

Australian Government

The Treasury

Submission to the Inquiry into Home Ownership

Department of the Treasury

2 July 2015

Introduction

This submission discusses the key drivers of the housing market in Australia. The first section discusses home tenure, current conditions in the market and trends in the characteristics of first home buyers. The second section analyses the long-term drivers of demand and supply in the housing market. The third section of this submission discusses the tax treatment of housing.

Part 1: Current conditions

Conditions in the dwelling sector have a widespread influence on social and economic outcomes in Australia. Housing itself is regarded as one of the most fundamental social measures, providing shelter and security and supporting people to raise a family and participate in the community. A number of different aspects of the housing market influence the economy. Housing is the largest asset class owned by Australian households, and is therefore a key driver of saving decisions. Changes in dwelling prices have a significant impact on household wealth, which in turn affects household consumption through spending decisions. Dwelling construction has been an important contributor to the overall macroeconomic cycle through construction employment. Finally, loans for housing make up a significant portion of financial sector lending, so developments in the dwelling sector have a significant bearing on the functioning and stability of the financial sector.

Home tenure in Australia

In 2011-12 around 67 per cent of households either owned their home outright or had a mortgage, while 30 per cent were renters (just over 2 per cent had some other form of tenure)¹. Over the long term, census data reveal that the rate of home ownership rose considerably after World War II and has been relatively steady since 1961, fluctuating between 68 per cent and 71 per cent (chart 1). This outcome reflects the combined effect of demographic changes and changes in the pattern of tenure by cohort, which is discussed later in the submission.





Parliamentary Library, Canberra, 11 Feb.

Home ownership rates are relatively uniform across Australia with the exception of the Northern Territory (table 1). South Australia recorded the highest home ownership rate in Australia at 72.3 per cent, with Northern Territory recording the lowest rate at 53.2 per cent.

¹ ABS cat. no. 4130.0, more current data is expected late in 2015.

Table 1: Home ownership rates 2011-12							
NSW	Victoria	QLD	SA	WA	Tas	NT	ACT
65.7	70.7	64.7	72.3	67.0	70.6	53.2	66.6

Source ABS Cat. No. 4130.0

Home ownership rates in Australia are higher than comparable countries like the United States, United Kingdom, and New Zealand and a little below Canada (table 2). Rates of home ownership in some countries, such as Germany, are considerably lower.

Table 2: Home Ownershi	p rates: selected countries
------------------------	-----------------------------

Country	Home ownership		
Country	rates (per cent)		
Australia(a)	67.5		
Canada(b)	67.6		
United Kingdom(c)	64.6		
New Zealand(d)	64.8		
United States(e)	63.7		
France(c)	64.3		
Germany(c)	52.6		
Spain(c)	78.8		

(a) Data from ABS 2011-12 Housing Occupancy and Costs.

- (b) Data from Statistics Canada (2013 Survey of household spending, dwelling characteristics and household equipment).
- (c) Data from Eurostat (EU Statistics on income and living conditions. The home ownership rate quoted is latest available 2013 for United Kingdom, France and Germany, and 2014 for Spain).
- (d) Data from Statistics New Zealand (2013 Population Census).
- (e) Data from US Bureau of the Census (2015 Current Population Survey/Housing Vacancy Survey).

In 2011-12, around 78 per cent of all Australian households lived in a separate house while around 11 per cent of households lived in medium density dwellings and a further 11 per cent lived in high density flats or apartments. Of renters, around 56 per cent of households lived in a separate house. This proportion has risen from around 51 per cent in the 1990s, although higher density dwellings are expected to become a larger part of the overall housing stock in future years.

Construction activity

The dwelling sector is currently experiencing an upswing that began in late 2012 in response to interest rate cuts that began in 2011. The sector is playing an important role in the economy's transition to broader-based growth as the mining investment boom wanes. Dwelling investment accounts for around 5.5 per cent of GDP in Australia. However, it has been highly cyclical in the past and has had significant impacts on GDP growth.

