UNLOCKING STIMULUS FROM PROPERTY TAX REFORM

March 2021

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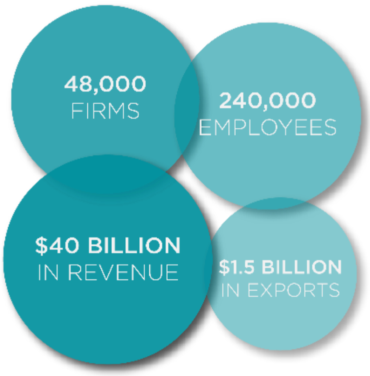

Consult Australia is the industry association representing consulting businesses in design, advisory and engineering. Our industry comprises some 48,000 businesses across Australia, ranging from sole practitioners through to some of Australia's top 500 companies, providing solutions for individual consumers through to major companies in the private sector and across all tiers of government. Our industry is a job creator for the Australian economy, directly employing 240,000 people. The services we provide unlock many more jobs across the construction industry and the broader community.

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INTRODUCTION AND SCOPE

This paper highlights Consult Australia's call to Australian governments to investigate and include property tax reforms as part of their policy response to COVID-19 economic impacts.

Our interest in property taxes, as an industry, relates to how they impact the investment appetite within the property market. These investments are a significant driver of economic growth which is what creates more jobs and increases our wealth. They also help create liveable and thriving communities. For our industry, this investment appetite drives demand for the design, advisory and engineering services provided by our members.

The building sector and property market have been significantly impacted by COVID-19. Our Industry Health Check in September 2020 noted that half of our members are continuing to experience a reduction in work, with the average downturn equating to nearly one-quarter of normal business. More specifically, 84 per cent of our members continue to report reductions related to privately funded projects, with 70 per cent reporting this downturn relates to commercial building projects and 60 per cent for residential building projects.[1]

While repealing property taxes would be a quick fix for attracting more investments and creating more work demand for our industry, we do not believe this is fair or logical – it makes sense to tax those who are benefiting from the use of land. A better approach is improving current property taxes through reforms that address current challenges and are designed with intended benefits in mind.

While generational tax reforms will often have a broad scope, we believe it is appropriate to look at property taxes as one system that operates together. As such, reforms to different property taxes should be considered together, aim to be revenue neutral on commencement, and be nationally consistent where possible. This would enable property tax reforms to be considered in isolation to the broader tax system and will remove current reform handbrakes such as the concern about a jurisdiction's share of GST revenue.

The taxes in scope for this paper are stamp duty on conveyances, land tax, and local council rates. While there are other property-related taxes, we believe these have the greatest influence on property consumption.

Stamp duty on conveyances

Stamp duty on conveyances, or the transfer of property, applies in all states and territories. Arrangements vary between jurisdictions, but common principles are that a duty is owed after settlement on a property purchase and the amount taxed is based on the property's value.[2]

[1] Consult Australia, COVID-19 Industry Health Check (September 2020)
[2] Cohen Handler, Guide to stamp duty in Australia (2018)

Some unique arrangements between jurisdictions include first home buyer exemptions, discounts for a principal place of residency, and surcharges for foreign buyers.

This tax is an important revenue source for governments. In the 2016-17 financial year, governments collected around $21.5 billion from the tax alone.[3] With revenue linked to the property market, governments have collected a significant windfall over recent years from booming prices. However, this also creates difficulties for governments when property prices or sales decline.

Land tax

This is applied to certain landowners in all jurisdictions except in the NT. While the tax varies between jurisdictions, the principle is the amount owning depends on the unimproved value of your taxable property which usually does not include primary residencies.[4] Unique arrangements between jurisdiction include certain property type exemptions, and foreign ownership surcharges.

In the 2016-17 financial year, governments collected around $8.5 billion from land tax.[5] While revenue for land tax is also influenced by property market impacts, it has been more stable and consistent compared to stamp duty.

Local council rates

Rates are charged by local councils on property owners based on land or property value. Jurisdictions have different approaches to determining rates, valuing of land or a property, and the timing for rates payments. Local councils also have different types of rates, such as general rates and utility rates.[6] Powers to levy local council rates come from state or territory legislation.

