Master Builders Association of SA

Stamp Duty and State Government Taxation Review

Executive Summary

The Master Builders Association of SA has commissioned Hudson Howells to undertake a review of South Australian Stamp Duty incorporating:

- The Financial and Economic Impacts of Stamp Duty Exemptions on New House/Land Packages.
- State Taxation Generated from the Housing Sector in South Australia associated with a potential Stamp Duty reduction.

The focus for this review is stamp duty on new housing and the impact that a reduction in stamp duty will have on new housing construction and State Government taxation.

A range of reviews and studies over the past 10 years have all concluded that stamp duty is a highly inefficient tax that distorts the supply and demand balance for new housing and is a major impediment to economic growth.

This report provides estimates of the financial and economic impacts of the State Government providing Stamp Duty exemptions on **new house/land packages** offered for sale in South Australia. These estimates are based on a range of financial and economic assumptions detailed in this report and are undertaken at two new house/land price points being:

- $650,000 – Comparable with recent stamp duty reductions in New South Wales and Victoria.
- $470,000 – The current metropolitan Adelaide median price[1].

Based on a range of assumptions and estimates contained in this report, Hudson Howells has assessed the potential financial and economic impacts of Stamp Duty exemptions on new house/land packages in Adelaide for 1,000 houses (low case scenario), 1,500 houses (medium case scenario) and 1,960 houses (high case scenario) with the following estimated results:

[1] Source: www.sa.gov.au

Summary of Financial and Economic Modelling – Low Case Scenario		
House Price	$650,000	$470,000
Additional Houses Constructed	1,000	1,000
Additional FTE Jobs	4,693	3,393
Additional Payroll Tax Received	$17,508,482	$11,758,131
Additional Land Tax Received	$70,250	$25,250
Additional GST Received	$35,454,042	$25,636,000
Stamp Duty Lost	$29,580,000	$19,830,000
Net State Government Gain	**$23,452,774**	**$17,589,381**

Summary of Financial and Economic Modelling – Medium Case Scenario		
House Price	$650,000	$470,000
Additional Houses Constructed	1,500	1,500
Additional FTE Jobs	7,040	5,090
Additional Payroll Tax Received	$26,262,724	$17,637,197
Additional Land Tax Received	$105,375	$37,875
Additional GST Received	$53,181,063	$38,453,999
Stamp Duty Lost	$44,370,000	$29,745,000
Net State Government Gain	**$35,179,162**	**$26,384,071**

Summary of Financial and Economic Modelling – High Case Scenario		
House Price	$650,000	$470,000
Additional Houses Constructed	1,960	1,960
Additional FTE Jobs	9,198	4,693
Additional Payroll Tax Received	$34,316,626	$23,045,937
Additional Land Tax Received	$137,690	$49,490
Additional GST Received	$69,489,922	$50,246,559
Stamp Duty Lost	$57,976,800	$38,866,800
Net State Government Gain	**$45,967,438**	**$34,475,186**

It must be noted that the above estimates assume an appropriate **supply response** to the abolition of Stamp Duty on new house/land packages without which there could be substantial upward pressure on prices (increased demand without a supply response) and there would be a likely net cost to the community associated with the stamp duty lost. It is also highlighted that it is assumed that the South Australian economy has the spare capacity and under-employment to take up the additional FTE jobs and that the additional housing construction does not divert resources from other State projects.

It should also be noted that the above results do not include additional Council rate benefits that will accrue to local government as a result of the additional housing.

In conclusion, a range of reviews and studies over the past 10 years have all concluded that stamp duty is a highly inefficient tax that distorts the supply and demand balance for new housing, is a disincentive for new house buyers (and existing) and is a major impediment to economic growth.

Provided that there is an appropriate supply and regulatory response, as detailed above there are potentially significant financial and economic benefits that will accrue to the community through the application of stamp duty exemptions on new house/land purchases.

