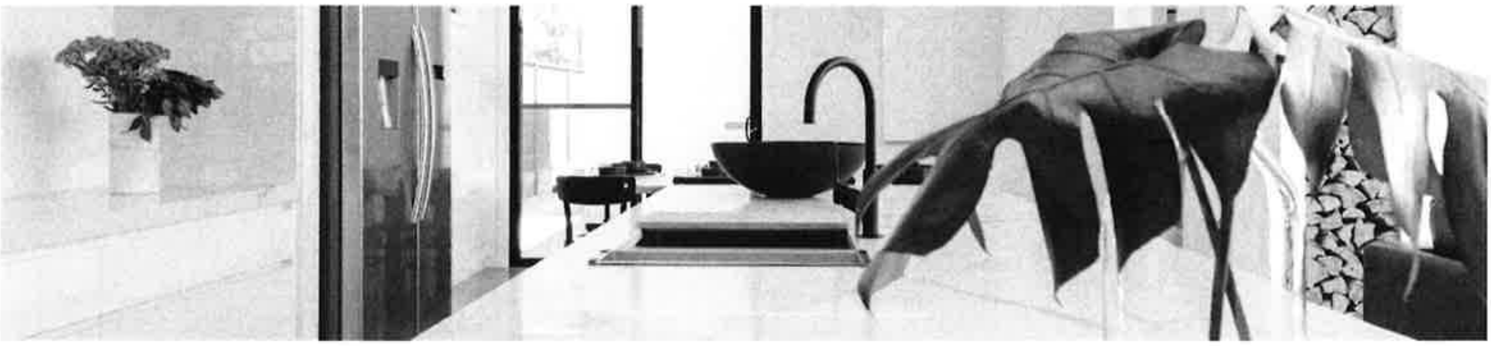

From the Editor Industry News NSW Real Estate Industry News

# Thodey report recommends land tax, not stamp duty

Samantha McLean • July 1, 2020 4 minutes read



**NSW stamp duty should be replaced by land tax, according to a recommendation of the Thodey Report, which was released today.**

Instigated in 2019 by NSW Treasurer Dominic Perrottet and chaired by former Telstra Boss David Thodey, one of the draft report's key recommendations is that broad-based land tax is more efficient and equitable than transfer duty.

"The transition should be managed with the support of detailed distributional and financial modelling and public communication and consultation, so that the transition is fair, efficient and minimises the amount of revenue foregone," the report noted.

"In consultation with other state Governments, the NSW Government should seek assurance from the Commonwealth that it will not be disadvantaged with a lower GST share as a result of undertaking major productivity-enhancing tax reforms such as replacing transfer duty with a broad-based land tax."



The land tax recommendation comes amidst further proposals that GST should be broadened and its rate lifted above 10 per cent.

On the issue of stamp duty, the report notes the transfer tax has provided an unreliable and unpredictable source of revenue in recent years.

"Since the last major cycle of tax reform two decades ago, property markets have boomed and transfer duty (stamp duty on conveyances) has assumed a new order of importance in state budgets," the report notes.

"The NSW Government raised around $7 billion, or 24 per cent, of annual tax revenue from transfer duty in 2018-19, making it the state's second largest source of tax revenue. Only Victoria raises more as a share of state taxation.

"But the volatility of revenue collections, alongside fast growth, has made it difficult for states to manage their budgets.

"At the height of the property market boom in 2017-18, New South Wales raised almost 28 per cent of taxation revenue from transfer duty – one third greater than a decade prior – before revenue dropped by 14 per cent the following year.

"Change has been rapid and unpredictable: a $7.2 billion write-down of four-year forecast revenue in the 2018-19 NSW Budget, for instance, was followed by a $4 billion upwards revision in late 2019 as the market recovered (before the COVID-19 pandemic)."

Meanwhile, the report also argues transfer duty is a tax footed by few for the benefit of many.

"There were 2.8 million properties in New South Wales in 2018-19, but less than 200,000 of their owners contributed to the funding of essential services via transfer duty. Only one in 20 carried the burden of paying for the schools, roads, hospitals and other services that gave all properties their value," the report states.

It further notes some 26 per cent of owner-occupiers had remained in the same property for at least 20 years.

"Most of these people have benefitted not only from the services provided by the state over that time but also from a once-in-a-generation land price windfall.

"In exchange for these gains, they have contributed very little towards essential services and critical infrastructure via property taxation.

"Others who have moved to find a job, to be closer to schools, or to match housing size to their family situation – including young buyers without the financial means or parental support to buy their 'once-and-forever' house early in life – have picked up the tab. This approach just doesn't seem fair."

Instead, the report argues land tax would see the burden shared more widely, and could also improve housing affordability.

"The increase in purchasing power of prospective buyers from abolishing transfer duty would be offset by the new annual land tax bills, which would be capitalised into property values," the report argues.