Across the country, around $17.9 billion was collected by local councils in 2016-17.[7] Growth in revenue is relatively stable year-to-year. This revenue is used to cover local council operating costs and for a range of public and community services, such as the upkeep of public facilities and developing local infrastructure.

[3] Core Logic (property analytics and risk management service), Government tax revenue from property (2018)
[4] Australian Government, Taxes on your property (2020)
[5] Core Logic (property analytics and risk management service), Government tax revenue from property (2018)
[6] Australian Government, Taxes on your property (2020)
[7] Core Logic (property analytics and risk management service), Government tax revenue from property (2018)

CHALLENGES WITH CURRENT PROPERTY TAXES

The various state and territory property tax systems are far from perfect. These systems are today made up of individual taxes with little relationship with each other. Each have morphed at different rates over time, in response to various economic or political challenges, through a series of band-aid solutions.

The result is messy and inconsistent systems made up of various concessions, exemptions, surcharges and administrative processes. These current arrangements, both individually and collectively, also make these systems inefficient, unfair, expensive to manage, and a burden on the economy in many cases.

Challenges with current property taxes are well established. There have been numerous reviews and inquiries on the topic, all with similar conclusions. Many articulate these challenges through assessments of property taxes against design principles (i.e. the common features of well-designed taxes), which we have sought to summarise in table one.

This table has been informed by a 2015 report by ACIL Allen Consulting and the Property Council titled *Modernising Australia's tax system*. We have summarised findings from this report on stamp duty on conveyances and land tax and complemented this with our own analysis for local council rates as this was out of scope in this previous work.

There is a range of research into tax design principles, and those used in the different reviews and inquiries on the topic also vary. However, while the terminology is different, the types of principles and what they entail are somewhat consistent. As such, our summary includes the tax design principles from the Australian Capital Territory's 2012 taxation review. We decided to use the principles from this review because it has been the most successful in shaping a major property tax reform program. These are below.

- Efficiency – a minimal distortionary influence on consumer and producer behaviour.
- Equity – horizontally and vertically fair. Taxing people in similar circumstances in the same way (horizontally); and higher taxes on those with a greater capacity (vertically).
- Simplicity – practical and enforceable taxes with minimal administrative costs.
- Stability – revenue that is growing with the economy and not subject to fluctuations[8]

We conclude this section on challenges with some practical examples on how current property tax arrangements are leading to negative outcomes. These show taxes that are poorly aligned with best practice design principles and what this means for consumers and investors in the property market and the building sector.

[8] ACIL Allen Consulting; Property Council, Modernising Australia's tax system (2015)

	Assessment against tax design principles			
Property taxes	Efficiency	Equity	Simplicity	Stability
Stamp duty on conveyances	• This tax can distort the market by negatively influencing decisions to purchase property (avoiding the tax). • A deterrence to buy new property is a disincentive for people to move to pursue employment or business opportunities. • The tax is also a significant entry barrier for those looking to enter the property market.	• While this tax is vertically equitable by being based on means, it is horizontally inequitable because the tax burden falls more on those who move more frequently (i.e. the frequency someone moves determines the tax impact rather than income levels or assets).	• While administrative costs are traditionally low for stamp duty for conveyances, new concessions and exemptions (such as for first home buyers) has made this tax more complex for governments.	• The year-to-year revenue for stamp duty on conveyances is highly volatile, which makes it difficult to project future revenue.
Land tax	• This tax applies to a narrow base and many exemptions makes it a less efficient. These inefficiencies lead to undesirable outcomes, such as disincentives for investors to develop large-scale dwellings for private tenants. • Taxable land is not fixed and can result in market distortion. This may lead to tax revenue being prioritised	• This tax would be equitable if it was paid by all landowners, however a considerable proportion are currently exempt. This means only a segment of the community are paying this tax for the benefit of others, which is horizontally inequitable. • These same exemptions are vertically inequitable because those with the greatest capacity (or who	• Compliance costs of current land tax arrangements are high because there is a vast range of the marginal rates and thresholds, exemptions, and the mechanisms in place to determine land value.	• Revenue is more stable than stamp duty as the amount of taxable land per year is less variable than property sales. • This tax still has a level of revenue volatility compared to other taxes because taxable land is still influenced by government decisions. Land value will also vary due to changes in the

