Review of South Australian Stamp Duty

and the

New South Wales Property Tax Proposal

January 2022

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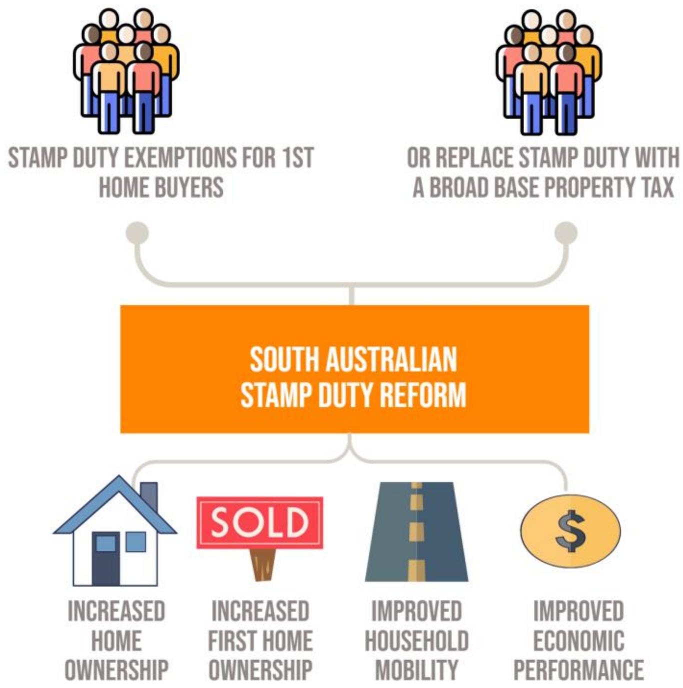
Executive Summary



Master Builders Association of SA has commissioned Hudson Howells to update the 2019 review of South Australian Stamp Duty and to also include a review the New South Wales Government's Property Tax Proposal and its potential application in South Australia.

This updated review incorporates:

- The Financial and Economic Impacts of Stamp Duty Exemptions on New House/Land Packages in South Australia.
- State Taxation Generated from the Housing Sector in South Australia associated with a potential Stamp Duty reduction.
- Details of the New South Wales Government's Property Tax Proposal (replacing stamp/conveyancing duty).
- Potential application and implications of a similar Property Tax being adopted in South Australia.

The focus for this review is stamp duty on new housing (and existing housing for the NSW review) and the impact that a reduction in stamp duty will have on new housing construction and State Government taxation.

A range of reviews and studies over the past 10 years have all concluded that stamp duty is a highly inefficient tax that distorts the supply and demand balance for housing and is a major impediment to community mobility and economic growth.

This report provides estimates of the financial and economic impacts of the State Government providing Stamp Duty exemptions on **new house/land packages** offered for sale in South Australia. These estimates are based on a range of financial and economic assumptions detailed in this report and are undertaken at two new house/land price points being:

- $650,000 – Comparable with recent stamp duty reductions in New South Wales and Victoria.

- $560,000 – The current metropolitan Adelaide median price[1].

Based on a range of assumptions and estimates contained in this report, Hudson Howells has assessed the potential financial and economic impacts of Stamp Duty exemptions on new house/land packages in Adelaide for 1,000 houses (low case scenario), 1,250 houses (medium case scenario) and 1,500 houses (high case scenario) with the following estimated results for the medium case scenario:

Summary of Financial and Economic Modelling – Medium Case Scenario		
House Price	$650,000	$560,000
Additional Houses Constructed	1,250	1,250
Additional FTE Jobs	5,866	5,000
Additional Payroll Tax Received	$23,705,120	$20,205,067
Additional Land Tax Received	$52,500	$24,375
Additional GST Received	$44,317,553	$38,181,276
Stamp Duty Lost	$36,975,000	$30,787,500
Net State Government Gain	**$31,100,173**	**$27,623,218**

These results reflect a conservative market supply response of 1,250 additional houses constructed per annum based on recent Victorian and New South Wales responses to new stamp duty exemptions.

The stimulus to State Government taxation associated with increased house construction is reflected in the 2021 – 22 Budget which highlights:

> *Conveyance duty revenue is expected to grow by 16.9 per cent in 2020-21, with total collections estimated to be $214 million higher than estimated as part of the 2020-21 Budget. The strong growth in 2020-21 reflects heightened residential property market activity due to the Commonwealth Government's HomeBuilder grants and broader strength in the property market. The number of vacant land transactions have nearly doubled in 2020-21 compared to 2019-20 levels.*[2]

The above estimated Net State Government Gains must be considered within the context of State Government policy options. For example, the gains assume that the stamp duty exemption is limited

[1] Source: www.sa.gov.au

[2] South Australian 2021 – 22 Budget Statement, p.42

to the specified number of additional new houses constructed for first home buyers (1000, 1250 and 1500). There were however, 4,266 recipients of the First Home Owner's Grant Scheme (new and existing houses) of $15,000 in 2020/21, at a cost to the State Government of $63.99 million. If this scheme was replaced by stamp duty exemption the State Government's gain would increase by $15 million, $18.75 million and $22.5 million for 1,000, 1,250 and 1,500 houses respectively.

Alternatively, the State Government could cancel the First Home Owner's Scheme altogether (at a saving of $63.99 million) and exempt all first home owners from stamp duty at an estimated cost of $105 million, based on the current Adelaide metropolitan median price of $560,000. There would however be a corresponding economic and tax stimulus as demonstrated above

It is therefore concluded that stamp duty exemptions and/or concessions on new housing in South Australia will increase demand and supply of new housing with consequent socio-economic impacts of increased Gross State Product, net State Government financial gains and associated jobs from 4,000 FTEs in the Low Case Scenario up to 7,040 FTEs in the High Case Scenario.

In considering the NSW Government's property tax proposal, and the implications should South Australia adopt a similar proposal, the new system would replace stamp duty with a small annual tax. The property tax would be an annual tax based on unimproved land value. The tax would consist of a fixed amount plus a rate applied to the unimproved land value of an individual property, and not aggregate landholdings. Importantly, buyers would be given the choice of which tax to pay. Buyers would be given the choice to pay the annual property tax at the time of purchase. It would replace stamp duty. Once a property is subject to the property tax, subsequent owners must pay the property tax.

Note that the NSW proposal includes:

- Phasing out of stamp duty on all property categories – residential, commercial and farmland.

- Replacement of existing stamp duty concessions for first home buyers with a first home owners grant of up to $25,000.

- Price thresholds that limit the number of properties initially eligible for transition to keep Government revenue and debt impacts within reasonable levels, while ensuring over 80 per cent of residential properties are eligible to opt-in from day one.

- The proposed property tax rates are structured so that an individual owner-occupier's accumulated property tax would take approximately 18 years to exceed what the corresponding stamp duty might have been. This is the median time that residential properties are held in NSW.

The key objectives and benefits of such a policy shift for South Australia would include:

- Increased home ownership.
- Increased first home ownership.
- Improved household mobility and choice.
- Improved economic performance.

Key questions for policy makers include:

- What would be the economic impact of transitioning to a property tax similar to the NSW proposal in South Australia?
- What would be the financial impact on State Government income?
- What would be the overall community benefit/cost position of implementing a similar policy to that proposed in NSW.

Key issues in all 3 questions are the propensity of new and existing house buyers to shift between tax structures, and what the impact will be on home ownership, new house construction and overall economic activity.

