



30 April 2008

Mr Stephen Palethorpe  
The Secretary  
Senate Standing Finance and Public Administration  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

By email: [statefinance.sen@aph.gov.au](mailto:statefinance.sen@aph.gov.au)

Dear Mr Palethorpe

### **Senate Select Committee Inquiry: State Government Financial Management**

Thank you for the opportunity to provide a submission to the inquiry into Federal and State Government fiscal relations.

The Property Council of Australia is the peak body representing the interests of owners and investors in Australia's \$360bn property investment sector.

The Property Council strongly supports improved federal-state relations and property tax reform that will relieve unwarranted pressure on an overburdened property sector.

Our attached chart book submission outlines how Government financial management impacts the industry. Specifically:

1. there is a critical **over-reliance on property taxes** which has increased since the introduction of GST;
2. commercial conveyancing duty is one of the most **inefficient state taxes**;
3. high taxes are **jeopardising housing affordability**;
4. GST growth can & should be used to **abolish inefficient property taxes**;
5. Australian Governments should commit to **a new round of business tax reform** in consultation with industry, underpinned by a new inter-governmental agreement.
6. Reforming state property taxes to end over reliance on property revenue is a crucial step toward improving the economic health of the nation.

We are keen to discuss this matter with you.

Yours faithfully,

**Peter Verwer**  
**Chief Executive**  
**Property Council of Australia**  
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**The Voice of Leadership**

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PROPERTY COUNCIL OF AUSTRALIA

## The Property Tax Squeeze: The Pips are Screaming

For the:

The Senate Select Committee on State Government Financial Management

**April 2008**

The **Voice** of Leadership

Property Council of Australia – Level 1, 11 Barrack Street, Sydney  
Phone: 02 9033 1900 Fax: 02 9033 1966 ABN 13 008 474 422



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# Executive Summary

This chart book illustrates the impact of state and territory taxes on the property sector and broader community.

It shows that Australia's indirect property tax system is one of the world's worst – our heavy (and increasing) reliance on these inefficient imposts require urgent reform.

The main findings are:

- The States and Territories rely too heavily on property taxes for revenue.
- Australia's dependence on property tax revenue is out of line with other OECD countries.
- Australia's reliance on property taxes as a proportion of all state and territory taxation has increased fivefold since 1980;
- Since the introduction of the GST, the states and territories have collected \$11.6 billion more in property taxes than they originally budgeted. Of 56 budgets handed down since GST was introduced the states have underestimated the property tax haul on 51 occasions – 91% of the time. Instead of reforming property taxes as GST revenue increases, they became more reliant on them;
- Since the GST was introduced, property tax revenues from land tax and conveyancing duty have more than doubled and are growing at twice the average rate of the other state taxes combined.
  - land tax revenue has increased 107% and conveyancing stamp duty has increased 144%.
  - local government property rates have increased 49%.
  - development levies also increased sharply.
- 86% of small business want the GST used to phase out inefficient taxes – in line with the original GST promise;
- Stamp duty on commercial conveyances, land tax and developer levies are economically inefficient and unfair taxes that cry out for reform. Stamp duty on commercial property conveyances is the least efficient indirect tax.
- High taxes are a major cause of Australia's chronic housing affordability crisis – up to 34% of dwelling costs comprise property taxes and compliance costs.
- Taxes on new homes are now greater than land costs across the country.
- The tax component of a new home is bigger than the land cost.

# Recommendations

# Three Point Plan

## Industry Consultation

1. Australian governments consider the forthcoming Business Coalition for Tax Reform (BCTR) model for comprehensive business tax reform.

## Government Consultation and Agreement

2. The Council of Australian Governments (COAG):
  - a) set a timetable to eliminate stamp duty on commercial conveyances, based on agreed GST windfall triggers;
  - b) commit to a root and branch modernisation of the business tax system including the elimination of indirect property taxes.
  - c) commit to a new system for dividing up the GST revenue between the States and Territories.
  - d) set a five year target to reduce Australian government reliance on indirect taxes to OECD levels.
  - e) commit all states and territories to undertake five yearly reviews of the indirect tax systems with the objective of reducing their reliance on high dead weight taxes and reducing compliance costs.
3. The Australian Governments ratify a new Inter-governmental Agreement to give effect to COAG's tax reform program.

# The Property Tax Burden

# State and Territory Reliance on Property Taxes

More than nine million Australians have a direct stake in commercial property through their superannuation, life insurance or managed funds. That is one in every two Australians or two thirds of the nations adults.

The property industry helps underpin the retirement savings and economic prosperity of Australia.

Higher taxes reduce retirement savings and increase the cost of doing business.

The States and Territories rely too heavily on property taxes for revenue.

2007/2008 State budget estimates indicate property taxes\* make up approximately **37%** of the tax revenue of the states and territories.

\*Land Tax, Stamp Duty on Conveyancing, mortgages, leases, marketable securities, vendor duty, parking levys, metro improvement levies, fire/emergency levies, financial accommodation levies.