The cyclicality of house prices and dwelling investment was discussed in the Productivity Commission Inquiry into First Home Ownership in 2004. It reflects a high level of responsiveness to changes in monetary policy and the sector's internal dynamics, particularly mismatches created by the time taken for supply to respond to changes in demand. As a result, the dwelling sector has typically been an important transmission channel for monetary policy.

Each of the major dwelling investment cycles in the 1980s and 1990s were preceded by changes in monetary policy. The response from the dwelling sector would begin one to four quarters after the

move between tightening or loosening. The underlying driver of the changes in monetary policy was the overall performance of the economy, particularly the inflation outlook. The broader cycles in the economy have been the subject of a large volume of research including the theory of real business cycles.

The cyclical behaviour of dwelling investment diminished markedly around 2002, and the current upswing is the strongest rise in construction activity since then (chart 2). Between 2002 and 2012 there were two periods of strong increases in dwelling prices with price growth peaking in late 2007 and early 2010 (dwelling prices are discussed below), but the supply response was muted compared with past cycles.





Leading indicators of dwelling construction (building approvals and housing finance) started improving around 2012 (charts 3 and 4). Construction activity started to gain momentum over 2014 and rose by 9.2 per cent over the year to the March quarter 2015 (chart 2).

Leading indicators of activity also suggest that activity will continue to expand in the short term. The number of building approvals for dwellings rose 17.6 per cent through the year to May 2015, implying a large stock of work yet to be completed. Reflecting the pipeline of work pending, the 2015-16 Budget forecasts dwelling investment to grow by 6½ per cent in 2015-16 and 4½ per cent in 2016-17. Dwelling construction is expected to directly contribute 0.3 percentage points to growth in both 2014-15 and 2015-16.



Chart 3: Leading indicators of dwellings investment - total building approvals

Chart 4: Leading indicators of dwellings investment – housing finance for new dwellings



Note: Investor finance for new dwellings only includes finance for the *construction* of dwellings. Investor finance originated for the *purchase* of new dwellings is not identified separately. Source: ABS cat. no. 5609.0

While construction is growing more rapidly in New South Wales than Victoria, Victorian construction is starting from a higher level, so the supply of new dwellings has been higher in that state over the past decade (chart 5).

Chart 5: Dwelling units completed '000/quarter '000/quarter 25 25 **Rest of** Australia 20 20 15 15 10 10 5 5 South Victoria Wales 0 0 Dec-84 Dec-89 Dec-94 Dec-99 Dec-04 Dec-09 Dec-14 Source: ABS cat. no. 8752.0

In the current cycle, a greater proportion of construction activity is in the medium to high density segment compared with earlier upswings. As these types of dwellings have a longer planning and construction timeframe than single dwellings, there is a longer than usual lag between the improvement in the leading indicators and the rise in construction activity.

Data suggest that there is still significant scope to increase the total supply of housing. National rental vacancy rates have been rising slowly since 2007 but remain low at 2.7 percent in the March quarter of 2015, well below the previous peak of 4.7 per cent in 2002 (chart 6).



Chart 6: Capital cities vacancy rates

Despite this, rental yields are low by historical standards. Net rental yields for three bedroom homes have fluctuated between 3.2 per cent and 3.5 per cent since late 2009 and are currently 3.3 per cent. Low rental yields have not been driven by low nominal rents. From 1990 to 2006 rents tended to grow at similar rates to the CPI and have actually been growing a little faster than general prices since then. Low rental yields are a consequence of house price growth, which has outstripped growth in rents for most of the past two decades.

Source: Real Estate Institute of Australia.

From an investment perspective, however, rental yields remain relatively attractive as yields on a wide range of other assets have fallen in recent years. Rental yields are higher than those available on 10-year Commonwealth Government bonds and the interest rate on 3 month term deposits, while the difference between rental yields and the dividend yield of the All Ordinaries share price index has remained broadly constant in recent years (chart 7).



the median price. It does not take capital growth into account. Source: Real Estate Institute of Australia and Bloomberg.

