Draft Paper

Tax Reform: Replacing Property Transfer Taxes with Land Tax in NSW

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Contents

1   Introduction

Property transfer taxes (PTT), also known as stamp duties, are widely viewed as one of the most inefficient taxes (see Henry (Chair), 2010; Cao et al., 2015, Freebairn, 2016). Accordingly, there is a general policy consensus that PTT should be replaced with a less inefficient tax, such as a broad land tax. This note discusses the likely welfare benefits of this substitution and related issues.

The motivation for this discussion is the need to estimate these benefits robustly and in such a way that they can be explained to the public. These are essential requirements for replacing a tax that accounts for over a quarter of NSW tax revenues. Many estimates of the benefits are expressed as an output from CGE models that are not clearly demonstrable and, in the view of this paper, tend to be over-estimated.

The main focus of this note is on the benefits of a complete transition from PPT to land tax. However, the method of transition from PTT to land tax has implications for efficiency as well as for public acceptance and needs to be considered.

In this note, I start with an outline of major recent estimates of the welfare cost, known as the excess burden, of the property transfer tax. The next sections outline the main claimed components of this excess burden and discuss each of these in turn along with making some estimates of these excess burdens. To achieve tax revenue neutrality, it is also necessary to consider any excess burden associated with a substitute tax. I also discuss equity impacts and transition issues. The final section summarises the conclusions. The Annex provides data on the current PTT and land tax in NSW.

This review supports the view that that there are significant benefits from replacing PTT with a broad land tax. However, in our view, the benefits are more modest than most other estimates suggest. There are also efficiency and equity issues in the transition process to be resolved. A gradual movement towards the preferred tax structure may mitigate some of these problems.

Before moving ahead with such a major policy change, there needs to be some agreement on the scale of the benefits, the means of transition and the method of public explanation.

2   Major Recent Estimates of the Excess Burden of Transfer Taxes

Recently, a Commonwealth Treasury team (Cao et al., 2015) produced a detailed review of five major taxes and produced a central estimate of the marginal excess burden (MEB) of the PTT of 0.71. This means that, for every extra dollar of tax raised, there is a welfare cost of 71 cents in addition to the $1.0 tax burden. As shown in Table 1 below, several other leading economic modellers have produced similar estimates of the MEB of the PTT.

Of course, these figures are estimates of the gross MEB of a PPT. If we require tax revenue neutrality, the real net cost of the PPT is the difference between the MEB of the PTT and the MEB of the most likely alternative tax. If this is a broad land tax, which is typically estimated to have a MEB of between 6% and 10%, the net MEB of the transfer tax falls broadly to between 0.60 and 0.65.

It should also be noted that the MEB of taxation generally rises with the tax rate. Thus the MEB is generally higher than the average excess burden of funds, which is the total cost of distortions divided by the total revenue collected by a government, (see Abelson 2012, Table 22.2 based on

Econtech / KPMG, 2010). However, in the case of the PTT, the difference between the average excess burden and the MEB appears small.

On the other hand, if abolishing the PTT generates higher output and income, there may be only a partial need for a substitute tax. In our view, the PTT has only a small impact on capital investment (see Section 5) and this outcome is unlikely. However, KPMG (2016) estimates that replacing PTT with broad land tax would increase NSW gross state product by 1.0 per cent

Table 1   Major estimates of the marginal excess burden of property transfer taxes

Source	Date	Estimated MEB
KPMG / Econtech	2010	0.34
KPMG	2011	0.80
Independent Economics	2014	0.71
Commonwealth Treasury (Cao et.al)	April 2015	0.72
Deloitte Access Economics	December 2015	0.38 – 0.61[a]

(a) These are net effects after allowing for increase in GST to achieve revenue neutrality.

3   Possible Causes of Excess Burdens of Property Transfer Tax

The following is based on comments in the Henry Tax Review, (Henry 2010, pp. 251-7 and 425-6). They appear to be the basis for most subsequent commentaries and estimates of PTT.

First, PTT strongly discourages property transfers. In Sydney, the PPT on a median priced home nearly doubles the cost of selling this home. In effect this is a tax of some 90% to 100% on the financial cost of selling a home. This substantially reduces mutually beneficial housing exchanges. It may also have the effect of increase commuting time and discourage labour mobility.