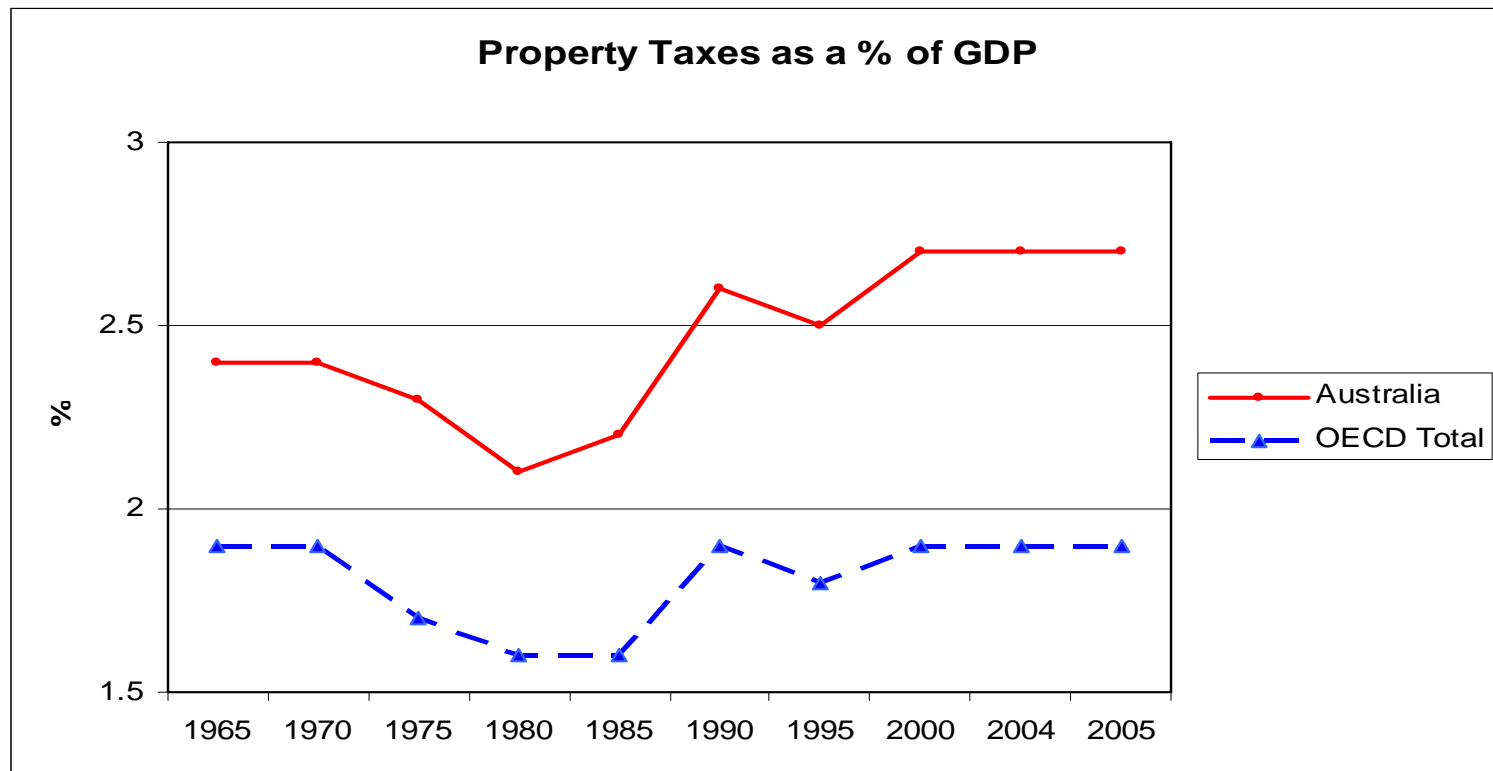


# State and Territory Property Taxes as a Percentage of GDP

Australia's dependence on property tax revenue is out of kilter with other OECD countries.

This graph depicts property taxes as a percentage of GDP.

It shows that Australia relies far more on these inefficient taxes than other OECD countries.

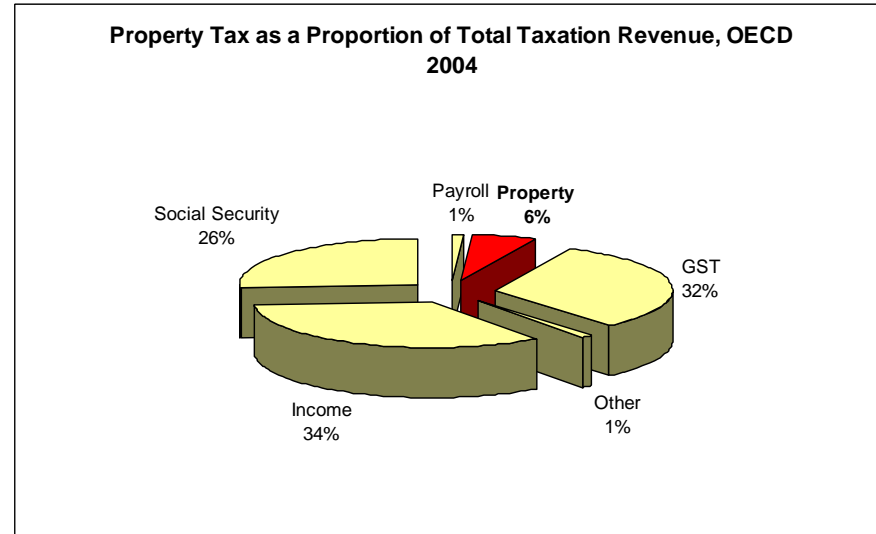
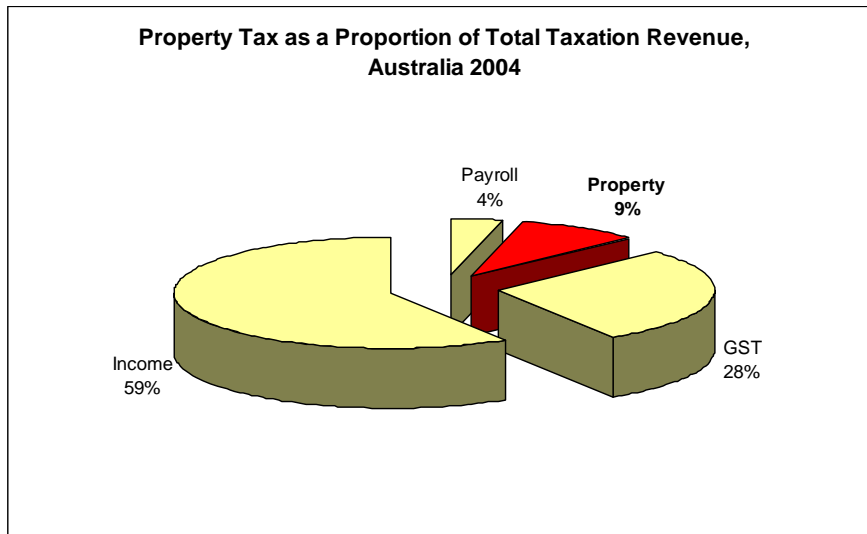