In summary, it is therefore concluded that:

- All reviews of stamp duty economic impacts conclude that it is an inefficient and bad tax in the context of options available to governments.

- It impacts housing affordability for new home buyers, including the upfront price demand impacts and the ongoing financing over the term of a loan.

- It hinders mobility in the market.

- Stamp duty exemptions and/or concessions on new housing in South Australia will increase demand and supply of new housing with consequent socio-economic impacts of increased Gross State Product, net State Government financial gains and associated jobs from 3,400 FTEs up to 9,200 FTEs in the High Case Scenario.

Introduction

The Master Builders Association of SA has commissioned Hudson Howells to undertake a review of South Australian Stamp Duty incorporating:

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The focus for this review is stamp duty on new housing and the impact that a reduction in stamp duty will have on new housing construction and State Government taxation.

The Current Situation

The largest state taxation liability when purchasing a new home is stamp duty, which is incurred on the transfer of the property to the purchaser. The amount of stamp duty is assessed on the purchase price or the market value of the property at the date of settlement, whichever is the greater. The stamp duty must be paid in order for the purchaser to be registered as the owner on the Certificate of Title for the property with the South Australian Land Services Group.

Foreign Purchasers who acquire residential land in South Australia from 1 January 2018 are required to pay a stamp duty surcharge.

Most transfers of land are charged as detailed below. A number of concessions are detailed in the Stamp Duties Act 1923 (for example, the purchase of an off-the-plan apartment which meets certain criteria), and other conveyances may be exempt (for example, transfers from an estate of a deceased person to a beneficiary under the will).

The stamp duty rates for conveyances are shown below.

Table 1 – Current South Australian Stamp Duty Rates

Where value of the property conveyed	Amount of Duty
Does not exceed $12,000	$1.00 for every $100 or part of $100
Exceeds $12,000 but not $30,000	$120 plus $2.00 for every $100 or part of $100 over $12,000
Exceeds $30,000 but not $50,000	$480 plus $3.00 for every $100 or part of $100 over $30,000
Exceeds $50,000 but not $100,000	$1,080 plus $3.50 for every $100 or part of $100 over $50,000
Exceeds $100,000 but not $200,000	$2,830 plus $4.00 for every $100 or part of $100 over $100,000
Exceeds $200,000 but not $250,000	$6,830 plus $4.25 for every $100 or part of $100 over $200,000
Exceeds $250,000 but not $300,000	$8,955 plus $4.75 for every $100 or part of $100 over $250,000
Exceeds $300,000 but not $500,000	$11,330 plus $5.00 for every $100 or part of $100 over $300,000
Exceeds $500,000	$21,330 plus $5.50 for every $100 or part of $100 over $500,000

Literature Review

Stamp duties on new and existing house purchases have been the subject of many reviews and enquiries over the last 10 years with most concluding that stamp duties increase the cost of buying a house, prevent mobility results in an inefficient use of housing stock and has no role in the future taxation landscape.

Stamp duty is decided by separate state and territory governments, rather than the Federal Government, so current rates and concessions vary between states. In **New South Wales** for example, stamp duty concessions are available for first-time buyers of new homes with a full exemption for a home valued up to $550,000 and concessional rates for new homes valued between $550,000 and $650,000. In **Victoria**, from July 1, 2017 first-home buyers who purchase a new or established home worth up to $600,000 don't pay stamp duty as long as they live at the property for at least 12 months.

The only jurisdiction currently phasing out housing stamp duty is the **ACT Government** which has moved away from stamp duties to taxes based on land value. Specifically, it is phasing out stamp duties over a 20 year period, and replacing these with higher general rates for residents and commercial properties.

