



Pathways to state property tax reform

Inquiry into pathways to housing tax reform

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Contents

List of tables	vii
List of figures	ix
List of boxes	x
Acronyms and abbreviations used in this report	xi
Executive summary	1
1 Introduction	8
1.1 Why this research was conducted	9
1.2 Policy context	10
1.2.1 Housing affordability challenges	10
1.2.2 Tax policy influence on housing markets	12
1.2.3 Arguments for reform	13
1.2.4 Political barriers to reform	13
1.3 Existing research	15
1.4 Research methods	16
1.4.1 Policy review	16
1.4.2 Scope, data and modelling methodology	16
1.4.3 Data	16
2 Taking stock of Australia’s property tax regime	19
2.1 Defining property tax	19
2.2 Australia and other countries compared	20
2.2.1 International comparisons	20
2.2.2 International trends in property taxation	22
2.3 Australian states and territories compared	23
2.3.1 Transfer duties	23
2.3.2 Differences between and among states and territories	25
2.4 The integration of state and local property taxes	29
2.5 Current reform proposals	30
3 Reform objectives and strategy	32
3.1 Project objectives from a political economy perspective	32
3.2 Short-term reform objectives	33
3.2.1 Short-term administrative reforms: the foundation for effective subnational property taxation	33
3.2.2 Short-term transfer duty reforms	34

3.3	Medium to long-term reforms: a new transfer duty/recurrent property tax mix	35
3.3.1	Shifting the transfer duty mix	35
3.3.2	A simple and transparent transition to a broad-based recurrent property tax	36
3.4	Overview of analytical chapters	41
4	Reforming the administration of property tax	42
4.1	The case for administrative reform	42
4.2	National register of beneficial owners including foreign owners	45
4.3	A national approach to property valuation	47
4.4	Intergovernmental data sharing	48
4.5	Integration of state and local government property tax administration	49
4.6	Conclusions: implications for policy	50
5	Reforming the design of property transfer duty	51
5.1	The aims of transfer duty reform	51
5.2	Simplifying transfer duty design	52
5.2.1	The current system	52
5.2.2	Proposed reforms	53
5.2.3	Distribution: winners and losers	56
5.2.4	Beneficiaries of the new system	58
5.3	Conclusions: implications for policy	58
6	Pathways to housing tax reform: options for changing the state property tax mix	60
6.1	Changing the mix: transfer duty	61
6.1.1	Reasons to reform	61
6.1.2	Modelling changes to the transfer duty mix	62
6.1.3	Making the transition: implementation and administration	66
6.2	Changing the mix: transfer duty and recurrent property tax	67
6.2.1	Reasons to reform	67
6.2.2	Modelling changes to the transfer duty and recurrent property tax mix	68
6.2.3	The political economy of the transition to recurrent property tax	72
6.3	Policy implications	76
7	Policy development options: a pathway to subnational property reform	78
7.1	Principles of subnational property tax reform	79
7.1.1	Short-term policy objectives: 1–3 years	80

7.1.2	Medium-term policy objectives: 3–10 years	81
7.1.3	Long-term policy objectives: 10 plus years	82
7.1.4	What are the tax design advantages of these reforms?	82
7.1.5	How will these reforms contribute to a fairer and more affordable housing system?	83
7.2	Concluding remarks	83
	References	85
	Appendix 1: CoreLogic data format, 2015–16	96
	Appendix 2: Transfer duty and land tax schedules, all states and territories (summary), 1996–97 and 2015–16	97
	Appendix 3: Summary of key modelling parameter assumptions using Corelogic data	110

List of tables

Table 1: Tax-free thresholds and break-even points for a flat transfer duty rate of 6 per cent	3
Table 2: Recurrent property tax rate required to fund 0.6 per cent reduction in transfer duty rates and annual property tax paid on median value properties, all states	4
Table 3: NSW Office of State Revenue figures on transfer duty, 2015–16	17
Table 4: Benchmarking of CoreLogic (modelling) data against ABS data on transfer (conveyancing) duty revenue, 2015–16	17
Table 5: Taxation revenue (\$ per capita) from selected sources, all states and territories (state and local government), 2014–15	25
Table 6: Structure of transfer duty regimes (summary), all states and territories, 2015–2016	26
Table 7: Land tax valuation methods and tax-free thresholds, all states and territories, 2015–16	27
Table 8: Municipal rates valuation methods, all states and territories	28
Table 9: Municipal rates valuation methods and additional levies, all states and territories	29
Table 10: Recommendations on state property tax reform from the 2009 Henry review	31
Table 11: Summary of currently applied or proposed land tax reform transition models	38
Table 12: Levels of government imposing recurrent property taxation	43
Table 13: Thresholds (\$ value and percentage of median property price) required to achieve revenue neutrality at different rates of transfer duty	55
Table 14: ‘Break even’ points under new regime—percentage of purchasers paying less and maximum property value below which purchasers would pay less	58
Table 15: Thresholds and ‘break-even’ points under Reform Option no. 1, compared to baseline reform	63
Table 16: Duty-free thresholds and different transfer duty rates under Reform Option 2, compared to baseline reform	66
Table 17: Duty paid by owner-occupiers and investors for a property valued at 1.5 times state-wide median value, Reform Options 1 and 2 compared to baseline reform, all states	67
Table 18: Recurrent property tax rates required to fully fund transfer duty abolition, and annual property tax payable according to property value, all states	68
Table 19: Nominal annual transfer duty and annual recurrent property tax compared for selected price points relative to the median, all states	69

Table 20: Recurrent property tax rate required to fund 0.6 percentage point reduction in transfer duty and resulting annual property tax paid on median value properties, all states	71
Table 21: Rate of recurrent property tax required to reduce transfer duty rate from 6 per cent to 3 per cent and indicative annual payments for both, all states	72
Table 22: Impact of transfer duty to recurrent property tax transition on equalisation payments (2014–15 data)	75
Table A 1: 3-way disaggregation of Corelogic data	96
Table A 2: Variable available for 3-way disaggregated Corelogic data	96
Table A 3: Transfer duty, 2015–16	97
Table A 4: Land tax, 2015–16	100
Table A 5: Transfer duty, 1996–97	105
Table A 6: Land tax, 1996–97	107
Table A 7: Summary of key modelling parameter assumptions using Corelogic data	110

List of figures

Figure 1: A pathway to subnational property tax reform	2
Figure 2: Selected property taxes as a proportion of total GDP, selected countries and OECD average, 2014	21
Figure 3: Selected property taxes as a proportion of total tax revenue, selected countries and OECD average, 2014	21
Figure 4: Analysis of marginal excess burden of key Australian taxes	22
Figure 5: Taxation revenue from selected sources, all states and territories (state and local government), 1998–99 to 2014–15	24
Figure 6: Transfer duty revenue, all states and territories (state and local government), 1998–99 to 2014–15	24
Figure 7: Transfer duty paid by property value, all states	52
Figure 8: Marginal transfer duty rate by property value, all states	53
Figure 9: Proposed reform: duty free threshold and flat rate of transfer duty	54
Figure 10: Transfer duty paid by property value under a flat transfer duty rate of 5 per cent, less transfer duty paid by property value under the existing system, all states	56
Figure 11: Transfer duty paid by property value under a flat transfer duty rate of 6 per cent, less transfer duty paid by property value under the existing system, all states	57
Figure 12: Transfer duty paid by property value under a flat transfer duty rate of 7 per cent, less transfer duty paid by property value under the existing system, all states	57
Figure 13: Transfer duty paid by owner-occupiers: baseline reform (with 6% rate) and Reform Option 1, each compared to current schedule	64
Figure 14: Distributional effect of Reform Options 1 and 2 on investors relative to baseline reform	65
Figure 15: Recurrent property tax paid by property value under Option 3, all states	69
Figure 16: Proportion of sales by property value, all states	73
Figure 17: Visual representation of turnover rates on different property values and types, by variation from state average, all states	74

List of boxes

Box 1: Terminology	19
Box 2: State government access to local government rates	30
Box 3: What impact will transfer duty cuts have on housing markets?	35
Box 4: Will increasing tax on investment properties increase rent?	36
Box 5: Denmark: national root and branch property tax reform	45
Box 6: New Zealand: a leading OECD property tax system	46
Box 7: Case study: a simplified tax structure that does not meet housing policy goals	55
Box 8: Property tax reforms in the ACT	70

Acronyms and abbreviations used in this report

ABS	Australian Bureau of Statistics
AHURI	Australian Housing and Urban Research Institute
ATO	Australian Tax Office
AVM	Automated Valuation Model
CIV	Capital Improved Value
FHB	First home buyer
GCG	Commonwealth Grants Commission
CSHA	Commonwealth State Housing Agreement
GFC	Global Financial Crisis
HBU	Highest and Best Use
LG	Local Government
LVT	Land Value Tax
OO	Owner-occupied
PPR	Principal Place of Residence
TD	Transfer Duty

Glossary

A list of definitions for terms commonly used by AHURI is available on the AHURI website www.ahuri.edu.au/research/glossary.

Executive summary

Reforming state and local government taxes that apply to property can contribute to creating a fairer and more sustainable housing system as well as delivering additional economic and social dividends.

The politics of subnational property tax reform is challenging and requires support and commitment from all levels of government if it is to be realised. Reflecting on these challenges this report proposes a nationally coordinated incremental strategy with clearly defined short, medium and long-term objectives.

- Short-term **administrative reforms**. These include the further integration of state and local property tax collection, enhanced data sharing between state and national revenue authorities and, over time, the establishment of a nationally consistent valuation regime and property register
- The creation, short to medium-term, of a **simpler and fairer revenue neutral transfer duty** regime as a foundation for more substantive reforms. New modelling reveals that a flat 6 per cent transfer duty rate with a carefully designed threshold would result in over 60 per cent of property buyers at the bottom of the price distribution paying less transfer duty.
- A medium to long-term strategy (10–20 years) to **replace transfer duties with a broad-based recurrent property tax**. This report models a range of scenarios using 2015–16 Corelogic data of all residential property in Australia. This analysis reveals that a modest annual property tax of between \$47 and \$130 per annum on median value properties could fund a 10 per cent reduction in transfer duties. This annual property tax could gradually be increased over a period of 10 to 20 years to offset the revenue currently sourced from existing transfer duties on residential property.

The incremental yet nationally coordinated reform strategy with clear long-term objectives outlined in this report provides a practical pathway to reform Australia's subnational property tax regime which will create a more efficient and equitable housing outcome.

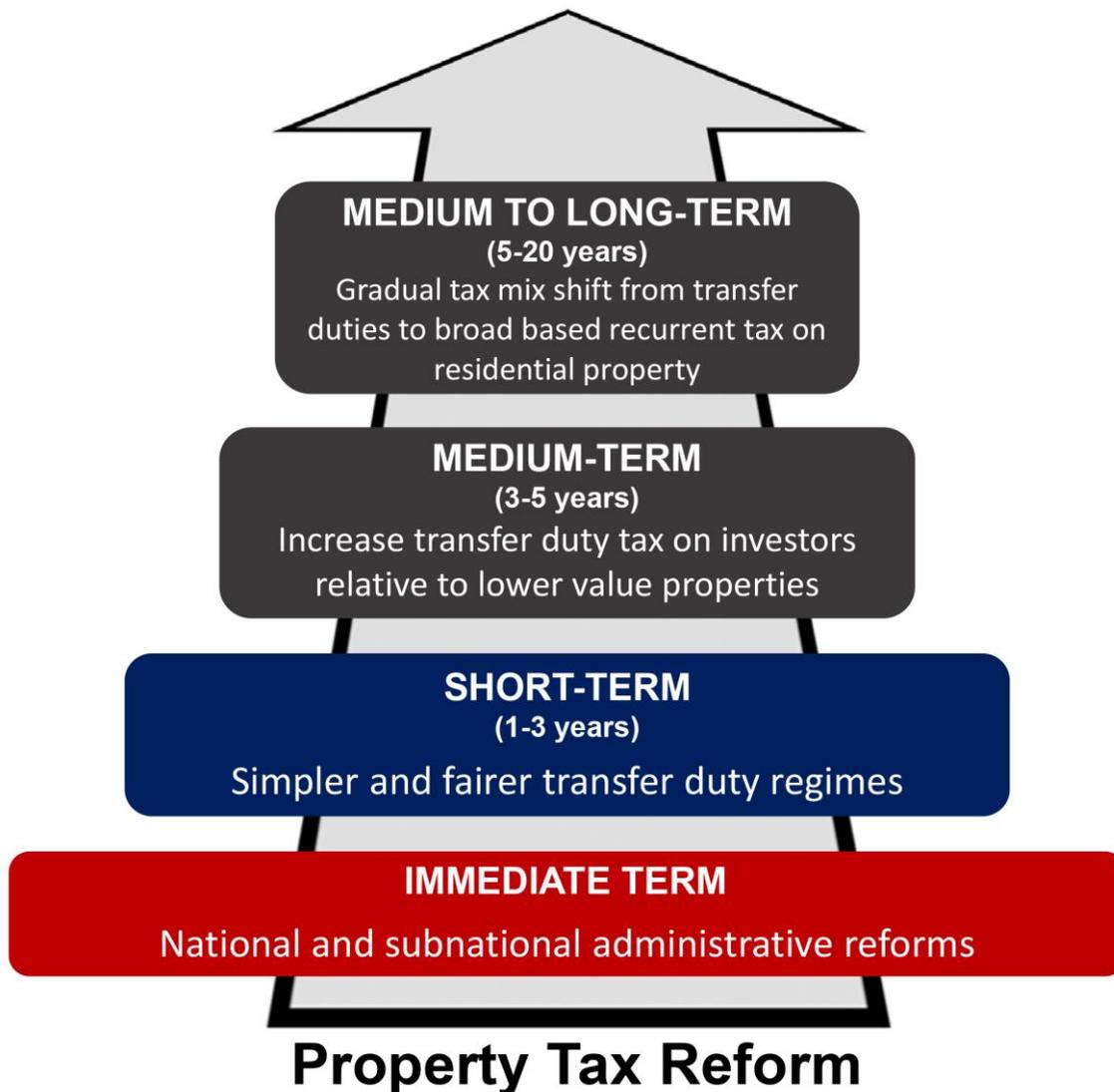
Key findings

This report has been designed to develop a pragmatic pathway to subnational housing tax reform. In addition to the specific policy proposals, the report provides a commentary on the political and administrative challenges that can undermine any reform initiative. These challenges are especially important in the case of subnational property tax reform where a lack of intergovernmental coordination has been identified as a major barrier to policy change.

The report highlights the need to set national reform priorities and to develop a coordinated approach to property tax reform while still granting state and local governments the right to determine policy settings and the trajectory of reform.

Having established the need to set long-term goals for reform, the report identifies four stages of a subnational property tax reform agenda to achieve these goals (see Figure 1 below).

Figure 1: A pathway to subnational property tax reform



Source: Authors.

- 1** The immediate focus is on implementing administrative reforms designed to provide a foundation on which future property tax reforms can be built:
 - developing nationally consistent valuation methods for residential property
 - establishing a national register of property valuations and ownership
 - further integration of state and local tax collection and enhanced data sharing between all levels of government.
- 2** In the short term, the focus should be on creating a simpler and fairer transfer duties regime as a foundation for more substantive reform. The benefits of establishing a simplified transfer duty regime identified in the report include:
 - that a simplified transfer duty regime provides a foundation for more substantive reforms designed to address housing policy objectives

- that a single rate transfer duty with a carefully designed duty-free threshold applied to all residential property transactions would cut transfer duty for a majority of home buyers with the greatest benefits accruing to buyers of low value properties (see Table 1 below).
- modelling of the distributional implications by property value for each state demonstrates how a simplified transfer duty regime can be applied across diverse property markets
- building on this simplified framework by presenting modelling across a range of options shows that the transfer duty rate and threshold can be adjusted to determine the incidence of the transfer duty burden.

Table 1: Tax-free thresholds and break-even points for a flat transfer duty rate of 6 per cent

State	Median property price (\$)	Threshold		Break-even points	
		Value (\$)	Proportion of median (%)	Value (\$)	Purchasers (%)
NSW	653,697	245,529	37.6	682,500	62.3
VIC ¹	635,872	110,905	21.1	303,000	17.6
QLD	424,966	220,983	52.0	468,000	58.6
WA	481,605	213,351	44.3	546,000	63.3
SA	381,059	127,274	33.4	397,500	61.8
TAS	283,886	143,078	50.4	327,000	60.6

Source: Authors' own calculations based on CoreLogic data.

¹Note: All properties below the break-even point in a given state would pay less transfer duty relative to the current regime. As explained in greater detail in Chapter 6, the Victorian case is complex due to the interaction of PPR concessions.

The following two subsequent goals for subnational property tax reform will also contribute to creating a fairer and more sustainable housing system.

3 A medium-term shift in the mix of transfer duties:

- This element of the overall reform strategy focuses on shifting the tax incidence of transfer duties on residential property from owner-occupiers purchasing lower value properties toward investors and those purchasing high-value properties.
- Shifting the costs incurred by transfer duties from owner-occupiers to investors will help meet housing policy goals by dampening demand for investment properties and increasing home ownership rates. Because the quantum of transfer duties raised is unchanged under this scenario, the reforms are not dependent on the states introducing a new broad-based property tax.

4 A long-term pathway to a broad-based recurrent property tax:

- The report concurs with the significant body of research which finds that replacing property-related transfer duties with a broad-based recurrent property tax would contribute to housing policy goals and deliver a range of economic and social dividends.
- The report highlights the political barriers to a transfer duty to property tax transition and recommends a nationally coordinated incremental approach in which broad-based state-level residential property tax is gradually increased to fund the abolition of transfer duties over a 10 to 20 year period. This 'phase out, phase up' model is similar to the approach that has already been adopted in the ACT.

- The recurrent residential property tax should be levied on the same base as local government rates using a capital improved value, highest and best use (CIV + HBU) method. The administrative reforms outlined above will enable the effective implementation of this new residential property tax. Existing state land taxes, as they are applied to residential investment properties, should be integrated into the broad-based property tax.
- Detailed modelling presented in this report (see summary in Table 2 below) suggests that an annual property tax of between \$47 and \$130 per annum for a median value dwelling would be required to reduce a reformed transfer duty by 10 per cent (e.g. from 6.0% to 5.4%).
- With appropriate deferral provisions, this tax could gradually be increased to fund further reductions in transfer duties.
- Despite the benefits of reform, the report acknowledges that the implementation of a new, broad-based tax on households will be challenging and will only be achievable if the wider benefits for housing affordability, intergenerational equity and economic efficiency are widely promoted.
- The Commonwealth Government therefore has a key role to play in coordinating and supporting subnational housing tax reform. In addition to providing national leadership the Commonwealth can provide administrative support, incentive payments and eliminate any disincentives associated with introducing a state-level broad-based property tax.

Table 2: Recurrent property tax rate required to fund 0.6 per cent reduction in transfer duty rates and annual property tax paid on median value properties, all states

State	Threshold (baseline ¹ reform, 6 per cent rate)	Required rate of recurrent property tax to reduce transfer duty rate by 0.6 percentage points.	Median (\$)	Annual recurrent property tax paid on median-priced property (\$)
NSW	245,529	0.0317	653,697	129.24
VIC	110,905	0.0306	524,872	126.64
QLD	220,983	0.0383	424,966	78.12
WA	213,351	0.0248	481,605	66.61
SA	127,274	0.0342	381,059	86.88
TAS	143,078	0.0335	283,886	47.28

Source: Authors' own calculations based on CoreLogic data.

¹Note: The 'baseline' reform scenario is described more fully in Chapter 4. It involves applying a 6 per cent transfer duty on residential property above a specific duty-free threshold (see above). The threshold has been calculated for each state to ensure quantum of revenue raised equals that raised by the 2015–16 schedule in a particular state.

Policy reform process

The potential benefits of subnational property tax reform, both in terms of improving housing outcomes and its capacity to deliver more general economic and social dividends, are well understood. This report documents and analyses key political barriers to reform before presenting a reform agenda that balances short-term political imperatives with longer term policy goals.

Fiscal and market objectives

A major political barrier to tax reform for governments is the fiscal impacts of revenue changes and distributional consequences for households which have the potential to create political difficulties or mobilise taxpayer and stakeholder resistance to government policy. The reforms presented in this report give close consideration to these issues, and are designed to minimise the risk of significant budget or market disruption. Objectives include:

- a revenue neutral reform pathway for each of the states
- a layered reform framework with inbuilt flexibility designed to reflect and respond to current government policy environments, and minimise political disruption or adverse market consequences—for example, the incremental reform strategy advocated in this report will enable governments to avoid making sudden policy changes during periods of high market volatility
- enhancing the fairness of the property tax system over the medium to long-term by reducing the relative transfer duty paid by purchasers of low value properties
- minimising the impact of tax redistribution by ensuring that under almost any scenario most property owners (and would-be owners) would be better off relative to the status quo; while reflecting the broader goals of property tax reform and ensuring that the majority of tax increases falls on the owners of higher value and/or investment properties
- contributing to housing affordability, residential mobility and the efficiency of the national tax system by replacing transfer duties on residential properties with a broad-based recurrent property tax.

A national strategy to address housing affordability

The taxation of housing and housing-related income is only one factor contributing to poor housing outcomes for a growing number of Australians. Given the complexities of housing markets, a national approach that includes all levels of government and key stakeholders will be required if reform is to be achieved. The challenges to achieving the political cooperation and coordination required may be formidable, but there are historic precedents, such as the introduction of the National Competition Policy in the 1990s.

The steps required to reform the subnational property tax arrangements include:

- adopting common valuation methods, joint administration and data sharing
- securing a commitment from the Commonwealth Government to facilitate reform and redistribute some of its economic dividends
- establishing a credible intergovernmental forum to facilitate deliberation and joint decision-making.

Establishing a commitment to high-level objectives including administrative reforms

The prospects of reform will also be enhanced if state and national leaders commit to achieving high level goals as a national priority. These goals will be challenging, but evidence gathered for this report suggested that community concerns about housing access and affordability are growing. The broad direction of housing policy can no longer be shaped by narrow concerns about the distributional equity of tax policy changes or their likely impact on property values. High-level objectives include:

- promoting the wider community benefits of more accessible and sustainable housing for all Australians in national political discourse

- focusing on actions for which there is multi-party support—this report demonstrates that some structural and administrative reform is possible without significant redistribution between households
- adopting a staged and gradual approach to those reforms that have distributional consequences and only once the broad principles of reform are accepted.

Institutionalising a pathway to reform

Whether there is a nationally coordinated approach to reform or states are incentivised to act unilaterally, any long-term reform agenda must be institutionalised. Governments have to set and report against regular targets and develop a clear framework for reviewing progress and adapting to changing circumstances. This has been the approach adopted in the ACT. Reform pathways include:

- beyond establishing an intergovernmental forum to promote reform, individual governments need to make clear commitments to reform including short, medium and longer-term targets
- reform progress should be evaluated regularly and a clear framework for reviewing reform strategy must be established—specifically, governments must commit to clear timeframes for implementing administrative reforms, simplifying transfer duty bases and starting the transfer duty to land tax transition
- ideally this monitoring embraces a nationally coordinated effort.

The incremental and staged strategy proposed in this report represents the most pragmatic pathway to subnational tax reform. The risk is that governments' priorities will change and they won't achieve prior commitments. Institutionalising reform by implementing the processes and procedures described above offers a feasible political strategy to ensure that long-term policy objectives are achieved.

The study

This study is part of a wider AHURI Inquiry into pathways to housing tax reform. The study has two elements—a review and empirical analysis, each with distinctive methods. The report begins with an overview of the study in Chapter 1 which sets out the reasons for the study in the context of the broader Inquiry and outlines the methodology used to conduct the review and on which the modelling of the reform proposals is based. The first element of the study, the review, follows in Chapter 2 and 3. Chapter 2 sets out in detail the existing subnational residential property tax regime in Australia and in particular investigates these in reference to historical and current policy directions, including current reform proposals. Chapter 3 builds on this detail and establishes its relevance to the study from a political economy perspective. In this context, the chapter sets out the rationale for the short, medium and long-term reform strategies presented.

Chapters 4 to 6 provide in-depth descriptions of the empirical analyses and their findings, with the chapters structured to reflect the layered and incremental approach to reforms. Chapter 4 starts with the foundations of reform found in addressing administrative inefficiencies in state and local land taxes. Chapter 5 builds on these reforms and develops revenue neutral strategies for a simpler and fairer transfer duty regime for residential property. Together these provide a strong foundation for comprehensive reform, outlined in Chapter 6 through a series of pragmatic long-term strategies for progressive transfer duty reforms as well as the mix between transfer duties and recurrent property tax. Chapter 7 concludes by setting out the tax design advantages and contributions of the proposed reform in current policy context.

The reform proposals presented in the report are based on an extensive review of the relevant technical and policy literature as well as coverage of associated political debates. Reform

proposals have been discussed with a range of stakeholders over the period of the study. In all cases proposals seek to balance political and policy considerations with a view to developing a politically viable pathway to reform.

The empirical analysis of the distributional and revenue implications of the reform proposal is informed by new modelling using Corelogic's database of all residential dwellings in Australia. This is arguably the most comprehensive and contemporary dataset on residential property in Australia and this study has used data from 2015–16 on residential dwelling sales as well as data on the value of all residential dwellings using their most sophisticated automated valuations. For the purposes of modelling the 9.6 million dwellings in the Corelogic dataset, dwellings have been grouped by property value sets while differentiating between houses and units.

1 Introduction

Despite a sustained period of economic growth in Australia, housing affordability and accessibility has declined significantly. This resulting shortage of affordable housing is having an adverse effect on the housing needs and aspirations of many low and middle-income Australians.

There is growing recognition that Australia's tax system, in particular its property taxation system, is a significant contributor to the problem. Reform of the system has the potential to form part of the solution.

This report presents the findings from one of three projects undertaken as part of AHURI's Panel Inquiry into pathways to housing tax reform.

It describes and presents analysis of three distinct but related elements which, when combined, provide a long-term pathway to subnational property tax reform in Australia. These are: national and subnational administrative reforms, a simpler and fairer system of transfer duties, and options for an incremental tax mix shift in the property tax regime.

If implemented, these reforms can contribute to the creation of a fairer, more efficient and more sustainable property tax system.

Housing affordability and accessibility has declined significantly in Australia over the past two decades and now poses a number of social and economic challenges (Birrell and McCloskey 2015, 2016; Rowley, Leishman et al. 2017; Yates 2008). Australia's system of property taxation is one of the many factors contributing to this decline in affordability. Calls to reform state and local government property taxes in Australia are growing. However, the political barriers have been formidable, with distribution challenges, the possibility of short-term impacts on housing markets, and federal relations hindering progress.

This study is one of three project reports within a broader Australian Housing and Urban Research Institute Evidence-based Policy Inquiry on pathways to housing tax reform. It proposes a nationally coordinated, incremental strategy for the reform of state and local taxation of residential property. These reforms are consistent with a fairer and more sustainable housing system, and are also designed to be revenue neutral for each state and to improve the efficiency of the national tax system. The analysis is informed by a political economy approach which seeks to achieve housing and tax policy aims while addressing the political barriers to tax reform.

In doing so, the report addresses the overarching Inquiry research question:

- What are the best pathways for the development of an integrated housing tax reform package which is financially sustainable, politically viable, and addresses tax-related distortions in the Australian housing market?

The project responds to this overall Inquiry question by specifically addressing the following:

- 1 What is the most appropriate base on which to levy a recurrent property tax (both in terms of valuation methods and exemptions)?
- 2 To what extent can increased broad-based recurrent property taxes reduce state and territory dependence on property transfer duties over the longer term?

- 3 What revenue-neutral transition strategies (drawing on and expanding the ACT model) can be developed to ensure the equitable treatment of taxpayers (such as limiting double taxation) when moving from transfer-based to recurrent property taxes?
- 4 Can the Commonwealth Government promote state and territory property tax reform through quarantining from Commonwealth Grants Commission calculations, and using efficiency dividends to fund compensation?

In answering these four questions, the report advocates a nationally coordinated approach to the broad design and administration of subnational residential property taxes while ensuring that state and local governments have wide discretion over the levels and incidence of such taxes. It draws on the broad analysis undertaken throughout the inquiry, including discussions in Inquiry Panel workshops, to contextualise the project within the wider tax and housing policy regimes.

1.1 Why this research was conducted

Housing affordability in Australia is declining according to a number of measures, and analysis of the future sustainability of the Australian housing system has highlighted how the taxation of residential property (both direct and indirect) contributes to housing problems faced by many low and middle-income Australians. Detailed accounts of the pathologies of the Australian housing tax system (Disney 2006; Wood, Ong et al. 2014; Worthington 2012; Yates 2008) sit alongside wider critiques of the national tax system (Commonwealth Government 2015; Henry, Harmer et al. 2009; Evans and Krever 2009). These critiques identify how the tax treatment of real property and the income derived from it interacts with other factors to accentuate problematic housing market outcomes. For example, tax policy influences the provision of new housing supply and land use, consumer demand for housing, the level of investment in housing relative to other asset classes, methods of financing such investment, labour mobility and the capacity for owner-occupiers to move house in response to changing needs (Commonwealth Government 2015; Wood, Stewart et al. 2010).

The significant debates around the relationship between tax policy and housing markets tend to pivot on three specific housing-tax relationships, each of which provide the context for the respective sub-projects in this Inquiry: the extent to which housing-related income tax concessions distort investment decisions, with implications for the distribution of housing assets and affordability (see Duncan, et al. 2017, forthcoming); the extent to which retirement income policy encourages excessive investment in primary residences (see Whelan, et al. 2017, forthcoming); and how the direct taxation of residential property by state, territory and local governments impedes residential mobility and affects housing affordability. This report addresses the last of these issues.

Stakeholders, policy-makers and academics argue that state government reliance on transfer duties is inefficient and, alongside a shortage of housing supply, constitutes the second-largest barrier to mobility and homeownership in Australia (Ingles 2016; Mangioni 2016; Davidoff and Leigh 2013; Bateman 2011; Yates 2012). Those arguing for state property tax reform almost universally recommend a reconfiguration and broadening of the existing narrow land tax base so that it can be used as an efficient and stable revenue alternative to transfer duties. The aim of this report is to identify a politically viable pathway to such a reform.

In this report:

- We propose **administrative reforms** focusing on developing nationally consistent valuation methods and systems for use by state and local government as well as a national register of property owners. There should be further integration of state and local property tax collection and enhanced data sharing between state and national revenue authorities (Chapter 4).

- We detail a framework for a **simpler and fairer transfer duty** regime as a foundation for more substantive reform. The report models a revenue neutral single rate transfer duty regime with a duty free threshold to ensure progressivity by property value (Chapter 5).
- Having set out a short-term agenda for reforming the administration and design of subnational property transfer duties, we propose and model **two incremental strategies for subnational property taxes** which will contribute to **creating a fairer and more sustainable housing system** (Chapter 6):
 - The first reform strategy focuses on shifting the burden of transfer duties on residential property from owner-occupiers purchasing lower value properties toward investors and those purchasing high value properties.
 - The second (and complementary) reform strategy is a gradual transition from transfer duties to broad-based recurrent tax on residential property. Any revenue raised from this new property tax would be used to fund reductions in the transfer duty rate.

