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AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

13 November 2018

It is time for an intervention… State governments are addicted to stamp duty

State government reliance on an inefficient tax

The state budgets of NSW and Victoria, on the back of a record-breaking property market boom, have become extremely dependent on stamp duty revenues. In 2016/17 stamp duty accounted for a quarter of New South Wales' state government revenue and almost a third of Victoria's.

The current property market downturn – specifically, the declining housing prices and transactions volumes concentrated in the behemoth Sydney and Melbourne markets – is set to have a profound effect on state budget bottom lines.

The NSW budget shows stamp duty revenue fell $1 billion short of expectation in 2017/18 and forward estimates predict revenue will be down by $5.5 billion over the next four years. In Victoria, recent amendments of stamp duty projections slashed $2.4 billion from the budget over the forward estimates.

These losses are comparable with the significant drops in stamp duty receipts that immediately followed the GFC.

This cyclical volatility is one of the many inherent problems with stamp duty. On the way up, a property upswing is lucrative but a declining market means state revenue inevitably falls well short of expectations.

This occurs through not just lower dutiable values (i.e. lower home prices), but more significantly through a reduction in the number of transactions. Property owners tend to only sell into a declining market if absolutely necessary, while buyers are obviously cautious about catching any falling daggers.

This characteristic, whereby people can choose when or if they will conduct a transaction that incurs stamp duty, is one of the characteristics that makes stamp duty one of the least efficient taxes in Australia's economy.

NSW stamp duty changes

So the NSW government's announcement last week – to index the state's stamp duty brackets to CPI – is at least some positive news in relation to this pernicious tax.

When implemented (1 July next year), this will represent the first time since 1986 that stamp duty brackets have been adjusted. The bracket creep in the intervening period has been profound, given that property prices in Sydney have increased by over 1,000 per cent since that time.

These changes will help reduce the burden on homebuyers over time but to the extent that house prices continue to outpace the CPI (as has been the case for many years), this measure will at best just act as a brake on bracket creep. So home buyers will still experience the effects of bracket creep, just not as significantly as before.

Having such a small change pitched as the "most significant reform in a generation" highlights the lack of material reform in this area. Rather than redress the 32 years of bracket creep, this reform actually locks-in a generation of bracket creep, but thankfully it should slow down.

While we commend the NSW for their incremental reform, we firmly believe (and we are not alone) that wholesale removal of stamp duty in favour of a broad based tax should be the objective.

The ACT experience (it's still hooked…!)

The experience of the ACT shows that even when reform is undertaken, governments still cling to their stamp duty revenue stream. It was back in the 2012/13 Budget that the Territory government embarked on a twenty year phase out of stamp duty alongside phasing in a land-based tax (through higher rates).

The transition process was largely designed to minimise a shock to the property market and wider economy and also be neutral in its effect on the budget. While there has not been any material disruption to the housing market to date, the 'budget-neutrality' is questionable.

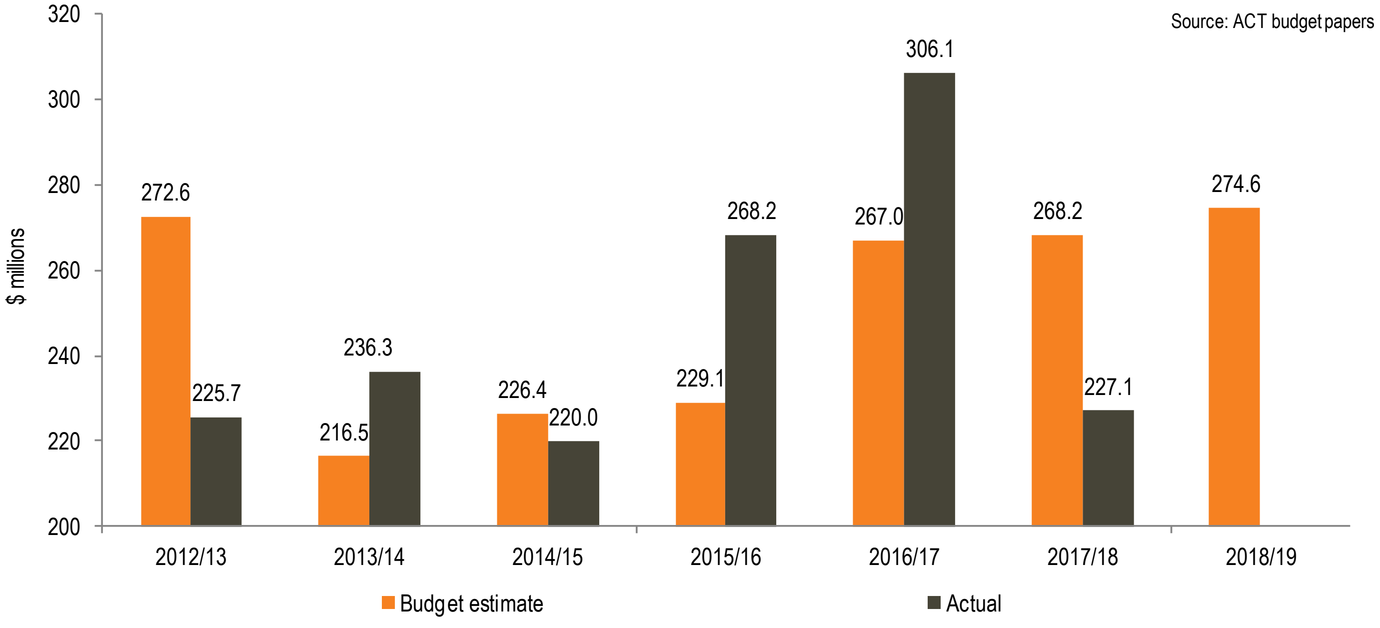
The phasing out of stamp duty has largely been applied narrowly (to a small portion of homes in lower price brackets), while increases in rates have been applied very widely and more quickly.

Combined with a strong property market performance, the ensuing bracket creep has meant that stamp duty revenue for the ACT actually *increased* considerably over the first five years of this transition. The projections at the outset estimated stamp duty revenue to decline by $5.6 million over the period 2012/13 to 2016/17. Instead it increased by $80.4 million.

ACT homeowners, especially the bulk of those who have purchased a home since the reform process commenced, have incurred a greater total tax burden – paying more stamp duty on their home purchases (the consequence of bracket creep) and also paying the higher rates bills.

A lesson from the ACT experience is that the transition must not just be a matter of 'set and forget'. The transition schedule should be responsive to market conditions.

ACT STAMP DUTY REVENUE - BUDGETED VS ACTUAL



The fortnight ahead – key dates and releases (AEST)

Tuesday 13 November

ABS Lending Finance, Australia, September 2018, 11.30am

Wednesday 14 November

Westpac-MI Consumer Sentiment, 10.30am

Thursday 15 November

Labour Force, Australia, September 2018, 11.30am

HIA State and National Outlooks, Spring Edition 2018, 11.00am

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