PropTrack

The Growing Burden of Stamp Duty

2024

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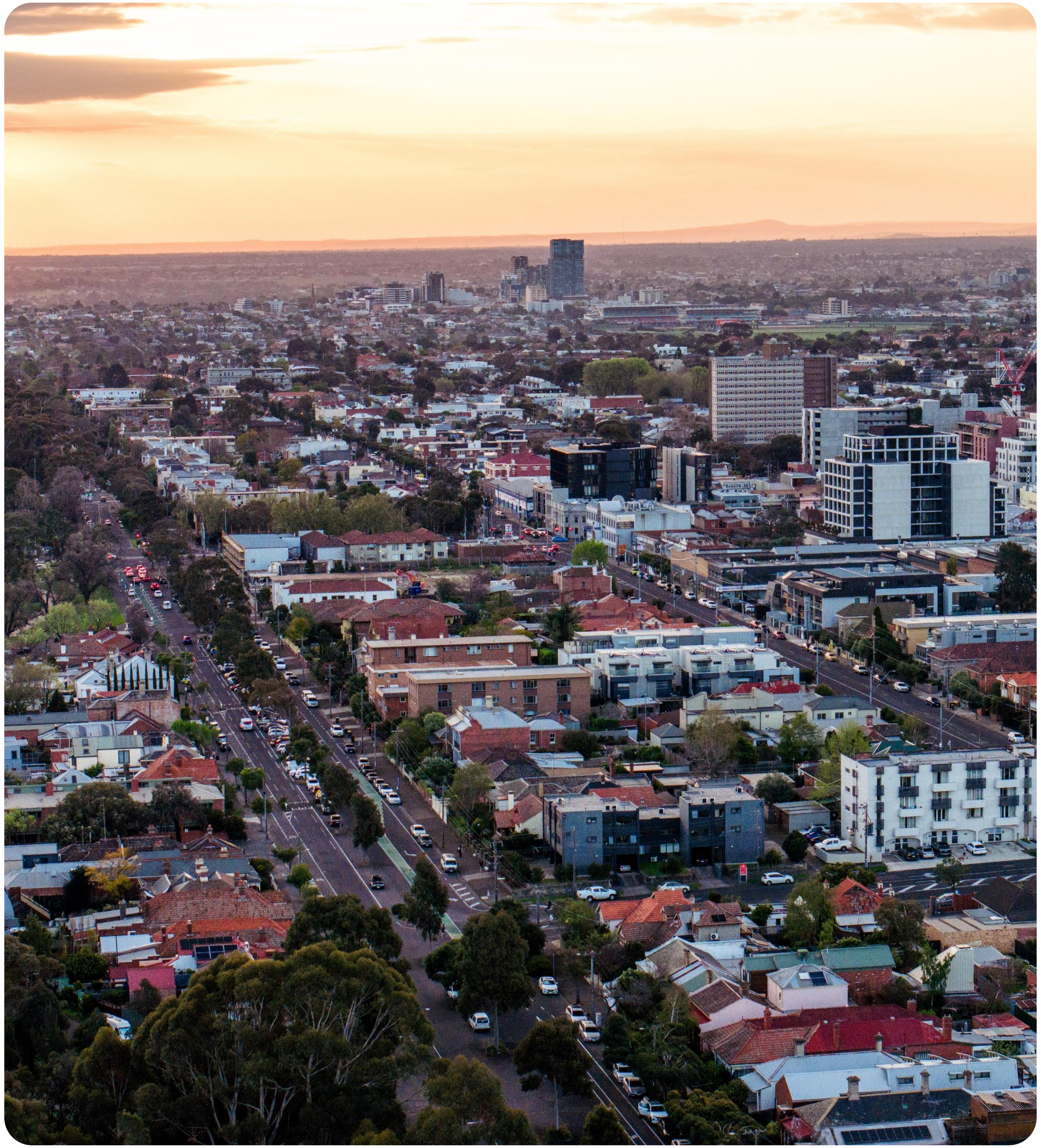
Executive Summary

Stamp duty is a significant cost for Australians looking to buy and move home. To buy a median-priced home, stamp duty costs **half a year's worth of income** in Sydney and Melbourne. Even for more-affordable homes in lower-taxing states, stamp duty costs the equivalent of two months of income.

This wasn't always the case. Stamp duty relative to incomes is four-and-a-half to **six times higher than a generation ago,** depending on the state. While home prices growing faster than incomes is part of the reason why, **bracket creep** has been a key driver. Nearly all buyers today pay stamp duty equivalent to 3% or more of a property's purchase price; in the early 1990s as few as 12% did.

This high burden carries real costs for Australia. Joint research undertaken by researchers at the e61 Institute and PropTrack finds that a **1 percentage point increase in the rate of stamp duty reduces the number of home sales by 7.2 percent**. Higher stamp duty makes people **less likely to move** within their local area or move interstate. This means people are less likely to move for jobs, which may hamper productivity. It also means that stamp duty is among the **least-efficient ways to raise revenue.**

There are real benefits from reforming stamp duty, but the transition will be challenging. Australia is **one of the most-reliant OECD nations on stamp duty**, and it is a significant source of revenue for states. Nonetheless, there are ways forward; the ACT and, more recently, Victoria show some of the possible models for transitioning away from stamp duty.



Owen Wilson

Chief Executive Officer,
REA Group

Stamp duty is an inefficient tax that distorts property market behaviour and negatively affects housing affordability, accessibility, and the Australian economy more broadly.

Stamp duty is a significant upfront cost for homebuyers, which makes it an obstacle to mobility, stopping homeowners from moving when they otherwise might choose to. It discourages households from downsizing when their home becomes too large for them, or delays homeowners from upsizing, locking them into homes that aren't suitable.

The high cost of stamp duty prohibits people from moving closer to their place of employment. That may discourage them from finding a new job further from home or forces them into a longer commute – contributing to congestion and necessitating further infrastructure spending.

Saving for a deposit is already a substantial hurdle for many first-home buyers. For new buyers not eligible for stamp duty relief, stamp duty adds tens of thousands of dollars needed in extra savings, delaying homeownership.

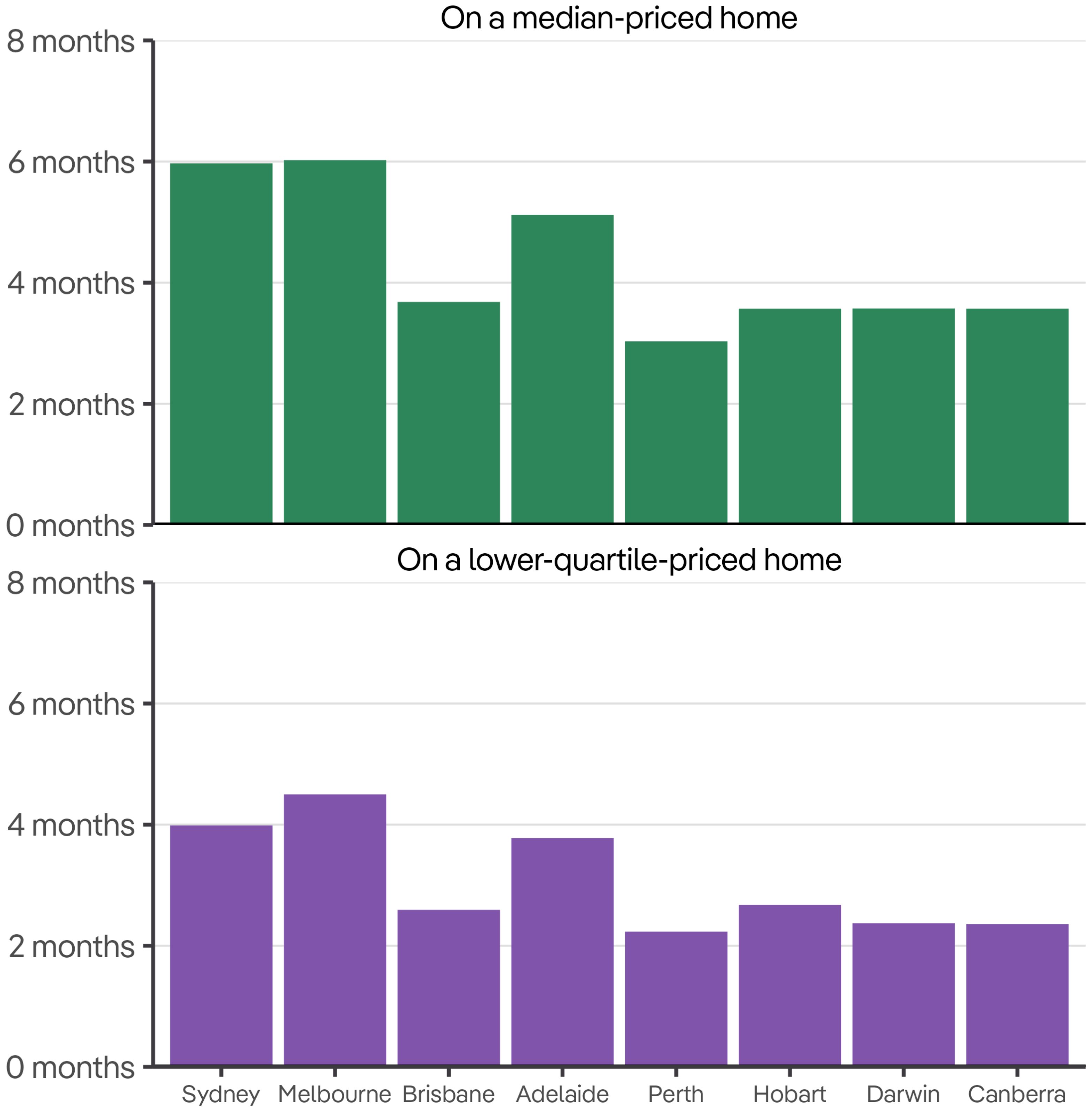
State governments need to strongly consider replacing stamp duty with a universal land tax. This transition will improve housing accessibility and affordability and remove many inefficiencies in our economy, while also delivering a more sustainable, efficient, and broad-based source of state government revenue.

I hope this report, and the joint research undertaken by PropTrack and the e61 Institute on which this report draws, provides the strong evidence base to convince policymakers to tackle this valuable reform.

Contents

Stamp duty compared to monthly earnings

As at December 23, average after-tax full-time earnings



Stamp duty is a significant upfront cost to moving home

The upfront cost of stamp duty is very significant in every state and territory.

A buyer purchasing a median-priced home in Sydney and Melbourne is looking at paying around $42,000-45,000 in stamp duty – equivalent to about six months of average after-tax full-time wages.

Even in jurisdictions where stamp duty is lower, like Perth, buyers need the equivalent of three months' worth of income to cover stamp duty.

While stamp duty rates across Australia are progressive – meaning buyers pay disproportionately more in stamp duty for more-expensive homes – even buyers looking at more-affordable homes face a large burden.

To buy a home at the 25th percentile – equivalent to $780,000 in Sydney or $610,000 in Melbourne – buyers still need about $30,000 to cover stamp duty, equivalent to 4-4.5 months' worth of income.

Even in states where the burden of stamp duty is lower, it is still substantial. Buyers of more-affordable homes in Perth, Darwin and Canberra – while better-off than their counterparts in other states – still need more than two months of income to cover stamp duty.

Source: PropTrack analysis, ABS
Note: Earnings are post-tax average for full-time employees; excluding stamp duty concessions

Today's homebuyers pay far more stamp duty than a generation ago

Previous generations of homebuyers did not pay as much stamp duty.

While all states have seen the burden of stamp duty increase compared to prior decades, the increase has been particularly acute in Melbourne. Compared to the early-to-mid 1980s, a buyer in Melbourne today faces a burden from stamp duty, relative to their income, that is 6.1 times higher. Stamp duty today is equivalent to 6 months of full-time after-tax income; in 1983 it was less than 1 month.