The fall in exchanges reduces dwelling utilisation and thus effective housing supply. On the other hand, it encourages investment in renovation as a second-best action to moving.

Henry (2010) also contended that the tax on transactions is particularly costly to businesses who are likely to move more often than households. Cao et al. (2015) likewise contend that high property transfer costs are likely to cause businesses to be located inefficiently and so to reduce labour productivity and consequently lower real wages.

Second, the PTT is a tax on capital and discourages the development of new housing stock and possibly new commercial building stock. Indeed, there is double taxation when PTT is levied when a developer purchases land and then again when the developer sells the final dwelling.

Third, there may be externalities associated with longer commutes, higher unemployment and lower productivity.

Fourth, the PTT creates inequities as well as the efficiency costs. It taxes individuals or households on the basis of their need or preference to move house rather than on their income. Also, by raising house prices it makes housing less affordable to first homeowners.

4   The Excess Burden of Taxation of Property Transfers

In 2014/15, transfer duty was paid on about 206,000 residential transactions across NSW at an average amount of $27,800 per transaction and on about 15,000 commercial sales at an average cost of $85,700 per transaction (source: KPMG, 2016).[1]
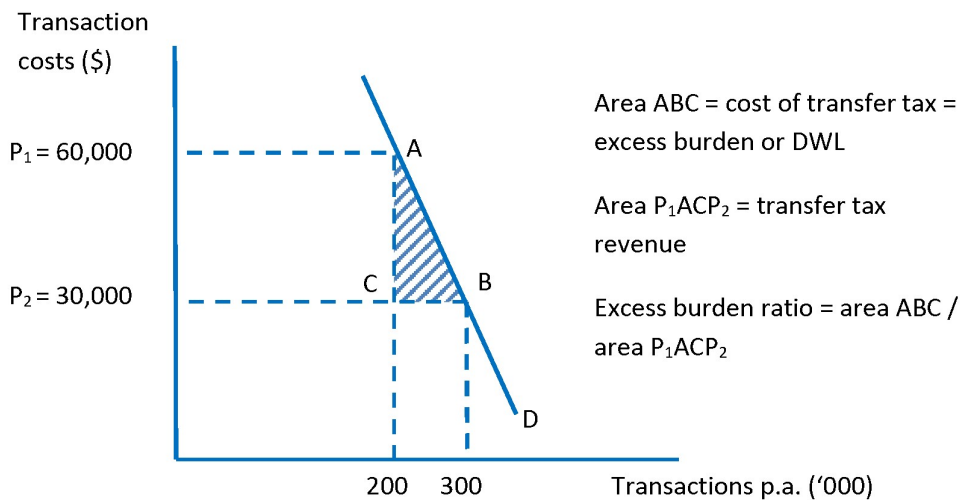
Figure 1 illustrates the excess burden of a residential property transfer tax using some rounded figures. We allow an average (mean) property transfer tax of $30,000 (which is early 4.0% of the median sale value just below $800,000 for Sydney) and that this doubles the average cost of a residential transaction. With 200,000 residential sales per annum, this would produce transfer tax revenues of $6.0bn (area P_1ACP_2 in Figure 1).

The excess burden (or deadweight loss, DWL, to use an equivalent term) is a product of the transactions foregone and the average welfare loss per foregone transaction. Given a linear demand for transactions, this is given by area ABC in Figure 1. This is known as the "Harberger" triangle.

DeLoitte Access Economics (2015) reviewed a range of Australian and international studies of the effects of stamp duties on transaction volumes and found "broad evidence of significant effects" citing studies showing that a percentage point drop in the absolute rate of stamp duty would increase property transactions by between 8% and 20%. Taking a mean increase in transactions of say 14% per percentage point drop and an average transfer tax rate of 3.5%, full removal of the PTT would increase transactions by 50%.

Given a linear transactions demand curve, the average welfare gain would be $15,000 as some households would transfer with only a small fall in the transfer tax and others only with a large fall in the tax.

