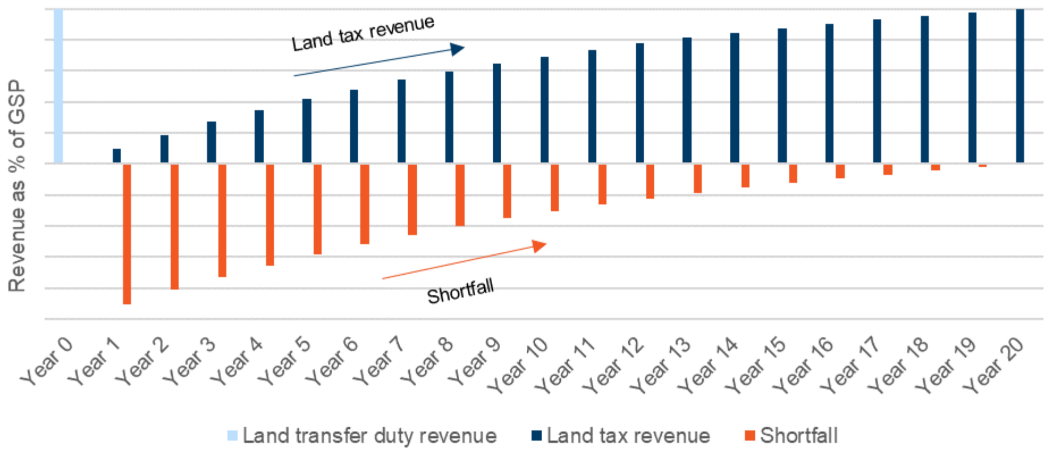
46 Ibid., p. 269.

47 Ibid.

modelling to show potential revenue performance if the Victorian Government were to adopt the switch-on-sale/opt-in model for a transition from stamp duty to land tax.

Figure 3.2 below shows the revenue performance as a percentage of gross state product (GSP) under a switch-on-sale model (no opt-in variation). The Parliamentary Budget Office explained that the land tax rates are 'calibrated to achieve revenue neutrality by the 20th year, when around 80% of total stock of residential and commercial stock would be transacted and liable'.[48]

Figure 3.2 Revenue performance of switch-on-sale transition model, Parliamentary Budget Office modelling



Source: Parliamentary Budget Office, *Submission 53*, p. 23.

In assessing the switch-on-sale model, the submission noted that 'there is a large revenue shortfall initially when land transfer duty is abolished, which is gradually reduced towards zero as the property stock is transacted'.[49]

Figure 3.3 below shows the revenue performance as a percentage of GSP under an opt-in model, the Parliamentary Budget Office's modelling assumes a '50% take-up rate for land tax, with land tax rates calibrated to achieve revenue neutrality by the 20th year'.

48 Parliamentary Budget Office, *Submission 53*, p. 23.

49 Ibid.

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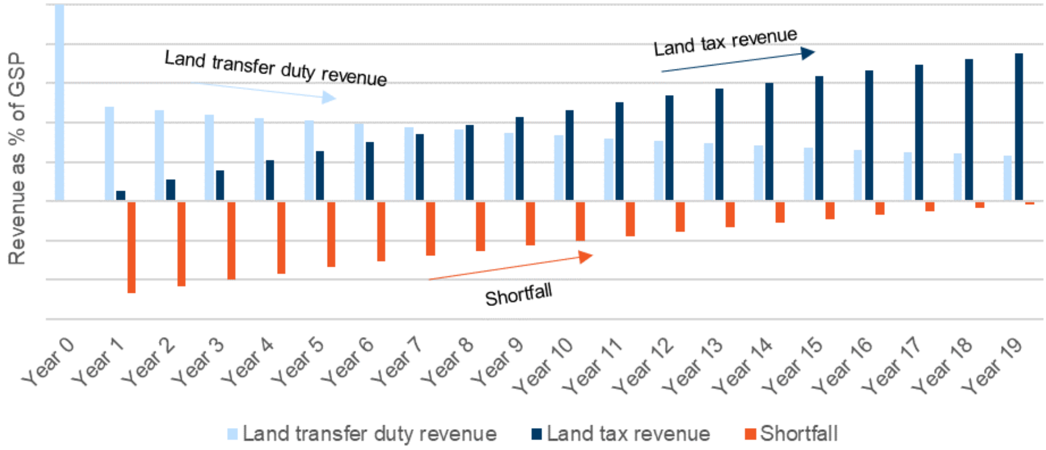
Figure 3.3 Revenue performance of opt-in transition model, Parliamentary Budget Office modelling



Source: Parliamentary Budget Office, *Submission 53*, p. 24.

In relation to the opt-in variation modelling, the Parliamentary Budget Office explained that:

> The government still receives some land transfer duty revenue over the transition, with a smaller initial shortfall than the 'Defer to next sale' scenario. However, land tax revenue increases more gradually and the shortfall may be more enduring, depending on take up rates. Land tax rates could be reduced, at least initially, to incentivise take up, but this would need to be balanced against revenue impacts.[50]

The Parliamentary Budget Office also examined both models against taxation principles, as shown in Table 3.4 below.

Table 3.4 Switch-on-sale (and opt-in variation), transition mechanism and taxation principles, Parliamentary Budget Office

Principle	Defer to next sale (switch-on-sale)	Voluntary opt-in
Efficiency	Inefficient as this option provides incentive to defer future sales	Inefficient as this option results in longest transition, depending on incentives to opt-in.
Equity	Modestly equitable option as there is no double taxation and low-income households are not liable for annual land tax initially	More equitable option as it provides choice for homeowners, however inequities with the existing duty regime remain during transition
Simplicity	Some complexity for the government in predicting revenues.	Some complexity for the government in predicting revenues.

Source: Parliamentary Budget Office, *Submission 53*, p. 25.

50 Ibid., p. 24.

Majority of stakeholders discussed the merits, or lack thereof, of the opt-in transition model. In particular, the Committee received evidence on the New South Wales Government's 'First Home Buyers Choice' scheme which was an example of an opt-in transition. Box 3.7 below describes the New South Wales 'First Home Buyers Choice' scheme.

Box 3.7 New South Wales' 'First Home Buyers Choice' scheme

In 2022, the New South Wales Government introduced the 'First Home Buyers Choice' scheme which enabled first home buyers purchasing property below $1.5m to choose between paying stamp duty or annual land tax.

For properties opting in to the annual tax, the tax rate was determined on the unimproved land value of the property with a fixed charged component annually indexed to GSP per capita. Specifically, the annual property tax payments for 2022–23 and 2023–24 were:

- $400 plus 0.3% of land value for primary places of residence
- $1,500 plus 1.1% of land value for investment properties.

Prior to the implementation of the scheme, the NSW Government released consultation and progress papers concerning its proposal for a new annual land tax to replace stamp duty. The consultation paper, *Buying in NSW, Building a Future*, argued that the 'removal of stamp duty could have tangible benefits for everyone in NSW, boosting home ownership, household mobility, the economy and jobs'. The NSW Government believed that its reforms would 'place downward pressure on home prices over the longer term, making housing more affordable for all'.

A real-time dashboard published by NSW Revenue Office showed that as at 26 June 2023, 6,475 properties had opted into the scheme adding up to:

- $248.99m upfront duty saved
- $1.57m revenue collected.

Following a change of government as a result of the 2023 state election, the scheme was repealed. From 1 July 2023, New South Wales residents were no longer allowed to access the scheme.

Source: Department of Treasury and Finance, *Submission 50*, p. 13–14; NSW Revenue Office, *First Home Buyer Choice*, 2023, < https://www.nsw.gov.au/housing-and-construction/first-home-buyer-choice> accessed 27 June 2023; NSW Government, *NSW Property Tax Proposal: Buying in NSW, Building a Future*, New South Wales, 2021; NSW Revenue Office, *First Home Buyer Choice dashboard*, 2023, <https://www.revenue.nsw.gov.au/help-centre/resources-library/statistics/fhbc-dashboard#:~:text=The%20dashboard%20allows%20access%20and,refresh%20the%20page%20to%20continue.> accessed 26 June 2023.

The Property Council of Australia was broadly supportive of the opt-in model for transitioning. In its submission, it stated:

> this is crucial to ensuring there is no double tax, where a taxpayer is subject to both land transfer duty and property tax (as this is the case in the ACT currently) and allows taxpayers to transition regimes fairly based on their circumstances.[51]

In its submission, the Parliamentary Budget Office summarised the findings of stakeholder consultation conducted by the NSW Government which it believed could be broadly relevant to Victoria. Consultation in NSW found that:

- community stakeholders supported opt-in arrangements, but economists argued that it would slow down the transition
- some NSW stakeholders expressed concern that the removal of stamp duty would put downward pressure on house prices
- there were concerns over the unpredictability of tax liabilities
- the transition would likely result in a temporary reduction in government revenue which could negatively impact public services.[52]

At a public hearing, Tim Helm, Research and Policy Director at Prosper Australia, explained that New South Wales initially considered the switch-on-sale model but ultimately implemented the opt-in model. The Committee was also told about the costs of the opt-in model:

> people that expect to pay less in land tax than they would in stamp duty will choose the land tax, but people who expect to pay more in land tax because they expect to hold the property for a long time will choose the stamp duty. That property will never enter the land tax net, and when it is sold there will be that same disincentive to sell that is slowing down property transfers.[53]

> **Switch-on-sale solves the double-taxation problem, but also goes furthest towards easing the difficult politics of the new tax by extending concessional treatment to long-held properties too.**
>
> Prosper Australia, *Submission 42*, p. 23.

Prosper Australia's submission described some of the impacts of the switch-on-sale model:

- prevents double-taxation
- revenue costs are commensurately higher
- creates incentives to defer sales.[54]

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51 Property Council of Australia, *Submission 42*, p. 12.