<u>Other than the analysis and estimates contained in the NSW proposal, there is little evidence to substantiate how these shifts will occur.</u>

The NSW proposal estimates the following impacts of implementing the new property tax as proposed:

- An additional 300,000 NSW residents achieving home ownership.
- An injection of $11 billion into the NSW economy over the first 4 years.
- In the long run, Gross State Product increase of 1.7% with annual incomes of NSW residents increasing by $10 billion ($3,300 per household).
- 75,000 additional jobs.
- An improvement of the relative tax position of owner-occupiers versus investors.
- A major economic stimulus as the State recovers from the Covid-19 crisis.
- Productivity benefits around 30 times higher than the up-front cost to the Government of implementing the reform.
- In the short term, the reform would reduce the NSW Government's revenue. Over the longer-term (20 years), the property tax would be revenue neutral, collecting the same amount of revenue as stamp duty and land tax. There is therefore no requirement to change other aspects of the Government's spending and revenue plans to fund the reform.
- The proposed structure is expected to increase the owner-occupied share of private dwellings by around 6 per cent.
- In the longer term, a reduction in home prices in the order of 3-4 per cent.

On a simple population percentage basis, similar results in South Australia would be (SA had approximately 21.6% of NSW population as at 30th June 2021):

- An additional 64,800 SA residents achieving home ownership.
- An injection of $2.38 billion into the SA economy over the first 4 years.
- In the long run, Gross State Product increase of 1.7% with annual incomes of NSW residents increasing by $2.16 billion ($3,300 per household).
- 16,200 additional jobs.
- A similar improvement of the relative tax position of owner-occupiers versus investors.
- A major economic stimulus as the State recovers from the Covid-19 crisis.
- Similar productivity benefits around 30 times higher than the up-front cost to the Government of implementing the reform.
- Similarly, in the short term, the reform would reduce the SA Government's revenue. Over the longer-term (20 years), the property tax would be revenue neutral, collecting the same amount of revenue as stamp duty and land tax. There is therefore no requirement to change other aspects of the Government's spending and revenue plans to fund the reform.
- The proposed structure is expected to increase the owner-occupied share of private dwellings by around 6 per cent. This would return SA to 75% home ownership.
- In the longer term, a similar reduction in home prices in the order of 3-4 per cent.

Should these benefits be realised, the proposed property tax reform would deliver South Australia a large benefit/cost outcome. Notwithstanding this potential outcome, the upfront cost to the State Government would be substantial as, based on the 2021 – 22 Budget Statement, Conveyancing Duty is expected to be $876 million ($955 million in 2020 – 21) representing approximately 18% of the State's total taxation revenue of $4,822 million).

Some key assumptions are necessary in order to test above economic outcomes for South Australia including:

- Similar to NSW, the initial loss of stamp duty revenue will not trigger changes to other State Government spending and revenue plans as, when substantially implemented, the policy will be revenue neutral over the median length of time that residential properties are held by owner-occupiers (18 years). That is, future annual revenue streams will be offsetting any lost up-font stamp duty which the government can plan and budget for accordingly. (It is noted however, that under the proposed NSW scheme, it is expected to take about 20 years for the property tax to cover half of all residential properties, with further take-up proceeding gradually in subsequent years).
- Based on today's population (i.e. excluding future population increases), 64,800 South Australian residents achieve home ownership over 20 years (3,240 per annum). This appears a reasonable and conservative assumption based on the NSW and Victorian responses to

threshold limited new stamp duty exemptions for first home owners, and our medium case estimates earlier in this report for SA of an additional 1,250 new houses being built per annum (exemption limited to the median price of $560,000). A doubling to 3,240 per annum with no limiting threshold could reasonably be expected.

At SA's median house price of $560,000 per annum, 3,240 addition house builds per annum would see an injection of $1.8 billion into the State economy. Based on Hudson Howells Input Output Tables for South Australia, 12,960 full time equivalent jobs per annum (direct and indirect or multiplier impact) and $1.83 billion Gross State Product (GSP) would be supported by the additional economic activity. As these State economic benefits exclude any productivity and lower housing cost benefits, the above economic outcome estimates for SA of 16,200 jobs and $2.16 billion GSP are considered reasonable.

In terms of the State Government's financial exposure, this will be determined by the rate of take up by residential, commercial and farmland purchasers. The NSW proposal seeks to limit the initial exposure using price thresholds to restrict the number of residential and commercial properties that would initially be eligible to opt into the property tax. Over time, as annual property taxes increase, these thresholds would be lifted. Zero price thresholds could be used to exclude whole sectors in the initial stages of the reform. Assuming the property tax is implemented evenly over 20 years, the first-year exposure would be 5% or $43.8 million.

While not considered necessary due to the long-term revenue neutrality of the proposal, this initial cost could be offset by terminating the First Home Owner's Scheme (cost of $64 million per annum at $15,000 per transaction). First home owners would still be better of as stamp duty on a median priced $560,000 house is $24,630.

As noted above, if 1,250 of the 3,240 new homes are new builds, there would potentially be other taxation clawbacks offsetting up-front stamp duty losses, estimated to be $58 million per annum as follows (medium case at the median price):

- Additional Payroll Tax - $20 million per annum (from additional jobs).
- Additional GST - $38 million per annum (from additional new house sales).

In summary, stamp duty is a highly inefficient tax that distorts the supply and demand balance for housing and is a major impediment to community mobility and economic growth. Transition to a property tax similar to that proposed by the NSW Government could support up to 16,200 jobs and $2.16 billion GSP in South Australia, while improving home ownership for all South Australians.

1.0 Introduction

Master Builders Association of SA has commissioned Hudson Howells to update the 2019 review of South Australian Stamp Duty and to also include a review the New South Wales Government's Property Tax Proposal and its potential application in South Australia.

This updated review incorporates:

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The focus for this review is stamp duty on new housing and existing housing (for the NSW review) and the impact that a reduction in stamp duty will have on new housing construction and State Government taxation.

2.0 The Current South Australian Situation

The largest state taxation liability when purchasing a new home is stamp duty, which is incurred on the transfer of the property to the purchaser. The amount of stamp duty is assessed on the purchase price or the market value of the property at the date of settlement, whichever is the greater. The stamp duty must be paid in order for the purchaser to be registered as the owner on the Certificate of Title for the property with the South Australian Land Services Group.

Foreign Purchasers who acquired residential land in South Australia from 1 January 2018 are required to pay a stamp duty surcharge.

Most transfers of land are charged as detailed below. A number of concessions are detailed in the Stamp Duties Act 1923 (for example, the purchase of an off-the-plan apartment which meets certain criteria), and other conveyances may be exempt (for example, transfers from an estate of a deceased person to a beneficiary under the will).

The stamp duty rates for conveyances are shown below.

Table 1 – Current South Australian Stamp Duty Rates

Where value of the property conveyed	Amount of Duty
Does not exceed $12,000	$1.00 for every $100 or part of $100
Exceeds $12,000 but not $30,000	$120 plus $2.00 for every $100 or part of $100 over $12,000
Exceeds $30,000 but not $50,000	$480 plus $3.00 for every $100 or part of $100 over $30,000
Exceeds $50,000 but not $100,000	$1,080 plus $3.50 for every $100 or part of $100 over $50,000
Exceeds $100,000 but not $200,000	$2,830 plus $4.00 for every $100 or part of $100 over $100,000
Exceeds $200,000 but not $250,000	$6,830 plus $4.25 for every $100 or part of $100 over $200,000
Exceeds $250,000 but not $300,000	$8,955 plus $4.75 for every $100 or part of $100 over $250,000
Exceeds $300,000 but not $500,000	$11,330 plus $5.00 for every $100 or part of $100 over $300,000
Exceeds $500,000	$21,330 plus $5.50 for every $100 or part of $100 over $500,000

3.0 Literature Review

Stamp duties on new and existing house purchases have been the subject of many reviews and enquiries over the last 10 years with most concluding that stamp duties increase the cost of buying a house, prevent mobility, results in an inefficient use of housing stock and has no role in the future taxation landscape.