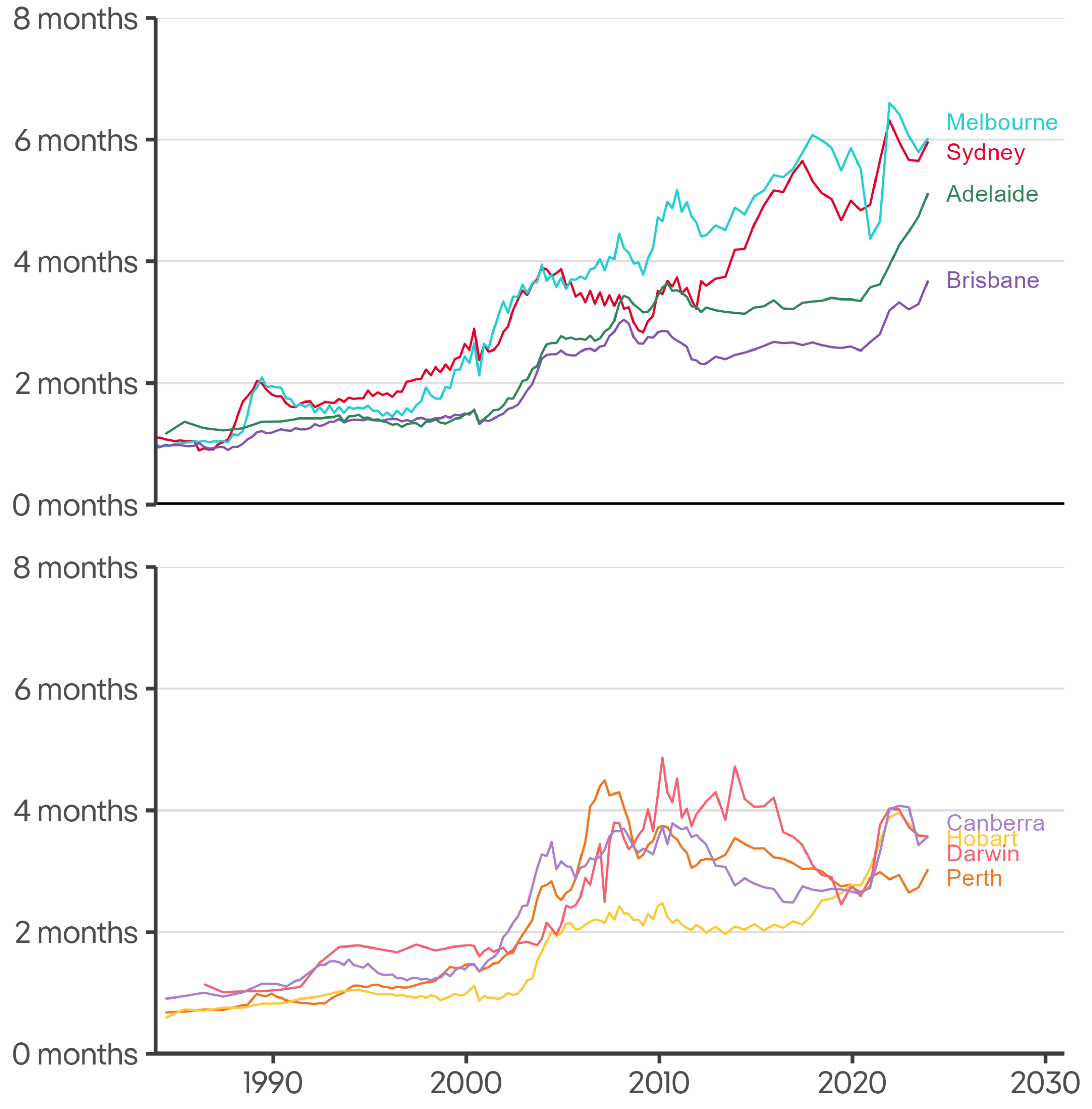
Similarly in Sydney, someone looking at buying a median-priced home today would pay just under $45,000 in stamp duty – equivalent to six months of income. In 1983 that same buyer would have needed to pay just $1,550, or 1.1 months of income. That represents a 5.4-fold increase.

While buyers in Brisbane face a lower burden than those in Sydney and Melbourne, they too have seen a substantial increase compared to a generation ago. For an owner-occupier, stamp duty relative to income is 5.5 times higher than four decades ago.

This story is true across the country, not just in the largest capitals. Stamp duty on a median-priced home in Adelaide is 4.4 times higher, relative to income. It is 4.5 times higher in Perth, and 6 times higher in Hobart.

Stamp duty compared to monthly earnings

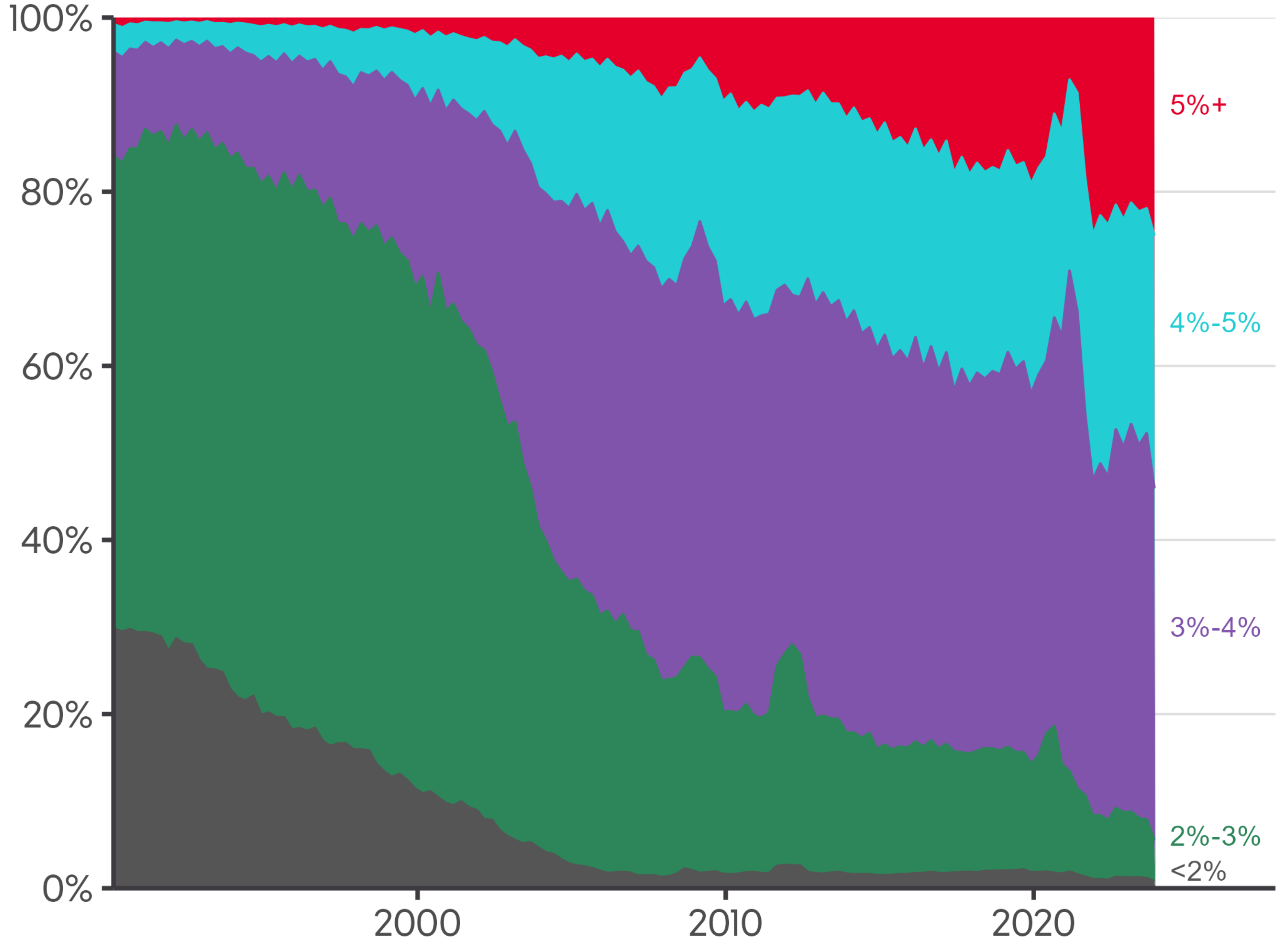
On a median-priced home



Source: PropTrack analysis, Abelson and Chung (2004), ABS
Note: Earnings are post-tax average for full-time employees; excluding stamp duty concessions

Stamp duty as a share of purchase price

Share of all sales, national, quarterly



Bracket creep has driven up the relative cost of stamp duty

The significant increase in stamp duty relative to earnings has occurred for two reasons: home prices have grown faster than incomes over the past decades, and stamp duty thresholds have not kept pace with home prices.

This latter fact, called "bracket creep", means that more homes have moved into higher-taxing stamp duty brackets compared to when the brackets were set. As a result, stamp duty today is much higher as a share of the purchase price than it was three decades ago.

For example, stamp duty rates in NSW were unchanged from 1986 until 2019 (except for adding a higher-taxing $3 million-plus bracket in 2004). When those rates were set in 1986, fewer than 2% of Sydney homes fell in the top 5.5% bracket for homes above $1 million. By 2019 (after which the brackets began to be indexed), 35% of homes did. Brisbane is similar; brackets were last set in 2012, when just 5% of homes fell in the $1 million top bracket. Today, 23% of homes do. South Australia provides a stark example. When brackets were last adjusted in 2002, just 4% of Adelaide homes sat above the top bracket (above $500k). Today, 75% of homes sold do.

The process of bracket creep means that 95% of buyers today face a stamp duty rate of 3% or more of a property's purchase price. In the early 1990s, as few as 12% of buyers did.

While bracket creep has been critical to the increasing burden of stamp duty, some states have also made policy changes to increase stamp duty by adding additional higher brackets. A higher-marginal-rate bracket was added in NSW in 2004 for homes above $3 million and Victoria added a higher-rate $2 million plus bracket in 2021.

Source: PropTrack analysis
Note: Does not include owner-occupier or first-home buyer concessions that may have been available on that sale

Some states have concessions for some buyers; but these do not come close to eliminating the burden

Not all buyers pay the base rate of stamp duty. Most states offer concessions to first-home buyers to reduce, or even eliminate, the stamp duty they must pay. And some states – Queensland, Victoria, the ACT, and Western Australia (to a very limited extent) – have concessions available for owner-occupiers.

Where available, these concessions do lower the burden of stamp duty, particularly for first-home buyers. Most states completely waive stamp duty for first-home buyers provided the home falls under a set price threshold.

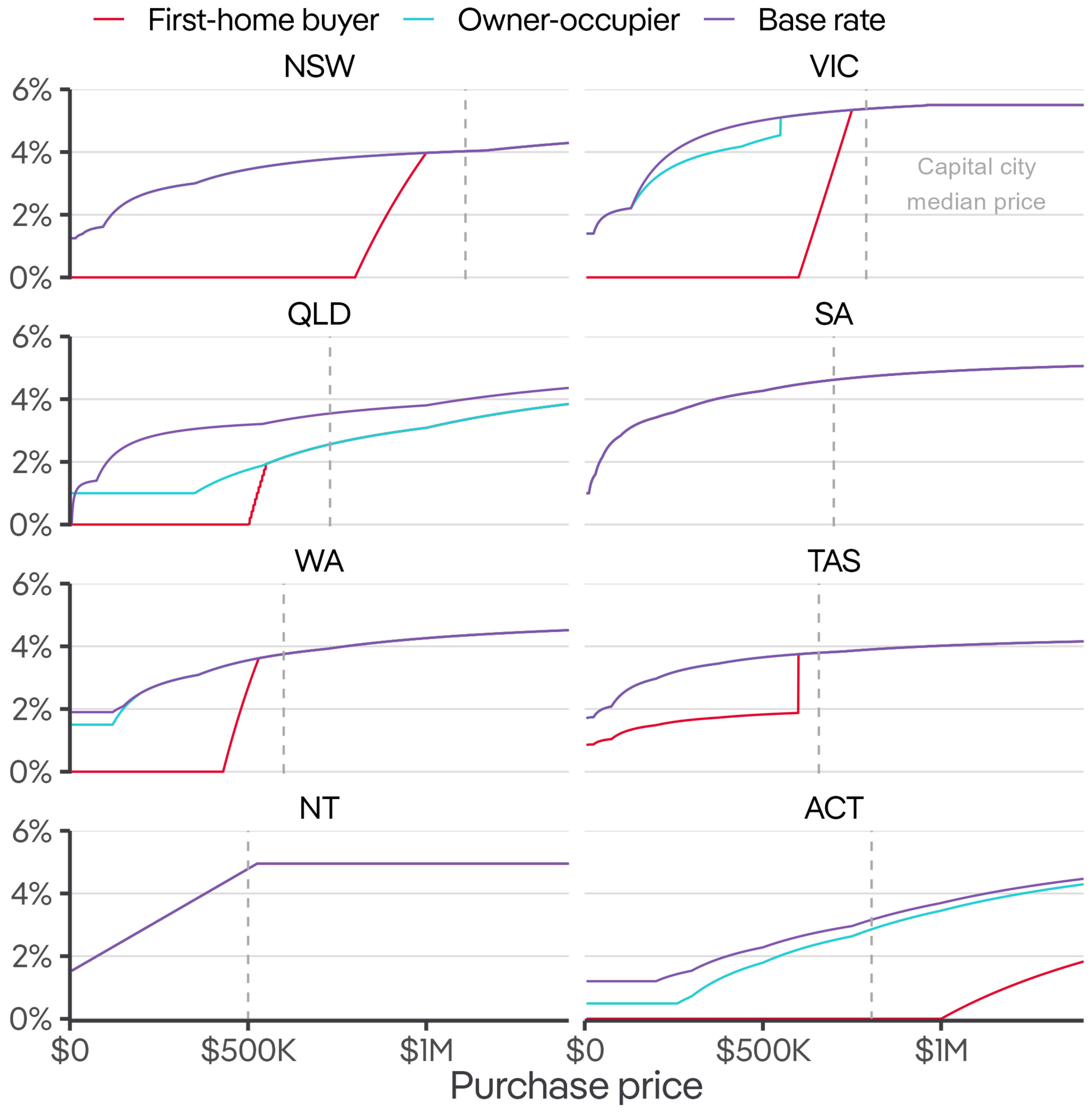
But, in most cases, these concessions are fairly limited. First-home buyer concessions cap out well below median prices in all cities (except the ACT, which does not have a price cap). This means that, by definition, more than half of homes in the city are not eligible for the concession.