Prices

National dwelling prices rose by 9.8 per cent over the year to June 2015, a little below the peak reached in the middle of 2014 (chart 8).



Chart 8: Dwelling price growth

However, the national data disguise considerable differences in movements in prices across the states (chart 9 and 10). Price growth has been concentrated in Sydney and to a lesser extent, Melbourne. Dwelling prices in Sydney grew 16.2 per cent in the year to June 2015, and by 10.2 per cent in Melbourne.



Source: CoreLogic.

Data provided by CoreLogic on different regions within Sydney and Melbourne indicate that the dwelling price cycle has been quite synchronised, and while there is a degree of dispersion between regions, there are some clear patterns in price growth.

In Sydney, price growth in the year to May 2015 varies between 9.3 per cent in the Eastern Suburbs and 20.7 per cent in Outer South Western Sydney. Of the 14 subdivisions that cover Sydney, price growth is stable or moderating in 10.

Melbourne price growth in the year to May 2015 varies between -0.2 per cent in Melton-Wyndham and 17.7 per cent in Eastern Middle Melbourne, but 11 of the 16 subdivisions are experiencing growth between 3.3 per cent and 6.8 per cent. The majority of subdivisions in Melbourne have had steady price growth at current levels for the past year.

Distribution of Home Ownership

Data on the rates of home ownership by different age groupings show a consistent decline in ownership rates over the past two decades (chart 11). The home ownership rate among households headed by a person aged 25 to 34 has fallen from 52.2 per cent in 1995-96 to 42.0 per cent in 2011-12, while for households led by a person aged 35 to 44, the rate has fallen from 72.9 per cent to 62.1 per cent over the same period. Ownership rates have been steadier for older age cohorts. This outcome is reconciled with the overall rate of home ownership in Australia, which has remained comparatively steady, because the proportion of Australians in the older age groups that have high rates of home ownership has increased at the same time.



Chart 11: Rate of home ownership by age of reference person in household

Note: For 2007-08 and 2011-12 the 65 and over shares are a weighted average of the 65-74 and 75 and over age brackets. Source: ABS cat. no. 4130.0

The proportion of loans being approved to first home buyers is currently around 15 per cent (chart 12).² This is slightly below the average over the past five years of 17.0 per cent, and below the average of 21.6 per cent in the second half of the 1990s.



Chart 12: Loans to first home buyers

This fall reflects both an increase in the number of loans approved to borrowers that have previously purchased a home, as well as a fall in the number of first home buyers as a proportion of the population - the number of Australians buying a home for the first time has averaged around 4 per 1,000 people over the past five years, compared with around 5 per 1,000 people in the second

² These data have been subject to recent upwards revisions as it was ascertained that the quality of the data was affected by changes to the first home owner grants arrangements. The ABS has advised that further work is being undertaken to improve confidence in the quality of these statistics.

half of the 1990s. Policy changes boosted the number of first home buyers shortly after 2000 and again around 2009 when first home buyer grants were increased temporarily.

The type of household buying a first home has moved towards one person households. The proportion of first home buyers who were the only member of their household was 21.5 per cent in 2011-12 compared with 1995-96 when it was 17.4 per cent.

Since 1995-96, the type of dwelling being bought by first home buyers has moved slightly towards flats and away from separate houses, but flats and semi-detached houses reached a high in popularity in 2005-06 and 2007-08 and the more recent trend has been away from higher density.

Looking at the income distribution of first home buyers, there are few significant changes. Since 1995-96, the proportion of buyers from the highest and lowest income quintiles has fallen slightly, raising the proportion from the middle three quintiles.

The two key factors influencing the purchase of a first home are savings for a deposit and having sufficient income to service a mortgage.