Consistent with the broader aims of the Inquiry, the reforms outlined here are intended to provide a pathway to property tax reform that balances political imperatives against technical policy objectives as a means to address both declining housing affordability and tax reform goals.

In summary, this pathway will:

- improve the simplicity and consistency of the property tax system
- provide a revenue-neutral reform pathway for each of the states
- establish an incremental, adaptable framework designed to minimise political disruption and problematic market consequences
- improve the fairness of the property tax system over time by gradually reducing the relative transfer duty paid by purchasers of low value properties
- contribute to gradually increasing home ownership rates by shifting liability for transfer duty from owner-occupiers to investors
- contribute to housing affordability, residential mobility and the efficiency of the national tax system by replacing transfer duties on residential properties with a broad-based recurrent property tax.

The pathway is one element of a broader national strategy to improve the fairness and sustainability of the national housing system, but the agenda is an important one that can deliver significant economic and social dividends.

1.2 Policy context

1.2.1 Housing affordability challenges

Australia faces a number of significant challenges with respect to housing, including shortfalls in some types of housing supply (e.g. low-cost rental), and declining affordability for many households which is contributing to rising household stress and an associated decline in home ownership rates. Since 2001, those experiencing housing stress across all households has remained consistent (in line with overall household growth) at around seven per cent (Rowley and Ong 2012)¹. Current housing need in Australia is estimated to be 1.3 million households

¹ Housing affordability is often defined in terms of the '30/40 rule, based on the measure of a low income household (those in the bottom 40% of the needs adjusted or equalised disposable income distribution), paying

(just under 14% of households)². This need is estimated to rise to 1.7 million households by 2025, revealing a significant ongoing and future shortage in affordable housing, and placing increasing pressure on government housing assistance budgets, especially as growing numbers of households seek assistance in the private rental market (Rowley, Leishman et al. 2017). Households more likely to experience housing affordability stress include low-income households, renters in the private rental market and home purchasers, particularly first home purchasers, single person households and households with children, those under 65 years of age, and those who dwell in larger capital cities (Yates and Gabriel 2006; Yates, Milligan et al. 2007).

However, housing affordability challenges are more than the financial stress or risk faced by households through housing consumption. The reality is that housing affordability is the sum of a range of issues including accessibility to affordable housing (housing formation), quality and location trade-offs (choice versus constraint) and the range of costs associated with housing consumption such as taxes and bill payments (Rowley and Ong 2012).

For example, housing affordability challenges include the inability to access home ownership. Structural support for home ownership (along with ownership-investment) continues to be an enduring focus of Australian housing policy (Jacobs 2015). However, in reality, from 2001–10 house prices have increased well above incomes, and for first home buyers mortgage loans and existing home owners have doubled (Rowley and Ong 2012). Home ownership rates are in long-term decline across all age groups under 65 years of age, and is particularly salient for the 25–34 and 35–44-year old cohorts with implications for generational inequality (Wood, Ong et al. 2014; Grattan Institute, see ABC 2017)³. One of the constraints for first home buyers is the 'deposit gap'⁴ which is now more than double annual household income (Yates 2016). Therefore, unable to buy a dwelling, more households have little option but to rent privately. However, affordable private rental too has steadily declined in supply over the last 25 years and is increasingly sequestered to locations poorly located in terms of employment options or access to services (Yates 2016).

Housing affordability challenges such as these have increasingly played a role in housing being perceived as a social policy tool because it plays a vital role in both shelter *and* non-shelter outcomes. These include access to employment and educational attainment (Burke, Pinnegar et al. 2007; Dockery, Feeny et al. 2008) and outcomes across multiple dimensions of wellbeing (Smith 2009); the costs of which are also borne by society, not only the individual. Further, housing affordability factors play an important role in the creation of spatial wealth polarisation (e.g. gentrification), mobility constraints and access to labour markets, as well as the increasing disparities between those who can access home ownership and those who can't, multiplying intergenerational inequities (Yates, Milligan et al. 2007). Concurrently, housing policy has been implicated in shaping a policy rhetoric inconsistent with government budget commitments. Imputed subsidies to home owners through tax expenditures are estimated to be around

no more than 30 per cent of its gross household income on housing costs. Those exceeding 30 per cent of income on household costs are in housing 'stress' (Yates and Gabriel 2006).

² Housing 'need' is defined as households unable to access market-provided housing or requiring some assistance in the private rental market to avoid housing stress.

³ For example, the 25–34 age cohort dropped from 58 per cent home ownership in 1986 to below 45 per cent in 2016 (Grattan Institute, see ABC 2017), with proportionately greater declines among lower income households (Yates 2016).

⁴ The gap between the cost of a median-priced dwelling and what bank finance would cover for a middle-income household.

\$8,000⁵ per year, \$4,000 for investors, around \$1,300 in concessions to private renters and \$1,000 to public housing renter households. This serves to underscore that housing policy is primarily oriented towards the more well off, not the disadvantaged. Consequently, there is a disconnection in current housing policy between the rhetoric that it serves to assist those on low incomes with the reality that it is home owners and private rental investors that government-directed expenditures actually benefit in practice (Jacobs 2015).

1.2.2 Tax policy influence on housing markets

Implicated in housing affordability challenges are housing market dynamics, which are complex due to both supply and demand being influenced by a combination of prevailing policy instruments, market conditions and structural economic and demographic factors. On the demand side, migration and population growth, tax and other financial incentives, the price and availability of credit, access to infrastructure and employment as well as broader market conditions all impact on housing markets. Similarly, on the supply side, land availability and construction costs, existing infrastructure and planning frameworks as well as a host of tax and financial variables all impact on the availability of residential property.

Significantly, all three levels of government and a range of statutory and commercial actors have an influence on housing markets, highlighting the need for a nationally coordinated approach to housing policy. Reforms to state and local government property taxes only represent one dimension of a broader agenda to achieve more equitable and sustainable housing outcomes. However, it is clear that subnational reforms are integral to a national reform agenda.

In Australia, there are currently three forms of subnational tax on land and residential property: transaction duties, state land tax and local government rates which, for the purpose of this report, are defined as 'subnational property taxes':

- **Transfer duties** are levied on the transfer of residential properties in all states and territories, although levy systems vary widely across the federation and the rates generally vary depending on the value of the property. Most states and territories provide for limited exemptions, such as for transfers within a family or personal relationship, but some also extend exemptions or concessions to particular groups such as first home buyers or charities, or charge premium duties for foreign purchasers. Transaction duties are collectively currently worth approximately \$16 billion per annum in Australia (Ingles 2016).
- **Land tax** is levied by states and territories (except the Northern Territory), although each state defines the tax base differently, employing a range of different valuation regimes (Mangioni 2016b, 2016c). Most land tax is levied on the 'unimproved' or 'site' value at progressive rates, with some jurisdictions aggregating the value of all land held by an owner while others tax each property as a separate entity. States also apply a range of exemptions including for primary production, owner-occupied residential housing, and child and aged care uses. The exemption of owner-occupied housing excludes approximately 60 per cent of land by value (and 75% of residential land) from the tax base.
- **Rates** are levied by local government and generally include both land tax and user charge components. The land tax (or general rate) component of local government rates are also calculated using a mix of valuation methodologies, but are subject to a narrower set of exemptions. Concessions are available to certain groups, although the assessment of eligibility may not itself be undertaken at the local level. For example, in Tasmania, owner-

⁵ The primary reason home owners benefit from these subsidies is that imputed rent and capital gains are not liable for income tax (Jacobs 2015: 2).

occupiers are eligible for a 30 per cent reduction on their council rates bill if they hold a Pension Concession Card, Health Care Card or DVA 'Gold' card, all of which are administered at the national level.

1.2.3 Arguments for reform

Subnational property taxes in their various forms raised over \$40 billion in 2014–15 which represent 10.1 per cent of all taxes collected in Australia (see Section 2.2). These taxes are an increasingly important source of revenue for state and local governments yet, despite their significance, there is a consensus that they are poorly designed and reform would deliver a number of dividends. Analysis of the existing subnational property tax regime presented in recent Australian inquiries and reviews, outlined in more detail in Chapter 2, can be summarised as follows:

Transfer duties on residential properties:

- regarded as one of the least efficient taxes in Australia
- consensus that transfer duties should, in the longer term, be abolished and replaced with a broad-based recurrent property tax
- abolition would deliver significant economic dividends and enhance residential mobility and put downward pressure on housing prices as future tax liabilities are capitalised
- justifications for retaining the status quo are premised on claims that transfer duty is a significant source of state revenue, easy to collect and concealed in property transaction costs and that in booming markets it may deter property speculation.

Recurrent state land and property taxes:

- an efficient and stable source of revenue
- depending on design, captures unearned economic rent and can function as a wealth tax
- current state land taxes are imposed on a narrow base and should be broadened to include principal place of residence
- yield from a broad-based recurrent property tax should be increased to fund the abolition of state transfer duties
- justifications for retaining the status quo include the arguments that a broad-based recurrent land tax represents a new impost on many households, is a relatively visible tax and, given the tax liability is based on property value rather than income, may disadvantage asset-rich and income-poor households in the absence of an appropriate deferral regime (Productivity Commission 2017b).

Local government rates:

- a broad-based and efficient revenue base
- there is scope to improve administration through consistent valuation methods and shared administration
- the collection of a state property tax and local government rates could be integrated.

1.2.4 Political barriers to reform

Although it is widely acknowledged that there would be significant housing, fiscal and wider economic benefits from reforming Australia's system of subnational property taxation, there are three broad challenges to reform as follows.

Fiscal and housing market impacts:

The primary purpose of tax systems is to raise revenue, but taxation also affects markets and commercial decision-making. Given that the residential property sector is a large component of the Australian economy and that housing is a significant store of private wealth, the potential impact of changes to housing tax policy on state budgets or broader market conditions is a significant barrier to reform. As discussed in more detail in Chapters 2 and 3, one of the major barriers to a switch from transfer duties to a recurrent property tax is the revenue shortfall that would have to be absorbed by state governments under some transition models. Policy-makers are also very sensitive to the possibility that tax policy changes will produce significant short-term decline in housing markets. The aim of policy is to achieve a gradual reduction in real property prices over an extended period—a ‘soft landing’ rather than a ‘crash’. The incremental reform strategies proposed in this report are designed to minimise the risk of significant budget or market disruption.

Distributional impacts on households:

The politics of tax reform is notoriously difficult because it inevitably has distributional consequences. As the academic literature identifies, those who face a higher tax burden are more likely to mobilise against reform than the beneficiaries of tax policy change (Eccleston 2007). There is also a temporal dimension in that the costs of higher taxes become apparent immediately, whereas the benefits of reform often take years to eventuate. The property tax reforms proposed in this report are not immune to these challenges. Indeed, the revenue-neutral design of the reforms presented inevitably means that the existing tax liability will be redistributed among property owners. However, the reforms are designed to ensure that the redistribution is relatively minor and that under almost any scenario most property owners (and would-be owners) would be better off relative to the status quo. Finally, reflecting the broader goals of property tax reform (Chapter 3), the majority of tax increases falls on the owners of higher value properties. In short, the reforms proposed in this project can claim to be enhancing the fairness and sustainability of the subnational property tax system.

Intergovernmental coordination:

Australia’s federal system introduces a further layer of complexity to the subnational property tax reform agenda. In particular, financial relations between the Commonwealth Government and the states have significant implications (Eccleston, Woolley et al. 2013; Eccleston and Smith 2015; Smith 2012; Warren 2010; Wood, Stewart et al. 2010b). Some of the challenges posed by Australia’s federal system include:

- the limited fiscal means states have to fund the abolition of transfer duties without increasing other property taxes
- the absence of a nationally coordinated approach to the administration of state and local property taxes
- risks that some states may be penalised for implementing property tax reforms due to the operation of Australia’s fiscal equalisation regime.

Finally, given the considerable political sensitivities associated with housing-related tax policy (Evans 2011), a number of powerful lobby groups advocate in favour of the policy status quo (Gurran and Phibbs 2016) and the prevailing paradigm and cultural norms that structure the discourse of tax reform (Blunden 2016; Khoury 2015; Marriott 2010; Passant 2014; Worthington 2012). These dynamics have historically been reinforced by institutionalised relations between major political parties and commercial interests which corrode institutional capacity to implement reform proposals (Eccleston and Marsh 2011).

1.3 Existing research

Most of the academic literature on state tax reform seeks to address issues related to policy criteria, such as equity, efficiency, simplicity, and sustainability (Wood, Stewart et al. 2010), or the question of the economic viability of changes to the tax mix. In Australia, this literature is underpinned and informed by a number of key national reviews and reports, particularly the Henry review of Australia's future tax system (Henry, Harmer et. al. 2009); the National Commission of Audit report (Commonwealth Government 2014) and the *Re:think tax discussion paper* (Commonwealth Government 2015). Similarly, state level reviews have also informed key debates for over a decade, including in the ACT (ACT Treasury 2012), Tasmania (Government of Tasmania 2010) and Western Australia (Government of Western Australia 2007), the New South Wales review of the local government rating system (IPART NSW 2016), *Homes for Victorians* (Government of Victoria 2017) and *Taking on tax: reforming NSW property taxes* (NSW Business Chamber and NSW Council of Social Service 2016).

Three key issues emerge from these reviews regarding subnational property taxation which have been instrumental in shaping the policy context noted above. These reports and the associated literature are marked by a notable degree of consensus among policy-makers and academic researchers. In particular, there is agreement that:

- 1 Transaction duties on property transfers are an inefficient tax, subject to housing market volatility, and responsible for under-utilisation of housing stock and constrained housing mobility. This noted, there is less consensus with respect to how the revenue lost to state governments by abolishing transfer duty would be replaced, even if a broad-based recurrent property tax was introduced.
- 2 Introducing a recurrent property tax on a broad base with few exemptions would bring Australia into line with the more efficient and stable tax bases used in other OECD countries. However, again, despite consensus on the net benefits of a recurrent property tax, questions of how property is valued and applied evokes a variety of responses, with arguments put in favour of levying tax based on land value, land size, capital improved value or even land amenity (e.g. Ingles 2016; Evans 2011; Wood, Stewart et al. 2010b; Mangioni and Warren 2014).
- 3 Regardless of the repeated and rational arguments for the abolition of transfer duty and the introduction of recurrent property taxes, political economy drivers will shape how the reform agenda unfolds. Beyond the question of transitional arrangements, and as flagged in Section 1.2 above, improving intergovernmental cooperation is increasingly seen as an important prerequisite for change.

There is less consensus on housing tax policy generally among policy stakeholders, which perhaps reflects their proximity to the politics of reform. However, there is common ground among most parties with respect to state tax reform, especially with regard to transfer duty abolition, but also the application of a broad-based property tax—although predictably support for abolishing transfer duty is stronger than support for increasing recurrent property taxes (e.g. Property Council of Australia 2015; Real Estate Institute of South Australia and Real Estate Institute of Australia 2015). There is also more support for 'reform' in the abstract than there is for concrete policy proposals with clear winners and losers. The positions taken by various stakeholders—the community sector, business groups, and property development and real estate industries—underline the point made by Winter and Wood (2012: 25), that carefully-designed and appropriate transition arrangements are critical to containing the impact of tax reform.

1.4 Research methods

The methods used in this report included an extensive review of policy developments, collation of stakeholder views, and detailed modelling of housing market data.

1.4.1 Policy review

The reform proposals are based on an extensive review of the relevant technical and policy literature as well as the associated political debates. Reform proposals have also been discussed with a range of stakeholders over the period of the study, including as part of the Inquiry Panel meetings.

1.4.2 Scope, data and modelling methodology

Reform proposals are subject to detailed modelling in Chapters 5 and 6. In all cases our sampling frame includes all residential properties in the six Australian states. The modelling excludes the ACT and the Northern Territory because, as detailed in Chapter 2, the former is already on the path towards phasing out transfer duties while the subnational property tax regime in the latter differs significantly from that found in the states. The absence of territory-level land tax and a complex duty schedule makes it difficult to model subnational property tax reforms in the Northern Territory.

The modelling presented in Chapters 5 and 6 focuses on the taxation of residential property as the report's focus is on housing policy. Comprehensive and contemporary data on non-residential property (commercial property and agricultural land) transactions is in any case not available.

1.4.3 Data

Data on Residential Property 'Sold' and 'Stock' in 2015–16 was extracted and made available by CoreLogic. The format of this data (residential property in fiscal year 2015–16) is detailed in Appendix 1. The dataset includes the value of all residential property transactions and an automated valuation of all residential properties in the Australian states. Property values are grouped in \$25,000 sets from \$0 to \$600,000; \$50,000 sets from \$600,000 to \$2 million; \$100,000 sets from \$2 million to \$3 million; \$250,000 sets from \$3 million to \$4 million, and one set for \$4 million and over. These data form the basis of all modelling presented in this report. The structure of these data are outlined in Appendix 1 and the parameter assumptions informing the modelling presented in the report are presented in Appendix 3. It should be noted that the CoreLogic property transaction and value dataset on which modelling is based is not publically available but was provided to the research team, under licence, free of charge.

Data on transfer duty schedules is detailed in Appendix 2 and was obtained from NSW Treasury (2016: TRP 16-01).

Residential property in the CoreLogic data relates to 'Houses' or 'Units'. Generally, a house is defined as any dwelling situated on a single title. A unit is any property that shares a title with another property or a number of other properties. Property types are derived based on the land use description which varies from state to state. Vacant land is not included.

The transfer duty model constructed using the CoreLogic data only includes residential property even though state transfer duties are much broader in scope in terms of their base, as demonstrated for the New South Wales case in Table 3 below. Moreover, modelling the New South Wales transfer duty system approximates but does not fully capture New South Wales residential land-related transfer duty as reported by Revenue NSW. This difference is because the Revenue NSW dataset has a different scope to the CoreLogic data. For example, the estimate of transfer duty on residential properties using CoreLogic data is \$5,238 million for 2015–16 while the Revenue NSW reported revenue from residential land-related transfers was

\$6,470 million. This is also at a time when the Australian Bureau of Statistics (ABS) has reported New South Wales' total transfer duty in 2015–16 as \$8,367 million, which contrasts with the Revenue NSW figure of \$8,736 million (see Table 4 below).

Table 3: NSW Office of State Revenue figures on transfer duty, 2015–16

Property type	Number of transactions	Total duty paid (\$m)	Average duty paid (\$)
All land	223,676	8,417	37,629
Non-residential land	16,344	1,947	119,119
Residential land	207,332	6,470	31,205
Other: sale of business, superannuation and nominal duty	44,795	320	7,134
Total	268,471	8,736	32,541

Source: Revenue NSW (2017).

Similarly, the modelling presented in Chapters 5 and 6 is focused exclusively on residential property as opposed to all properties (including commercial and primary production) which are subject to state transfer duties. Table 4 below shows the proportion of transfer duty estimated in our model using CoreLogic data relative to the total quantum of transfer duty reported by the ABS for each state. The modelling conducted in this report therefore focuses on a significant subset of all properties and provides detailed insights into the feasibility and impact of reforms as they apply to residential property only.

Table 4: Benchmarking of CoreLogic (modelling) data against ABS data on transfer (conveyancing) duty revenue, 2015–16

State	Transfer duties on conveyances: ABS data (cat. no. 5506)	Transfer duties: own estimates (using CoreLogic data)	Percentage of transfer duties estimated (using CoreLogic data)
NSW	8,367	5,238*	62.6
VIC	6,008	3,950	65.7
QLD	3,005	2,014	67.0
WA	1,743	841	48.3
SA	868	660	76.0
TAS	216	127	58.7
NT	114	64	56.6
ACT	286	172	60.0
All	20,607	13,066	63.4

Source: Australian Bureau of Statistics 2017 [5506]; CoreLogic data (supplied); authors' own estimates.

*Average is estimated to be \$33,457 which contrasts with the Revenue NSW average of \$31,205.

Transfer duty and land tax modelling method

Modelling of transfer duties in 2015–16 for the various states involves a direct application of the state data on the transfer duty schedule (see NSW Treasury 2016: TRP 16-01) to the CoreLogic data on Residential Properties 'Sold' over that same period.

The modelling presented is revenue neutral for individual states in that the reform scenarios are designed to deliver the same quantum of revenue as existing 2015–16 transfer duties schedules applied to the CoreLogic data set (see discussion above). In other words, reforms are designed so they have no net impact on state budgets. This modelling also assumes that there is no related behavioural response and our proposed rate schedule is applied directly to each state's CoreLogic data on residential properties 'stock' over that same period.

It is our view that this is reasonable because by assuming no behavioural response, we are clarifying the question of whether such a change would be feasible prior to considering behavioural responses (which might not emerge for some time). Once a case is made for reform independently of positive behavioural responses, it will be possible to undertake further work to establish likely behavioural responses and their potential impact on policy.

2 Taking stock of Australia's property tax regime

'Property taxes' encapsulate a range of taxes on property, wealth and associated transactions. This chapter focuses on recurrent taxes on residential property, including state land taxes and levies, local government rates and transfer duties on the sale of residential property.

Australia and its states and territories are more reliant on property taxes than the OECD average. More importantly, our existing system is disproportionately dependent on transfer duties, which in their current form are inefficient and contribute to problems in the housing system.

A number of other countries are reforming their property tax regimes to promote greater affordability and stability in their housing markets.

There is considerable variation across the different Australian states and territories with respect to the way in which land tax, transfer duty and municipal rates are designed, levied and administered.

These variations complicate the prospects for reform, but there is an emerging consensus on appropriate policy directions, including the adoption of a 'layered' approach to transfer duties, described in greater detail in Chapter 3.

2.1 Defining property tax

In this chapter, we describe in detail the existing subnational residential property tax regime in Australia. Reflecting international practice, we use the term 'property taxes' to refer to all taxes, duties, rates and charges (e.g. emergency services levies) that are applied on the basis of land and property, while noting there is a degree of conceptual ambiguity between land taxes and associated user charges. In addition, as noted in Chapter 1, we are specifically concerned with the taxation of residential property as opposed to the taxation of land and property used for commercial purposes or primary production. This emphasis arises from our primary aim of contributing to the housing policy evidence base and from the limited availability of consistent data across different classes of property. The application of specific terms used throughout the report is clarified in Box 1 below.

Box 1: Terminology

To denote specific taxes, we use terms accepted in the international literature including 'recurrent taxes on land' or 'land tax', and 'transfer duties' on land (rather than the everyday 'stamp duty' or 'conveyancing duty'). In Chapter 4 we argue for the implementation of a recurrent property tax on a broad base and using Capital Improved Value (CIV) as the valuation method. To distinguish this proposal from the more narrowly-based existing state land tax, we use the term 'property tax' or 'recurrent property tax' to refer to it.

Most analysis of subnational property taxes in Australia draws a distinction between the taxes levied by state governments and the rates charged by local governments. However, we argue that it is important to consider the combined impact of local government rates and state-level recurrent taxes on property. Australia is unusual in this regard; it is one of the few countries where two levels of government impose a tax on the same tax base (Mangioni 2016c). As well as adding administrative complexity, this characteristic also complicates an assessment of the likely impact of reform: ultimately housing markets and the decisions people make within those markets will be shaped by the combined impact of both levels of taxation on households. The administrative case for greater integration of state government land and property taxes and local government rates is presented in Chapter 4.

Another important distinction is that between recurrent taxes on property based on their assessed value, and non-recurrent duties and charges on property-related transactions. This distinction is central to the current debate about reforming the Australian property tax system as it produces the most complex implementation issues. It is also central to the OECD framework (OECD 2016) for classifying sources of taxation, which establishes six distinct categories within an overall property tax classification code of 4000:

- recurrent taxes on immoveable property (4100)
- recurrent taxes on net wealth (individual and corporate) (4200)
- estate, inheritance and gift taxes (4300)
- taxes on financial and capital transactions (4400)
- non-recurrent taxes on property (net wealth and other property) (4500)
- other recurrent taxes on property (excluding those already listed in the classification) (4600).

This conceptualisation is reflected in the overview of national property taxes in Section 2.2. This report does not include consideration of estate, inheritance and gift taxes; although Australia's lack of these has been criticised (Stilwell 2011; Henry, Harmer et al. 2009: Chapter A3), they sit outside the scope of this research. Our analysis focuses on revenue sources that fall within the 4100 and 4400 categories within the OECD framework.

2.2 Australia and other countries compared

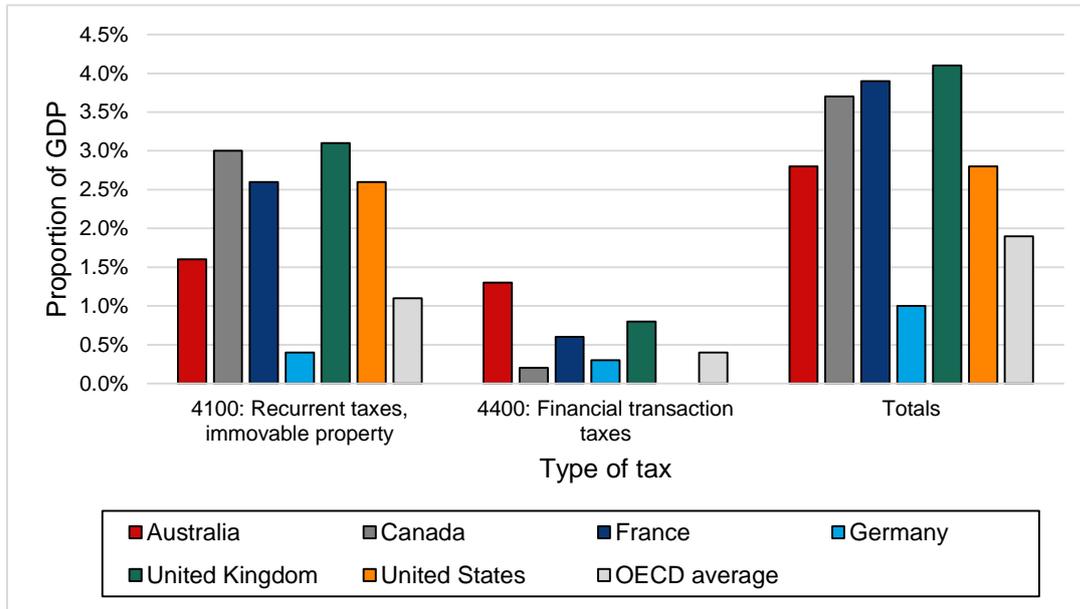
Housing price inflation and its associated policy challenges are being experienced to varying degrees across a wide range of international property markets. While there are common drivers, such as historically low interest rates and a strong credit supply (Turner 2015), there is also a good deal of variation between different nations and regions, highlighting the extent to which residential housing markets are influenced by a host of domestic and local factors. Yet the common policy challenges facing a number of countries, combined with the wide range of responses that have been implemented, provide a useful baseline for comparing Australia's property tax regime with other jurisdictions, and an opportunity to assess relevant recent trends in property tax policy in these countries.

2.2.1 International comparisons

Using the definitions of property taxes outlined above (Section 2.1) we can see from Figure 2 below that, when tax is considered as a proportion of GDP, Australia has a relatively high dependence on property taxes (40% above OECD average) although the UK, France and Canada are higher still. When property tax is considered as a proportion of all taxation revenue, as in Figure 3 below, Australia's overall reliance on property tax is further above the OECD average, in part because overall tax to GDP in Australia is well below the OECD average. Perhaps of greater significance is the unusual mix of taxes in Australia's property tax regime:

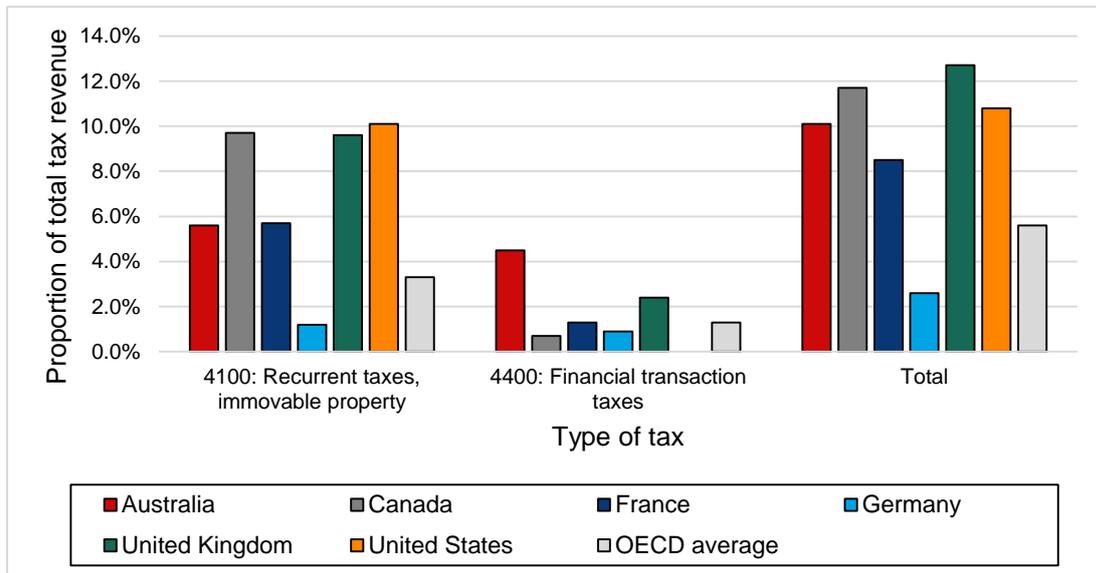
Australia's reliance on non-recurrent taxation on transactions is far in excess of the other comparison countries. These comparisons underscore the point made in various reviews (Henry, Harmer et al. 2009; Commonwealth of Australia 2015; ACT Treasury 2012) that while Australia is not undertaxed, it is poorly taxed and overly dependent on transaction-based taxes on property (Mangioni 2016c).

Figure 2: Selected property taxes as a proportion of total GDP, selected countries and OECD average, 2014



Source: OECD 2016.