Owner-occupier concessions are really only meaningful in Queensland and the ACT. Victoria's concession for owner-occupiers caps out at $550,000 – meaning just 20% of homes sold in 2023 were even eligible – and WA's at $200,000.

In Queensland, all owner-occupiers pay less stamp duty than investors regardless of purchase price. Any owner-occupier purchase over $350,000 pays $7,175 less than the base rate (and purchases below that receive a variable concession). Similarly, in the ACT, owner-occupiers pay $2,400 less on all purchases under $1.455 million.

Stamp duty as a share of purchase price

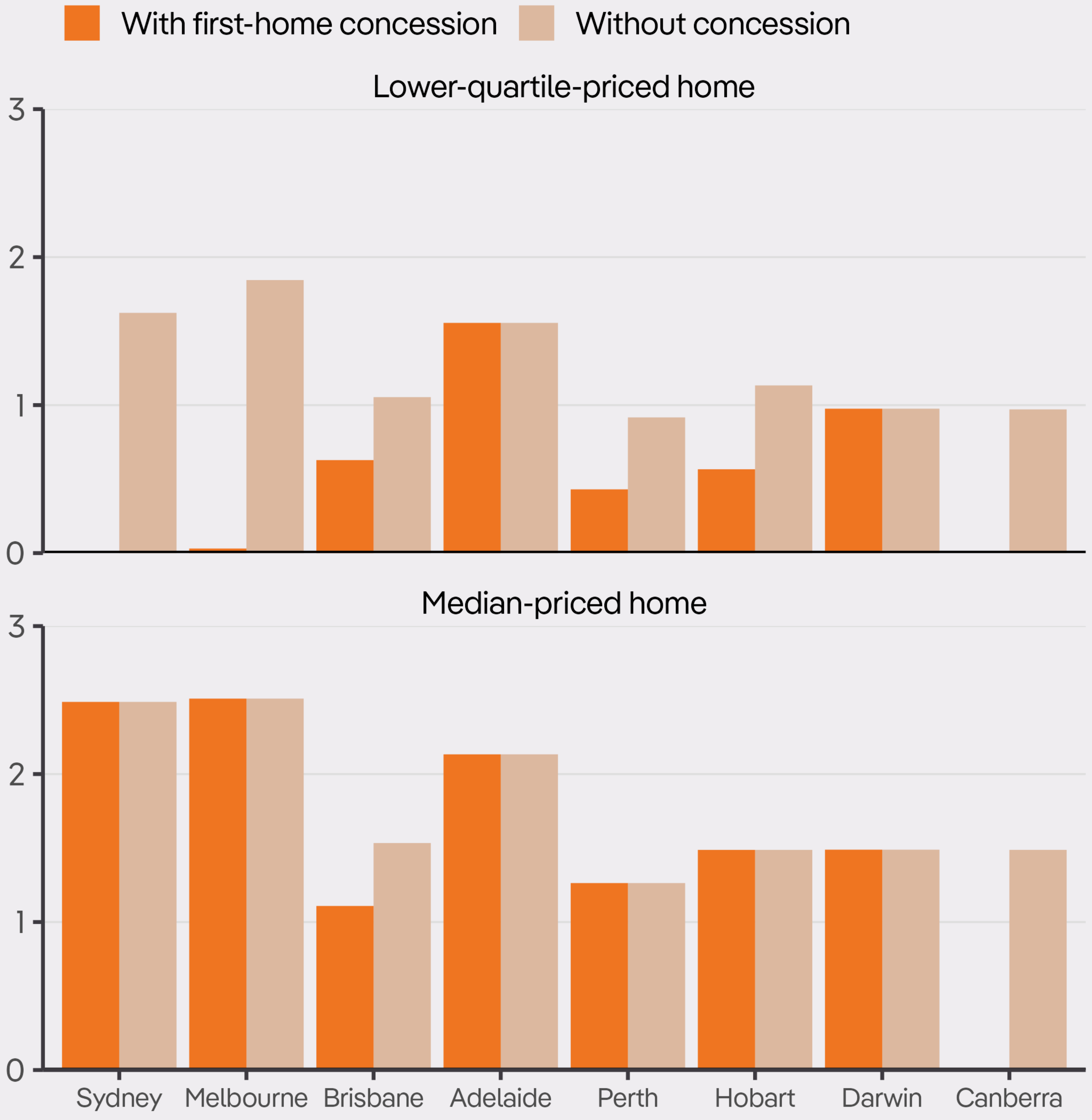
By buyer type, as at end-2023



Source: PropTrack analysis
Note: For purchases of existing homes only

Time for a first-home buyer to save stamp duty

Years of saving, single full-time earner



Source: PropTrack
Note: Concessions are for first-home buyers buying existing homes; assumes saving 20% of average full-time after-tax income

Stamp duty makes saving a deposit even harder for first-home buyers

Because stamp duty is an upfront cost to buying a home, it adds to the deposit that a first-home buyer must save. This extra saving matters because, for many first-time buyers, saving a deposit is a key constraint to being able to obtain a mortgage. The extra saving of stamp duty can delay homeownership for these buyers.[1]

State governments recognise the burden that stamp duty adds for first-home buyers, which is why most states offer concessions or complete waivers for first-home buyers.

NSW, Victoria, Queensland, WA, and Tasmania all offer schemes that reduce or waive stamp duty for first-home buyers purchasing existing homes, provided the home falls under a certain price threshold. The ACT offers a broader scheme that provides a concession regardless of purchase price, while SA and the NT do not have concessions.[2]

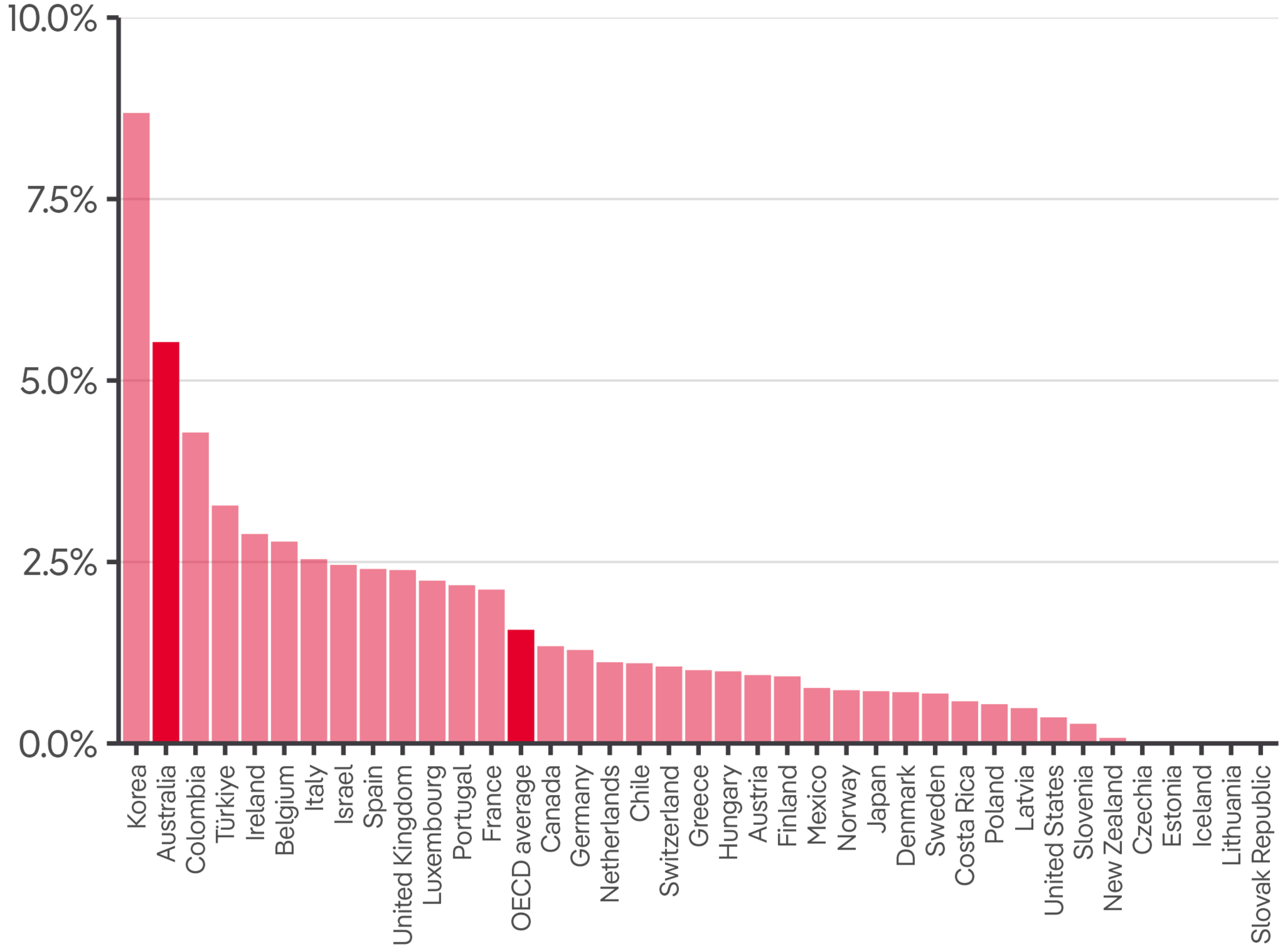
These schemes help. For first-time buyers looking at more-affordable homes, such as those valued at the lower-quartile – equivalent to $780k in Sydney or $610k in Melbourne – concessions drop stamp duty from roughly $30k to almost nothing. This is equivalent to as much as two years' of saving.[3]

But not all first-time buyers benefit. The concessions phase out in most states at relatively low price thresholds, meaning many homes are not eligible. Indeed, first-home buyers looking at median-priced homes will, in all but Brisbane and Canberra, receive no concession on stamp duty at all.

1) Best & Kleven (2018) show how deposit & leverage constraints can amplify the effect of stamp duty on people's willingness to move.
2) SA recently introduced a concession for off-the-plan and new builds for first-home buyers, but not for existing homes.
3) Assuming saving 20% of after-tax full-time average income for a single income earner

Stamp duty as a share of total tax revenue

2021, OECD countries, all levels of government



Source: OECD Revenue Statistics
Note: Transfer duties include taxes on financial capital transactions, so are broader than stamp duties on property transfers

Australia is unusual in how heavily we rely on stamp duty

Australia has an unusually high reliance on stamp duty among OECD nations. In 2021, 5.5% of government revenue – across all levels of government – came from stamp duty. That is second only to South Korea.[1]

Comparable nations like Canada (1.3%), the United Kingdom (2.4%) and New Zealand (which does not have stamp duty on residential property transfers) all rely far less on stamp duty to raise government revenue. Across the OECD, around 1.6% of government revenue comes from stamp duty – far below Australia's 5.5%.

Stamp duty revenues are very volatile, which means Australia's ranking can jump around from year-to-year. For instance, in 2019 – a quieter year for property markets than 2021 – Australia ranked third, with 3.7% of revenue coming from stamp duty. Nonetheless, Australia has ranked among the top three most-reliant nations for most of the past four decades.

That wasn't always the case. In the 1970s and early 1980s, Australia's reliance on stamp duty was much lower – around 2-3% of government revenue – and largely in line with the then OECD average.