It follows that the excess burden for NSW households equals 0.5 (100,000 × $30,000) = 1.50bn.

Transaction costs ($)

Area ABC = cost of transfer tax = excess burden or DWL

Area P_1ACP_2 = transfer tax revenue

Excess burden ratio = area ABC / area P_1ACP_2

P_1 = 60,000   A

P_2 = 30,000   C   B

D

200   300   Transactions p.a. ('000)

Figure 1   Excess burden of residential property transfer tax in Sydney

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[1] Transfer duty totalled $7.4bn in 2014-15 and rose to $8.8bn in 2015-16.

This represents an average excess burden of $1.5bn/ $6.0bn = 0.25 or $25 in every $100 of tax revenue.

These are, of course, rounded average figures. Given the lower property values outside Sydney and the lower PTT rates applicable on these lower value properties, the transfer tax outside Sydney would average about $15,000 (see Annex for data on the PTT). This would be a smaller proportion of transaction costs (averaging about 35% rather than 50%) and be proportionately less distorting (with a DWL below 0.25). On the other hand, with a progressive transfer tax rate and much higher property prices in much of Sydney, the transfer tax of nearly $100,000 on a $2.0m property could be around 70% of total transaction costs and would be more distorting (with an excess burden over 0.25) than for a median priced property in Sydney. Without more detailed work, it is not clear how these variations in property prices and transfer taxes would affect the average excess burden for residential properties across NSW but they may be assumed to broadly offset each other.

Regarding taxes on commercial property transactions, an average transfer tax of $85,700 combined with a marginal transaction tax rate of 5.50% implies an average property value of about $1.7m. If we assume that this higher transfer tax discourages say 66% of transactions (rather than 50%), we would get an excess burden = 0.5 × (15,000 × 0.66) × $85,700 = $424m.

This would represent an average excess burden of $0.424bn/ $1.3bn = 0.33 or $33 per $100 of tax revenue.

Adding the excess burdens for residential and commercial properties, we would get a total excess burden of around $1.9bn for a revenue of $7.3bn. This would represent an overall excess burden rate of $26 per $100 of tax revenue.

It should be stressed that this standard (Harberger) method of estimating the excess burden of the PTT allows for homeowner increases in commuting time and any income losses associated with reduced labour mobility. In essence, households who do not move value possible savings in these costs at *less than* the transfer tax costs of moving house. The Harberger triangle (area ABC) represents these homeowner benefits from moving house. It would be double counting to add these benefits to the triangle.

As noted above, the Henry Tax Review also contended that the transfer tax would be especially costly to businesses which are more likely to move than households. However, this seems to confuse business movement with property ownership. The statistics indicate that business property exchanges (sales) are relatively small. Many businesses rent properties. Again, the Harberger triangle picks up the productivity benefits to be gained by property owners from property transactions. Thus, the market statistics cited above provide a natural weighting of the benefits of residential and business property transfers.

5   The Excess Burden of the Taxation of Capital

As we have seen, the PTT may actually encourage investment in renovations where the cost of the tax exceeds the marginal benefits of moving. On the other hand, capital improvements would be subject to PTT which could have a marginal disincentive effect on other renovations. However, there is no tax on capital gains associated with homeowner renovations, which makes them relatively tax

attractive. Given these various factors, the PTT is unlikely overall to reduce expenditure on renovations (and could increase it). Thus, we focus here on the potential excess burden of a transfer tax on investment in new housing.

We adopt a similar approach to estimating the excess burden of the impact of transfer tax on new housing as above, notably by estimating the relevant Harberger triangle as shown in Figure 2. Due to the role of regulations via zoning, the supply of new dwellings per annum is relatively inelastic. For this exercise, we adopt a supply elasticity of 0.4. This is based on an elasticity of 0.33 for Sydney (Gitelman and Otto, 2012) along with an assumed higher supply elasticity in the regions. There are two demand schedules, with and without the transfer tax (D_T and D schedules respectively). The excess burden is the difference between what households are willing to pay for new housing and the real supply costs of this housing and is shown by area ABC.

