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National Housing Finance and Investment Corporation

Media release

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Mobility the key reason for stamp duty reform: NHFIC research

Removing stamp duty would increase housing mobility, lead to more efficient use of the nation's housing stock, and reduce state and territory revenue volatility, according to a new research paper by the National Housing Finance and Investment Corporation (NHFIC).

Released today, ***Stamp Duty Reform: Benefits and Challenges*** draws on the most recent data to assess the benefits and reform considerations when phasing out stamp duty in favour of a broad-based land tax.

Families across all states and territories, except the ACT, are paying substantially more stamp duty when they move house than they were 20 years ago which is hindering mobility and the efficient use of the housing stock, according to the research paper.

The paper also explores how replacing stamp duty with a broad-based land tax in all states and territories would help improve economic efficiency, and that a shorter phase in period could help limit the impact of house price growth on the cost of the transition. The aim of transitioning from stamp duty to land tax is not to increase revenue per se, and the paper demonstrates that the transition can be achieved in a revenue neutral way.

Key findings and highlights include:

- A household that bought a Sydney median priced house four times over the past 20 years would have paid more than 10 times the amount of duty than a household making only one purchase at the start of this period.
- Due to rising house prices, all states (except the ACT) have seen substantial increases in their effective rate of stamp duty over the last 20 years. Victoria now has Australia's largest effective rate of transfer duty on a median property at around 5.4% (around $45,000), compared to 4.2% (around $12,000) back in 2002.
- The typical household across all states (except the ACT) would be better off paying land tax on a median property than transfer duty. For example, a household in NSW would have to pay a broad-based land tax for more than fourteen years to be worse off, which is greater than the 12.4-year average holding period of a property.
- A short phase out period can help limit the impact of house price growth on the cost of transition. A revenue neutral swap between transfer duty and a broad-based land tax, under a slow house price growth scenario, would require approximately three times the amount of revenue as a faster transition ($94bn over a 20-year transition, compared with $32bn under a 5-year transition).
- The experience in ACT highlights challenges policy makers have in maintaining a revenue neutral transition during a longer phase out period. Despite reductions in stamp duty rates during the transition, stamp duty revenue collections haven't declined much, while residential (land tax) revenue has continued to grow.

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NHFIC CEO Nathan Dal Bon said the paper highlights the importance of housing tax policy design and the benefits of a broad-based land tax over stamp duty in improving housing outcomes.

“Encouraging more household mobility through reductions in stamp duty leads to more efficient use of the housing stock which means people can better ‘right-size’ their own housing arrangements in line with their individual preferences.”

“Households that are considering downsizing and upsizing, or just seeking more space when they are working at home during COVID-19 wouldn't be penalised under a broad-based land tax compared with the current stamp duty arrangements across most states,” Mr Dal Bon added.

The paper also considers a range of options available to policy makers to help speed up any transition and address equity issues raised as part of the reform, including crediting back households that recently paid duty and allowing asset rich, cash poor retirees to defer their land tax liabilities until their property is sold.

The *Stamp Duty Reform: Benefits and Challenges* research paper is available on the NHFIC website.

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