52 Parliamentary Budget Office, *Submission 53*, p. 35.

53 Tim Helm, *Transcript of evidence*, p. 10.

54 Prosper Australia, *Submission 41*, p. 23.

Prosper Australia recommended that the Committee adopt the credit model for its preferred transition mechanism (see Section 3.2.6 below). In explaining why it did not support the switch-on-sale model, it stated the model had 'serious disadvantages':

> it loses too much revenue, poorly targets this cost at the real transitional inequity, and creates a disincentive to transfer property.[55]

The Grattan Institute acknowledged that a potential benefit of the opt-in model is that it 'neutralises a lot of the political pain that comes from the change' because it means people could be exempt from the change to land tax.[56] However, in its submission the Institute strongly stated that:

> Victoria should avoid adopting the approach of the former NSW Coalition government of permitting home-buyers (starting with first home-buyers) to choose between paying stamp duty and land tax when they purchase a new property … phasing in the reform in this way would pose significant threats to the Victorian budget, because the state would forego stamp duties received up-front in favour of a much smaller recurrent property tax paid each year. Such a shortfall could be financed, but would still show up as a large deterioration in headline budget balances.[57]

The Institute elaborated on its position at a public hearing. Brendan Coates, Economic Policy Program Director of the Grattan Institute, told the Committee that the 'consequence' of this transition model is that:

> you end up with two problems. One is if you have an opt-in model, you replace a tax that is paid up-front to the Victorian state government of $40,000 or $50,000 a year on a median-priced home with a tax that may be of equivalent value but paid out over 20 years, so there is a big financing gap. Secondly, and just as importantly, you end up with what economists call adverse selection. So if I buy my first home, as I did in 2016, and I think I am only going to live there for a few years, I will choose to pay the land tax because the net present value of what I will pay over the life of owning that property will be much less than I paid, as it turns out, in stamp duty.[58]

Other stakeholders also cautioned the Inquiry against adopting the switch-on-sale (particularly, the opt-in variation). In its submission, the Tax and Transfer Policy Institute described the model as inefficient and inequitable believing there were incentives for existing homeowners to remain under the stamp duty system whilst newer purchasers paid lifetime land tax.[59] At a public hearing, the Tax and Transfer Policy Institute expanded on its position believing that the model would 'drive house prices up'. Robert Breunig told the Committee that:

> You are saying to people that they can pay a couple of thousand dollars of land tax instead of $40,000 of stamp duty; people are going to take that extra stamp duty

55 Ibid., p. 4.

56 Brendan Coates, Economic Policy Program Director, Grattan Institute, public hearing, Melbourne, 11 May 2023, *Transcript of evidence*, p. 23.

57 Grattan Institute, *Submission 52*, pp. 10–11.

58 Brendan Coates, *Transcript of evidence*, p. 23.

59 Tax and Transfer Policy Institute, *Submission 21*, p. 4.

> money, they are going to put it into a down payment and they are going to borrow more money from the bank and drive up house prices.[60]

In the context of the New South Wales' scheme, Professor Breunig explained that the scheme had 'set the land tax very low' and the 'stamp duty rate very high' which was an incentive to opt into land tax. However, he suggested that this could be unsustainable for the NSW Government because if 'everybody overnight switched to that land tax, [the Government] would not be able to afford it and they would have to raise the land tax'.[61]

Melbourne New Progressives were also against Victoria adopting the New South Wales approach because the reform had caused the jurisdiction to:

> significantly weaken its recent land tax reform by restricting its reform to only apply to first home buyers, and by allowing land tax on primary residences to revert to stamp duty when a property is sold, instead of easing itself off stamp duty entirely.[62]

The Committee also received evidence from property owners who were wary of being subject to a new land tax, especially those who have recently paid land tax. Andrew King argued that 'any change to stamp duty should consider those who have recently contributed to this tax and should only apply to new purchases'.[63]

3.2.5 Credit model

The third model discussed in the Henry Review is the 'credit model'. Box 3.8 below provides a brief description of the credit model as an option for transitioning from stamp duty to land tax.

Box 3.8 Transition model 3: Credit

Under this model, stamp duty is immediately replaced with a broad-based land tax, but recent property purchasers are granted a credit against future land tax liabilities.

Source: Legislative Council Economy and Infrastructure Committee. Based on information provided in the Department of Treasury and Finance's submission to the Inquiry.

60 Robert Breunig, Director, Tax and Transfer Policy Institute, public hearing, Melbourne, 11 May 2023, *Transcript of evidence*, p. 41.

61 Ibid.

62 Melbourne New Progressives, *Submission 43*, p. 5.

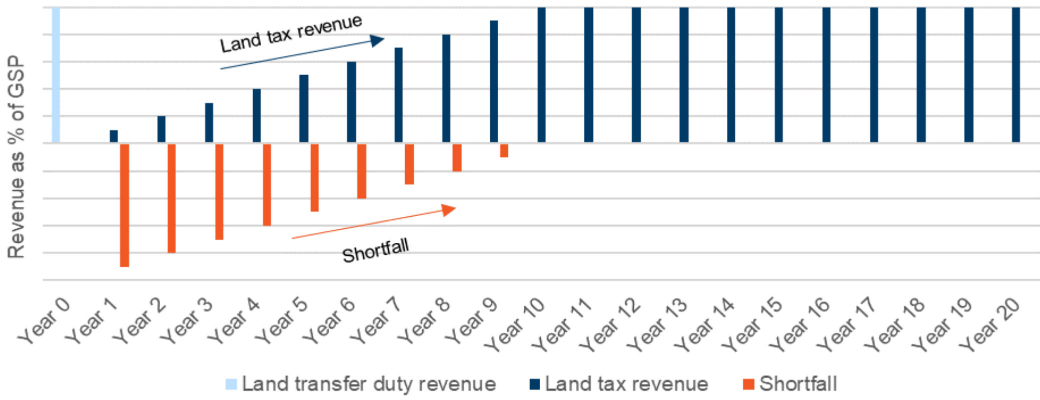
63 Andrew King, *Submission 3*, p. 1.

In its submission, the Parliamentary Budget Office provided some modelling data to demonstrate the revenue performance for new land tax revenue if the credit model is used to replace stamp duty. Under the model:

- stamp duty is immediately abolished, and all properties are liable for land tax
- the Parliamentary Budget Office assumed 'credit is provided toward future land tax liabilities and runs out after 10 years'.[64]

Figure 3.4 shows the revenue of land tax from year 0 to year 20 following the implementation of a credit transition model. The modelling demonstrates a temporary revenue shortfall from year 1 to year 9 of the transition, before becoming revenue neutral.[65]

Figure 3.4 Revenue performance of credit transition model, Parliamentary Budget Office modelling



Source: Parliamentary Budget Office, *Submission 53*, p. 24.

The Parliamentary Budget Office noted that the Victorian Government could implement different credit systems if it pursued this model:

> Full credits could be provided to those who purchase property between the announcement and introduction of the tax to prevent deferral of purchases, and partial credits could be provided to those who purchased in the years prior.
>
> The government could alternatively pay these credits upon scheme commencement, resulting in a large cost in year 1 and revenue neutrality thereafter.[66]

Like the other models discussed, the Parliamentary Budget Office also examined the credit model as a transition mechanism against the taxation principles. Table 3.5 below summarises the Office's considerations.

64 Parliamentary Budget Office, *Submission 53*, p. 25.

65 Ibid., p. 24.

66 Ibid., p. 25.

Table 3.5 Credit, transition mechanism and taxation principles, Parliamentary Budget Office

Efficiency	Equity	Simplicity
Efficient option as transition occurs quickly	Most equitable option as there is no double taxation and allows flexibility to support some groups	Simple as the revenue base is predictable for the government

Source: Parliamentary Budget Office, *Submission 53*, p. 25.

Several stakeholders discussed the merits of the credit model as an option for transition from stamp duty to land tax.

At a public hearing, Tim Helm, Research and Policy Director at Prosper Australia, argued that the credit model was more equitable compared to phasing out stamp duty:

> as you compress that transition period for phasing out stamp duty and phasing in land tax, you end up with some unfairness around the most recent buyers, who only receive a certain number of years tax free, even if they have just paid stamp duty, which ends up creating a rationale for making a credit for the most recent buyers. That is why we concluded that going all the way to being explicit about crediting recent buyers with a fixed formula for how much tax credit or refund they get and then having everybody pay the land tax from day one was a cleaner and potentially more efficient model.[67]

He further stated that the 'benefit of a credit model is that you can target your concession spending' which he described as 'true fairness issue' when transitioning from stamp duty to land tax. Without a credit system, it was argued that some property purchasers would be unfairly facing 'double taxation':

> the true fairness issue is a recent buyer of property who paid a full quotient of stamp duty, if they were asked to pay a land tax immediately after the reform date, truly would be facing a level of double taxation. That is the real unfairness. The unfairness is not that someone who bought land 100 years ago suddenly has to pay a new land tax.[68]

The issue of double taxation was also somewhat echoed by representatives from the Parliamentary Budget Office. Xavier Rimmer, Acting Parliamentary Budget Officer, told the Committee that a credit model 'would provide equity against … the unfair re-taxation of someone who has just engaged or recently engaged'[69] with stamp duty. However, he noted that:

> 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.[70]

67 Tim Helm, *Transcript of evidence*, p. 5.

68 Ibid., p. 10.

69 Xavier Rimmer, *Transcript of evidence*, p. 21.

70 Ibid.

The Henry Review also stated that a shift to land tax 'might generate perceptions of unfairness for people who purchased their property recently and paid stamp duty'.

> **Existing owner-occupied landholders are likely to have bought their homes with the expectation that they would continue to be exempt from land tax.**
>
> Ken Henry et al., *Australia's future tax system: Volume 1*, report for Treasurer, Commonwealth of Australia, Canberra, ACT, 2009, p. 267–268.

The Henry Review's discussion on the credit model as a transition approach found:

- the credit could be based on previous stamp duty paid or expected land tax contribution over a fixed period
- credit would 'offset their annual land tax liability'
- the model could use an approach of full and partial credit depending on the timing of property purchase
- in comparison to permanent grandfathering schemes, the credit model would 'bring owner-occupied housing into the tax base sooner and lead to smaller revenue shortfalls'.[71]

Some stakeholders outlined proposed models for a credit scheme to replace stamp duty in Victoria. For example, the Tax and Transfer Policy Institute recommended a sliding scale approach to crediting recent property purchasers.[72] Robert Breunig, Director of the Tax and Transfer Policy Institute, suggested that the Victorian Government should:

> provide people some kind of credit for the stamp duty they have paid that they can use against their land tax bill. I think the average time to change house in Australia is about 10 years at the moment. So you could say to anybody who has paid stamp duty in the last 10 years: if you paid it in the last 12 months, you can have 100 per cent of the stamp duty you paid, which would be applied as a credit to your future property tax bill. If you bought your house between 12 and 24 months ago, it would be 90 per cent of what you paid. If you bought between two and three years ago, we will give you 80 per cent, et cetera, down to 10 percent. So you could have some kind of sliding scale where you give people credit for the stamp duty that they have paid recently. I think that is a fair and pretty easily defensible approach.[73]

Under the credit model, it is highly likely that governments will experience revenue shortfalls from transitioning to land tax away from stamp duty. This was shown in the Parliamentary Budget Office's modelling in Figure 3.4. However, several stakeholders did indicate that after a period of time revenue neutrality could be achieved. Designing a transition model like a credit system needs to consider a multitude of factors, in particular the Victorian Government—should it pursue this model—must consider what

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71 Ken Henry, *Australia's future tax system: Volume 1*, p. 269.