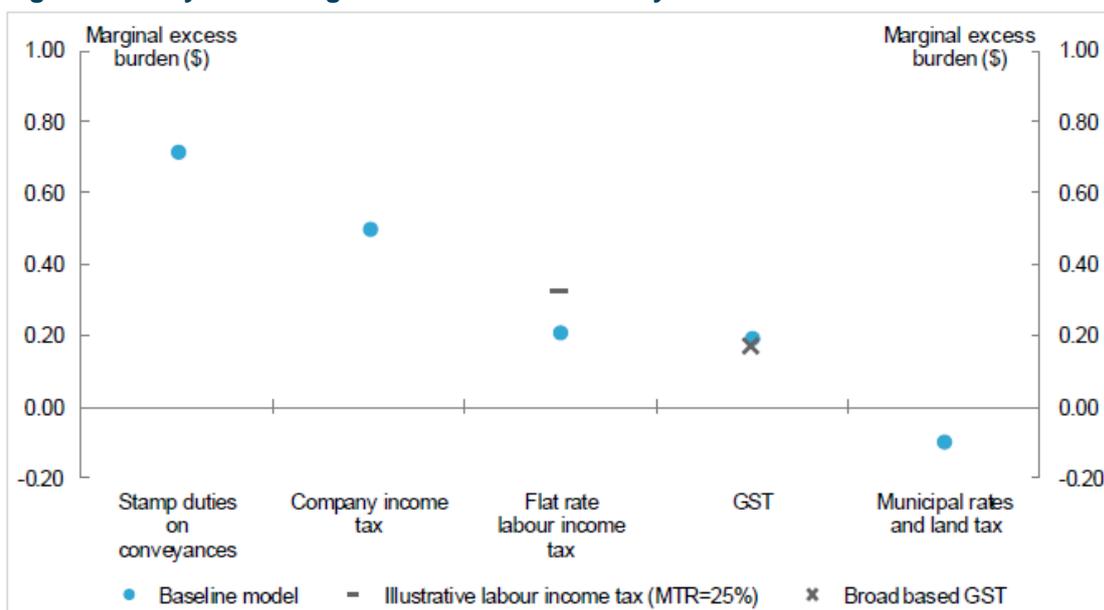
Figure 3: Selected property taxes as a proportion of total tax revenue, selected countries and OECD average, 2014



Source: OECD 2016a.

Australia's existing regime of transaction taxes is problematic for a number of reasons. First, in terms of economic efficiency, taxing transactions acts as a disincentive for owners wanting to move to more appropriate accommodation, hindering labour mobility and acting as a barrier to 'downsizing'. Second, evidence suggests that shifting the property tax mix to a recurrent tax on property values will put downward pressure on property prices improving housing affordability. Finally, revenue from transaction-based property taxes can be extremely volatile given its dependence on the volume and price of property transactions (Henry, Harmer et al. 2009: 253–254; Productivity Commission 2017b). As reproduced in Figure 4 below, modelling undertaken as part of the Commonwealth Government's *Re:Think tax review* found that of the taxes modelled, transfer duties imposed the highest level of marginal excess burden on the economy, meaning that the impact of raising revenue from these taxes on the consumption of goods and services by households is considerable and detrimental (Commonwealth Government 2015: 24–25). By contrast, municipal rates and land tax (on the existing narrow base) both imposed a negative marginal excess burden (Commonwealth Government 2015: 25).

Figure 4: Analysis of marginal excess burden of key Australian taxes



Source: Reproduced from Commonwealth Government (2015: 25).

A further important complication arises from the sharing of the property tax base between local government (rates) and state government (land tax). These two revenue sources are designed and levied differently and billed separately, and this duplication results in higher compliance and administrative costs than would otherwise be the case. It therefore has the potential to hinder the broadening of more efficient recurrent taxes in the Australian property tax regime.

2.2.2 International trends in property taxation

Although there is a technical consensus that transaction duties should be phased out in the longer term, transaction-based taxes are being used in some international property markets to curb speculation and investor demand in the hope of curbing rapid price growth. This international evidence is of direct relevance to the current housing tax debate in Australia highlighting the potential role of well-designed transfer duties in the short to medium term.

For example, the Smith Institute, a UK think tank, has advocated the introduction of a property speculation tax modelled on existing taxes applied in Germany and Malaysia, as well as China, Taiwan and Hong Kong. It would be directed primarily at overseas investors and short-term buyers (those selling properties within a set period of purchasing them), with the revenue

hypothecated into affordable housing provision (Heywood and Hackett 2013). Such a tax, it is argued, would not need to be a permanent or ubiquitous feature of the national tax regime, but could be used when and where appropriate or necessary to dampen investor demand and reduce the risk of housing bubbles (Haywood and Hackett 2013: 14). More recently, analysis of the London market has highlighted the role of increasing transfer duties on high-value properties and second or subsequent homes with removing some, though not all, of the heat from the market, particularly that coming from domestic buyers (Miller 2017).

In Hong Kong, transfer duty rates depend on the value of the property, but a special additional duty is charged on properties that are resold within 36 months of being purchased (Government of Hong Kong 2017). The provincial government in British Columbia has recently introduced a 15 per cent tax on foreign buyers of properties in metropolitan Vancouver, and the city of Vancouver has added a 1 per cent tax on vacant properties. Media commentary has drawn attention to the unintended consequences of these latter measures, especially the displacement of speculative investment into other Canadian markets (Middleton 2017)—although it is worth noting this claim has been attributed to a real estate firm specialising in luxury properties, which has depicted the policies as unwarranted government interference in the market (see Sothebys International Realty Canada 2016: 6).

More generally, the European Commission has argued that taxation policies are not the best mechanism with which to control the risk of an over-valued housing market. However, the Commission also notes that ‘it is important the structure of property and housing taxation does not contribute to such increases in asset prices or bubbles’ (Eurostat 2015: 43).

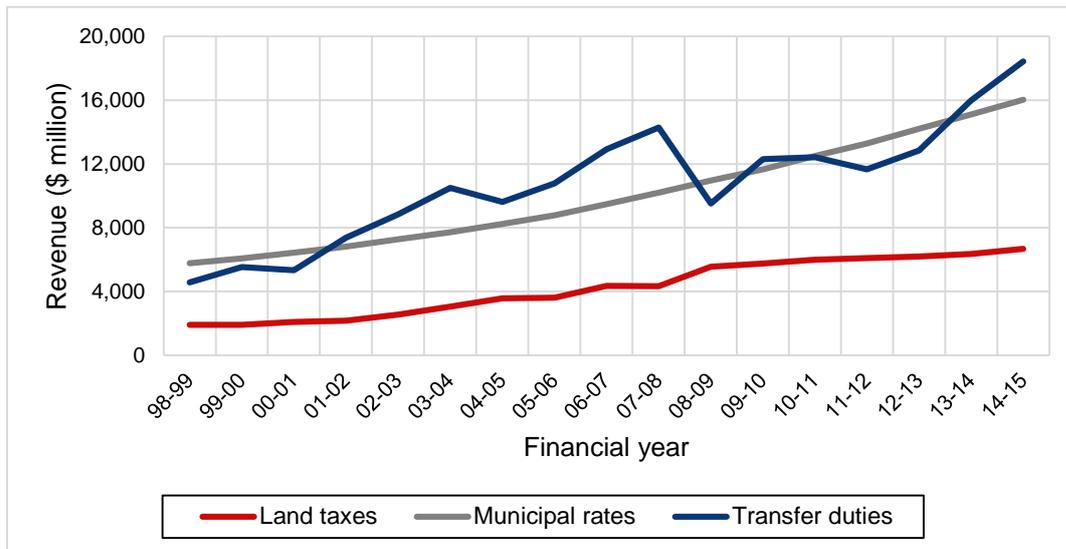
2.3 Australian states and territories compared

2.3.1 Transfer duties

Australia’s reliance on volatile transfer duties is clearly evident in the data presented in Figure 5 below. While land tax and municipal rates follow a consistent trajectory, revenue from transfer duties fluctuates significantly, most notably during the global financial crisis of 2008, when it fell abruptly and substantially. Although all three types of tax are levied in some way on property values, the volatility in the transfer duty yield highlights how transaction taxes are linked directly to sales prices and volumes that vary significantly across the economic cycle.

The close relationship between transfer duty revenue flows and volatility in the housing market is further highlighted when differences between the states are considered. Figure 6 below illustrates how transfer duty revenue has grown significantly in recent years in the booming housing markets of New South Wales and Victoria, while growth since the GFC has been more subdued in Queensland and Western Australia and unremarkable in South Australia, Tasmania and the territories.

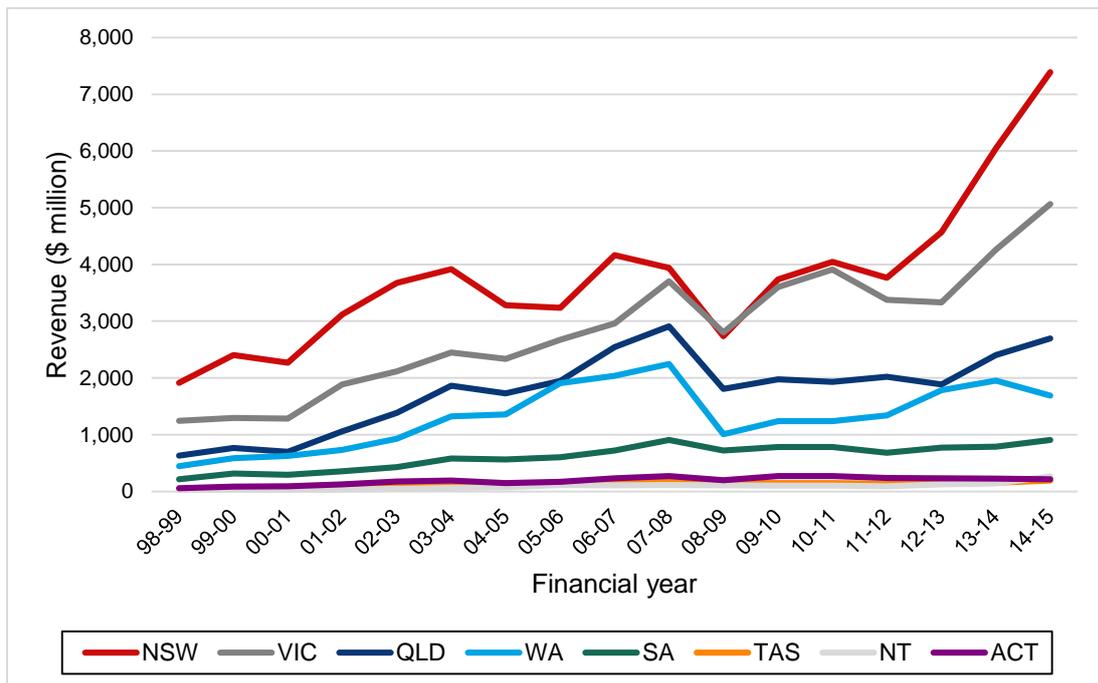
Figure 5: Taxation revenue from selected sources, all states and territories (state and local government), 1998–99 to 2014–15



Source: Australian Bureau of Statistics, 2009, 2016.

Note: Where there were discrepancies between data cubes, the later figures are shown.

Figure 6: Transfer duty revenue, all states and territories (state and local government), 1998–99 to 2014–15



Source: Australian Bureau of Statistics, 2009, 2016.

Note: Where there were discrepancies between data cubes, the later figures are shown.

Figure 6 highlights the differences in the extent to which each state relies on transfer duty. Table 5 below shows revenue from land tax, municipal rates and transfer duties, as well as total taxation, on a per capita basis for the six Australian states. It indicates the range of tax mixes used in different jurisdictions and also the different levels of reliance on state taxation more broadly. It also draws out evidence of substitution—for example, in Tasmania and Queensland, where transfer duties and land tax both deliver less per capita, municipal rates per capita are relatively higher. The differences in state tax regimes are explored more fully in Section 2.3.2 below.

Table 5: Taxation revenue (\$ per capita) from selected sources, all states and territories (state and local government), 2014–15

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	All
Land taxes	324	295	204	329	285	163	0	246	281
Municipal rates	520	752	704	808	770	703	462	962	673
Transfer duties	970	853	565	534	651	374	1,083	553	775
Total taxation revenue	3,949	3,885	3,357	3,394	4,148	2,635	3,385	3,524	3,754

Source: Calculated from Australian Bureau of Statistics, 2015, 2016.

2.3.2 Differences between and among states and territories

The political economy of property taxation in Australia is characterised by significant variation between states and territories and across local government areas. This variation is a consequence of differences in tax rates and structures, combined with different administrative mechanisms, and different patterns of property use, land values, markets and broader economic conditions across the federation. These variations have implications for reform pathways as they can lead to highly localised and politically problematic distributional issues and, in the case of policy design and administration differences, add to the implementation challenge of reform.

Transfer duties

As noted earlier, the revenue quantum raised by each type of property tax varies widely across the federation. However, variations in policy design and rate structures also play a part, with the states and territories each their own regime for calculating the amount payable. The different approaches to transfer duties are summarised in Table 6 below. From this summary, it can be seen that, with the exception of the Northern Territory, a similar approach to pricing duties exists across jurisdictions (noting that the ACT Government is currently engaged in a long-term strategy to phase out transfer duties completely in favour of a broad-based land tax, which means their system is ultimately directed at a different policy goal). Although the transfer duty schedules in each of the states vary widely, they nonetheless apply a progressive scale (Victoria is a partial exception), by which the marginal transfer duty rate increases with the value of the property. That is, the underlying principle of how to levy transfer duty remains consistent, but the rates and values differ according to the local housing market and state revenue requirements. There is considerable variation at a technical, legal level with respect to definitions of concepts such as ‘dutiable value’.

Table 6: Structure of transfer duty regimes (summary), all states and territories, 2015–2016

NSW		VIC	
State-wide median: \$653,697		State-wide median: \$635,872	
Value	Duty	Value	Duty
\$0–14,000	1.25% of total	\$0–25,000	1.40% of total
\$14,001–30,000	\$175+1.50%	\$25,001–130,000	\$350+2.40%
\$30,001–80,000	\$415+1.75%	\$130,001–440,000	\$2,870+5.00%
\$80,001–300,000	\$1290+3.50%	\$440,001–550,000	\$18,370+6.00%
\$300,001–1,000,000	\$8990+4.50%	\$550,001–960,000	\$28,070+6.00%
\$1,000,001–3,000,000	\$40,490+5.50%	\$960,001+	5.50% of total
3,000,001+	\$150,490+7.00%	<i>Figures include concession provided on PPR purchases valued at less than \$550,000</i>	
QLD		WA	
State-wide median: \$424,966		State-wide median: \$481,605	
Value	Duty	Value	Duty
\$0–5000	Nil	\$0–120,000	1.90% of total
\$5001–75,000	1.50% of total	\$120,001–150,000	\$2,280+2.85%
\$75,001–540,000	\$1,050+3.50%	\$150,001–360,000	\$3,135+3.80%
\$540,001–1,000,000	\$17,325+4.50%	\$360,001–725,000	\$11,115+4.75%
\$1,000,001+	\$38,025+5.75%	\$725,001+	\$28,453+5.15%.
SA		TAS	
State-wide median: \$381,059		State-wide median: \$283,886	
Value	Duty	Value	Duty
\$0–12,000	1.00%	\$0–3000	\$50
\$12,001–30,000	\$120+2.00%	\$3,001–25,000	\$50+1.75%
\$30,001–50,000	\$480+3.00%	\$25,001–75,000	\$435+2.25%
\$50,001–100,000	\$1,080+3.50%	\$75,001–200,000	\$1,560+3.50%
\$100,001–200,000	\$2,830+4.00%	\$200,001–375,000	\$5,935+4.00%
\$200,001–250,000	\$6,830+4.25%	\$375,001–725,000	\$12,935+4.25%
\$250,001–300,000	\$8,955+4.75%	\$725,001+	\$27,810+4.50%.
\$300,001–500,000	\$11,330+5.00%		
\$500,001+	\$21,330+5.50%		

Source: NSW Treasury TRP 16-01.

Note: A more detailed version of this table can be found in Appendix 2.

The most noticeable variation in transfer duty regimes occurs with respect to concessions (detailed in Appendix 2). Beyond statutory exemptions to particular groups (e.g. changes in ownership within relationships or charitable purchasers) which are relatively standard across the states and territories, most jurisdictions also provide more specific concessions, exemptions and special rates to particular categories of purchasers. In particular, first home buyers in many states qualify for a reduction in or an exemption from paying transfer duties. A number of states have also extended first home buyer concessions to other categories of owner-occupiers, although these are generally limited to properties below a particular threshold. Some states

provide concessional rates to purchasers of off-the-plan apartments, while other states charge foreign purchasers an additional duty, and in others, multiple purchases by the same person can be aggregated into one for the purposes of calculating the transfer duty payable. In New South Wales, transactions involving ‘premium’ properties valued at over \$3 million attract a higher rate of duty.

The use of these concessions suggest that states and territories are trying to use transfer duty policy to achieve a range of goals, including responding to political pressures around housing affordability. Thus, low-income owner-occupiers and first home buyers are granted concessional transfer duties, while foreign purchasers are charged more.

Land tax

It is important to note that ‘land tax’ as it is currently applied is only paid on investment properties, rather than on principal places of residence. As with transfer duty, most of the states and territories adopt an approach that is broadly similar (tax is payable based on the value of the land, according to a progressive scale), but again, as with transfer duty, the precise rates and thresholds applied vary widely. Table 7 below indicates for each jurisdiction the valuation methods and tax-free thresholds (i.e. the land value at which land tax becomes payable) that apply.

Table 7: Land tax valuation methods and tax-free thresholds, all states and territories, 2015–16

State	Valuation method (summary)	Tax-free threshold for residential properties (\$)
NSW	Three-year average of unimproved land values	432,000
VIC	Aggregate value of land owned	250,000
QLD	Three-year average of land values	600,000
WA	Aggregate unimproved value of land	300,000
SA	Aggregate value of land	323,000
TAS	Aggregate value of land	24,999
NT	Not applicable (land tax not applied)	
ACT	Rolling three-year average of unimproved land values	None

Source: New South Wales Treasury 2016.

In addition, a wide range of exemptions are applied in all states and territories that significantly reduce the base and thus the revenue that can be derived. In the Northern Territory, no land tax is levied at all. In all other states and territories, principal places of residence and land used for primary production are exempt from land tax (with some caveats for residential properties owned by certain types of trusts or companies or, in relation to some productive land, providing certain conditions are met), and conditional exemptions also apply to properties owned by charities, religious groups or educational bodies. It is also important to note that most states aggregate the value of multiple properties held by the same owner for the purposes of calculating land tax liabilities. As a result, ‘mum and dad’ investors with a single property face a lower average land tax liability relative to larger or institutional investors, a bias which may deter institutional investment in residential property. States also impose other types of exemptions, although these are not necessarily identical from state to state. Most commonly, aged care centres, caravan parks and similar types of property are exempted (New South Wales Treasury 2016). These exemptions are relatively consistent, in contrast to the array of concessional arrangements in relation to transfer duties, but the breadth of property types that are exempt

means that they also pose major political barriers to the introduction of any reform that sought to widen the land tax base due to the large number of households and organisations that would be affected.

Municipal rates

The variability in municipal rates regimes across Australia's 537 or so local government areas is even more pronounced than the differences between the states with regard to land tax and transfer duty. Much of this variation, however, arises from the range of valuation methods in use for determining rates payments rather than the structure of exemptions or concessions (see Table 8 below) as the tax base itself is broad and there are minimal exemptions. There is a broad consensus on the need for a more consistent approach to valuations and thus rate setting across the country (IPART 2016).

Table 8: Municipal rates valuation methods, all states and territories

State	Valuation methods	
NSW	Unimproved value	
VIC	Permitted: Unimproved value Capital improved value Annual rental value	In use: Capital improved value Annual rental value
QLD	Unimproved value	
WA	Rural land and mining and petroleum interests: Unimproved value Non-rural land: Annual rental value	
SA	Permitted: Unimproved value Capital improved value Annual rental value	In majority use: Capital improved value
TAS	Permitted: Unimproved value Capital improved value Annual rental value	In use: Annual rental value (most widely used) Capital improved value
NT	Permitted: Unimproved value Capital improved value Annual rental value	In use: Unimproved value
ACT	Unimproved value	

Source: IPART (2016).

As noted above, Australia is also unusual for having both state and local governments imposing recurrent taxes on property, and there is an argument for a more centralised approach to administration, while still allowing local control over actual charges (Mangioni 2016c; Passant and McLaren 2011).

As well as differences in valuation methods, local government itself varies widely across Australia, with considerable contrast in the size of municipalities (both in area and in population), the range of responsibilities taken on by local government with some councils confining themselves to rates, rubbish and roads, while others have taken on broader responsibilities, such as recreational infrastructure, affordable housing provision and human service delivery. Predictably there is a clear relationship between the scope of service delivery and the revenue-raising capacity of a local government.

2.4 The integration of state and local property taxes

The tax base used as the basis for local government rates is significantly broader than the base used for state land taxes and, as is outlined in greater detail in Chapter 4, a number of reports and commentators have outlined the economic and administrative dividends that would result from the integration of local government rates and state land taxes (Passant and McLaren 2011; Henry, Harmer et al. 2009; Mangioni 2016c). This integration has been occurring for over a decade with state governments using the local government rates base and collection system to collect a growing number of hypothecated levies (see Table 9 and Box 2 below). This strategy has been effective both politically and in terms of achieving technical policy goals, but is not without risks. This was demonstrated by the NSW Government's May 2017 decision to scrap a proposal to impose a new fire and emergency service levy using the local government rates base (ABC 2017). The NSW case highlights the need to be transparent about the objectives of reform and attentive to the distributional consequences.

Table 9: Municipal rates valuation methods and additional levies, all states and territories

State	State levies on property base	Levy details
NSW	Fire and Emergency Services Levy	Announced as applying from 1 July 2017 but subsequently deferred indefinitely Hypothecated to emergency, fire and rescue services To be collected as part of municipal rates Level was to be determined once July 2016 property values and emergency services agency budgets for 2017–18 were known
VIC	Fire Services Property Levy	Applied from 1 July 2013 Collected as part of municipal rates, based on capital improved value Hypothecated to fire services Provides 87.5% and 77.5% respectively of Metropolitan Fire Brigade and Country Fire Authority budgets
QLD	Emergency Management Levy	Collected as part of municipal rates Hypothecated to fire and emergency services
WA	Emergency Services Levy	Applied from 1 July 2003 Collected as part of municipal rates Hypothecated to emergency, fire and rescue services Budgeted so as to raise \$338,891,000 in 2016–17
SA	Emergency Services Levy	Applied since 1998; Billing by Revenue SA Levied on fixed and some moveable property

State	State levies on property base	Levy details
		Hypothecated to dedicated fund for use by emergency, fire and rescue services
TAS	Fire Service Contribution/Rate	Collected as part of municipal rates on behalf of Tasmania Fire Service Levied on all rateable land with a \$39 minimum payment
NT	None	Emergency services funded from consolidated revenue
ACT	Fire and Emergency Services Levy	Collected as part of municipal rates on all rateable properties Hypothecated to fire and emergency services
	Safer Families Levy	Applied from 1 July 2016 Flat levy of \$30 on all rateable residential and rural land to fund reform to family violence programs

Source: Compiled by the authors from state government websites.

Box 2: State government access to local government rates

There is evidence that state governments are starting to seek access to the local government rates base to raise revenue that can be hypothecated to particular purposes (see Table 9 above). Most obviously, levies which either contribute to or cover the cost of funding emergency, fire and rescue services are applied in all state jurisdictions, apart from the Northern Territory, using the same base as municipal rates, and with the exception of South Australia, the same billing system—that is, residents receive a single bill, with their council rates component and emergency services levy itemised separately. More recently, the ACT has introduced a ‘Safer Families Levy’, which is collected on all rateable land, with the revenue to be used to fund reforms to the domestic and family service system. Notably, in New South Wales the Fire and Emergency Services Levy was to be implemented on 1 July 2017, but its implementation has been deferred indefinitely to ensure that some small to medium businesses are not subjected to unreasonable levels of tax through their contribution.

2.5 Current reform proposals

Given the challenges facing Australia’s housing system combined with numerous critiques of the subnational property tax regime, it is not surprising that there have been persistent and growing calls for reform. Generally specific proposals have been informed by the prevailing fiscal orthodoxy and have advocated policy change designed to enhance the neutrality and efficiency of the property tax base by gradually replacing transfer duties with broad-based recurrent property or land taxes.

There is a clear technical consensus on the desirability of such an approach in the academic literature (Chapter 3). This is reflected in the type of reforms proposed in national and state tax policy reviews, such as the *Australia’s Future Tax System* (‘Henry’) review (see Table 10 below) and those by state governments and a wide range of research institutes and think tanks (ACT Government 2012; Bentley and D’Cruz 2016; Daley and Coates 2015; Government of South Australia 2015; Government of Tasmania 2010). However, with the exception of the ACT, political barriers have prevented state governments committing to a long-term strategy of

replacing transfer duties of residential properties with a broad-based property tax. The ACT's more ambitious policy stance has been facilitated by the fact that, unlike the states, there is no sharing of the land tax base between two levels of government because there is no municipal-level government in the ACT. In other states, however, the political and fiscal barriers to a transition seem to be prohibitive in the short run.

Nonetheless, given growing political concern about housing affordability, the majority of state governments are implementing incremental changes such as providing transfer duty relief for low value properties while imposing surcharges on other purchasers.

Table 10: Recommendations on state property tax reform from the 2009 Henry review

Goal	Remove stamp duty and replace with a broad-based land tax.
Specific recommendations	<p>Levy land tax according to an increasing, marginal rate schedule with the lowest rate being zero and thresholds determined by per-square-metre, highest-and-best-use value.</p> <p>Work towards the extension of the land tax base to all land, including agricultural land (i.e. value-based application, not use-based).</p> <p>Specifically remove transfer duties from commercial and industrial properties and replace with a lower land tax threshold that encompasses those properties.</p> <p>Levy land tax on individual land holdings rather than aggregate portfolios.</p>
Other suggestions	<p>Investigate transitional mechanisms that minimise impact on existing exempt landowners and maintain revenue flows to government.</p> <p>Investigate deferral of land tax options for low-income earners.</p> <p>Align local government and land tax bases, with a single billing system, supported by a more robust and consistent valuation system.</p>

Source: Henry, Harmer et al. (2009).

There is also evidence of an interest in greater harmonisation of the land tax and local government rates bases, including through the widespread adoption of the practice of using the municipal rates base to collect emergency service levies across states (see Table 9 above). Although this may provoke resentment on the part of some local councils, it points to the administrative efficiencies possible with a more integrated approach to property tax collection. The political risks are significant however, as the fallout surrounding the New South Wales' Government's failed introduction of a Fire and Emergency Services Levy demonstrates (Raper 2017; Nicholls 2017).

In the following chapters, we argue that, given the current trajectory of subnational property tax reform in Australia, the short-term objective should be to simplify the administration of property taxes across the federation (Chapter 4) and the structure of existing transfer duties (Chapter 5) prior to embarking on a more ambitious transition to a broad-based recurrent property tax (Chapter 6). Before describing and modelling these reforms in greater detail, the next chapter (Chapter 3) provides a detailed account of the principles underlying the reforms we propose.

3 Reform objectives and strategy

This chapter describes the broad aims of the reforms proposed in this report and their relationship to the wider objectives of the overarching ‘pathways to housing tax reform’ Inquiry.

The proposed approach is pragmatic and incremental. It begins with a short-term objective of improving subnational property tax administration by developing nationally consistent valuation methods, a national register of property owners and further integration of state and local property tax collection.

Having established this administrative foundation, the focus should be to simplify the transfer duty regime followed by a broadening of the recurrent property tax base to fund the gradual reduction of transfer duties on residential properties.

Subnational property taxation in the Australian federation has become increasingly complex with consequences for administrative and economic efficiency. However, reflecting both the barriers to housing tax reform and the diversity and complexity of housing markets across the federation, it is essential that any reform agenda is sufficiently flexible to enable individual state governments to adapt the reform framework to their particular policy objectives. This flexibility is achieved through the development of a layered and incremental model in which state governments can choose, within a simplified framework, transfer duty and land tax rates and thresholds which are consistent with prevailing preferences and conditions. Providing state governments with the discretion to adapt their transfer duty and land tax schedules within a nationally agreed framework reconciles the necessity of improving consistency and administrative efficiency in Australia’s subnational housing tax system with the need to protect the interests and autonomy of individual states.

3.1 Project objectives from a political economy perspective

As already noted, a wide range of variables influence the dynamic of housing markets. Over the longer term, subnational property tax reform will play an important role in promoting broader housing policy goals. Recurrent property taxes are widely acknowledged as an efficient and equitable tax by economists because property is immobile and represents a tangible store of wealth. Recurrent property taxes also contribute to housing affordability because future property tax liabilities are capitalised into prices putting downward pressure on home prices. Empirical analysis of the impact of ACT reforms on Canberra housing prices confirmed that the prospect of increasing land taxes curbed property price growth and potentially saved average purchasers \$1,000 to \$2,000 in mortgage repayments (Murray 2016). Moreover, given that the benefits of public and infrastructure investments are reflected in land values, property-based taxation is an efficient means to tax these windfall gains. For these reasons, recurrent taxes on the value of residential property are regarded as a desirable form of taxation for state and local governments (Slack and Bird 2015). However, achieving these reforms is about more than just the principles of good tax design, it is also about the constraints imposed by prevailing political and economic circumstances.

The political and economic barriers to property tax reform are significant. In addition to the general, well-documented barriers to tax reform, there are a number of specific challenges associated with changing the taxation of residential property:

- Intergovernmental barriers to reform: all three levels of Australian government tax residential property (either directly or indirectly) demanding high levels of coordination between governments (Smith 2012; Warren 2010).
- Inefficient transfer duty-based taxes are concealed in one-off transaction costs whereas recurrent taxes are highly visible (Slack and Bird 2015).
- Recurrent taxes on residential property are a tax on wealth and low-income, asset-rich households may not have the cash flow to pay recurrent taxes.
- Attempts to broaden Australia's narrow property tax base will result in more Australian households being subject to direct property taxation (Slack and Bird 2015).

Residential property is the most important form of wealth for many Australian households and there are significant political risks associated with policy changes that may affect residential property values. Eslake (2013) argues, for example, that some of the longest-standing, significant interventions by the Commonwealth Government in the housing market (such as grants or cash incentives for first home buyers and negative gearing) have proven to be the most difficult policies to shift, even in the face of consistent critique and clear evidence that they are contributing to poor housing outcomes.

Taken together, these obstacles mean that reform can be 'more a political exercise than a technical one', and strategies must also pay close attention to processes by which taxpayers come to view reform as 'necessary and desirable' (Slack and Bird 2015:17).

As a means of managing this political economy of housing tax policy, we have identified short, medium and longer-term objectives for subnational residential property tax reform that seek to address current political and economic challenges.

3.2 Short-term reform objectives

In the short term, we propose two objectives. First, underpinning the broader property tax reform agenda with necessary changes to the administration of property tax systems in Australia. Second, we propose simplifying transfer duties as they apply to residential property transactions across the federation by developing a single rate with a significant duty-free threshold to ensure the incidence of transfer duties is progressive by property value. This simplified transfer duty base provides a foundation for longer-term reforms.