1) OECD data on stamp duty are for taxes on financial and capital transactions. This is a broader category of taxes than transfer duties on conveyances (ie stamp duty). In Australia, other taxes on financial transactions account for only around 5% of taxes raised on financial and capital transactions, making it safe to treat this larger category as equivalent to transfer duty on conveyances in OECD statistics. To the extent other countries rely more heavily on taxes on other financial transactions, these statistics will *understate* Australia's unusually high reliance on stamp duty.

Joint e61 Institute-PropTrack research examines how stamp duty affects housing turnover

Joint e61 Institute-PropTrack research examines an August 2011 change to the concession for owner-occupiers in Queensland which, on average, doubled the rate of stamp duty that owner-occupiers had to pay (Garvin, La Cava, Moore & Wong 2024). This change is used as a "natural experiment" to identify the causal effects of stamp duty on housing turnover and how often people move home.

The research adopts a "triple difference" methodology that compares (a) how turnover for Queensland owner-occupiers changed relative to Queensland investors, and (b) how those groups compared to their counterparts in other states. This approach allows us to control for factors – such as the mining investment boom – that influenced Queensland differently to other states, as well as factors that may have affected just owner-occupiers or just investors.

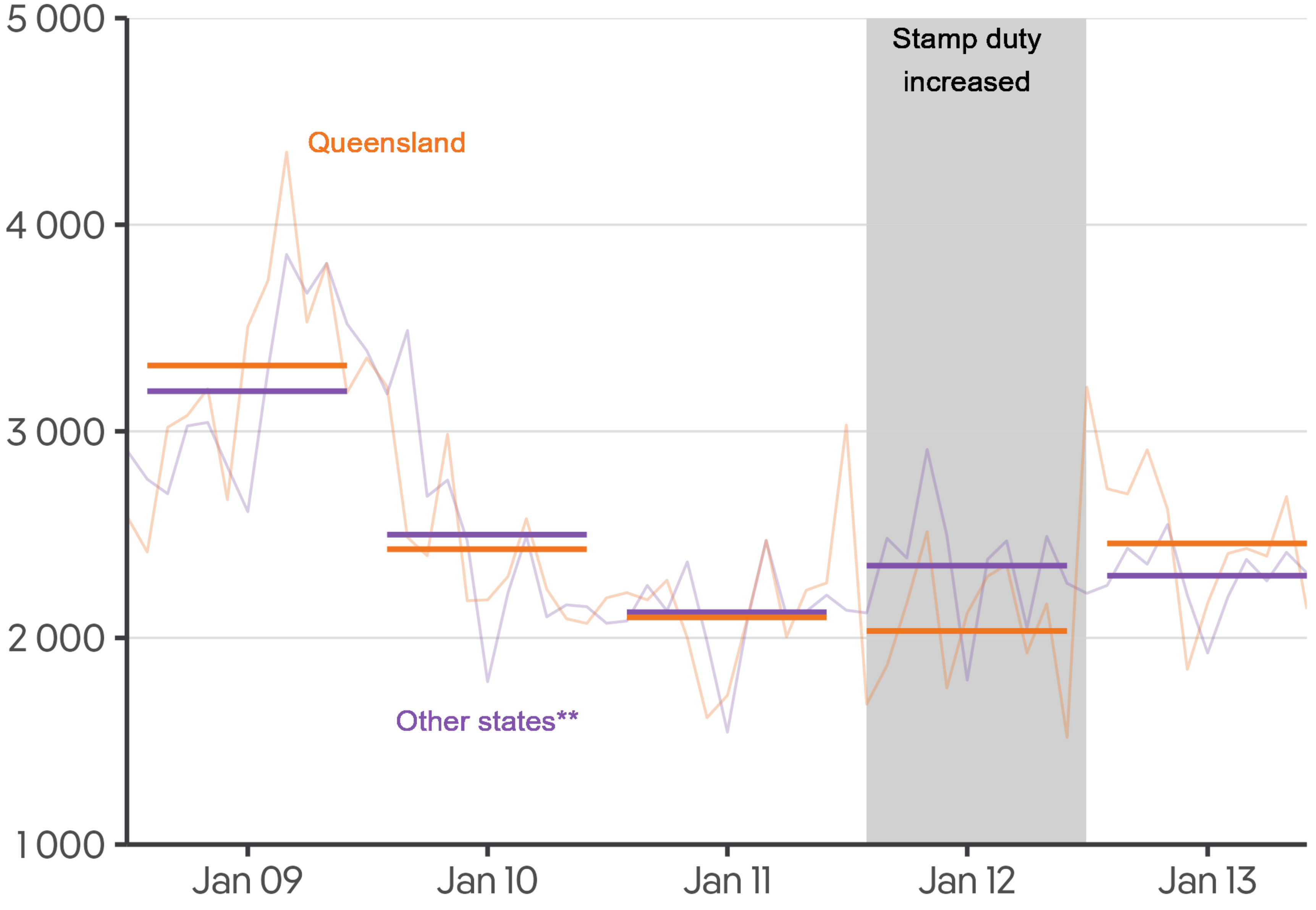
We implement this approach by measuring the difference between the number of owner-occupier sales and the number of investor sales at a local level in each financial year.[1]

The chart on the right shows this measure. While the difference in the number of investor and owner-occupier purchases varies over time, the variation is consistent between Queensland and other states in all but 2011-12 (when the stamp duty concession for owner-occupiers was removed). In that year, Queensland saw a larger fall in owner-occupier turnover, relative to investor turnover, than other states.

1) Sales are aggregated at the SA3-level and are matched to the non-Queensland SA3 that it most closely resembles over 2009-2011 financial years; NSW, Victoria, WA and SA did not have stamp duty changes over this period and so are used as the matching states. July is excluded from every financial year, because the stamp duty change occurred in August. For more detail on the approach see Garvin et al (2024).

Number of owner-occupier purchases minus number of investor purchases

Monthly with financial-year means*



Source: Garvin et al (2024), Figure 3
Note: * Financial-year means exclude July due to timing of policy change (see Garvin et al Box 1 and Section 1)
** Other states are the matched non-Queensland areas - see Garvin et al (2024) for detail on how areas are matched

The Queensland policy change

To understand the causal impact of stamp duty on housing market turnover, we use a mid-2011 change in stamp duty concessions in Queensland as a “natural experiment”. Prior to the change, owner-occupiers received a generous concession, which meant they paid far less stamp duty than investors when buying a home.

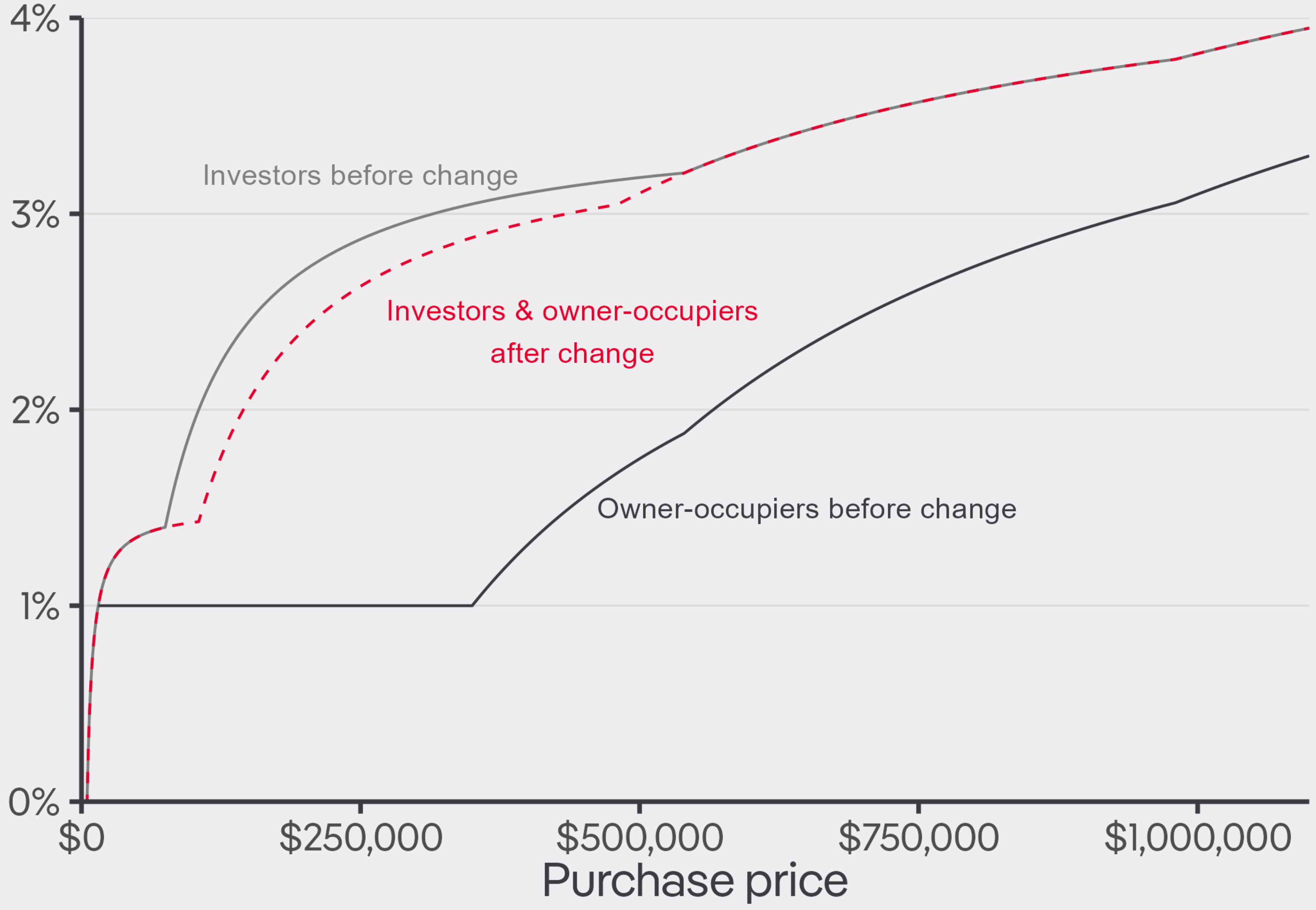
The removal of this concession in August 2011 meant owner-occupiers and investors paid the same rate, which raised the stamp duty burden for owner-occupiers, as a share of purchase price, by 1.01 percentage points (averaged across all transactions). The base rates were also adjusted slightly at the same time, which reduced the stamp duty burden for investors by 0.15 percentage points (on average).

This change ended up being temporary, though it was intended to be a permanent change when initially introduced. A change of government in March 2012 saw the concession for owner-occupiers reinstated from 1 July 2012 and investor rates also return to their previous schedule.

Because the incoming government had committed to reinstating the concession, anticipation effects are important – buyers plausibly understood the concession would return before it was reintroduced on 1 July. This issue, and its potential impact on these estimates, is discussed in detail in Garvin et al (2024). The concession for first-home buyers was also left unchanged; the implications of this are also discussed in Garvin et al (2024).