Source: OECD Revenue Statistics: 1965-2006 (2007)\*

\*figures up to the end of 2005

# Property Taxes as a Percentage of Total Taxation

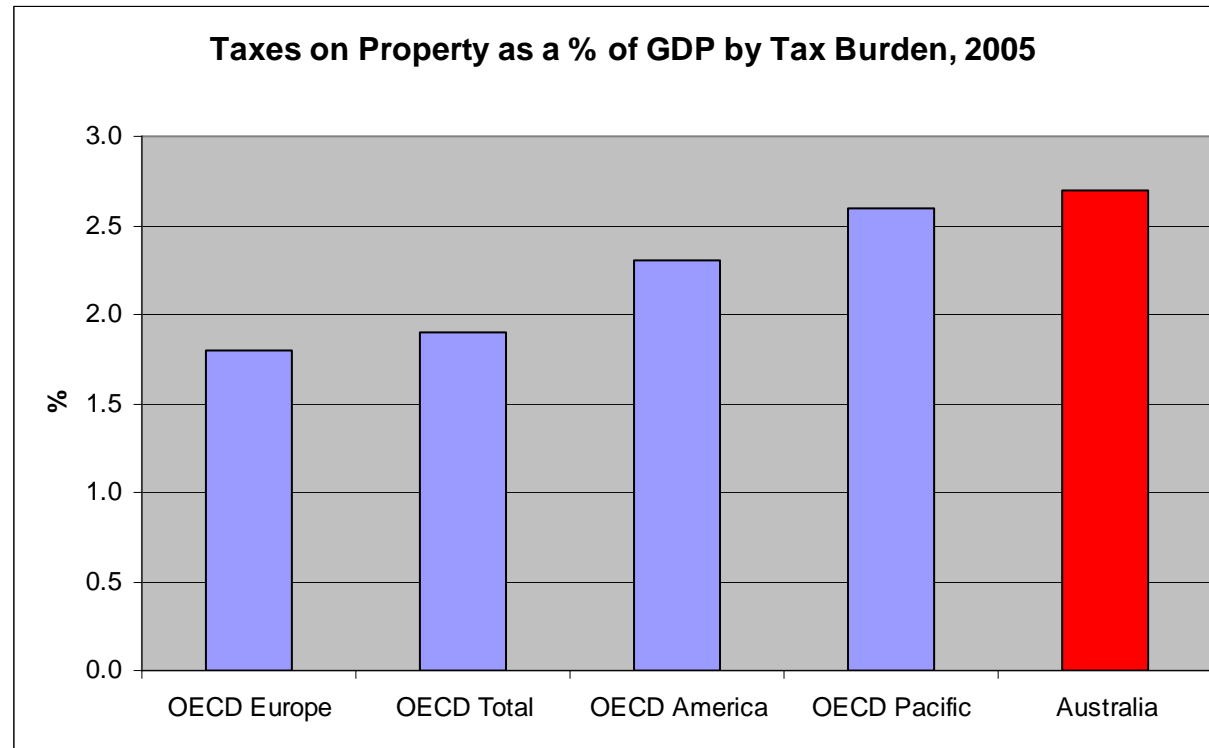
Comparing the average share of property taxes to total taxation, Australia is more reliant on property taxes than other OECD nations.



Source: OECD Revenue Statistics, 2007.

# Property tax burden

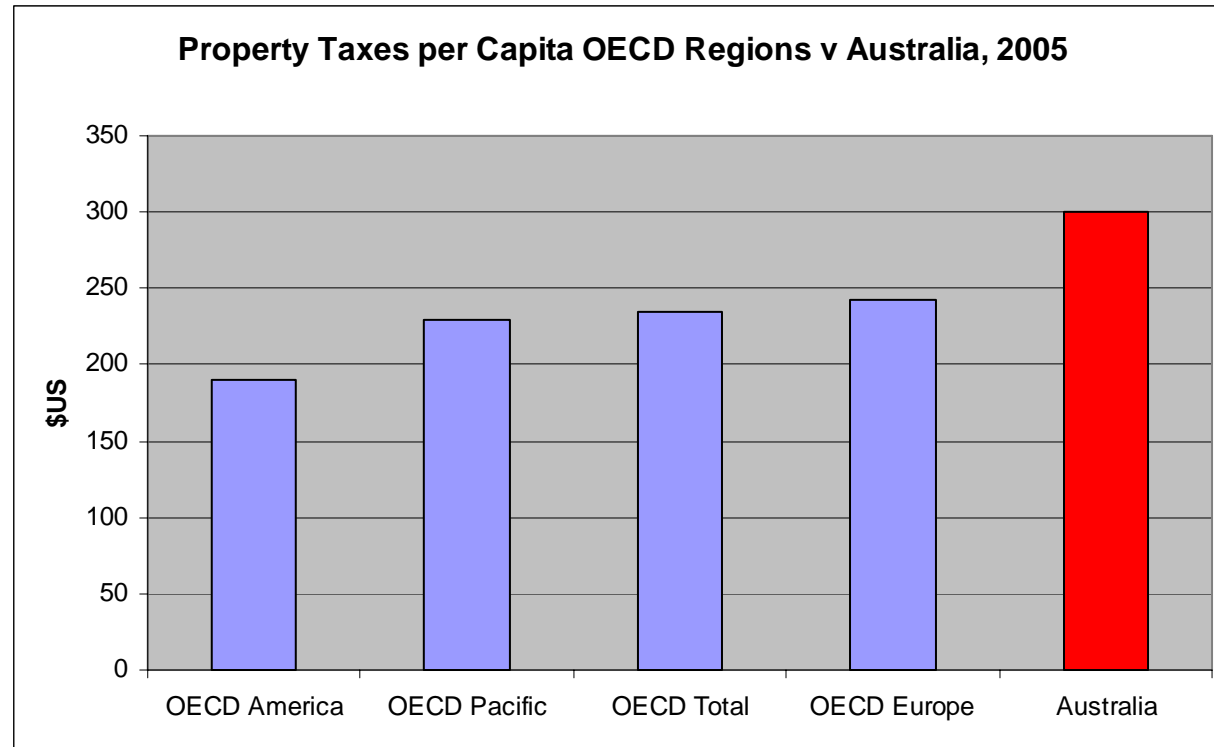
Australia's reliance on property taxes is the highest of all the OECD regions.



**Source:** OECD *Revenue Statistics*, 2007\*  
\*figures up to the end of 2005

# Property Taxes as a Percentage of Total Taxation

Australians pay more property taxes per capita than our OECD competitors. The overwhelming majority of these property taxes are inefficient indirect taxes.

