



HOUSING INDUSTRY ASSOCIATION



Reforming Building & Planning Laws

Submission to NSW Treasury

**The NSW Budget 2020-2021
Consultation Paper
Buying in NSW, Building a Future
November 2020**

Submitted 15 March 2021



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ABOUT THE HOUSING INDUSTRY ASSOCIATION

The Housing Industry Association (HIA) is Australia's only national industry association representing the interests of the residential building industry.

As the voice of the residential building industry, HIA represents a membership of 60,000 across Australia. Our members are involved in delivering more than 170,000 new homes each year through the construction of new housing estates, detached homes, low & medium-density housing developments, apartment buildings and completing renovations on Australia's 9 million existing homes.

HIA members comprise a diverse mix of companies, including volume builders delivering thousands of new homes a year through to small and medium home builders delivering one or more custom built homes a year. From sole traders to multi-nationals, HIA members construct over 85 per cent of the nation's new building stock.

The residential building industry is one of Australia's most dynamic, innovative and efficient service industries and is a key driver of the Australian economy. The residential building industry has a wide reach into the manufacturing, supply and retail sectors.

Contributing over \$100 billion per annum and accounting for 5.8 per cent of Gross Domestic Product, the residential building industry employs over one million people, representing tens of thousands of small businesses and over 200,000 sub-contractors reliant on the industry for their livelihood.

HIA exists to service the businesses it represents, lobby for the best possible business environment for the building industry and to encourage a responsible and quality driven, affordable residential building development industry. HIA's mission is to:

promote policies and provide services which enhance our members' business practices, products and profitability, consistent with the highest standards of professional and commercial conduct."

HIA develops and advocates policy on behalf of members to further advance new home building and renovating, enabling members to provide affordable and appropriate housing to the growing Australian population. New policy is generated through a grassroots process that starts with local and regional committees before progressing to the National Policy Congress by which time it has passed through almost 1,000 sets of hands.

Policy development is supported by an ongoing process of collecting and analysing data, forecasting, and providing industry data and insights for members, the general public and on a contract basis.

The association operates offices in 22 centres around the nation providing a wide range of advocacy, business support services and products for members, including legal, technical, planning, workplace health and safety and business compliance advice, along with training services, contracts and stationery, industry awards for excellence, and member only discounts on goods and services.

1.0 INTRODUCTION

The Housing Industry Association (HIA) welcomes the opportunity to comment on the NSW Budget 2020-2021 *Consultation Paper - Buying in NSW, Building a Future*. The consultation paper proposes a new annual property tax that would ultimately replace both stamp duty and land tax.

Taxation reform to replace stamp duty with a more predictable and equitable broad-based tax has long been called for by HIA. Stamp duty is an inequitable tax which falls on a small cohort of taxpayers who need to move for varying reasons, such as a change in household size, or for employment, education and training, health or financial reasons. It also has a disproportionately high impact on vulnerable households who face significant changes in their life circumstances, such that they need to move.

The statement made on page 9 of the consultation paper is fully supported by HIA, in that:

Australia has changed and stamp duty is a big tax that is no longer serving the people or economy of NSW. As the next generation of home buyers enter the market, we need a modern system that reflects the world we live in now.

Removing the foreign investor surcharge measures for stamp duty and land tax would be another step HIA would like to see the Government take, to encourage investment back to NSW.

This submission focusses on the proposed reforms to stamp duty and covers the following:

- Section 2.0 – A discussion on the levies and charges imposed on the NSW housing sector
- Section 3.0 – The impact of stamp duty on the NSW housing market
- Section 4.0 – Comments on the proposed property taxation review framework

We look forward to working with the Government in progressing this important property tax reform agenda.