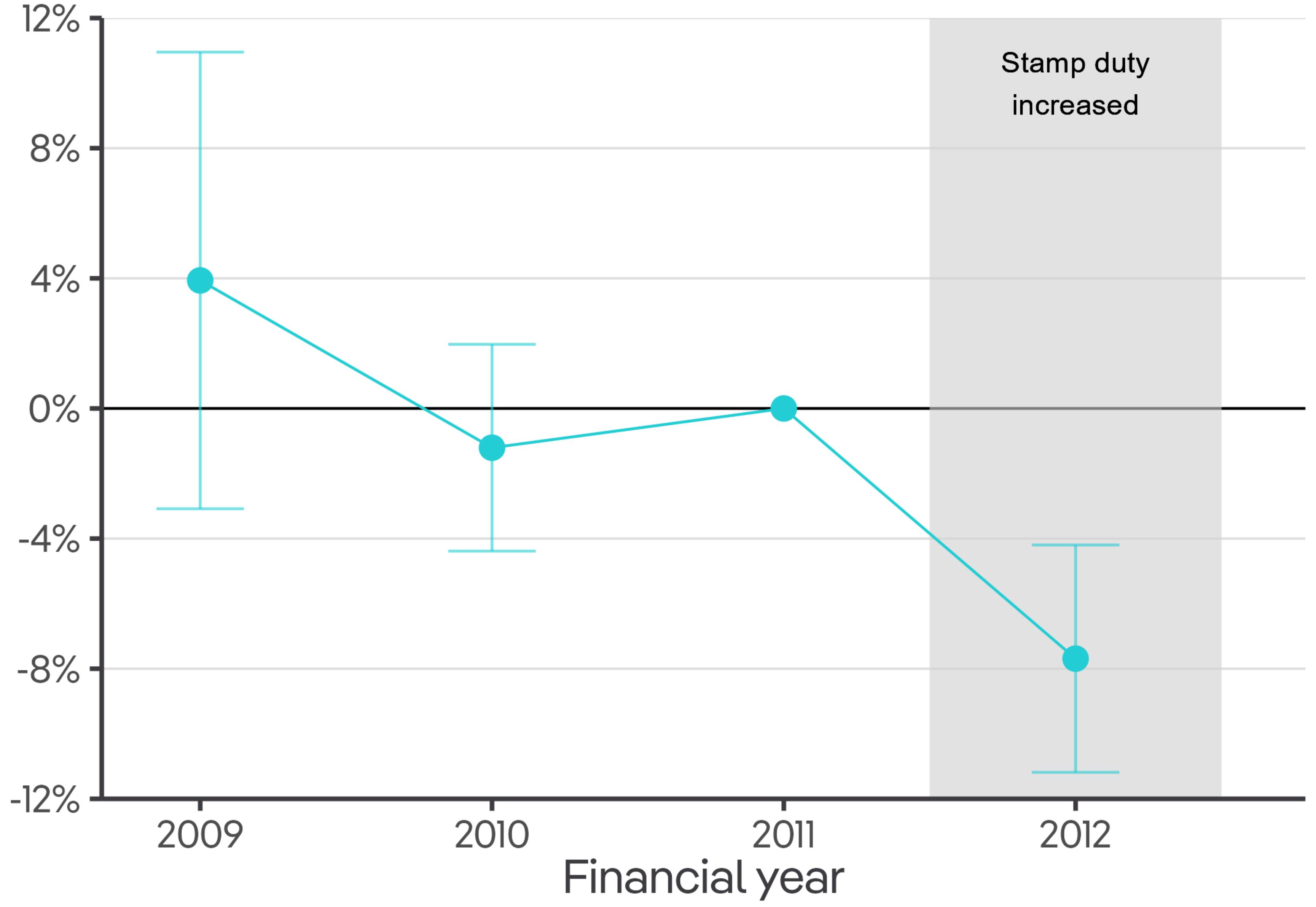
How stamp duty changed for Queensland buyers in mid-2011

Stamp duty as a share of purchase price



Change in Queensland owner-occupier purchases

Regression estimates



Source: Garvin et al (2024), Figure 4
Note: Shaded area shows 95% confidence interval; raw estimates are for SA3s, chart scales for all Queensland, and expresses as a % of total owner-occupier sales in FY2011

A 1 percentage point increase in stamp duty reduces sales activity by 7.2%

To estimate the causal effect of stamp duty on turnover, we regress the difference in turnover measure on dummy variables for each financial year in 2009-2012, interacted with a dummy variable for whether the SA3 is in Queensland.[1] For more detail on the approach see Garvin et al (2024).

The regression estimates find that the removal of the owner-occupier concession caused 7.7% fewer purchases across the period of the policy change (relative to sales volume in 2011-12). This estimate is statistically significant, and placebo tests support the robustness of the results (Garvin et al 2024, Figure 4).

Accounting for the size of the stamp duty change implies that a 1 percentage point increase in stamp duty (as a share of purchase price) leads to a 7.2% decrease in housing market turnover.[2]

This estimate is likely conservative. We cannot directly identify whether a purchase is an owner-occupier or investor from the raw transaction records. Instead, we infer it by matching property sales to whether the property is subsequently listed for rent. This matching is imperfect, which introduces measurement error and attenuates the estimate towards zero (Garvin et al 2024, Appendix C). On the other hand, buyers may have anticipated the removal or reintroduction of the concession, which may overstate our estimate; however, analysis of these anticipation effects suggests that, if anything, the 7.2% estimate is an under- rather than over-estimate (Garvin et al 2024, Section 3).

1) We also include SA3 and financial year fixed effects.
2) This elasticity estimate accounts for the fact that (1) investors saw a slight decrease in stamp duty payable (2) first-home buyer concessions were unchanged, meaning eligible first-home buyers saw no change to their stamp duty (and we cannot identify first-home buyers in the transaction data) (3) stamp duty increased by a little more than 1 percentage point, averaged across all transactions. Appendix C of Garvin et al (2024) details the assumptions and calculations for this elasticity in detail.

By discouraging people from buying and selling, stamp duty reduces the likelihood that people move home

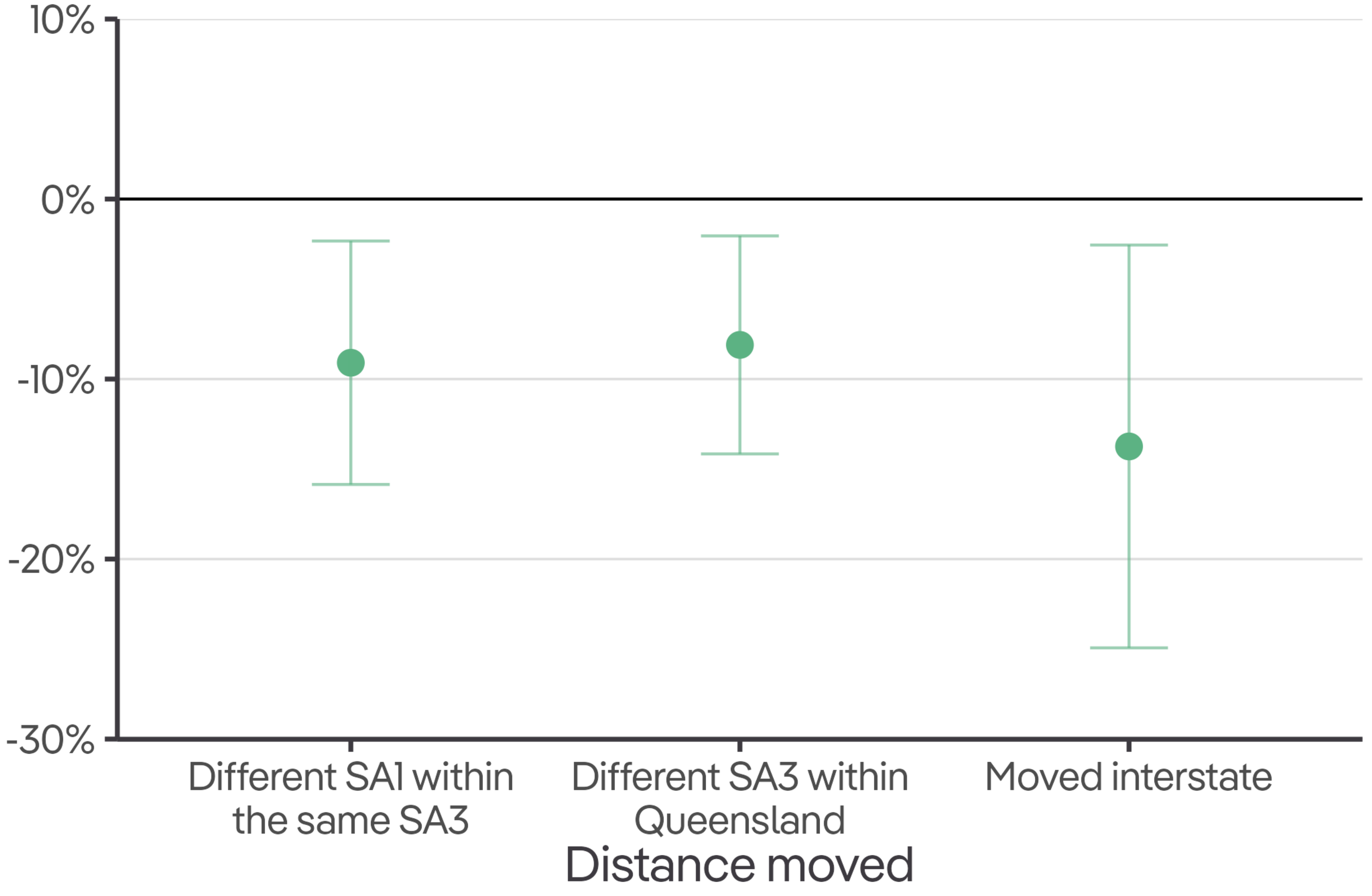
Analysis by Garvin et al (2024) of ABS data on when people move shows that stamp duty also reduces the rate at which people move. This is unsurprising – fewer purchases and sales by owner-occupiers should correlate with a lower rate of people moving.

Estimates find that Queenslanders were less likely to move home in 2011-12 when stamp duty was increased, and that moves of all distances were affected.[1] The likelihood that owner-occupiers would move a short distance fell by 0.8 percentage points (from ~9.2% to ~8.4%), equivalent to a decline of 9%. For moves to other states – which are rarer to begin with – the likelihood of an owner-occupier moving interstate fell 0.16 percentage points from around 1.2% at baseline, meaning homeowners were 14% less likely to move interstate after stamp duty was hiked.

1) Garvin et al (2024).

Reduction in Queensland movement rate due to increased stamp duty

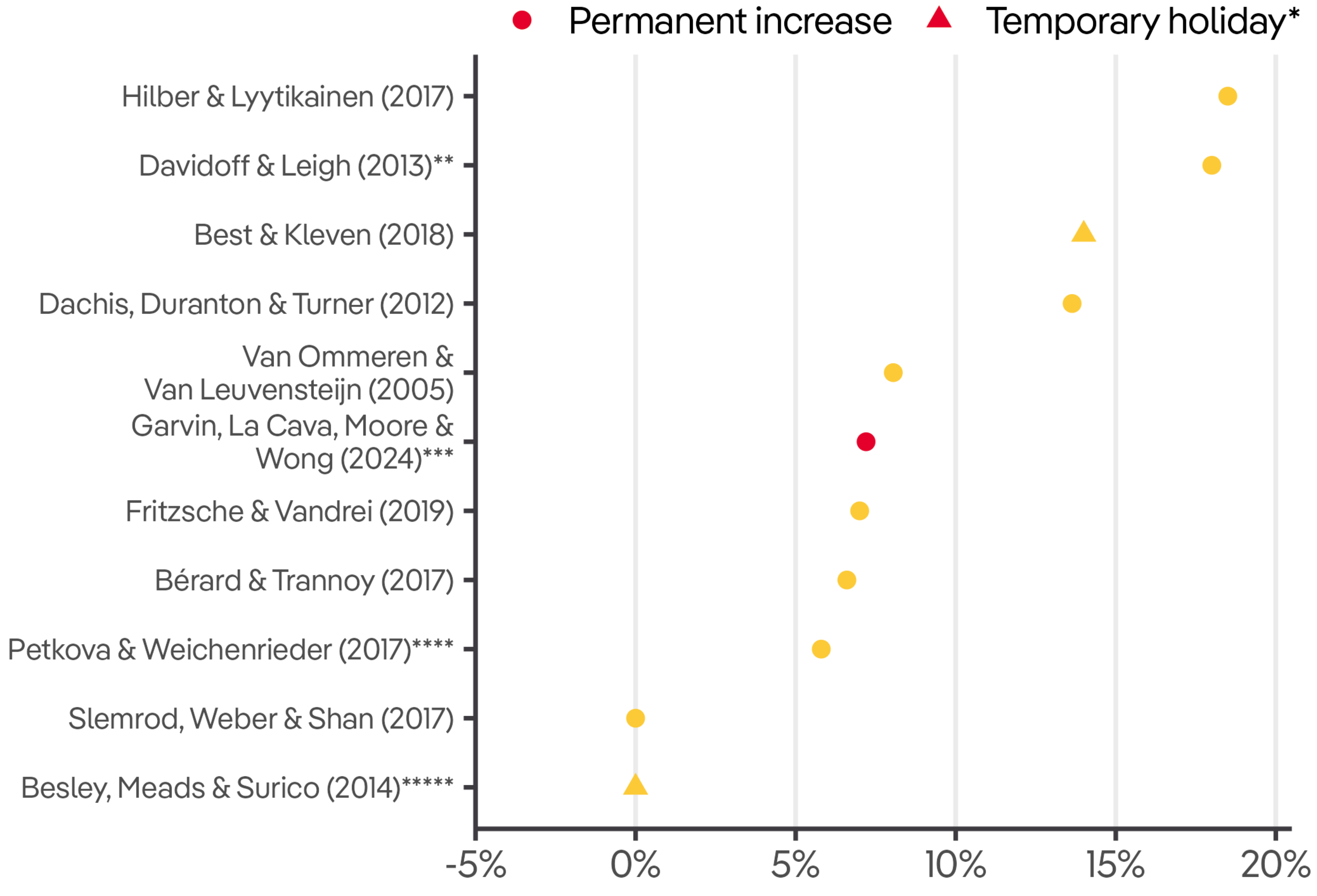
Percentage change from estimated baseline, regression estimates



Source: Garvin et al (2024), Figure 6

How stamp duty affects sales or moves

Selected literature estimates of 1 percentage point increase in stamp duty on number of sales or moves



Source: Analysis of listed sources; Malakellis & Warlters (2021)
Note: Not comprehensive; includes selected studies where estimates were able to be expressed on a comparable basis
* Shows estimate of total effect of holiday on transaction volume, adjusted for timing changes that shifted but did not increase/decrease transactions
** See footnote 12 of Davidoff & Leigh (2013) for how this estimate is derived
*** Policy was intended to be permanent at introduction, but was subsequently reversed; see discussion in Garvin et al (2024) for possible timing effects
**** Converts the estimate of a 0.23% decline in transactions for a 1% increase in tax rate (estimate in logs) using the difference (in log points) between a hypothetical tax rate of 4.5% and the base level tax rate of 3.5% (pg 3)
***** Find a positive but temporary effect from the temporary holiday, which is then fully unwound in the subsequent period (ie the holiday does not increase transactions, merely move them in time)

Most other studies find similar or larger effects from stamp duty

There is a substantial literature studying the impact of stamp duty on housing and household mobility. As this is a large literature, this is a very selective overview; for a fuller survey, see Malakellis & Wartlers (2021) or Van Ommeren (2008).