3.2.1 Short-term administrative reforms: the foundation for effective subnational property taxation

A tax system is only as effective as the administrative regime on which it is built, and all too often administrative considerations are overlooked in the tax policy process. There are few forms of taxation whose success is more dependent on effective administration than property taxes. Poor property tax administration has a number of consequences including the cost and effectiveness of compliance (Slack and Bird 2014:14). In Australia, the administration of subnational property taxation is made even more complex because—as shown in Chapter 2—there are multiple jurisdictions each with their own distinctive approach to property tax design and administration. Moreover, state and local government both impose different recurrent property taxes on the same base.

However, as Almy (2014: 24) notes, the complexities or costs involved in re-designing current valuation systems are not sufficient grounds to 'tolerate indefinitely' clear inequities and inefficiencies that continue to plague property taxation. As such, any effective subnational property taxation reform must be founded in a robust administrative system, without which reform will not be viable or productive in the longer term.

There are a number of key features central to reforming the land and property tax base and its administration. This includes the adoption of a harmonised tax base applying to residential property between states, as well as with their local government constituents, which could be used to develop a national database of property valuations and a comprehensive registry of beneficial owners. Administrative efficiency and compliance would be further enhanced by more comprehensive data sharing among all three levels of government and the integration of billing for local government rates and state property taxes.

The harmonisation of the bases should also include the use of a consistent valuation based on a Capital Improved Valuation (CIV) method based on the Highest and Best use (HBU) across all Australian jurisdictions. Currently, as noted in Chapter 2, state jurisdictions differ in their use of valuation methods, making consistency and integration in the administration of tax regimes difficult to achieve. A CIV + HBU valuation regime has the advantage that it closely approximates the market value for most residential properties and, as outlined in Chapter 4, has a number of advantages over a tax on unimproved land values. We also argue for a shift to valuations based on automated valuation models (AVMs) which would not only enhance the contemporaneity and reliability of market valuations, but an AVM is increasingly sophisticated and can account for detailed differences between property types and uses. We also propose that the aggregation of properties held by the same owner for the purposes of assessing land taxes be abolished in order to encourage institutional investment in residential property. Detailed discussion of our proposal for harmonising base and valuation methods is found in Chapter 4.

Creating a nationally consistent and integrated administrative regime in relation to property ownership, valuation and taxation will deliver significant compliance and efficiency dividends to Australian governments. We advocate building on and improving wider administrative reforms to maximise such efficiency dividends. This includes, for example, the creation of a national property register and stronger purchase provisions for foreign investors/purchasers (as in NZ). Currently, each state and territory has a central register of all land that also details the owner of the land (based on land title). Australia's current national land register pertains only to foreign investors required to report their existing agricultural landholdings and any acquisitions or disposals to the Australian Tax office (ATO) (FIRB 2017). We also advocate for stronger administrative cooperation and data sharing between state and federal governments. This would also require more robust purchaser proof of ID and residency claims (as found in New Zealand). This is necessary to establish whether a property is being used as a principal place of residence (PPR) which becomes important should governments choose to impose differential taxation based on property use (Chapter 6).

3.2.2 Short-term transfer duty reforms

Beyond improving property tax administration, the focus of reform should be on restructuring transfer duties to create a simplified and progressive (by value of property) duty regime raising the same revenue as the systems being replaced. This will be achieved using a single transfer duty rate with a single duty-free threshold creating a rate schedule which is progressive in its impact (with average duty rates increasing with property value) and in which, depending on the rate and threshold selected, properties in the lower 60 per cent of the price distribution would be subject to lower levels of transfer duty.

This approach means that the 'basic' transfer duty schedule can be adapted to address housing policy goals. It allows state governments to introduce or 'layer' additional concessions or surcharges to specific classes of property based on ownership, value or use. For example, first home buyers could be provided with concessional treatment while investors, non-resident foreigners or those purchasing premium properties, could be subjected to additional surcharges.

The focus on short-term, revenue neutral transfer duty reform is motivated by a number of factors.

- It acknowledges the significant short-term budget challenges associated with cutting or abolishing transfer duties (see Chapter 2; Wood, Ong et al. 2012).
- It acknowledges that well-designed transfer duties can play an important role in a wider property tax regime. Recent international research shows that alongside other measures, placing higher taxes on speculative activity (where property is held for short duration and sold for capital gain) can influence the behaviour of investors, and has been successfully implemented in other countries such as Germany (Heywood and Hackett 2014). Relatedly, transfer duty reforms are unlikely to affect rental markets in the short term as the cost of holding existing investment properties will not increase. Over the longer term, and especially if properties purchased by owner-occupiers receive concessional treatment (see Chapter 6), then the duty regime should dampen speculation and relative demand for investment properties.

Box 3: What impact will transfer duty cuts have on housing markets?

- There is mixed evidence as to whether the costs of transfer duty fall on buyers or sellers, and much depends on price elasticity. In a rising market the costs fall on sellers, but under other market conditions it is less clear (Davidhoff and Leigh 2013).
- Reducing transfer duty on lower-value housing will improve residential mobility for those purchasing lower-value homes.
- The schedule proposed in this report is designed to avoid imposing high marginal transfer duties at certain price points (as in recent Victorian reforms) which create threshold effects.
- A revenue neutral switch in the distribution of transfer duty liability, from owner-occupiers to investors, should improve affordability for owner-occupiers in most markets.

3.3 Medium to long-term reforms: a new transfer duty/recurrent property tax mix

While there would be many political and administrative benefits from a nationally coordinated approach, the two reform strategies described below are designed such that they could be implemented unilaterally by individual states.

3.3.1 Shifting the transfer duty mix

Reducing state governments' reliance on property-based transfer duties is an important long-term policy objective. However, there are formidable barriers to a transition from transfer duty to recurrent property tax that have prevented state governments from committing to this policy objective (although, as noted, the use of property-based service levies has increased). Given the political-economy of a transfer duty-recurrent property tax transition, a less ambitious reform agenda is to reduce transfer duty for owner-occupiers while increasing it for investors. Section 6.1 describes and models two revenue neutral strategies for increasing the relative transfer duty paid by investors. We argue that this reform would support the aims of housing tax reform by granting preferential tax treatment to owner-occupiers relative to investors which, over the longer term, should help boost home ownership rates. Also, increasing transfer duty on investors should encourage landlords to hold properties for longer, thereby increasing tenant security. From a political perspective, revenue from increasing transfer duty rates on investors can be used to fund further reductions in transfer duty for owner-occupiers purchasing lower-

value homes. If the net duty burden from investors and owner-occupiers remains unchanged then shifting the duty burden from one to the other is unlikely to impact on property markets, but should help increase home ownership. These reforms are modelled in detail in Chapter 6.

Box 4: Will increasing tax on investment properties increase rent?

It has been argued (ABC 2016) that if the tax burden on investors increases, lower after tax returns would reduce rental property supply and inflate rental prices. However, Daley and Wood (2016) highlight that historical evidence, as well as economic theory and research, show that rent increases as a response to changes in taxes are both slow to take effect and modest in impact. As Eslake (2013) notes, the markets for investors and owner-occupiers are linked and any decline in rental supply would be offset by increased supply for owner-occupiers. More would-be home buyers would become home owners and demand for rental properties would subsequently be reduced; having little net effect on supply and demand. Thus, in the longer term it is important to recognise that if, for tax reasons, a property is sold by a landlord to an owner-occupier, both rental supply and demand will fall.

3.3.2 A simple and transparent transition to a broad-based recurrent property tax

The case for making a gradual transition from transfer duties to a broad-based land tax is clear. Having implemented the administrative reforms (outlined in Chapter 4) and simplified the transfer duty base (described in Chapter 5), state governments should commit to making a gradual transition to a broad-based recurrent property tax (i.e. a land tax using CIV). While described in greater detail in subsequent chapters, such a tax should have the following features:

- It should be a single, broad-based low rate tax based on the value (CIV + HB) of all residential property with the same tax-free threshold as the simplified transfer duty (outlined in Chapter 5) to ensure the annual tax burden is as low as possible and is progressive by property value.
- Collection and administration of the tax should be integrated with local government rates (as per existing emergency service levies).
- In the interests of simplicity and transparency the property tax should be applied to all dwellings (rather than existing owners being exempt or 'grandfathered'), but introduced gradually to avoid excessive double taxation.
- Revenue from the broadened property taxation regime will be used to fund a reduction in transfer duty rates, and deferral provisions would be available to owners eligible under mitigating circumstances.

As has been argued elsewhere, a broad-based property tax will help achieve a number of the broader goals of housing tax reform. It will:

- encourage residential mobility
- discourage speculation and overcapitalisation by both investors and owner-occupiers
- put downward pressure on property prices
- counter intergenerational and housing inequality.

Despite widespread recognition of the benefits of gradually replacing property-related transfer duties with a broad-based recurrent tax, there are two fundamental barriers to reform.

- 1 As with any base-broadening reform (especially if reform is designed, as ours are, to be revenue neutral), it is unavoidable in the absence of compensation that most households will have to pay slightly more tax in the short term. It is essential that governments are

transparent about this and promote the longer-term social and economic benefits of reform including housing affordability dividends and the fact that prospective first home buyers will benefit from lower prices and a reduced lifetime property tax (transfer duty and recurrent charges) liability.

- 2 The second fundamental challenge concerns management of the transition between a transfer duty regime and a recurrent property tax. There are two broad approaches:
 - The first is a ‘next transaction’ or a ‘grandfathered’ approach under which land taxes would only be imposed on properties purchased after the abolition of transfer duties. This approach would avoid ‘double taxation’ in that purchasers would not have to pay both a transfer duty and recurrent property tax. However, there are a number of problems with a ‘grandfathered’ approach. State governments would face a sustained and ongoing revenue shortfall given that, based on historic data, only about 5 per cent of properties would be added to the property tax base each year. The approach would also be administratively complex and would deter residential mobility.
 - The second broad approach is an incremental or ‘phase out, phase up’ approach whereby all properties are included in the new recurrent property tax base, but the rate of the new tax is gradually increased from a very low rate with the revenue being used to incrementally phase out transfer duties over a 10 to 20 year period. This approach is simple, transparent, minimises double taxation and minimises budgetary risk to state governments. This is the approach adopted in the ACT and proposed in this report.

A number of variations on these two broad approaches have been proposed in the Australian debate, but all involve significant trade-offs. One is to include all properties in the new property tax base, but to offer a credit to purchasers who have recently paid a transfer duty. While this approach would avoid double taxation, it would be expensive for state governments. Another variation, proposed by the Australian Greens, is for the Commonwealth Government to provide a long-term low interest loan to the states to fund the revenue gap associated with a next transaction approach. While feasible, this would require high levels of intergovernmental cooperation and increase both the complexity of the transition and the risk of cost shifting. A summary of recent reforms and transition models proposed in the Australian debate is provided in Table 11 below.

The consensus among stakeholders is that an incremental transition strategy represents a fair, simple and politically viable strategy while limiting undue fiscal risks to state governments. Over a 10 to 20 year period, state governments can incrementally increase a low rate of recurrent property tax on all residential properties above a basic threshold with the precise reform trajectory determined by market conditions and political circumstances. Such a model is outlined and analysed in Section 6.2. An incremental approach may be the best strategy for reform, but it must be acknowledged that significant political challenges will remain. For example, notwithstanding the reduced disincentives to property ‘downsizing’, there will be an increase in recurrent property tax costs for asset-rich and cash-poor property owners, and in cases such as this, the design of deferred payment options may require consideration. These issues are analysed in greater detail in Chapter 6.

Table 11: Summary of currently applied or proposed land tax reform transition models

Proposal author	Reform principles	Key reforms or design choices	Timelines and revenue implications
Australian Capital Territory*	Increasing revenue independence for ACT Improving efficiency and transparency Equality in the ACT taxation system	Abolition of duty on conveyances Application of general rates as a broad-based land tax for revenue replacement Improvements to the progressivity of the revenue replacement base Abolishing of nuisance rates and adjustments to concession schemes to cushion reform impacts for key groups	Applied in the ACT in the 2012–2013 Budget Phased transitions, with gradual abolition of transfer duty over a 20-year period In first five years, initiate structural change to system with a view to achieving revenue neutrality annually over this period
Victoria*	Improving affordability for first home-buyers Distributing housing price increases more evenly	Abolition of transfer duty for first home buyers up to value of \$600,000, with concessions for purchases up to \$750,000 Increase in investor transfer duty (on CIV) when buying off plan Vacant residential property tax applied to some properties in Melbourne	Effective 1 July 2017 Vacant land tax effective 1 January 2018
Grattan Institute	Relieving and repairing state budgets Prioritising efficiency and stability of taxes Spreading tax burdens more fairly	Abolition of transfer duties Flat rate levy on property values with no fixed charge Levy deferral schemes for pensioners	National application Different design choices affect revenue implications, e.g. rebates to first portions of property tax liability would reduce revenue for states
Australian Greens	Easing market lockout for first home buyers Ending tax breaks for investors and penalising vacant property owners Easing housing mobility constraints	Abolition of transfer duties Replacement with broad-based land tax, particularly on high value land occupied by top 10 per cent of landholders Grandfathering of all current landholders	National application Immediate transition Commonwealth loans to plug state shortfalls owing to transfer duty revenue loss Loans peak in 2020—thereafter rising land tax revenues enable loan payback by 2030 Costed by the Parliamentary Budget Office

Proposal author	Reform principles	Key reforms or design choices	Timelines and revenue implications
The McKell Institute	<p>Increased housing affordability and mobility and equity</p> <p>Reducing unemployment</p> <p>Increasing revenue for infrastructure funding</p>	<p>Abolition of transfer duty</p> <p>Application of land tax to all property at a progressive rate with tax free threshold of \$120 per square metre on unimproved land value</p> <p>Grandfathering of all current homeowners to avoid double taxation</p>	<p>Land tax benefits delayed by grandfathering current landholders (Collyer 2016)</p> <p>Possible perverse outcomes from long-term loans for states in a changing policy environment (e.g. CSHA loan schemes from the 1950s are still current, accruing further debt in some states, and constraining housing authority or treasury budgets)</p> <p>Application in NSW</p> <p>Immediate transition</p> <p>Initial revenue shortfall, debt peaking in the 10th year, and paid off in the 23rd year</p> <p>Land tax benefits delayed by grandfathering current landholders</p> <p>Possible perverse outcomes from long-term loans for states in a changing policy environment (e.g. CSHA loan schemes from the 1950s are still current, accruing further debt in some states, and constraining housing authority or treasury budgets)</p>
KPMG (for NSW Business Council)	<p>Reducing high economic costs associated with current property taxes</p> <p>Broadening economic benefits through increased taxation efficiency</p>	<p>Abolition of transfer duty</p> <p>Four scenarios modelled:</p> <p>(i) Minimalist: current land tax structure including current exemptions and progressivity, rates adjusted uniformly to retain revenue neutrality</p> <p>(ii) Ex-PPR: PPR removed from exemption, PPR land tax rates averaged to approximate current non-exempted residential land holders' rates</p> <p>(iii) Ex-PPR and progressivity: as for (ii) but also removing progressivity currently existing, i.e. removal of land tax</p>	<p>Application in NSW and nationally</p> <p>Immediate transition</p> <p>Each scenario modelled to achieve revenue neutrality</p> <p>Results indicate that most economic benefits of reform derive from the abolition of transfer duty—alternative land tax arrangements make little difference to results</p>

Proposal author	Reform principles	Key reforms or design choices	Timelines and revenue implications
		thresholds and applying uniform tax rate on all non-exempt sectors (iv) Broad: as for (iii) with removal of primary production exemption	Removal of exemptions and progressivity increases gross state product both in NSW and nationally

Source: Bagshaw, E (2017); The Greens (2017); Bentley and D'Cruz (2016), ACT Treasury Budget paper 2012–13; Daley and Coates (2015); State Revenue Office VIC (2017); NSW Business Chamber 2016; Collyer 2016.

**Reform has been implemented. All others are proposals only.*

3.4 Overview of analytical chapters

The following three chapters provide in-depth analysis and discussion of the reform objectives presented in this chapter by stepping through the reform pathway in the short and long-term and modelling its implications.

- Chapter 4 outlines administrative reforms relating to the definition of the land tax base and enhanced national coordination of data concerning the valuation of residential property, its ownership and use.
- Chapter 5 develops revenue neutral strategies for developing a simpler and more equitable transfer duty regime for residential property as a foundation for more comprehensive reform.
- Chapter 6 develops and analyses pragmatic long-term strategies for shifting i) the distribution of transfer duty liability between properties purchased for investment relative to those purchased by owner-occupiers; and ii) the mix between transfer duties and a recurrent property tax.

4 Reforming the administration of property tax

The lack of administrative coordination among governments in relation to property tax is a significant barrier to reform in Australia.

This chapter outlines the broad administrative reforms to serve as the foundation for the property tax reforms outlined in the remainder of this report.

Key areas of administrative reform include the development of a nationally coordinated approach to registering and valuing residential property. Over time such a register should include data on the residency status of beneficial owners as well as the use of the dwelling (owner-occupied, tenanted or vacant). The chapter also highlights the benefits of intergovernmental data sharing across jurisdictions, and the administrative integration of subnational government property tax collection regimes.

4.1 The case for administrative reform

A tax system is only as effective as its conceptual and administrative foundations (Bird and Zolt 2003). Australia's subnational property tax system is somewhat unique in that local and state governments share the property tax base, but do not share the administration or valuation of bases, rates or rate-structures, resulting in variations both between and among states and territories. Australia's land tax regime has evolved in an ad hoc way since 1884 (Smith 2005), and now is one of the few countries in which different recurrent land and property taxes are imposed by two tiers of government with little coordination. State land taxes are narrowly applied to less than 20 per cent of all property (two-thirds of which is excluded due to the exemption of the principal place of residence). On the other hand, local government rates apply to 98 per cent of property and is genuinely broad-based (Mangioni 2016a, 34).

As already noted, administrative complexity and duplication is a major barrier to property tax reform in the Australian federation. Academic specialists (e.g. Mangioni 2014, 2015, 2016a and b; Passant and McLaren 2011) and independent inquiries alike (e.g. Henry, Harmer et al. 2009; Commonwealth Government 2015; Daley and Coates 2015) have argued for a more coherent and consistent approach to defining subnational property tax bases and to reforming the structures for administering these taxes. However, in the absence of a consistent approach to conceptualising and administering subnational property taxes in the Australian federation, unilateral reform efforts are unlikely to succeed (Mangioni 2016c). Moreover, discussion about, and agreement on, administrative reforms could provide a foundation for intergovernmental cooperation on more significant policy reform.

The barriers underlying reform concern both the design and administration of residential property taxes. Some of these challenges are conceptual and relate to basic tax principles such as equity, and the appropriate basis for assessing property values for the purpose of taxation. For example, given residential property is both a necessity and a repository of wealth, how do we tax the principal place of residence (PPR)? The complexity of these issues is germane to property tax reform, especially from a distributional and equity perspective; there is a growing number of asset rich yet income poor Australians who would clearly struggle to pay additional recurrent property taxes.

Other issues considered in this chapter are administrative and relate to the diversity of technical systems used to collect taxes at different levels of subnational government. While recurrent property taxes are generally understood to be one of the most efficient taxes in Australia (Commonwealth Government 2015: 149), the prospects of expanding the use of such taxes are diminished by a number of challenges, including:

- The nature of the current dual system whereby state and local governments both impose a recurrent tax on land in most jurisdictions in Australia (except the Northern Territory which imposes local council rates but not a territory land tax) is an outdated system. In the case of other advanced OECD countries (e.g. the U.S, Canada and New Zealand—see Table 12 below), recurrent land and property taxes are predominately collected by local government authorities using nationally coordinated approaches (Mangioni 2016a), thereby maximising administrative efficiency.
- The range of variation in how property tax is defined and calculated, including the determination of land tax rates bases (which are often contingent on land use and landholding aggregation rules), and how properties are valued. These variations exist both between and across local government and state government land tax areas of administration (see Chapter 2).
- There is insufficient data concerning the beneficial owners of residential property and the use of properties by owner-occupiers and investors.

These factors combine to inhibit the efficiency of property tax in Australia, particularly in light of principles of good tax design. According to Mangioni (2016c: 59), these challenges undermine the ‘functionality, the efficiency, equity and acceptability of the tax by the taxpaying public’. As such, there is ample room to improve the efficiency of property tax, including improving revenue collection, system transparency, addressing vertical fiscal imbalances, and improving data sharing between all levels of government. Not only is administrative reform required to improve the efficiency of property tax design, we argue that it will be essential to implement the administrative measures outlined in this chapter if the substantive policy reforms described later in this report are to achieve their objectives.

Table 12: Levels of government imposing recurrent property taxation

Country	Collecting authority	Revenue ownership	Valuation methods	Land value taxation
UK	Central	Local	Residential improved values and income from businesses	No
Denmark	Central	Local, state	Improved land and building value	Yes
US	Local	Local	Improved value	No
Canada	Local	Local	Improved	No
Australia	Local, state	Local, state	Land value and unimproved value	Yes
New Zealand	Local	Local	Improved in urban areas and land value in non-urban areas	Non-urban areas only

Source: Bird and Slack (2002) and McClusky and Franzsen (2005) in Mangioni 2010.

Proposed administrative reforms

This chapter describes the broad administrative reforms that serve as the foundation for the property tax reforms outlined in the remainder of this report. There are two dimensions to the reforms we propose. The first is to develop a nationally consistent approach to the conceptualising and measuring of property valuations and establishing a national register of property owners. The second relates to further improving intergovernmental cooperation and data sharing in relation to property ownership, use and taxation between relevant local, state and Commonwealth agencies to promote property tax compliance and enhance administration.

Successful administrative reforms in countries such as Denmark clearly demonstrate both the feasibility and benefits of reforms. Denmark provides an example of a nationally-scaled and sequenced reform agenda, addressing property taxation through a root-and-branch rethink of the system as a whole. The reform agenda was shaped by a national strategy including the creation of a new system of allocating tax-raising powers. The result of this process is that Denmark has been able to implement and refine meaningful reforms to the current land and property tax system, paying particular attention to property valuation for residential property and key related complexities such as taxing holiday homes (Mangioni 2016a: 290) (see Box 5).

Focusing on the administrative foundations of a longer program of property tax reform will also enhance the political viability of the agenda by fostering collaboration on technical issues and prompting stakeholders to consider and hopefully agree on principles of tax design prior to embarking on a debate about specific policy proposals.

The key elements of reform proposals, discussed in greater detail in the remainder of this chapter, include:

- establishing a national ownership register for residential property including the residency status of owners
- assessing the potential to create a national approach to residential property valuation based on rapidly improving automated valuation modelling (AVM) techniques—common valuation measures could be used and shared by state and local government (It should be noted that detailed analysis presented in Chapters 5 and 6 is based on grouped contemporary valuations of all residential properties in Australia provided by CoreLogic.)
- further improve data sharing between federal and state tax agencies to establish the change in ownership and use of properties in an accurate and timely manner
- promoting the integration of state and local rates and land and property tax collection using common valuations.

Box 5: Denmark: national root and branch property tax reform

Denmark established a ‘revolutionary’ approach to recurrent property taxation in 2002, which has enhanced the stability and efficiency of the national tax system. Key elements of this system include (unless specified, Mangioni 2010: 9):

- Three tax types: a land tax levied on all land; a property value tax levied on principal place of residence and holiday houses; and a service tax imposed on business property use.
- Valuations based on 2001 assessments with a 5 per cent supplement and frozen as an upper valuation ceiling indefinitely, unless current values are lower in which case the lower value is used. More recently (see below), new reforms are exploring moves toward CIV and HBU (Mangioni 2016a: 287, 290).
- Central government is responsible for taxes, valuations and information databases, while the administration is devolved to states to ensure equity and consistency in how the tax is imposed nationally.
- Taxes are collected every second year as a ‘direct tax’ (deducted directly from income), with assessments for private property in uneven years (and company or business property in even years) (SKAT 2016). There is a single tier collection point for all three taxes, and the beneficiary of all property taxes is local and county government (3.8% of total tax collected in Denmark).
- The system has been strengthened by a reduction in the number of municipalities from 271 to 100 to improve service frameworks. This has increased already strong data collection mechanisms around property information and analysis.
- More recently, Denmark implemented a new recurrent property tax system in the 2015–16 tax year, in response to the 2001–02 freeze on property values. The Tax Ministry engaged an independent commission to design a better model after finding that more than 75 per cent of property evaluations were either over or under-valued. New changes include ceasing the ongoing general assessments of real property as they carry no practical significance to determining the tax base, and a new model for assessing new residential constructions and commercial properties (Mangioni 2016a: 283–290).

4.2 National register of beneficial owners including foreign owners

The first step toward significant reform of property tax administration in Australia is to establish a national database of property and land information. Currently, each state and territory has its own Land Registry managed through land and property titles offices (e.g. IPI NSW or DELWP Victoria). These operate under a Torrens registration system (named after Sir Robert Richard Torrens, and referring to a systematic method of recording and registering land ownership and interests) in which details such as land ownership, possession and rights are recorded (DELWP 2017). However, data and compliance issues continue to plague all regimes. In particular, difficulties policing the principal place of residence exemption from state land tax are salient; in one state, the declaration of holiday homes as the principal place of residence is expected to net \$90 million dollars over a current 3–4 year period (Mangioni 2016a).

There have been overtures toward more centralised Australian property registers in recent years. For example, the ATO has taken responsibility to establish a national register related to foreign ownership of residential real estate from 1 July 2016. This has been associated with new rules for foreign resident capital gains withholding, which apply to vendors disposing of certain taxable property under contracts entered into from 1 July 2017 (ATO 2017). Together

these rule changes suggest that the ATO is tightening compliance measures associated with foreign residential (and other) ownership; in part as a response to concerns within the wider Australian community that the government should have access to adequate information about, and oversight of, foreign ownership in Australia (Barbour 2016). Additionally, some private companies offer centralised land information by aggregating state land registry files and offering this information to paying clients. Examples of these include the 'National Property Ownership Search' offered by InfoTrack, or the 'National Property Information' database offered by GlobalX, which both provide clients with information about Australian property owned by individuals, trusts and companies.

However, these registries are partial developments at best and do not go far enough to provide a comprehensive national register of beneficial owners of property (including foreign owners). The benefit of such a registry is that it would offer distinctive insights into the distribution of property ownership and wealth in Australia and would provide a solid platform to implement a layered property tax regime in which it is possible to impose a differential taxation based on ownership and use. A national register would also improve compliance across a range of state and federal taxes. There are some international exemplars of the use of national or centralised registries to pursue the above goals, most notably in Denmark (see Box 5) and New Zealand (see Box 6). In Denmark (and similarly in Finland), a national database of property information collates applications for new property registrations, transfers of land, and boundary changes. In both cases, updating the register is a requirement, and compliance is ensured as only properties that are properly registered in this way are eligible to be used as a security for a mortgage loan (NLS 2017; DGA 2017).

Box 6: New Zealand: a leading OECD property tax system

New Zealand is known for its simple and efficient tax system. The central government holds constitutional status and tax-raising powers, while local government often acts as its operational arm. Hallmarks of the system include (unless specified, Mangioni 2016a: 297–300):

- Simplified types of taxation; national land tax was abolished in 1992, and transfer duty in 1999. Local government has recaptured much of this revenue through local rate (levy) increases, whereby two of the four types of rates may apply to land charges. This includes a general land tax rate, and a universal or fixed general charge based on each rateable unit. The two other rates are targeted to particular services, such as waste removal and water supplied.
- Valuation occurs through a rating system whereby local governments may adopt one of three bases of value (land, capital, and annual). The four main cities all use a capital improved value (CIV) base, and assessments are made on a three-yearly cycle.
- Central government holds tax-raising powers, but local governments are responsible for implementation, including maintaining authority over which bases of value to adopt in order to rate property for levies.
- Local governments have authority to collect rates, which are a dominant tax revenue source (now up to 60%).
- Amendments to the Land Transfer Act in 2015 now requires Land Information New Zealand (LINZ) to collect a tax statement from all buyers and sellers in the course of property transfers. This includes information about tax residency, citizenship or visa status, and information about dwellings and buildings on the property. The data does not constitute a register of foreign ownership, and while it provides valuable information about citizenship and tax residency, it cannot specify whether properties have been purchased for investment (LINZ 2017).

4.3 A national approach to property valuation

There is a long running debate about the conceptual basis for taxing land in general, and residential property in particular. The issue of the tax treatment of the principal place of residence is a source of political contestation in many countries (Mangioni 2016a: 283, 304). Part of the unease in the Australian context, as noted, is because land and property tax involves three tiers of government, including the Commonwealth. Consequently, creating a standard definition and operation of value 'is the key to determining a more consistent, simple and transparent land tax in Australia' (Mangioni 2015: 12).

Establishing a more consistent approach to residential property valuation would have a number of dividends. First, at the local government level, any efficiencies associated with the introduction of recurrent property taxes can quickly be undermined by differences in rate bases and valuation methods. If states and local government were to adopt a nationally consistent approach to property valuation, there would be both administrative savings and less confusion among property owners in relation to the method used to value their property for taxation purposes. Establishing a simpler, consistent and more intuitive method for valuing residential property will be particularly important if, over the longer term, recurrent taxes based on the value of residential property are increased to fund the abolition of property-based transfer duties (Chapter 6).

There is broad agreement that a consistent approach to property valuation and the administration of property-related taxes is desirable, but there is less consensus when deciding what the conceptual basis of a national property value regime should be. Traditionally, following the approach of Henry George, land taxes have been based on the unimproved value of land as this taxes the windfall economic rent associated with the scarcity of land and spill over benefit of infrastructure and other value enhancing investment (Ingles 2016). At a more pragmatic level, contemporary proponents of using unimproved land values as the basis for recurrent property taxes do so on the basis that taxing the capital improved value of land (CIV) acts as a disincentive to developing land and increasing housing supply (Daley and Coates 2015; Productivity Commission 2017b, 151)

There may be a historic preference to base property taxes on unimproved land values, but for the reasons outlined below there is a growing international trend towards using CIV⁶ valuations as a basis for taxation (Table 10 above). The case for using CIV methods to establish the basis for residential property taxes was outlined in the report of the NSW Independent Pricing and Regulatory Tribunal's 2016 review of the local government rating system. This report argues that CIV is, in general, more consistent with good tax principles, and that it also ensures that the value of medium and high-density developments can be captured. It also notes that revenue would not be affected by the switch to CIV (where not already used), and that local government revenue would increase due to growth in CIV in line with new residential or business developments while simultaneously ensuring rates per household would not rise in real terms (IPART 2016). Finally, we propose that aggregating the values of properties owned by the same landlord for the purpose of assessing land tax liabilities be abolished because existing aggregation provisions may deter institutional investment and constrain the supply of residential rental properties.

