Chapter 7

Impact of state and local government charges

7.1 The three tiers of government levy taxes and charges on the construction and sale of homes (and some of these taxes interact with each other). Concerns have been expressed that some of these, particularly those levied by some state and local governments, are adding unduly to the cost of buying a home, especially for first home buyers. This chapter considers the role of stamp duties, developer infrastructure charges, levies on rezoned land, land tax and the interaction with the GST.

Stamp duties

7.2 The state and territory governments levy stamp duties (also known as 'transfer duty' or 'contracts and conveyancing duty') on the purchase of homes, at varying rates and with varying concessions. It is generally equivalent to around 3–4 per cent of the average house price in the capital cities. Some examples of the stamp duty levied in each state, as at June 2008, are shown in Table 7.1. In 2006–07 stamp duties raised $13 billion.[1]

Table 7.1: Stamp duty for residential property sales at selected prices

	$250 000	$250 000 (first homebuyers)	$500 000	$500 000 (first homebuyers)	$750 000	$750 000 (first homebuyers)
NSW	$7 240	-	$17 990	-	$29 240	$29 240
Victoria	$9 310	$8 870	$25 660	$21 790	$40 070	$40 070
Queensland	$7 225	-	$15 975	-	$18 105	$18 105
WA	$8 200	-	$20 700	-	$34 200	$34 200
SA	$8 955	$15	$21 330	$21 330	$35 080	$35 080
Tasmania	$7 550	$3 550	$17 550	$17 550	$27 550	$27 550
ACT	$7 500	$20	$20 500	$20 500	$34 875	$34 875
NT	$5 357	-	$21 428	$8 413	$34 625	$21 609

Source: Derived from various state and territory government's revenue office websites. The data reflect changes in the states' 2008–09 budgets.

7.3 These duties may affect first home buyers more than other buyers, as the major factor constraining many from entering the market is gathering sufficient funds to meet the upfront costs. Other than the deposit, the largest of these costs is stamp

1 ABS, *Taxation Revenue 2006–07*, cat. no. 5506.0.

duty. The ACT government has responded to this concern by allowing first home buyers to defer the duty for up to five years.

Box 7.1: Stamp duty concessions for first home buyers in Australian states and territories

Western Australia: first home buyers are exempt from paying stamp duty on homes priced up to $500 000 and vacant land priced up to $300,000.

New South Wales: eligible first home buyers exempt from paying stamp duty on homes priced up to $500,000 and for vacant land priced up to $300,000.

Queensland: as of 1 September 2008, eligible first home buyers are exempt from stamp duty for purchases up to $500,000 for established homes.

South Australia: scaled stamp duty concessions for properties valued at $250 000 and under.

Tasmania: those eligible for the First Home Owners Grant are also eligible to receive a maximum stamp duty concession of $4000 for the purchase of owner occupied property up to $350 000.

Victoria: stamp duty concession is available for the purchase of principal places of residence priced between $115 000 and $500 000. First home buyers are now able to claim the *First Home Bonus* and the stamp duty concession.

Northern Territory: first home buyers purchasing a property priced up to $385,000 are exempt from stamp duty. The 2008–09 budget introduced a change in stamp duty tax rates, which now range from 1.5 per cent to 4.95 per cent with an increase in the top rate from properties valued at $500,000 to those valued at $525,000. For contracts executed (signed) on or after 20 June 2005, a rebate of up to $2500 off the stamp duty payable is available.

ACT: scaled stamp duty concession scheme for properties valued below $390 000 (applies to all home buyers).

Source: 2008–2009 State Budget Papers; State Revenue Office websites
http://www.mortgageworldaustralia.com.au/first_home_buyers/stamp_duty_concessions.htm

7.4 Stamp duty adds to transaction costs, which has many adverse impacts. It impedes labour mobility. It also discourages people from moving to more appropriate housing types as their circumstances change.[2] It may also mean that first home buyers will seek to avoid incurring these transaction costs again when upgrading to a larger home as their income grows or they have children. This may lead them to buy a larger home than they need at the time as their first home.[3] For these reasons, it is generally regarded as an inefficient tax. It is also a relatively volatile revenue source, fluctuating with the cycles in the housing market. The Productivity Commission argues that governments need to consider how best to reduce reliance on stamp duties 'in favour of more efficient alternative sources of revenue'.[4]