A leading stream of the literature uses “notches” – discrete jumps in tax liability at a particular price – to assess the effect of stamp duty. Key papers in this stream include Best & Kleven (2018), Kopczuk & Munroe (2015), Borbely (2021) and Slemrod, Weber & Shan (2017), the last of which is notable for being a rare study that finds no long-term effect of permanent stamp duty changes on turnover.

Other approaches exploit geographic variation in changes to stamp duty rates (similar to the Queensland change studied in Garvin et al 2024), such as Bérard & Trannoy (2017), Dachis, Duranton & Turner (2012), and Fritzsche & Vandrei (2019). A number of papers also study how temporary stamp duty relief can act as economic stimulus (Huang & Milcheva 2023, Besley, Meads & Surico 2014, Best & Kleven 2018).

The literature in Australia is more limited. The leading previous Australian study is Davidoff & Leigh (2013), which uses an instrumental variables approach and finds much larger effects than Garvin et al (2024) on both housing turnover and home prices from higher stamp duty.

Two recent Australian studies – Adams, Nassios & Sheard (2020) and Steinhauser & Breunig (2020) – both assess the ACT’s in-progress stamp duty reforms; the former relies on CGE modelling, the latter uses a difference-in-difference approach, comparing the ACT to other capitals. The latter is notable in finding *lower* turnover from the reforms, though there are challenges with studying the ACT’s reforms.[1]

1) In particular: the reforms change both stamp duty and land tax, so the approach cannot identify the impact of stamp duty separately. In addition: (1) the ACT is reducing stamp duty very slowly, which makes identifying the impact difficult (unlike the sharp discrete change in Garvin et al 2024) and the ACT is quite a unique local economy in Australia, which makes finding a suitable control group more challenging.

Stamp duty goes beyond property markets: fewer moves stops people relocating for work and lowers productivity

The impacts of stamp duty are not confined to the housing market. Making it costly to move homes affects where people live (Garvin et al 2024; Van Ommeren & Van Leuvensteijn 2005), and that could affect the jobs they choose to take and, relatedly, how far they must commute.[1]

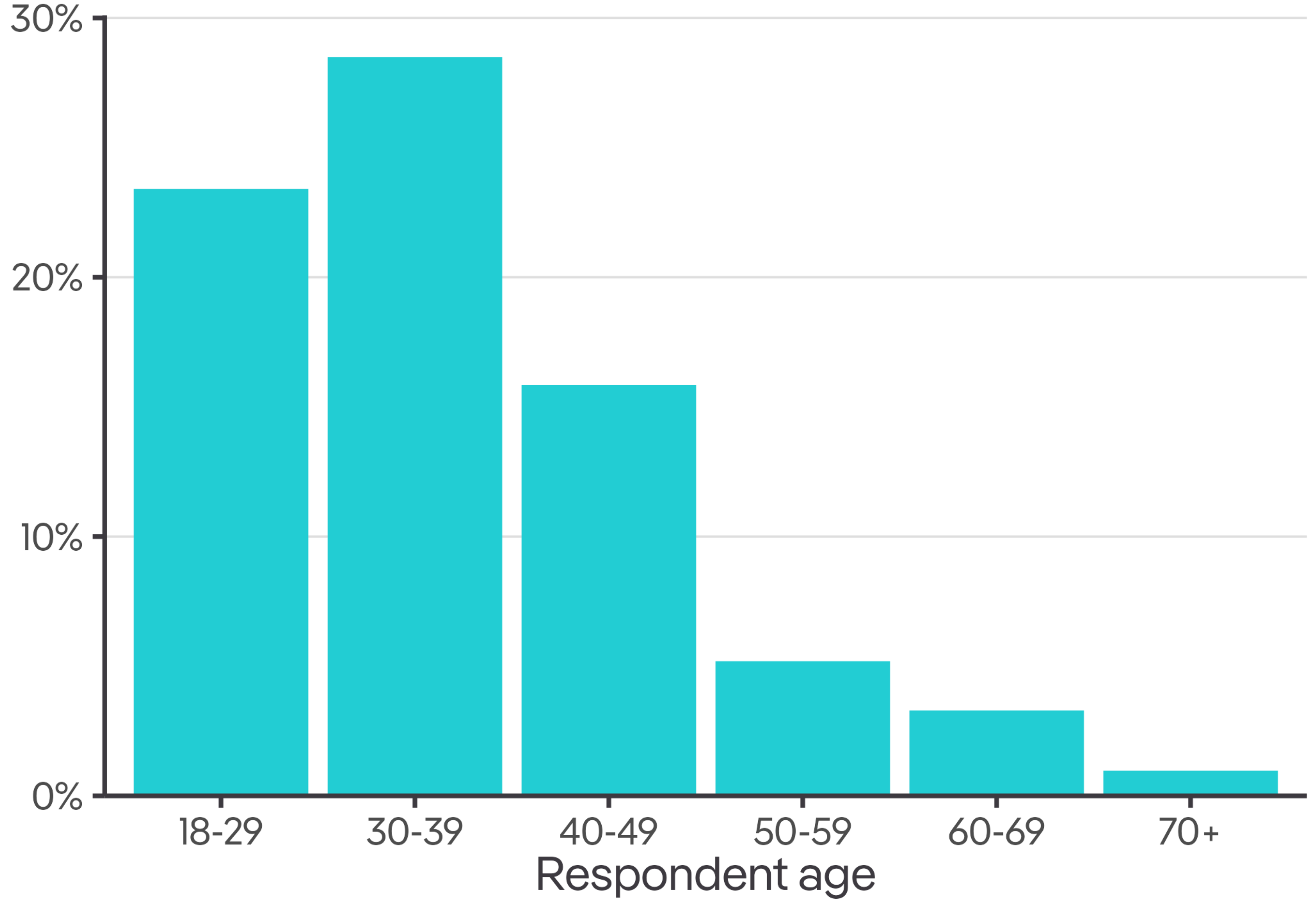
A poll conducted by the Susan McKinnon Foundation found that among Australians aged under 40, housing costs delayed one-in-four from changing jobs.[2]

Hampering Australians from moving home and changing jobs may be a drag on Australia's productivity and wages.[3] Productivity growth has slowed at the same time stamp duty has been rising (Garvin et al 2024). Research has shown that the slowdown in productivity growth has coincided with a decline in job turnover (Andrews & Hansell 2021); these job changes are important driver of productivity gains (Buckley 2023; Albagi et al 2021) and wage increases (Wong 2024).

1) E.g. Larsen et al (2008) show how residential moving costs can raise commute time, a theoretical result consistent with the literature on 'excess commuting'.
2) The cost of housing question in the survey is broader than just stamp duty.
3) However, Hilber & Lyytikainen (2017) find that while stamp duty does reduce mobility, it does not reduce job-related moves

Share of people who have delayed changing jobs due to housing costs

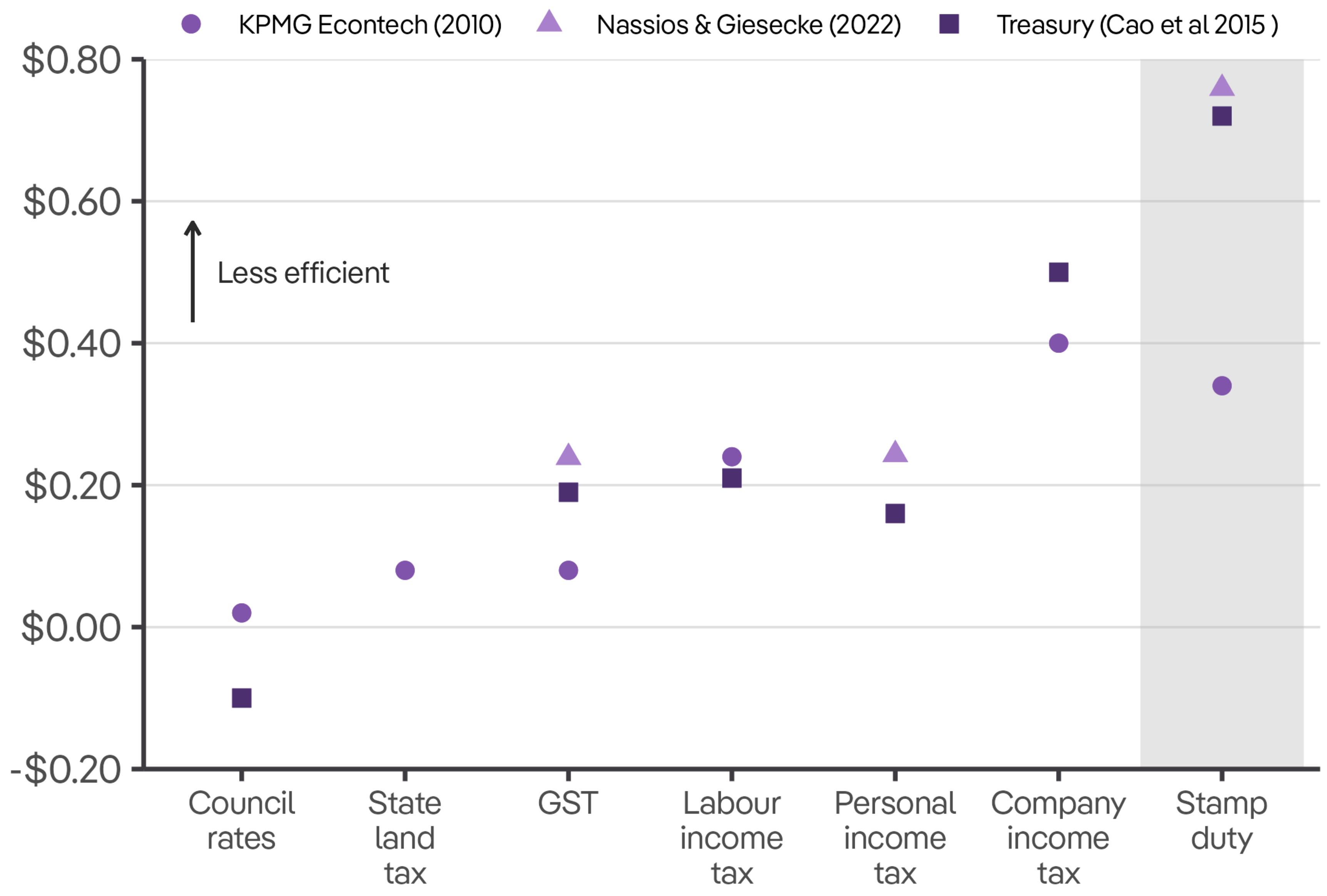
Share of respondents, by age



Source: Susan McKinnon Foundation (2023)
Note: Question asked "Has the cost of housing (eg rent / mortgage payments, saving for a deposit), affected the timing of any of the following major life decisions for you?"

Estimates of marginal excess burden of select taxes

Per $ of extra revenue raised



Source: Cao et al (2015), KPMG Econtech (2010), Nassios & Giesecke (2022)
Note: Not all studies assessed all taxes; labour income is a subset of personal income that excludes non-labour income (interest, dividends, etc)

The responsiveness of housing turnover to stamp duty means it is an inefficient way to raise revenue

Homeowners are quite responsive to the burden of stamp duty; that makes it a particularly distortionary tax, because it changes behaviour away from what people would choose to do in its absence.

This means stamp duty is an economically costly and inefficient way to raise revenue, compared to many other taxes which do not induce as large a change in households' choices.

