

INQUIRY INTO PROPERTY TAX (FIRST HOME BUYER CHOICE) BILL 2022

Organisation: Australian Housing and Urban Research Institute (AHURi)

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The Director
Portfolio Committee No. 1 – Premier and Finance
Parliament House
Macquarie Street
Sydney NSW 2000

Re: Inquiry into the Property Tax (First Home Buyer Choice) Bill 2022

The Property Tax (First Home Buyer Choice) Bill 2022 would make changes to legislation to enable certain first home buyers to opt to pay an annual property tax rather than stamp duty when purchasing their home.

AHURI has previously provided advice to NSW Treasury on the drafting of this legislation, and provided a comprehensive submission to the consultation paper in late 2020.

AHURI research has demonstrated that stamp duties have negative effects on housing and labour markets and restrict residential mobility, leading to inefficient allocations of housing resources and decreasing housing affordability, and that there would be affordability benefits for home purchasers from moving to a broad-based tax on land.¹

AHURI evidence suggests a disconnect between existing policy settings around land and stamp duty and broader planning policy, with negative consequences for efficiency and productivity.² There are several economic arguments for abolishing stamp duty on home purchase and replacing it with an annual property tax:

- *Improved mobility:*
Stamp duty involves taxing the transaction of properties – this effectively reduces the volume of transactions of properties and penalises mobility, when mobility might be desired by a household.¹ The new policy might better facilitate residential mobility,

¹ Wood et al. (2012) The spatial and distributional impacts of the Henry Review recommendations on stamp duty and land tax, AHURI Final Report No. 182, <https://www.ahuri.edu.au/research/final-reports/182>.

² MacLennan et al. (2015). Making connections: housing, productivity and economic development, AHURI Final Report No. 251, <https://www.ahuri.edu.au/research/final-reports/251>.

which could improve labour market functioning³ and free up changes in land use and relocation of businesses.²

- *Fair allocation of resources:*
Relative to stamp duty, land tax is more likely to benefit those who are relatively less wealthy than those who are more so.¹
- *Efficient resource allocation:*
Stamp duty is an inefficient tax as it is subject to housing market volatility, contributes to underutilisation of stock⁴ and reduces the incentive to downsize.³
- *Affordability benefits:*
At present, stamp duty adds to the cost of purchase, undermining affordability for purchasers. Although removing stamp duty might improve borrowing capacity of purchasers (enabling buyers to bid higher prices for properties), in most cases it would likely reduce overall cost of purchase. Economic theory suggests the imposition of a land tax would mean owners receive lower net benefits ('after-tax rents') from the land. This is capitalised into lower land prices, with the value of land falling by the discounted present value of the future stream of tax liabilities. Modelling suggests this would reduce the up-front cost of purchasing a home, thereby improving access, though longer-term tax burdens affect the holder of land.¹

A range of principles would need to be considered in evaluating the consumer choice approach as a public policy – including efficiency, equity and administrative simplicity.

Because both state and local governments impose property taxes, policies around property taxation should optimally be coordinated at a national level and between states and local government, as they are in other countries.⁴ Previous AHURI research outlined a range of proposals to improve administrative arrangements around collection of property taxes.⁴

Modelling by AHURI suggests that, 'a broad-based land tax is shifted to landowners who receive lower after-tax rents that are in turn capitalised into lower land values.'¹ The one-off declines in land values would be greater in inner city areas (up to 12 per cent) and lower in outer areas (8 per cent or less). This modelling did not include the effects of not paying stamp duty (which might be expected to also reduce costs for purchasers).

The legislation's proposed approach, to adopt 'grandfathering' - in which the broad-based tax is introduced when the landowner next makes a purchase (i.e. of a property on which they have not

³ Whelan et al. (2017) Housing tenure, mobility and labour market behaviour, AHURI Final Report No. 280, <https://www.ahuri.edu.au/research/final-reports/280>, doi:10.18408/ahuri-7307101.

⁴ Eccleston et al. (2018) Pathways to housing tax reform, AHURI Final Report No. 301, <https://www.ahuri.edu.au/research/final-reports/301>, doi:10.18408/ahuri-4111001

paid stamp duty) – puts first and second home owners on an even footing.¹ A gradual or opt-in approach would have merit.⁴

A key issue to consider is the impact that the proposal might have on retirees including those who wish to downsize their homes, and those who become income poor in retirement. AHURI research finds that stamp duty can create disincentives for older homeowners (e.g. ‘empty nesters’) to downsize into lower value homes: stamp duty on downsizing eats into 8–10 per cent of the housing equity that older homeowners release. When legal costs and moving costs are added into this equation, the average owner forgoes more than 10 per cent of the equity they hope to release by downsizing. The removal of stamp duty has potential to reduce this disincentive, but there would need to be sufficient supply responses also, to provide suitable housing to downsize into, and consideration of the risks these moves might bring for a group that also require secure housing.⁵

As a final note, I would emphasise the importance of evaluating the impact of this legislation on consumer behaviour and housing prices. Other Australian jurisdictions are likely to consider similar reforms in future years, and evidence collected from the NSW approach would be invaluable in ensuring that optimal approaches are implemented.

I look forward to speaking with the Committee at the hearing scheduled for 27 October 2022, and would be happy to provide any further assistance.

Yours sincerely,

Dr Michael Fotheringham
Managing Director

⁵ Ong et al. (2013) Housing equity withdrawal: uses, risks, and barriers to alternative mechanisms in later life, AHURI Final Report No. 217, <https://www.ahuri.edu.au/research/final-reports/217>