14 April 2023

Legislative Council Economy and Infrastructure Committee
Parliament of Victoria
By email: landfeesinquiry@parliament.vic.gov.au

Dear Committee Members,

Submission: Inquiry into Land Transfer Duty Fees

UDIA Victoria

The Urban Development Institute of Australia, Victoria (UDIA Victoria) welcomes the opportunity to write to the Legislative Council Economy and Infrastructure Committee in relation to its Inquiry into land transfer duty fees.

UDIA Victoria is the peak body representing the urban development industry. UDIA Victoria is a non-profit advocacy, research and educational organisation supported by a membership of land use and property development organisations, across the private sector and Victoria's public service.

We are committed to working with both industry and government to deliver housing, infrastructure, and liveable communities for all Victorians.

Industry Contributions, Taxes and Levies

Just 11 years ago, in 2012, property taxes were responsible for less than 18 per cent of all state government tax revenue. Over the past decade, this has risen to over half of the State's tax revenue and is forecast to remain in the high 40 per cent range for the next four years.

Property taxes have contributed to 52.8 per cent of all State taxation revenue for 2021/22, since 2014:

- A total of $57.1 billion in property-related stamp duties have been collected;
- Annual property-related stamp duty receipts have increased by over $6 billion, or more than 140 per cent;
- A total of $27.1 billion in land tax has been collected; and
- Annual land tax receipts have increased by over $2.5 billion, or more than 250 per cent.

Up to 42 per cent of the cost of a new home is made up of taxes, fees, and charges. The average median house price in Metropolitan Melbourne is $975,000. Over $409,500 of this is collected in the form of taxes, fees, and charges. There is a direct and well-documented correlation between these taxes and growing house prices.

Importantly, Victorian families are forced to borrow to pay these taxes, meaning almost half of every mortgage repayment goes towards paying off these taxes.

Current concessions

First-home buyers currently receive an exemption from stamp duty for properties valued under $600,000 and an adjusted reduction for properties between $600,001 - $750,000.

With Metropolitan Melbourne's median house price currently around $975,000, the existing concession is increasingly inaccessible to first homebuyers looking to purchase in Melbourne. The story is the same in regional Victoria, where the median house price is $610,000.

Case study

The *Planning and Environment Act* defines a moderate-income couple, with no dependants, as earning between $62,871-94,300 per annum. Using the State Revenue Office's calculations provides a sobering picture of the impact of stamp duty on housing affordability for new homeowners:

- Metropolitan Melbourne median property at $975,000 would result in a Stamp Duty fee of $53,625.

A couple with no dependents, on a moderate income (defined in the Planning and Environment Act as between $62,871-94,300 per annum), cannot feasibly purchase a median property in Metropolitan Melbourne.

With the current reduction in buyer capacity, a couple at their upper annual earning threshold of $94,300 would have a borrowing capacity of $394,460 with a 10 per cent deposit – well below the $975,000 needed for a median home.

According to research conducted by Westpac, only 23 per cent of 25-34-year-olds (the traditional first home buyer age bracket) have up to $15,233 saved towards buying a home. In a dual-income household, this would equate to $30,466 – a third of the total deposit ($97,500) required for a median house in Metropolitan Melbourne.

If this couple were to attempt to purchase a home in Preston, where the median house price is $1.1 million, they would receive a land transfer duty of $60,500. The land transfer duty alone is twice their available savings, and their borrowing capacity is $705,540 short of the asking price.

If the same couple were to look at purchasing an apartment in Glen Waverley, one of the proposed locations of new Suburban Rail Loop station, they could expect to pay a stamp duty charge of $45,500 on a median apartment price of $840,500.

Direct and indirect impacts of land transfer duties

There are a range of direct and indirect impacts attributable to land transfer duties that the UDIA Victoria wishes to bring to the Committee's attention:

Labour and capital mobility

The National Housing Finance and Investment Corporation (NHFIC) recently called for the removal of the stamp duty, as it directly impacts housing mobility, and its removal would increase the efficient use of existing national housing stock.

Stamp duty discourages capital mobility because it penalises turnover. This also limits the effective mobility of the Victorian labour market, which would otherwise be much more responsive to changes in the job market.

The median annual income for many essential services workers is within the defined moderate-income bracket. The prohibitively high cost of housing in developed areas is driving prospective buyers to look for housing outside metropolitan Melbourne, and further away from major job and activity centres to areas that are less well-served by infrastructure and amenities.

The Economic Impact of Stamp Duty: Three Reform Options, A Deloitte Access Economics report published in 2015, also found that the removal of stamp duty would result in the creation of an additional 5000 construction jobs by stimulating demand.

Revenue predictability

Compared to every other state and territory across Australia, Victoria is the most reliant on stamp duty, with well over 30 per cent of total tax revenue attributable to the tax.

The State Government's overreliance on tax revenue from urban development, including through stamp duty, is throttling the State's economic productivity, and impacting the sector's ability to address Victoria's growing housing supply shortage.

Additionally, changes to market conditions, including to price and volume of transactions make stamp duty revenue uniquely volatile. This is especially the case with significant market events – as we are experiencing now.

Stamp duties has led to under-investment in the property sector and the insufficient distribution of property among the population.

Removing stamp duty will incentivise sector investment through increased transaction volume and provide much needed economic stimulus.

Effects on housing supply and development

The additional cost of stamp duty and other government charges continue to be a defining consideration for potential purchasers.

The cost of housing, including the added cost of land transfer duties, partnered with a historic lack of supply, has pushed potential first-home buyers out of the housing market and back into the rental market. This has meant critical rental stock that would have otherwise become available as this cohort transitions to homeownership, remains unavailable.

The return of post-pandemic interstate and international migration will add even greater pressure to the housing and rental markets. Land transfer duties not only impact the homeowner market but also affect Victoria's rental availability and cost.

Overall tax efficiency

The Victorian Government temporarily increased the stamp duty concession threshold in 2020, to under $1 million, between 25 November 2020 and 1 July 2021. This temporary measure, implemented to stimulate the market and support Victoria's post-pandemic economic recovery, demonstrates the identifiable economic impacts of the existing stamp duty.

This is a contemporary example of the economic benefits of removing the impost of stamp duty – which was aimed at creating jobs, boosting economic productivity, and improving access to housing.

Next Steps

The Victorian Government's heavy reliance on property tax revenue places the State's economy in a precarious position. With mounting inflationary pressures, and the RBA's sharpest increase in the official cash rate since 1994, property prices are under pressure, while the State's budget and spending program is built heavily on construction and land release taxes.

The evidence is clear: tax reform is needed to reduce the burden on Victorian homebuyers, support housing affordability and de-risk the State's economy.

UDIA Victoria encourages the Committee to explore urgent reform to address the existing issues with this fundamentally regressive and inefficient tax.

Contact

Should you wish to discuss any of the matters raised in this submission, please contact me at matthew@udiavic.com.au.

Yours faithfully

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