72 Tax and Transfer Policy Institute, *Submission 21*, p. 4.

73 Robert Breunig, *Transcript of evidence*, p. 27.

degree of revenue shortfall is sustainable for the State's economy. At a public hearing, Brendan Coates from the Grattan Institute, told the Committee that the credit model can manage the economics and politics of the transition but the decision to implement this model:

> ultimately comes down to what the revenue hit is and therefore how much revenue the state government has to give up in the process of that transition, because obviously the more generous the credit, then the larger the revenue hole you are creating that you are not going to get back. Now, there is an economic pay-off to that. There is potentially a budgetary pay-off for the state government as well, because you get a larger economy. But that is ultimately going to be the result of some pretty detailed modelling by a government … in order to make clear exactly how you balance those pieces of the puzzle.[74]

The Committee was made aware that there is a 'relative paucity of examples' of a credit system being used for transitioning from stamp duty to land tax. Acting Parliamentary Budget Officer Xavier Rimmer explained that there is 'no optimal pricing theory that says how long [a] transition should be'. In relation to the credit model, he further told the Committee that:

> 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.[75]

3.3 Indexing stamp duty fees

> **Due to the growth in house prices, without a simultaneous adjustment in stamp duty rates, there has effectively been a type of "bracket creep" and the amount paid is now a significant cost.**
>
> Name Withheld, *Submission 51*, p. 1.

The issue of stamp duty and bracket creep was discussed in Chapter 2. In brief, bracket creep, or fiscal drag, refers to circumstances where inflation pushes people into higher income tax brackets, meaning there are higher tax liabilities without corresponding increases in real income.

Bracket creep was a significant criticism of Victoria's current stamp duty system. Numerous stakeholders noted that stamp duty rates have risen substantially in Victoria because duty thresholds are not keeping pace with rising house prices.[76]

74 Brendan Coates, *Transcript of evidence*, p. 24.

75 Xavier Rimmer, *Transcript of evidence*, p. 16.

76 For example, see: Housing Industry Association, *Submission 45*, p. 8.

It was suggested that indexing stamp duty could prevent bracket creep; and increase the overall efficiency of the tax possibly negating the need for replacing it with another tax system, such as a broad-based land tax.

The Housing Industry Association was generally supportive of introducing indexing to stamp duty rates. Steven Wojtkiw, Deputy Executive Director (Victoria) of the Association, believed it would be beneficial to have 'some indexation' on stamp duty rates as 'many government rates and charges are indexed against inflation'.[77] Further, Keith Ryan, Executive Director (Victoria), suggested—that until stamp duty could be abolished— that in the 'meantime [Victoria should] make the tax at least better than it is at the moment'.[78]

Joanne Seve strongly urged the Committee to recommend that the Government index stamp duty thresholds so that are 'annually in line with property price inflation'.[79] She noted that other investigations into stamp duty, in other jurisdictions, have also recommended indexing, such as:

- New South Wales—
  - 1988 Collins tax taskforce report
  - 2008 Independent Pricing and Regulatory Tribunal review of state taxation
- Commonwealth—
  - 2022 Standing Committee on Tax and Revenue's Inquiry into housing affordability and supply in Australia.[80]

Ms Seve noted that, despite numerous recommendations spanning several investigations, 'no state or territory has acted'.[81]

The Parliament of Australia's inquiry into housing affordability and supply recommended that stamp duty be replaced with land tax across all jurisdictions. However, as an interim measure, that state and territory governments:

> adjust stamp duty brackets to redress decades of stamp duty bracket creep and that they should be indexed in line with inflation in the housing market.[82]

To support states and territories, the Committee also recommended that they are 'not penalised by the Commonwealth Grants Commission in Goods and Services Tax (GST) distributions'.[83] However, ultimately the Committee determined that reforming

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77 Steven Wojtkiw, Deputy Executive Director, Victoria, Housing Industry Association, public hearing, Melbourne, 24 May 2023, *Transcript of evidence*, p. 35.

78 Keith Ryan, Executive Director, Victoria, Housing Industry Association, public hearing, Melbourne, 24 May 2023, *Transcript of evidence*, p. 35.

79 Joanne Seve, *Transcript of evidence*, p. 14.

80 Ibid., p. 13.

81 Ibid.

82 Parliament of Australia, Standing Committee on Tax and Revenue, *Inquiry into housing affordability and supply in Australia*, March 2022, p. xxiii.

83 Ibid.

stamp duty 'must ultimately be a matter for the states and territories'. In explaining its position, the Committee stated that:

> it would be setting an unhelpful precedent for the Australian Government to provide financial incentives for the states and territories to engage in this reform – it is their responsibility to take what steps they can to improve the productivity of their economies.[84]

Under Victoria's legislative and regulatory framework, there is no impediment to indexing stamp duty. It is a decision for governments whether to pursue this reform option. This was acknowledged by representatives of the Department of Treasury and Finance. At a public hearing, David Martine, Secretary, told the Committee that there are examples of governments 'from time to time' indexing tax rates, stating:

> from time to time governments make those choices. And this is very similar to that; they are available for the government of the day to then make a decision that it may increase the thresholds and extend that exemption to a higher level.[85]

The Committee acknowledges the significant concerns from stakeholders about the impact bracket creep has on individuals paying stamp duty fees. Without rate regulation or indexing, stamp duty rates have increased alongside inflation. This has resulted in property purchasers paying higher contributions not indexed against their actual income. One option to address the issue of bracket creep is to index stamp duty rates against housing price inflation. However, the Committee is unsure if this is the long-term solution to issues associated with stamp duty; or if it is an interim measure to support abolishing the duty all together. On this basis, the Committee believes that the Victorian Government must undertake further community consultation to determine if indexing stamp duty is an effective solution or if an alternative system is needed.

FINDING 10: Indexing stamp duty rates could minimise bracket creep. However, the viability of indexation as a solution to addressing issues with stamp duty in the long-term is unclear.

The Committee notes that the DTF officers, including the Secretary, declined an invitation to appear at a subsequent public hearing.

FINDING 11: The Committee notes previous recommendations to replace stamp duty with land tax across all jurisdictions. In addition, an interim measure to address issues with bracket creep is through indexation.

RECOMMENDATION 2: That the Department of Treasury and Finance should regularly review stamp duty rates to adjust for bracket creep.

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84 Ibid., p. 124.

85 David Martine, *Transcript of evidence*, p. 4.

3.4 National approach to change in funding model

Inefficiencies and inequities associated with stamp duty has not been an issue only felt by Victorians, nationally home buyers experience the same problems. Stamp duty, a tax levied on property transactions, has long been criticized for its negative impact on housing affordability, economic mobility, and overall market efficiency. This has local and national consequences. Progressing a national approach to reforming stamp duty could address these issues at the national level, allowing greater choice and mobility for potential buyers in Australia. The benefits of pursuing national reform are largely similar if Victoria pursued state-level reform:

- improving housing affordability
- stimulating market activity
- encouraging downsizing and more efficient use of housing stock
- reducing revenue volatility and market distortions associated with stamp duty.

An additional benefit for national reform is an opportunity to simplify and unify the tax system.

Reform options may be more limited for Victoria if there is not national coordination and buy in; or at least support from the Commonwealth. The Committee was told that other jurisdictions had adjusted their reform approach due to a lack of federal support.

At a public hearing, Brendan Coates, Economic Policy Program Director at the Grattan Institute, discussed New South Wales' experience adjusting its opt-in transition reform due to a lack of federal support:

> the objective was to put forward an opt-in model … this model would not be able to be implemented by New South Wales alone and that it would need federal support. That federal support was not forthcoming, and they ended up with something much less ambitious that they had legislated before the last election[86]

A joint submission from academics at Deakin University found that stamp duty has a 'major effect on interstate and intra-city mobility and that accounting for these effects significantly limits estimates of the benefits of reducing state reliance on [stamp duty]'. The submission further argued that there are benefits in a 'coordinated national approach to [stamp duty] reform'.[87]

Other inquiries and reviews have also considered the need for a national approach to reforming stamp duty.

86 Brendan Coates, *Transcript of evidence*, p. 31.

87 Yan Liang Jeff Hole, and Xueli Tang, *Submission 33*, p. 11.

The Federal Standing Committee on Tax and Revenue, in its report for the inquiry into housing affordability and supply in Australia, encouraged the Australian Government to 'lead any national coordination' required for stamp duty reform. However, it ultimately determined that 'stamp duty reform must ultimately be a matter for the states and territories'.[88]

The Henry Review argued that 'ideally' there is no 'role for any stamp duties, including conveyancing stamp duties, in a modern Australian tax system'. The Review recommended that:

> Recognising the revenue needs of the States, the removal of stamp duty should be achieved through a switch to more efficient taxes, such as those levied on broad consumption or land bases. Increasing land tax at the same time as reducing stamp duty has the additional benefit of some offsetting impacts on asset prices.[89]

The Committee believes that the Victorian Government should advocate for a national approach to reforming stamp duty, noting that it has potential to addressing affordability and accessibility of the housing market at a national level if done so. However, until a commitment at the national level is reached, it is important that the Victorian Government investigate its options for state-based reform by urgently undertaking an investigation into reform options for stamp duty, including assessing whether it should be abolished and replaced with a broad-based land tax.

FINDING 12: National reform of stamp duty would better address its negative impact on housing affordability, economic mobility, and market efficiency, for more Australians. Implementing comprehensive and uniform reforms is an opportunity to promote housing accessibility and affordability, stimulate economic growth, and create a fairer and more efficient housing market for all Australians.

RECOMMENDATION 3: That the Victorian Government:

- should consider additional measures to increase housing supply, including strengthening housing targets
- advocate for a national approach to stamp duty reform, recognizing its potential to address housing affordability and accessibility nationwide
- as an interim measure until a national commitment is made, urgently explore state-based reform options, including conducting an investigation into the feasibility of abolishing stamp duty and implementing a broad-based land tax as an alternative.

88 Parliament of Australia, Standing Committee on Tax and Revenue, *Inquiry into housing affordability and supply in Australia*, p. 124.

89 Ken Henry, *Australia's future tax system: Volume 1*, p. 263.

3.4.1 Adjusting GST revenue to offset stamp duty

Some stakeholders argued that the revenue from GST could act as replacement revenue for stamp duty if it was abolished.

