

TALKING POINTS:

WHY WE MUST REPLACE STAMP DUTY WITH **LAND TAX**

This brief is for ministers, Government MPs and public-facing government officials faced with the task of defending the stamp-duty-to-land-tax switch.

It firstly summarises the benefits of the switch, secondly addresses common points of opposition, and finally lists additional policy 'sweeteners' if the Government were to adopt a transition design similar to [Prosper's model](#).

SUMMARY: THE SWITCH WILL STRENGTHEN OUR ECONOMY AND BENEFIT WORKING FAMILIES

Stamp duty is a painful tax that hurts young, working families the most and unfairly targets those who need to move. Abolishing stamp duty and expanding land tax will mean young, working families won't be unfairly burdened when they need to upsize or move closer to work. Average homebuyers will be better off.

Stamp duty discourages moving and business investment in land. We are living in cities with inefficiently allocated housing stock and this has negative roll-on effects for our whole economy.

If we make the switch, cities will see more efficient land use, leading to decreased traffic congestion, easier commutes, and a freed-up labor market. Making the switch will give us the productivity boost our economy badly needs to face this economic crisis.

LAND TAX IS **FAIRER**

Stamp Duty hits young, working families when they need to move

Under stamp duty, people who need to upsize, downsize, or move closer to work are the most heavily taxed, subsidising landowners with longer tenure.

The majority of buyers would be better off if they paid land tax instead of stamp duty.

Households in a median priced Melbourne home would only pay less under stamp duty if they stayed for 24 years or more.¹ The average period of ownership is 11.3 years.²

¹ Tim Helm. (2019). *Stamp Duty To Land Tax Designing the Transition*, Prosper Australia Report, https://www.prosper.org.au/wp-content/uploads/2019/07/Designing-the-Transition_Final_Helm.pdf

² <https://www.corelogic.com.au/news/length-home-ownership-continues-rise>

Not only will homeowners who move at an average rate be better off, but the elimination of this moving cost will also allow more frequent moves as desired.

LAND TAX IS BETTER FOR OUR ECONOMY

For every dollar spent in stamp duty, up to an additional \$2.35 in economic activity is lost.³ We can start making that back by switching over to land tax which would add between 9 and 17 billion dollars per annum to our economy.^{4 5} Making the switch will see jobs and wages in homebuilding and related industries flourish. In addition, Land tax will increase the size of our economy, by taxing foreign investors.⁶

Land taxes are a more stable revenue base. Some of the fastest growing sectors of our economy such as health and education are hampered by underfunding. Land tax will help us budget for the future and be more productive by being a more reliable source of revenue.⁷

As stamp duties have increased over time, holding periods of property have grown significantly.⁸ Conversely, abolishing stamp duty will incentivise people to downsize and move closer to work. The improved allocation of housing will help reduce congestion and make housing more affordable.

ADDRESSING OPPOSITION TO REFORM

Why tax the family home?

The family home is already taxed under stamp duty. Land tax will be fairer and especially benefit young families who are most likely to move.

Throughout our lives due to changing circumstances, we move. Perhaps our family is growing, maybe we're chasing opportunities for work or study, or maybe it's time to downsize. When we need to move, it's often unexpected. A growing family pays a much higher stamp duty burden, moving from their property on average every 8-12 years.⁹ This burden should be shared across the community. Replacing stamp duty with land tax will reduce the pain for homeowners who find themselves needing to move.

³ Nassios, J., Madden, J. R., Giesecke, J. A., Dixon, J., Tran, N., Dixon, P., ... & Freebairn, J. (2019). *The economic impact and efficiency of state and federal taxes in Australia*. Centre of Policy Studies (CoPS), Victoria University.

⁴ Productivity Commission. (2017). Shifting the dial: 5 year productivity review. *Inquiry report*, (84).

⁵ Ibid.

⁶ https://treasury.gov.au/sites/default/files/2019-03/c2015-rethink-dp-TWP_combined-online.pdf

⁷ NSW Productivity Commission (2019), *Kickstarting the productivity question*, http://productivity.nsw.gov.au/sites/default/files/2019-10/0709-04_Productivity%20paper_Full%20version-Final-RRR_1.pdf (28)

⁸ Ibid.

⁹ <https://www.corelogic.com.au/news/length-home-ownership-continues-rise>

Rather than paying more tax for needing to move, we'll pay tax based on the value of our location. Our taxes will reflect the benefit we receive from living in our community, including access to public services like schools, hospitals and train stations.

You might pay a premium for a house near a train station, but due to a growing family or new job you need to move a few years later. Under land tax, you will only pay tax for the period of time you benefited from being near that station.

What about income poor, asset rich retirees?

It is relatively simple to design a land tax regime that ensures no one is ever forced from their home due to escalating tax bills.

A well designed land tax with a deferral system could mean that homeowners don't have to pay a cent until the point of sale.

If people can't afford to maintain the cost of their home, it might be time to downsize, and they will be able to do so easily without stamp duty.

What if I've already paid stamp duty?

The Government could implement a credit scheme to ensure the change is fair for people who have paid stamp duty in recent years.

A land tax is just another new tax

In reality, most homeowners already pay tens of thousands of dollars in land tax throughout their lives—it's called stamp duty.

The problem with stamp duty for homeowners is you usually have to borrow the money without the certainty of whether you'll need to move and then pay it again.

Worse still, the people who have to move and who move house due to changing family circumstances, jobs, and other instabilities, are essentially subsidising a small number of landowners with very long tenures.

Land tax for owner-occupiers is a threat to property-owning democracy.

Council rates and land taxes have been around since Australian colonial days and are at the foundation of our successful, merit-based democracy with strong private property rights.

Switching to land tax will tie the tax burden directly to the benefits received, rather than falling on the households who happen to move.

Increasing our reliance on land taxes will mean those who can afford to live in the most desirable locations and benefit most from public infrastructure spending, pay proportionately more. Meanwhile, removing stamp duty will take a brake off the economy, ensuring the tax system is not penalising

workers who are chasing opportunity. The fairness and efficiency of the switch will only be beneficial to our democracy.

Won't farmers be worse off?

Residential land in country areas will be affected. Primary production land will not.

A PATHWAY TO REFORM

The following policy points are excerpts from Prosper's Stamp Duty to Land Tax transition design model which can be accessed [here](#).

Immediate abolition of stamp duty to realise the efficiency benefits without delay.

Credit for recent buyers, to avoid the inequity of double taxation. This credit would be equivalent (in economic terms) to refunding the duty paid by current owners, then retrospectively applying the new LVT.

Tax deferral should be used to alleviate liquidity issues for all taxpayers. Deferral as default at commercial interest rates would make the new land tax act like a 'vendor stamp duty', but without the inequity and most of the inefficiency of the current buyer duty.

A short phase-in of land tax (e.g. over three years) would give current owners (not eligible for a stamp duty credit) time to get used to the idea as land tax is phased in at 25% increments. A tax holiday might encourage prospective buyers to bring their home purchase forward: stimulating turnover, and protecting house prices from the effects of uncertainty.

A time-limited 'opt-out' option to allow prospective buyers to be no worse off under the new scheme. (open for three years). Opt-out makes the transition voluntary for people considering a purchase in the near future. Opt-outs would be exempt from land tax for 20 years.

'Internally funded.' The revenue costs of these policies are funded via a higher land tax rate over a defined transition period, so the overall reform package is budget-neutral. The cost of concessions could be funded with a tax rate of around 0.75% over the first 10 years before reverting to around 0.5% beyond that.