Stamp duty is decided by separate state and territory governments, rather than the Federal Government, so current rates and concessions vary between states. In **New South Wales** for example, under the First Home Buyers Assistance Scheme, from 1st August 2021 stamp duty concessions have been available for first home buyers (new and existing homes) with a full exemption for a home valued up to $650,000 (previously $550,000) and concessional rates for new homes valued between $650,000 and $800,000 (previously $550,000 to $650,000)[3]. This is in addition to the $10,000 First Home Owner Grant (FHOG) for new home builders/buyers (new and no-one has lived in it) for property valued up to $750,000[4].

In **Victoria**, first-home buyers who purchase a new or established home worth up to $600,000 don’t pay stamp duty if they live at the property for at least 12 months. Properties with a dutiable value of $600,001 to $750,000 can receive the first home buyer duty concession with the amount based on a sliding scale. This is also in addition to the $10,000 First Home Owner Grant (FHOG) for new home builders/buyers (not have been previously sold or occupied) for property valued up to $750,000.

The only jurisdiction currently phasing out housing stamp duty is the **ACT Government** which has moved away from stamp duties to taxes based on land value. Specifically, it is phasing out stamp duties over a 20 year period, and replacing these with higher general rates for residents and commercial properties.

The **August 2017 Australian Government Productivity Commission 5 Year Productivity Review**[5] (Shifting the Deal) concluded that:

[3] Note: As a pandemic measure, the Government temporarily increased the thresholds to $800,000 and $1 million for the year to July 2021
[4] Source: https://www.revenue.nsw.gov.au/taxes-duties-levies-royalties/transfer-duty/first-home-buyers
[5] Australian Government Productivity Commission, Shifting the Deal, 5 Year Productivity Review, p. 150

Stamp duties prevent mobility and efficient use of the housing stock. Stamp duties on residential property add to the price of houses, and can discourage people from moving to locations that may be closer to preferred jobs, family networks and schools. This can result in increased commuting times and costs and the potential effects on mobility become more accentuated the greater are the frictions of moving between work and home, and stamp duties on residential property can discourage people from downsizing and encourage over-investment in upgrading property. All of these factors result in the retention of land for relatively unproductive purposes.

The impacts of these costs on community welfare are significant. A recent Treasury working paper estimated that each additional dollar collected by way of stamp duties on residential property reduces the living standards of Australian households by 72 cents in the long run due to the lower investment and mobility effects.

In reporting on the 2017 Productivity Commission's 5 Year Productivity Review, the Australian Financial Review stated that[6]:

Implementing the Productivity Commission's recommendation to scrap stamp duty would increase housing affordability and boost transactions, cutting the average holding time of a house from 13 to eight years, according to the property industry.

The Australian Financial Review also commented on **Deloitte Access Economics** research commissioned by the **Property Council of Australia** which suggests *swapping residential stamp duty for a land tax would provide a $3.3 billion boost to GDP but, with an average cost to households of about $2,360 a year, is not politically feasible.* In the same article it was reported that the **Urban Development Institute of Australia** said first homebuyers in Sydney, after saving an average of eight years for a deposit, face up to $30,000 in upfront stamp duty costs (even with the current first home buyer discount). *One third of the costs of a new home is government taxes, levies and charges; removing stamp duty would increase development of new homes and improve affordability*.

While the current literature and studies strongly support the removal of stamp duties on house/land transactions, as far back as 2008, the **Henry Tax Review** (Australia's Future Tax System Review), commissioned by the Rudd Government and published in 2010 also sought the removal of stamp duties:

Ideally, there is no place for stamp duty in a modern Australian tax system. Stamp duties generate large efficiency costs, as they discourage turnover in property and tax improvements as well as land. The tax also imposes a higher burden on people who need to move, which is not equitable. The only positive feature of stamp duty — its relative simplicity — has long since ceased to justify its continued use in the face of the costs it imposes on Australian society.

The **Henry Tax Review** goes on to state:

While removing stamp duty would lead to more equitable and efficient outcomes, it would create a substantial hole in State revenues. As discussed in greater detail in Section G2 State tax reform, this shortfall should be met though increased reliance on more efficient State

[6] Australian Financial Review, 24th October 2017

taxes. The Australian government should consider facilitating a transition away from stamp duties, reflecting the national benefit of reforms to State taxes and the quality of the Australian government tax bases. Another option is to reduce stamp duties incrementally, including capping the maximum rate, possibly as part of an intergovernmental agreement.

In January 2013, the Australian **Housing Industry Association** commissioned the **Centre for International Economics** to review **Taxation Generated from the Housing Sector** which concluded that[7]:

- New housing is one of the most heavily taxed sectors of the South Australian economy in both aggregate and relative terms, and the most highly taxed after gaming.

- The majority of taxes, particularly state taxes, on housing are highly inefficient.

- The taxation burden on new housing falls largely on home buyers.

- Some housing taxes, such as stamp duty, are major impediments to labour mobility and productivity and holding back development of the South Australian economy, impacting on its capacity to attract capital, people and to sustain growth.

In its review of the CIE Report on behalf of the HIA (SA), **Hudson Howells** agreed with these core conclusions highlighting that only a small component housing taxes represents any type of fee for service, and therefore the current tax on houses is likely to be inefficient as it could distort the equality between the demand price and supply price for housing, and therefore the efficient allocation of resources such as labour and other inputs. This is supported by the HIA report which found that many of the taxes are economically inefficient by, for example, shifting labour from housing to other sectors not taxed as heavily[8]. The HIA also concluded that the tax on housing is:

- Disproportionately high (compared with taxes on other sectors).

- Recurring and taxed more than once (e.g. Stamp Duty on every transfer).

- Exacerbated by interest paid on mortgages to cover taxes.

So in summary, a range of reviews and studies over the past 10 years have all concluded that stamp duty is a highly inefficient tax that distorts the supply and demand balance for new housing and is a major impediment to economic growth.

[7] Centre for International Economics, Taxation Generated from the Housing Sector, January 2013
[8] Hudson Howells, Comments on the HIA CIE Report, 2013

4.0 Review of Victorian Stamp Duty Concessions

As noted above, in Victoria, from July 1, 2017, first-home buyers who purchased/purchase a new or established home worth up to $600,000 don't pay stamp duty as long as they live at the property for at least 12 months. There are also stamp duty discounts offered on a sliding scale for first-time buyers who purchase a property between $600,000 – $750,000. The exemption and concession for first home buyers apply to both new and established homes under $750,000.