The ability to save for a deposit is a function of the ratio of dwelling prices to household incomes. The ratio of median prices to incomes rose from around 2.9 at the end of 2000 to a peak of 4.3 in 2006 driven by the significant rise in dwelling prices seen from 2001 to 2003 (chart 13).



Chart 13: Ratio – Median dwelling price to household disposable income

Source: CoreLogic, ABS cat.no 5206.0, Housing Industry Association and Treasury.

The drivers of the increase in dwelling prices relative to income over this period were examined by the Productivity Commission Inquiry into First Home Ownership in 2004. They include the fall in inflation and nominal interest rates, and increased access to finance, seen over the 1990s. Once the household sector had confidence that the inflation outlook had changed permanently, the resulting increase in mortgage affordability associated with lower nominal interest rates, combined with innovations in home lending that made it easier for households to borrow, generated an increase in demand for housing and an increase in dwelling prices. While the ratio of dwelling prices to income has been rising since early 2012, it remains around the average level of the past decade.

The affordability of mortgages is normally measured by comparing household income with the mortgage repayments on a median priced dwelling (chart 14). Indexes of affordability can be thought of as being driven by the ratio of dwelling prices to income and interest rates. So while the ratio of prices to income is currently high, low interest rates mean that mortgage affordability is a little better than the average level experienced since 2000.



Chart 14: Home loan affordability

Note: The index reflects the ratio of median family income to average loan repayments. An increasing value reflects improving affordability of housing loans.

Source: Real Estate Institute of Australia time series and affordability reports before December 1996.

Investor finance

Since 2000, investors have generally accounted for between 30 and 40 per cent of all housing finance approvals. However, during periods of strong price growth, investors tend to represent a larger proportion of financing, particularly in New South Wales (chart 15). Unfortunately, investor finance data are not available net of refinancing activity, so any difference between investor and owner-occupier refinancing behaviour will affect these measures.



Chart 15: Investor share of finance for new and existing dwellings (includes refinancing)

Source: ABS cat. no. 5609.0 and 5671.0.

The investor share of total finance rose over the 1990s, from between 10 and 20 per cent in the mid-1980s. In contrast, the investor share of finance for new dwellings has varied over time, but around a broadly stable level, implying investors are making a similar contribution to the new housing stock compared with 20 years ago (chart 16).



Chart 16: Investor share of finance for new dwellings

Note: Shares are rolling 3 month moving average. Investor finance for new dwellings only includes finance for the *construction* of dwellings. Investor finance originated for the *purchase* of new dwellings is not identified separately. Source: ABS cat. no. 5609.0 and 5671.0.

Part 2: Long-term macroeconomic drivers

Long-term demand for dwellings

The long-term demand for dwellings is driven by population growth, the migration of people between regions and the rate of household formation, which is the rate at which people move out of home and form new households. Changes in the housing market and financial conditions can also affect the rate of household formation and interstate migration.

Population growth comprises net overseas migration and natural increase. Of these two components, natural increase is more stable, having contributed between 0.6 per cent and 0.7 per cent to annual population growth over the past 20 years (chart 17).



Chart 17: Population growth

Net overseas migration is much more variable than natural increase. Over the past 20 years annual net overseas migration has contributed between 0.3 per cent and 1.5 per cent to annual population growth. Net overseas migration grew strongly between 2006 and 2008 with the contribution of net arrivals peaking at 1.5 per cent in 2008. Net migration contributed 0.8 per cent to annual population growth in the year to the December quarter 2014.

Overall population growth has varied in line with changes in net overseas migration. Annual population growth rose above 1.3 per cent for the first time since 1991 in 2006 and has remained above this level. In the year to the December quarter 2014 Australia's population grew 1.4 per cent.

While population at the national level is not regarded as being responsive to developments in the dwellings sector, the price and availability of housing could influence household formation and relocation decisions.