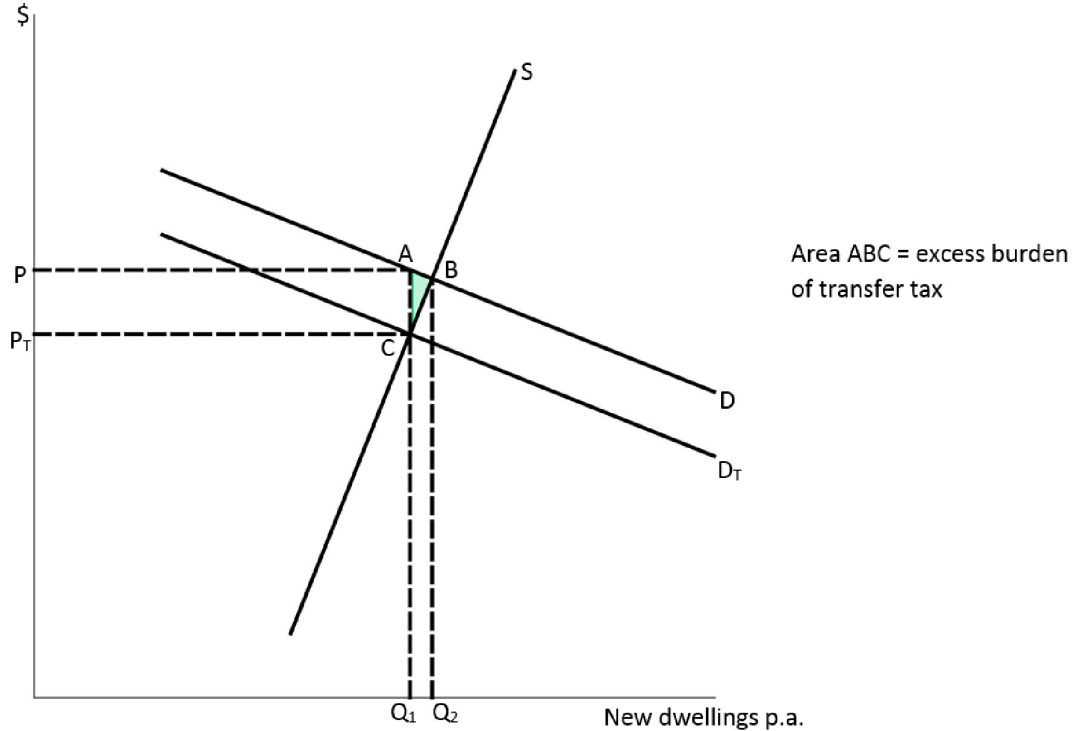$$\text{Area ABC} = 0.5 \, (TT) \, (\Delta NH) \tag{1}$$

where TT = average transaction tax

$$\Delta NH = \text{increase in new housing per annum} = NH_b \times TT/P^h \times \eta_s \tag{2}$$

Where NH^b = new housing in NSW in the base case with the transfer tax = 40,000

TT/P^h = transfer tax as percentage increase for new house price = 5.2%

η_s = the supply price elasticity of new housing = 0.4

Area ABC = excess burden of transfer tax

Figure 2   Excess burden of transfer tax on new housing

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As noted in Section 3, the PTT may be levied twice, once on land and a second time on the final dwelling. Sometimes, it may be levied even more often. However, given the progressivity of the transfer tax in NSW, a tax on land valued at say $300,000 would be $8,990. Thus the full transfer tax with the tax on the final dwelling price of about $800,000 would in the order of $40,000. Note that $40,000 = about 5.2% of $765,000 (the pre-tax price).

Given the formula in Equation 2 and the assumptions above, abolition of the PTT would increase new house completions by some 720 new dwellings a year. The excess burden of the PTT on new housing is:

$$EB_{NH}= \text{area ABC} = 0.5 \times \$40,000 \times 720 = \$14.4m \tag{3}$$

This estimated figure indicates that the PTT **has little impact on capital expenditures** on housing in NSW.

There are two principal reasons for this. One is that, even including double taxation on land and dwelling, the transfer tax is only about 5% of sale value of most new dwellings. This compares with a transfer tax which doubles the cost of property transfers and hence discourages transfers. Secondly, housing supply in NSW is driven largely by zoning regulations and is relatively price inelastic.