In its submission, the Victorian Farmers Federation argued that stamp duty could be abolished and replaced with an expanded GST, Submission 44, p. 3:

> the VFF believes the better view from a public policy position would be to ensure the full intention behind the GST is realised.[90]
>
> **The Victorian Government should work with the Commonwealth and other states to readdress the question on the level of the GST and commit to national tax reform.**
>
> Victorian Farmers Federation, *Submission 44*, p. 3.

The Federation elaborated on its position at a public hearing. Emma Germano, President of the Federation told the Committee that:

> Our preference is for it to be replaced through an expanded GST. We have now operated under the GST for over 20 years, and it is time to do the work that needs to be done to ensure that we are doing everything that we should, including the original idea to abolish stamp duty under the GST. Currently Victoria is not getting its fair share from the GST, and the discussion should be led by Victoria to get the Commonwealth and other states to have another look at it.[91]

Adjusting GST to offset lost stamp duty revenue requires a nationally coordinated approach and cannot be undertaken by Victoria alone. Cath Evans, Executive Director (Victoria) of the Property Council of Australia believed that stamp duty reform should be done in a 'revenue-neutral way'. She told the Committee that:

> Ideally this would be through a nationally coordinated approach, using the GST as replacement revenue, but we acknowledge the political realities of our federation make this unlikely at best.[92]

Conversely, other stakeholders believed that replacing stamp duty with an adjusted GST would not compensate for all the revenue currently generated by stamp duty. Tim Helm from Prosper Australia believed that replacing stamp duty with GST is a 'terrible idea', arguing that:

> It would produce windfall gains for property owners, it would require a lot of tax revenue to be lost in compensating ordinary consumers and it would require intergovernmental arrangements that are likely in practice to be impossible to arrange.[93]

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90 Victorian Farmers Federation, *Submission 44*, p. 3.

91 Emma Germano, *Transcript of evidence*, p. 55.

92 Cath Evans, Executive Director, Victoria, Property Council of Australia, public hearing, Melbourne, 24 May 2023, *Transcript of evidence*, p. 44.

93 Tim Helm, *Transcript of evidence*, p. 3.

YIMBY Melbourne expressed caution about an approach which used an adjusted GST to offset lost stamp duty revenue if the latter were abolished. Jonathan O'Brien stated that:

> The centralisation of GST, we have considered it. It has been kind of a problem for state governments because it gives them less control over their own budget. Part of the advantage of something like a land tax is that it gives reliable, regular income. Stamp duty currently – and we have not touched on this at all yet, but I am sure many have – relies on the cycles of the property market, which is a very cyclical market.
>
> …
>
> the value of land may fluctuate slightly, but it does not fluctuate hugely, and it certainly does not fluctuate like housing prices. It does not fluctuate based on people's appetite to buy or sell. The supply of land is always the same, and you can predict, much better than housing prices, what that price will be next year.[94]

It is important to note that any shift from stamp duty to GST as a replacement revenue would require careful consideration and planning. The impact on different segments of the population, potential compensation mechanisms for those adversely affected, and the coordination between federal, state, and territory governments would need to be addressed.

Adopted by the Legislative Council Economy and Infrastructure Committee
Parliament of Victoria, East Melbourne
11 August 2023

94 Jonathan O'Brien, *Transcript of evidence*, p. 10.

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Appendix A
About the Inquiry

A.1 Submissions

1	Name withheld
2	Mr Glenn Young
3	Mr Andrew King
4	Mrs Betty Hoon
5	Dr Clem Stanyon
6	Ivan Lawrie
7	Evangelos Dritsas
8	Number Not Used
9	Mr Darren Cook
10	Mr Dominik Dudkiewicz
11	Mr Jarod Mills
12	Mr Bryan Kavanagh
13	Mr David Spain
14	Ms Naomi Cameron
15	Jaron Tofful
16	Louis Theodosiou
17	David Mason
18	Ms Joanne Seve
19	Alanna Kioussis
20	Number Not Used
21	Tax and Transfer Policy Institute
22	Number Not Used
23	Mr Michael Bakrnchev
24	Joe Cassera
25	Rob Brewer
26	Sharron Gallagher
27	Andrew Long
28	Ms Erica Kurec
29	Infrastructure Victoria
30	Mr Jim Houlahan
31	Laurice Paton
32	Mrs Sylvia Lo Piccolo
33	Joint Submission
34	Master Builders Association Victoria
35	Urban Development Institute of Australia
36	Australian Property Institute
37	Real Estate Institute of Victoria
38	Joint Submission
39	REA Group
40	Individual House Providers' Association
41	Prosper Australia
42	Property Council of Australia
43	Melbourne New Progressives
44	Victorian Farmers Federation
45	Housing Industry Association
46	Mortgage and Finance Association of Australia
47	Mr Rocco Perna
48	Ray White
49	Victorian Council of Social Service
50	Department of Treasury and Finance
51	Name withheld
52	Grattan Institute
53	Parliamentary Budget Office (PBO)
54	Victorian Chamber of Commerce and Industry

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A.2 Public hearings

Friday, 28 April 2023

Davui Room, 55 Saint Andrews Place, East Melbourne, 3002

Name	Title	Organisation
David Martine	Secretary	Department of Treasury and Finance
Chris Barrett	Deputy Secretary	Department of Treasury and Finance
Miranda Forehan	Executive Director, Revenue	Department of Treasury and Finance

Thursday, 11 May 2023

Davui Room, 55 Saint Andrews Place, East Melbourne, 3002

Name	Title	Organisation
Matthew Kandelaars	Chief Executive Officer	Urban Development Institute of Australia
Jack Vaughan	Director of Policy	Urban Development Institute of Australia
Joanne Seve	-	-
Brendan Coates	Economic Policy Program Director	Grattan Institute
Robert Breunig	Director	Tax and Transfer Policy Institute
Owen Wilson	Chief Executive Officer	REA Group
Cameron Kusher	Executive Manager, Economic Research	REA Group

Wednesday, 24 May 2023

Davui Room, 55 Saint Andrews Place, East Melbourne, 3002

Name	Title	Organisation
Emily Sims	General Manager	Prosper Australia
Tim Helm	Research and Policy Director	Prosper Australia
Xavier Rimmer	Acting Parliamentary Budget Officer	Parliamentary Budget Office
Ross Hutchings	Principal Analyst	Parliamentary Budget Office
Louise Barth	Principal Analyst	Parliamentary Budget Office
Robert Carling	Senior Fellow	Centre for Independent Studies
Keith Ryan	Executive Director, Victoria	Housing Industry Association
Steven Wojtkiw	Deputy Executive Director, Victoria	Housing Industry Association
Cath Evans	Executive Director, Victoria	Property Council of Australia

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Name	Title	Organisation
Sam Tarascio	Managing Director, Salta Properties, and Property Council Immediate Past President (Victoria)	Property Council of Australia
Craig Whatman	Executive Director, Pitcher Partners, and Property Council Victorian Taxation Committee member	Property Council of Australia
Emma Germano	President	Victorian Farmers Federation
Charles Everist	General Manager, Policy and Advocacy	Victorian Farmers Federation

Thursday, 25 May 2023

Davui Room, 55 Saint Andrews Place, East Melbourne, 3002

Name	Title	Organisation
Allison Stewart	Acting Chief Executive Officer	Infrastructure Victoria
Llewellyn Reynders	Director, Research and Policy	Infrastructure Victoria
Andrew Meehan	President	Real Estate Institute of Victoria
Quentin Kilian	Chief Executive Officer	Real Estate Institute of Victoria
Sarika Bhalla	Marketing and Communications Manager	Real Estate Institute of Victoria

Wednesday, 28 June 2023

Davui Room, 55 Saint Andrews Place, East Melbourne, 3002

Name	Title	Organisation
Don Holloway	-	YIMBY Melbourne
Jonathan O'Brien	-	YIMBY Melbourne
Michael Fotheringham	Managing Director	Australian Housing and Urban Research Institute
Amelia Hodge	Chief Executive Officer	Australian Property Institute

Extracts of proceedings

Legislative Council Standing Order 23.20(5) requires the Committee to include in its report all divisions on a question relating to the adoption of the draft report. All Members have a deliberative vote. In the event of an equality of votes, the Chair also has a casting vote. The Committee divided on the following questions during consideration of this report. Questions agreed to without division are not recorded in these extracts.

Mr Limbrick moved, that in Chapter 2, section 2.2, in the paragraph commencing 'The significance of…', a sentence be added in the following terms: '*The increase in property prices is also due to a lack of adequate supply*.'

The question was put.

The Committee divided.

Ayes	Noes
Mr Limbrick	Ms Copsey
Ms Purcell	
Mr Davis	
Mr Berger	
Ms Ermacora	
Mrs McArthur	
Mr McIntosh	
Mr Mulholland	

The question was agreed.

Mr Limbrick moved, that in Chapter 2, section 2.2, in the paragraph commencing 'This progression…' a new sentence be added in the following terms: '*The increase in overall share of taxation revenue is largely due to a failure to index stamp duty*.'

The question was put.

The Committee divided.

Ayes	Noes
Mr Limbrick	Ms Purcell
Mr Davis	Mr McIntosh
Mr Mulholland	Mr Berger
Mrs McArthur	Ms Ermacora
	Ms Copsey

The question was negatived.

Mr Limbrick moved, that in Chapter 2, section 2.5.1, in the paragraph commencing 'Evidence before the…' a new sentence be inserted in the following terms: '*Some of the advantages of stamp duty are that it is transparent and efficiently collected at low cost.*'

The question was put.

The Committee divided.

Ayes	Noes
Mr Limbrick	Ms Copsey
Ms Purcell	
Mr Davis	
Mr Berger	
Ms Ermacora	
Mrs McArthur	
Mr McIntosh	
Mr Mulholland	

The question was agreed.

Mr Limbrick moved, that in Chapter 2, section 2.5.2, before the paragraph commencing 'The Deakin University…' the following text be inserted:

"The Committee notes the UDIA material and evidence suggested a very high proportion of the cost of land is comprised of taxes, levies and charges places on land by the State Government. The best estimates show that this is between 40 and 50 percent of the cost of land."

The question was put.

The Committee divided.

Ayes	Noes
Mr Limbrick	Ms Copsey
Ms Purcell	
Mr Davis	
Mr Berger	
Ms Ermacora	
Mrs McArthur	
Mr McIntosh	
Mr Mulholland	

The question was agreed.