2 Professor A Beer, *Proof Committee Hansard*, 28 April 2008, p. 48.

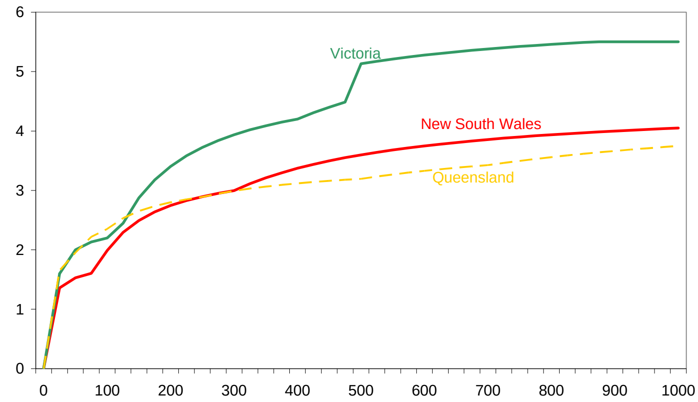
3 This theory was put by Senator C Bernardi, *Proof Committee Hansard*, 28 April 2008, p. 11. Mr Jackson from the UDIA's South Australian branch replied that it is a small factor relative to the increase in the wholesale price of broad hectare land for development.

4 Productivity Commission (2004, p. 75).

7.5 The extent to which stamp duty increases more than proportionately with increases in house prices is illustrated in the chart below.

Chart 7.1

Stamp duty as % of house price

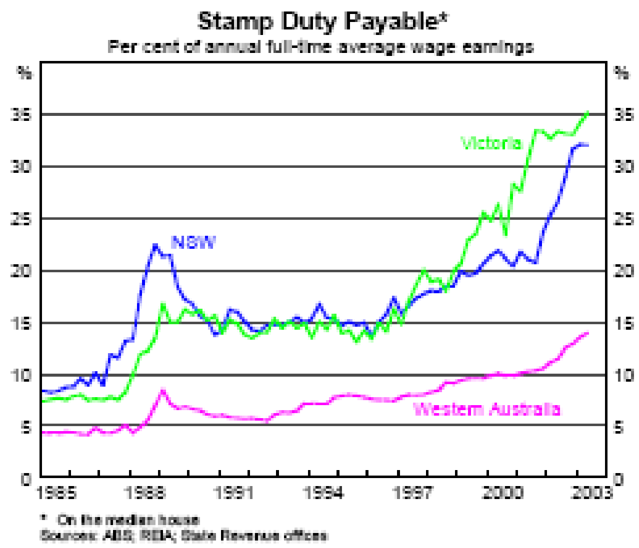


Source: derived from schedules in NSW Treasury Office of Financial Management (2007, pp 15-16).

7.6 This has led to stamp duty payable rising relative to incomes. The cost of stamp duties has been increasing. As the Reserve Bank has commented:

> State governments have not materially adjusted stamp duty thresholds as house prices have risen. As a result, the average rate of stamp duty payable on the median-priced house has increased substantially, both relative to house prices and average incomes…. [and] stamp duty concessions given to first-home buyers have not kept pace with the increase in prices.[5]

Chart 7.2



Source: Reserve Bank of Australia (2003, p. 34).

---

5 Reserve Bank of Australia (2003, pp. 33–4).

7.7 This 'bracket creep' has been criticised within the real estate industry. A common refrain is that 'stamp duty should be immediately indexed to median house prices to avoid taxation creep as house prices inflate over time'.[6]

7.8 The Real Estate Institute of Australia expressed its clear opposition to stamp duties:

> A new intergovernmental agreement is required to consider means by which inefficient property taxes, such as land tax and stamp duties on residential property conveyancing, can be abolished or at least much reduced.[7]

7.9 Its priority in removing stamp duties is:

> first home buyers purchasing a medium priced home should be exempt from all stamp duties. State and territory governments should also consider granting a one-off stamp duty exemption for retirees who are downsizing their primary residence.[8]