Moreover, it should be recognised that increased utilisation of the existing dwelling stock could actually *reduce* the price of housing and the demand for new housing, which adds to the previous observations.

Of course, the PTT also impacts on capital investment in commercial developments. However, in a competitive property market, the PTT (which is typically about 5% of commercial property value in NSW) is passed back in lower land values to the landowner. Thus, the question is whether the small decline in land value associated with the PTT on commercial development reduces significantly the amount of commercial development.

Let us assume hypothetically that as many as 1000 commercial property developments in NSW are deterred annually by a transfer tax of $100,000 (slightly above the average tax on existing property transfers), compared with 720 dwellings deterred. Then, applying a similar excess burden (EB) formula to commercial property (CP), the excess burden would be

$$EB_{CP} = 0.5 \times \$100,000 \times 1000 = 50.0m \tag{4}$$

This compares with an excess burden of $1.9bn for the total excess burden of the tax on residential property transfers.

6   Other Possible Kinds of Excess Burden

The excess burdens estimated above are the costs of households or businesses who are deterred from moving or investing as a result of the PTT. It is conceivable that there may also be impacts on third parties (externalities) due to the significant reduction in property transactions as well as to the minor reduction in capital investment.

As noted above, Henry (2010) considered that there may be externalities associated with longer commutes, higher unemployment and lower productivity. Deloitte Access Economics (2015) also

cites costs of lower labour supply, decreased labour mobility, increased costs of business re-structuring and impacts on removal businesses.

Critically, however, most of these factors are *internal* to the households or firms considering property transactions. If these internal costs exceed transfer tax costs, households or firms will move in any case. If not, they are minor costs and, as noted above, they are captured in the standard analytical treatment of excess burden adopted in this paper.

Given the limited impact that the PTT has on capital investment in property and consequently on aggregate demand, in our view the PTT is not likely to have a significant impact on labour supply or productivity (other than has been estimated as part of the excess burden above) or more generally on any third party costs.

Likewise, it is hard to see how lower levels of property transactions themselves have any external impacts on levels of employment or productivity.

Advocates of any such costs need to demonstrate how they may occur and their likely magnitude.

7   Implications of revenue neutrality and a broad land tax

As noted above, unless abolition of the PTT produces a magic pudding increase in GDP, or in the case of NSW an increase in GSP, tax revenue neutrality requires that revenue be raised by a substitute tax, assumed here to be a broad land tax.

As per Cao et al (2015), Australian land taxes usually have a MEB in the order of 0.08 to 0.10. The average excess burden may be slightly lower.

The excess burdens of land tax depend on how they are set up, especially on the extent of exceptions. It should also be noted that the land tax usually applies to improved land values, including investment in land, and hence is also a tax on capital, albeit usually only in a minor way.

If we conclude from the analysis above that the excess burden of PPT is in the order of 0.28 to 0.30, then the net benefit of replacing the PPT with a fairly broad land tax would be in the order of 0.20, i.e. there would be a welfare benefit of 20 cents for each dollar of tax raised by the new broad land tax as a complete replacement for the PPT.

With tax revenue from PPT in the order of $8.0bn, this would be the equivalent of a net welfare gain of $1.6bn per annum.

We discuss some transition practices below that would delay, or in some cases, reduce this net benefit.