Periods where dwelling price growth diverged between states appears to have driven some previous episodes of interstate migration. For example net migration out of New South Wales increased in the late 1980s when Sydney house price growth outstripped the rest of the country, and again shortly after the new millennium.

Some trends in interstate migration that persisted for a number of decades have changed in the past 10 to 20 years, and would consequently be affecting the demand for dwellings.

During the 1980s and 1990s migration flowed out of New South Wales and Victoria and into Queensland. The outflow from Victoria reversed in the mid-1990s, while the outflow from New South Wales intensified around 2001. Since then Victoria has maintained a small net inflow while the outflow from New South Wales has generally declined. As a result, net interstate migration to Queensland has fallen from around 37,000 in 2002 to 6,000 in the most recent year (up to the December quarter 2014).

Net interstate migration to South Australia has been negative for most of the past 30 years. Western Australia has generally experienced inward interstate migration, although this flow fell sharply over the past two years and has been negative over the 3 quarters to December 2014, reflecting developments in the resources sector. Overall, the rate of interstate migration in Australia has typically had a smaller influence on state populations than either natural increase or overseas migration.

Data on migration between city and regional areas are more difficult to analyse, but indicate that over the past two decades there has been a drift towards capital cities. The share of the population living in capital cities increased from 64.5 per cent in 1996 to 66.5 per cent in 2014³.

Household formation is the result of individual decisions to move out of one household into another, possibly new, household. These decisions are influenced by a wide range of factors including general economic conditions, labour market conditions and social trends, but would be directly affected by changes in the dwellings market and financial conditions. For example, the demand for dwellings was supported by financial market deregulation over the 1980s that improved access to credit. Furthermore, the fall in the rate of general inflation seen over the 1990s and the corresponding fall in nominal interest rates had a significant impact on the ability of households to service mortgages.

Prior to 2001 the average number of residents per household had been falling steadily (chart 18). This indicated that households had a tendency to form at a greater rate than population growth. Since 2001 the average size of households has remained steady at 2.6 people indicating a slowdown in the rate of household formation.

³ Source: <u>http://stat.abs.gov.au/</u>





Source: ABS Census data.

The National Housing Supply Council (NHSC) commissioned a number of studies into this change in household formation. The most recent estimate from the NHSC⁴ was released in February 2014 and was based on data from the 2011 census. The Council identified a number of factors that helped explain the changes that were not related to conditions in the housing market. These included having a higher share of overseas students, a fall in divorce rates and improvements in mortality that left fewer single partners. Nevertheless, the Council concluded that the availability and cost of housing was likely to be a factor.

Long-term supply of dwellings

Before 2002 the supply of dwellings in Australia was highly cyclical, but since then the annual number of dwellings completed in Australia has been relatively stable. After 2002, annual completions fluctuated between 144,000 and 166,000 dwellings until 2014 when activity started to pick up in line with the current upswing (chart 19). Around 174,000 dwellings were completed in 2014 and completions are expected to rise further, to record levels, in 2015.

The residential construction industry has been affected by the resources construction cycle. During the boom in resources construction, there was considerable competition for labour and many firms were able to able to expand into mining related activity, including the construction of dwellings and other structures in mining areas. Measured by the number of completions, capacity in the dwelling sector over the resources cycle never surpassed the level achieved in the mid-1990s.

⁴ National Housing Supply Council (2014), State of Supply Report: Changes in How We Live.



Note: Annual dwelling completions is a rolling four quarter sum of total completions using original data. Source: ABS cat. no. 8752.0

The long-term supply of dwellings in Australia is determined by the availability of land and redevelopment opportunities and the underlying capacity of the construction sector.

Data on the availability of land suggest that residential land releases have been declining over the past 15 years (chart 20). This is consistent with a greater focus on the redevelopment of land closer to city centres, but also highlights the lack of growth centres outside of capital cities, with land release declining faster in regional areas.



Chart 20: Quarterly new residential land sales

Source: Housing Industry Association.