7.10 This issue of the need for better incentives for retirees to downsize their residence was discussed by the St Vincent de Paul Society. It was critical of current tax arrangements which discourage 'empty nesters' from downsizing because the cash generated from the asset sale disqualifies many on middle incomes from the pension.[9] In private correspondence to the committee, the Society noted:

> For empty nesters one possible suggestion is that the social security systems' income and asset test not include the income that is realised in the sale of a property when empty nesters are downsizing. If this were not considered in theory it would facilitate the opening up of housing stock for younger families.[10]

Recommendation 7.1

7.11 The committee recommends that all state and territory governments consider stamp duty exemptions for first home buyers and for retirees who are downsizing their primary residence.

7.12 Professor Julian Disney told the committee that there needs to be a reduction of stamp duty 'at the front end'.[11] While he did not elaborate to the committee,

---

6 Mr M Munro, Real Estate Institute of Australia, *Proof Committee Hansard*, 7 May 2008, p. 38. Similar views were put by Mr P Donald, *Submission* 5, p. 1 (who added that stamp duty thresholds should vary with postcode).

7 Mr M Munro, Real Estate Institute of Australia, *Proof Committee Hansard*, 7 May 2008, p. 38.

8 Mr M Munro, Real Estate Institute of Australia, *Proof Committee Hansard*, 7 May 2008, p. 38.

9 Dr G Dufty, *Committee Hansard*, 23 April 2008, p. 49.

10 Dr G Dufty, *Private Correspondence*, 13 June 2008.

11 Professor Julian Disney, *Proof Committee Hansard*, 2 April 2008, p. 29.

Professor Disney made the following observation in March 2008 on the SBS television program *Insight*:

> …I would drop or substantially reduce stamp duty at the front. Let people get into housing more easily than they can now, but then when they've got in and they're starting to enjoy the benefits of housing, ask them to contribute on the way through.[12]

7.13 Other proposals came from Professor Burke and Associate Professor Hulse. In their submission to the inquiry, they recommended three possible options for reforming stamp duty. First, the impost could be switched from purchasers to sellers, thereby excluding first home buyers. Second, stamp duty could still be applied to purchasers but the scales could be reformed to provide (further) relief at the more affordable end of the market. Their third proposal is to hypothecate a percentage of stamp duty explicitly for an affordable housing fund or an infrastructure fund.[13]

7.14 Forming a view about these possible reforms to stamp duties requires information about who ultimately bears the duty. There were some submissions that suggested removing stamp duties may just allow vendors to raise prices.[14]

Infrastructure charges

7.15 A few decades ago it was common for new housing developments only to have the most rudimentary infrastructure. Sealed roads, sewerage and facilities such as parks and libraries—sometimes even water and electricity—were only provided some years after new building blocks were sold and homes built on them. They were gradually provided and paid for out of general rates and taxation revenue.

7.16 Now it is more common for such infrastructure to be installed as the land is developed.[15] Rather than funded by the whole community through taxes and rates, it is increasingly being funded, especially in New South Wales, by specific 'infrastructure charges' on developers, who *may* in turn pass the charges on in the form of higher prices for serviced lots and homes.

7.17 To the extent they are ultimately borne by new home buyers, infrastructure charges raise equity questions about who should pay for infrastructure—the general community or those most directly benefiting. There is also a question of timing of the charges—how much of the payment for infrastructure should home buyers make at the time of purchase and how much over the years.

---

12 Professor Julian Disney, Insight, SBS television, 25 March 2008, http://news.sbs.com.au/insight/out_of_reach_543170 (accessed 10 May 2008).

13 Professor Terry Burke and Associate Professor Kath Hulse, *Submission 33*, p. 6. See also Professor Terry Burke, *Committee Hansard*, 24 April 2008, p. 24.

14 Mr C Simpson, *Submission 1*, p. 2; Mr V Mangioni, *Submission 55*.

15 Professor P Troy, *Committee Hansard*, 1 April 2008, p. 119.

7.18 The Real Estate Institute of Australia argues that:

> There should be a specific review with a view to reducing this component cost of new housing developments and spreading those development costs across the broader community, as they were back in the 1950s and 1960s.[16]

7.19 Some laud the infrastructure charges as improving efficiency by introducing 'user pays' principles. A counterargument is that it is only current users that are paying, not future users (as is the case when infrastructure is funded through borrowings repaid over time by taxes and rates).