A common way to express this cost, so it can be compared across different types of taxes, is "marginal excess burden". This represents the dollar cost of lost economic efficiency from raising an extra dollar of revenue, for that particular tax.

There are numerous studies comparing the marginal excess burden of state and federal taxes. While estimates differ and can be sensitive to modelling approaches and assumptions, stamp duty routinely ranks as one of the least-efficient ways of raising revenue.[1] Estimates from Treasury (Cao et al 2015) and from Nassios & Giesecke (2022) put the economic cost of a dollar of stamp duty revenue in the 70 cent range – by far the costliest of any revenue source examined.[1]

A fuller survey of estimates can be found in Malakellis & Wartlers (2021).

1) Older estimates, such as the KPMG Econtech (2010) estimate used in the Australia's Future Tax System review are not as high, though still rank stamp duty as among the less-efficient taxes.

Stamp duty discourages downsizing, which contributes to mismatch in the use of our housing stock

Stamp duty discourages older households from downsizing when their house becomes surplus to their needs because it adds tens of thousands of dollars to the cost of doing so.

While the data shows the impact of stamp duty on housing turnover, we can also see this impact in what people say about their housing decisions. A McKinnon Foundation poll found that nearly one-quarter of potential downsizers in capital cities say the costs of downsizing – stamp duty, agent fees and other transaction costs – do not make downsizing worthwhile.[1]

Similarly, a survey of property seekers by realestate.com.au found that 62% of buyers would be more likely to buy if stamp duty was removed. This rises to 7 in 10 buyers for those aged 45 and over, who indicate they would be more likely to buy (and therefore move) if stamp duty was removed.[2]

This matters.

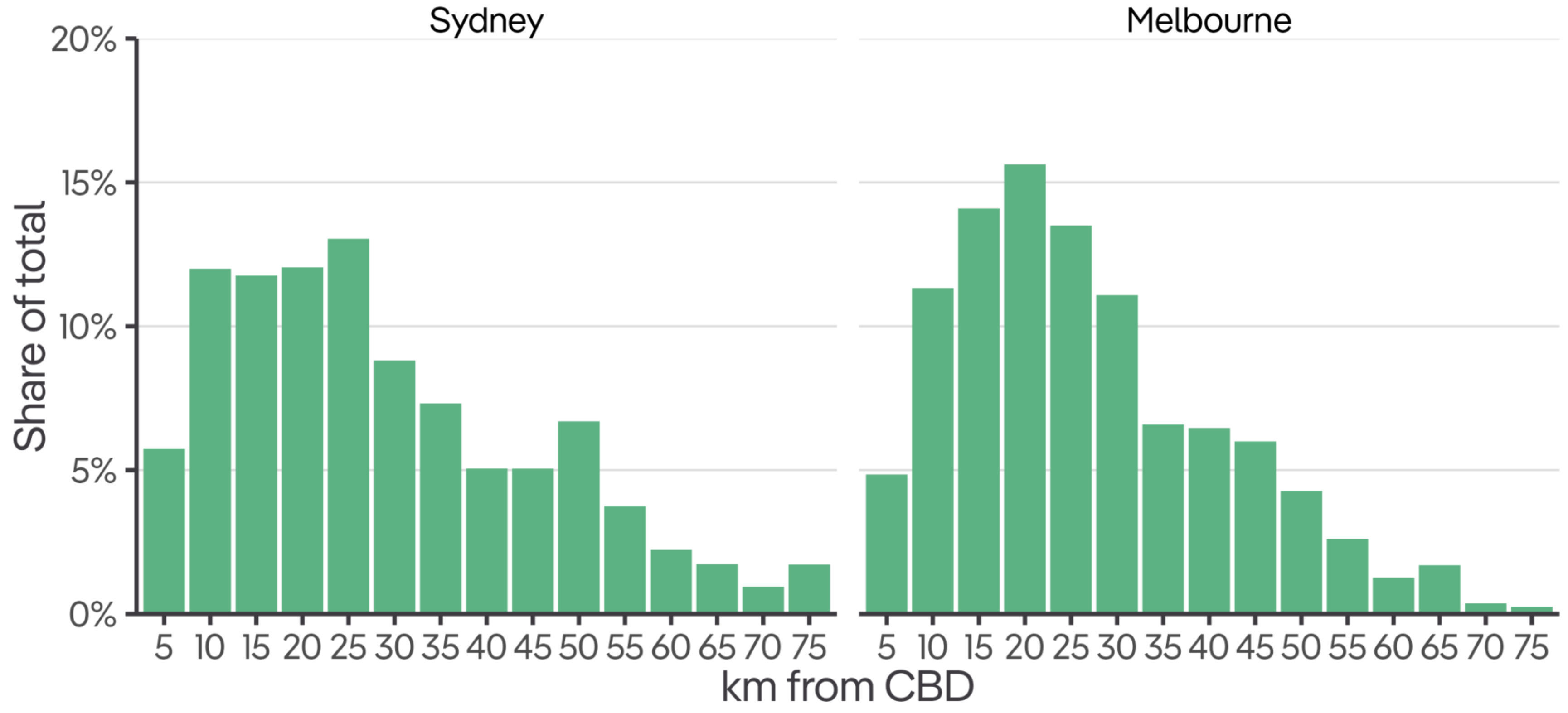
Discouraging downsizing means we are not effectively matching the homes we already have to people's housing needs.

Our largest cities have ample spare bedrooms in suburbs 10-30km from the CBD. But these are also the areas where the majority of overcrowded households are located, with too few bedrooms for the household's needs.[3]

1) Susan McKinnon Foundation (2023)
2) REA Group (2023)
3) Ryan (2023)

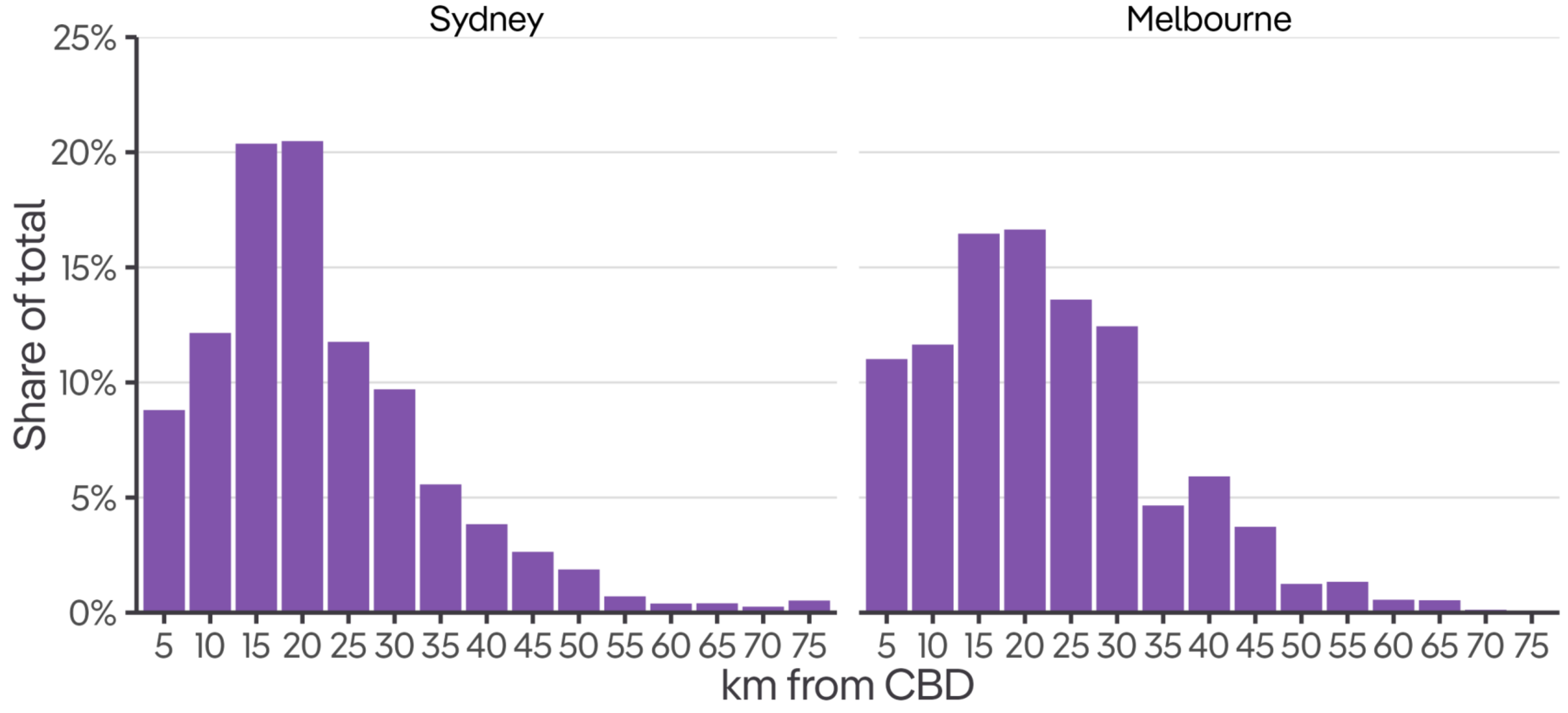
Where spare bedrooms are located

Share of total spare bedrooms, 2021 Census

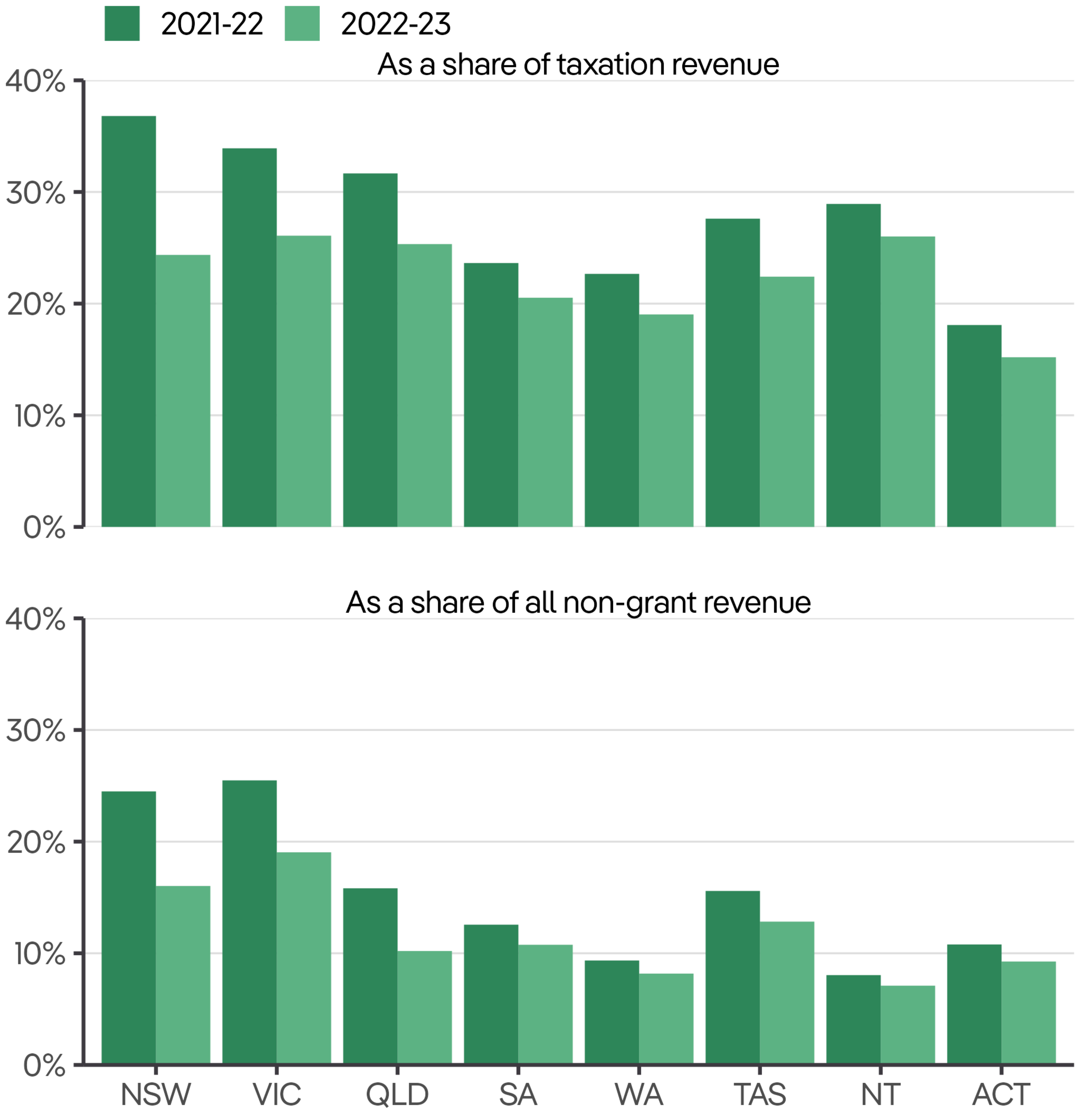


Where homes do not have enough space

Share of total needed bedrooms, by distance



Stamp duty as a share of state government revenue



Source: State Government Budgets (2022-23 and 2023-24)

Unlocking the benefits of stamp duty reform will be challenging because it is a significant share of state government revenue

Reducing the burden of stamp duty will be challenging because state governments are very reliant on the revenues it raises.

