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Gavin Wood, Ian Winter

Swapping stamp duty for land tax would improve affordability: Institute

By Jonathan Chancellor
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Scrapping stamp duties in favour of a broad-based land tax – as recommended by the Henry Review of tax — could reduce land prices by up to 10%, research by the Australian Housing and Urban Research Institute (AHURI) suggests.

The findings did however suggest that the proposed land tax's capitalisation into land value reductions would more likely benefit well-to-do repeat home buyers and those with the financial capacity to invest in the higher-value segments of the market, rather than renters and home buyers in need of affordable housing, who will most likely seek to access housing in municipalities where property prices are lower.

The research shows the abolition of stamp duties and its replacement with a broad-based land tax would put downward pressure on land prices, improving affordability and increasing housing market efficiency by lowering the costs of moving.

It suggested it would encourage development of greyfield sites in inner areas where housing pressures are most acute. The institute suggests the tax reforms alone would not solve all the problems surrounding Australian housing affordability, but described them as an important first step.

But the research found that a land tax based on square metre land values would radically change the spatial incidence of the revenue by concentrating the tax burden in the inner ring of business districts and suburbs.

Almost half of the land tax revenue would be raised from land plots within 10 kilometres of the CBD (in the survey's case of Melbourne), where land was most expensive.

Less than one-third of stamp duty revenue is currently levied from property transactions within the same 10-kilometre ring.

"On the other hand, the tax burden would be lower on the urban fringe where land is comparative cheaper," senior AHURI researcher Professor Gavin Wood says.

"For example, within the 30- to 40- and 40- to 50-kilometre bands, only 4% of land tax revenue will be raised, as compared to 15% under stamp duties."

The report acknowledged that the business sector had not been considered in the survey simulations, but it was clear that any redesign of the land tax could place relatively high land tax liabilities on businesses clustered around the CBD.

"It will therefore encourage some relocation and hence more employment opportunities in urban growth corridors, where some businesses can be expected to move," the report suggests.

Wood presented the findings at the "Improving housing affordability through tax reform" seminar in Sydney yesterday.

"Downward pressure comes from the fact an annually levied land tax is hard to avoid," Wood says.

"Land is immobile and fixed in supply. So when a broad-based land tax is introduced, potential buyers reduce how much they are willing to pay by the expected value of the land tax liabilities.

“The price of land is thus reduced to the point where the after-tax return is equal to the return on other investments.

“Whereas stamp duty is only payable when a property is purchased, the land tax would make holding on to unused property an expensive exercise.”

The research modelling used 2006 property valuations and sales data in metropolitan Melbourne, with rates and thresholds set to match the revenue lost from abolishing stamp duty, ensuring the reform would be a cost-neutral exercise for state governments.

It found that the expected decline in land value as a result of the proposed land tax would be greatest in the suburbs in and around the CBD, where land is currently most expensive at over $500,000 on average.

“The 10% reduction in average land value will make housing closest to the CBD, where employment sites are concentrated, more affordable for those seeking to locate closer to employment opportunities in the city,” Wood says.

“However, in suburbs further away from the CBD where property prices are typically more affordable for first homebuyers, it was found that the percentage decline in mean land value will be noticeably lower at 6% or below.”

Dr Ian Winter, AHURI's executive director, suggests the reforms would be one step toward restoring some balance and fairness in Australian housing markets.

“Twenty-two per cent of Australians own 55% of the homes across our capital cities," Winter says, "making us not so much a nation of home owners but rather, a nation of landowners and renters.

“There is a very real danger the great Australian dream of home ownership is beyond the means of the current generation'.

AHURI research (Yates 2009) shows median house prices are outstripping borrowing capacity of average workers by more than $250,0000.

“Our current tax settings have rewarded speculative property investment and provided tax shelters at the expense of home ownership,” Winter says.

Present land tax arrangements

- Land tax is currently only levied on private rental housing and commercial or industrial use property
- Owner occupied housing and primary production are exempt from the land tax
- Land tax applies to the cumulative unimproved value of land:
- Single property owners typically have a small or more often zero tax liability, while multiple property owners have relatively high tax burdens
- This results in a contraction in the supply of rental housing
- The current setting place a barrier to the attraction of private finance (superannuation funds, for instance)
- Recommended land tax arrangements
- Tax applied to all land uses except primary production
- Tax levied on a per-square-metre basis
- Tax calculated per land holding