7.20 Another argument for infrastructure charges is that they enable more land to be developed quickly than if the cost of infrastructure had to be borne by financially constrained local governments. While the Planning Institute of Australia 'recommends that a consistent national approach be taken to developer contributions'[17], they see them as more transparent than alternative funding measures:

> They are intended to be transparent forms of appropriately apportioning the cost of infrastructure provision, whereas in the past, prior to developer contribution schemes or infrastructure charging schemes, there were a lot of underhanded ways in which money was collected from developers to provide infrastructure. It was not open and accountable. In fact, in many cases the money that was taken from a developer, presumably for infrastructure in one location, was actually spent in another location and not for the same type of infrastructure.[18]

7.21 Others argue the charges are excessive and contribute significantly to making housing less affordable, especially for first-home buyers. Some argue they lead to 'gold plating', excessively expensive infrastructure being mandated by councils no longer needing to fund it from their own resources. As Professor Troy told the committee:

> I would…argue that we are very generous about what we do with road supplies. We put them in to high standards, and one of the reasons why we do is that now that we have the developer paying for it the local authority can say, 'We want an eight-inch paving because we don't want to carry the maintenance costs, and we're going to make sure it is gold plated.'[19]

7.22 Another criticism is that infrastructure charges are levied as a flat rate, rather than being related to the value of housing:

---

16 Mr M Munro, Real Estate Institute of Australia, *Proof Committee Hansard*, 7 May 2008, p. 38. A similar view is put by Professor A Sorensen, *Proof Committee Hansard*, 7 May 2008, pp 55-6.

17 Mr N Savery, Planning Institute of Australia, *Committee Hansard*, 1 April 2008, p. 57. This was also advocated by the Urban Research Centre of University of Western Sydney, *Submission 32*.

18 Mr N Savery, Planning Institute of Australia, *Committee Hansard,* 1 April 2009, p. 63.

19 Professor P Troy, *Committee Hansard*, 1 April 2008, p. 119.

> If we were trying to put an affordable housing development on Pine Rivers with small-lot workers cottages at $300 000, a $60 000 infrastructure charge would be out of the question. The people up the hill were providing $600 000 houses. A charge of $60 000 is much more able to be accommodated by a large house with five bedrooms and three bathrooms than by a workers cottage. If we are going to steer the industry better, we have to have progressive fees and charges.[20]

7.23 The case for a developer charge is weaker when it is for facilities that will benefit the broader community rather than just those moving into a new estate. An extreme example provided to the committee is:

> Hornsby Shire Council levied an extra $1100 a block for the construction and maintenance of a library. I have nothing against community libraries, but the argument there in terms of policy is: should only a few homeowners pay for that or should that be a broader community responsibility.[21]

7.24 The Productivity Commission argue this is unusual:

> As a general rule in local government, developer contributions can only be used to fund specific infrastructure investments, and cannot therefore be used to subsidise other services to the community.[22]

7.25 As a guide to the magnitudes, the following four tables show estimates from various studies. Table 7.2 compares the cost components for a new house in 2003 in Penrith (an outer western suburb of Sydney) and Wyndham (a suburb of Melbourne).

Table 7.2: Components of cost of a new home

$'000 (%)	Penrith	Wyndham
Land	93 (22%)	42 (14%)
Infrastructure charges	65 (15%)	32 (11%)
Planning and building fees	5 (1%)	1 (0%)
Dwellings	156 (36%)	139 (48%)
Margins	61 (14%)	46 (16%)
Tax	53 (12%)	31 (11%)
Total	431 (100%)	291 (100%)

Source: Productivity Commission (2004, p. 160).

7.26 More recent data from the UDIA refer to the edge of Sydney today.

---

20 Mr M Myers, Queensland Community Housing Coalition, *Committee Hansard*, 14 April 2008, p. 47. Similarly, Gurran et al (2007, p. 22) argue that 'developers may opt to produce "upmarket" housing with a greater margin for profit as a way of recouping costs'.