Reflecting recent trends in property taxation informed by both pragmatic considerations and principles of tax design, we advocate a shift towards a CIV valuation regime based on the broad

⁶ CIV refers to the capital improved value of a property where the value of land includes any dwelling or improvements made to the property.

proviso that the property is being used for its 'highest and best value', or use (HBU)⁷. In most cases this (CIV + HBU) approach to valuation will approximate the market value of a residential property, rather than an imputed rent, which is intuitive for property owners. Conceptually a recurrent property tax based on CIV + HBU valuation acts as a pragmatic compromise between a pure land tax designed to capture unearned economic rents and a more general wealth tax. Advantages of the CIV + HB valuation for residential property include that it:

- is less abstract and contestable than a tax based on unimproved land values
- approximates the market value of a residential property and provides a sound basis for a tax on property wealth
- is neutral with respect to the taxation of detached housing vs units
- can be modelled in an accurate and cost-effective manner using automated valuation techniques.

Research carried out by Mangioni and Viitanen (2014) highlights that where CIV + HBU is used in highly urbanised settings as a property valuation starting point, a more consistent land value is achieved by a range of valuers, adding to the case for this system. Daley and Coates (2015) argue that CIV has lower economic costs with simpler application due to being easier to determine and track. Because effective property taxes require current, transparent and accurate property data, particularly in dense urban areas where there is little unimproved land to measure property value, CIV is the best valuation method.

A further element of a reformed national valuation regime is the adoption of nationally consistent automatic valuation methods (AVM). Modelling of CIV from like sales is becoming increasingly sophisticated and accurate. AVM is becoming widely used by both financial institutions, real estate monitoring companies and governments beyond Australia (sometimes named 'Computer-assisted mass appraisal', or CAMA, see McCluskey, Davis et al. 2012). AVM is both cost effective and benefits include that property values are contemporaneous, cost-effective, readily accessible, broad-based and comprehensive both in terms of current and historic data; it operates within a reasonable margin of error for most properties; and it allows for multiple analyses from local neighbourhood through to state and (if implemented) national levels (e.g. see CoreLogic 2017, Hometrack 2017; Australian Property Monitors 2017). The CoreLogic data that forms the basis of the recurrent broad-based property tax modelled in Chapter 6 uses values derived from their most sophisticated AVM model.

4.4 Intergovernmental data sharing

Effective property tax administration requires systematic data sharing between local, state and Commonwealth governments. Data sharing has the potential to reduce compliance costs on taxpayers, administrative costs on government, and should enhance the integrity of the regime. Effective data sharing between governments and revenue authorities is especially important if property taxes vary based on the ownership (residents vs non-residents) and use (investors vs owner-occupiers) of a property. Significant progress towards information exchange between government agencies to enhance compliance systems has been made in recent years, but tax administrators interviewed for this project believed that more systematic, nationally coordinated data sharing regarding the beneficial ownership and use of residential properties in Australia is required. For example, information sharing between the ATO and offices of state revenue is

⁷ HBU is 'the reasonable, probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value' (Duncan and Brown 2017).

used to identify eligibility for some tax exemptions, including land tax and duty concessions (GrantThornton 2015).

Specific intergovernmental data sharing initiatives would include making ATO and immigration data available to state revenue authorities to help establish the use and ownership of residential properties. This may also, for example, require information sharing with regard to utilities, Medicare, taxation or electoral data to verify residential occupancy. This would enhance identification of tax observance breaches and action to increase compliance of taxpayers. An example includes the identification of when property owners declare a property as a PPR, but (without ownership of another property) reside in another state or outside Australia. The same would apply in the case of owners declaring one property as a PPR while also owning and residing in another property elsewhere in Australia (Mangioni 2016a: 109).

4.5 Integration of state and local government property tax administration

In addition to the case for adopting a consistent recurrent property tax base, we also stress the importance of integrating the administration and operationalisation of property taxes between tiers of government. This requires all jurisdictions working together towards 'setting, reviewing and achieving benchmarks needed for this tax to operate as efficiently and seamlessly across national jurisdictions' (Mangioni 2010: 17). This would require the streamlining of recurrent property tax and administration and the joint billing of rates and recurrent property taxes. Introducing both common valuation methods to calculate bases for rates and taxes, as well as joint billing arrangements was a key recommendation in the Henry Review (Recommendation 121, Henry and Harmer, et al. 2009: 103).

We argue that:

- all properties should receive an annual valuation with their local government rates and recurrent state property tax notice; with the capacity to easily identify each (state and local) component
- with respect to the PPR, this (joint) statement should outline the magnitude of the recurrent property tax exemption
- local governments would retain the right to impose rates on a common valuation, and
- state recurrent property tax and levies would be collected jointly with local government rates, with shared administration between local and state jurisdictions.

This approach is not new—it reflects the role that local governments already perform as collection agents for state and territory governments in the case of fire and emergency service levies. However, extending the principle of recurrent property tax integration with existing local government systems and drawing on common valuation methods would both reduce administrative and compliance costs nationally and do so without the need to develop new administrative systems.

There are arguments against a broader base property tax, including that in some cases property owners would incur a 'double tax' (Stewart 2011), or that the tax burden for asset-rich but low-income Australians will be higher under the proposed reforms. In the case of the former, the incremental transition to reform outlined in this report is designed to minimise instances of double taxation on most property owners. In the case of asset-rich but low-income Australians, there are deferred payment or exemption procedures that should be developed as part of the reform agenda. These may include exemption on compassionate grounds, or application for deferral on the basis that the taxpayer would experience further detrimental circumstances (including financial, personal or otherwise) if the rates and taxes were enforced (e.g.

Government of Tasmania 2017a). Taxpayers could also apply, as per the Postponement of Rates Scheme in South Australia, to finance their payments by unlocking the value of home equity and accruing debt with interest that is payable when the property is sold or transferred to someone else (Daley and Coates 2015).

4.6 Conclusions: implications for policy

In this chapter, we have made a case for adopting a consistent property valuation method (across state and local government levels), linked with a national land registry, intergovernmental data sharing, and joint billing of local and state government rates and recurrent property tax .

Currently in Australia there is little consistency in valuation methods or administration of property taxes between tiers of government. We argue that Australia needs to put in place measures to improve its tax effort with respect to property, and that the basis of this effort should be reforms to the administration and coordination of the taxes at a national and subnational level. We argue that these measures would provide a solid and necessary foundation for the broader reform agenda described in this report. Clarification of the roles and functions of different tiers of government will bring greater alignment to valuation and collection methods within the subnational property tax system and facilitate national reforms to property and land information collection and data-sharing. Importantly, shifting what is currently a fragmented, overly complicated and inefficient system into a secure tax base and reliable source of revenue will enhance the political viability of further reforms that are sustainable, efficient and equitable into the longer term.

5 Reforming the design of property transfer duty

Transfer duty is a problematic source of government revenue but has some advantages.

There are wide variations in how state governments in Australia apply transfer duty. The system is complex and, in some cases, insufficiently progressive, and exemptions and concessions are ad hoc rather than systematic.

This chapter proposes a simplified transfer duty regime, with a generous tax-free threshold and a flat rate imposed on properties above the threshold. Under these reforms, the system could be more progressive (depending on the rate and threshold selected), and purchasers of lower value properties, which would include large numbers of first home buyers, will pay less duty than they do currently.

This new, simplified regime offers a basis for other reforms that would meet wider housing policy goals.

5.1 The aims of transfer duty reform

Transfer duties are a significant source of revenue for all Australian states and territories. However, the design of the tax, in relation to both its base and schedules, has become increasingly complex and contrary to best practice in tax design. The combination of substantial increases in property prices in recent years and a lack of indexation of transfer duty schedules has produced a relatively 'flat' duty regime while, as discussed in Chapter 2, concessions and exemptions have been applied on an ad hoc and incremental basis to tackle affordability issues. There are also anomalies, such as in Victoria where marginal rates of duty actually decrease with rising property values.

As stated earlier, the first step in this process is to simplify the structure of transfer duty regimes by creating a single rate of duty with a relatively large tax-free threshold, ensuring that lower value properties are subject to lower average amounts of duty (while assuming no behavioural response). This regime is detailed in Section 5.2 below.

The approach has been modelled to ensure revenue neutrality, meaning that the new system would raise the same transfer duty revenue on residential property in each state as the current policy settings. This new, simplified model then serves as a base for further reform options explored in the subsequent chapters. The reform agenda as a whole rests on the twin foundations of improved property tax administration and simplified design. Retaining transfer duties does fly somewhat in the face of theoretical orthodoxy, but in the short to medium term, we argue that transfer duties have an important role to play in Australia's tax system because of their capacity to generate revenue and to temper housing markets. Introducing reform gradually is also politically more feasible and builds on reforms already being undertaken by the states, such as the introduction of surcharges and differential rates for particular categories of purchaser.

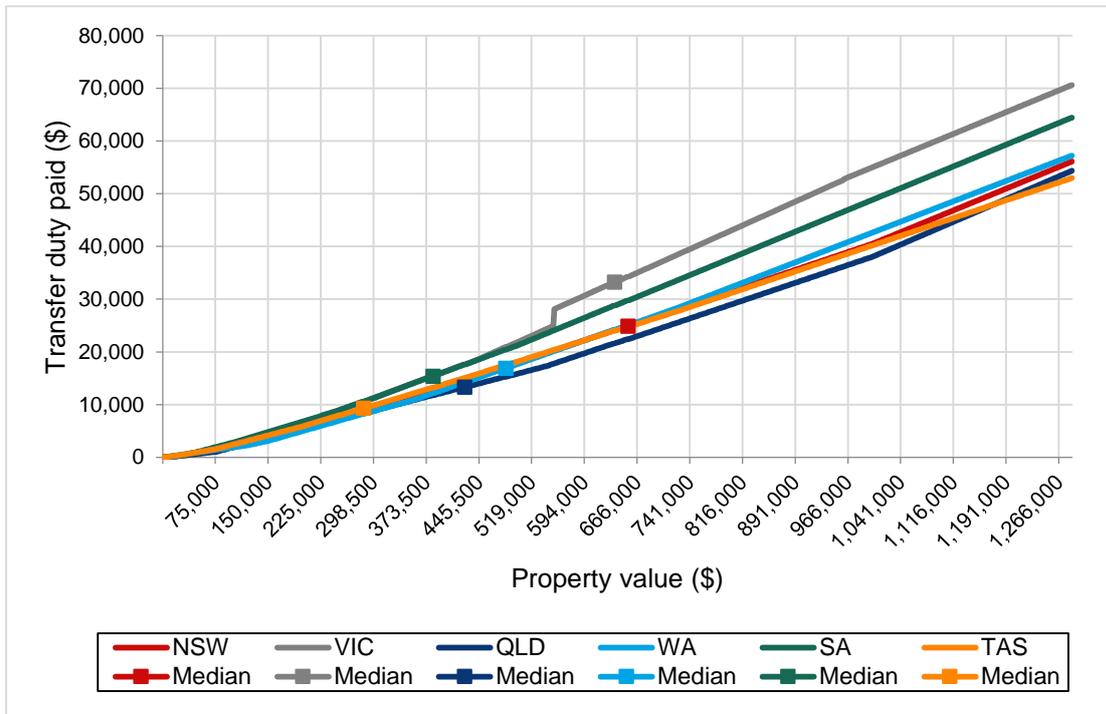
5.2 Simplifying transfer duty design

5.2.1 The current system

As noted in Chapter 2, there is considerable variation in transfer duty schedules across the states, but all use a similar principle of levying duty based on property value (see Table 6, Chapter 2.3.2). The marginal duty rate increases with the value of the property, although the thresholds involved range considerably from state to state, reflecting in part the large differences in housing markets that are evident from the differences in each state's median property price.

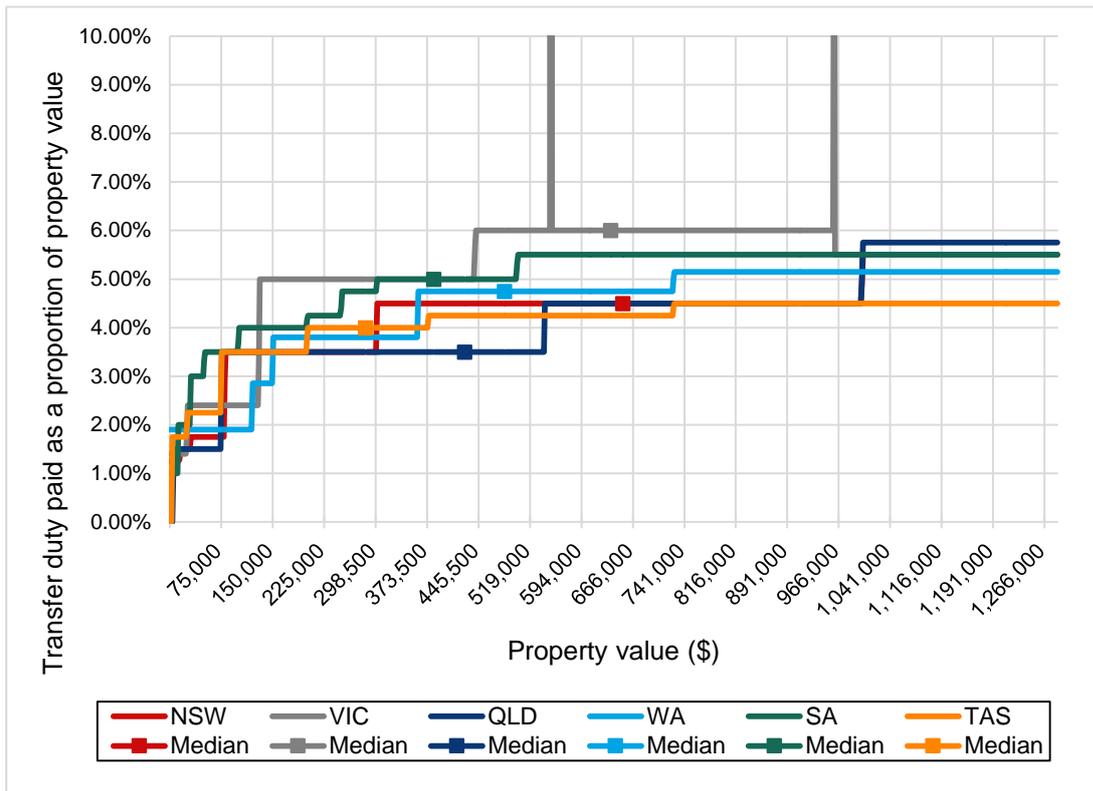
The schedules are slightly progressive, as can be seen in Figure 7 below, which shows the amount paid by property value for each of the states. However, the schedules are complex and, given a lack of indexation, are flat in most states for properties above median value. This is illustrated in Figure 8 below, which shows the marginal transfer duty rate paid in each state by property value.

Figure 7: Transfer duty paid by property value, all states



Source: Authors' own calculations based on CoreLogic data.

Figure 8: Marginal transfer duty rate by property value, all states



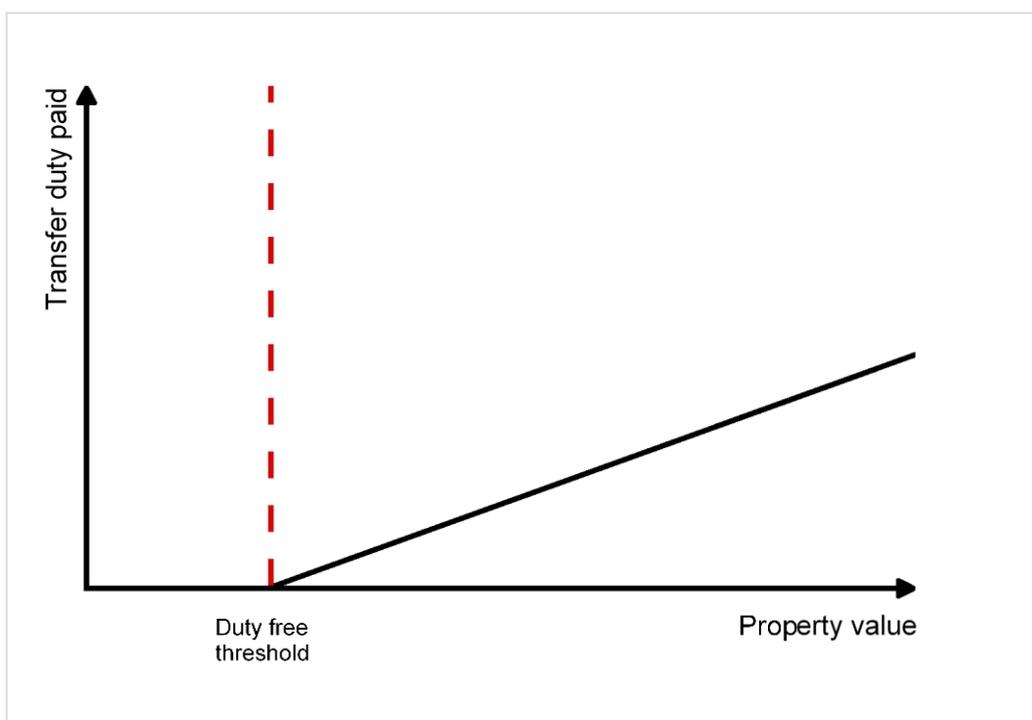
Source: Authors' own calculations based on CoreLogic data.

5.2.2 Proposed reforms

This section outlines the first step of a proposed reform agenda, directed at simplifying the transfer duty regime by introducing a single flat rate with a tax-free threshold set as a percentage of the median property price in each state. This simplified regime can also serve as the basis for other reform options, such as varying transfer duties according to the use of a property (see Section 6.1) or the gradual transition from transfer duties via the introduction of a recurrent property tax with a broadened base that includes principal places of residence (see Section 6.2).

The basic structure of the proposed reform is depicted in Figure 9 below.

Figure 9: Proposed reform: duty free threshold and flat rate of transfer duty



Source: Authors.

The modelling results outlined below have been prepared based on the following principles:

- residential property is the focus (although a similar approach could be extended to other classes of property)
- the new regime raises the same amount of revenue as existing stamp duties in each state
- the three scenario rates chosen (5%, 6% and 7%) broadly replicate the average rates in existing regimes—although a higher rate (7%) will result in a larger threshold and a more progressive structure.

Table 13 below shows the threshold property values needed to achieve revenue neutrality in each state for each of the given transfer duty rates. These are provided in dollar values and as a percentage of the median property value in each state. No transfer duty would be applied below the threshold with the marginal rate applied on values above the threshold. There are no tapering provisions. In New South Wales, for example, for a 6 per cent rate, the tax-free threshold can be set at 37.6 per cent of the median state-wide property price (i.e. \$245,529) and the revenue raised would be the same as that under the current transfer duty regime.

Table 13: Thresholds (\$ value and percentage of median property price) required to achieve revenue neutrality at different rates of transfer duty

State	Median property price (\$)	Rate: 5 per cent		Rate: 6 per cent		Rate: 7 per cent	
		Threshold (\$)	Threshold (%)	Threshold (\$)	Threshold (%)	Threshold (\$)	Threshold (%)
NSW	653,697	128,451	19.7	245,529	37.6	335,804	51.4
VIC	635,872	3,412	0.7	110,905	21.1	189,332	36.1
QLD	424,966	160,000	37.7	220,983	52.0	267,006	62.8
WA	481,605	138,221	28.7	213,351	44.3	268,736	55.8
SA	381,059	63,827	16.8	127,274	33.4	173,839	45.6
TAS	283,886	103,618	36.5	143,078	50.4	173,738	61.2

Source: Authors' own calculations based on CoreLogic data.

As can be seen from Table 13, a higher rate of transfer duty will fund a higher tax-free threshold. It will also result in a more progressive regime. This is a matter of political choice for individual state governments.

For the purposes of comparison, the case study in Box 7 below presents an alternative reform that does not incorporate a tax-free threshold.

Box 7: Case study: a simplified tax structure that does not meet housing policy goals

Instead of using a moving threshold with a flat rate of duty (set at either 5, 6 or 7%) to determine transfer duty levies, we modelled removing the tax threshold on all residential properties to determine what the tax rate would be if transfer duty was paid from the first dollar. Again, the goal was to achieve a simple structure, and revenue neutrality in each state as per current policy settings.

The results showed that, compared to the current system:

- The flat rate required to achieve neutrality in this case was generally lower than in other scenarios (from 3.5 to 5% across the states), and arguably, tax was distributed more equally solely on the basis of property ownership.
- However:
 - purchasers of lower (including the lowest) value properties would be required to pay significantly more from the first dollar
 - all states and territories would experience an early 'spike' (see the pattern in the case of Victoria in Figure 9 below) with the lowest value purchasers (who could be expected to include many first home and lower income buyers) paying more from the first dollar in contrast to the relative progressivity of the alternative proposal outlined above.

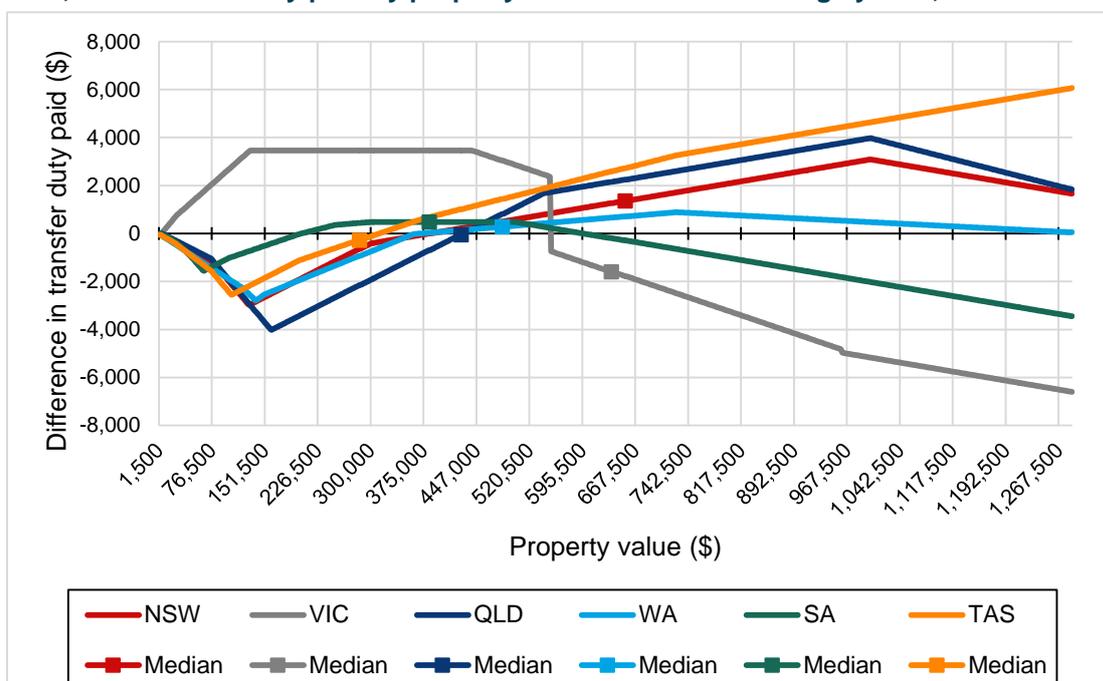
This scenario provides an example of a reform agenda that aligns with some goals of reform such as simplicity, but not with other goals of increased equity and revenue sustainability. It also highlights the value of the threshold in determining better housing affordability outcomes for taxpayers.

5.2.3 Distribution: winners and losers

Figures 10–12 below show the results of modelling the difference in transfer duty, by property value, to be paid under the new system as compared to the existing duty regime in the Australian state. For a given property price, a value over zero, or above the x axis, on the graph indicates that a purchaser would be paying more under the new system than they would have under the old; a value below zero, or below the x axis, on the graph indicates that the purchaser would be paying less under the new system than under the old.

The results in Figure 10 below are for a flat transfer duty rate of 5 per cent. The results suggest a rate of 5 per cent is only slightly progressive by property value and in one case delivers a regressive outcome. The significant case here is Victoria, because with a 5 per cent rate, purchasers of lower value properties will be paying more under the new system while purchasers of higher value properties will be paying less. This is because in Victoria, existing transfer duty rates for most property values are in excess of 5 per cent⁸.

Figure 10: Transfer duty paid by property value under a flat transfer duty rate of 5 per cent, less transfer duty paid by property value under the existing system, all states

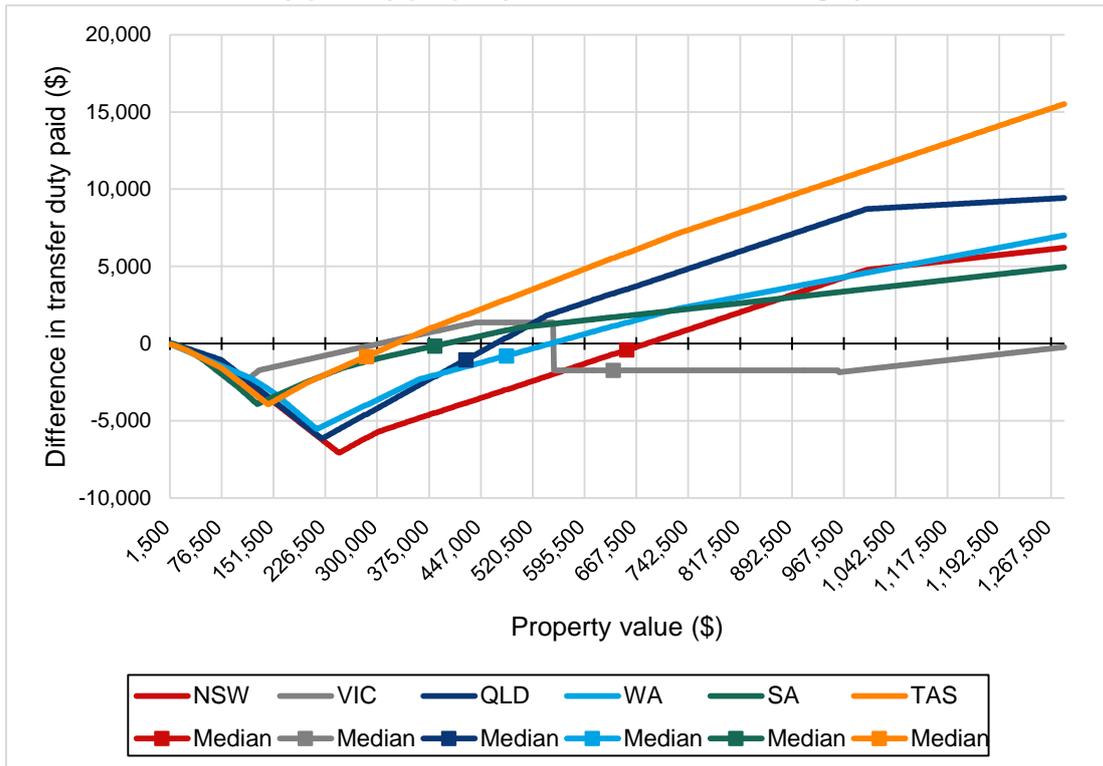


Source: Authors' own calculations based on CoreLogic data.

As Figures 11 and 12 below indicate, increasing the transfer duty rate improves the relative progressivity of the new system against the old, because the purchasers of lower value properties will be paying less while the purchasers of higher value properties will be paying more.

⁸ In general, the anomaly in amounts paid for properties valued at around \$550,000 in the case of Victoria arises because the modelling takes into account the current Victorian concession for principal places of residence valued at below this amount. Removal of this concession as part of the simplification to a flat rate produces the effective 'jump' in the schedule when the current and proposed regimes are compared.

Figure 11: Transfer duty paid by property value under a flat transfer duty rate of 6 per cent, less transfer duty paid by property value under the existing system, all states



Source: Authors' own calculations based on CoreLogic data.

Figure 12: Transfer duty paid by property value under a flat transfer duty rate of 7 per cent, less transfer duty paid by property value under the existing system, all states



Source: Authors' own calculations based on CoreLogic data.

5.2.4 Beneficiaries of the new system

This proposed rate schedule, especially with a flat rate of 7 per cent, is progressive by property value in that purchasers of high value properties will pay marginally more transfer duty, but a majority of home purchasers will pay less. This is reflected in the representation of ‘tipping points’ provided in Table 14 below, which shows the property values at which purchasers would pay less duty relative to the existing regime in their state. These figures are distinct from the thresholds in Table 13 above, which show the tax-free threshold required to achieve revenue neutrality. Table 13 indicates that at a 6 per cent flat rate, purchasers of properties valued under \$245,529 in New South Wales will pay an effective transfer duty rate of 0 per cent. This threshold is only a third of the New South Wales median. However, Table 14 indicates that at a 6 per cent rate, purchasers of properties valued up to \$682,500 would still be paying less than they do under the existing system. Given the distribution of purchases with respect to the median property price, this means that 62.3 per cent of purchasers in New South Wales would be paying less.

Table 14: ‘Break even’ points under new regime—percentage of purchasers paying less and maximum property value below which purchasers would pay less

State	Rate: 5 per cent		Rate: 6 per cent		Rate: 7 per cent	
	Purchasers (%)	Value (\$)	Purchasers (%)	Value (\$)	Purchasers (%)	Value (\$)
NSW	26.4	384,000	62.3	682,500	66.4	760,500
VIC	1.6	6,000	17.6	303,000	55.0	523,500
QLD	48.1	429,000	58.6	468,000	63.3	590,500
WA	26.8	370,500	63.3	546,000	67.1	571,500
SA	24.3	204,000	61.8	397,500	66.3	426,000
TAS	53.2	312,000	60.6	327,000	60.6	337,500

Source: Authors’ own calculations based on CoreLogic data.

Note: Figures are approximate with an error rate of between 1–2 per cent due to the use of grouped data

There is variation among the states as to the percentage of purchasers and property values below the ‘break even’ point in broad terms. However, under the highest rate of 7 per cent and the thresholds calculated above in Table 14, between 55 per cent and 67 per cent of purchasers would pay less under the new, simplified and more progressive regime outlined here, while state governments would still obtain the same amount of revenue.

5.3 Conclusions: implications for policy

Establishing a simpler and more progressive transfer duty regime, as outlined above, is an important housing tax reform in and of itself, but the most significant justification for the proposed change is that it provides a foundation for more significant reforms.

Transfer duties have a poor reputation among economists and tax specialists because, it is argued, they distort market incentives and, in the case of housing, hinder residential mobility. However, like most ‘bad’ policies, there are some benefits to transfer duties that are increasingly being recognised. The imposition of an upfront cost of transactions hinders speculation and property ‘flipping’; as described in Chapter 2, reforms in Singapore, Hong Kong and British Columbia show that transfer duty can serve as an effective and targeted instrument for controlling housing bubbles. In reality, most Australian states are already moving in this direction with localised responses such as concessions and surcharges adopted to respond to

the affordability challenges affecting many Australian housing markets. We argue that if this approach is to continue, it should do so in a more systematic and coordinated manner to minimise the risk of perverse outcomes and maximise the benefits. Achieving this more systematic, coordinated approach will be easier if governments commence the reform process from an administratively simple and progressive base, such as the one proposed here.

The next chapter explores some of the options that can be built on the basic reform outlined here. This includes the ways in which a simplified transfer duty design could be used to tackle housing speculation and property price inflation without compromising residential mobility, and how the transfer duty to land tax switch could be accomplished in a revenue neutral way.