	Assessment against tax design principles			
Property taxes	Efficiency	Equity	Simplicity	Stability
	ahead of the best planning considerations.	benefit the most) are not making the greatest contribution.		economy which adds to the tax's volatility.
Local council rates	• Taxing based on capital improved value in some jurisdictions (i.e. Victoria) can create a disincentive for property owners to invest in their asset. While this disincentive is minimal at a small scale, it can result in significant additional costs at a larger scale.	• Broad application and limited exemptions mean rates can be seen as vertically and horizontally equitable for individuals. However, there is the potential for horizontal inequity between residents of local councils when rates for like-for-like circumstances vary.	• The approach and logic behind how properties are valued for local council rates means this tax can be complicated and inconsistent. Many jurisdictions also have separate approaches to valuing property between property taxes which duplicates costs. • Local council rate payers can be unclear on what revenue is being spent on, which can reduce the transparency of this tax.	• Revenue from local council rates is fairly stable because the amount of taxable properties per year are less variable compared to property sales. However, local council rates can still be more volatile compared to other taxes because revenue can be influenced by government decisions such as rezoning land for different purposes.

Table one: current challenges with property taxes based on an assessment against tax principles[9]

[9] Research for stamp duty on conveyances and land tax comes from: ACIL Allen Consulting; Property Council, Modernising Australia's tax system (2015)

Practical examples of challenges with current property taxes

Case study 1: land tax impacts on residential investment properties

- A property owner has two recently purchased investment properties in Brisbane that are both mortgaged. These properties were purchased and are currently valued at $750,000 and $700,000, and the total taxable value of land for these properties is $1m (i.e. the unimproved land value).
  - The stamp duty on conveyance obligations for both properties was $51,300.
- Both properties are currently leased out to rental tenants at $400 and $350 per week, with the net operating income for both being around $2,500 per month (after management fees and other costs). This amounts to $30,000 per year (subject to any other taxes such as capital gains tax).
- By using the QLD land tax calculator, the land tax obligations on these properties is $4,500 for the 2020/21 financial year. This equates to 15 per cent of any revenue earnt on these properties.

Case study 2: stamp duty costs for frequent movers

- Over a 15-year period, an individual spends five years living in Melbourne, Sydney and Brisbane pursuing work opportunities. For each move, this individual sells their home and purchases a new home when arriving in the new location.
- These properties were purchased for (with the stamp duty on conveyance in brackets)[10]:
  - An apartment in Melbourne's inner suburbs purchased for $695,000 ($23,287)
  - A townhouse in Sydney's southern suburbs purchased for $910,000 ($36,285)
  - A house in Brisbane's inner suburbs purchased for $850,000 ($31,275)
- As someone that has moved three times in this 15-year timeframe, they have paid a total of $90,847 in stamp duty on conveyance costs.
- One of their colleagues has had similar work opportunities yet has been able to stay in Melbourne for the same 15-year period. These colleagues have roughly had the same income over this period, however the second colleague has not moved from their property that they also purchased for $695,000 and paid $23,287 in stamp duty on conveyance. Despite having an asset that has roughly increased in value to be worth the same as the first colleague's property in Brisbane, this second colleague has paid $67,560 less in tax over the same timeframe.

[10] These stamp duty on conveyance calculations use 2020/21 financial year for simplicity.

POTENTIAL OPPORTUNITIES FROM PROPERTY TAX REFORMS

There are many opportunities to improve how the property market, and the building sector, operates through well-designed property tax reforms. While addressing current challenges with these taxes is a logical first step when considering changes, we should also be focusing on the potential opportunities that can be achieved from reform.

Property tax reforms should help provide solutions to the broader question of where Australia's future economic and productivity growth will come from. This question becomes even more relevant as Australia shifts towards an economic recovery from COVID-19. The Reserve Bank of Australia (RBA) is currently expecting a slow and uneven recovery, with GDP probably taking several years to return to the trend path prior to the virus outbreak.[11] There is a lot to gain from looking at how various tax reforms across a range of sectors can underpin these recovery efforts.

