T R A N S C R I P T

LEGISLATIVE COUNCIL ECONOMY AND INFRASTRUCTURE COMMITTEE

Inquiry into Land Transfer Duty Fees

Melbourne – Wednesday 24 May 2023

MEMBERS

Georgie Purcell – Chair
David Davis – Deputy Chair
John Berger
Katherine Copsey
Jacinta Ermacora
David Limbrick
Bev McArthur
Tom McIntosh
Evan Mulholland

PARTICIPATING MEMBERS

Gaelle Broad
Georgie Crozier
Sarah Mansfield

WITNESSES (*via videoconference*)

Ms Emily Sims, General Manager, and

Dr Tim Helm, Director of Research and Policy, Prosper Australia.

The CHAIR: I declare open the Legislative Council Economy and Infrastructure Committee's public hearing for the Inquiry into Land Transfer Duty Fees. Please ensure that mobile phones have been switched to silent and that background noise is minimised.

I would like to begin this hearing by respectfully acknowledging the Aboriginal peoples, the traditional custodians of the various lands we are gathered on today, and pay my respects to their ancestors, elders and families. I particularly welcome any elders or community members who are here today to impart their knowledge of this issue to the committee or who are watching the broadcast of these proceedings. I also welcome any members of the public watching via the live broadcast.

To kick off we will have the committee introduce themselves by name and region they represent. We will go through the room and then to Zoom, starting down this end.

Gaelle BROAD: Gaelle Broad, Member for Northern Victoria, with the Nationals.

Katherine COPSEY: Katherine Copsey, Member for Southern Metro.

Evan MULHOLLAND: Evan Mulholland, Northern Metropolitan Region.

David DAVIS: David Davis, Southern Metropolitan Region, Liberal.

The CHAIR: Georgie Purcell, Northern Victoria.

David LIMBRICK: David Limbrick, South-Eastern Metro.

Tom McINTOSH: Tom McIntosh, Eastern Victoria Region.

Jacinta ERMACORA: Jacinta Ermacora, Western Victoria Region.

The CHAIR: Welcome to our witnesses Ms Sims and Mr Helm.

All evidence taken is protected by parliamentary privilege as provided by the *Constitution Act 1975* and further subject to the provisions of the Legislative Council standing orders. Therefore the information you provide during the hearing is protected by law. You are protected against any action for what you say during this hearing, but if you go elsewhere and repeat the same things, those comments may not be protected by this privilege. Any deliberately false evidence or misleading of the committee may be considered a contempt of Parliament.

All evidence is being recorded. You will be provided with a proof version of the transcript following the hearing. Transcripts will ultimately be made public and posted on the committee's website.

For the Hansard record, could you both state your full name and the organisation you are appearing on behalf of.

Tim HELM: My name is Tim Helm, and I am appearing on behalf of Prosper Australia as the Director of Research and Policy.

Emily SIMS: My name is Emily Sims. I am the General Manager at Prosper Australia, appearing on behalf of Prosper Australia.

The CHAIR: Great. Thank you. We now welcome your opening comments but ask that they be kept to a maximum of 10 to 15 minutes to ensure we have plenty of time for discussion and questions.

Tim HELM: Great. Thank you very much. I will provide opening comments and both of us will answer questions. First of all, good morning and thank you to the committee for the invitation to speak today. Also, I would like to apologise that neither of us were able to make it in person.

To briefly introduce Prosper Australia: we are, we understand, Australia's oldest economic think tank, and we grew out of the Henry George society, which was founded to promote the political vision of Henry George, a 19th-century economist and advocate for land tax. We are still today funded by a trust established about 130 years ago to pursue that purpose. So we are primarily focused on land and housing and tax issues, and we have a general mission to reduce the burden of tax on productive activity in favour of gathering it in land, natural resources and other monopolies.

In regard to stamp duty, over the years we have dedicated a lot of attention to this issue – to stamp duty and to land tax – and that includes publishing what we think was the most comprehensive look at how you might go about this reform in terms of transitional measures. That report is attached to our submission to the inquiry.

Today I would like to briefly cover three major points for you, and I can expand on any in questions. Given the announcements yesterday in the budget, I also thought it worth offering a quick comment on those proposed or planned reforms. The first point we would like to make is that we actually think the economic merits of abolishing stamp duty are rather overblown. Although there is likely to be some improvement in productivity from not having this tax in place, we do not think we have any reliable evidence on which to conclude that this improvement is particularly large. This is quite a surprising and novel take, because stamp duty is, by popular consensus, a terrible tax. It is a very popular villain, and in the world of policy, we have all furiously agreed that it is the worst tax and is crushing economic activity.

The reason I question this narrative is that effectively the only type of quantitative evidence we have to go on comes from a type of model – a CGE, or computable general equilibrium, model – that is inherently incapable of properly representing stamp duty and how it relates to economic activity and so is therefore incapable of reliably measuring the economic costs of the tax. Each report and review that we have seen over the years – and there have been many – that finds stamp duty a particularly economically harmful tax is ultimately citing for its empirical evidence one or another of these CGE modelling exercises. There have been plenty of those, so it looks like there is a large evidence base, but each of these modelling exercises is subject to the same flaw.