6 Pathways to housing tax reform: options for changing the state property tax mix

This chapter presents modelling of the revenue and distributional implications of two distinct but complementary approaches to housing tax reform designed to meet policy objectives described in Chapter 3.

Each approach draws on different policy settings and instruments while supporting similar affordable housing policy goals:

- Approach one: maintaining transfer duty revenue levels, but with revision of the tax-free thresholds (option no.1) and rates (option no.2) to increase transfer duties paid by investors but reduce them for owner-occupiers.
- Approach two: introducing a broad-based recurrent property tax to either fully (option no.3) or partially replace transfer duties (option no.4).

In light of significant political and fiscal challenges to tax reform, the revenue-neutral, simplified and incremental regime outlined in this chapter offers a pragmatic and feasible range of options for redesigning property tax in Australia.

This chapter builds on the framework developed in Chapter 5 by outlining how the combination of a simplified transfer duty regime and a more consistent and efficient approach to property tax administration can provide a foundation for more comprehensive property tax reform in the Australian federation.

The chapter describes two distinctive approaches to housing tax reform which, by using different policy settings and instruments, support the broader policy goal of a housing tax system contributing to more affordable, sustainable housing for all Australians. The reforms proposed below assume the prior adoption of the simplified transfer duty regime outlined in Chapter 5, while the distributional analysis presented below uses existing 2015–16 transfer duty schedules (see Section 2.3.2) as the comparison point. As noted in Section 1.4, all scenarios are designed to be revenue neutral for individual states so that, *ceteris paribus*, reforms will not impact on state budgets. This is reasonable in the short term since a no behavioural response assumption is what states will adopt when assessing the initial budget impact of any change. Once the behavioural response is better understood, states can then respond in subsequent budgets by fine-tuning their policy settings. This has been the approach by the ACT since it began in 2012 its transition away from land transfer duties towards a greater role for a recurrent land tax. The simplified transfer duty regime proposed involves maintaining transfer duties at their current level, but adjusting thresholds (option no. 1) and rates (option no. 2) so that investors pay proportionally more relative to owner-occupiers. This shift has the potential to improve housing affordability and mobility over the longer term (see Section 6.1.1 below), but does not incur the political challenges involved in implementing a new, broad-based recurrent property tax. These reforms should be regarded as an intermediate step towards a transfer duty-recurrent property tax switch.

The second approach is the implementation of a recurrent property tax, either as a full replacement for transfer duty, which would be abolished (option no. 3) or as a partial replacement, with transfer duty remaining but levied at a lower rate (option no. 4).

This chapter presents detailed modelling of the revenue and distributional implications of each reform based on the comprehensive CoreLogic data set of all residential property transactions and values in Australia for 2015–16. The use of this data means that the analysis is arguably the most comprehensive and sophisticated modelling of transfer duties across Australian states but, as is the case with all transaction taxes, future revenues are highly dependent on market conditions.

The analysis highlights both the complexity of subnational property taxation in Australia and the very real political challenges associated with shifting the distribution of property taxation among households. However, such a reform strategy, based on a simplified transfer duty regime, will enable state governments to gradually make clear and transparent steps towards lowering the transfer duty charges. For example, the ‘phase in, phase up’ approach outlined in option no. 4 provides a simple, transparent strategy that minimises double taxation and minimises budgetary risk to state governments. This incremental approach offers the most promising pathway to housing tax reform which, over the longer term will achieve the policy objective set out in Chapter 1:

- improve the simplicity and consistency of the property tax system
- provide a revenue neutral reform pathway for each of the states
- establish an incremental, adaptable framework designed to minimise political disruption and problematic market consequences
- improve the fairness of the property tax system over time by gradually reducing the relative transfer duty paid by purchasers of low value properties contribute to gradually increasing home ownership rates by shifting liability for transfer duty from owner-occupiers to investors
- contribute to housing affordability, residential mobility and the efficiency of the national tax system by replacing transfer duties on residential properties with a broad-based recurrent property tax.

6.1 Changing the mix: transfer duty

6.1.1 Reasons to reform

As argued in Section 5.2.2, gradually shifting the mix in the transfer duty system so that investors pay proportionally more and owner-occupiers pay proportionally less is likely to support the housing tax policy goals outlined in Chapter 1 over the longer-term. This argument is based on certain assumptions.

- Reductions in duty for lower-value properties purchased as principal places of residence are unlikely to be capitalised into higher prices because, in most sub-markets, increased demand from owner-occupier purchasers will be offset by reduced demand from investors—this is not the case with first home buyers’ grants, which tend to increase net demand in key markets leading to rising price increases (Wood, Ong et al. 2010; Eslake 2013).
- The proposed policy changes will not have a significant impact on rental affordability. While the supply of rental stock may decline, this will be offset by falling demand for rental housing as home ownership rates increase. As Eslake (2013) argues in relation to negative gearing, if a rental property is sold into owner-occupation, there is no net impact on housing supply, just a change in use.
- At the margin, increasing the transaction cost of buying and selling investment properties will encourage investors to hold properties for longer periods of time, which will increase security for tenants. We also note that type of ownership (private vs institutional landlord) may have a significant impact on tenant security (Wood, Ong et al. 2010; Wood, Stewart et al. 2010).

In addition to housing affordability and sustainability outcomes, there are other advantages to reforming rather than replacing transfer duty. The parameters of such a system can be easily set to promote progressivity based on property value. States would not, in the short-term at least, have to confront the political challenge of extending the land tax base to the family home (Johnston 2016). As noted in Chapter 2, elements of the layered model advocated in this report are already being adopted in some jurisdictions—for example, New South Wales and Victoria are already providing transfer concessions to owner-occupiers purchasing lower value properties, and to first home buyers in particular. A simplified transfer duty regime also maintains a coherent base upon which an incremental transition to a land tax can be introduced, should state governments wish to do this at a later date.

The two options for incrementally shifting the transfer duty burden from owner-occupied property to investment properties analysed in this section are:

- Option no. 1: Adaptation of the simplified transfer duty regime outlined in Chapter 5 by removing the duty-free threshold for investment properties, with the revenue gained used to fund an increase in the duty-free threshold for purchasers who are intending owner-occupiers.
- Option no. 2: Retaining the same threshold for all purchasers, but introducing a different transfer duty rate depending on the use of the property, so that investors pay a rate that is one percentage point higher (although the rate differential could vary) than that paid by owner-occupiers. The rates would be calibrated so as to raise the same amount of revenue as the baseline model.

6.1.2 Modelling changes to the transfer duty mix

Option no. 1: Remove the duty-free threshold for investment properties

With a duty charged using a flat rate of 6 per cent, the modelling suggests (see Table 15 below) an additional \$5.4 billion in transfer duty revenue would be raised across Australia if the duty-free threshold outlined in Chapter 5 was abolished for investment properties. This additional revenue would be used to fund an increase in the duty-free threshold for owner-occupiers, meaning that they would be paying proportionally less than residential property investors.

Table 15: Thresholds and ‘break-even’ points under Reform Option no. 1, compared to baseline reform

State	Median (\$)	Baseline reform ^a (6% rate)		Reform option 1 (6% rate, investor threshold of zero, revenue diverted to increase owner-occupier threshold)			
		Threshold (\$)	Break-even value (\$) ^b	Revenue (\$m)	PPR threshold (\$)	PPR break-even value (\$)	PPR paying less (%)
NSW	653,697	245,529	682,500	2,245	313,000	950,000	66
VIC	524,872	110,905	303,000	815	113,000	0–304,500 550,000–1,300,00 ^c	N/A
QLD	424,966	220,983	468,000	1,501	313,000	786,000	85
WA	481,605	213,351	546,000	488	288,000	986,000	88
SA	381,059	127,274	397,500	267	163,000	717,000	85
TAS	283,886	143,078	327,000	94	188,000	473,000	81

Source: Authors’ own calculations based on CoreLogic data

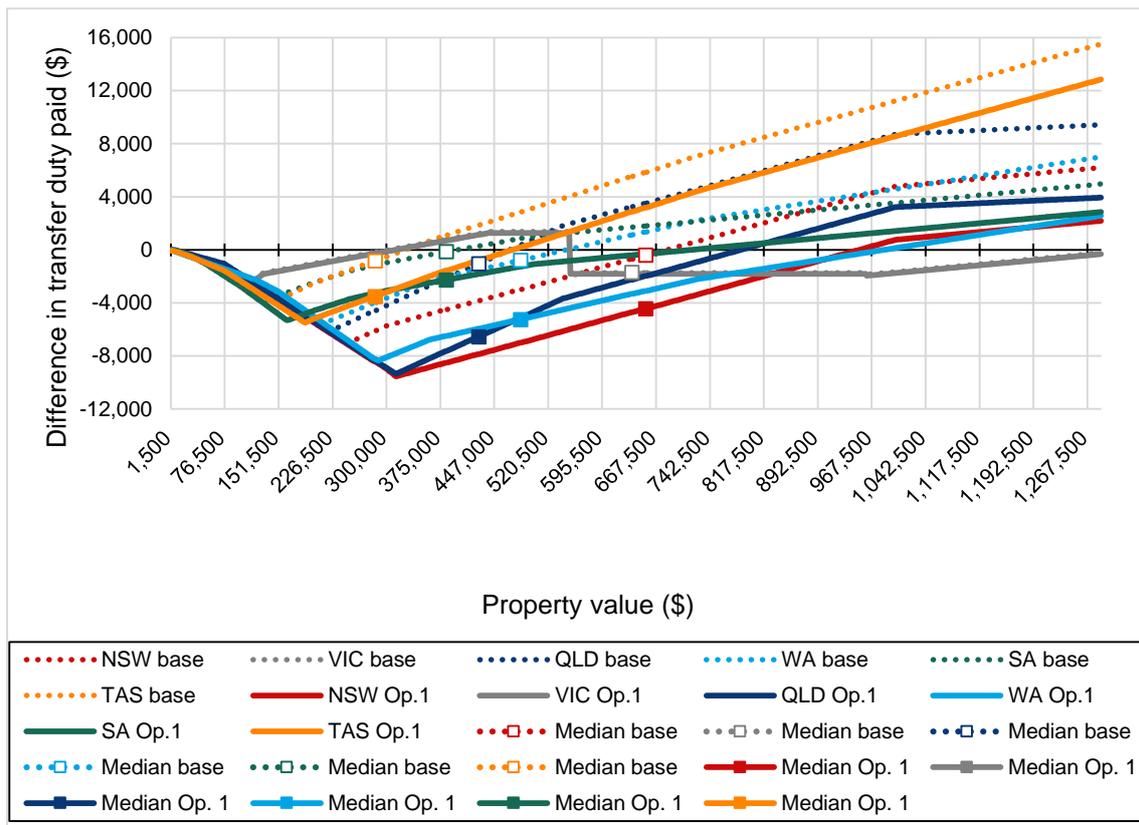
a As outlined in Chapter 5.

b As in Chapter 5, the ‘break-even’ value refers to the property price below which the purchaser would be paying less under the new regime compared to the old.

c As illustrated in Figure 12, the Victorian case is complex due to the interaction of PPR concessions. The majority of home buyers will be better off although a set of buyers between \$304,500 and \$550,000 would be slightly worse off. This model would have to be adapted for the Victorian case. (See existing schedule in Table 6.)

Again, as with the modelling results in Chapter 5, the Victorian case is a partial exception to the overall pattern because the Victorian transfer duty schedule approximates the reform scenario being modelled here. For the other states, however, the general effect is to substantially increase the threshold and the ‘break-even’ point for owner-occupiers and overall progressivity, as can be seen in Figure 13 below.

Figure 13: Transfer duty paid by owner-occupiers: baseline reform (with 6% rate) and Reform Option 1, each compared to current schedule



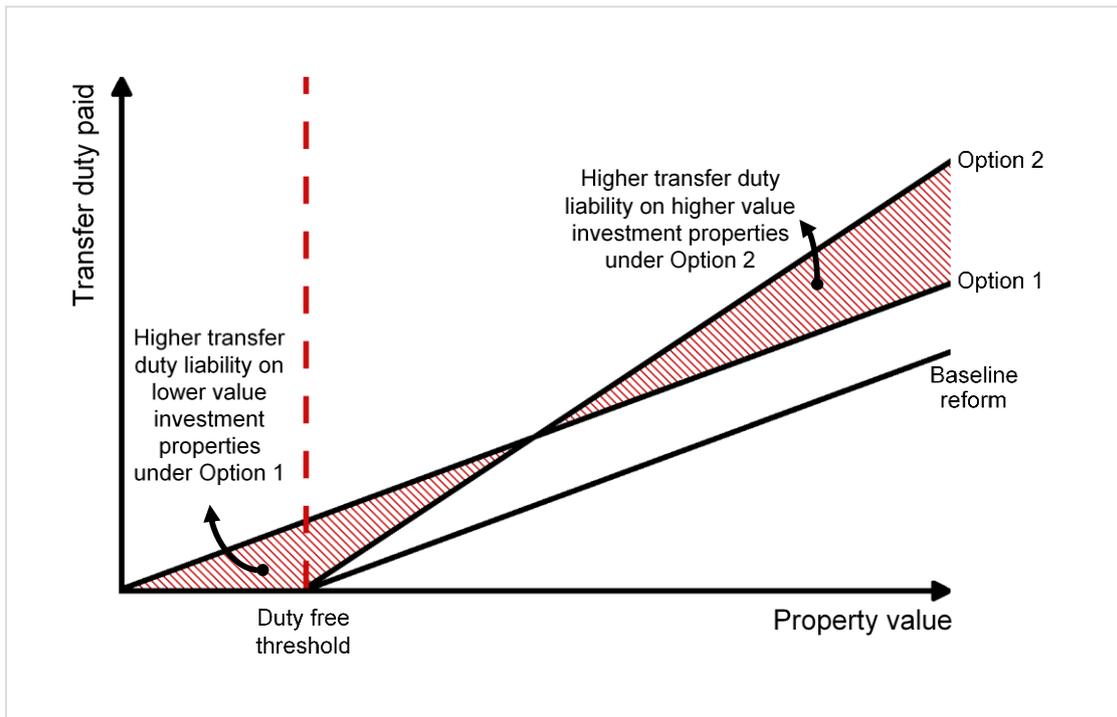
Source: Authors' own calculations based on CoreLogic data.

Reform option 2: Impose a transfer duty surcharge on investment properties

An alternative approach to creating differential treatment of investors and owner-occupiers is to retain thresholds for both categories of purchaser but introduce what is effectively a transfer duty surcharge on investors relative to owner-occupiers. This would have two distributional implications:

- 1 Relative to Reform Option 1, the incidence of higher transfer duty charges will fall on higher value investment properties (see Figure 14 below).
- 2 There is scope to vary the quantum of revenue raised (and the magnitude of the difference in treatment of investors and owner-occupiers) by varying the size of the transfer duty surcharge. In other words, the reform is scalable.

Figure 14: Distributional effect of Reform Options 1 and 2 on investors relative to baseline reform



Source: Authors.

In practical terms, Option 2 involves retaining the duty-free threshold for all property while charging different transfer duty rates according to the use of the property. In the modelling below, the threshold that applies under the baseline reform (with a 6% rate) has been retained, but the transfer duty rates for investors and owner-occupiers have been adjusted so that (i) the same amount of revenue is raised and (ii) the investor rate is one percentage point above the owner-occupier rate. As shown in Table 16 below, in the case of New South Wales, both investors and owner-occupiers would receive a duty-free threshold of \$246,000, but on the value in excess of this amount, owner-occupiers would pay a transfer duty rate of 5.88 per cent and investors would pay one of 6.88 per cent. For a median value property, this means that investors would pay \$3,588 more than under the baseline reform, and owner-occupiers would save an additional \$490. The reduction in transfer duty for owner-occupiers is modest because, according to ATO data, the overwhelming majority of investment properties are valued at below the median property price in each state.

Table 16: Duty-free thresholds and different transfer duty rates under Reform Option 2, compared to baseline reform

State	Median (\$)	Baseline reform		Reform option 2		
		(6% rate)		(same threshold for all properties but investors pay 1 p.p. higher rate)		
		Threshold (\$)	Break-even value (\$)	Threshold (\$)	PPR rate (%)	Investor rate (%)
NSW	653,697	245,529	682,500	246,000	5.88	6.88
VIC	524,872	110,905	303,000	111,000	5.85	6.85
QLD	424,966	220,983	468,000	221,000	5.86	6.86
WA	481,605	213,351	546,000	213,000	5.85	6.85
SA	381,059	127,274	397,500	127,000	5.85	6.85
TAS	283,886	143,078	327,000	143,000	5.91	6.91

Source: Authors' own calculations based on CoreLogic data.

Other options: layering

This section has contained the results of modelling for two reform options, both of which involve shifting the transfer duty mix so that those buying property in which to live (owner-occupiers) pay less duty than those buying property as an investment. The rationale for these reforms is that a gradual shift in mix of this nature will contribute to achieving overall housing policy goals such as improved affordability and greater security for tenants.

The layered approach means that state governments may choose to impose transfer duty surcharges on particular classes of purchasers, such as non-resident foreign buyers or buyers of especially high-value or 'premium' properties, or to extend additional concessions (beyond the standard threshold) to others, such as first home buyers. A number of state governments are already doing this (see Table 6 in Chapter 2), but arguably on a more ad hoc basis. A layered regime offers a more coherent framework within which different rates can be assessed on their merits and ensure that complexity added to the system by their introduction is offset by their advantages with regard to policy outcomes.

6.1.3 Making the transition: implementation and administration

In this section we have outlined some of the potential benefits of a simplified model that treats investors differently to owner-occupiers, as well as the distributional consequences for each group. However, subjecting investment properties to higher transfer duty relative to owner-occupiers does create certain risks. There have long been concerns that investment-fuelled property price bubbles enhance the incentives for individuals to 'game' the system (Laurence 2004). For example, there are concerns that some property investors systematically exploit CGT deductions and exemptions (Cross 2014). The reform options outlined above may create incentives for investors to misrepresent the intended use of a property at purchase or to change its use shortly thereafter, although implementation of a national register as outlined in Chapter 4 would minimise this risk.

The financial incentive to do so may be considerable, particularly at the higher end of the market. Table 17 below presents for each of the states the hypothetical example of a residential property worth one and a half times the median price. As can be seen, the differences in duty paid by owner-occupiers versus investors are in many cases substantial—under option 1 in New South Wales, investors pay over \$18,000 more than owner-occupiers while in Tasmania, an investor would pay close to twice the amount paid by an owner-occupier. The difference is not so marked under option 2, but it is not negligible.

Table 17: Duty paid by owner-occupiers and investors for a property valued at 1.5 times state-wide median value, Reform Options 1 and 2 compared to baseline reform, all states

State	1.5 x median property price (\$)	Duty paid, baseline (\$)	Duty paid, Option 1 (\$)		Duty paid, Option 2 (\$)	
			Owner-occupiers	Investors	Owner-occupiers	Investors
NSW	980,545	44,073	40,053	58,833	43,221	50,566
VIC	787,308	40,578	40,458	47,238	39,571	46,334
QLD	637,449	24,987	19,467	38,247	24,383	28,548
WA	722,407	30,564	26,064	43,344	29,795	34,889
SA	571,588	26,675	24,515	34,295	25,995	30,441
TAS	425,829	16,970	14,270	25,550	16,710	19,538

Source: Authors' own calculations based on CoreLogic data.

There are precedents for imposing different rates of transfer duty depending on the use to be made of the property after purchase (see Victoria, Queensland and Western Australia in Table 8 in Chapter 2). However, compliance with these regimes is dependent on the capacity of State Revenue Offices being able to verify the use of a property, both in terms of having the necessary resources to carry out appropriate audits, and in terms of having access to the data needed to detect potential non-compliance. Regimes that use a combination of self-reporting complemented by data-matching with the ATO would protect the integrity of the regime.

There are circumstances in which a change of use soon after purchase may be reasonable and even desirable and there needs to be capacity within the system to accommodate the resulting changes in liability if an owner-occupied property becomes an investment property or vice versa within a short timeframe. In these cases, an appropriate approach would be a pro-rata arrangement similar to that used with Victoria's principle place of residence transfer duty concession (SROVic 2017), whereby owners become liable to either pay or be refunded a percentage of the difference in transfer duty paid, with the percentage based on how long since purchase the change in use occurred; after 12 months, the percentage would be 80 per cent and would drop by 20 percentage points per annum until it reached zero.

6.2 Changing the mix: transfer duty and recurrent property tax

6.2.1 Reasons to reform

As noted in Chapters 2 and 3, there are well-established arguments for replacing transfer duties on residential property transactions with a recurrent land tax and such a shift has long been proposed as a reform priority in Australia (Henry, Harmer et al. 2009: 417; ACT Treasury 2012; Bentley and D'Cruz 2016; Daley and Coates 2015; Wood and Winter 2012; Productivity Commission 2017b). All state governments have actively reviewed this option in recent years and, as described in Section 3.4, various proposals for managing the transition have been developed and considered. However, while the vast majority of economists, tax and housing policy experts support it, such a change in the tax mix presents formidable political and budgetary challenges, and these barriers have become even more acute as state dependence on transfer duty revenue has increased in recent years (Johnson 2016; Bentley and D'Cruz 2016; Eslake 2015). Given the political economy of a transfer duty to land tax transition, it is not surprising that the ACT is the only jurisdiction that has actually begun to implement it although all state governments are using emergency service and other hypothecated levies as de facto property taxes (see Box 8 below).

6.2.2 Modelling changes to the transfer duty and recurrent property tax mix

As argued in Chapter 4, any switch from transfer duty to land tax should be imposed on the broadest base possible and use a Capital Improved Value plus Highest and Best Use valuation method (Daley and Coates 2015; Kelly, Hunter et al. 2013; IPART 2016; Mangioni and Warren 2014). The existing state land tax is levied on too narrow a base. A better approach is to use the local government rates base, although a necessary precondition of this would be the establishment of a consistent, state-wide system of valuations (Henry, Harmer et al. 2009: 71,103). Collection of the expanded property tax should be integrated with local government rates and administered on a state-wide basis, using existing emergency service levies as a model (see Table 9 in Chapter 2). Ideally, existing land taxes would be integrated into a new broad-based property tax, but this is not essential.

The reform options modelled in this section are designed to be layered onto the existing land tax regime and both assume that the baseline reform has been implemented. To assist in distinguishing between the existing and proposed regimes, we adopt from here the term 'recurrent property tax' to describe our reforms.

The two options analysed in detail are:

- Option no. 3: Abolition of transfer duty and replacement with a recurrent property tax that raises the same amount of revenue. As with transfer duty, a tax-free threshold would apply, with a flat rate levied on the property value above this amount.
- Option no. 4: An incremental reduction in transfer duty rates, funded by a broad-based recurrent property tax set at a rate that raises the equivalent amount of revenue.

Reform option 3: Full replacement of transfer duty with recurrent property tax

The modelling indicates that the cost of abolishing existing transfer duty on residential property in the six Australian states in 2015–16 is \$12.7 billion. As noted in Chapter 1, this figure differs from revenues reported in state budget papers because the total duty reported in those applies to all classes of property, including residential, commercial and primary production among others. Table 18 below shows the recurrent property tax rate needed to raise sufficient revenue to cover the full cost of the transfer duty abolition. A tax-free threshold applies, of the same value as that used in the baseline reform (with a transfer duty rate of 6%). The recurrent property tax rates shown are levied on property values over the threshold. As in the baseline reform case, a higher threshold would produce a more progressive land tax structure.

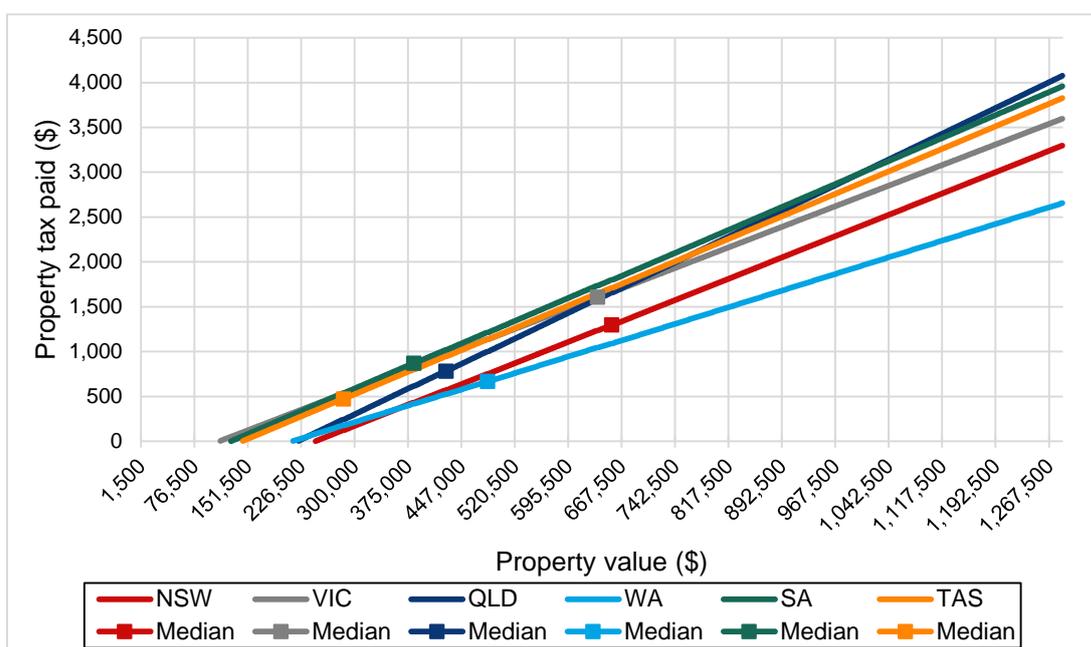
Table 18: Recurrent property tax rates required to fully fund transfer duty abolition, and annual property tax payable according to property value, all states

State	Current transfer duty revenue (\$m)	Threshold (\$)	Required recurrent property tax rate (%)
NSW	5,413	245,529	0.3171
VIC	3,987	110,905	0.3062
QLD	1,834	220,983	0.3828
WA	829	213,351	0.2476
SA	653	127,274	0.3417
TAS	127	143,078	0.3349

Source: Authors' own calculations based on CoreLogic data.

The recurrent property tax payable under these rates for each state is shown in Figure 15 below.

Figure 15: Recurrent property tax paid by property value under Option 3, all states



Source: Authors' own calculations based on CoreLogic data.

Table 19 below compares the annual property tax payments that would apply in each state at different property price points to the nominal annual cost of transfer duty, calculated on the basis of the annual property turnover rate in each state. It can be seen that below, at and above the median, the difference in annual liability is negligible; owners would be effectively paying the same, but in the case of transfer duty, the payment is a lump sum paid up front, while in the case of the recurrent property tax, it is spread out over time.

Table 19: Nominal annual transfer duty and annual recurrent property tax compared for selected price points relative to the median, all states

State	Average turnover rate (%)	Total transfer duty (\$)			Annual transfer duty (\$) over average holding period			Annual recurrent property tax (\$)		
		Median	1.5 x median	0.5 x median	Median	1.5 x median	0.5 x median	Median	1.5 x median	0.5 x median
NSW	5.29	24,490	44,101	4,879	1,296	2,333	258	1,296	2,331	258
VIC	5.10	24,838	40,584	9,092	1,267	2,070	464	1,267	2,071	464
QLD	6.38	12,239	24,988	0	781	1,594	0	781	1,594	0
WA	4.13	16,095	30,543	1,647	665	1,261	68	665	1,260	68
SA	5.69	15,227	26,659	3,795	866	1,517	216	868	1,518	216
TAS	5.58	8,448	16,965	0	471	947	0	472	947	0

Source: Authors' own calculations based on CoreLogic data.

Although property owners who hold properties for an average period of time are no worse off, significant political and economic challenges remain:

- In the absence of complex grandfathering and transition compensation, there remains a risk of double taxation of recent property buyers who were subject to full transfer duty.
- There is redistribution from those who transact property regularly (and incur high transfer duties) to those who hold properties for longer than average rates, which may effectively penalise those investors offering longer-term leases to tenants.
- The recurrent property tax (in excess of \$2,000 per annum for properties above the median price in Victoria and NSW) will have a significant impact on household cash flows and pose particular challenges for 'asset-rich, income-poor' households, including pensioners whose family homes are located in suburbs where there have been recent substantial property price appreciation.

At the Commonwealth level, consideration would need to be given to whether investors could deduct the cost of this additional layer of property tax against their federal income tax liability. Finally, as with the earlier changes canvassed, there would be behavioural responses that would need to be considered. Given these challenges, a more politically pragmatic approach, that would also minimise the risk of market disruption, would be to incrementally phase out transfer duties on residential property purchases using an approach similar to that adopted in the ACT in 2012. Reform option 4 models the property tax rates required to fund a gradual phasing out of transfer duties on residential properties.

Box 8: Property tax reforms in the ACT

In the 2012–13 budget, and echoing many recommendations in the 2010 Henry Tax review, the ACT Government committed to undertake significant reform of its land tax system. The reforms, which include long-term structural reform over a transitional period of 20 years, advance the proposal that states and territories will benefit over the longer term by shifting their revenue sources to more efficient land value taxes (LVTs). In the unique context of having no local government, the practical basis of this initiative includes the application of a progressive rate of land tax in the form of general rates to all owner-occupied homes, and a reduction in land tax on investment and commercial properties. With this additional revenue, the territory government will substantially reduce and gradually abolish transfer duties on conveyances. Key social and economic objectives included increasing revenue independence to the territory and improving both efficiency and transparency, as well as better equality in the territory's taxation system.

In a staged approach to reform, key elements of the land tax reform included:

- the abolition of duty on conveyances
- the application of general rates as a broad-based land tax for revenue replacement
- improvements to the progressivity of the revenue replacement base (i.e. general rates)
- abolishing of nuisance rates, for example duty on insurance
- adjustments to concession schemes to cushion reform impacts on key groups, e.g. general rates pension rebate increases, increases to threshold for home buyer concession scheme by 25 per cent, and provisional eligibility for a rates deferral scheme extended to non-pensioners.

Sources: ACT Treasury (2013), McLaren (2013) and Murray (2016).

Reform option 4: Partial replacement of transfer duty with land tax

In the ACT, rather than introducing a full transfer duty/property tax switch in a single reform, an incremental phase in/phase out strategy has been adopted (see Box 8 above). The fourth reform option to be reviewed here is based on a similar principle. The proposal modelled is to reduce the transfer duty rate and to fund this reduction through the introduction of a broad-based recurrent property tax (assuming no behavioural response). Because under an incremental approach the amount required to attain revenue neutrality would be significantly less than under Reform Option 3, the required recurrent property tax rate would also be lower.