As such, we believe property tax reforms need to take a benefits realisation approach. We should map and measure potential opportunities in reform proposals. This approach ensures these outcomes are not just being considered when designing reforms, but also helps ensure we are thinking about how these benefits – both direct and broader – are being maximised.

In this section, we outline what we view as the direct and broader benefits that we should be seeking to achieve from well-designed property tax reforms.

The direct benefits we should be seeking to achieve

We define direct benefits as actions and behaviours of potential and actual market participants, throughout the full property asset lifecycle, being positively influenced.

This means the ability or appetite of individuals to become actual participants in the property market, and ensuring this increased activity is resulting in benefits that are shared across all stakeholders underpinning this market. These stakeholders include communities, consumers, developments, governments and the construction industry.

Over the page are the direct benefits that we believe property tax reforms should be seeking to achieve.

[11] RBA, The economic outlook (August 2020)

Stable revenue for governments	• A market less susceptible to price fluctuations is able to provide a predictable revenue source for governments. • Taxes based on the ongoing use of property, rather than property consumption, also provide ongoing revenue streams rather than rely upfront property transactions.
More first home buyers	• Removing tax obligations on property transactions will help more people buy their first home sooner as this money could be used to help with deposits and to increase borrowing capacity. • More potential buyers could benefit if eligibility thresholds for exemptions were not outpriced by the market in many areas.
Greater movement in the property market	• Removing tax debts on property transactions will also encourage more people to re-enter or invest in the market. By removing this friction point, we can encourage better use of assets (i.e. downsizing), mobility within our community, and more competition in the market.
Alternate housing models	• Tax changes could create incentives for alternate and affordable housing models, such as build to rent and shared ownership. These are enabled by 'build-own-operate' developments, which can be less commericially desirable in Australia due to tax settings. • This could open up the private sector's role in social housing.
An adequate supply and stock of property	• Removing frictions from taxes helps ensure the market is more responsive to demand and supply. This can help remove wild fluctuations in prices from oversupply or overdemand. • Less frictions also means community needs are more likely to be met, and there are more demands on the building industry.
More jobs in the property sector	• A more effective market supported by well-designed property taxes means more jobs in the property sector. • Business confidence is key for creating jobs in the property sector, and this can be achieved by clear demand for, and a visible long-term pipeline of, new property projects.

Table two: direct benefits that we should be seeking to achieve from reforms

The broader benefits we should be seeking to achieve

We define broader benefits as being how activities in the property market have an impact on the broader economy, our communities, and the environment. For example, these are the indirect jobs created by market activity, knock-on investments and the gross value added to the economy and communities.

Below are broader benefits, or what are sometimes described as indirect benefits, that we believe any reform should be seeking to achieve.

Reduces risks for governments	• A more sustainable industry and a healthy business model for the property market will reduce risks for governments. This will require governments to step in less for market corrections relating to the pipeline of work and building quality.
Creates more jobs for Australians	• UK research suggests that £1 invested in housing construction generates £2.84 in economic activity - this is the multiplier effect on job creation, labour mobility and knock-on investments. These benefits from property investments will be similar for Australians.
A more productive economy	• Tax reforms that influence how investments and labour are being used in the property market will create a more productive economy. This will increase competiton and consumption, and reduce business costs - key factors for growth and efficiency.
Encourages the private sector to play a role in stimulus	• Governments are limited in their ability to effectively stimulate the economy alone. If governments look at how they can also create investment confidence through tax reforms, this can put investors in a position to also play a role in stimulating the economy.
Aligns with placemaking and liveablilty principles	• A balance between the built form and the natural environment is what makes our communities great places to live. We cannot creates social and economic benefits from our places overnight, and instead require sustained investments in our communities.
A more sustainable and harmonised industry	• While we often focus on the outcomes of the property sector, there is a world class supply chain that depends on a health of the market. Tax reforms that stimulate and maintain demand on this sector will help support its efficiency, capacity and capability.