Mr Limbrick moved, that in Chapter 2, section 2.5.2, after the paragraph commencing 'The Committee notes…' the following quote from Mr Kandelaars be inserted:

'On one of these new taxes – the windfall gains tax, Mr Kandelaars stated "…we modelled that the windfall gains tax would cost Victoria very close to 7000 new dwellings, 20,000 direct jobs and over $7 billion in economic output.'

The question was put.

The Committee divided.

Ayes	Noes
Mr Limbrick	Ms Purcell
Mr Davis	Mr McIntosh
Mr Mulholland	Ms Ermacora
Mrs McArthur	Mr Berger
	Ms Copsey

The question was negatived.

Ms Copsey moved, that in Chapter 2, section 2.7.1, in Finding 6, after 'Bracket creep' delete the words 'is a major cause of' and replace them with the words 'contributes to'.

The question was put.

The Committee divided.

Ayes	Noes
Ms Purcell	Mr Davis
Ms Copsey	Mr Limbrick
Mr McIntosh	Mr Mulholland
Ms Ermacora	Mrs McArthur
Mr Berger	

The question was agreed.

Mr Limbrick moved, that in Chapter 2, section 2.7.1, after Finding 6 a new recommendation be inserted in the following terms:

'*Treasury should model the revenue impact of lowering the stamp duty rate, taking into account the potential increase in transactions at a lower rate.*'

The question was put.

The Committee divided.

Ayes	Noes
Mr Limbrick	Ms Purcell
Mr Davis	Mr McIntosh
Mr Mulholland	Ms Ermacora
Mrs McArthur	Mr Berger
	Ms Copsey

The question was negatived.

Mr Limbrick moved, in Chapter 2, section 2.7.2, in the paragraph commencing 'Despite the flaws…' the words 'replaced by another source of revenue' be changed to 'either replaced by another source of revenue, or budget expenditure reduced.'

The question was put.

The Committee divided.

Ayes	Noes
Mr Limbrick	Mr McIntosh
Mr Davis	Ms Ermacora
Mr Mulholland	Mr Berger
Mrs McArthur	Ms Copsey
Ms Purcell	

The question was agreed.

Ms Copsey moved, in Chapter 2, section 2.9, in the paragraph commencing 'The Committee accepts…' after the words 'one of the' delete the word 'key'.

The question was put.

The Committee divided.

Ayes	Noes
Ms Purcell	Mr Davis
Ms Copsey	Mr Limbrick
Mr McIntosh	Mr Mulholland
Ms Ermacora	Mrs McArthur
Mr Berger	

The question was agreed.

Ms Copsey moved, in Chapter 2, section 2.9, delete the entire paragraph that reads:

'Ideally, any substantial change to the tax base would be undertaken in the context of a national approach. A national tax reform programme should be undertaken which identifies the flaws and potential benefits of current tax regimes in each state and territory, and that makes recommendations on reforms that address the efficiency, volatility and inequity of the current arrangements.'

The question was put.

The Committee divided.

Ayes	Noes
Ms Purcell	Mr McIntosh
Ms Copsey	Ms Ermacora
Mr Limbrick	Mr Berger
Mr Davis	Mrs McArthur
Mr Mulholland	

The question was agreed.

Mr Limbrick moved, in Chapter 3, section 3.2.2, in Finding 8 delete the words 'To date, Victoria has not' be deleted and replaced by the words '*To date, no state has*'.

The question was put.

The Committee divided.

Ayes	Noes
Mr Limbrick	Ms Copsey
Ms Purcell	
Mr Davis	
Mr Berger	
Ms Ermacora	
Mrs McArthur	
Mr McIntosh	
Mr Mulholland	

The question was agreed.

Mr Mulholland moved, in Chapter 3, section 3.2.4, in Finding 9 the words 'The phased transition model slowly transitions stamp duty to a new land tax. However, without proper measures there is a risk that new property owners will experience double taxation.' be deleted and replaced by the words '*The phased transition model slowly transitions stamp duty to a new land tax. Several witnesses and submissions raised concerns about double taxation remaining on properties. No witness was able to assure the committee that in that in moving from Land transfer Duty to a broad-based land tax that the community would not end up with both taxes in place and the overall collection of tax increasing.*'.

The question was put.

The Committee divided.

Ayes	Noes
Mr Davis	Ms Purcell
Mr Limbrick	Mr McIntosh
Mr Mulholland	Ms Ermacora
Mrs McArthur	Mr Berger
	Ms Copsey

The question was negatived.

Mr Limbrick moved, in Chapter 3, section 3.3, in Finding 10 that the words 'indexing stamp duty rates could minimise bracket creep.' be deleted and replaced by the words *'Indexing stamp duty rates would minimise bracket creep'* and delete the second sentence.

The question was put.

The Committee divided.

Ayes	Noes
Mr Limbrick	Ms Purcell
Ms Broad (substituting for Mr Mulholland)	Mr McIntosh
Mr Davis	Ms Ermacora
Mrs McArthur	Mr Berger
	Ms Copsey

The question was negatived.

Mr Davis moved, that in Chapter 3, section 3.3, in Finding 10 delete the second sentence in the finding.

The question was put.

The Committee divided.

Ayes	Noes
Mr Limbrick	Ms Purcell
Ms Broad	Mr McIntosh
Mr Davis	Ms Ermacora
Mrs McArthur	Mr Berger
	Ms Copsey

The question was negatived.

Mr Davis moved, that in Chapter 3, section 3.3, after Finding 10 a new recommendation be inserted in the following terms:

That the Victorian Government examines indexation models used in NSW and SA.

The question was put.

The Committee divided.

Ayes	Noes
Mr Davis	Ms Purcell
Ms Broad	Mr Limbrick
Mrs McArthur	Mr McIntosh
	Ms Ermacora
	Mr Berger
	Ms Copsey

The question was negatived.

Mr Limbrick moved, that Chapter 3, section 3.3, after Finding 11 a new recommendation be inserted in the following terms:

Treasury should regularly review stamp duty rates to adjust for bracket creep.

The question was put.

The Committee divided.

Ayes	Noes
Mr Davis	Ms Ermacora
Mr Limbrick	Mr McIntosh
Ms Broad	Mr Berger
Mrs McArthur	
Ms Copsey	
Ms Purcell	

The question was agreed.

Ms Copsey moved, that in Chapter 3, section 3.4, in the paragraph that reads:

The Committee believes that the Victorian Government should advocate for a national approach to reforming stamp duty, noting that it has potential to addressing affordability and accessibility of the housing market at a national level if done so. However, until a commitment at the national level is reached, it is important that the Victorian Government investigate its options for state-based reform by urgently undertaking an investigation into reform options for stamp duty, including assessing whether it should be abolished and replaced with a broad-based land tax.

the text be amended to read:

The Committee believes that the Victorian Government should advocate for a national approach to reforming stamp duty, noting that it has potential to addressing affordability and accessibility of the housing market at a national level if undertaken. However, as there is currently little indication of a commitment to stamp duty reform at the national level the Victorian government should urgently commit to stamp duty reform, replacing stamp duty with a broad based land tax.

Mr Davis moved, that the amendment be amended to read:

The Committee believes that the Victorian Government should investigate reforming stamp duty, noting that it has potential to addressing affordability and accessibility of the housing market.

The question was put.

The Committee divided.

Ayes	Noes
Mr Davis	Ms Purcell
Mr Limbrick	Mr McIntosh
Ms Broad	Ms Ermacora
	Mr Berger
	Ms Copsey
	Mrs McArthur

The question was negatived.

Ms Ermacora moved, that the original amendment be amended by deleting the words:

"The Victorian government should urgently commit to stamp duty reform, replacing stamp duty with a broad-based land tax."

The question was put.

The Committee divided.

Ayes	Noes
Ms Ermacora	Ms Copsey
Mr McIntosh	Mrs McArthur
Mr Berger	
Mr Limbrick	
Mr Davis	
Ms Broad	
Ms Purcell	

The question was agreed.

There being no mover for the amended amendment, the amendment moved by Ms Copsey lapsed.

Mr Davis moved, that Chapter 3, section 3.4 after the paragraph commencing 'The Committee believes…' the following text be inserted:

The Committee notes the increase in taxes placed on land by the current government with fifty new and expanded taxes since the change of government in 2014 many involving new taxes on land.

The question was put.

The Committee divided.

Ayes	Noes
Mr Davis	Ms Purcell
Mr Limbrick	Mr McIntosh
Ms Broad	Ms Ermacora
Mrs McArthur	Mr Berger
	Ms Copsey

The question was negatived.

Ms Copsey moved, That in Chapter 3, section 3.4 the second bullet point in Recommendation 3 be amended to read:

- *given there is little indication of a national commitment to stamp duty reform, urgently commit to state-based reform, abolishing stamp duty and implementing a broad-based land tax as an alternative.*

The question was put.

The Committee divided.

Ayes	Noes
Ms Copsey	Ms Purcell
	Mr Limbrick
	Mr Davis
	Mr McIntosh
	Ms Ermacora
	Mr Berger
	Ms Broad
	Mrs McArthur

The question was negatived.

Mr Davis moved, that in Chapter 3, section 3.4.1 after the paragraph commencing 'It is important…' a new recommendation be inserted in the following terms:

The Committee recommends that the State Government provide copies of the 21 documents listed in the sheet provided by Mr Davis to the Secretary of Department of Treasury and Finance, in particular the consultancies and modelling of land tax and stamp duty tax options commissioned by DTF and funded by taxpayers undertaken by Deloitte and Price, Waterhouse Coopers.

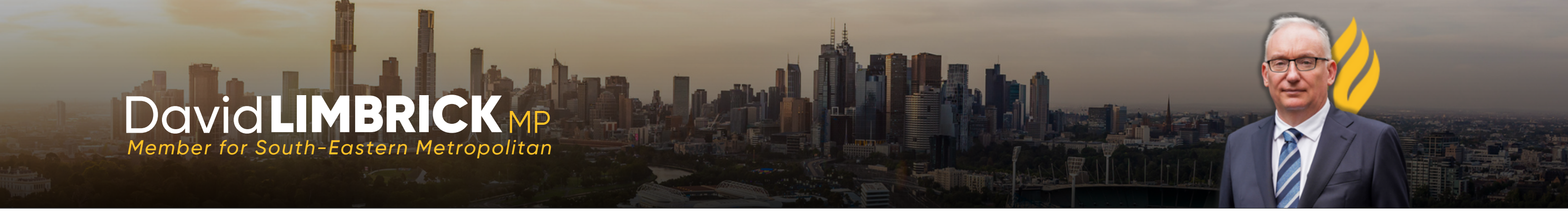
The question was put.

The Committee divided.