Once states have established a recurrent residential property tax framework integrated with the administration of local government rates, it is possible to reduce transfer duty rates incrementally. Starting from a transfer duty rate of 6 per cent (while retaining the thresholds outlined for that rate in Chapter 5), if transfer duty cuts were implemented on an annual basis over a decade, then the annual rate cut required per annum would be 0.6 percentage points. The rate of recurrent property tax required to fund an 0.6 percentage point reduction in transfer duty in each state, and the resulting amount of property tax on median value properties is presented in the following Table 20.

Table 20: Recurrent property tax rate required to fund 0.6 percentage point reduction in transfer duty and resulting annual property tax paid on median value properties, all states

State	Threshold (baseline reform, 6% rate)	Required rate of recurrent property tax to reduce transfer duty rate by 0.6 p.p.	Median (\$)	Annual recurrent property tax paid on median-priced property (\$)
NSW	245,529	0.0317	653,697	129.24
VIC	110,905	0.0306	524,872	126.64
QLD	220,983	0.0383	424,966	78.12
WA	213,351	0.0248	481,605	66.61
SA	127,274	0.0342	381,059	86.88
TAS	143,078	0.0335	283,886	47.28

Source: Authors' own calculations based on CoreLogic data.

Table 20 indicates the incremental cost of a gradual process that winds transfer duty back from 6 per cent to zero over ten years (excluding any behavioural response). The cost of a more dramatic reduction is shown in Table 21 below. With the same starting transfer duty rate of 6 per cent, the proposed recurrent property tax rates shown in Table 21 would be sufficient to halve the rate of transfer duty to 3 per cent. Table 21 also contains the annual property tax and nominal annual transfer duty applied in each state for a property valued at the median property price (again, assuming no behavioural response).

Table 21: Rate of recurrent property tax required to reduce transfer duty rate from 6 per cent to 3 per cent and indicative annual payments for both, all states

State	Threshold (baseline reform, 6% rate)	Required rate of property tax to reduce transfer duty rate to 3% (\$)	Annual transfer duty paid on median-priced property (3% rate) (\$)	Annual recurrent property tax paid on median-priced property (\$)
NSW	246,000	0.1586	12,231	647
VIC	111,000	0.1531	12,416	634
QLD	221,000	0.1914	6,119	390
WA	213,000	0.1238	8,058	333
SA	127,000	0.1708	7,622	434
TAS	143,000	0.1674	4,227	236

Source: Authors' own calculations based on CoreLogic data.

Once the framework supporting a broad-based recurrent property tax is in place, governments can gradually increase the rate and earmark the proceeds to providing corresponding reductions in transfer duty. As noted in Table 21 above, an 0.6 percentage point reduction in transfer duties can be funded with a recurrent property tax of between \$47 and \$129 per annum on medium value property. Such an approach does not lock states into a particular trajectory but allows for adaptation to circumstances. Rates can be modified depending on behavioural responses and wider market conditions, thereby minimising risk, both to government budgets and to housing market stability. It must also be stressed that this is a long-term reform agenda and is not designed to rapidly improve housing affordability. As outlined in Box 8 above, this is essentially the approach that has been adopted in the ACT.

6.2.3 The political economy of the transition to recurrent property tax

The efficiency dividends of a broad-based recurrent tax on property are well understood (Daley and Coates 2015; Henry, Harmer et al. 2009; Mangioni 2016a). There are also a number of political barriers to reform. The most prominent concerns in the Australian debate which were analysed in Chapter 3 include:

- double taxation of those owners who have recently purchased and paid full transfer duty, although this can be managed through a gradual transition as discussed above
- cash flow challenges—given that a recurrent property tax is a tax on wealth deferral, provisions have to be developed for ‘asset-rich, income-poor’ property owners, such as pensioners living in the family home
- visibility—a political advantage of a one-off transfer duty is that it is embedded in transaction costs whereas a recurrent property tax is visible to the taxpayer. Administrative strategies for addressing this issue were outlined in Chapter 4 and include the collection of local government rates and state-level property taxes. Longer term strategies include the collection of property taxes through the national income tax withholding regime.

Distributional considerations

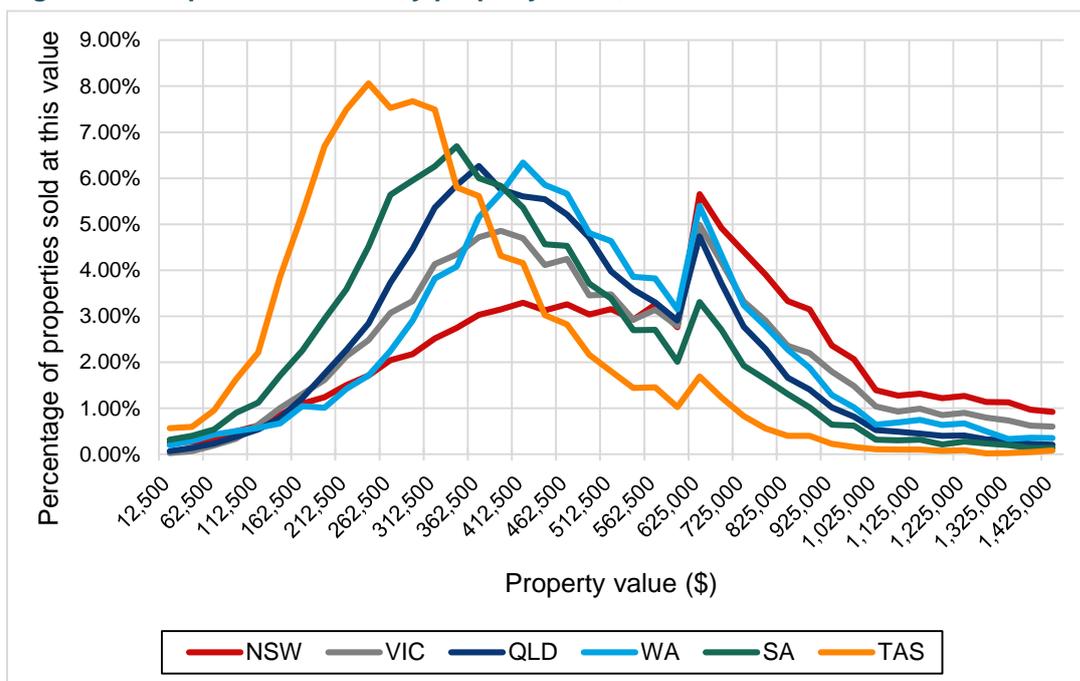
What is less well appreciated is that, from a life course perspective, revenue neutral transition from transfer duty to land tax will mean that owners who buy and sell properties regularly will be advantaged over those who hold properties for longer periods. Yet longer-term property investment is recognised to be an important pre-condition for increasing the length of tenancies and thus, for improving security for tenants. We also note that a number of strategies are

required to improve tenant security including law reform and addressing barriers to institutional investment in rental property.

From a modelling perspective, the critical determinants of the property tax rate required to fund a given reduction in transfer duty are both the value of the housing stock and the frequency with which it is transacted (i.e. the turnover rate, or the percentage of housing stock that is sold in any given year).

The distribution of the frequency of sales across property values is not a uniform one. Figure 15 below shows that the distribution is essentially bimodal. This reflects the differences in prices for houses and units. These data demonstrate that there are more lower-valued properties, and that transactions relating to them account for a larger share of the total value of transactions in any given period. More analysis is required to know whether, in any given period (say, ten years), a higher valued property is likely to change hands more often than a lower-valued property. A related argument, which also requires more detailed analysis, is that younger owner-occupiers tend to buy and sell more regularly as they trade up the property ladder from small units to larger detached homes (Olsberg and Winters 2005). This suggests that moving to a recurrent property tax may benefit younger, first home buyers and help improve intergenerational equity.

Figure 16: Proportion of sales by property value, all states



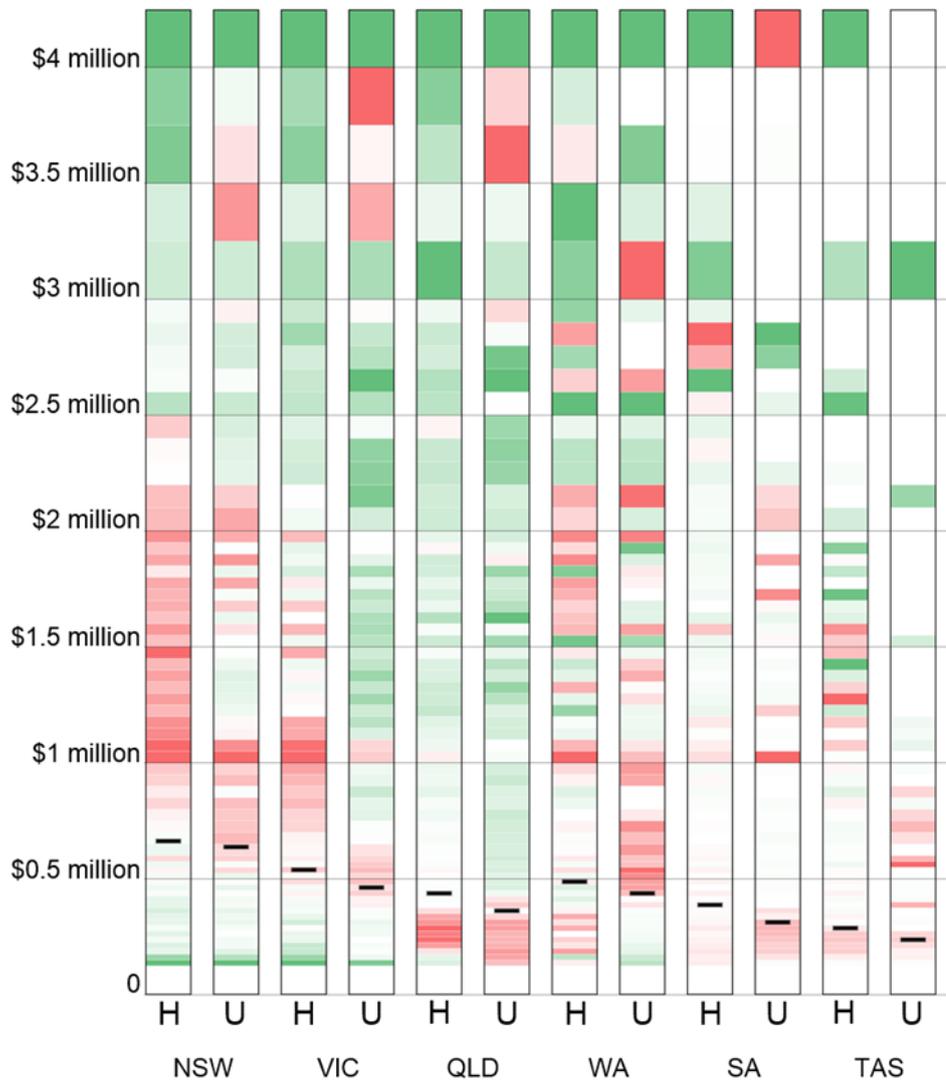
Source: Authors' own calculations based on CoreLogic data.

This report has included detailed analysis of historical turnover rates, which have revealed significant differences in average turnover rates in different states. These range from 6.38 per cent in Queensland down to 4.13 per cent in Western Australia (see Table 21 above for other states). A higher turnover rate and high property values together mean transfer duty will yield significant revenue and a higher property tax rate will be required to achieve a revenue neutral transition. Queensland also has the highest proportion of rental property of any of the jurisdictions which helps to explain its higher turnover rate.

Because a revenue neutral transfer duty to property tax switch will benefit those owners who buy and sell more regularly, a detailed analysis was undertaken to identify which properties (by state, value and type) have a turnover rate above the state average and which would therefore

benefit from this kind of transition. The aim was to establish the general trends, but the analysis identified significant variations among states and between houses and units. This variation is visually represented in Figure 17 below.

Figure 17: Visual representation of turnover rates on different property values and types, by variation from state average, all states



Source: Authors' own calculations based on CoreLogic data.

Notes:

- H indicates houses, U indicates units.
- Red shading indicates a turnover rate below the state average for that property type at that property value; green shading indicates a turnover rate above the state average.
- Caution is needed in interpretation as data is unweighted. This means that individual data points are misleading, especially at the extreme ends of property value.
- Dash indicates state median property price.

The degree of variation and its lack of consistency suggests that the factors determining turnover rates are complex and extend beyond price and property type (Leal, Parsons et al. 2017).

While it is difficult to draw general conclusions based on price there are likely to be generational and life cycle effects of relevance to reform options. For example, first home buyers may benefit

from a transition to recurrent property tax and a reduction in transfer duty because they may make more property purchases than a more mature, higher income household. It is also possible that purchasers in more expensive markets, such as capital cities, will also benefit because they are less likely to be able to enter the market by purchasing a family home, but will instead ‘trade-up’ from smaller units into larger houses.

More analysis is required on the spatial distribution of any reforms, but as noted above, lowering transfer duty rates may improve intergenerational equity by reducing barriers to entry into home ownership. On one hand, such reform has the potential to encourage speculation in property by both investors and owner-occupiers if it is not countered with other measures, such as capital gains tax reform. This is, however, the subject of another project in this AHURI Inquiry, and beyond the scope of this report.

Intergovernmental incentives and equalisation

It is also important to consider the intergovernmental dimension of any transition to a recurrent property tax. The Commonwealth Government will benefit from an efficiency dividend (Eccleston, Woolley et al. 2013), and part of this windfall could be used to encourage state governments to undertake reforms. This strategy was central to the successful implementation of national competition policy in the early 1990s while a more recent OECD study of successful subnational tax reforms also highlighted the importance of national leadership (Blochliger and Vammalle 2012). As noted in Chapter 4, Commonwealth Government leadership will also be required to advance data collection and standardisation protocols to underpin the reforms proposed in this report.

Australia’s system of fiscal equalisation via GST distribution to the states and territories, administered by the Commonwealth Grants Commission (CGC) and under review at the time of writing, will also influence the total revenue available to states following the transition from transfer duty to a recurrent tax on residential property. The Productivity Commission’s *Horizontal Fiscal Equalisation Draft Report* (2017: 98) specifically notes that Australia’s horizontal fiscal equalisation regime is not policy neutral and a unilateral decision by one state to broaden its land tax base to fund a reduction in stamp duties would likely result in a significant reduction in GST share. The fact that impacts are much smaller in the case of multilateral reform again highlights the need for a nationally coordinated reform strategy.

Table 22: Impact of transfer duty to recurrent property tax transition on equalisation payments (2014–15 data)

State	Change in GST grant		
	(\$ per capita)	(\$ million)	(%)
NSW	35	262	1.7
VIC	-41	-239	-1.8
QLD	134	638	5.2
WA	-105	-269	-11.1
SA	-162	-274	-5.0
TAS	-62	-32	-1.6
NT	-218	-84	-7.9
ACT	-4	-1	-0.0

Source: Authors’ own calculations based on CoreLogic data.

Table 22 highlights the possible impacts identified by the Productivity Commission (2017a) and shows that replacing the current transfer duty in 2014–15 with a broad-based property tax as

outlined above has different implications across jurisdictions. The most significant factor driving this result is the widely varying property turnover rates. What causes the increase of \$638 million in the GST grant for Queensland is that property turnover rates there are some 19 per cent higher than the national average. The higher apparent transfer duty base in Queensland as estimated by the CGC will be replaced with a land tax that gives no attention to turnover, resulting in Queensland having a smaller share of the national base of land and therefore requiring a greater GST grant share. Put differently, in 2014–15, Queensland's share of the transfer duty base was 18.8 per cent while its share of the land tax base is only 15.9 per cent. The importance of differences in property turnover rates across the federation will be compensated for through the GST grant, but will result in a redistribution of that grant across the federation.

The more general implication of the analysis presented above is that when the CGC applies the principle of full horizontal fiscal equalisation when advising the Commonwealth Government on the distribution of the GST-based grant to states, the resulting redistribution of the grant can make it that much harder for individual states to justify such a major and controversial reform when gains can be distributed away while the political risk remains. Solutions do exist and ought to be examined. These include quarantining part of the new land tax revenue (and a similar amount of overall expenditure) or, as noted above, a Commonwealth supplementary grant or incentive payment additional to current grants which are also quarantined. Here the Commonwealth Government must recognise the challenge that states confront when implementing a transition from a transfer duty to a broad-based property tax and put in place policies to ensure that all states benefit from the long run financial dividends of such reform.

6.3 Policy implications

This chapter has built on the simplified transfer duty regime presented in Chapter 5, presenting four options through which this baseline reform can be developed to address wider housing policy goals.

- Option no. 1 is to remove the duty-free threshold for investment properties, with the revenue gained used to fund an increase in the duty-free threshold for purchasers who are intending owner-occupiers.
- Option no. 2 is to retain the same threshold for all purchasers, but introducing a different transfer duty rate depending on the intended use of the property, so that investors pay a rate that is one percentage point higher than that paid by owner-occupiers. The rates would be calibrated so as to raise the same amount of revenue as the baseline model.
- Option no. 3 is to abolish transfer duty in full, replacing it with a recurrent property tax that raises the same amount of revenue. As with transfer duty, a tax-free threshold would apply, with a flat rate levied on the property value above this amount.
- Option no. 4 is to reduce transfer duty rates (by approximately half), funding the decrease with a broad-based recurrent property tax set at a rate that raises the equivalent amount of revenue.

Each of these reforms has different effects. For example, under Option 1, a higher proportion of transfer duty falls on investors with lower value properties, while in Option 2, it is investors with higher value properties who will pay more. Option no. 3 is simple and transparent, but would require considerable care in implementation owing to the political economy of such a significant shift in the taxation mix. Option 4 is a more incremental version of Option 3 but, like Option 3, may create an incentive for speculative investment in the market, which would be contrary to wider housing policy goals of improved affordability and security of tenure for renters.

The purpose of outlining these options and indicating their distributional impacts is to underscore to policy-makers how a simplified, administratively robust transfer duty regime can be used as a foundation for further, more ambitious and more nuanced reform. The policy implications are explored in greater detail in the following chapter.

7 Policy development options: a pathway to subnational property reform

There is a growing consensus across all levels of government that a coordinated approach to subnational housing tax reform would support a fairer and more sustainable housing system. Yet the dynamics shaping housing markets are complex, and it is increasingly clear that there are no simple solutions. A wide range of variables influence housing affordability and any policies which may place a downward pressure on property prices are highly contested. In part, this is because residential property is both the most significant store of household wealth and, at the same time, a basic right and social good that should be widely available at reasonable cost. In recent decades housing has become increasingly commoditised and regarded as an asset which should be used for wealth creation rather than a social good. Arguably government policy designed to promote home ownership and investment has contributed to this trend. Above all, this structural and ideational shift demands a re-conceptualisation of housing affordability and accessibility.

Yet the politics of housing affordability have led to greater recognition of the social and economic costs of rising residential property prices. Despite decades of sustained policy efforts to incentivise home ownership, the costs of high property price inflation are becoming clearer and include:

- a prolonged (half century) decline in home ownership rates in Australia
- higher numbers of renters, especially among younger Australians
- rising household debt
- increases in vacant dwelling numbers, underutilisation and/or shortfalls in some types of housing supply
- higher social housing waiting lists⁹
- increased levels of speculative investment, at the expense of aspiring home owners.

These housing policy challenges also interact with broader concerns such as the structural deterioration in Australia's public finances over the last decade and questions over the capacity for governments to sustain and promote investment in housing supply in Australia. As Australia's housing affordability predicament has been two decades in the making, it will consequently take a concerted effort using a wide range of policy instruments and strategies to address the challenge.

The tax treatment of real property and the income derived have contributed to the recent decline in housing affordability and accessibility in Australia. Multiple national-scale reports reiterate that current tax settings have significantly contributed to inefficient and inequitable housing policy outcomes, and that subnational reforms are necessary to creating a fairer and more sustainable housing system in Australia. This is reiterated again in the recent release (October 2017) of the Productivity Commission's five year Productivity Review (Productivity Commission 2017b: 8) which outlines the strain on Australian cities caused by the lack of access to suitable housing and employment, in turn exacerbated by transfer duties on residential housing constraining housing mobility and resulting in the retention of property that is under-utilised and unproductive. The report also highlights the cost of transfer duty to community welfare: every

⁹ We acknowledge that there are other reasons for this, such as declining government spending on social housing (see Tomlinson 2017).

additional dollar collected through duty transfer taxes on residential properties reduces the living standards of Australian households by 72 cents¹⁰.

This report directly addresses the housing challenges facing the Australian community by setting out an incremental and politically sustainable subnational tax reform strategy that will create a fairer and more sustainable housing system in Australia. It does so through a revenue-neutral strategy and a set of transition options which will provide government with flexibility to minimise political, fiscal and market disruptions. Moreover, if done systematically, subnational reform can facilitate the national coordination of property tax between local, state and Commonwealth governments as a foundation to build a modern and effective basis for fairer and sustainable tax administration in Australia. For this to happen, it will be important to establish a long-term (20 year) strategy for reforming subnational property taxes which consists of three sequential phases. This strategy demands specific short (1–3 year), medium term (3–10 year) and long-term objectives, which are outlined in this report. Based on evidence gathered for this project, we believe that this long-term incremental approach will minimise the risk of short-term political and housing market disruption. The key principles and strategies related to the design of these reforms, including our findings of the scenario modelling and their implications for policy development, are detailed in the following sections.

7.1 Principles of subnational property tax reform

Existing mechanisms for raising property tax revenue in Australia are fragmented, complicated, and administered in a consistent or systematic way. State government budgets currently rely heavily on transfer duty revenues, which are known as an inefficient and volatile tax, whereas efficient, recurrent taxes on property values are only narrowly applied. This report sets out some key strategies necessary to reform the current system through a staged approach including the design of a coherent and coordinated administrative base and valuation regime; the simplification of the current transfer duty regime; and a longer-term strategy to transition into a broad-based recurrent tax on property and the gradual removal of transfer duty for purchasers of residential property.

These reforms are supported by a number of broadly applied principles. First, the property tax system we have outlined is based on administrative foundations that will enhance the effectiveness of subsequent reforms. **To be successful, all levels of government need to commit to greater administrative cooperation and increased harmonisation with respect to valuation methods and property tax bases.** While this raises political and other challenges, intergovernmental cooperation forms the backbone of the strategy and will determine the extent to which the reforms are implemented. At the same time, states should retain the right to determine or vary property tax rates and thresholds on the basis of their revenue needs or policy priorities and/or timing of reforms. While integrated administration systems and harmonised valuation methods are necessary, we acknowledge the importance of states' independence with respect to revenue-raising and policy-setting agendas.

Second, given current state governments' reliance on property taxation generally and transfer duties in particular, **the reforms outlined in this report are all framed as being revenue neutral to avoid the political challenges associated with having to increase non-property taxes to fund reform.** Some recent proposals to replace state transfer duties with a recurrent property tax (see Section 3.4) require the Commonwealth Government to fund or underwrite any-short term revenue gap experienced by the states. While technically feasible any reform

¹⁰ Due to lower investment and mobility effects (Productivity Commission 2017b: 8 citing a recently released Treasury working paper).

strategy which requires direct financial assistance from the Commonwealth Government is less likely to succeed than an approach which individual state governments can implement unilaterally (albeit within a national framework) without having a detrimental impact on their budgets.

A third principle, building on a revenue neutral strategy, is that **states should commit over the medium to long term to significantly reduce transfer duties (especially on lower value owner-occupied property) by increasing revenue from a broad-based property tax**. The long-term strategy to remove transfer duties from the Australian property tax system and replace it with a broad-based recurrent property tax acknowledges the current inefficiencies in the transfer duty system. In its place it will be a framework that provides revenue sustainability, stability and efficiency through a recurrent property tax, with a simple and progressive structure that distributes tax burdens more equitably from a housing affordability perspective.

Finally, despite being designed to balance technical policy goals with political imperatives, any tax reform strategy requires significant leadership. **The Commonwealth Government should commit to assisting with and engaging in the coordination of property tax reforms**, encouraging states and territories through various incentives to act in a coordinated and strategic manner.

7.1.1 Short-term policy objectives: 1–3 years

The policy objectives of the first phase of the strategy focus on improving the administration of subnational property tax systems and simplifying transfer duties applied to residential property transactions. Administrative measures include clarification of the roles and functions of different tiers of government, as well as increased coherence and consistency between national, state and local governments with respect to data sharing and the alignment of property valuation and tax collection methods.

The short-term objectives related to administrative reform include:

- **The development of a consistent national approach to land valuation and establishing a national register of residential property (as per Research Question 1)**. A key reform objective is to promote consistency between different government levels and jurisdictions in the methods used to value and assess properties in Australia. Based on research evidence, we propose that a consistent approach to valuation is achieved by a valuation regime based on capital improved value (CIV) where the property is being used for its highest and best use (HBU). In addition, a national level database of property ownership and values provide a solid administrative foundation from which to build a scheduler property tax regime. The adoption of automated valuation methods (AVM), as is occurring in other jurisdictions, is advantageous to a national system given it values property in a cost-effective, contemporaneous and comprehensive manner.
- **Increasing the sharing of property-related data across all levels of government (RQ1)**. The key advantages to data sharing between local, state and Commonwealth governments is its potential to minimise both compliance costs on taxpayers and administrative costs for governments, improving the integrity and transparency of the regime.
- **Integrating the administration and collection of local and state property taxes (RQ1)**. Extending current local governments' role as collectors of state government taxes (e.g. fire and emergency services levies), recurrent property taxes should be collected jointly with local government taxes, involving sharing of administration between government tiers and the use of common valuation methods.

The second element of the short-term reform agenda is the **simplification of the current duty transfer system as an incremental but important first step towards broader property tax reform (RQ3)**. While retaining transfer duty is not often advocated by property tax reform

proponents, the tax does raise significant revenue and can serve to moderate housing markets. Moreover, establishing a fairer and simpler transfer duty regime will provide a foundation for more substantive reform. Initially, and alongside increased consistency in property valuation methods, changes should include the simplification of existing transfer duties through the implementation of a generous tax-free threshold on residential property and a flat rate applied to any property with a value above the threshold. This will serve to reduce the incidence of transfer duties on lower value owner-occupied properties.

7.1.2 Medium-term policy objectives: 3–10 years

Property tax reform strategies for the medium and longer-term reflect a layered approach that takes advantage of different policy settings and instruments. Building on the twin foundations of administrative restructuring and a simplified duty regime, they include an increase in transfer duty levies for investors relative to owner-occupiers followed by the implementation of a broad-based land tax as a partial replacement of transfer duties.

Medium-term policy objectives include:

- **Shifting incurred costs of transfer duty from owner-occupied properties to investment properties by gradually increasing the transfer duty rate differential between investors and owner-occupiers (RQ3).** Reforming (rather than replacing) transfer duty in the medium term is a strategic approach that will augment housing affordability and sustainability outcomes while tempering political challenges associated with extending land taxes to residential properties. This can be done by removing duty-free thresholds for investment properties, or by retaining the same thresholds for all buyers while increasing the transfer duty rate by one percentage point for investors than owner-occupiers. Under the first of these two scenarios modelled in this report removing the duty-free threshold for investment properties using a 6 per cent flat rate, an additional \$5.4 billion in transfer duties revenue would be raised across Australia. The surplus revenue would fund an increase in the duty-free threshold for owner-occupiers, with substantial differences in the price paid by investors (e.g. more than double in Tasmania or \$18,000 more in NSW) over owner-occupiers.
- **Consideration by states to impose supplementary taxes on high value or foreign-owned properties with these revenues being used to fund further reductions in transfer duties (RQ3).** The simplified and transparent scheduler regime creates further opportunities for state governments to introduce additional and even flexible approaches to transfer duty regimes. For example, options may include duty surcharges based on the type of buyer or value of property (e.g. non-resident foreign buyers or buyers of premium properties) or conversely extend concessions to others such as first home buyers.
- **Introduce a broad-based recurrent property tax as a partial replacement of transfer duty with land tax (RQ1, RQ2).** Property tax would be broadened to include owner-occupied residential property and based on state-wide systems of CIV HBU valuation methods and administered jointly with the local government rate base. In the first instance this would fund a 0.6 per cent reduction in transfer duty rates with an average annual recurrent property tax of between \$66 and \$139 on medium value residential properties.
- **Commonwealth-funded incentives for states to engage in reform (RQ4).** The Commonwealth Government, who will be the main beneficiary of the efficiency dividend when states undertake property tax reforms, should consider offering incentives for state governments who undertake property tax reforms. Providing incentives through the equalisation regime administered by the Commonwealth Grants Commission equalisation could provide an avenue for the Commonwealth Government to encourage states and territories to transition from transfer duty to recurrent property taxes.

7.1.3 Long-term policy objectives: 10 plus years

The longer-term policy objectives are to complete the tax mix switch from transfer duties to a broad-based recurrent property tax. Policy objectives include:

- **Transfer duty on owner-occupied properties to be abolished within 20 years (RQ2, RQ3).** By extending the medium-term measures (outlined above), it will be possible to gradually reduce transfer duties on an annual basis until it is removed altogether. The recurrent property tax is commensurately increased to fund the transfer duty reductions. This gradual reform model can be adapted by individual states to cater for budgetary and political circumstances and would enable states to adapt to market conditions. An incremental approach will reduce concerns over double taxation.
- **Developing deferral and withholding strategies to manage increases in recurrent property taxes (RQ2, RQ3).** Reducing transfer duty suggests that over the longer term revenues raised through recurrent property taxes will increase significantly. This will, over time, require the adoption of appropriate deferral measures to mitigate the effects of higher tax burdens on asset-rich, but income-poor, Australians. Similarly, it will be advantageous to develop efficient withholding systems to collect recurrent property taxes.

The reforms proposed in this report have been designed to meet the objectives of the housing tax reform agenda, combining principles of good tax design (Musgrave and Musgrave 1976) with housing policy aims while accounting for existing political and structural constraints to achieving them. The politicisation of housing tax reform in Australia necessitates an incremental approach to reform whereby the initial focus of reform is on improving property tax administration and the structure of the transfer duty base. While the approach proposed in this report is designed to minimise the political costs of reform, it is inevitable that gradually increasing the tax burden on millions of Australian property owners does involve political risks and challenges. Ultimately, political leaders will have to argue that the wider benefits of housing tax reform for the Australian community and economy outweigh any minor economic costs.

7.1.4 What are the tax design advantages of these reforms?

The housing tax reform strategy proposed in this report directly addresses a number of widely acknowledged deficiencies in the Australian property tax system as detailed in Chapter 2. It outlines a long-term strategy for the removal of transfer duty—a tax well known for its volatility and inefficiency—and its replacement with a broad-based property tax in line with the more efficient taxes used in other OECD countries. A key political concern in dismantling transfer duty taxes is the revenue cost to state governments, who stand to lose a significant source of revenue by doing so. This strategy adopts the principle of revenue-neutrality as a key design feature, to mitigate the risks to state budgets usually associated with a property tax switch and thus remove this deterrent to reform. While not a move usually advocated by housing tax reform advocates, retaining transfer duty in the short term does act to dampen speculation on investment properties due to its increased tax burden on real estate transactions. Retaining transfer duty as a progressive and partial function of a wider property tax system can therefore contribute to wider housing affordability goals while reducing the short to medium-term fiscal burden associated with a full switch to a broad-based recurrent property tax.

