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Stamp duty a curse on housing

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STAMP duty has been singled out in the Federal Government's tax review as an inefficient tax which has made Australia over-dependent on property revenue.

While Australia is a "low-tax country", a detailed Treasury paper says the level of tax imposed on business and property is relatively high, with taxes on business the highest among wealthy nations.

Property taxes - comprising stamp duty and investor land tax - account for almost 9 per cent of revenue, compared with an OECD average of 6 per cent. Conveyance stamp duties imposed by the states are the sixth biggest source of tax revenue in Australia, raising more than \$10 billion a year.

The Treasury criticism comes as the British Government considers suspending the tax for some home buyers, to revive a stagnating property market.

Australia's official home loan figures show the property market is struggling. The number of new loans taken out each month has slumped 25 per cent since the start of the year, under the weight of decade-high interest rates.

In its discussion paper released yesterday for the Federal Government's "root and branch" tax review, the Treasury said charging stamp duty on property sales created a "lock-in" effect which discouraged home owners from moving, dampening activity in the housing market.

"As a tax on transactions, stamp duties can discourage turnover and influence housing decisions. They may also encourage some home buyers to buy larger houses in order to avoid further stamp duty from subsequent moves into family-sized homes," the paper says.

Stamp duty also influenced the decisions of existing home owners. "Some people wishing to upsize may choose to renovate their existing home rather than move. For those who would prefer downsizing to a smaller house, stamp duties can pose an additional difficulty in the relocation process, by increasing the required return on the property sale before they are able to move."

Land tax had discouraged investment and pushed investors towards building apartments rather than houses.

The concerns raised in the paper are likely to spark a vigorous debate between the federal and state governments as the Treasury Secretary, Ken Henry, embarks on an 18-month review of the tax system, with a focus on simplifying it and boosting Australia's competitiveness.

Treasury's initial stocktake found Australians pay 125 separate federal, state and local taxes a year. Of these, 10 raise 90 per cent of tax revenue, suggesting the rest may be inefficient and need to be rationalised.

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However, the Treasurer, Wayne Swan, refused to say yesterday whether he wanted to cut the number of taxes.

The Government will fund a \$26 million scheme where the states will speed up building approvals using an electronic assessment process. However, NSW's share is only \$6 million, despite being entitled to almost \$9 million by population, because it built relatively few properties in the past five years.

This story was found at: <http://www.smh.com.au/articles/2008/08/06/1217702143368.html>