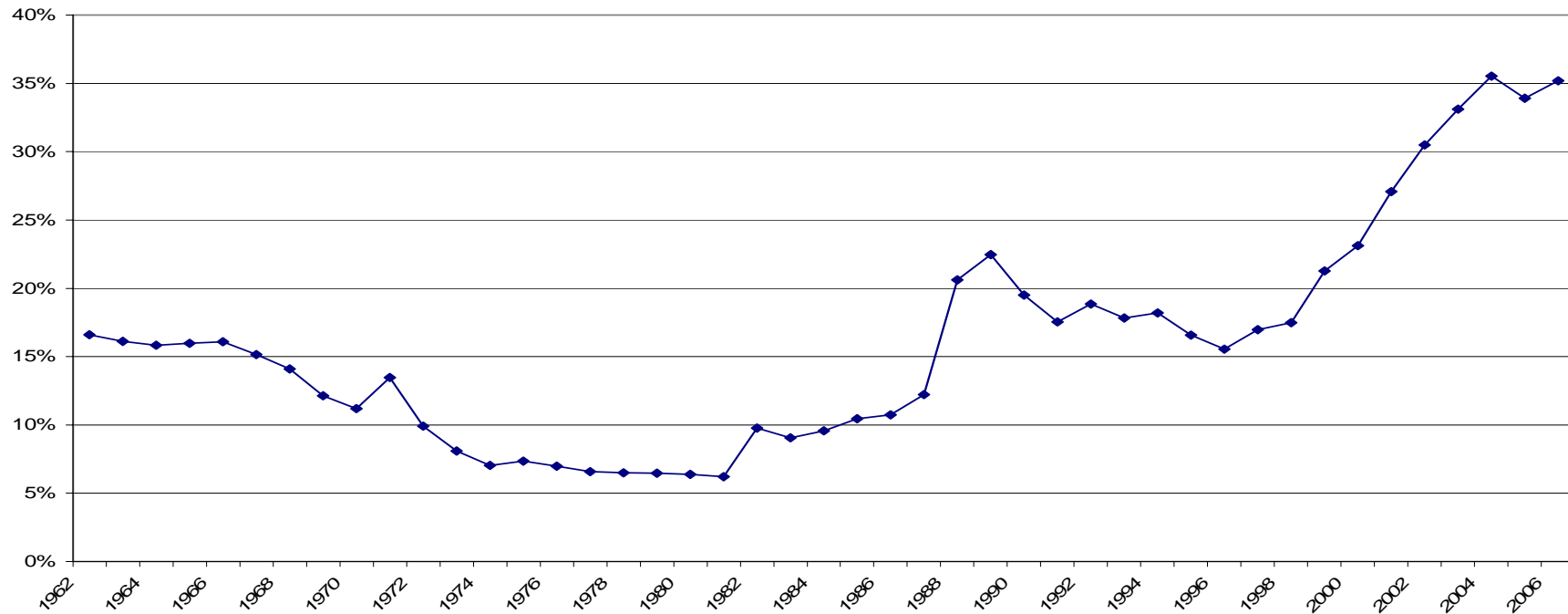


Source: OECD *Revenue Statistics* (2007)\*  
\*figures up to the end of 2005

# Long Term Growth in Australian Property Taxes

State and territory reliance on property taxes\* has increased **fivefold** during the past quarter century.

**State Property Taxes\* as a % of Total State Taxation**



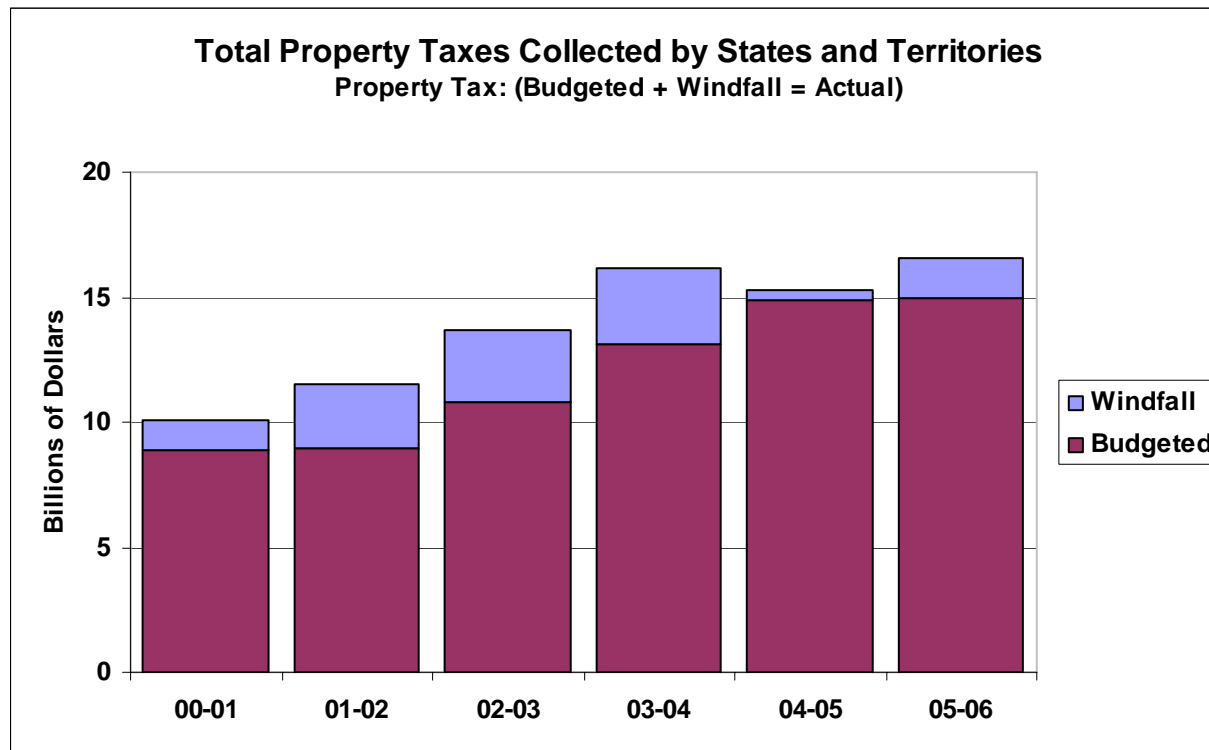
\*Land Tax, Stamp Duty on Conveyancing, marketable securities, metro improvement levies, fire/emergency levies, taxes on immovable property.

**Source:** ABS, Customised Research to the end of 2006

# Property Taxes post GST

Despite the opportunity to reduce property-based taxes following the introduction of the GST, the ever-growing GST windfall has not stopped the states and territories increasing their reliance on property taxes.

Since 2000, the states and territories have collected **\$11.6 billion dollars of property taxes** more than the **\$71.7 billion** they budgeted.