Most recently, the **August 2017 Australian Government Productivity Commission 5 Year Productivity Review**[2] (Shifting the Deal) concluded that:

> *Stamp duties prevent mobility and efficient use of the housing stock. Stamp duties on residential property add to the price of houses, and can discourage people from moving to locations that may be closer to preferred jobs, family networks and schools. This can result in increased commuting times and costs and the potential effects on mobility become more accentuated the greater are the frictions of moving between work and home, and stamp duties on residential property can discourage people from downsizing and encourage over-investment in upgrading property. All of these factors result in the retention of land for relatively unproductive purposes.*
>
> *The impacts of these costs on community welfare are significant. A recent Treasury working paper estimated that each additional dollar collected by way of stamp duties on residential property reduces the living standards of Australian households by 72 cents in the long run due to the lower investment and mobility effects.*

In reporting on the 2017 Productivity Commission's 5 Year Productivity Review, the Australian Financial Review stated that[3]:

> *Implementing the Productivity Commission's recommendation to scrap stamp duty would increase housing affordability and boost transactions, cutting the average holding time of a house from 13 to eight years, according to the property industry.*

[2] Australian Government Productivity Commission, Shifting the Deal, 5 Year Productivity Review, p. 150
[3] Australian Financial Review, 24th October 2017

The Australian Financial Review also commented on **Deloitte Access Economics** research commissioned by the **Property Council of Australia** which suggests *swapping residential stamp duty for a land tax would provide a $3.3 billion boost to GDP but, with an average cost to households of about $2,360 a year, is not politically feasible.* In the same article it was reported that the **Urban Development Institute of Australia** said first homebuyers in Sydney, after saving an average of eight years for a deposit, face up to $30,000 in upfront stamp duty costs (even with the current first home buyer discount). *One third of the costs of a new home is government taxes, levies and charges; removing stamp duty would increase development of new homes and improve affordability*.

While the current literature and studies strongly support the removal of stamp duties on house/land transactions, as far back as 2008, the **Henry Tax Review** (Australia's Future Tax System Review), commissioned by the Rudd Government and published in 2010 also sought the removal of stamp duties:

> *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*.

The **Henry Tax Review** goes on to state:

> *While removing stamp duty would lead to more equitable and efficient outcomes, it would create a substantial hole in State revenues. As discussed in greater detail in Section G2 State tax reform, this shortfall should be met though increased reliance on more efficient State taxes. The Australian government should consider facilitating a transition away from stamp duties, reflecting the national benefit of reforms to State taxes and the quality of the Australian government tax bases. Another option is to reduce stamp duties incrementally, including capping the maximum rate, possibly as part of an intergovernmental agreement.*

In January 2013, the Australian **Housing Industry Association** commissioned the **Centre for International Economics** to review **Taxation Generated from the Housing Sector** which concluded that[4]:

- New housing is one of the most heavily taxed sectors of the South Australian economy in both aggregate and relative terms, and the most highly taxed after gaming.
- The majority of taxes, particularly state taxes, on housing are highly inefficient.
- The taxation burden on new housing falls largely on home buyers.
- Some housing taxes, such as stamp duty, are major impediments to labour mobility and productivity and holding back development of the South Australian economy, impacting on its capacity to attract capital, people and to sustain growth.

[4] Centre for International Economics, Taxation Generated from the Housing Sector, January 2013

In its review of the CIE Report on behalf of the HIA (SA), **Hudson Howells** agreed with these core conclusions highlighting that only a small component housing taxes represents any type of fee for service, and therefore the current tax on houses is likely to be inefficient as it could distort the equality between the demand price and supply price for housing, and therefore the efficient allocation of resources such as labour and other inputs. This is supported by the HIA report which found that many of the taxes are economically inefficient by, for example, shifting labour from housing to other sectors not taxed as heavily[5]. The HIA also concluded that the tax on housing is:

- Disproportionately high (compared with taxes on other sectors).
- Recurring and taxed more than once (e.g. Stamp Duty on every transfer).
- Exacerbated by interest paid on mortgages to cover taxes.

So in summary, a range of reviews and studies over the past 10 years have all concluded that stamp duty is a highly inefficient tax that distorts the supply and demand balance for new housing and is a major impediment to economic growth.

