Australian Government

A tax plan for our future
Stronger • Fairer • Simpler

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STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

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Real Estate Institute of Australia.

The Real Estate Institute of Australia (REIA) is the peak national association for the real estate profession in Australia. The REIA's members are the State and Territory Real Estate Institutes, through which around 80% of real estate agencies are collectively represented. The real estate industry employs approximately 77,000 persons with most agencies having less than 10 employees. The value of real estate commissions are estimated to be around $9.8 b for 2011/2012 or nearly 1% of GDP.

STATEMENT OF PRIORITIES

Priority Reform Directions

The REIA's priority for reform is the abolition of state property taxes.

Property taxes are an unstable source of revenue

Property taxes provide a significant part of states' revenue yet they are a very unstable revenue source for the states with their quantum being directly related to the cyclical nature of the property market. Typically, around one half of all of the states' tax revenue is from property taxes including municipal rates. In the past, movements in state government expenditures have coincided with receipts from property tax revenues. As such, state governments' spending tends to exacerbate the impact of property cycles on their economies. According to the Henry Review "stamp duties on conveyances are inconsistent with the needs of a modern tax system. While a significant source of state tax revenue, they are volatile and highly inefficient and should be replaced with a more efficient means of raising revenue". Listed equities and other assets escape land tax and stamp duty – singling out property is inequitable.

Property taxes are inequitable

Property taxes are narrow based and discriminate against property owners yet at the same time adversely impact on non-property owners. Whilst the taxes are directly aimed at the property market they affect small business, tenants, home owners and investors. The introduction of state land taxes, for example, has decreased investment in rental housing and led to increased rents.

Stamp duties represent additional costs to property transactions, thereby discouraging turnover of housing and distorting choices between renting and buying, and between moving house and renovating. Individuals who move more frequently would pay more taxes than those who move less.

Others, who would have to buy or sell if they changed jobs, could be deterred by these costs thus reducing labour mobility. These distortions lead to a sub optimal match of housing stock with household needs, reduce investment in the property market and impede labour mobility.

Property taxes are inefficient

The Henry Review identified stamp duties as a most inefficient tax. They are a disincentive to buy property and distort investment decisions. The REIA would advocate tax reform initiatives be prioritized on the basis of efficiency payoffs. If complete abolition is not immediately feasible the most inefficient taxes should be priorities for rate reductions. Shifting the mix of state taxes and less of a reliance on relatively inefficient ones will yield economic benefits.

Benefits of Reducing Property Taxes

The states' increasing reliance on inefficient and inequitable taxes has an adverse impact on social and economic development. There are economic benefits – economic welfare, economic activity and investment - from reducing property taxes and placing a greater reliance on other, more efficient, taxes. The benefits are greatest in those states that have a greater reliance on property taxes.

Access Economics has estimated that the abolition of all state stamp duties and replacing them with more efficient taxes would increase household consumption by between 1.1% and 1.8%, the equivalent of between $6.1 billion and $9.9 billion (in 2005-06 prices). These estimates are of a scale that ranks with major microeconomic reforms. The BCTR submission to the Henry Review developed scenarios for change based on raising growth, raising competitiveness and maximising state tax reform. Under the scenarios it was shown that GDP growth of 1.7% could result from removing conveyancing and insurance duties and reducing land tax.

Financing Reform Proposals

Reform could be funded wholly or in part by a Federal and/or State broad based tax and involves replacing inefficient property taxes with more efficient revenue sources. REIA supports a wide-ranging review of the alternatives.

LIST OF ATTACHMENTS

None.