21 Mr W Harnisch, Master Builders' Australia, *Committee Hansard*, 1 April 2008, p. 25.

22 Productivity Commission (2008a, p. 129).

Table 7.3: Components of cost of a new home in outer Sydney

	$'000 (%)
Electricity	5 (1%)
Sydney water	10-15 (2-3%)
Local council section 94 contribution	45 (9%)
State levy for infrastructure	30 (6%)
GST	40 (8%)
Land/dwelling/margin/other	365-370 (73-74%)
Total	500 (100%)

Source: Mr Woodcock, Urban Development Institute of Australia, *Committee Hansard*, 1 April 2008, pp 76–77.

Further examples were provided by the UDIA's New South Wales Division and the Property Council.

Table 7.4: Components of cost of a new home in Camden, outer Sydney

	$'000 (%)
Land	59 (11%)
Development works	57 (10%)
Finance costs	26 (5%)
Selling costs	8 (1%)
Dwelling	192 (35%)
State levies and taxes	57 (10%)
Council levies and fees	33 (6%)
GST	40 (8%)
Margins	75 (14%)
Total	551 (100%)

Source: Urban Development Institute of Australia (NSW Division), Additional material supplied to committee, 1 April 2008.

Table 7.5: Components of cost of a new home, 2006

$'000	Sydney south-west	Hunter (NSW)	Gold Coast	Melbourne	Adelaide	Perth
Land / margins	376	266	294	275	192	285
GST	48	32	33	32	22	33
State infrastructure	18	5	0	0	0	0
Other state taxes	75	46	49	54	32	55
Section 94 infrastructure	26	11	15	5	2	0
Other local government	1	1	1	1	0	1
Total	544	361	392	367	248	374

Source: Property Council (2007).

7.27 These data need to be interpreted carefully. The tables may give the impression that the final price results from adding a set of independently-determined components. However, it should not be assumed automatically that developer charges are passed on to homebuyers. They may instead be (partly) borne by the developer, or be 'passed back' in the form of a lower price being paid by the developer for the raw land. The committee heard a range of views on this question.

7.28 The building industry generally suggest charges are passed on:

> things are then levied against the development industry, and of course they simply pass that on to the first home buyer in particular.[23]

7.29 Some see the chain as longer, but also ending with the home buyer:

> cost shifting by all levels of government—the feds to the state, to the local level, to the developer—a misnomer—who passes it on to the homebuyer.[24]

7.30 However, some argue that developers who want to have such charges reduced have a vested interest in portraying the charges as an impost on homebuyers. One developer said that prices are set in the market for established dwellings and new developments have to match that; 'the established market is what drives the price point that you are trying to achieve'.[25] That would imply that a higher infrastructure charge

---

23 Mr W Harnisch, Master Builders' Australia, *Committee Hansard,* 1 April 2008, p. 25. A similar view was expressed by Mr Marker from the UDIA (South Australia), who said a 'developer levy' is 'a cost to the developer which has to be added to the price of the allotment or the house and land that is being sold. So it is a homebuyer levy; it is not a developer levy'; *Proof Committee Hansard*, 28 April 2008, p. 12.

24 Mr R Blancato, Urban Development Institute of Australia (New South Wales), *Committee Hansard*, 2 April 2008, p. 60. However, their submission refers to it sometimes being passed back to the vendor of the raw land (*Submission 49*, pp 9, 13).

25 Mr C Dutton, UDIA (Gold Coast), *Committee Hansard*, 15 April 2008, p. 21.

could not be passed on to buyers in the form of a higher price. Either the developer would have to accept a lower profit, or offer a lower price for the raw land. This does not mean, of course, that developer charges can be increased without limit. If developers' profits are squeezed beyond a certain point, they will leave the business. If the price they are willing to pay for land is driven down too low, then it will not be sold to them and may remain as farmland. This would lead to a reduction in the supply of new housing in the outer urban area and a rise in prices there.