Ayes	Noes
Mr Davis	Ms Purcell
Mr Limbrick	Mr McIntosh
Ms Broad	Ms Ermacora
Mrs McArthur	Mr Berger
	Ms Copsey

The question was negatived.

Minority reports



MINORITY REPORT

Legislative Council Economy and Infrastructure Committee

Inquiry into land transfer duty fees

August 22, 2023

It is clear from submissions to the inquiry that there is widespread agreement that stamp duty causes economic harm. Some of these harms come in the form of:

Misallocation of housing stock

Due to the prohibitive cost of stamp duty, many people live in accommodation that may not be optimal for their needs. For example, a young couple may choose to purchase a larger house than they otherwise would as they know once they have children, they will have to pay stamp duty again. Similarly, older people may be unwilling to downsize for similar reasons. Cumulatively, this has the effect of allocating housing stock inefficiently, contributing to shortages.

Hindering of labour mobility

Stamp duty poses a large barrier to people taking jobs far away from where they currently live. They are faced with the choice of either not taking up a job opportunity due to the cost, commuting long distances or paying a large tax in order to live closer to their work.

Increasing housing cost

The overall cost of housing is increased by stamp duty. This makes it harder for people to afford a home and puts them in greater debt than they would otherwise be, increasing their cost of living. One of the most pernicious harms identified by the inquiry is how stamp duty effectively acts as a divorce tax.

It is also clear that stamp duty has become a large component of state revenue because the rate has not been indexed in line with the rise in housing prices. Regardless of any other action, the Government should immediately commit to indexation to prevent stamp duty becoming an even larger component of state revenue.

Many of the submissions focussed on ways to replace this revenue with other mechanisms such as a broad-based property tax or replacing via Federal co-operation on GST changes. However, although these options may result in greater tax efficiency, they will ultimately shift the harms to other people and cause other negative effects.

Recommendation: Gradually reduce stamp duty over 10 years, at which time it would be abolished and replaced with nothing. There should be a project over the same time period to reduce Government waste, increase efficiency and scale back the operations of the state.

This would eliminate all of the harms caused by this tax, greatly increase economic activity and make Victoria a highly attractive place to live, work and invest.

David **LIMBRICK** MP
Member for South-Eastern Metropolitan for the **LIBERTARIAN** PARTY

Inquiry into Land Transfer Duty Fees - minority report Katherine Copsey

Context

The housing market is broken. An entire generation is being locked out of owning their own home while rents are unaffordable and rising fast. There are nearly 130,000 Victorians waiting for public housing, and thousands more living in insecure and unaffordable homes. A responsible government would use every policy lever available to address housing unaffordability and encourage equitable allocation of housing so that everyone in our state has a stable and secure place to call home.

Stamp duty

An inequitable, inefficient and volatile tax, stamp duty has few friends.

The Henry Review in 2009 recommended "[i]deally, there would be no role for any stamp duties, including conveyancing stamp duties, in a modern Australian tax system. Recognising the revenue needs of the states, the removal of stamp duty should be achieved through a switch to more efficient taxes, such as those levied on broad consumption or land bases. Increasing land tax at the same time as reducing stamp duty has the additional benefit of some offsetting impacts on asset prices[1] ."

In its recent report for the Inquiry into housing affordability and supply in Australia, the Federal Standing Committee on Tax and Revenue recommended that "states and territories replace stamp duty with land tax. This should be implemented over time, avoiding those who have already or recently paid stamp duty facing double taxation through the replacement land tax. This change would increase housing turnover, remove an unnecessary obstacle to home ownership and stabilise government revenues[2] ."

It is clear that the abolition of stamp duty and its replacement with land tax - a more equitable and efficient tax and more predictable source of revenue – should be on the to-do list of responsible state and territory governments across Australia.

There is little indication of a commitment to stamp duty reform at the national level but this should not, and has not, prevented some jurisdictions embarking upon this journey. The ACT has started on a program of reform which includes replacing stamp duty with a broad-based land tax for all types of property over two decades, and Victoria has committed to abolishing stamp duty on commercial and industrial properties and replacing it with an annual property tax.

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1 https://treasury.gov.au/sites/default/files/2019-10/afts_final_report_part_1_consolidated.pdf recc 51

2 https://www.aph.gov.au/Parliamentary_Business/Committees/House/Former_Committees/Tax_and_Revenue/Housingaffordability/Report/section?id=committees%2freportrep%2f024864%2f78750 Recc 9 at 6.112

The Victorian Government should urgently commit to full reform, abolishing stamp duty and replacing it with a broad-based land tax.

Transition Models

The Committee received evidence regarding several models to transition from stamp duty to land tax. While submitters noted that none would be simple and risk free, the committee heard that it is indeed possible to transition away from stamp duty without treating recent home buyers, retirees or other groups unfairly.

The model that appears to most efficiently and effectively realise the benefits of abolishing stamp duty whilst best addressing the risks is the immediate replacement of stamp duty with land tax, with a tax credit scheme available to those who have recently paid stamp duty.

Immediate replacement and credit

Immediate replacement of stamp duty with land tax will increase housing turnover, remove an unnecessary barrier to home ownership and provide more predictable revenue. Immediate replacement as opposed to a drawn out phasing approach realises the benefits of abolishing stamp duty more rapidly but can also address perceptions of “double taxing”.

A tax credit scheme will ensure those who have recently paid stamp duty are not disadvantaged in the transition. Treasury should conduct modelling and recommend a credit scheme to be available to those who have recently paid stamp duty, with the amount of the credit declining over an appropriate period of time since the payment of the duty.

A land tax deferral scheme (with interest charge on deferred amounts) could assist those who hold valuable assets but do not have a large income, such as retirees.

There are different options available for addressing the transitional revenue impacts of an immediate switch to land tax. The Department of Treasury and Finance suggested addressing this with the help of the federal government , while the Prosper model which was presented to the committee suggests temporarily charging land tax at a higher rate to cover this. The government should explore these and any other viable options to urgently replace stamp duty with a broad-based land tax.

Other transition models that the Committee received evidence on bring with them their own problems.

Conclusion

Getting rid of stamp duty has been in the too hard basket for too long. In order to increase housing turnover, remove an unnecessary barrier to home ownership and move to a more equitable and efficient method of taxation that provides more predictable revenue, the Victorian government should urgently progress the abolition of stamp duty and its replacement with a broad-based land tax.

In closing, I would like to thank all the members of the public and organisations who made submissions, and those that presented to the committee. I would also like to thank the committee staff for their diligent and excellent work.

Economy and Infrastructure Committee
Inquiry into land transfer duty fees
Minority Report

1. Introduction

The writers of this minority report regret the need to write a minority statement, however there were significant differences in the views of different committee members. These are partly reflected in the extract of proceedings, however we believe it is necessary to ensure sufficient emphasis is placed on certain key points that are not adequately highlighted in the general committee report.

These include:

1. Labor's increased taxes on homes and land supply.
2. The failure of the Andrews Labor government to provide an adequate supply of new land, on the city edge, in regional Victoria and in central and middle ring suburbs. This has resulted in an increase in property prices for which the Andrews Labor government must accept the lion's share of responsibility, noting Labor has been in government for the last 9 years, and 20 of the past 24 years.
3. Stamp duty bracket creep and the lack of indexation.
4. The risk of double taxation – that is, the planned phase out of stamp duty not occurring as a replacement land tax was introduced with the consequent outcome that both taxes remain in operation.
5. The refusal of DTF to reappear at a hearing following the receipt of other witnesses' testimony and evidence.
6. The need to release modelling of stamp duty, land tax and other options in scenarios already undertaken by DTF and funded by taxpayers.

In the last 9 years the median price of a Melbourne house has increased from $605,000 to $1,028,000 in 2023 and the median price of an apartment has increased from $423,000 in 2014 to $605,500 in 2023. The population in Greater Melbourne across this period has increased from 4.322 million to 5.235 million.

The government's stamp duty take since 2014 has seen an increase from $4.938 billion to $10.194 billion in 2021-22. Through this period Daniel Andrews' government has largely failed to index stamp duty.

While the committee agreed to some greater modelling of options to stamp duty in Victoria being undertaken, it did not agree to the comprehensive modelling of options and their public release as an integral part of any change to Victoria's tax system.

2. Labor's increased taxes on homes and land supply

Since Labor came to power in 2014 it has massively increased taxes on homes and land supply. The main report shows the increased tax take by the Andrews Labor government in terms of stamp duty, land tax and increased development taxes.

Significant testimony provided to the committee, including by the Urban Development Institute of Australia and the Property Council pointed to the high contribution of government taxes to the cost of homes and land.

Additional testimony pointed to the impact of the windfall gains tax.

It is a fact that, since Labor came to power in 2014, it has added 50 new or expanded taxes. The list of the 50 new or increased taxes and charges is attached at Appendix 1. The writers of this minority report sought to include reference to this list within the report but this was resisted by the majority.

An extract of the proceedings is below.

Mr Davis moved, that Chapter 3, section 3.4 after the paragraph commencing 'The Committee believes…' the following text be inserted:

The Committee notes the increase in taxes placed on land by the current government with fifty new and expanded taxes since the change of government in 2014 many involving new taxes on land.

The question was put.

The Committee divided.

Ayes	Noes
Mr Davis	Ms Purcell
Mr Limbrick	Mr McIntosh
Ms Broad	Ms Ermacora
Mrs McArthur	Mr Berger
	Ms Copsey

The question was negatived.

Some of the UDIA evidence was included in the report but some was not as outlined below. Particularly concerning was the failure to recognise the dramatic negative impact of the windfall gains tax now in operation in Victoria on the provision of new homes. The windfall gains tax is likely to chill many developments

Mr Limbrick moved, that in Chapter 2, section 2.5.2, before the paragraph commencing 'The Deakin University…' the following text be inserted:

> *"The Committee notes the UDIA material and evidence suggested a very high proportion of the cost of land is comprised of taxes, levies and charges places on land by the State Government. The best estimates show that this is between 40 and 50 percent of the cost of land."*

The question was put.

The Committee divided.

Ayes	Noes
Mr Limbrick	Ms Copsey
Ms Purcell	
Mr Davis	
Mr Berger	
Ms Ermacora	
Mrs McArthur	
Mr McIntosh	
Mr Mulholland	

The question was agreed.

Mr Limbrick moved, that in Chapter 2, Section 2.5.2, after the paragraph commencing 'The Committee notes…' the following quote from Mr Kandelaars be inserted:

'*On one of these new taxes – the windfall gains tax, Mr Kandelaars stated "…we modelled that the windfall gains tax would cost Victoria very close to 7000 new dwellings, 20,000 direct jobs and over $7 billion in economic output*.'