In response to this initiative, the Victorian UDIA assessed the impacts of the initiative in a recent report (**Detailed Impact Assessment Homes for Victorians Strategy, April 2017**) and issued the following statement:

> *We welcome State Government's efforts to preference home buyers, however we are concerned there may be a rapid increase in demand for established housing products at the lower end of the market, without enough being done to boost supply, which is the key to keeping house prices overall at a reasonable level in the medium to long-term.*

While the Victorian UDIA expressed its general concern regarding the potential for increased prices at the lower end of the market, it should be noted that this could apply specifically to the new home market should there be a limited supply response to increased demand associated with lower stamp duties. This is noted by the UDIA in assessing the positive and negative impacts of the move on the market including:

- Increased demand for new housing product.
- Increased supply growth (number of new houses constructed) within new housing product areas and/or price increases depending on government and industry's ability to increase supply.
- Increased demand for existing dwellings within outer suburbs with prices below $750,000.
- Increases to the median house prices within Melbourne suburbs (due to increased demand).

In addressing these impacts of the Homes for Victorians package, the UDIA urged the Victorian Government to amend the eligibility for exemptions and concessions for stamp duty to only allow exemptions and concessions to be applied to the purchase of new housing.

In assessing the impacts of the **Homes for Victoria Strategy**, the UDIA highlights the following:

- Based on the profile of first home buyers and the median house prices in Melbourne, the proposed abolishment of stamp duty for FHB will likely result in demand increasing for large 3 – 4 bedroom housing in the new estates built in the growth areas or existing 2 – 3 bedroom houses in the outer suburbs.
- An increased demand for sub-$750,000 existing housing within the middle and outer suburbs will likely lead to an increase in prices within the middle and outer established suburbs due to a limited number of stock in these suburbs below $750,000. This will lead to

a quick decrease in the amount of housing available to FHB seeking to utilise new exemptions and concessions. Prior to the commencement of the FHB exemption and concessions, some buyers may be able to take advantage in a drop in the demand from FHB when the vendor needs to sell now rather than after the concessions come into place.

- As demand for sub-$750,000 houses within established suburbs increases prices, the proportion of dwellings that qualify for the FHB stamp duty exemptions and concessions will reduce. This will not only impact FHB but the market overall as the growth in median house prices influences the rest of the market's perception on house prices. Further demand from FHB will be directed towards the new housing product land market which is currently struggling to produce new lots with post-PSP timeframes estimated to take approximately 12 – 34 months (approval conditions: 6 to 24 months; construction to title: 6 to 10 months).

- To maintain affordable prices, the increased demand within the new housing product land market will need to be met with significantly reduced planning and engineering approval and compliance processes. Failing to reduce timeframes to the post-PSP processes will lead to further price increases which will severely undermine Melbourne's competitive national advantage for affordable house and land packages.

- Focusing on new vs existing property does not increase demand for a limited product and instead shifts demand towards the supply of new dwelling. The added benefit of this economic activity should positively impact the State Government's revenue base. Any potential price increase in new stock can be avoided by ensuring policy settings are in place that facilitates adequate supply of new housing and reduces the risk and cost associated with delivering new stock. Unlike existing dwellings, government can take measures that will ensure FHB demand is met with supply. As the price of housing increases over time, the availability of housing stock within the exemption and concessions threshold will decrease. As such, the thresholds should be adjusted annually to median price increases.

The above findings are critically important for consideration of stamp duty changes in South Australia and any recommendations being formulated by the Master Builders Association and industry for submission to the State Government.

While this paper and implications focus on stamp duty concessions for new housing, it is important to note that the Victorian exemption and concession for first home buyers apply to both new and established homes under $750,000. Based on the above discussion and the Victorian situation, South Australia could expect 2 key impacts should exemptions and concessions be applied to first home buyers of new properties only:

- Increased demand for new housing product.

- Increased supply growth (number of new houses constructed) within new housing product and/or price increases depending on government and industry's ability to increase supply.

A supply response in South Australia would be an important response to ensure that stamp duty exemptions or concessions do not lead to increasing prices and reduced housing affordability.

5.0 Financial and Economic Impact – Proposed South Australian Stamp Duty Exemptions

Efficiently operating property markets can be weakened by market failures which can include, for example:

- Taxation treatments, including distorting levels of stamp duty (which deter changes of ownership).
- Lower taxes on capital gains (and none on own residences).
- Negative gearing.

It is also important to note that any cost disadvantages to the new house purchaser, such as stamp duty, are internalised into a market decision, and become policy and planning irrelevant. In effect, stamp duty acts as a disincentive and barrier to first house buyers getting into the housing market.

This section of the report provides estimates of the financial and economic impacts of the State Government providing Stamp Duty exemptions on **new house/land packages** offered for sale in South Australia. These estimates are based on a range of financial and economic assumptions detailed in this report and are undertaken at two new house/land price points being:

- $650,000 – Comparable with recent stamp duty reductions in New South Wales and Victoria.
- $560,000 – The current metropolitan Adelaide median price[9] (September 2021).

It is important to note in the context of this study that all industry sectors pay taxes, and that the provision of government services depends to a large extent on these tax revenues. There are two very important questions regarding industry tax incidence – what the level of the tax is and to what extent does it create resource distortions and negative economic impacts – the subjects of this section of the report.

The following key assumptions are made in estimating the financial and economic impacts of the State Government providing Stamp Duty exemptions on new house/land packages offered for sale at $650,000 and $560,000 respectively:

- Stamp duty exemptions will apply to 1,000 new house/land packages per annum.
- There is a conservative, or **Low Case Scenario**, market supply response of 1,000 additional houses constructed per annum and there is no transfer from established house sales. This is consistent with the market responses in Victoria and New South Wales where the number of first home buyer dwellings financed increased by approximately 770 (34.95%) and 990 (73.6%) per month respectively during 2017/18 following the recent stamp duty reductions[10]. Based on 4,266 first home buyer grants allocated in South Australia during

[9] Source: www.sa.gov.au
[10] Source: Data supplied by the Master Builders Association based on ABS Cat No. 5609.0, Housing Finance, June 2018

2020/21[11], a similar response to Victoria (34.95%) would result in approximately 1,490 new dwellings financed.

- Stamp Duty on the sale of a new house/land property is calculated using the Revenue SA tax calculator (as detailed above) and estimated to be $29,580 and $24,630 for $650,000 and $560,000 houses respectively.

- GST is assumed to be applied at a rate of 10% but has 10% deducted on the costs of inputs including development costs and materials. The following broad cost assumptions are made based on industry standards[12]:

House Price	$650,000	$560,000
GST Component	$59,090	$50,909
Development Costs (12%)	$78,000	$67,200
Materials (28%)	$182,000	$156,800
Net GST Paid (5.45%)	$35,425	$30,520

- It is further conservatively assumed that South Australia's share of the additional net GST receipts is 100% (It is estimated that SA will receive 9.3% of GST payments in 2021/22, greater than its national population share of 7.14%[13]. SA's GST share per dollar raised was estimated to be $1.47 in 2018/19).

- Land tax on rental properties costing $650,000 and $560,000 is calculated in accordance with using Revenue SA calculator and is $840 and $390 respectively. It is assumed that the rental market is 5% of the new housing stock.

- It is assumed that businesses involved in new house construction pay Payroll Tax at the rate of 4.95% and that the average wage in South Australia is $81,635[14].

- Based on Hudson Howells Input Output Tables for South Australia, 4,000 and 4,693 full time equivalent jobs are generated (direct and indirect or multiplier impact) in one year by the additional economic activity associated with the market supply response of an additional 1,000 new houses at $560,000 and $650,000 respectively. It is assumed that the South Australian economy has the spare capacity and under-employment to take up these jobs and that the additional housing construction does not divert resources from other State projects.