"In the long run, a better allocation of the housing stock may lead to lower prices. Abolishing transfer duty also removes some of the barriers to home ownership by lowering the deposit hurdle."

Ultimately the report argued a shift to land tax would be useful in an era of recovery.

"Australia is likely to see significant economic restructuring, with themes of domestic resilience, diversification, reduced global integration, and new ways of working driving expansion of some sectors and contraction of others," the report stated.

"These transformations will require reshaping of land-use, which can be facilitated by removing the additional costs of moving or transferring property.

"A broad-based land tax is the best instrument for this task, and a transfer duty to land tax switch would establish the right settings for fiscal recovery and long-term growth. By committing to this now, states would provide lead time for design, consultation and implementation before the task of rebuilding budgets begins in earnest."

## A welcome perspective

The Property Council of Australia has cautiously welcomed the Thodey Report, but notes it limits the prospect of meaningful reform by ruling out an enhanced GST as the mechanism to remove stamp duty and therefore boost the economy.

"Tax reform and how we fund the federation have always been important issues, but the impact of COVID-19 and the need for economic recovery brings a heightened sense of urgency to this conversation," Chief Executive of the Property Council of Australia, Ken Morrison said.

"The Property Council welcomes today's release of the Thodey Report on these issues and we congratulate NSW Treasurer Dominic Perrottet for commissioning this review and seeking to lead this debate.

"The report correctly singles out stamp duty on property transactions as a tax that is highly distortionary, harms the economy, worsens housing affordability and provides a roller coaster revenue stream for governments.

"Clearly the abolition of stamp duty – universally acknowledged as the most harmful tax within Australia – must be front and centre of any meaningful tax reform effort.

"However, the proposed remedy of replacing stamp duty with a broad-based land tax is potentially problematic and needs much more careful consideration.

"There is a compelling case for the GST to do much more of the heavy lifting in providing state and territory governments with the revenue they require, as well as enable the abolition of bad taxes such as stamp duty.

"This was one of the original intentions of the GST when it was introduced 20 years ago, with all state and territory governments promising to abolish commercial stamp duties in exchange for this revenue. Sadly, only South Australia has done so.

"The Henry Tax Review also recommended using an expanded or higher GST as one of two options to facilitate the abolition of all stamp duty, a fact that is not acknowledged in the Thodey Report.

"The Thodey Report explores many issues associated with its preferred model of replacing stamp duty with a larger and broader land tax, but it ignores the key question of how high a new land tax would need to be to offset lost stamp duty revenues.

"This is the key challenge with this reform proposal and we need only look to the ACT's experience to see why.

"After eight years of notionally working to abolish stamp duty, the ACT Government has only reduced stamp duty revenues by 1 per cent – hardly a successful model for abolishing this tax.

"Over the same period, the overall property tax revenues (stamp duty, land tax and general rates) have increased by 71 per cent.

"The ACT also demonstrates the risks for business in such a tax swap idea. In the ACT, even medium-sized business properties pay commercial rates of over 5 per cent annually. That's a stamp duty-sized tax every year for owning a commercial property, as well as full stamp duty when a property is purchased.

"Business already pays high rates of land tax and is rightly weary of proposals that would see this increased further.

"There is no doubt that we need a reform pathway to retire stamp duty. A stronger GST should be kept on the table as a mechanism to deliver this outcome.

"The Thodey Report is a good conversation starter, but risks missing the opportunity for real reform by dismissing this option," Mr Morrison said.



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**davidsinger** • 21 hours ago

About time there was a broad based Property Owners State Tax (POST) to replace stamp duty and land tax.
I made that exact proposal to the Henry Review a decade ago.
My proposal was novel however because POST used annual council rates notices issued on each owner's property - not the VG property's land value - as the basis of assessing each owner's liability for POST.
Land values are subject to huge fluctuations based on a valuer's opinion compared to council rate notices which are generally capped to annual increases in CPI.
An Ombudsman's Inquiry I managed to force in 2005 showed how unreliable the States Land Valuation Register was as a result of using the mass value system of assessing properties in large groups and not individually.
POST would raise to the dollar exactly the amount budgeted for annually by the Government to replace foregone stamp duty and land tax. It is transparent and easily understood by land owners.
Rises or falls in property values would not affect the amount budgeted for by Government.
This would be one area of budgeting where certainty would replace Treasury guesstimates which have invariably proved wrong at the end of the financial year. These guesstimates have mainly resulted in substantial overcollection of stamp duty and land tax but there have also been shortfalls in the amounts collected.
I have volunteered my services for free in asking a number of NSW Governments to do some modelling of POST but they have refused.
Regrettably my idea has again been passed over and land values - not rate assessments - seem set to be retained as the basis of assessment of the new tax.
Owners and buyers beware - the Government will be ripping you off big time if this new tax - based on land values - ever sees the light of day.
Consider these two cases from the Walton Report 1999:
1. "Mrs X focuses on the fact that her land tax liability went from $6535 to