2.0 TAXATION ON THE HOUSING SECTOR

The housing sector is one of the most heavily taxed sectors of Australia's economy. Independent research prepared for HIA by the Centre for International Economics (CIE) in June 2019, confirmed this with the following findings:

1. Housing is one of the most heavily taxed items in the economy.
2. Housing is responsible for ten percent of all revenue raised across the three tiers of government.
3. The tax and red tape incurred in the construction of a 'house and land' package as a percentage of the purchase price is:
 - i. Fifty (50) percent in Sydney
 - ii. Thirty-seven (37) percent in Melbourne
 - iii. Thirty-three (33) percent in Perth
 - iv. Thirty-two (32) percent in Brisbane
 - v. Twenty-nine (29) percent in Adelaide

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4. The red tape and tax incurred in the construction of an 'apartment home' (infill) as a percentage of the purchase price is:
 - i. Thirty-seven (37) percent in Sydney
 - ii. Thirty-five (35) percent in Melbourne
 - iii. Thirty-four (34) percent in Brisbane
 - iv. Thirty-two (32) percent in Perth
 - v. Twenty-eight (28) percent in Adelaide

The statutory taxes incurred in the development and building of a new home include the payment of stamp duty and a raft of other taxes and charges including land tax, GST and infrastructure contributions. By the time the final home is sold to the home owner a significant sum of money has been paid to various levels of government in the form of taxes, levies and charges and these costs are transferred to the new homeowner in the purchase price of the new home.

In addition, the current process for levying stamp duty can involve 'triple taxation'. Stamp duty can be imposed at three stages in the construction of a new house:

- Sale of land to developer;
- Sale of land from developer to builder; and
- Sale of house and land package to purchaser.

At each stage in housing production, stamp duty can be collected on the contract sale price and levied on top of items such as GST, development charges, as well as the stamp duty already paid in previous transactions involving the property.

The high tax and development charges on housing distorts the market and raises housing costs. Consequently, households experience lower levels of affordability in the housing market and their buying choices are restricted. In particular, the high cost of stamp duty for home buyers acts as a disincentive to households moving, meaning that the current housing stock is used less efficiently. Households are less likely to move when their needs change in terms of housing attributes or location.

Stamp duty bills in NSW have increased almost three times faster than house prices since the 1980s and this trend will continue unless stamp duty is reformed. In NSW, the typical stamp duty bill increased from 1.6 per cent to 3.8 per cent of the median dwelling price between 1982 and 2017.

Furthermore, increases in home prices can cause stamp duty bills to accelerate because rate brackets are rarely updated. In NSW, stamp duty rates have not been significantly reformed since 1985, when the average house price was \$70,000. This is the problem of *stamp duty creep*.

3.0 STAMP DUTY

STAMP DUTY IS AN INEFFICIENT TAX

Stamp duty is an inefficient tax, as a large amount of stamp duty is collected from the relatively narrow base of households moving. The liability for stamp duty payment can be avoided by households choosing not to move. For example, older and smaller households may not downsize, while growing families are discouraged from upsizing. Households may also be less able to relocate for new employment and education opportunities.

Government revenue from stamp duty can be highly variable as it depends on two main factors, dwelling prices and the volume of transactions occurring in the market. The derived revenues are therefore subject to the status of the property market. When the property market is booming (with strong price growth and large transaction volumes) stamp duty provides windfall revenues. By the same token, in times of property market weakness, stamp duty revenues also fall and weigh on budget outcomes.

The *Australia's Future Tax System Report of 2010* (the *Henry Tax Review*) and other more recent studies have consistently identified stamp duty as one of the most inefficient taxes.

The Review noted the 'real life' consequences of this tax:

- People may commute more, adding to road congestion;
- People do not use the existing housing stock as effectively, choosing to renovate rather than move to larger place, or remain in a larger place rather than downsize
- The high cost of moving restricts labour mobility, leading to poorer labour market outcomes.

REMOVING STAMP DUTY MUST BE THE TOP PRIORITY FOR HOUSING TAX REFORM

Research conducted by Independent Economics in 2015 for HIA concluded that abolishing stamp duty on property conveyances must become top priority for housing tax reform. Critically, the research by Independent Economics models a well-designed land tax as recommended by the *Henry Tax Review*. This would involve the land tax being levied across as broad a base as possible, to minimise the distortions to household and business choices.

The framework of the Independent Economics modelling on tax reform is one whereby alternative rates of land tax and/or GST are set such that revenue neutrality is achieved, meaning that overall NSW government revenue is left unchanged. However, the abolition of stamp duty would enhance economic growth prospects over the longer term, resulting in improved prospects for the state government's finances. The abolition of stamp duty would enhance the productivity of the residential construction sector leading to lower residential construction costs, additional employment and substantial benefits to the wider economy.