7.31 The Local Government Association of Queensland's submission suggests that infrastructure charges in that state are far from preventing developers making good profits:

> During the housing boom over the past four years…the development industry's key players in Queensland…have recorded significant financial growth, including a doubling in market capitalisation and an average return on investment of 20 per cent.[26]

7.32 One academic's view of the literature is that:

> there is not a direct flow-on relationship between infrastructure levies and house prices. That has been established, based on international research.[27]

7.33 The Productivity Commission took a similar view, leading them to conclude that:

> Greater use of upfront developer charging is unlikely to have any substantial effect on housing affordability.[28]

7.34 A planner's view is that the tax burden is shared out:

> we do not accept that all developer levies are passed forward to the consumers of land and housing, and certainly research undertaken has shown that generally it is the case that it is shared amongst land sellers, developers themselves and the ultimate consumers.[29]

---

26 Local Government Association of Queensland, *Submission 71*, p. 18.

27 Dr N Gurran, *Committee Hansard*, 2 April 2008, p. 41. Similarly, a witness in Ballina opined that 'we do not believe that an abolition of developer fees will automatically lead to an immediate reduction in prices'; Mr T Davies, Northern Rivers Social Development Council, *Committee Hansard*, 15 April 2008, p. 16. Mr Hehir from the ACT government implied that developer charges are passed back to the landowner; *Proof Committee Hansard*, 7 May 2008, p. 19. Mr P Pollard also said 'Whenever the industry speak about the need for reduced taxes and charges on housing, to take their proposals seriously, they need to demonstrate that the reductions they are seeking will pass through to the homebuyer. If they cannot pinpoint a mechanism where the likelihood is that that will happen then obviously their proposals carry less credibility.'; *Proof Committee Hansard*, 7 May 2008, p. 60.

28 Productivity Commission (2004, p. 165).

29 Mr C Brenton, Geelong City Council, *Committee Hansard*, 23 April 2008, p. 22.

7.35 The Urban Research Centre suggests 'the exact fraction of the tax that is passed forward or passed back will depend on the state of the housing market'.[30] In the present market, a higher than usual proportion might be expected to be borne by homebuyers.

7.36 There is also debate about whether purchasers of homes in areas where there has been an infrastructure charge benefit significantly, or even at all, from lower rates and other charges in later years. The home buyer may benefit from the home being worth more due to the better facilities funded by the infrastructure charges.

7.37 It seems a widely held view that infrastructure charges are higher in NSW than elsewhere.[31] However, independent data on this does not appear readily available.[32] If it is the case, it raises the question of why this is occurring. One possibility is that NSW local governments have been (more) restricted from raising revenue to pay for infrastructure by caps placed on increases in local government land rates by the state government. This hypothesis gets some support from the data in Table 7.6, which show that local governments in NSW raise less revenue per head than those in other states. The Productivity Commission found 'rate pegging has dampened the revenue raised from rates in New South Wales'.[33]

Table 7.6: State and local government taxes per person: 2006-07

	State government	Local government
New South Wales	$2 598	$406
Victoria	$2 282	$488
Queensland	$2 073	$489
Western Australia	$2 777	$486
South Australia	$2 073	$531
Tasmania	$1 527	$445
Australian Capital Territory	$2 781	n.a.
Northern Territory	$1 744	$299

Source: derived from ABS, *Taxation Revenue 2006-07*, cat. No. 5506.0; *2008 Yearbook*.

30 Urban Research Centre of University of Western Sydney, *Submission 32*. This view is also expressed in a summary of the literature in Gurran et al (2007, p. 22).

31 Property Council (2007) makes this point; see Table 7.4. The South Australian division of UDIA commented that in NSW 'infrastructure charges have been a major factor while these have had virtually no impact in South Australia'; *Submission 20*.

32 Table 7.5 from the Property Council suggests that charges in NSW are higher. Table 7.2 is supportive but it is four years old and only relates to two specific suburbs. On the other hand, the Productivity Commission (2008, p. 133) report that the average developer contribution revenue per new dwelling commenced in New South Wales is below the national average.

33 Productivity Commission (2008a, p. 117).

7.38 In October 2007 the NSW Government announced changes to state and local infrastructure contributions, aimed at ensuring that they only recover the cost of the infrastructure needed to allow development to proceed. In April 2008 an exposure draft bill was tabled which specifies issues, including housing affordability, that must be considered by councils when developing contribution plans.[34]

7.39 If infrastructure charges are thought to form an excessive burden on home buyers, and they are not due to inefficient or extravagant behaviour by local councils, then a possible solution is for local government to have access to another growth tax.[35] An alternative is for councils to fund infrastructure through borrowings repaid over time by rates, which may require rate caps to be removed to assure lenders that councils can repay those debts.