8   Equity Issues

As noted in section 3, there is a fundamental equity issue in raising tax on households and firms on the value of an asset when it is sold rather than on their income or profits (or compared to a general wealth tax). In any case this discriminates against households who buy or sell property as against
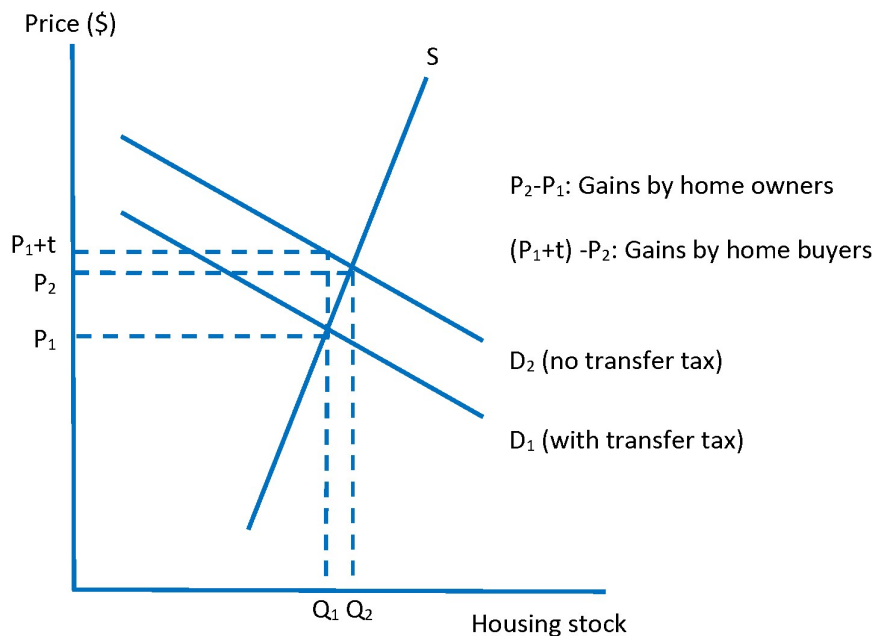
households with similar income who do not buy or sell property. This violates the principle of horizontal equity that similar households should pay similar levels of tax.

The importance of these concerns does depend in part on whether the burden of the PTT is borne by homeowners or home buyers and on whether the households bearing the main burden of the PTT are high, medium or low-income households.

To assess the impact of PTT, it is useful to understand their incidence. PTT is paid nominally by the purchaser. But this does not necessarily mean that the purchaser bears all of the cost. Part of the cost may be borne by the vendor. Indeed, if the supply of housing is relatively inelastic, most of the cost of the PTT is borne by house owners or suppliers.

This is illustrated in Figure 3.[2] The S line shows housing supply. The line D_1 shows the demand curve with transfer tax. In this case, the housing price is given by $(P_1 + t)$. With no transfer tax, the demand curve shifts (by the amount of the tax) up to D_2.[3] The house price has now risen to P_2. The house seller has gained $P_2 - P_1$. The house buyer has gained $(P_1 + t) - P_2$. *Of course, a household that is seller and buyer gains the whole benefit from abolition of the stamp duty*, though they may buy a house at a different price from the one they are selling.

Price ($)

S

P_2-P_1: Gains by home owners

$(P_1+t) -P_2$: Gains by home buyers

P_1+t
P_2
P_1

D_2 (no transfer tax)

D_1 (with transfer tax)

Q_1 Q_2 Housing stock

Figure 3   The effect of abolishing property transfer tax

To put some numbers on these concepts, suppose that housing supply has a low price elasticity of around −0.35 and that housing demand has a price elasticity of +0.9. Equations (5) and (6) show that

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[2] For simplicity we assume constant quality housing.
[3] This is an approximation. The demand curves are not strictly parallel.

housing suppliers (mostly existing home owners) bear 72% of the transfer tax and that house buyers (who pay the tax) would actually bear 28% of the tax.

$$\Delta P^c/S = \eta_s \,/\, (\eta_d + \eta_s) = 0.35 \,/\, (0.9 + 0.35) = 0.28 \tag{5}$$

$$\Delta P^s/S = \eta_d \,/\, (\eta_d + \eta_s) = 0.9 \,/\, (0.9 + 0.35) = 0.72 \tag{6}$$

Putting the above into $ effects, abolishing transfer tax of just over $30,000 on a $770,000 house price would increase the house price by about $21,600 ($30,000 × 0.72). House buyers would be $8,400 better off.

We conclude from this discussion that in so far as the transfer tax is paid mainly by existing home owners (and by landowners in the case of new housing), who tend to have above average net wealth, the tax is not as inequitable tax as it is widely perceived to be. However, it does discriminate against households who move compared to those who do not, and it has a small cost to first homeowners.

It follows conversely from this discussion that the major beneficiaries of abolition of the transfer tax would be property owners who would now receive a higher price for their properties.