The following table summarises the results of the financial and economic modelling associated with abolishing stamp duty for houses valued at $650,000 and $560,000 respectively:

11 Source: https://www.revenuesa.sa.gov.au/resources/statistics

12 Source: Industry Representatives

13 Source: Federal Budget Paper No. 3, Budget 2021-22

14 Source: ABS Average Weekly Full Time Earnings, May 2021

Summary of Financial and Economic Modelling – Low Case Scenario		
House Price	$650,000	$560,000
Additional Houses Constructed	1,000	1,000
Additional FTE Jobs	4,693	4,000
Additional Payroll Tax Received	$18,964,096	$16,164,053
Additional Land Tax Received	$42,000	$19,500
Additional GST Received	$35,454,042	$30,545,021
Stamp Duty Lost	$29,580,000	$24,630,000
Net State Government Gain	**$24,880,138**	**$22,098,574**

As noted above, this analysis is based on a conservative market supply response of 1,000 additional houses constructed per annum. Based on the Victorian and New South Wales responses, this is considered a **Low Case Scenario** reaction to stamp duty exemptions up to the assessed house prices. A similar response to Victoria (34.95%) would result in approximately 1,490 new dwellings financed per annum. **Medium and High Case Scenarios** of 1,250 and 1,500 additional houses per annum have therefore also been modelled and are summarised in the following tables:

Summary of Financial and Economic Modelling – Medium Case Scenario		
House Price	$650,000	$560,000
Additional Houses Constructed	1,250	1,250
Additional FTE Jobs	5,866	5,000
Additional Payroll Tax Received	$23,705,120	$20,205,067
Additional Land Tax Received	$52,500	$24,375
Additional GST Received	$44,317,553	$38,181,276
Stamp Duty Lost	$36,975,000	$30,787,500
Net State Government Gain	**$31,100,173**	**$27,623,218**

Summary of Financial and Economic Modelling – High Case Scenario		
House Price	$650,000	$560,000
Additional Houses Constructed	1,500	1,500
Additional FTE Jobs	7,040	6,000
Additional Payroll Tax Received	$28,446,144	$24,246,080
Additional Land Tax Received	$63,000	$29,250
Additional GST Received	$53,181,063	$45,817,531
Stamp Duty Lost	$44,370,000	$36,945,000
Net State Government Gain	**$37,320,207**	**$33,147,861**

The stimulus to State Government taxation associated with increased house construction is reflected in the 2021 – 22 Budget which highlights:

> *Conveyance duty revenue is expected to grow by 16.9 per cent in 2020-21, with total collections estimated to be $214 million higher than estimated as part of the 2020-21 Budget. The strong growth in 2020-21 reflects heightened residential property market activity due to the Commonwealth Government's HomeBuilder grants and broader strength in the property market..*[15]

[15] South Australian 2021 – 22 Budget Statement, p.42

It must be noted that the above estimates assume an appropriate **supply response** to the abolition of Stamp Duty on new house/land packages without which there could be substantial upward pressure on prices (increased demand without a supply response) and there would be a likely net cost to the community associated with the stamp duty lost. It is also highlighted that it is assumed that the South Australian economy has the spare capacity and under-employment to take up the additional FTE jobs and that the additional housing construction does not divert resources from other State projects.

The above estimated Net State Government Gains must be considered within the context of State Government policy options. For example, the gains assume that the stamp duty exemption is limited to the specified number of additional new houses constructed for first home buyers (1000, 1250 and 1500). There were however, 4,266 recipients of the First Home Owner's Grant Scheme (new and existing houses) of $15,000 in 2020/21, at a cost to the State Government of $63.99 million. If this scheme was replaced by stamp duty exemption the State Government's gain would increase by $15 million, $18.75 million and $22.5 million for 1,000, 1,250 and 1,500 houses respectively.

Alternatively, the State Government could cancel the First Home Owner's Scheme altogether (at a saving of $63.99 million) and exempt all first home owners from stamp duty at an estimated cost of $105 million, based on the current Adelaide metropolitan median price of $560,000. There would however be a corresponding economic and tax stimulus as demonstrated above and discussed later in this report.

It should also be noted that the above results do not include additional Council rate benefits that will accrue to local government because of the additional housing.

In summary, a range of reviews and studies over the past 15 years have all concluded that stamp duty is a highly inefficient tax that distorts the supply and demand balance for new housing, is a disincentive for new house buyers (and existing) and is a major impediment to economic growth.

Provided that there is an appropriate supply and regulatory response, as detailed above there are potentially significant financial and economic benefits that will accrue to the community through the application of stamp duty exemptions on new house/land purchases.

In summary, it is therefore concluded that:

- All reviews of stamp duty economic impacts conclude that it is an inefficient and bad tax in the context of options available to governments.
- It impacts housing affordability for new home buyers, including the upfront price demand impacts and the ongoing financing over the term of a loan.
- It hinders mobility in the market.
- Stamp duty exemptions and/or concessions on new housing in South Australia will increase demand and supply of new housing with consequent socio-economic impacts of increased Gross State Product, net State Government financial gains and associated jobs from 4,000 FTEs in the Low Case Scenario up to 7,040 FTEs in the High Case Scenario.

6.0 The Current Situation in NSW

Stamp duty (also known as transfer duty) is payable in NSW upon purchasing the following:

- Property, including a home or holiday home.
- An investment property.
- Vacant land or a farming property.
- Commercial or industrial properties.
- A business which includes land.

Stamp duty is generally payable within three months of signing a contract for sale or transfer. Owner-occupiers buying off the plan have 15 months from the date of contract. It is typically calculated based on the property's sale price or its current market value, whichever is higher[16].

Current standard stamp duty rates applied from 1st July 2021 are:

Property value	Transfer duty rate
$0 to $14,000	$1.25 for every $100 (the minimum is $10)
$14,000 to $32,000	$175 plus $1.50 for every $100 over $14,000
$32,000 to $85,000	$445 plus $1.75 for every $100 over $32,000
$85,000 to $319,000	$1,372 plus $3.50 for every $100 over $85,000
$319,000 to $1,064,000	$9,562 plus $4.50 for every $100 over $319,000
Over $1,064,000	$43,087 plus $5.50 for every $100 over $1,064,000

Standard stamp duty rates to be applied from 1st February 2022 are:

Property value	Transfer duty rate
$0 to $14,000	$1.25 for every $100 (the minimum is $10)
$14,000 to $31,000	$175 plus $1.50 for every $100 over $14,000
$31,000 to $83,000	$430 plus $1.75 for every $100 over $31,000
$83,000 to $313,000	$1,340 plus $3.50 for every $100 over $83,000
$313,000 to $1,043,000	$9,390 plus $4.50 for every $100 over $313,000
Over $1,043,000	$42,240 plus $5.50 for every $100 over $1,043,000

[16] Source: https://www.nsw.gov.au/initiative/property-tax-reform/how-rates-would-be-calculated

Under the First Home Buyers Assistance Scheme, from 1st August 2021 stamp duty concessions have been available for first home buyers (new and existing homes) with a full exemption for a home valued up to $650,000 (previously $550,000) and concessional rates for new homes valued between $650,000 and $800,000 (previously $550,000 to $650,000)[17]. This is in addition to the $10,000 First Home Owner Grant (FHOG) for new home builders/buyers (new and no-one has lived in it) for property valued up to $750,000[18].