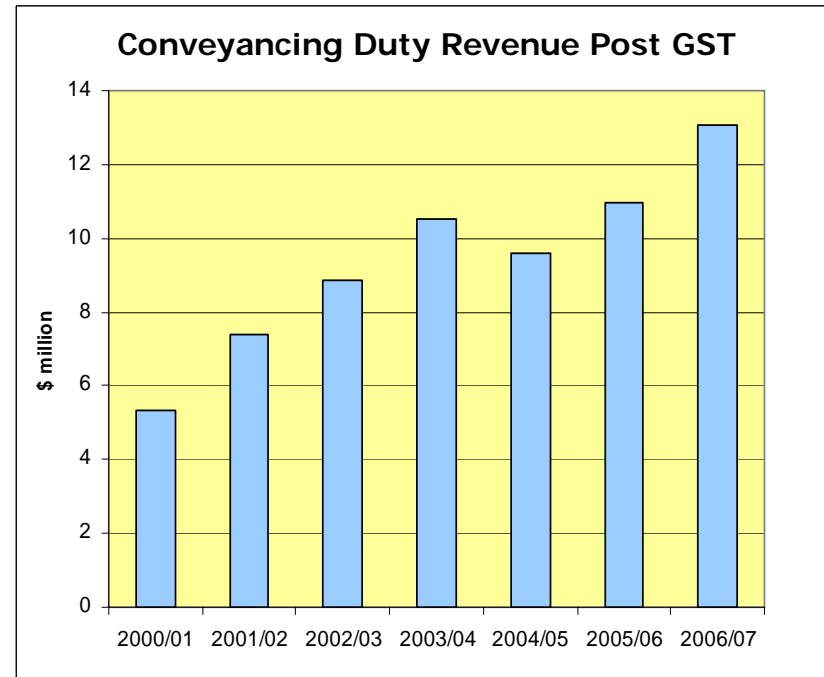
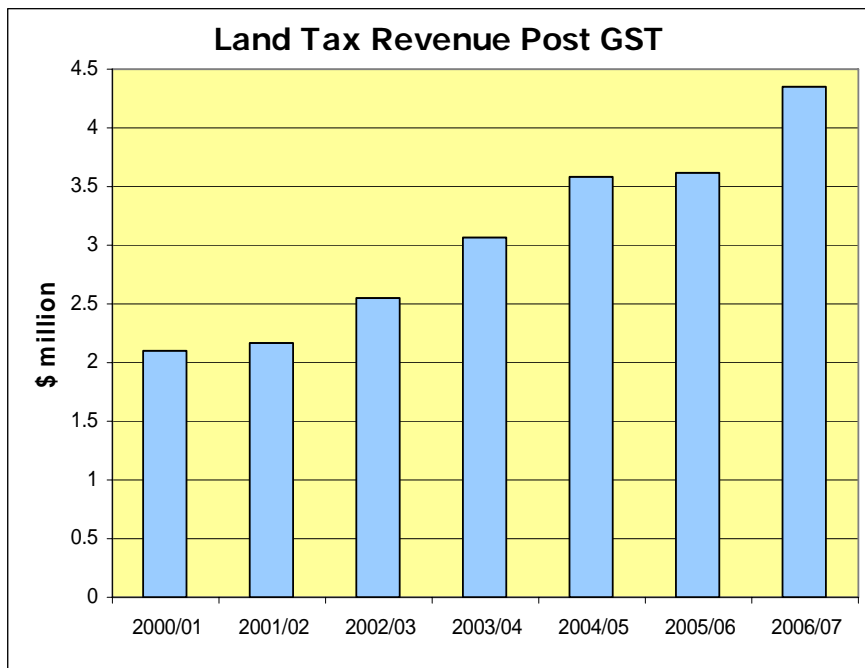


Source: State and Territory Budget Papers

# Property Taxes post GST

Since the introduction of the GST, property tax revenues from land tax and conveyancing duty have more than doubled and are growing at twice the average rate of other state taxes combined.

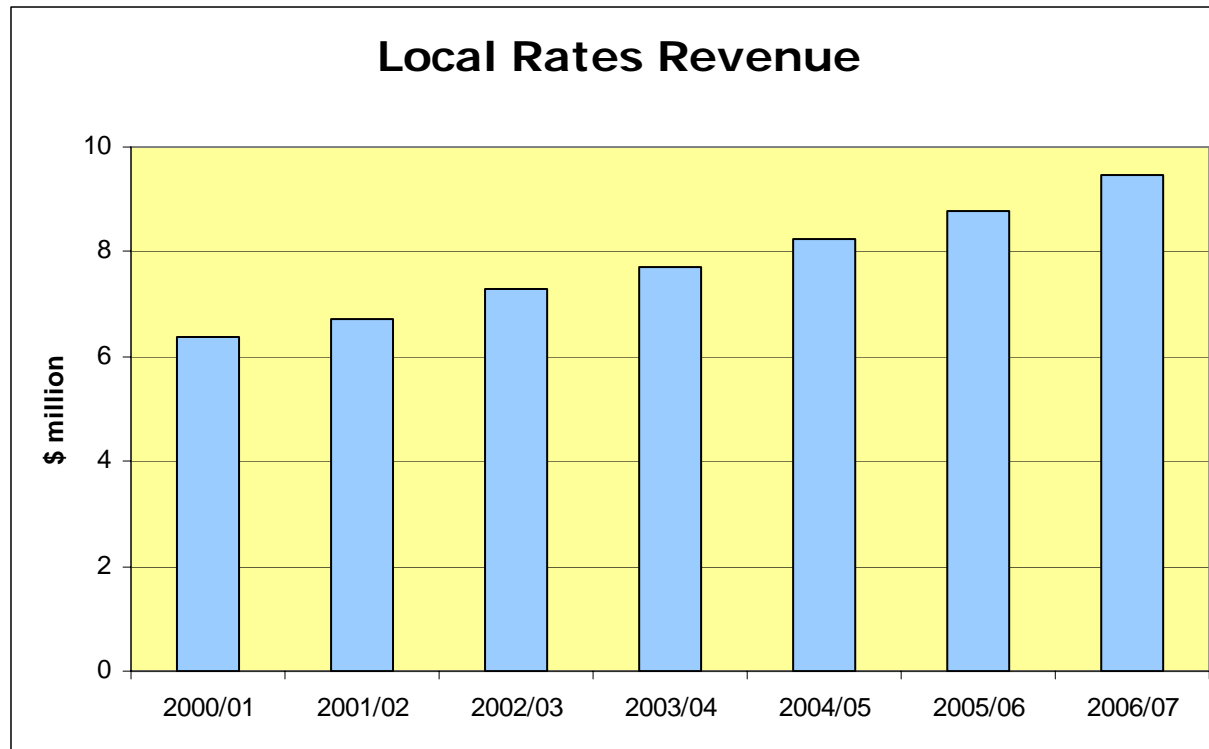
Since 2000, land tax revenue has increased **107%** and conveyancing stamp duty revenue has increased **144%**.