The question was put.

The Committee divided.

Ayes	Noes
Mr Limbrick	Ms Purcell
Mr Davis	Mr McIntosh
Mr Mulholland	Ms Ermacora
Mrs McArthur	Mr Berger
	Ms Copsey

The question was negatived.

Mr Limbrick moved, that in Chapter 2, section 2.5.1, in the paragraph commencing 'Evidence before the…' a new sentence be inserted in the following terms: '*Some of the advantages of stamp duty are that it is transparent and efficiently collected at low cost*.'

The question was put.

The Committee divided.

Ayes	Noes
Mr Limbrick	Ms Copsey
Ms Purcell	
Mr Davis	
Mr Berger	
Ms Ermacora	
Mrs McArthur	
Mr McIntosh	
Mr Mulholland	

The question was agreed.

We were pleased that there was recognition that housing supply was inadequate, and that increased supply would be required and this would include targets, with the committee agreeing to insert:

The government should consider additional measures to increase housing supply, including strengthening housing targets.

3. The failure of the Andrews Labor government to provide an adequate supply of new land

The writers of the minority report are aware from evidence presented to the committee of the negative impact of restricted supply of new land.

The failure of the Andrews Labor government to provide an adequate supply of new land, on the city edge, in regional Victoria and in central and middle ring suburbs. This has resulted in an increase in property prices for which the Andrews Labor government must accept the lion's share of responsibility, noting Labor has been in government for the last 9 years, and 20 of the past 24 years.

The minority was pleased that some reference to the lack of new land supply was incorporated in the report.

Mr Limbrick moved, that in Chapter 2, section 2.2, in the paragraph commencing 'The significance of…', a sentence be added in the following terms: '*The increase in property prices is also due to a lack of adequate supply*.'

The question was put.

The Committee divided.

Ayes	Noes
Mr Limbrick	Ms Copsey
Ms Purcell	
Mr Davis	
Mr Berger	
Ms Ermacora	
Mrs McArthur	
Mr McIntosh	
Mr Mulholland	

The question was agreed.

4. Stamp duty bracket creep and the lack of indexation

The stamp duty take under Labor has increased from $4.938 billion in 2014-15 to $10.194 billion in 2021-22. During this period, Daniel Andrews and his Treasurer Tim Pallas have chosen to not realistically index the stamp duty thresholds enabling them to scoop in billions of additional dollars through "bracket creep" as the stamp duty brackets were not adjusted. The minority report writers attempted to have this reflected adequately in the report but, as can be seen from the divisions below, this was resisted by Labor and the minor parties.

Mr Limbrick moved, that in Chapter 2, section 2.2, in the paragraph commencing 'This progression…' a new sentence be added in the following terms: '*The increase in overall share of taxation revenue is largely due to a failure to index stamp duty*.'

The question was put.

The Committee divided.

Ayes	Noes
Mr Limbrick	Ms Purcell
Mr Davis	Mr McIntosh
Mr Mulholland	Mr Berger
Mrs McArthur	Ms Ermacora
	Ms Copsey

The question was negatived.

Mr Limbrick moved, in Chapter 3, section 3.3, in Finding 10 that the words 'indexing stamp duty rates could minimise bracket creep.' be deleted and replaced by the words *'Indexing stamp duty rates would minimise bracket creep*' and delete the second sentence.

The question was put.

The Committee divided.

Ayes	Noes
Mr Limbrick	Ms Purcell
Ms Broad (substituting for Mr Mulholland)	Mr McIntosh
Mr Davis	Ms Ermacora
Mrs McArthur	Mr Berger
	Ms Copsey

The question was negatived.

The minority called for the Treasury to regularly review stamp duty rates and to adjust for bracket creep.

Mr Limbrick moved, that Chapter 3, section 3.3, after Finding 11 a new recommendation be inserted in the following terms:

Treasury should regularly review stamp duty rates to adjust for bracket creep.

The question was put.

The Committee divided.

Ayes	Noes
Mr Davis	Ms Ermacora
Mr Limbrick	Mr McIntosh
Ms Broad	Mr Berger
Mrs McArthur	
Ms Copsey	
Ms Purcell	

The question was agreed. Labor's long-term resistance to regular adjustment of stamp duty, indexation for bracket creep, was highlighted by this vote.

At the last state election the Liberals and Nationals called for a temporary increase in the stamp duty concession to allow young Victorians greater access to the housing market.

Recommendation

The writers of this minority report call for the Andrews Labor Government increase the stamp duty concession to $1 million to allow young Victorians greater access to the housing market.

Supporting evidence from witnesses that supports that view includes:.

Matthew Kandelaars – Urban Development Institute of Australia.

"thresholds are set at any given point in time, but our housing market has changed significantly, and housing values, dwelling values, both units and detached homes, have increased markedly in recent times.

So there is a question about whether those thresholds are set at the right levels. I know your question was framed around concessions, but if I look just generally at stamp duty payable – the bracket creep, if you like – the increase in home values has seen stamp duty receipts increase. But certainly in terms of concessions, how meaningful are those concessions and how much of the market do they actually impact? We would of course like to see those thresholds in respect of any concessions offered increased to reflect increased market values and to be able to cut in at a level where as many families as possible could be supported through that."

Mr Steven Wojtkiw, Deputy Executive Director, Victoria, Housing Industry Association.

"Our recommendations range from the indexation of the stamp duty thresholds annually to keep pace with rising median house prices – and you would see an example in our submission, which points out that in 2003 the stamp duty paid on a median-priced property has risen by over 300 per cent since that time. Over that same period of time the average earnings of Victorians have increased by less than 100 per cent, so disposable income is certainly not keeping up with the rise in property prices and the rise in stamp duty that is attached to that."

5. The risk of double taxation

The minority report writers are concerned that in any shift from stamp duty to a broad-based land tax there is the risk of double taxation. In this context the risk of double taxation is that in any planned phase out of stamp duty with the introduction of a replacement land tax that the existing stamp duty is not in fact phased out, with the consequent outcome that both taxes remain in operation.

In essence, the minority reporters do not trust the Andrews Labor government, whatever the theoretical economic justifications, to cut stamp duty in lockstep with increases in land tax. The real risk is that reform simply becomes double taxation with a windfall for a profligate Labor government. No witness could provide assurance to the committee that this perverse and negative outcome would not occur and that prices of homes would not savagely increase due to the double taxation.

In fact, in the only Australian case study – the Australian Capital Territory – it is clear that stamp duty has not been reduced as anticipated and that concerns of double taxation have actually transpired. This risk was not sufficiently highlighted in the report.

Mr Mulholland moved, in Chapter 3, section 3.2.4, in Finding 9 the words 'The phased transition model slowly transitions stamp duty to a new land tax. However, without proper measures there is a risk that new property owners will experience double taxation.' be deleted and replaced by the words '*The phased transition model slowly transitions stamp duty to a new land tax. Several witnesses and submissions raised concerns about double taxation remaining on properties. No witness was able to assure the committee that in that in moving from Land transfer Duty to a broad-based land tax that the community would not end up with both taxes in place and the overall collection of tax increasing*.'.

The question was put.

The Committee divided.

Ayes	Noes
Mr Davis	Ms Purcell
Mr Limbrick	Mr McIntosh
Mr Mulholland	Ms Ermacora
Mrs McArthur	Mr Berger
	Ms Copsey

The question was negatived.

Finding

The failure of the Andrews Labor government to regularly review stamp duty rates and to adjust for bracket creep has made the cost of access to housing greater than it would have been if proper adjustment of brackets had occurred.

Mr Davis moved, that in Chapter 3, section 3.3, after Finding 10 a new recommendation be inserted in the following terms:

That the Victorian Government examines indexation models used in NSW and SA.

The question was put.

The Committee divided.

Ayes	Noes
Mr Davis	Ms Purcell
Ms Broad	Mr Limbrick
Mrs McArthur	Mr McIntosh
	Ms Ermacora
	Mr Berger
	Ms Copsey

The question was negatived.

6. The refusal of the Department of Treasury and Finance to reappear at a hearing following the receipt of other witnesses and evidence

Whilst the report did contain the following words "*The Committee notes that the DTF officers, including the Secretary, declined an invitation to appear at a subsequent public hearing*", the seriousness of DTF's refusal to reappear at the inquiry is a major concern.

The capacity to ask questions of the Secretary and senior officers in open hearing after the receipt of submissions and the hearing of evidence from witnesses should not have been resisted by DTF, what did they have to hide?

7. The need to release modelling of stamp duty, land tax and other options in scenarios already undertaken by DTF and funded by taxpayers

The need to release modelling of stamp duty, land tax and other options in scenarios already undertaken by DTF and funded by taxpayers.

There has been significant modelling undertaken by the Department of Treasury and Finance into changes in the stamp duty/land tax arrangements and other options in scenarios commissioned in consultancy reports that have been funded by taxpayers. A list of 21 documents was provided to the Secretary of the Department of Treasury and Finance, including modelling of land tax and stamp duty options commissioned by DTF and funded by taxpayers undertaken by Deloitte and PriceWaterhouseCoopers.

The majority of the committee resisted highlighting this fact as can be seen below and DTF claimed that all of the documents were Cabinet-In-Confidence. The list of consultancies and modelling already commissioned by government can be found at Appendix 2.

The majority of the committee voted against the release of these documents as can be seen below.

Mr Davis moved, that in Chapter 3, section 3.4.1 after the paragraph commencing 'It is important...' a new recommendation be inserted in the following terms:

The Committee recommends that the State Government provide copies of the 21 documents listed in the sheet provided by Mr Davis to the Secretary of Department of Treasury and Finance, in particular the consultancies and modelling of land tax and stamp duty tax options commissioned by DTF and funded by taxpayers undertaken by Deloitte and Price, Waterhouse Coopers.

The question was put.

The Committee divided.

Ayes	Noes
Mr Davis	Ms Purcell
Mr Limbrick	Mr McIntosh
Ms Broad	Ms Ermacora
Mrs McArthur	Mr Berger
	Ms Copsey

The question was negatived.

Recommendation

At a minimum the Deloitte and PriceWaterhouseCoopers modelling be released publicly.

8. Modelling

Whilst neither the committee nor the minority report endorsed any immediate move from the current stamp duty to a different approach, there was a recognition by the minority that

Treasury could and should undertake modelling of a number of scenarios and release the results publicly to inform public debate. The extract from proceedings can be seen below.