On the other hand, the model above does not allow for greater utilisation of the housing stock, which would increase the effective supply off the stock. This would slightly reduce all housing prices. In turn, this would reduce the gains to home-owners and increase the gains to first-time purchasers.

But it must also be observed that this discussion has made **no** allowance for any tax that may replace the transfer tax. If a broad land tax is introduced to replace the transfer tax, the demand for housing will revert to something close to the D_1 schedule in Figure 3. And housing prices will fall from P_2 to P_1. House owners and purchasers would be broadly in a similar position to today with the current PTT. However, as the discussion below shows, the incidence could change significantly according to the detailed of the new tax.

9 Transition Issues and Excess Burdens

Transitioning from a PTT to a broad land tax would be complicated because of the large amount of money to be raised from the land tax and the very different current tax structures (see Annex). Key features of the PPT and land tax are:

- In any year, only about 7% of households pay a property transfer tax. Thus 93% of households do not experience the tax in this year and many households do not experience the tax over 10 or more years. Thus, any annual land tax will seem like a new tax to many households.
- The present land tax also has a huge number of exceptions, including for all home-owners and for owners of land valued at less than $482,000. For these households, an annual land tax will also seem like a new tax.
- The land tax is progressive. This may be suited to commercial entities, but such progressivity would be hard to maintain for owner occupiers.
- Revenue neutrality requires a fourfold increase in revenue from land tax from around $2.5bn per annum to nearly $11.0bn per annum.

Given the extensive set of exemptions for the state land tax, notably including home-owners and investors with land values below the base threshold, the increase in land tax revenue cannot be readily recovered by simply increasing land tax rates on existing taxed property. There would have to be a major increase in the coverage of the land tax.

There are of course many ways in which the new land tax could be configured. For this assessment, we take the broad view and assume that the reformed land tax would apply to all forms of commercial and residential properties, including owner-occupied properties, but not including primary producers.

KPMG (2016) assumed a flat rate land tax over all properties which they calculated to be a 1.3% tax rate in their broadest new land tax scenario.[4] The results are shown in Table 2.

Table 2   Hypothetical new land taxes

Land value ($)	KPMG tax % land value[a]	Land tax $ p.a.[a]	Alternative % land value	Land tax $ p.a.
100,000	1.3	1,300	1.0	1,000
200,000	1.3	2,600	1.0	2,000
350,000	1.3	4,550	1.0	3,500
500,000	1.3	6,500	1.0	5,000
750,000	1.3	9,750	1.0	7,500
1,000,000	1.3	13,000	1.0	10,000
2,000,000	1.3	26,000	1.0	20,000
5,000,000	1.3	65,000	1.0	50,000

(a) Based on KPMG forecast charge for revenue neutrality.

Given these complications, owing in large part to the exemptions from existing taxes, two main strategies have been discussed.

One approach, proposed by the Lambert Review for the NSW Treasury, is that when properties are transferred, they become automatically subject to a land tax in lieu of a transfer tax. This tax would have a present value at least equal to the transfer tax. In fact, to achieve revenue neutrality, the land tax would also have to cover existing revenue from the land tax.

However, this approach has two major defects. First, it leaves in place an equivalent disincentive to transfer properties at least until after the first transfer is made. Thus, it has minimal efficiency benefits for 10 or more years. Secondly, it will expose major disparities (inequities) between households that are paying land tax because they occupy a transferred property and those that are not paying the land tax. In many cases the latter exempt households would be living on much higher valued land that those paying the tax. While the purchasers may be little, or no, worse off than if they had paid the PTT, these perceptions will exist and could be hard to justify. In our view, these are critical deficiencies of this approach.

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[4] The Lambert Review (2010) proposed a land tax of 0.75% of the land value on properties with a land value of less than $775 per sq.m and of 1.0% on land values above this threshold **in addition to** the current stamp duty tax. This would be practically a complex tax and be highly discriminatory against renting households.

The second approach is a gradual approach that **slowly** reduces the transfer tax and broadens the land tax, for example by reducing exemptions. The ACT reform to broad land tax is an example of this. A critical issue here is whether all commercial and non-commercial land will be treated equally.