There is no discrete data series available on redevelopment opportunities over time, however data on residential building, adjusted for differences in the amount of new land released, suggest that over the past four years Victorian redevelopment approvals have outstripped approvals in New South Wales (chart 21).



Another long-term influence on the supply of housing is the type of dwelling that is being built. Between the 2006 census and the 2011 census the proportion of dwellings with 4 or more bedrooms rose from 28.1 per cent to 30.3 per cent, despite the proportion of dwellings that are separate houses having fallen from 76.6 to 75.6 per cent over the same period. More timely building approvals data confirm the trend towards higher density dwellings has accelerated since 2011. High and medium density dwellings accounted for around 47 per cent of total dwelling approvals over the year to May 2015, up from 38 per cent in 2011. These trends suggest that there is pressure to make more efficient use of land, by building larger structures on each block.

The long term balance

Overall demand for housing has increased in line with population, given little change in the rate of household formation.

In contrast, since the late 1990s, dwelling completions have not increased in line with population growth. Annual dwelling completions have remained broadly constant over the past 15 years, and the supply of new residential land has been decreasing.

The weak response of housing supply appears to have been an important driver of dwelling price increases over the past two decades. The state and territory governments have primary responsibility for housing supply. Improving housing supply is primarily about removing regulatory impediments imposed by state and local governments' planning, land use and housing infrastructure policies.

Reform addressing states and territories' planning and land supply policies is not a new area of work. The Productivity Commission Inquiry into First Home Ownership in 2004 noted the need for state and territory governments to have appropriate land release strategies in place and to improve the efficiency and effectiveness of planning and development policies.

Reform in this area has also been attempted previously. In July 2012, the Council of Australian Governments committed to the recommendations of the Housing Supply and Affordability Report

(HSAR), which included improving planning, development and rezoning processes, and the release of land.

On 30 March 2015 the Treasurer announced the inclusion of housing supply as an agenda item at the April meeting of state, territory and Commonwealth treasurers, the Council on Federal Financial Relations (CFFR). As a result of these discussions the Housing Supply Working Group, led by the Victorian Treasurer, was formed. The Working Group is expected to report to Treasurers at the next CFFR meeting and presents an opportunity to provide an update on housing supply practices and reforms. This information could be used to inform a roadmap to assist with improving the supply of housing and, in turn, housing affordability.

The current upswing in dwelling construction will improve the short term balance between demand and supply, while reform to support the supply side of the sector would contribute to an improvement over the longer term.

Part 3: Taxation

Taxation policies are designed to raise revenue to fund government expenditure, guided by the principles of efficiency, equity and simplicity.

Many different taxes affect housing, none of which can be considered in isolation to each other or the rest of the tax system. The Government is undertaking a tax white paper process which is considering a range of Commonwealth, state and local taxes of relevance to housing.

The first step in this process was the release by the Treasurer of a tax discussion paper *Re:think* on 30 March 2015, followed by a submissions process. The next step will be the release of an options paper by the Treasurer in the second half of 2015. This will undergo further community consultation on possible reforms to improve the tax system. The Government will then put forward final policies for consideration by the Australian people before the election. The tax discussion paper, and supplementary material to promote public debate, including on the tax treatment of housing, is available at: www.bettertax.gov.au.

Taxation of the family home

The family home has an important place in Australian culture. Home ownership rates in Australia are higher than in comparable countries, as discussed on page 3 of this submission, and owner-occupied housing receives favourable tax treatment when compared with some other savings vehicles.

Owner-occupied housing generates two main sources of return to homeowners. Firstly, there is the value of the living in the house that people get from owning the home — owning a home means that people do not have to pay rent. The value of living in your own home is known as 'imputed rent'. Secondly, the property can increase in value and result in a capital gain for the owner.