Source Data: ABS Taxation Revenue 2006-07

# Local Government Revenue

Local government revenues from property rates have increased **49%** since 2000.



Source Data: ABS *Taxation Revenue 2006-07*

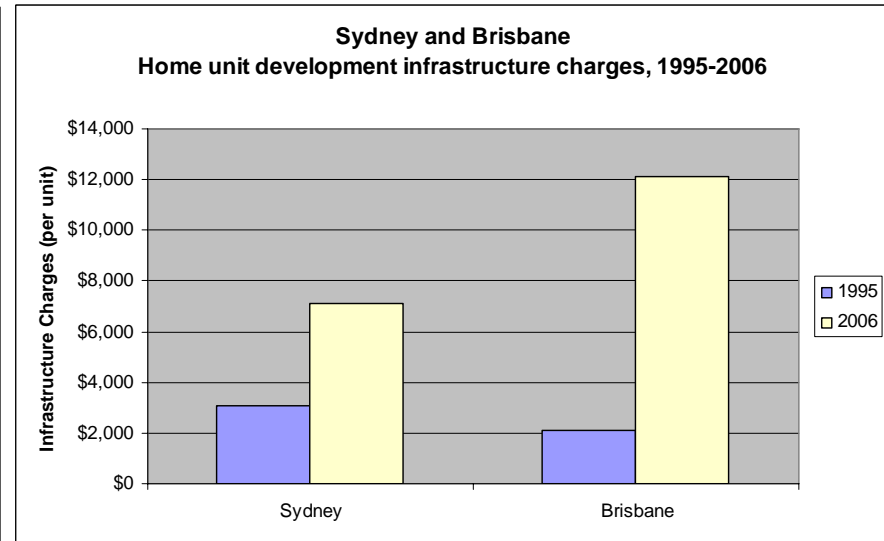
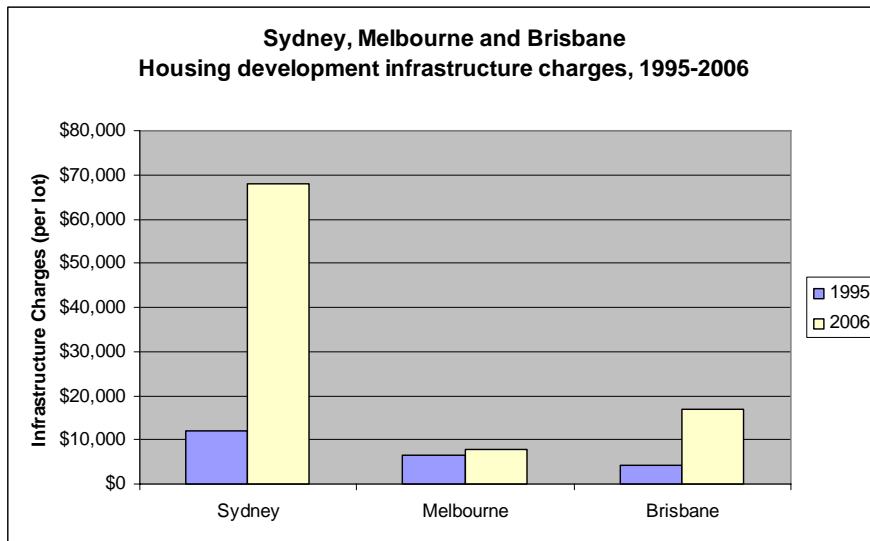


# Property Taxes post GST

In the past 11 years, state and local governments in New South Wales, Victoria and Queensland significantly increased their reliance on upfront development levies.

For example, infrastructure charges for a typical new Sydney house rose from **\$12,000** (in 1995) to **\$68,000** (in 2006).

Similarly, infrastructure charges for a typical new Brisbane unit rose from **\$2,000** (in 1995) to **\$13,000** (in 2006).



Source: Urbis JHD

# Australian SMEs Want the GST Deal Honoured

A survey of 1000 SMEs across the country shows that inefficient indirect taxes are hurting the economy. SMEs want action.

The GST deal was designed to reform business taxes, which would improve our international competitiveness. There is unfinished business to be completed.

Support for honouring the IGA between the Australian government and states and territories to phase-out all nine business taxes (as listed in the IGA).	<b>86%</b>
Preference for a two versus six year phase out of indirect taxes.	<b>79%</b>

**Source:** Eureka Research *Small business decision-maker survey findings* (2005)

# The State GST Revenues

# The State GST Revenues

The GST deal with the states and territories in 2000 paved the way for the abolition of nine state-based taxes however:

- i. the timetable for complete abolition of eight of these taxes stretches into 2011; and
- ii. no state or territory has timetabled the abolition of commercial conveyancing duty.

Governments should agree on a timetable for abolishing state commercial conveyancing duty.

# The State GST Revenues

The States now receive more GST revenue than originally forecast when GST was introduced. The extra GST revenue is increasing each year and now almost equals the cost of abolishing commercial conveyancing duty.

This year, property transfer duty is estimated to be **\$12.2 billion** including an estimated **\$3.66 billion<sup>1</sup>** in commercial conveyancing duty.

The states are expected to receive **\$3.2 billion** more GST than the federally guaranteed minimum amount<sup>2</sup> of **\$38,642 billion**. This windfall is expected to increase to **\$4.2 billion** next year.

**Forecast and Actual Growth in GST revenue growth since 2000-01 (\$millions)**

GST Year	GST NSW \$	GST VIC \$	GST QLD \$	GST WA \$	GST SA \$	GST TAS \$	GST ACT \$	GST NT \$	Total GST \$	GMA <sup>2</sup> (totals) \$	Amounts to states over GMA \$
2000-01	7,258	5,099	4,658	2,375	2,279	988	473	1,226	24,355	27,138	0
2001-02	8,132	5,593	5,019	2,518	2,477	1,060	544	1,290	26,632	30,709	0
2002-03	9,080	6,365	5,888	2,910	2,859	1,247	616	1,515	30,479	31,380	0
2003-04	9,667	6,961	6,553	3,158	3,146	1,394	658	1,681	33,219	32,172	1,047
2004-05	9,884	7,346	7,329	3,624	3,293	1,435	680	1,730	35,323	33,354	1,969
2005-06	10,362	7,833	7,689	3,804	3,442	1,496	723	1,834	37,182	35,654	1,528
2006-07	11,034	8,573	8,049	3,978	3,591	1,573	768	1,985	39,552	37,440	2,112
2007-08*	11,926	9,147	8,384	3,945	3,855	1,646	823	2,124	41,850	38,642	3,208
2008-09*	12,911	9,849	8,629	3,898	4,092	1,710	862	2,249	44,200	40,019	4,181
2009-10*	13,969	10,393	8,847	3,850	4,324	1,768	906	2,392	46,450	41,931	4,519
2010-11*	15,009	11,020	9,190	3,738	4,564	1,839	952	2,538	48,850	44,296	4,554
*Estimates											