Review of Victorian Stamp Duty Concessions

As noted above, in Victoria, from July 1, 2017 first-home buyers who purchase a new or established home worth up to $600,000 don't pay stamp duty as long as they live at the property for at least 12 months. There are also stamp duty discounts offered on a sliding scale for first-time buyers who purchase a property between $600,000 – $750,000. The exemption and concession for first home buyers apply to both new and established homes under $750,000.

In response to this initiative, the Victorian UDIA assessed the impacts of the initiative in a recent report (**Detailed Impact Assessment Homes for Victorians Strategy, April 2017**) and issued the following statement:

> *We welcome State Government's efforts to preference home buyers, however we are concerned there may be a rapid increase in demand for established housing products at the lower end of the market, without enough being done to boost supply, which is the key to keeping house prices overall at a reasonable level in the medium to long-term.*

While the Victorian UDIA expressed its general concern regarding the potential for increased prices at the lower end of the market, it should be noted that this could apply specifically to the new home market should there be a limited supply response to increased demand associated with lower stamp duties. This is noted by the UDIA in assessing the positive and negative impacts of the move on the market including:

- Increased demand for new housing product.

[5] Hudson Howells, Comments on the HIA CIE Report, 2013

- Increased supply growth (number of new houses constructed) within new housing product areas and/or price increases depending on government and industry's ability to increase supply.

- Increased demand for existing dwellings within outer suburbs with prices below $750,000.

- Increases to the median house prices within Melbourne suburbs (due to increased demand).

In addressing these impacts of the Homes for Victorians package, the UDIA urges the Victorian Government to amend the eligibility for exemptions and concessions for stamp duty to only allow exemptions and concessions to be applied to the purchase of new housing.

In assessing the impacts of the **Homes for Victoria Strategy**, the UDIA highlights the following:

- Based on the profile of first home buyers and the median house prices in Melbourne, the proposed abolishment of stamp duty for FHB will likely result in demand increasing for large 3 – 4 bedroom housing in the new estates built in the growth areas or existing 2 – 3 bedroom houses in the outer suburbs.

- An increased demand for sub-$750,000 existing housing within the middle and outer suburbs will likely lead to an increase in prices within the middle and outer established suburbs due to a limited number of stock in these suburbs below $750,000. This will lead to a quick decrease in the amount of housing available to FHB seeking to utilise new exemptions and concessions. Prior to the commencement of the FHB exemption and concessions, some buyers may be able to take advantage in a drop in the demand from FHB when the vendor needs to sell now rather than after the concessions come into place.

- As demand for sub-$750,000 houses within established suburbs increases prices, the proportion of dwellings that qualify for the FHB stamp duty exemptions and concessions will reduce. This will not only impact FHB but the market overall as the growth in median house prices influences the rest of the market's perception on house prices. Further demand from FHB will be directed towards the new housing product land market which is currently struggling to produce new lots with post-PSP timeframes estimated to take approximately 12 – 34 months (approval conditions: 6 to 24 months; construction to title: 6 to 10 months).

- To maintain affordable prices, the increased demand within the new housing product land market will need to be met with significantly reduced planning and engineering approval and compliance processes. Failing to reduce timeframes to the post-PSP processes will lead to further price increases which will severely undermine Melbourne's competitive national advantage for affordable house and land packages.

- Focusing on new vs existing property does not increase demand for a limited product and instead shifts demand towards the supply of new dwelling. The added benefit of this economic activity should positively impact the State Government's revenue base. Any potential price increase in new stock can be avoided by ensuring policy settings are in place that facilitates adequate supply of new housing and reduces the risk and cost associated with delivering new stock. Unlike existing dwellings, government can take measures that will ensure FHB demand is met with supply. As the price of housing increases over time, the availability of housing stock within the exemption and concessions threshold will decrease. As such, the thresholds should be adjusted annually to median price increases.

The above findings are critically important for consideration of stamp duty changes in South Australia and any recommendations being formulated by the Master Builders Association and industry for submission to the State Government.