Table three: indirect benefits that we should be seeking to achieve from reforms[12]

[12] UK research on job creation: National Housing Federation, Exploring the impact of long-term funding on the residential construction sector (2020)

A NEW PROPERTY TAX MODEL – RECOMMENDATIONS AND IMPLEMENTATION CONSIDERATIONS

Our reform proposal is based on two-high level recommendations which focus on reducing friction and increasing the harmonisation of current property taxes. These recommendations mostly align with those being put forward by a wide range of industry voices, and with what has been highlighted as the best path forward in a number of reviews on the topic.

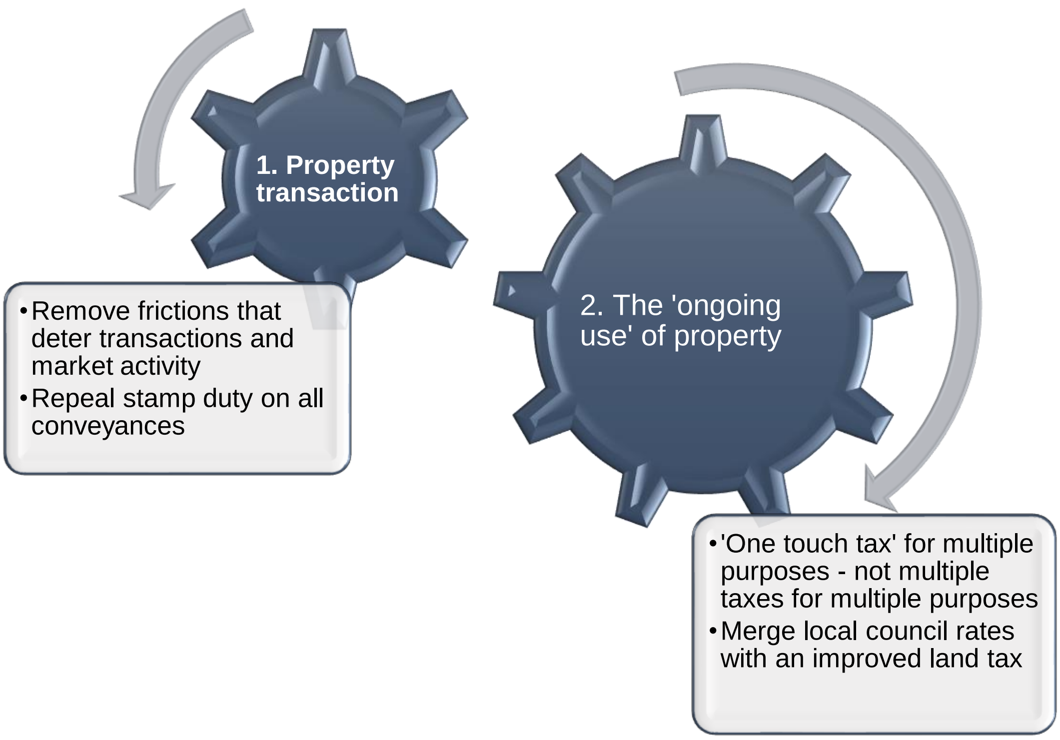


Diagram one: our proposed new property tax model – high-level summary

We acknowledge that it would be ideal for these recommendations to be considered as part of broader tax reforms. However, we do believe these options could be considered in isolation without having consequential impacts on other taxes and government revenue sources, and perhaps serve as an example of how broader tax reforms could be broken down into manageable increments.

We provide further detail and our case for these recommendations over the next pages. We also separately share our thoughts on how these recommendations could be collectively implemented in a timely fashion – which we think is a missing part of current public discussions on the topic.

Recommendation 1: repeal stamp duty on all conveyances

- All state and territory governments should remove any tax that is applied at the point of property transaction – this being the repeal of stamp duty on conveyances.
- As this tax provides an important revenue source for governments, its repeal should be managed through transitional arrangements that introduce a new land tax – our second recommendation.

This recommendation will directly reduce a significant friction in the property market, and as a result will positively influence the appetite and ability of individuals to purchase property. For consumers and investors, this change will:

- Reduce entry costs for many first home buyers, and provide a sustainable solution to current exemptions that are often outpriced by the market – this may also create demand for new areas of the market;
- Make it more attractive to buy and sell property by removing the greater burden on those who do so more than others – this will encourage more downsizing and upsizing, and a greater movement of people between our cities and regions; and
- Make the property market a more attractive investment opportunity when compared to other options such as the financial market – encouraging more people to invest in our local assets and unlocking more capital to improve the amenity of our communities.