Land tax in NSW is an annual tax levied at the end of each calendar year on all property owned that is above a determined threshold. An individual's principal place of residence is exempt from this levy. The land tax is calculated on the total value of all taxable land above the threshold. Thresholds for land values change each year.

7.0 The NSW Property Tax Proposal

7.1 Overview and Proposal Objectives

A key objective of the NSW Property Tax Proposal is to boost home ownership, and in particular first home ownership. Other objectives include increasing the share of private dwellings that are owner occupied over time and lower average home prices in the long run.

Following industry and community consultation during 2020 and 2021, the NSW Government in June 2021 issued a Progress Paper on its Property Tax Proposal[19]. Driving change is a belief that the current Stamp Duty provisions have not kept pace with the way people live, work and move and specifically that it:

- Prevents people from living in the home that suits their lifestyle.
- Makes it harder for people who move for work or for family reasons to access the property market.

The proposed new property tax system would replace stamp duty with a small annual tax. The property tax would be an annual tax based on unimproved land value. The tax would consist of a fixed amount plus a rate applied to the unimproved land value of an individual property, and not aggregate landholdings. Importantly, **buyers would be given the choice of which tax to pay**. Buyers would be given the choice to pay the annual property tax at the time of purchase. It would replace stamp duty and (where applicable) land tax. Once a property is subject to the property tax, subsequent owners must pay the property tax.

As part of the proposed model, and to help with the transition to the new tax, the NSW Government is proposing to offer purchasers a choice between stamp duty (and land tax - where applicable) or an annual property tax. Making the new system 'opt-in' recognises the need for a fair and gradual transition, ensuring that those who have planned their property buying decisions around the existing system can stick with it if they prefer.

[17] Note: As a pandemic measure, the Government temporarily increased the thresholds to $800,000 and $1 million for the year to July 2021

[18] Source: https://www.revenue.nsw.gov.au/taxes-duties-levies-royalties/transfer-duty/first-home-buyers

[19] NSW Government, NSW Property Tax Proposal, June 2021

Maintaining a hybrid system forever, in which every purchaser could choose whether to pay stamp duty or property tax, would not be fiscally sustainable. A perpetual hybrid system would leave more than 40 per cent of properties outside the property tax system, reducing the long-run productivity benefits of the reform by an equivalent amount. It is expected to take about 20 years for the property tax to cover half of all residential properties, with further take-up proceeding gradually in subsequent years. This gradual transition will ensure an extended period during which all property purchasers would have a choice of tax systems across a wide selection of properties.

Other important provisions, especially from a South Australian consideration perspective, include:

- Existing stamp duty concessions for first home buyers (see above) would be replaced with a grant of up to $25,000.
- There will be no double taxation – those not buying a property would not be required to pay the property tax.
- Residential owner-occupied and primary production properties would pay lower property tax rates than residential investment properties, which in turn would pay lower rates than commercial properties.
- Price thresholds would limit the number of properties initially eligible for transition to keep Government revenue and debt impacts within reasonable levels, while ensuring over 80 per cent of residential properties are eligible to opt-in from day one.
- In the short term, the reform would reduce the NSW Government's revenue. Over the longer-term, the property tax would be revenue neutral, collecting the same amount of revenue as stamp duty and land tax.

The estimated housing and economic impacts include:

- An additional 300,000 NSW residents achieving home ownership.
- An injection of $11 billion into the NSW economy over the first 4 years.
- In the long run, Gross State Product increase of 1.7% with annual incomes of NSW residents increasing by $10 billion ($3,300 per household).
- 75,000 additional jobs.
- An improvement of the relative tax position of owner-occupiers versus investors.
- A major economic stimulus as the State recovers from the Covid-19 crisis.
- Productivity benefits around 30 times higher than the up-front cost to the Government of implementing the reform.

This proposed reform is particularly relevant today when home prices are rapidly increasing across Australia and home ownership is becoming more difficult. In NSW, between 1995-96 and 2017-18, the average age of a first home buyer increased from 33 to 35 years and the share of first home buyers aged under 35 declined from 69% to 55%.

Based on data from Core Logic and the Australian Bureau of Statistics, the NSW Treasury has estimated that for a full-time worker who earns the NSW average annual earnings and saves 15% of their income, stamp duty adds 2.5 years to the time required to save a deposit of 20% of the average NSW property. Importantly for first home buyers, the Government estimates that approximately one-third do not qualify for the above concessions and pay the full stamp duty.

The June 2021 Progress Paper on the Property Tax Proposal highlights that numerous reviews and reports support the reform including:

- The 2020 NSW Review of Federal Financial Relations
- Review of State Business Taxes – Harvey Report (2001)
- IPART 2008 – Review of State Taxation
- The Henry Review (Commonwealth of Australia 2010) – Australia's Future Tax System Review
- The Lambert Review (NSW Treasury 2011) – NSW Financial Audit
- ACT Taxation Review (2012)
- Commonwealth Productivity Commission's "Shifting the Dial" review (2017)
- NSW Productivity White Paper (2021).

Community and business consultation on the proposed reform during 2020 and 2021 also reinforced the case for change.

Following is the property tax structure currently under consideration by the NSW Government:

PROPERTY CLASS	ANNUAL FIXED FEE PER PROPERTY	ANNUAL AD VALOREM RATE (BASED ON UNIMPROVED LAND VALUE)
Residential – owner-occupied	$400	0.3%
Residential – investor-owned	$1500	1.1%
Farmland	$0	0.3%
Commercial	$0	2.6%
Property tax surcharge on aggregate landholdings above $1.5 million of unimproved land (excluding principal place of residence and farmland)		0.3%

The rates above are designed to preserve the present value of long-run property tax revenue and take into account income tax deductibility of the property tax for investors and business owners. Over the long run, this rate structure is expected to increase the owner-occupied share of private dwellings by around 6 per cent, driving up rates of home ownership and reversing the last 20 years of declining home ownership.

While ownership duration varies widely, the median residential property is owned for around 18 years. If the proposed reform proceeds, it would typically take about that long for an owner-occupier's property tax to exceed the corresponding stamp duty.

Higher rates of home ownership would be generated by several factors:

- Up-front costs of home purchases would be lowered because there will be no obligation to pay stamp duty, and because home prices would be lower in the long run.
- Lower up-front costs are expected to particularly benefit first homeowners who have typically had less time than other purchasers to save for a deposit.
- The lower tax rates paid by owner occupiers as compared with investors.
- An expected increase in transaction volumes which would alter the holding periods of owner-occupiers and investors.

The NSW Property Tax Discussion Paper claims that:

- While removing stamp duty alone would cause upward pressure on home prices, that pressure would be counteracted under this proposal by the introduction of the property tax. The effective increase in housing supply would result in long-run downward pressure on home prices and rents.
- Removing stamp duty would result in a better allocation of housing: when people can move home more easily, they will be less likely to live in homes with underutilised spare rooms. This would permit any given level of housing stock to accommodate more people, resulting in an increase in effective supply of housing, and exerting downward pressure on prices.
- While the reduction in home prices would take time to realise, and the actual magnitude would depend on the final policy choices of the government, a reduction in home prices in the order of 3-4 per cent could reasonably be expected.
- Shifting from stamp duty to a tax on unimproved land values would mean that some of the tax burden shifts away from capital (the structure(s) on the land). Lower taxation of capital would encourage investment in better quality homes (e.g., more floorspace, more homes in the most favoured locations and better fixtures). The increased expenditure on capital improvements would be less than the tax savings meaning that total expenditure on housing would go down.