While this paper and implications focus on stamp duty concessions for new housing, it is important to note that the Victorian exemption and concession for first home buyers apply to both new and established homes under $750,000. Based on the above discussion and the Victorian situation, South Australia could expect 2 key impacts should exemptions and concessions be applied to first home buyers of new properties only:

- Increased demand for new housing product.
- Increased supply growth (number of new houses constructed) within new housing product and/or price increases depending on government and industry's ability to increase supply.

A supply response in South Australia would be an important response to ensure that stamp duty exemptions or concessions do not lead to increasing prices and reduced housing affordability.

Financial and Economic Impact – Proposed South Australian Stamp Duty Exemptions

Efficiently operating property markets can be weakened by market failures which can include, for example:

- Taxation treatments, including distorting levels of stamp duty (which deter changes of ownership).
- Lower taxes on capital gains (and none on own residences).
- Negative gearing.

It is also important to note that any cost disadvantages to the new house purchaser, such as stamp duty, are internalised into a market decision, and become policy and planning irrelevant. In effect, stamp duty acts as a disincentive and barrier to first house buyers getting into the housing market.

This section of the report provides estimates of the financial and economic impacts of the State Government providing Stamp Duty exemptions on **new house/land packages** offered for sale in South Australia. These estimates are based on a range of financial and economic assumptions detailed in this report and are undertaken at two new house/land price points being:

- $650,000 – Comparable with recent stamp duty reductions in New South Wales and Victoria.

- $470,000 – The current metropolitan Adelaide median price[6].

It is important to note in the context of this study that all industry sectors pay taxes, and that the provision of government services depends to a large extent on these tax revenues. There are two very important questions regarding industry tax incidence – what is the level of the tax and to what extent does it create resource distortions and negative economic impacts – the subjects of this section of the report.

The following key assumptions are made in estimating the financial and economic impacts of the State Government providing Stamp Duty exemptions on new house/land packages offered for sale at $650,000 and $470,000 respectively:

- Stamp duty exemptions will apply to 1,000 new house/land packages per annum.

- There is a conservative, or **Low Case Scenario**, market supply response of 1,000 additional houses constructed per annum and there is no transfer from established house sales. This is consistent with the market responses in Victoria and New South Wales where the number of first home buyer dwellings financed increased by approximately 770 (34.95%) and 990 (73.6%) per month respectively during 2017/18 following the recent stamp duty reductions[7]. Based on 5,600 first home buyer dwellings financed in South Australia during 2017/18, a similar response to Victoria (34.95%) would result in approximately 1,960 new dwellings financed.

- Stamp Duty on the sale of a new house/land property is calculated using the Revenue SA tax calculator (as detailed above) and estimated to be $29,580 and $19,830 for $650,000 and $470,000 houses respectively.

- GST is assumed to be applied at a rate of 10%, but has 10% deducted on the costs of inputs including development costs and materials. The following broad cost assumptions are made based on industry standards[8]:

House Price	$650,000	$470,000
GST Component	$59,090	$42,727
Development Costs (12%)	$78,000	$56,400
Materials (28%)	$182,000	$131,600
Net GST Paid (5.45%)	$35,454	$25,636

- It is further conservatively assumed that South Australia's share of the additional net GST receipts is 100% (SA's GST share per dollar raised is estimated to be $1.47 in 2018/19).

- Land tax on rental properties costing $650,000 and $470,000 is calculated in accordance with using Revenue SA calculator and is $1,405 and $505 respectively. It is assumed that the rental market is 5% of the new housing stock.

6 Source: www.sa.gov.au
7 Source: Data supplied by the Master Builders Association based on ABS Cat No. 5609.0, Housing Finance, June 2018
8 Source: Industry Representatives

- It is assumed that businesses involved in new house construction pay Payroll Tax at the rate of 4.95% and that the average wage in South Australia is $75,369[9].