This approach would produce the welfare benefits identified in this paper over time. However, designing an efficient and fair change is a major challenge. The equity impacts would be very sensitive to policy design.

10   Conclusions

The NSW property transfer tax raises around $8.0bn per annum. As estimated in this paper, the PTT has a gross excess burden of around $2.0bn per annum. If replaced fully by a broad land tax, albeit with some exemptions, this paper estimates that there would be a net welfare benefit in the order of $1.5bn to the NSW community. This is a significant net benefit although considerably less than various experts and authorities cited above have estimated.

By far the largest part of the benefit would occur as a result of increased transfers of the housing stock. In our view, only a small part would result from more investment in new housing.

The analysis in this paper is based on what is known as comparative static, partial equilibrium, analysis. Estimates of larger welfare gains have been made simulating the impacts of abolishing transfer taxes on the economy employing CGE models and forecasting a significant impact on output and employment and hence on incomes. However, the routes to these benefits are not clearly demonstrated. Advocates of these larger welfare gains need to demonstrate more clearly how they may be achieved.

The transfer tax also has equity issues in that it discriminates against households who move compared to those who do not, and it has a small cost to first homeowners. Although much of the tax is borne by property owners, the tax is imperfectly related to household income and hence capacity to pay. Also, by reducing utilisation of the housing stock, it reduces the effective supply off the stock, which in turn raises housing prices.

However, any major tax reform needs to consider both the alternative and the transition process. Revenue from state land tax would have to increase fourfold to compensate for the loss of PTT revenue. Moreover, reform is complicated because the present PTT is highly progressive and the land tax is highly distorted with widespread exemptions.

This paper supports the gradual replacement of the PTT with a broad land tax both to reduce distortions in the allocation of resources ("excess burdens") and for equity reasons.

However, given current distortions and the complexity of the proposed change, in our view, the reform will have to be introduced slowly over a lengthy period and designed carefully to meet equity considerations. If the public are to be convinced of the changes, the reform will probably have to be complemented by careful, well-presented explanations.

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Annex: Property Transfer and Land Taxes in NSW

NSW levies a sliding scale transfer tax on sales of virtually all commercial and residential property transactions. Table A.1 shows transfer tax (stamp duty) rates as of 2016.

Table A.1   Stamp Duty - General Rate - 2016

Dutiable value	Duty charges
$0 up to $14,000	1.25% (minimum $2)
$14,001 to $30,000	$175+ 1.50%
$30,001 to $80,000	$415 + $1.75%
$80,001 to $300,000	$1,290 + 3.5%
$300,001 to $1,000,000	$8,990 + 4.50%
Over $1,000,000	$40,490 + 5.50%
Over $3,000,000[a]	$150, 490 + 7.00%

(a) A special rate for residential properties valued above $3.0m.

There are some minor concessions. First home buyers of new homes are exempt from stamp duty on homes valued at up to $550,000 and receive scaled exemptions up to $650,000. Some other intra-family purchases are exempt from stamp duty.

Applying these rates, the following taxes apply to various property prices as from 8 June 2016.

Property price	Transfer tax	Tax as % of price
$400,000	$13,490	3.37%
$600,000	$22,490	3.75%
$800,000	$31,490	3.94%
$1.0 million	$40,490	4.05%
$2.0 million	$95,490	4.77%

Unlike the transfer tax, land tax in NSW is characterised by exemptions. Land tax is paid on commercial use of land (business and residential) excluding land used for primary production. It is not paid on owner occupied property.

But like the transactions tax, the land tax is progressive. Tax is levied annually at $100 + 1.6% of land value between a base threshold value and premium value and at 2% on land value over the premium value. In 2016 the base threshold was $482,000 and the premium value was $2,947,000.

The following is the average annual tax rate for selected land values at 2016 rates.

Land values	Annual tax	% Land value
$ 400,000	$ 0	0.00%
$ 500,000	$ 388	0.07%
$ 750,000	$4,388	0.58%
$1,000,000	$8,388	0.84%
$2,000,000	$24,388	1.22%
$2,947,000	$39,540	1.34%
$5,000,000	$80,600	1.61%