Source: Australian Federal Budget 2006-2007, 2007-2008

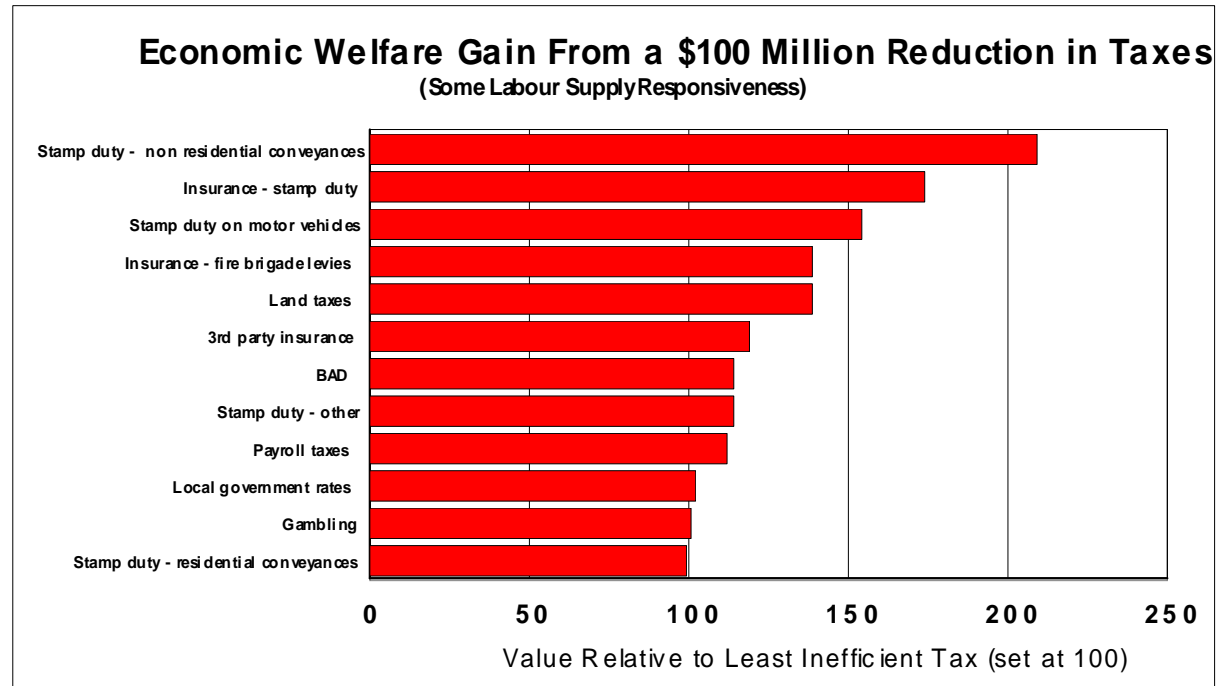
<sup>1</sup>Estimates (Commercial conveyancing estimated to be 30% of all conveyancing duty)

<sup>2</sup>Guaranteed Minimum Amount– annual state GST revenue estimates guaranteed by the federal government until 30 June 09. It ensures state revenues do not fall below the estimated revenues states would have received under the old grants system if the states not undertaken tax reform when the GST was introduced.

# The Impact of State & Local Property Taxes

# State & Local Property Taxes Require Reform

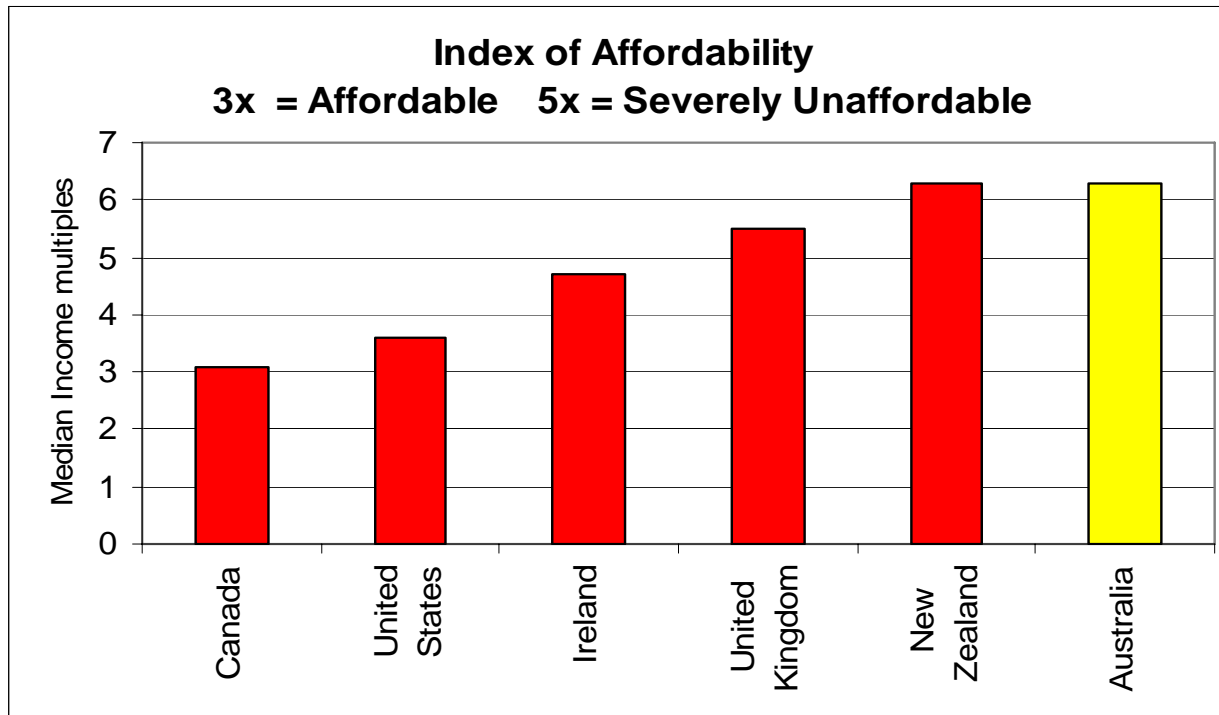
Stamp duty on commercial conveyances is the most inefficient tax and removing it will deliver the biggest competitiveness dividend.