A central feature of the reform strategy is its incremental approach to a property tax mix shift, including shorter, medium and longer-term reforms over a period of up to 20 years. This approach to reform allows governments to adapt to behavioural and market impacts, as well as maintain some alignment with individual policy goals and responsiveness to changing political conditions. From a fiscal perspective, a longer-term transitional arrangement is also calculated to provide the Australian economy with significant economic dividends, in the order of adding \$9 billion a year to GDP (Daley and Coates 2015). It is important to note that the proposed reforms are not intended as piecemeal, but are designed to integrate with cognate national tax reforms,

particularly those addressing housing affordability outcomes. For example, on the one hand intergenerational equity may improve by removing transfer duty on home purchases because it reduces barriers to entry to home ownership. On the other hand, reductions in transfer duty incidence may encourage speculation in property by owner-occupiers (although this has not been evident in the ACT (Murray 2016), which highlights the need for reforms to be coordinated with tax measures such as capital gains tax reform to dampen speculation.

7.1.5 How will these reforms contribute to a fairer and more affordable housing system?

An obvious question related to housing property tax reform is whether it will increase equitable access to affordable and appropriate housing. The analysis in this report explores the reform options most likely to do this. While not directly an affordable housing outcome as such, foundations of cooperation between tiers of government and integration of subnational valuation systems provide a necessary foundation to reforms that will do exactly that. By simplifying the subnational property tax system through administrative reforms such as intergovernmental data sharing and coordination of state and local government property valuation methods, we envisage greater system-wide transparency and accountability, a fairer, more accurate and consistent base for property valuations, and an increased compliance to the payment of tax levies and associated reduction in related tax-payer costs.

In addition, the layered approach outlined in this report is designed specifically to reduce transfer duty burdens on lower value owner-occupied housing while increasing costs on investment properties. These reductions, we argue, are not likely to be capitalised into higher prices and nor will they have a perverse impact on rental affordability.

Finally, the tax switch from transfer duty to a broad-based recurrent land tax addresses some of the key inefficiencies in the current system, such as the costs of discouraging resident and business mobility; the inequitable burden it incurs on those who must sell regularly and the consequence of these factors on the underutilisation of existing housing stock. Moreover, establishing a recurrent tax based on the value of residential properties over the longer term will put downward pressure on prices as this taxation liability is capitalised into prices. The removal of transfer duty on owner-occupied property, for example, will release purchasers from large, up-front costs associated with moving, increasing housing mobility and opportunities to follow employment or to better use appropriate housing for generational and life-style needs.

7.2 Concluding remarks

This report draws on existing analyses of subnational property taxation in the Australian federation to develop and present indicative modelling of a long-term pathway to a fairer, more efficient and sustainable tax system.

The modelling presented, using grouped CoreLogic data of all residential property transactions in 2015–16, is arguably the most comprehensive and contemporaneous analysis of its kind conducted thus far. However, there are a number of limitations. Given the focus on housing markets and affordability, the research attends specifically to issues related to residential property transactions, but we acknowledge that this represents a little over 60 per cent of the national transfer duty base. The modelling also makes parameter assumptions about housing turnover rates and the value of investment properties based on ATO data. These assumptions are detailed in Appendix 3. Finally, property markets are notoriously cyclical and volatile and a range of exogenous and behaviour factors will influence both property market dynamics and revenue outcomes. In this respect, the modelling is indicative and demonstrates likely outcomes of specific reform scenarios. The benefit of an iterative approach to reform is that it will allow state governments to adapt to market conditions and budget changes.

The analysis and reform proposals in this report constitute only one, albeit significant, element of a broader study of housing tax reform to improve the fairness and sustainability of Australia's housing system. Finally, it is important to reiterate that the housing challenges facing Australia demand a nationally-coordinated approach built on a shared commitment to improve housing affordability and accessibility over the longer term. The challenge of course is that any strategy which improves housing affordability will have some financial consequences for existing home owners. It is therefore incumbent on Australia's political representatives to highlight the broader social and economic benefits associated with a housing system in which a wider range of Australians can access secure and affordable housing in the communities in which they live.

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Appendix 1: CoreLogic data format, 2015–16

Table A 1: 3-way disaggregation of Corelogic data

Variable	Description	Variable descriptor
State	State/Territories, 9 regions	State
Property type	The property is defined as 'Houses' or 'Units'.	House
Date*	YYYYMMDD — the last day of the month for previous six- month period	six_mth_end

Source: Summary of data supplied by CoreLogic.

Table A 2: Variable available for 3-way disaggregated Corelogic data

Median sales price,6 months	Median sales price of all sales in the last 6 months	median_price_6mths
Number of sales, 6 months	Total number of sales over the last 6 months	number_sold_6mths
Average AVM value	The average value of all properties across the geography based on the Automated Valuation Model	avm_value_mean
Total number of dwellings	The number of dwellings recorded; data as at the most recent month end (no history is available)	total_dwellings
Average sale price, 6 months	Average sales price of all sales in the last 6 months	Average_price
Count of AVMs	The total number of automated valuations that have been run	AVM_count
Average AVM value	The average value of all properties across the geography based on the Automated Valuation Model.	avm_value_mean
Property stock	Count of property stock by AVM value	Presented in 25K ranges from \$0 to \$600,000, 50K ranges from \$600,000 to \$2m, 100K ranges from \$2m to \$3m and 250K ranges from \$3m to \$4m
Properties sold	Count of Properties by sold value	

Source: Summary of data supplied by CoreLogic.

Appendix 2: Transfer duty and land tax schedules, all states and territories (summary), 1996–97 and 2015–16

Table A 3: Transfer duty, 2015–16

	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
Marginal rates are applied per \$100 or part of the excess above the lower limit of the range unless explicitly specified. Rate for the highest value range is <u>underlined</u> .	<p>General duty rates</p> <p>\$0–\$14,000: 1.25% (min \$2),</p> <p>\$14,001–\$30,000: \$175+1.50%,</p> <p>\$30,001–\$80,000: \$415+1.75%,</p> <p>\$80,001–\$300,000: \$1,290+3.50%,</p> <p>\$300,001–\$1,000,000: \$8,990+4.50%,</p> <p>Over \$1,000,000: \$40,490+<u>5.50%</u>.</p> <p>For residential property</p>	<p>General duty rates</p> <p>\$0–\$25,000: 1.40%,</p> <p>\$25,001–\$130,000: \$350+2.40%,</p> <p>\$130,001–\$960,000: \$2,870+6.00%,</p> <p>Over \$960,000: <u>5.50%</u> of total value.</p> <p>Duty rates for principal place of residence purchases</p> <p>\$0–\$25,000: 1.40%,</p> <p>\$25,001–\$130,000: \$350+2.40%,</p> <p>\$130,001–\$440,000: \$2,870+5.00%,</p>	<p><i>From 21 Sept. 2012</i></p> <p>General duty rates</p> <p>\$0–\$5,000: Nil</p> <p>\$5,000.01–\$75,000: 1.50%</p> <p>\$75,000.01–\$540,000: \$1,050+3.50%</p> <p>\$540,000.01–\$1,000,000: \$17,325+4.50%</p> <p>Over \$1,000,000: 0%</p> <p>Over \$1,000,000: 1.90%</p>	<p>General duty rates</p> <p>\$0–\$80,000: 1.90%,</p> <p>\$80,001–\$100,000: \$1520+2.85%,</p> <p>\$100,001–\$250,000: \$250,000: \$2,090+3.80%,</p> <p>\$250,001–\$500,000: \$7,790+4.75%,</p> <p>Over \$500,000: \$19,665+<u>5.15%</u></p> <p>Duty rates for residential property</p> <p>\$0–\$120,000: 1.90%,</p>	<p>\$0–\$12,000: 1.00%,</p> <p>\$12,001–\$30,000: \$120+2.00%,</p> <p>\$30,001–\$50,000: \$480+3.00%,</p> <p>\$50,001–\$100,000: \$100,001–\$200,000: \$2,830+4.00%,</p> <p>\$200,001–\$250,000: \$6,830+4.25%,</p> <p>\$250,001–\$300,000: \$8,955+4.75%,</p> <p>\$300,001–\$500,000:</p>	<p>\$0–\$3,000: \$50,</p> <p>\$3,001–\$25,000: \$50+1.75%,</p> <p>\$25,001–\$75,000: \$435+2.25%,</p> <p>\$75,001–\$200,000: \$200,001–\$375,000: \$5,935+4.00%,</p> <p>\$375,001–\$725,000: \$725,000: \$12,935+4.25%,</p> <p>Over \$725,000: \$27,810+4.50%</p> <p>Payments due within 3 months</p>	<p>\$0–\$525,000: Duty calculated by the formula: $D=(0.06571441V^2)+15V$ Where $D =$ duty payable in \$ $V =$ 1/1000 dutiable value</p> <p>\$525,000–under \$3,000,000: <u>4.95%</u> of dutiable value.</p> <p>\$3,000,000 and over: <u>5.45%</u> of dutiable value.</p> <p>Payments due within 60 days of instrument being</p>	<p><i>From 3 June 2015</i></p> <p>\$0 to \$200,000: \$20 or \$1.80 per \$100 whichever is greater.</p> <p>\$200,001 to \$300,000: \$3,600 plus \$3 per \$100 or part thereof.</p> <p>\$300,001 to \$500,000: \$6,600 plus \$4 per \$100 or part thereof.</p> <p>\$500,001 to \$750,000: \$14,600 plus \$5 per \$100 or part thereof.</p> <p>\$750,001 to \$1,000,000: \$27,100 plus</p>

<p>The general duty rate schedule applies except for properties valued at over \$3,000,000 where duty is charged as follows:</p> <p>150,490+7.00% is charged.</p> <p>Payment is due within 3 months of the transfer of dutiable property or, where the transfer is effected by written instrument, within 3 months of execution of the instrument.</p> <p>For off-the-plan purchases, payment may be delayed by up to a further 12 months,</p>	<p>\$440,001–\$550,000: \$18,370+6.00%,</p> <p>\$550,001–\$960,000: \$28,070+6.00%,</p> <p>Over \$960,000: 5.50% of total value.</p> <p>Foreign purchases of residential properties</p> <p>3% of the greater of market value and purchase price.</p> <p>Payments are due within 30 days of execution of instrument.</p>	<p>\$38,025+5.75%.</p> <p>Payments are generally due within 30 days of the date of assessment.</p>	<p>\$120,001–\$150,000: \$2,280+2.85%,</p> <p>\$150,001–\$360,000: \$3,135+3.80%,</p> <p>\$360,001–\$725,000: \$11,115+4.75%</p> <p>Over \$725,000: \$28,453+5.15%</p> <p>Documents to be lodged within 2 months of execution and payment required within 1 month of the issue of the assessment notice.</p>	<p>\$11,330+5.00%</p> <p>Over \$500,000: \$21,330+5.50%</p> <p>Payments due within 2 months of execution of instrument.</p>	<p>after the liability to pay the duty arises.</p>	<p>executed, except for eligible conditional agreements where payment is due from the earliest of: (a) 60 days upon which all relevant conditions are satisfied; (b) 60 days from date conveyee has right to possession of property; (c) 60 days from a sub-sale; (d) date specified by written notice by the Commissioner; (e) (i) 24 months after execution for off-the-plan or subdivision agreement; or (ii) 12 months after agreement first executed.</p>	<p>\$6.50 per \$100 or part thereof.</p> <p>\$1,000,001 to \$1,454,999: \$43,350 plus \$7 per \$100 or part thereof.</p> <p>\$1,455,000 and over: A flat rate of \$5.17 per \$100 applied to the total transaction value.</p> <p>Documents to be lodged and payment required within 90 days of the liability arising.</p> <p>Duty for an ‘off the plan’ purchase agreement is payable within 14 days after one of the following events happens: (a) the agreement is completed; (b) the whole, or any part, of the purchaser’s</p>
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pending
completion or
sale of the
property.

interest under the
agreement is
assigned; (c) the
following period,
beginning on the
date of the
agreement, ends:
(i) for a purchase
agreement for a
declared
affordable house
and land
package—2 years;
(ii) for any other
'off the plan'
purchase
agreement—
1 year; (d) a
certificate of
occupancy has
been issued.

Source: NSW Treasury TRP 16-01; NSW Treasury TRP 96-5.

Table A 4: Land tax, 2015–16

	NSW	VIC	QLD	WA	SA	TAS	ACT
Tax scale:		For 2016 land tax year	For 2015–16 land tax year	For 2015–16 land tax year	For 2015–16 land tax year	For 2015–16 land tax year	For 2015–16
Marginal rates apply to excess above the lower limit of the range unless explicitly specified.	The tax free threshold is calculated by averaging the past three annual thresholds. The annual threshold is indexed each year by growth in State-wide land values as determined by the independent Valuer-General. If aggregate land value growth is negative, the indexation factor is zero. Taxable land value is the average of the current year valuation and the previous two years. The minimum land tax payment is \$100.	General: Less than \$250,000: Nil, \$250,000–\$599,999: \$275+0.20%, \$600,000–\$999,999: \$975+0.50%, \$1,000,000–\$1,799,999: \$2,975+0.80%, \$1,800,000–\$2,999,999: \$9,375+1.30%, \$3,000,000 and over: \$24,975+2.25%. Trusts: Less than \$25,000: Nil, \$25,000–\$249,999: \$82+0.375%, \$250,000–\$599,999: \$926+0.575%, \$600,000–\$999,999: \$2,938+0.875%, \$1,000,000–\$1,799,999: \$6,438+1.175%,	For resident individuals: Less than \$600,000: Nil, \$600,000–\$999,999: \$500+1%, \$1,000,000–\$2,999,999: \$4,500+1.65%, \$3,000,000–\$4,999,999: \$37,500+1.25%, \$5,000,000 and over: \$62,500+1.75%. For Companies, trustees and absentees: Less than \$350,000: Nil,	\$0–\$300,000: Nil, \$300,001–\$420,000: \$300 \$420,001–\$1,000,000: 300+0.25%, \$1,00,001–\$1,800,000: \$1,750+0.90%, \$1,800,001–\$5,000,000: \$8,950+1.80%, \$5,000,001–\$11,000,000: \$66,550+2.0%, Over \$11,000,000: \$186,550+2.67% The Metropolitan Region Improvement Tax (MRIT) is	\$0–\$323,000: Nil, \$323,001–\$593,000: 0.50%, \$593,001–\$862,000: \$1,350+1.65%, \$862,001–\$1,078,000: \$5,788.50+2.40%, Over \$1,052,000: \$10,972.50+3.70% From 1 July 2011, all tax thresholds are indexed annually in line with average site value increases as determined by the (South Australian) Valuer-General.	\$0–\$24,999: Nil, \$25,000–\$349,999: \$50+0.55%, \$350,000 or more: \$1,837.50+1.50%.	Land tax assessment for each property owner in 2015–16 is based on a fixed charge of \$945 and marginal tax rates that are applied to the Average Unimproved Value (which is a rolling three-year average of the 2013, 2014 and 2015 unimproved land values). Up to \$75,000: 0.41%, \$75,001–\$150,000: 0.48%, \$150,001–\$275,000: 0.61%,

For 2015 land tax year (from 1 Jan)

\$0–\$432,000: Nil,
\$432,001–
\$2,641,000:
\$100 + 1.6%,
Over \$2,641,000:
\$35,444 + 2.0%.

For 2016 land tax year (from 1 Jan)

\$0–\$482,000: Nil,
\$482,001–
2,947,000:
\$100 + 1.6%,
Over \$2,947,000:
\$39,540 + 2.0%.

In the 2016 land tax year non-concessional companies and special trusts will be taxed at the flat rate of 1.6% to \$2,947,000, plus 2.0% for value over \$2,947,000. (In the 2015 land tax year the

\$1,800,000–\$2,999,999:
\$15,838+0.7614% (a),
\$3,000,000 and over:
\$24,975+2.25%.
(i) Surcharge on trusts effectively phased out for land holdings valued above \$1.8m; Above \$3m, no surcharge applies.

Since 1 July 2004 land tax has been payable on electricity transmission easements (from 2007, with a top rate of 5% instead of 2.25%).

Absentees:

0.5% of site value in addition to any land tax payable.

The Metropolitan Parks Charge is levied annually

on all metropolitan properties via water bills. It is calculated by multiplying the property's 1990 Net Annual Valuation by a rate in the dollar.

\$350,000–
\$2,249,999:
\$1,450+1.70%,
\$2,250,000–
\$4,999,999:
\$33,750+1.50%,
\$5,000,000 and over:
\$75,000+2%.

levied on the unimproved value of land situated in the metropolitan region at the rate of 0.14% for land valued over \$300,000. The MRIT will be expanded from 1 July 2016 to regional areas where a region scheme is in place. This includes areas within the Peel Region Scheme and the Greater Bunbury Region Scheme.

A 50% cap on annual growth in land value applies for land tax and MRIT purposes.

Over \$275,000: 1.23%.

Commercial properties marginal rates:

Land tax on commercial properties was abolished from 1 July 2012.

	premium threshold was \$2,641,000.)	The minimum yearly Parks Charge in 2015–16 is \$72.56.					
Reference period:	Based on the three-year average of unimproved land values at 1 July, if owned at midnight 31 December of the previous year.	Based on aggregate value of land owned as at midnight 31 December of the previous year to the assessment year.	Based on three-year average of land values at midnight on 30 June. The land tax value is the lesser of the value at 30 June or the average of the values at 30 June over the last three years.	Based on the aggregated unimproved value of land (as determined by the Valuer-General) as at 30 June of the previous year.	Based on aggregate value of land as at midnight on 30 June immediately preceding the financial year.	Based on aggregate value of land as at 1 July of the assessment year.	Based on the rolling three year average of unimproved land values. Liability is assessed quarterly based on the rental or ownership status of the property on the liability dates of 1 July, 1 October, 1 January and 1 April.
Exemptions (Note: Generally charitable, religious and educational bodies are exempt with conditions.)	Primary residence: Exempt except if owned or part-owned by a special trust or company. Primary production land: Exempt if	Primary residence: Exempt, except if owned by a company or by certain trusts. Primary production land: Exempt with conditions. Other: Exemptions for aged care facilities, supported residential services, rooming houses	Primary residence: Full exemption available for land owned by individuals who use it as a home and land owned by trusts where all beneficiaries of	Primary residence: Exempt, except principal places of residence owned by companies and trusts. Primary production	Primary residence: Principal place of residence at 30 June exempt. A waiver or refund is also available in some circumstances where land becomes a	Primary residence: Exempt. Primary production land: Exempt. Other: Landowners, who, at June 30, have	Primary residence: Exempt, apart from parcels of land that are rented or owned by a corporation or trust.

<p>rural/non-urban zoning, otherwise exempt if meet business test.</p> <p>Other: Exemption for child care centres, aged care facilities and caravan parks used for retirement purposes. An exemption also exists for an owner of a primary residence that does not rent their residence and moves into a nursing home.</p>	<p>and caravan parks. Various other exemptions.</p>	<p>the trust use the land as their home.</p> <p>Partial exemption available where part of residence used for non-residential purposes.</p> <p>On and from midnight 30 June 2014, full exemption is available for land that does not receive a home exemption because the owner is in the process of selling their old home and moving into a new one, where appropriate conditions are met.</p>	<p>land: Exempt, if certain conditions are met.</p> <p>Other: Exemption for private aged care providers and caravan parks. Various other exemptions also apply.</p>	<p>principal place of residence after 30 June.</p> <p>Additional criteria apply where a business activity is conducted from the principal place of residence (full or partial exemption may apply).</p> <p>Extends to motels, hotels, services apartments and other similar accommodation (if conditions met).</p> <p>Primary production land: Exempt, if certain conditions are met.</p> <p>Other: Exemptions (some with conditions) for various associations; land used for benefit of Aboriginal people; caravan parks; supported</p>	<p>purchased a new principal place of residence but have not yet sold their current principal place of residence, may apply for a rebate (a transitional rebate) on their land tax. Land tax would normally be payable for the residence not being used as a principal place of residence on 1 July of the tax year. Landowners may apply for the transitional rebate whether or not the land tax has actually been paid. Where a principal place</p>	<p>Primary production land: Exempt.</p> <p>Other: Residential land used as a retirement village, nursing home, or by a religious institution to provide accommodation to a member to perform their duties, is exempt from land tax.</p> <p>Other exemptions from land tax include: broad-acre subdivision; a property with a guardian or manager for a person with a legal disability; residential land owned by a trustee under a will of a deceased person and occupied by a life</p>
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Primary production land: Exempt.

Other:
Exemption for certain caravan or residential parks where more than 50% of all sites occupied or available for occupation for residential purposes for periods of more than 6 weeks at a time. Various other exemptions.

residential facilities; retirement village or retired persons' relocatable home park that is a person's principal place of residence; residential aged care facility, real property making up the principal place of residence of the beneficiary within a Special Disability Trust.

of residence is built on vacant land owned as at 1 July of a financial year, a rebate up to the amount of the land tax paid or payable can be claimed.

tenant; residential land owned by a trustee or a guardian on behalf of a person with a legal disability; and residential land owned by a not-for-profit housing corporation.

Source: Source: NSW Treasury TRP 16-01; NSW Treasury TRP 96-5.

Note: Northern Territory not included because land tax is not applied in this jurisdiction.

Table A 5: Transfer duty, 1996–97

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
Tax scale:	\$0–\$14,000:	\$0–\$20,000:	\$0–\$20,000:	\$0–\$80,000:	\$0–\$12,000:	\$0–\$1,300:	\$0–\$500,000:	\$0–\$14,000:
Marginal rates are applied per \$100 or part of the excess above the lower limit of the range unless explicitly specified. Rate for the highest value range is underlined.	1.25% (min \$2) \$14,001– \$30,000: \$175+1.5% \$30,001– \$80,000: \$415+1.75% \$80,001– \$300,000: \$1,290+3.5% \$300,001– \$1m: \$8,990+4.5% over \$1m: \$40,490 + <u>5.5%</u> Liability includes contents of buildings. Payments are due within 60	1.4% \$20,001– \$100,000: \$280+2.4% \$100,001– \$760,000: \$2,200+6% over \$760,000: <u>5.5% of total value.</u> Payments are due within 3 months of execution of instrument. Payments are due within 60	1.5% \$20,001– \$50,000: \$300+2.25% \$50,001– \$100,000: \$975+2.75% \$100,001– \$250,000: \$2,350+3.25% \$250,001– \$500,000: \$7,225+3.5% above \$500,000: \$15,975+ <u>3.75%</u> Payments are due within 30 days of the date of assessment.	1.75% \$80,001– \$100,000: \$1,400+2.5% \$100,001– \$250,000: \$1,900+3.25% \$250,001– \$500,000: \$6,775+4% above \$500,000: Documents to be lodged within 3 months of execution and payment required within 3 months of the issue of the assessment notice.	1% \$12,001– \$30,000: \$120+2% \$30,001– \$50,000: \$480+3% \$50,001– \$100,000: \$1,080+3.5% \$100,001– \$1m: \$2,830+4.0% above \$1m: \$38,830+ <u>4.5%</u> Payments due within 2 months of execution of instrument.	\$20 \$1,301– \$10,000: \$20+1.5% \$10,001– \$30,000: \$150+2% \$30,001– \$75,000: \$550+2.5% \$75,001– \$150,000: \$1,675+3% \$150,001– \$225,000: \$3,925+3.5% Over \$225,000: \$6,550+ <u>4%</u> Payments are due within 60	Duty calculated by the formula: $D=(0.065V^2)+21V$ where D = duty payable in \$ V = (total value/1000) Above \$500,000: <u>5.4% of total value</u> Payments are due within 60 days of exchange.	1.25% or \$20 whichever is greater \$14,001– \$30,000: \$175 + 1.5% \$30,001– \$60,000: \$415 + 2% \$60,001– \$100,000: \$1,015 + 2.5% \$100,001– \$300,000: \$2,015 + 3.5% \$300,001– \$1m: \$9,015 + 4.5% Over \$1m:

TAX	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
	days of exchange.					days of exchange.		\$40,515 + <u>5.5%</u> Documents to be lodged within 30 days and payment required within 30 days of the date of the assessment notice (90 days for lodgement of contracts executed interstate).

Source: NSW Treasury TRP 16-01; NSW Treasury TRP 96-5.

Table A 6: Land tax, 1996–97

TAX	NSW	VIC	QLD	WA	SA	TAS	ACT
Tax scale:	0–\$160,000: Nil.	Below \$200,000: Nil.	\$160,000 exemption for all natural persons (otherwise exemption of \$60,000 for companies and trustees, and \$40,000 for absentees*).	\$0–\$10,000: Nil	\$0–\$50,000: Nil	\$0–\$1,000: Nil	Up to \$100,000: 1% flat
Marginal rates apply to excess above the lower limit of the range unless explicitly specified.	Above \$160,000: \$100+1.65%. (Temporary until 31 December 1998, then 1.5%)	\$200,000–\$539,999: \$60+0.2% \$540,000–\$2,699,999: \$740+3% \$2,700,000 & over: \$65,540+5%. The above rate scale is subject to the condition that land tax payable by any taxpayer in 1997 will be limited to plus 50% of the tax that would have been payable on the same landholdings on 1993 land	Up to \$3,999: 0.20% \$4,000–\$5,999: \$8+0.36% \$6,000–\$9,999: \$15.20+0.52% \$10,000–\$29,999: \$36+0.70% \$30,000–\$49,999: \$176+0.87% \$50,000–\$199,999: \$350+1.03% \$200,000–\$349,999: \$1,895+1.20% \$350,000–\$499,999: \$3,695+1.37% \$500,000–\$649,999: \$5,750+1.54% \$650,000–\$799,999: \$8,060+1.71%	\$10,000–\$70,000: \$15+0.15% \$70,000–\$130,000: \$105+0.25% \$130,000–\$190,000: \$255+0.45% \$190,000–\$260,000: \$525+0.8% \$260,000–\$600,000: \$1,085+1.2% \$600,000–\$1,100,000: \$5,165+1.6% over \$1,100,000: \$13,165+2.0% The Metropolitan Region Improvement Tax	\$50,001–\$300,000: 0.35% \$300,001–\$1m: \$875+1.65% Over \$1m: \$12,425+3.7%	\$1,001–\$15,000: \$25.00 \$15,001–\$40,000: \$25.00+0.75% \$40,001–\$68,750: \$212.50+1% \$68,751–\$100,000: \$500.00 \$100,001–\$125,000: \$500.00+1.25% \$125,001–\$170,000: \$812.50+1.5% \$170,001–\$210,000: \$1,487.50+1.75% \$210,001–\$250,000: \$2,187.50+2%	\$100,001–\$200,000: 1.25% flat Above \$200,000: 1.5% flat (upon unimproved value). Liability is assessed quarterly.

values and rate scales.	\$800,000–\$949,999: \$10,625+1.89%	is levied on the unimproved value of land situated in the metropolitan region at the rate of 0.15c per \$1.	\$250,001– \$500,000:
	\$950,000–\$1,099,999: \$13,460+2.01%		\$2,987.50+2.25%
	\$1,100,000–\$1,249,999: \$16,475+2.23%		Exceeding \$500,000:
	\$1,250,000–\$1,299,999: \$19,820+2.44%		\$8,612.50+2.5%
	\$1,300,000–\$1,349,999: \$21,040+2.66%		
	\$1,350,000–\$1,399,999: \$22,370+2.87%		
	\$1,400,000–\$1,449,999: \$23,805+3.09%		
	\$1,450,000–\$1,499,999: \$25,350+3.30%		
	\$1,500,000 and over: 1.8% Flat.		

* Resident natural persons receive a deduction of \$160,000 from the total unimproved value of land before arriving at the taxable value.

Reference period:	Based on value of land as at 1 July held on 31 December of the previous year.	Based on value of land as at 31 December of the previous year.	Based on value of land as at 30 June of the previous year.	Based on value of land as at 30 June of the previous year.	Based on value of land as at 30 June of the previous year.	Based on value of land as at 30 June of the previous year.	Based on value of land as at 1 January of the previous financial year.
Exemptions:	Primary residence: Exempt Primary production land: Exempt	Primary residence: Liable (concession for pensioners) Primary production land: Exempt with conditions	Primary residence: Exempt with conditions Primary production land: Exempt with conditions	Primary residence: Exempt Primary production land: Exempt			

Source: NSW Treasury TRP 16-01; NSW Treasury TRP 96-5.

Appendix 3: Summary of key modelling parameter assumptions using Corelogic data

Table A 7: Summary of key modelling parameter assumptions using Corelogic data

Parameters		Range	Distribution of total to range	e.g. NSW	
Property turnover (% change)			0%		
Property price change (%)			0%		
Property supply			0%		
Stock mix (1)	Domestic owner-occupied properties	<1 x median price	Residual	34.8%	
		1-1.5 x median price	Residual	93.2%	
		>1.5 x median price	Residual	100.0%	
	% of total stock				65.7%
	Domestic investment properties	<1 x median price	90.0%	57.5%	
		1-1.5 x median price	10.0%	6.4%	
		>1.5 x median price	0.0%	0.0%	
	% of total stock				30.3%
	Foreign ownership	<1 x median price	95.0%	7.8%	
		1-1.5 x median price	5.0%	0.4%	
		>1.5 x median price	0.0%	0.0%	
	% of total stock				4.0%
Stock mix (2)	<1 x median price	Domestic owner-occupied properties	Residual	35%	
		Domestic investment properties	90%	57%	
		Foreign ownership	95%	8%	
	1-1.5 x median price	Domestic owner-occupied properties	Residual	93%	
		Domestic investment properties	10%	6%	
		Foreign ownership	5%	0%	

	>1.5 x median price	Domestic owner-occupied properties	Residual	100%
		Domestic investment properties	0%	0%
		Foreign ownership	0%	0%
Turnover mix (1)	Domestic owner-occupier FHB: All<Median	<Median	10.0%	20%
	Domestic owner-occupier other: Residual	<Median	Residual	5%
	Domestic owner-occupier other: Residual	>Median	Residual	80%
	Domestic investor: <Median	<Median	30.0%	60%
	Domestic investor: >Median	>Median	10.0%	20%
	Foreign ownership of SOLD 2015–16	<Median	FIRB	15%
Turnover mix (2)	<Median	Domestic owner-occupier FHB: All<Median	10%	20%
		Domestic owner-occupier other: Residual	Residual	5%
		Domestic investor: <Median	30%	60%
		Foreign ownership of SOLD 2015–16	FIRB	15%
	>Median	Domestic owner-occupier other: Residual	Residual	80%
		Domestic investor: >Median	10%	20%
Criteria for reforms	Properties below median price pay less and those above median pay more Revenue neutral within 1 year			

Source: Modelling assumptions using Corelogic data.

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