The family home is purchased out of after-tax income. That is, a person must pay tax on their income prior to purchasing their home. Once the home has been purchased however, neither the imputed rent nor any capital gain is subject to tax. No deductions are allowed in relation to the family home. This tax treatment differs from that of other savings vehicles such as shares and investment properties, which attract income tax (on both earnings and capital gains) and allow deductions for costs incurred in producing those returns. The family home is also exempt from the assets test for the Age Pension.

Further information on the tax treatment of owner-occupied housing is provided on page 66 of the tax discussion paper.

Taxation of investment properties

A property investment will typically return rental income and potentially a capital gain. Taxation of investment properties is consistent with other assets that produce a mix of current income and future capital gain.

Rental income is taxed in the income year it is earned. Deductions apply to investment properties in the same way as they apply to other sources of income including income from work (wages) and shares (dividends and capital gains). Common deductions for investment properties include maintenance costs, depreciation, property agent fees, cleaning costs and interest expenses on any borrowings used to purchase the property.

When the net rental income (rental income minus other expenses) is less than the interest on the borrowed funds, a property is said to be 'negatively geared'. In those circumstances, the taxpayer is able to deduct this 'loss' against their other income, such as salary and wages and reduce their taxable income. Marginal tax rates are then applied to this amount. This concept of net income being taxable is akin to profit (total income less total expenses) being taxable for a business. This is not limited to investment properties – taxpayers may also own other assets, such as shares, which are negatively geared. As outlined on page 66 of the tax discussion paper tax deductibility of interest expenses provides consistent treatment between debt and equity financing to ensure the tax system does not distort investment financing choices.

Income from the increase in the value of the property (the capital gain) is generally taxed in the year the investment property is sold. Unlike other forms of income (which are generally taxed on the full nominal value), capital gains are taxed concessionally, with only 50 per cent of the net capital gain subject to income tax on realisation if the asset is held for longer than 12 months. Individuals also receive a benefit from the time delay in paying tax on capital gains. The capital gain on a property accrues over many years, but income tax is only payable when the gain is realised.

Further information on the tax treatment of investment properties is provided on page 63 of the tax discussion paper.

Other housing taxes and charges

Stamp duties on conveyances and land tax

Stamp duties on conveyances, levied at current levels by state and territory governments, are one of the most distortive taxes in Australia's economy. Treasury estimates that every extra dollar raised in stamp duties results in a welfare loss of more than 70 cents.⁵ State governments rely heavily on stamp duties which provide around 23 per cent of states' own source tax revenue, making it the largest source of tax revenue for states after payroll tax.

Stamp duties have a direct effect on house prices. They drive a tax wedge between the net price buyers pay and the price sellers receive. This wedge increases the net price for buyers, and arguably prevents mutually beneficial transactions taking place. Accordingly, reducing stamp duties would improve land use, by facilitating households and business to move to land which best suits their circumstances.

⁵ Treasury working paper, 2015, Understanding the economy-wide efficiency and incidence of major Australian taxes.

Land tax and municipal rates

Land tax levied by state governments and municipal rates levied by local governments are the two recurrent taxes levied specifically on properties in Australia. The revenue Australian governments received from these property taxes as a percentage of total taxation is higher than the OECD average, but around half the proportion raised in the United States, United Kingdom and Canada (chart 20).

While Australian municipal rates are an efficient form of taxation (rates are applied across all residential land with few exemptions), the land tax base is less uniform. State land tax regimes commonly feature a tax free threshold, progressive rate scales and exempt owner-occupied housing and primary production land. Accordingly, a large proportion of the potential land tax base is exempted from state land taxes.

Further information on these taxes is provided in Chapter 8 of the tax discussion paper.

Chart 20: Recurrent taxes on immovable property as a percentage of total taxation, OECD countries, 2012



Note: Recurrent taxes on immovable property cover taxes levied regularly in respect of the use or ownership of immovable property.

Source: OECD 2014, Revenue Statistics 2014, OECD Publications, Paris.