Source: Access Economics, *Axing the Alcabala* (2004)

# Housing Affordability and Property Tax Reform

Australian median house prices are 6.3 times median household incomes.

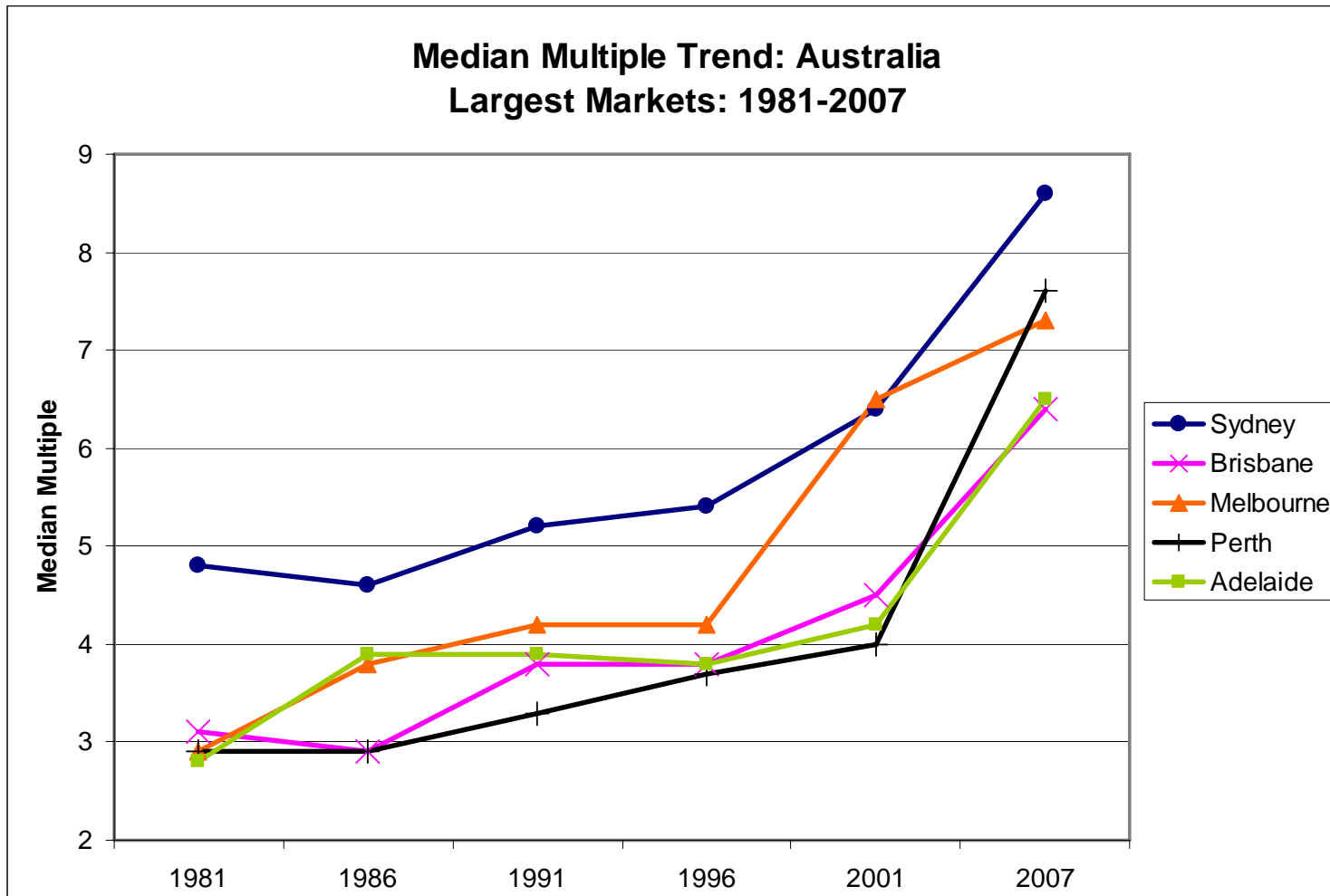


**Source:** *Demographia* (2008)  
(The index divides median house prices by median household incomes.)



# Housing Affordability and Tax Reform

Housing costs in all Australian Capital cities are at least 6 times income. These cities are chronically unaffordable.



Source: *Demographia* (2008)

# What's Driving the Decline in Housing Affordability?

Artificial property taxes are a major cause of Australia's declining housing affordability.

Nearly 35% or \$199,000 of a North West Sydney broad acre development is tax and compliance costs.

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## Total Dwelling Costs vs Government Costs Australia, 2005

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Area	Total Cost	Government Cost	Rank	Government %
North West Sydney	\$570,240	\$198,670	1	34.8%
South West Sydney	\$544,115	\$166,481	2	30.6%
Redland	\$464,225	\$135,799	3	29.3%
Tweed	\$465,740	\$113,836	4	24.4%
Canberra	\$425,550	\$108,011	5	25.4%
Maroochy	\$412,475	\$99,316	6	24.1%
Melbourne	\$366,660	\$91,135	7	24.9%
Perth	\$373,700	\$86,109	8	23.0%
Hunter	\$361,240	\$85,687	9	23.7%
Gold Coast	\$391,775	\$84,306	10	21.5%
Mandurah	\$310,700	\$84,212	11	27.1%
Ipswich	\$319,325	\$79,448	12	24.9%
Adelaide	\$248,530	\$53,003	13	21.3%

Source : UrbisJHD

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# What's Driving the Decline in Housing Affordability?

A similar story applies to medium density development. Tax costs are higher than the cost of land.

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## Medium Density Government Takings Australia, 2005

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Area	Total Cost	Government Cost	Rank	Government %
Sydney	\$570,240	\$167,258	1	29.3%
Brisbane	\$422,825	\$113,849	2	26.9%
Perth	\$457,700	\$113,414	3	24.8%
Adelaide	\$432,080	\$111,653	4	25.8%
Maroochy	\$345,200	\$95,894	5	27.8%
Gold Coast	\$319,325	\$87,017	6	27.3%
Melbourne	\$318,960	\$65,662	7	20.6%

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Source : UrbisJHD

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# Contacts

For further information, please contact the following Property Council staff:

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***Andrew Mihno***, National Policy Manager, Tax & Finance