Mr Limbrick moved, that in Chapter 2, section 2.7.1, after Finding 6 a new recommendation be inserted in the following terms:

'*Treasury should model the revenue impact of lowering the stamp duty rate, taking into account the potential increase in transactions at a lower rate.*'

The question was put.

The Committee divided.

Ayes	Noes
Mr Limbrick	Ms Purcell
Mr Davis	Mr McIntosh
Mr Mulholland	Ms Ermacora
Mrs McArthur	Mr Berger
	Ms Copsey

The question was negatived.

9. The Committee rejected any pre-emptory replacement of stamp duty with a broad-based land tax

There was a complex set of votes and decisions made by the committee as it was adopting the report as committee members sought to significantly change or alter the proposed finding and recommendation. The views of the minority can be seen in the sequence that follows. What is clear is that the committee rejected any early or unsophisticated replacement of stamp duty with a broad-based and tax. The minority of the committee was prepared to see further work, including modelling, commissioned by government to be undertaken and was prepared to maintain an open mind on future reform. However, the minority of the committee as can be seen above was concerned about the trend under the Andrews Labor government for:

- Increased taxation on land and homes
- The failure to index stamp duty
- The risk of double taxation whereby a switch to a land tax is not honoured and stamp duty is retained leading to double taxation
- The failure of government to provide sufficient land for release, particularly in a time of high population growth
- The secrecy of the Andrews Labor government in its failure to release taxpayer funded modelling.

Finding

Any future reform options will have to be considered closely in the light of further research and modelling and the transparent release of such research.

Ms Copsey moved, that in Chapter 3, section 3.4, in the paragraph that reads:

The Committee believes that the Victorian Government should advocate for a national approach to reforming stamp duty, noting that it has potential to addressing affordability and accessibility of the housing market at a national level if done so. However, until a commitment at the national level is reached, it is important that the Victorian Government investigate its options for state-based reform by urgently undertaking an investigation into reform options for stamp duty, including assessing whether it should be abolished and replaced with a broad-based land tax.

the text be amended to read:

The Committee believes that the Victorian Government should advocate for a national approach to reforming stamp duty, noting that it has potential to addressing affordability and accessibility of the housing market at a national level if undertaken. However, as there is currently little indication of a commitment to stamp duty reform at the national level the Victorian government should urgently commit to stamp duty reform, replacing stamp duty with a broad based land tax.

Mr Davis moved, that the amendment be amended to read:

The Committee believes that the Victorian Government should investigate reforming stamp duty, noting that it has potential to addressing affordability and accessibility of the housing market.

The question was put.

The Committee divided.

Ayes	Noes
Mr Davis	Ms Purcell
Mr Limbrick	Mr McIntosh
Ms Broad	Ms Ermacora
	Mr Berger
	Ms Copsey
	Mrs McArthur

The question was negatived.

Ms Ermacora moved, that the original amendment be amended by deleting the words:

"The Victorian government should urgently commit to stamp duty reform, replacing stamp duty with a broad-based land tax."

The question was put.

The Committee divided.

Ayes	Noes
Ms Ermacora	Ms Copsey
Mr McIntosh	Mrs McArthur
Mr Berger	
Mr Limbrick	
Mr Davis	
Ms Broad	
Ms Purcell	

The question was agreed by all Committee members except Ms Copsey and Mrs McArthur.

There being no mover for the amended amendment, the amendment moved by Ms Copsey lapsed.

Ms Copsey moved, That in Chapter 3, Section 3.4 the second bullet point in Recommendation 3 be amended to read:

- *given there is little indication of a national commitment to stamp duty reform, urgently commit to state-based reform, abolishing stamp duty and implementing a broad-based land tax as an alternative.*

The question was put.

The Committee divided.

Ayes	Noes
Ms Copsey	Ms Purcell
	Mr Limbrick
	Mr Davis
	Mr McIntosh
	Ms Ermacora
	Mr Berger
	Ms Broad
	Mrs McArthur

The question was negatived with Ms Copsey alone supporting it.

Mr Davis moved, that in Chapter 3, section 3.3, in Finding 10 delete the second sentence in the finding.

The question was put.

The Committee divided.

Ayes	Noes
Mr Limbrick	Ms Purcell
Ms Broad	Mr McIntosh
Mr Davis	Ms Ermacora
Mrs McArthur	Mr Berger
	Ms Copsey

The question was negatived.

It can be seen there was insufficient support for any urgent or pre-emptory move to abolish stamp duty and implement a broad-based land tax as an alternative.

10. Conclusion

The Andrews Labor government has massively increased taxes and charges on land development and homes, pricing many Victorians, particularly younger Victorian, out of the market. It has also failed to index taxes, particularly stamp duty, and has raked in billions of dollars in extra taxation. Labor has also squandered massive amounts of money – more than

$30 billion in cost overruns on major projects – that could have provided relief for Victorian families and home buyers.

We do not believe Labor can be trusted to introduce a broad-based land tax on the family home. We do believe that further transparent and publicly released modelling could inform public debate on additional tax reform options but the massive increase in taxes and scandalous waste under Labor have to stop, although with the recent Commonwealth Games cancellation fiasco and the hundreds and hundreds of millions of dollars squandered, there is little sign that Daniel Andrews and Tim Pallas will change their profligate ways.

The Hon David Davis MP

Evan Mulholland MLC

Appendix 1

Since November 2014, the Andrews Labor Government has now imposed 50 new or increased taxes and charges including:

1. A new stamp duty on property transfers between spouses (2017-18)
2. An increased stamp duty on new cars (2017-18)
3. A new stamp duty on off-the-plan purchasers (2017-18)
4. A new so-called 'vacant home' tax (2017-18)
5. Widening of vacant residential land tax to uninhabitable properties (2019-20)
6. Retrospective increase in insurance duty for overseas-based insurers (2019-20)
7. A new annual property valuation to increase land tax
8. Cladding rectification tax (2019/20)
9. Environment Mitigation Levy
10. Increased luxury car tax (2019-20)
11. Increased land tax for homes with contiguous blocks on a separate title (2019-20)
12. Increased Fire Services Property Levy (2015-16)
13. Increased Fire Services Property Levy (2019-20)
14. A new point of consumption gambling tax
15. A tripling of brown coal royalties (2016-17)
16. Gold mining royalties (2019-20)
17. A new tax on Uber and taxi fares. (2016-17 Update)
18. A new corporate restructure duty (2019-20)
19. Increased foreign stamp duty (2019-20)
20. Increased foreign stamp duty (2016-17)
21. Introduced foreign stamp duty 2015-16)
22. Increased absentee landowner surcharge for foreigner property (2019-20)
23. Increased absentee landowner surcharge for foreigner property (2016-17)
24. Increased absentee landowner surcharge for foreigner property (2015-16))
25. A new city access tax for West Gate Tunnel
26. A new 'on-dock rail' charge on imported shipping containers
27. Increase to the Municipal and Industrial Landfill Levy ('bin tax')
28. Road Occupation Charge on construction companies
29. Number plate tax
30. Electric Vehicle tax

31. A new affordable housing tax (windfall gain tax on rezoned land)
32. Increased land tax on taxable landholdings above $1.8 million
33. Increased stamp duty on property transactions
34. Expanded point of consumption tax on gambling to keno
35. 10 per cent increase to Victorian Government penalty units
36. Expanded land tax on gender-exclusive clubs
37. Mental health payroll tax surcharge
38. Increased wagering and betting tax (2021-2022)
39. Increased Fire Services Property Levy (2021-22)
40. 50 per cent increase to Births, Deaths and Marriages fees
41. Proposed levy on employers to fund 5 days sick leave for casual employees – initially a government-funded trial to be followed up with a new tax after 2 years
42. Narrowing the Land Tax exemption for charitable institutions by harshly insisting that charitable institutions “exclusively” use their land for charitable purposes, otherwise triggering a full Land Tax charge on the entire landholding.
43. Increase to the WorkCover average premium rate
44. Increased payroll tax on businesses (Jobs Tax)
45. Increased land tax on landholdings above $300,000
46. Land tax on landholdings between $50,000 to $300,000 (Rent Tax)
47. Increased absentee landowner surcharge
48. Increased wagering and betting tax (2023-24)
49. Payroll tax on independent schools (Schools Tax)
50. Holiday & tourism tax

Appendix 2

SCHEDULE OF DOCUMENTS

No.	Date	Description
1	24 September 2020	Brief to Treasurer providing an update on land transfer duty/land tax (LTD/LTX) matters
2	September 2020	Draft presentation prepared by the Department of Treasury and Finance (DTF) to brief the Treasurer and Premier on LTD/LTX matters
3	September 2020	Draft submission prepared by DTF - LTD/LTX matters
4	November 2020	Additional information prepared by DTF for the Secretary to provide further context on some of the LTD/LTX matters
5	September 2020	Additional information prepared by DTF to provide further context on some of the LTD/LTX matters
6	June 2020	Presentation prepared by DTF summarising analysis of GST impact modelling of a particular LTD/LTX policy
7	September 2020	Draft presentation prepared by DTF providing an update on fiscal modelling
8	September 2020	Draft presentation prepared by DTF outlining the methodology to determine specific parameters for fiscal modelling
9	September 2020	Draft presentation prepared by DTF outlining alternative policy parameters on LTD/LTX matters
10	July 2020	Presentation prepared by DTF summarising LTD/LTX matters for the purpose of ratings assessments
11	22 June 2020	Draft presentation prepared by DTF providing a range of policy considerations on LTD/LTX matters
12	15 July 2020	Draft presentation prepared by DTF providing a range of policy considerations on LTD/LTX matters
13	24 July 2020	Draft presentation prepared by DTF providing a range of policy considerations on LTD/LTX matters
14	September 2020	Draft presentation prepared by DTF on a range of implementation considerations on the LTD/LTX matters
15	24 July 2020	Draft presentation prepared by DTF providing a range of policy considerations on LTD/LTX matters (Please note that this is a duplicate of Document 13)
16	8 September 2020	Draft presentation prepared by DTF providing a range of policy considerations on LTD/LTX matters
17	25 September 2020	Report prepared by Deloitte Access Economics outlining indirect revenue implications relating to a particular LTD/LTX policy
18	September 2020	Draft presentation prepared by PricewaterhouseCoopers on methodology used to determine specific parameters for fiscal modelling
19	30 April 2021	Draft advice prepared by PricewaterhouseCoopers in relation to the accounting treatment of a particular LTD/LTX policy
20	30 April 2021	Draft advice prepared by PricewaterhouseCoopers in relation to the accounting treatment of a separate LTD/LTX policy
21	30 April 2021	Report prepared by PricewaterhouseCoopers in relation to fiscal model accounting assumptions