7.2 Fiscal Impact

If implemented, the NSW new property tax system would cost the Government large amounts of revenue for about twenty years. Over time, as more properties move to paying property tax, the annual revenue stream from the property tax would replace the annual stamp duty and land tax forgone. There is therefore no requirement to change other aspects of the Government's spending and revenue plans to fund the reform.

The proposal indicates that price thresholds would be used to restrict the number of residential and commercial properties that would initially be eligible to opt into the property tax. Over time, these thresholds would be lifted, as fiscal space allows. By initially focusing on the least valuable properties, this measure maximises the number of people who would be eligible to opt-in, while preserving stamp duty on the most valuable properties. Lower thresholds would provide a means of limiting the cost of the reform, although it would also delay the economic benefits. In principle, zero price thresholds could be used to exclude whole sectors in the initial stages of the reform.

For a revenue neutral reform, such as the NSW property tax proposal, the Commonwealth would gain more revenue than NSW as a result of the productivity benefits flowing through the general economy. NSW has proposed that the Commonwealth establish a Productivity Fund, which would reward states that engage in reforms that boost productivity. The Fund would use a part of the Commonwealth's fiscal gains from State reform, to incentivise all states to engage in productivity-enhancing reform.

7.3 Identified Proposal Risks

The following risks for implementing the proposal have been identified by the NSW Government:

- Regarding the use of unimproved land values, it is understood that these can both increase and decrease over time. The design of the proposed property tax needs to factor in this complexity and have measures to help offset fluctuations where applicable.

- The potential for future governments to change the tax rates to resolve any revenue shortfalls.

- The need for certainty around any annual increase and the potential for changing tax rates due to property values changing creates a challenge for the way that the property tax is designed. Annual property tax payments would need to adjust over time to ensure that State revenue grows in line with the economy and incomes.

- Setting tax rates as a percentage of unimproved land value could cause excessive volatility in annual property tax payments.

- Unimproved land values can grow faster than average incomes for extended periods.

In response to the above risks, the NSW Government is considering a system of indexation that would ensure average payments grow in line with average incomes. The system would be similar to the NSW cap on council rates, by which council rates are regularly adjusted to ensure total payments do not grow too fast. For an average property that had been opted-in to the property tax system, the amount of tax payable would change each year in line with an index of the growth of "Gross State Product per Capita" (GSP per capita).

7.4 Other Considerations

Other features of the proposed property tax under consideration by the NSW Government include:

- **Exemptions** - The Government is considering mapping existing exemptions from stamp duty and land tax to the proposed property tax system Existing stamp duty and land tax exemptions would remain for any properties that are not opted into the property tax. More detail on the guidelines being considered can be found at: www.nsw.gov.au/initiative/property-tax-reform/how-rates-would-be-calculated

- **Farmland -** The proposed property tax rate for farmland has been calculated to provide the same present value of revenue as is currently paid by owners of farms. Hardship eligibility rules acknowledge the exposure to extreme weather events by allowing automatic eligibility for the hardship scheme in the case of drought, floods or bushfires. Primary production land is exempt from land tax, and intergenerational transfers of farms are exempt from stamp duty.

- **Foreign Investors -** Foreign purchasers would not be eligible to opt-in a residential property to property tax. There would be no change to the existing stamp duty and land tax surcharges for foreign investors. Foreign investors would still need to pay surcharge stamp duty and surcharge land tax, in addition to any property tax. A foreign person could acquire a property that is already paying property tax and would then be required to pay the annual property tax in addition to any foreign investor surcharges.

- **Build to Rent -** If a build-to rent project is undertaken on a property tax property, once the development is complete the fixed charge would be applied to each dwelling on the site.

- **Developers** – The proposed reform would initially give developers the choice to pay property tax or stamp duty (provided the land is not already subject to the property tax). Residential property tax rates would apply when a property is capable of being used as a dwelling. Where a development site is sub-divided, each new property created as a result of the sub-division will remain in the same tax system as the property before the sub-division.

- **Commercial Properties with a Residential Use -** Asset classes that constitute dwellings under the existing rules would be subject to one of the residential rates. Asset classes that do not constitute dwellings (e.g. hotels) would be subject to the commercial rate, unless they are eligible for a land tax exemption in which case a lower rate of property tax would be available.

- **Mixed Use Properties -** Most mixed-use properties have an apportionment factor recorded by the Valuer-General. This specifies how much of the property is commercial and how much is residential. The property tax for these properties would be apportioned, based on this apportionment factor.

- **Residential Tenant Rent Impacts** - The reform is not expected to change rents for residential properties in the near term. In the longer term, the reform would exert downward pressure on rents for the same reasons that prices are expected to be lower. To provide additional reassurance that residential rents would not be affected by the reform, the Government would request quarterly monitoring reports by the Independent Pricing and Regulatory Tribunal (IPART). IPART would be asked to consider a cross-section of rental properties, including periodic and fixed tenancies. The Government would consider IPART's analysis and respond as appropriate.

- **Commercial Tenant Impacts** - For commercial tenants, it is common for leases to include provisions that permit the pass-through of landlords' outgoings including State taxes related to land values. Where a landlord had opted into the property tax with such a lease in place, the property tax legislation would permit the landlord to continue to pass-through the amount of any land tax that would have been payable if the property had not been opted into the property tax. The landlord would not be permitted to pass through the property tax if it exceeds the amount of any land tax that would have been payable. This arrangement for outgoings could be altered by written agreement between landlord and tenant, including a new rental agreement, or a rent renegotiation agreed by the tenant.

- **Hardship** – The NSW Government would legislate to ensure that no-one would be required to sell their home or small business premises (including primary production land) because they cannot afford to pay the proposed property tax. Households who are suffering from hardship and are not able to meet their property tax payments would be permitted to defer those payments until the property is sold.

- **Retrospectivity and Interim Arrangements** - If the Government proceeds with the reform, people who purchase between the date of that announcement and the commencement of the legislation would be able to opt-in to the property tax. Retrospectivity is expected to significantly diminish market disruption during the period between the announcement that the reform would be proceeding and commencement of the legislation. People who purchase during this period would still be required to pay stamp duty within the normal period (because they would have purchased before any change in legislation excusing them from the obligation) but would be able to receive a refund of the stamp duty paid upon lodgement of an application to opt-in to the property tax retrospectively. People who plan to retrospectively opt-in to the property tax would need to understand that until the reform legislation is passed by Parliament, there is a risk that the reform will not eventuate. This means they **will still need to factor in stamp duty as an upfront cost until legislation is passed.**

Finally, the NSW Government provides the following diagram on its property reform website to indicate the proposed new system from a home buyers perspective:

PRE-PURCHASE

1. Should I choose Property Tax?
2. Is the property already opted in?
3. How much can I borrow?

PURCHASE OR TRANSFER

4. I will need to know the land value of my intended purchase/ Transfer and the associated property tax payment
5. I will need to indicate that I chose to opt in to property tax

ONGOING PAYMENTS

6. I will need to make regular payments, check up on any outstanding payments/refunds due and make RNSW aware of any changes in circumstance