This change will also help governments move away from a volatile revenue source which peaks and troughs based on the point in time performance of the property market. Volatile revenue makes it difficult for government to plan for long-term investments and is likely one reason why this tax was flagged for removal during the last major tax reforms – the introduction of GST.

Recommendation 2: merge local council rates with an improved land tax

- All state and territory governments, aside from the ACT, should merge local council rates with a new land tax. For the NT, this will require the development of a new land tax. For other jurisdictions, this will require significant reforms to current land tax arrangements. All jurisdictions would also repeal current arrangements for local council rates.
- This tax should have broadest base possible with limited exemptions, concessions and surcharges. It should capture owners of all property types, including primary residencies.

- Once the base of applicable property owners is confirmed, the current revenue collected from property taxes should be used to calculate threshold arrangements. We believe public support of this recommendation will only be possible if it is revenue neutral when a transition is complete, which should also help ensure thresholds are low. There may be an opportunity to revisit these thresholds in the future to address any current gap between funding needs and revenue available.
- The tax should be based on unimproved land value. This ensures the tax is not creating a disincentive for property owners to invest in assets, which would be the case if it was based on improved property value. Unimproved land value should be calculated in a consistent and transparent manner by state and territory governments.
- There should be multiple thresholds for this tax. This ensures the tax is progressive by increasing what percentage of unimproved land value is used to determine tax obligations. The percentage figure used to calculate tax obligations should not change sharply between thresholds, and a flat rate along with a percentage figure may be more appropriate to avoid market distortions. For example, thresholds should not be structured in a way to influence a decision to invest in two properties instead of one because it results in a lower tax burden.
- How revenue is collected from this tax should be based on what is most convenient for property owners. Governments should provide a range of payment options, that allows individuals to package tax obligations with other taxes (such as vehicle registration) and to select a preferred payment cycle. This would create a ‘one touch tax’ for multiple purposes and different levels of government, rather than multiple taxes for multiple purposes and different levels of government.
- Revenue from this tax should provide funding certainty for state and territory governments and local councils. As such, revenue should be allocated or ringfenced based on what it is providing funding for. For example, 20 per cent of revenue could be ringfenced for local council services and a similar percentage for local infrastructure. This approach could also allow a property owner’s tax statement to breakdown what their taxes are helping provide revenue for.
- If constitutionally viable, state and territory governments could also use this tax as a planning instrument in certain areas, such as regional communities, or for certain property types. This could include rebates in strategic growth areas.

This recommendation helps enable the benefits that can be achieved under our recommendation to repeal stamp duty on conveyances by outlining an alternative revenue source that is viable, more stable and sustainable.

We believe these benefits would not be possible, or fair on the broader community, unless like-for-like revenue was collected from an alternate revenue source based on the use of property.

A new land tax which merges local council rates and current land tax arrangements together also removes administrative and compliance duplication from different levels of governments.

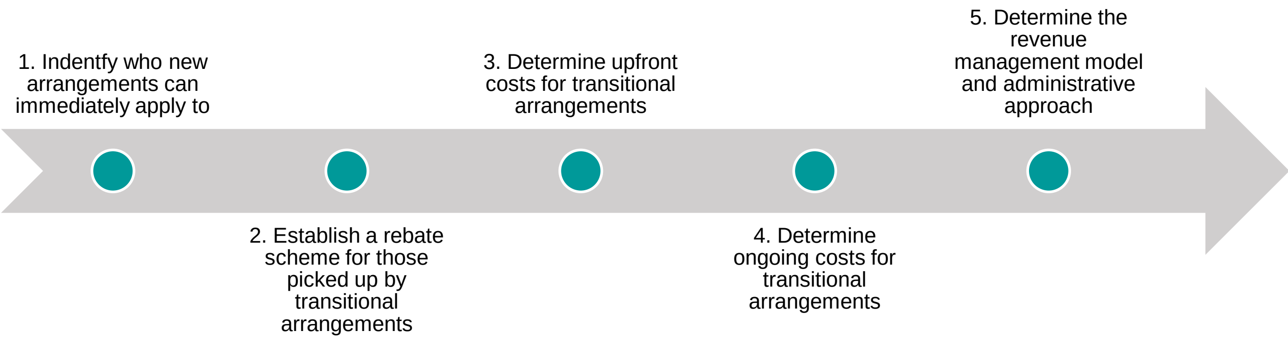
In many jurisdictions, these two taxes operate side by side with different approaches to valuing property, collecting revenue, and following up on outstanding debts. This is despite both taxes following similar principles, being established for similar purposes, and being enabled by legislation at the same level of government.