Rezoning windfalls

7.40 When land outside the urban fringe is rezoned from rural to urban, its value can increase significantly. The owner of the land often reaps a windfall gain from the decision of the planning authority. This could be in the order of $300 000 to $400 000 per hectare.[36]

7.41 The landowner may no longer be a longstanding farming family but a property speculator:

> land speculation on the urban fringe is rife, with many entities engaging in land acquisition solely for the purpose of capturing betterment rather than for engaging in bona fide development.[37]

7.42 It was put to the committee that there is a strong case for capturing this gain for the use of the community. One method would be some form of explicit 'betterment levy' on the landholder. This idea was strongly supported by Geelong City Council:

> the community is entitled to capture a proportion of any uplift in land values which it creates as a result of the need to meet a public policy objective.[38]

7.43 This 'development licence fee' is conceptually distinct from an infrastructure charge, but in practice a higher infrastructure charge may be an indirect way of capturing this windfall gain.[39]

---

34 NSW Government, *Submission 90*, p. 2.

35 House of Representatives Standing Committee on Economics, Finance and Public Administration (2003) discuss the challenges faced by councils due to cost-shifting and is critical of rate-capping.

36 Geelong City Council, *Submission 85*.

37 Mr C Brenton, Geelong City Council, *Committee Hansard*, 23 April 2008, p. 20.

38 Mr C Brenton, Geelong City Council, *Committee Hansard*, 23 April 2008, p. 19. A similar stance is taken by Professor B Birrell, *Committee Hansard*, 24 April 2008, pp 30 and 32.

7.44 An alternative way of capturing the windfall is for the government to acquire the land from the farmer, paying a fair margin over its value as rural land, but nowhere near its value as urban land. A government agency can then resell the land to a developer at the higher price, or a government agency can develop the land itself and make a significant profit. An example of agencies operating along these lines was the Australian government's Land Commission Program in the 1970s and four states have such agencies now, although their operations have been wound back.

7.45 It is a decision for government how it uses the profits generated by the agency. They could be used to provide infrastructure and services or reduce the cost of housing by replacing other charges such as stamp duties. At present state governments do not guarantee that profits from land development agencies are necessarily used for improving housing affordability. If guaranteeing this was felt necessary, the profits of the agency could be hypothecated to this end.

7.46 Another option for the government agency is to forego a large profit from the rezoning and rather make the developed land available to homebuilders at a low price, as a way of providing affordable housing.

7.47 The government needs to make clear to a land development agency whether its goal is to maximise profits or to provide cheap land to homeowners. It must realise that an agency charged with maximising profits, like a private company, will often find it worthwhile to sit on land and only release it gradually so as to keep up the price. Confusion about the role of the land development agency seems to have been a problem in Western Australia.[40]

Goods and services tax

7.48 Views differ about whether this should be regarded as an Australian government or state government tax. The GST is applied to the construction of new housing (but not to sales of existing housing). Tables 7.3 and 7.4 suggest it is of a similar magnitude to (other) state and local government taxes. The UDIA's NSW division regards the GST as 'the largest single impediment to the supply of new dwellings'.[41]

---

39 Mr P Pollard was one witness who suggested this; *Proof Committee Hansard*, 7 May 2008, p. 64.

40 This is discussed further in chapter 8. There were suggestions in South Australia that their Land Management Corporation was unduly focused on maximising profits; Mr I McKean, UDIA (South Australia), *Proof Committee Hansard*, 28 April 2008, p. 10.

41 UDIA (NSW), *Submission 49*, p. 16.

7.49 The application of GST to stamp duty (and other taxes and charges) is criticised by the UDIA as 'a tax on a tax'.[42] Their NSW division argues that just as raw land value is not taxed, but is deducted from the sale price to calculate the base for the GST, 'using the same logic, all state and local government taxes should be considered part of the land cost and removed from the GST margin'.[43] They are given some support by the Productivity Commission, who argue that if stamp duties are retained, 'tax-on-tax anomalies involving stamp duties would then need to be addressed'.[44]

Land taxes

7.50 State governments impose land taxes, but exempt the principal place of residence. Table 7.7 shows the situation as at November 2007.