- Based on Hudson Howells Input Output Tables for South Australia, 3,393 and 4,693 full time equivalent jobs are generated (direct and indirect or multiplier impact) in one year by the additional economic activity associated with the market supply response of an additional 1,000 new houses at $470,000 and $650,000 respectively. It is assumed that the South Australian economy has the spare capacity and under-employment to take up these jobs and that the additional housing construction does not divert resources from other State projects.

The following table summarises the results of the financial and economic modelling associated with abolishing stamp duty for houses valued at $650,000 and $470,000 respectively:

Summary of Financial and Economic Modelling – Low Case Scenario		
House Price	$650,000	$470,000
Additional Houses Constructed	1,000	1,000
Additional FTE Jobs	4,693	3,393
Additional Payroll Tax Received	$17,508,482	$11,758,131
Additional Land Tax Received	$70,250	$25,250
Additional GST Received	$35,454,042	$25,636,000
Stamp Duty Lost	$29,580,000	$19,830,000
Net State Government Gain	**$23,452,774**	**$17,589,381**

As noted above, this analysis is based on a conservative market supply response of 1,000 additional houses constructed per annum. Based on the Victorian and New South Wales responses, this is considered a **Low Case Scenario** reaction to stamp duty exemptions up to the assessed house prices. A similar response to Victoria (34.95%) would result in approximately 1,960 new dwellings financed per annum. **Medium and High Case Scenarios** of 1,500 and 1,960 additional houses per annum have therefore also been modelled and are summarised in the following tables:

Summary of Financial and Economic Modelling – Medium Case Scenario		
House Price	$650,000	$470,000
Additional Houses Constructed	1,500	1,500
Additional FTE Jobs	7,040	5,090
Additional Payroll Tax Received	$26,262,724	$17,637,197
Additional Land Tax Received	$105,375	$37,875
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Stamp Duty Lost	$44,370,000	$29,745,000
Net State Government Gain	**$35,179,162**	**$26,384,071**

[9] Source: www.living-australia.com/salaries

Summary of Financial and Economic Modelling – High Case Scenario		
House Price	$650,000	$470,000
Additional Houses Constructed	1,960	1,960
Additional FTE Jobs	9,198	4,693
Additional Payroll Tax Received	$34,316,626	$23,045,937
Additional Land Tax Received	$137,690	$49,490
Additional GST Received	$69,489,922	$50,246,559
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It must be noted that the above estimates assume an appropriate **supply response** to the abolition of Stamp Duty on new house/land packages without which there could be substantial upward pressure on prices (increased demand without a supply response) and there would be a likely net cost to the community associated with the stamp duty lost. It is also again highlighted that it is assumed that the South Australian economy has the spare capacity and under-employment to take up the additional FTE jobs and that the additional housing construction does not divert resources from other State projects. This is currently the case in South Australia with employment growth slowing and building approvals in decline (down from 726 in October 2017 to 600 in October 2018).

It should also be noted that the above results do not include additional Council rate benefits that will accrue to local government as a result of the additional housing.

Conclusion

In conclusion, a range of reviews and studies over the past 10 years have all concluded that stamp duty is a highly inefficient tax that distorts the supply and demand balance for new housing, is a disincentive for new house buyers (and existing) and is a major impediment to economic growth.

Provided that there is an appropriate supply and regulatory response, as detailed above there are potentially significant financial and economic benefits that will accrue to the community through the application of stamp duty exemptions on new house/land purchases.

In summary, it is therefore concluded that:

- All reviews of stamp duty economic impacts conclude that it is an inefficient and bad tax in the context of options available to governments.
- It impacts housing affordability for new home buyers, including the upfront price demand impacts and the ongoing financing over the term of a loan.
- It hinders mobility in the market.
- Stamp duty exemptions and/or concessions on new housing in South Australia will increase demand and supply of new housing with consequent socio-economic impacts of increased Gross State Product, net State Government financial gains and associated jobs from 3,400 FTEs up to 9,200 FTEs in the High Case Scenario.