SALE OF PROPERTY

7. I need to make a final pro-rata payment of property tax before i complete the sale of my property

8.0 Economic Impact of South Australia Adopting a Property Tax

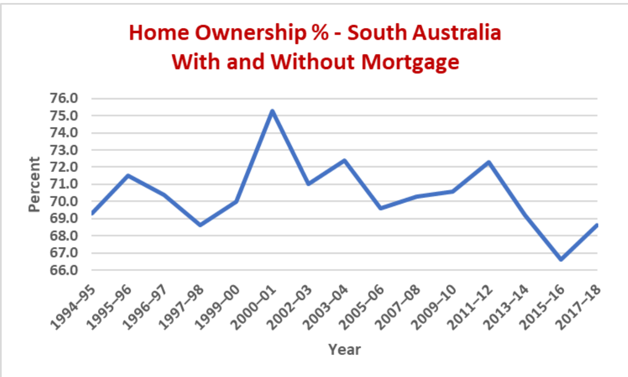
This section of the report considers the economic and financial impacts of South Australia phasing out stamp duty (conveyancing duty) and adopting a property tax similar to that proposed in New South Wales. Note that the NSW proposal includes:

- Phasing out of stamp duty on all property categories – residential, commercial and farmland.
- Replacement of existing stamp duty concessions for first home buyers with a first home owners grant of up to $25,000.
- Price thresholds that limit the number of properties initially eligible for transition to keep Government revenue and debt impacts within reasonable levels, while ensuring over 80 per cent of residential properties are eligible to opt-in from day one.
- The proposed property tax rates are structured so that an individual owner-occupier's accumulated property tax would take approximately 18 years to exceed what the corresponding stamp duty might have been. This is the median time that residential properties are held in NSW.

The key objectives and benefits of such a policy shift would include:

- Increased home ownership.
- Increased first home ownership.
- Improved household mobility and choice.
- Improved economic performance.

The following chart demonstrates the decline in home ownership in South Australia over the last 20 years from over 75% to below 69%.



Source: https://www.abs.gov.au/statistics/people/housing/housing-occupancy-and-costs/2017-18#data-download

Key questions for policy makers include:

- What would be the economic impact of transitioning to a property tax similar to the NSW proposal in South Australia?

- What would be the financial impact on State Government income?
- What would be the overall community benefit/cost position of implementing a similar policy to that proposed in NSW.

Key issues in all 3 questions are the propensity of new and existing house buyers to shift between tax structures, and what the impact will be on home ownership, new house construction and overall economic activity.

Other than the analysis and estimates contained in the NSW proposal, there is little evidence to substantiate how these shifts will occur.

As detailed earlier in this report, the NSW proposal contains the following estimated impacts:

- An additional 300,000 NSW residents achieving home ownership.
- An injection of $11 billion into the NSW economy over the first 4 years.
- In the long run, Gross State Product increase of 1.7% with annual incomes of NSW residents increasing by $10 billion ($3,300 per household).
- 75,000 additional jobs.
- An improvement of the relative tax position of owner-occupiers versus investors.
- A major economic stimulus as the State recovers from the Covid-19 crisis.
- Productivity benefits around 30 times higher than the up-front cost to the Government of implementing the reform.
- In the short term, the reform would reduce the NSW Government's revenue. Over the longer-term (20 years), the property tax would be revenue neutral, collecting the same amount of revenue as stamp duty and land tax. There is therefore no requirement to change other aspects of the Government's spending and revenue plans to fund the reform.
- The proposed structure is expected to increase the owner-occupied share of private dwellings by around 6 per cent.
- In the longer term, a reduction in home prices in the order of 3-4 per cent.

On a simple population percentage basis, similar results in South Australia would be (SA had approximately 21.6% of NSW population as at 30th June 2021):

- An additional 64,800 SA residents achieving home ownership.
- An injection of $2.38 billion into the SA economy over the first 4 years.

- In the long run, Gross State Product increase of 1.7% with annual incomes of NSW residents increasing by $2.16 billion ($3,300 per household).

- 16,200 additional jobs.

- A similar improvement of the relative tax position of owner-occupiers versus investors.

- A major economic stimulus as the State recovers from the Covid-19 crisis.

- Similar productivity benefits around 30 times higher than the up-front cost to the Government of implementing the reform.

- Similarly, in the short term, the reform would reduce the SA Government's revenue. Over the longer-term (20 years), the property tax would be revenue neutral, collecting the same amount of revenue as stamp duty and land tax. There is therefore no requirement to change other aspects of the Government's spending and revenue plans to fund the reform.

- The proposed structure is expected to increase the owner-occupied share of private dwellings by around 6 per cent. This would return SA to 75% home ownership.

- In the longer term, a similar reduction in home prices in the order of 3-4 per cent.

Should these benefits be realised, the proposed property tax reform would deliver South Australia a large benefit/cost outcome. Notwithstanding this potential outcome, the upfront cost to the State Government would be substantial as, based on the 2021 – 22 Budget Statement, Conveyancing Duty is expected to be $876 million ($955 million in 2020 – 21) representing approximately 18% of the State's total taxation revenue of $4,822 million).

Some key assumptions are necessary in order to test above economic outcomes for South Australia including:

- Similar to NSW, the initial loss of stamp duty revenue will not trigger changes to other State Government spending and revenue plans as, when substantially implemented, the policy will be revenue neutral over the median length of time that residential properties are held by owner-occupiers (18 years). That is, future annual revenue streams will be offsetting any lost up-font stamp duty which the government can plan and budget for accordingly. (It is noted however, that under the proposed NSW scheme, it is expected to take about 20 years for the property tax to cover half of all residential properties, with further take-up proceeding gradually in subsequent years).

- Based on today's population (i.e. excluding future population increases), 64,800 South Australian residents achieve home ownership over 20 years (3,240 per annum). This appears a reasonable and conservative assumption based on the NSW and Victorian responses to threshold limited new stamp duty exemptions for first home owners, and our medium case estimates earlier in this report for SA of an additional 1,250 new houses being built per annum (exemption limited to the median price of $560,000). A doubling to 3,240 per annum with no limiting threshold could reasonably be expected.

At SA's median house price of $560,000 per annum, 3,240 addition house builds per annum would see an injection of $1.8 billion into the State economy. Based on Hudson Howells Input Output Tables for South Australia, 12,960 full time equivalent jobs per annum (direct and indirect or multiplier impact) and $1.83 billion Gross State Product (GSP) would be supported by the additional economic activity. As these State economic benefits exclude any productivity and lower housing cost benefits, the above economic outcome estimates for SA of 16,200 jobs and $2.16 billion GSP are considered reasonable.

It is again assumed that the South Australian economy has the spare capacity and under-employment to take up these jobs and that the additional housing construction does not divert resources from other State projects.

In terms of the State Government's financial exposure, this will be determined by the rate of take up by residential, commercial and farmland purchasers. The NSW proposal seeks to limit the initial exposure using price thresholds to restrict the number of residential and commercial properties that would initially be eligible to opt into the property tax. Over time, as annual property taxes increase, these thresholds would be lifted. Zero price thresholds could be used to exclude whole sectors in the initial stages of the reform. Assuming the property tax is implemented evenly over 20 years, the first-year exposure would be 5% or $43.8 million.

While not considered necessary due to the long-term revenue neutrality of the proposal, this initial cost could be offset by terminating the First Home Owner's Scheme (cost of $64 million per annum at $15,000 per transaction). First home owners would still be better of as stamp duty on a median priced $560,000 house is $24,630.

As noted earlier in this report, if 1,250 of the 3,240 new homes are new builds, there would be other taxation clawbacks offsetting up-front stamp duty losses estimated to be $58 million per annum as follows (medium case at the median price):

- Additional Payroll Tax - $20 million per annum.
- Additional GST - $38 million per annum.