Table 7.7: Land tax: payments and marginal rates at selected values of land

$'000	NSW	Victoria	Queensland	Western Australia	South Australia	Tasmania	ACT
50	0	0	0	0	0	$325; 0.55%	$300; 0.6%
100	0	0	0	0	0	$463; 0.55%	$890; 0.89%
500	$2,356; 1.6%	$800; 0.2%	0	$375; 0.15%	$1,770; 0.7%	$4,838; 2%	$3,859; 1.4%
1,000	$10,356; 1.6%	$3,480; 0.8%	$5,875; 1.45%	$1,876; 0.75%	$11,420; 3.7%	$16,088; 2.5%	$11,925; 1.59%
5,000	$74,356; 1.6%	$79,980; 2.5%	$62,500; 1.25%	$48,375; 1.55%	$159,420; 3.7%	$116,088; 2.5%	$75,128; 1.59%
Primary residence	exempt, unless owned by company	exempt	exempt or deductible	exempt, unless owned by company	exempt	exempt	exempt, unless owned by company

Source: Derived from NSW Treasury Office of Financial Management (2007, pp 32-3).

7.51 The Productivity Commission argue that land taxes are more efficient than stamp duties because they are:

> …comprehensive taxation of the unimproved value of land at a relatively low rate, annually or more frequently…[and as] the supply of unimproved

42 Mr S Woodcock, Urban Development Institute of Australia, *Committee Hansard*, 1 April 2008, p. 80. This view is echoed by his NSW colleague, Mr R Blancato, UDIA (NSW), *Committee Hansard*, 2 April 2008, p. 61. The same point is made by Mr M Munro, Real Estate Institute of Australia, *Proof Committee Hansard*, 7 May 2008, p. 38.

43 UDIA (NSW), *Submission 49*, p. 17.

44 Productivity Commission (2004, p. 75 and pp 96–100).

land is inelastic, a broad land tax is unlikely to significantly distort land use or building and housing choices.[45]

7.52 Increasing use of land tax also has the characteristic that it can make use of the land valuations already used for local government rates. Higher land tax may encourage investors to build houses on vacant land. A number of submissions favoured its wider use.[46]

7.53 One witness argued that the higher impost of land tax for each rental property owned is a strong disincentive to increase the supply of rental housing. Commenting on Western Australia's system of land tax, he argued that it:

> …militates strongly against people having rental properties. There is a system in this state, and it is similar in other states, that is a regressive regime: the more properties you have the higher the rate in the dollar. So it is accumulated. In WA the maximum rate is, I think, eight or 10 times higher than the minimum rate. So if you are an investor and you want to own 10 properties, you are going to pay a whole lot more land tax—not just 10 times as much; you might pay 30 times or 40 times as much land tax as someone who has just got one. So it really does work against companies setting out with an ambition of owning a large number of rental properties. When you think about it, it is a very artificial way to impose a tax and it has a very adverse impact.[47]

7.54 Land tax on investment properties was criticised by the Real Estate Institute of Tasmania:

> As a result, there is little or no incentive to buy rental properties, certainly to provide affordable housing, as this again diminishes your return from the investment or investments, particularly the more you have. I know a number of investors who have ditched their investment properties as a result of increases they cop from land tax alone.[48]

7.55 A contrasting view was put by the ACT 's Affordable Housing Steering group, who concluded:

> The introduction of land tax in 1991 had no discernible effect on the level of investor activity in the ACT's residential property market. There is no evidence that land tax is having a measurable effect on market behaviour.[49]

---

45 Productivity Commission (2004, p. 100).

46 For example, Mr C Cook, *Submission 4*, p. 1.

47 Mr W Hemsley, *Committee Hansard*, 8 April 2008, p. 62.

48 Mr P Bushby, *Proof Committee Hansard*, 5 May 2008, p. 18. The UDIA's Western Australian division was critical of bracket creep in land tax in that state; *Submission 45*.

49 'Report of the Affordable Housing Steering Group', p. 11, included with the ACT Government, *Submission 75*.