Stamp duty is a large source of state taxation revenue. In 2021-22 – a very busy year in property markets, and thus a strong year for stamp duty revenue – stamp duty accounted for more than a third of taxation revenue in NSW and Victoria. Even in 2022-23 (a very quiet year in property markets), stamp duty accounted for more than a quarter of revenue.

Even once we account for other sources of state-raised revenues – notably mineral royalties – stamp duty remains very important. Stamp duty accounts for more than 10% of state-sourced revenue in all but WA (with its large mineral royalties), the ACT (which is phasing out stamp duty) and the NT. In our largest states, stamp duty was a quarter of revenues in 2021-22; even in 2022-23, a much quieter year for property markets, stamp duty still accounted for one-sixth of non-grant revenue in NSW and just shy of one-fifth in Victoria.

The variability in stamp duty between 2021-22 and 2022-23 also highlights how volatile stamp duty is as a source of revenue: it is extremely dependent on property market turnover and conditions. This makes forecasting revenue, and therefore budgeting, more challenging.

The ACT and Victoria show how we could move away from stamp duty

Replacing stamp duty with a broader-based land tax would be fairer and more efficient.

Broad-based land taxes are a more efficient way to raise revenue.[1] They are also fairer because they spread the burden of taxation, and, unlike stamp duty, do not differentially tax households of otherwise similar income and wealth simply because one moves home more often.[2]

Replacing stamp duty with land tax is not the only option; stamp duties are among the least efficient ways of raising revenue, so almost any other tax would be an improvement.[3] However, states have few options for raising revenue,[4] which leaves land tax as a natural choice.

While transitioning from stamp duty to land tax is difficult, there are several approaches, outlined in the Henry Tax Review (Treasury 2010).

The ACT and Victoria are showing how these can be implemented.[5]

The ACT adopted a "gradual transition" model, slowly lowering stamp duty and increasing land tax for all homeowners over a 20-year period, starting in 2012-13. This change means the ACT is less reliant on stamp duty than previously (ACT Treasury 2023, pg 225).[6]

Victoria announced the abolition of stamp duty for commercial and industrial properties in the 2023-24 Budget, using transitional arrangements that are a variant of a ratchet transition. From 1 July 2024, any sale will pay stamp duty for a final time and then transition to land tax after a period of 10 years. Any subsequent sales will not incur stamp duty.

1) "When applied uniformly across a broad base, land tax is one of the most efficient means of raising revenue" Treasury (2010), part 1, pg 48.
2) Treasury (2010), part 2, volume 1, pg 256 Helm (2019), pg 9.
3) Cho et al (2021)
4) See, eg, Tax and Transfer Policy Institute (2019) and Select Committee on the Reform of the Australian Federation (2011)
5) Helm (2019), chapter 4, provides a thorough discussion of the transitional issues and options. Other transitional options exist aside those considered here – eg making stamp duty into a quasi-land-tax by making the tax depend on time since the home was last sold (Bradbury 2023)
6) South Australia undertook a much faster phase down of stamp duty on non-residential properties over three years beginning in 2016.

1. Gradual transition[1]

Approach

- Combined phase-in of land tax and phase-out of stamp duty by slowly reducing stamp duty rates on new purchases, while gradually raising land tax rates on all homes each year over a long period, eg 10-20 years
- This approach could be combined with approach 2 – eg only applying the transitional rates of stamp duty and land tax to newly transacted properties, leaving existing homeowners exempt from land tax for some transition period (Treasury 2020, Box C2-5, pg 269) – or with a credit for recent home buyers as in option 3.

2. Ratchet

Approach

- Full grandfathering of existing homeowners (could be supplemented with a longer phase-in for existing homeowners)
- New purchasers, either immediately, or from a certain date, incur land tax instead of stamp duty
- This transition could be an opt-in choice for the buyer, or mandatory
- Once a property moves to land tax it cannot move back to stamp duty

3. Immediate change with credit for past stamp duty paid

Approach

- All homes immediately move to land tax, abolishing stamp duty
- To avoid double taxation, recent buyers could either be exempted for some period of time, or receive a credit on their current and future land tax obligations equal to the stamp duty paid (pro-rated based on how long the home has been held)[2]
- To accommodate asset-rich but low income (eg retiree) households that would struggle to pay land tax, could allow accrual and deferral of land tax for existing homeowners until the property is sold (Coates & Moloney 2023; Breunig 2023)

1) These options are a summary of the discussion in Treasury (2010), part 2, volume 1, box C2-5; see also Helm (2019) for a similar discussion
2) Eg the approach proposed by Breunig (2023)

A gradual transition, with credit for recent buyers, would be the simplest and fairest reform

Adopting a gradual transition provides both the simplest and fairest approach to transition away from stamp duty.

By slowly reducing the rate of stamp duty, state governments do not face large short-term revenue shortfalls – unlike a ratchet transition in which up front stamp duty revenues are immediately forgone. And by gradually increasing land tax rates, rather than immediately changing over, homeowners are not faced with unexpected and unplanned-for taxes.

Credit should be provided for recent buyers and for buyers that pay stamp duty during the transition period. This credit would be equal to the stamp duty paid and would offset future land tax obligations. Such a credit would avoid any perceptions of "double taxation" of recent buyers. For recent buyers, this credit should be pro-rated depending on how long ago they purchased, so as not to provide unnecessary compensation for those that last paid stamp duty some time ago.

State governments should look at undertaking this transition over a five-to-ten-year period, so as to benefit from the abolition of stamp duty sooner and to minimise risks of the reform being abandoned.[1]

For retiree, asset-rich but low-income households, for whom annual property tax could be a substantial impost, a deferral scheme should be available that would allow property tax obligations to accumulate and be discharged on the sale of the property.[2]

1) Coates & Moloney (2023)
2) Ibid.

Methodology

Stamp duty relative to average incomes

Calculated as the base rate of stamp duty payable on a median- or lower-quartile-valued home, relative to average after-tax full-time ordinary-time earnings.

- **Stamp duty**: duty payable is calculated using base stamp duty rates (ie excluding first-home buyer or owner-occupier concessions) for the relevant price and state, as at the start of the final month of the quarter. Stamp duty rates are collected from state legislation over time.
- **Median and lower quartile prices**: median prices are quarterly sales medians, or lower quartiles, calculated by PropTrack. Where historical PropTrack data are unavailable, the quarterly medians are spliced backwards using annual median prices from Abelson & Chung (2005).
- **Average after-tax income**: Incomes are drawn from ABS state-level data and are for a single earner, earning average full-time ordinary-time earnings (for all persons), grown forward using WPI where necessary. These state-level incomes are grossed up to city-level using the ratio of gross household income for the relevant capital city to the relevant whole state from the 2019-20 ABS Household and Wealth release. After-tax incomes are calculated using the Grattan Institute's `income_tax` calculator from the R package `grattan`, version 2023.0.0. See github.com/HughParsonage/grattan.

Share of sales above thresholds of stamp duty

Stamp duty is calculated for every sale in the quarter, using the base stamp duty rate that applied at the time of the sale. Stamp duty is calculated as above; individual sales records are from PropTrack data.

Series shown is the share of sales where the calculated base rate of stamp duty payable exceeds a certain percent of recorded transaction price, as a share of all sales within the quarter. In reality, concessions will have applied to some of these sales, but this is unobservable from the raw transaction data. Due to data availability, Tasmania is excluded prior to 1996, and the Northern Territory prior to 2000.

Time to save stamp duty

The time needed to save a deposit is calculated as the number of years a first-home buyer earning a single-earner average full-time after-tax income would need to save 20% of their after-tax income in order to accumulate the stamp duty on a median- or lower-quartile-priced home. Incomes, home prices, and stamp duty are calculated as above. Stamp duty and concessions are as at 1 December 2023. The "without concession" series also excludes primary residence concessions (in states where those are available). First-home buyer concessions analysed are only those for purchases of existing homes; many states have additional concessions available for purchasers of new homes.

Causal effect of stamp duty on transactions and moves

Methodology for identifying the impact of stamp duty on property market turnover and the likelihood of a household moving home is briefly described in the text. For further description of the approach, robustness, and limitations see Garvin et al (2024).

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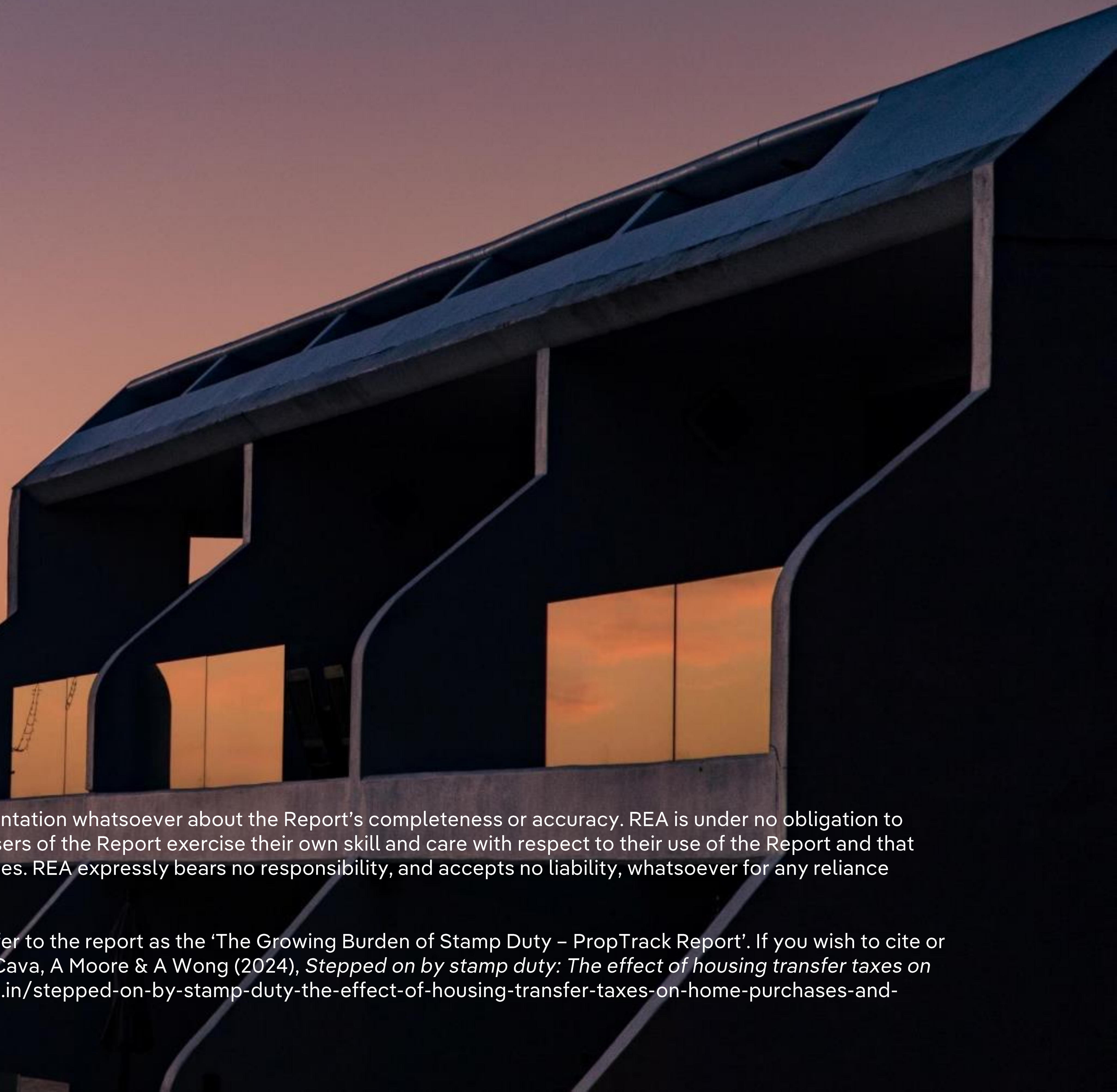

PropTrack

The Growing Burden of Stamp Duty

2024

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