This recommendation could also lead to additional administrative and compliance efficiency benefits, particularly through broader changes that can be achieved through reform and by taking a national approach. For example, this recommendation could provide a unique opportunity to truly utilise innovations such as a national blockchain to manage the valuing process of property, the transfer of property and associated paperwork, and even the collection of revenue. [13]

Implementation considerations

The benefits of property tax reforms and addressing challenges that we have outlined in this report, can only be felt when new arrangements are in place. With many in agreement on what these reforms should look like, we believe the debate now needs to focus on how changes can be quickly and fairly implemented. To help with these ideas, we have outlined our suggested implementation approach for the recommendations included in this report. These suggestions highlight important considerations as we shift from the 'what' to the 'how', which we believe tends to be the conversation that stalls the debate.

We also share our ideas on how reforms could be implemented without the need for a generational transition prior to real change where benefits are only experienced in the decades ahead. These are all outlined in five steps below.



[13] Thomson Reuters, Blockchain: why tax and accounting professionals should get on board (2017)

Step 1 – identify who new arrangements can immediately apply to without any transitional arrangements

- We believe this should include all future property transactions and any property type currently covered by land tax (if applicable) from when reforms are introduced.
- Any residential property owner (or other property owners exempt under current land tax arrangements) that has paid stamp duty on conveyance more than 15 years ago should also have the new arrangements immediately applicable to them. We selected 15 years as this is longer than the average home ownership period for houses and units in any region, with the national average being 11.3 years for houses.[14]
- The only exemptions or concessions to this should be determined through a fairness test for homeowners over a certain age and/or cohort, such as those on an age pension or over its eligibility age (67 years old).

Step 2 – establish a land tax rebate scheme for those needing to be covered by transitional arrangements

- To help accelerate the delivery of reforms, we believe state and territory governments should establish a land tax rebate scheme for home owners who have paid stamp duty on conveyance in the previous 15 years (or other properties exempt under current land tax arrangements) but more than twelve months.
- This scheme would provide a rebate on land tax obligations in proportion to how long ago the property owner paid their stamp duty on conveyance. We recommend the rebate decrease by 6.66 per cent (1/15th) per year of ownership to what was originally paid for with the stamp duty on conveyance. For example, this rebate would total 86.77 per cent of someone's stamp duty on conveyance costs if they purchased their property two years ago, or 6.66 per cent if the purchase was just before 15 years ago.
    - These rebate percentages could also be altered to speed up the timeframe of the land tax rebate scheme. This could result in the conclusion of transition arrangement at an earlier date.
- Governments would need to determine how this land tax rebate scheme would apply for those who were previously granted stamp duty on conveyance exemptions and concessions, such as first home buyers.

  It would be difficult for governments to expect these property owners to have no transitional arrangements, however it would also be unfair towards other property owners if this was not factored into the extent of their eligibility for transitional rebates.

[14] CoreLogic, Length of home ownership (2019)

We believe a sensible option would be to start the rebate on land tax obligations at a different percentage – for example, a full stamp duty on conveyance exemption could equate to two years of property ownership.

  - Similar considerations would be needed for those picked up through the fairness test in step one, and it may make sense to take a similar approach for people in both of these cases.