In 2020, the NSW Productivity Commissioner's *Green Paper* also recommended replacing stamp duty with a broad-based land tax based on unimproved land value. The *Green Paper* noted that *property transfer duty accounted for 22% of state revenue in 2018-2019*, the second highest source after payroll

tax, and “is an inefficient, volatile tax that penalises individuals and hinders the ability of homeowners to move dwellings”.

HIA’s response to the *Green Paper* supported the draft recommendation to replace transfer duty with a broad-based land tax. However, HIA said that this alone is not enough. In response to the Productivity Commissioner’s earlier 2019 *Kickstarting the Productivity Conversation Discussion Paper*, HIA said that whilst moving to a broad-based tax should be supported, a restructuring of the GST is also needed - so that new housing construction is exempt.

4.0 POSSIBLE REFORM FRAMEWORK

For the reasons that we have outlined in this submission, HIA supports the principle of the phasing out of stamp duty tax and the introduction of a property tax, as proposed in the consultation paper. This would give home buyers the choice of avoiding the large upfront cost of stamp duty and instead paying a smaller annual property tax.

We also support the broad structure of the *possible reform framework* set out on page 16 on the consultation paper, as follows:

- Property tax will be an annual tax on land value
- Buyers will be given the choice about which tax to pay
- If you are not buying a property there is no change
- Balanced rates
- Price thresholds to help maintain fiscal responsibility
- Legislation to provide protections for tenants and people facing financial hardship
- Revenue neutrality
- First home buyer provisions

HIA has some comments to make about the consultation paper, as follows:

1. The consultation paper provides the over-arching framework for the proposed reforms, but fails to provide sufficient detail about the potential value outcomes for home buyers. Overall, it is important to demonstrate that the proposed change in the taxation system will improve housing affordability for consumers.
2. Whilst the intent to move away from the high stamp duty costs is made clear, there is no comparative data provided for a stamp duty versus an annual property tax scenario. For example, what indicative saving, expressed as a percentage, might there be for a home buyer and how many years would it take for the benefit of a property tax to be diminished.
3. It is important that *buyers have all the information they need to make the choice to pay stamp duty or the property tax*, as outlined on page 18 of the consultation paper. However, there is no detail provided on how the property tax will be calculated. It is outlined that there will be a ‘fixed’ component’ and an ‘unimproved land value’ component – but no detail about the formula used

to calculate the tax. How will the 'fixed' and unimproved land value' components be assessed from property to property?

4. The commitment on pages 22 and 23 of the consultation paper to ensure that the property tax remains affordable and in line with households' capacity to pay, is important and strongly supported. In this regard, we agree that a mechanism needs to be in place to put a 'brake' on future governments increasing the property tax rate, without proper consultation and enacting new legislation. Clearly, there will be a concern from consumers that future governments may seek to raise the rate of the property tax.
5. The option for a retrospective 'opt-in' to the property tax is also supported, to avoid buyers delaying purchase until the legislation to introduce the property tax is passed.
6. HIA agrees that government initiatives such as cash grants and stamp duty exemptions are important mechanisms for allowing first home buyers to enter the housing market, and should be continued.

5.0 CONCLUSION

The Housing Industry Association (HIA) has welcomed the opportunity to comment on the NSW Budget 2020-2021 *Consultation Paper - Buying in NSW, Building a Future* and supports the proposal outlined for a new annual property tax that would ultimately replace both stamp duty and land tax.

The consultation on replacing an inequitable stamp duty with a more predictable and equitable broad-based tax has long been called for by HIA. Stamp duty is an inequitable tax which falls on a small cohort of taxpayers who need to move for varying reasons, such as a change in household size, or for employment, education and training, health or financial reasons. It also has a disproportionately high impact on vulnerable households who face significant changes in their life circumstances, such that they need to move.

This submission has provided the reasons why HIA calls for the replacement of stamp duty by outlining the impact this tax has on housing affordability for home buyers in NSW.

We would like to be kept informed on the progress of the tax reform proposal and continue to participate in the consultation process. We can be reached via the contact details provided at the front of this submission.

Thank you again for the opportunity to comment on this important taxation reform.