- The reason why we suggest not including anyone who has purchased a property in the twelve-month period before the reforms commence who would otherwise be eligible for transitional arrangements is that this will distort the market in the lead up to any reforms being implemented.
- The inclusion of these property owners in a land tax rebate scheme will mean many people will simply seek to avoid purchasing a property in the timeframe between when reforms are announced and implemented – which we envision would be twelve months and would need to be altered if longer. For people in this situation, we recommend a full stamp duty on conveyance refund when new arrangements commence. We also encourage governments to also consider opening up the rebate scheme to these property owners for a short timeframe (i.e. one to two years) to encourage and stimulate greater market activity during the period when reforms are known but are not in place. This refund is the full actual cost of the transition, along with reduced government revenue – both of which we outline further in step three.
- A land tax rebate would only offset tax obligations related to any stamp duty on conveyance costs made in recent years, and these property owners would still need to have some land tax obligations relating to what is currently captured under local council rate obligations.

Step 3 – determine upfront costs for transitional arrangements

- Our suggestion to provide a full refund on stamp duty on conveyance costs for property owners who have purchased property in the last 12 months, but would otherwise be captured by transitional arrangements, would be the main upfront cost to quickly and fairly implementing property tax reform recommendations.
- We believe these refunds on previously collected revenue is a worthwhile investment for governments, and the economic and productivity benefits of having these types of reforms in place sooner should be modelled against these costs.
- These upfront costs could be estimated by calculating revenue from stamp duty on conveyances over the last 12 months on property owners who are also not captured by current land tax obligations. At a high-level estimate, we assume that 50 per cent of property transactions in the place 12 months would be impacted and half of all revenue collected from stamp duty on conveyances across Australia in 2017 was $10.75 billion.

- An upfront cost near this figure, which is a similar cost to a major infrastructure project, would be a substantial investment for Australian governments, particularly at a state and territory level with a fiscal imbalance between different levels of government. As such, we do believe the Commonwealth Government could play a role in driving these reforms through this type of investment, which could be a 50/50 or an 80/20 funding split with the relevant state or territory government.

  This type of financial commitment from the Commonwealth Government would enable them to have a say in the design of reforms, and could help ensure they are nationally consistent.

  - We also see stimulatory benefits from this investment, despite a proportion contributing to the mortgage repayments of recipients. The COVID-19 early superannuation withdrawal scheme is a good comparison on these likely benefits, particularly the 38 per cent of the scheme's recipients who saw no drop in their income. 12 to 14 per cent of early withdrawals was spent on debt repayments, and two-thirds on discretionary items.[15]

Step 4 – determine ongoing costs for transitional arrangements

- Further to the above step, the ongoing costs of the land tax rebate scheme, in terms of lost revenue, is significant. This would be tens of billions in lost revenue over a fifteen-year timeframe. However, lost revenue from these transitional arrangements would again be somewhat offset by the economic and productivity benefits of having these reforms in place.
- However, we believe it would be appropriate for governments to factor in this lost revenue when designing the tax as being revenue neutral – it is critical that governments have an ongoing capacity to provide essential services and investments.
- We believe the ongoing costs, in terms of the land tax rebate scheme, could be estimated by calculating revenue from stamp duty on conveyances over the last 15 years on property owners who are not (or would not) be captured by current land tax obligations, and then reducing this amount based on the year they purchased the property and the chosen rebate proportion.

Step 5 – determine a revenue management model and compliance and administration approach

- Lastly, after determining how property owners will be captured by new and transitional arrangements, and the timings of the latter, governments should consider how revenue will be collected and administered, how revenue will be allocated or ringfenced for certain services and investments, and how compliance will be enforced on an ongoing basis.

[15] Illion and AlphaBeta Australia, New real time data: what has happened to all that Super? (August 2020)

- In regard to collecting revenue, we believe it would be logical to manage this through state and territory revenue offices. However, governments may also see value in taking a similar approach to the GST and choosing to collect and administer this tax through the ATO at a Federal level as this will help reduce duplicate costs across the country and create more opportunities for efficiencies. If a national approach was pursued, we still believe it would be more popular and appropriate for revenue to be redistributed based on where it was collected rather than through any equalisation measure.
- Finally, we believe it is paramount under this step for governments to ensure the revenue management model is being designed in a way that ‘locks in’ and creates certainty for a sustainable revenue for local councils. The benefits from a tax that sustainably and stably collects revenue in line with the economy are reduced if this revenue is not being used to provide long-term certainty for investment and services.

CONTACT

We would welcome any opportunity to further discuss the issues raised in this submission. To do so, please contact:

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