Very briefly, the problem is that stamp duty is a tax on asset transactions but in the models, the CGE models, there are no asset transactions. There is investment and production but no transfers of assets represented in the way the model equations are set up, so these models typically proxy stamp duty by a tax on the real estate industry, which makes the services of that industry more expensive. The services are treated as a necessary input to capital investment, so the models inevitably generate lower capital investment and lower state product as a result of the tax. However, this does not match the true incidence of stamp duty as tax economists understand it – that being who ultimately bears the tax. In reality stamp duty is likely passed on to lower land values, so it is borne by the vendor. If it were borne by buyers instead, it would imply they are somehow irrationally paying more than the property is worth to them, which is not consistent with any accepted idea of asset pricing.

The upshot here is that stamp duty does not make buying land for housing or business investment any more costly. It is just borne by the vendor when they sell. So the investment effects in reality may well be small. But more importantly, this way of understanding stamp duty is just not how it is represented in the models, so despite the best efforts of the modellers, we are not sure the numbers are actually worth anything. The modellers have shoehorned stamp duty; they have done their best to shoehorn stamp duty into a model that fundamentally cannot include it. There is a lot of demand for numbers, and these modellers have supplied the numbers, but whether they are meaningful is a different question.

To be clear, I think stamp duty probably does reduce investment somewhat and reduce the productivity of land use, but we just do not have a clue collectively about how large that is. My intuition is maybe it is not so important, because productivity is about land use, not land ownership, and even when ownership does not change, land use can be very flexible via leasing. Having said all of that, it is widely acknowledged that we all agree stamp duty is a very unfair tax. You pay it more often and you bear it more often as a seller the more often you transact, and that is not related to any social cost.

So there is still a very strong case for reforming this tax. Our key point is that there is no case for blowing the state budget to do so, no economic merits that we have sure evidence of that warrant making a highly revenue negative reform. Getting rid of stamp duty might not do much for the economy. We have become a high-productivity economy with this tax in place – this supposedly crippling tax in place – and we are likely to stay that way whether it remains or not.

There is another upshot, which is that replacing stamp duty with GST, if that were even possible, would be a terrible idea. It would produce windfall gains for property owners, it would require a lot of tax revenue to be lost in compensating ordinary consumers and it would require intergovernmental arrangements that are likely in practice to be impossible to arrange. So states should go it alone, and we think the committee should ditch any idea of a GST-based reform. In stamp duty and land tax we have taxes more or less borne by the same people and of roughly the same amount, but one is structured more clearly than the other, so switching from one to the other makes complete sense.

The second point was that if the inquiry recommends abolishing now residential stamp duty only and putting in place a new land tax but does not deal with the transitional issues and the political difficulties of making that happen, it will be a bit of a lost opportunity. And it may not add much to the many reports that have recommended that already. So we think you should turn your attention as much as possible to the transition model policy package that gets you from the current system to the new system. As I mentioned, we have done detailed thinking about this as a policy problem, and our model, we think, is very fair and efficient. It centres on a partial refund of stamp duty recently paid or a credit for recent buyers, with the cost of that recovered through a higher land tax rate, meaning the reform would be revenue negative for a while but revenue positive in the long run.

We also think – and this is really important and promising – that deferring payment of a new land tax should be really easy and almost a default option to get around these issues of cash-poor, asset-rich owners. That would make the politics of the tax much easier while also creating a new revenue line for the state, essentially like a mortgage lender to households. We actually saw something of this model in the budget yesterday as it pertains to commercial stamp duty. There are fuller details in our submission of our overall transition recommendation.

Our third point is that given the politics of introducing a residential land tax that is paid recurrently, like council rates every year, even with the best transition, we think the committee could actually be more creative and ambitious than just recommending stamp duty be switched to land tax. There might be better reforms than complete abolition of stamp duty. In particular, in Victoria we need a value capture tax to socialise the windfall gains that infrastructure and land rezoning otherwise deliver to property owners as free and unearned income. We think that so long as some people are getting these enormous gains, which they did nothing to produce, there is no case for taxing employers for employing people or workers for working via payroll tax. For efficiency and fairness, we should be capturing rents to the greatest extent possible before we turn to taxing employers or workers or investors or savers, and that is the essence of the Georgist philosophy that we espouse.

We have the rezoning windfall gains tax in Victoria, which is a start, but it leaves a lot on the table. That means we think there is a chance to turn residential stamp duty into a value capture tax, and we would like the committee to recommend to the government that they investigate this. A value capture tax would be best levied at the point of transaction, so there are really no barriers to changing the calculation of stamp duty so it is not paid as a small percentage of the property value but as a large percentage of the land value gains since the last transaction – like a capital gains tax, with no barriers to that. That would be far fairer than stamp duty. It would potentially raise even more revenue, which could reduce other taxes, like payroll tax, and it would retain a lot of the current aspects of a tax on transactions, which is potentially politically easier. We think you should recommend that is investigated.

I will offer now a very brief comment on the budget announcement yesterday. We support the reform that abolishes commercial and industrial stamp duty, replacing it with a land tax. In fact we are applauding this reform. We think that freeing up business land transfers is likely to be more important for productivity and investment than on the residential side. Also, in terms of a stamp duty replacement, the flat rate tax is the best possible design. Finally, while we do not have numbers on the potential budget cost, on my eyeballing of this, a 1 per cent rate seems about what we would expect for neutrality. We also like the transition model; it is a good compromise. The final duty payment keeps the revenue rolling in while the payment by instalments for the final duty payment spreads out the cash flow, which could be particularly helpful for small business buyers of property. And after that first purchase, there is no more tax discouraging fast turnover. So it is a good reform and a good model for implementing it.

I expect there may be critique along the lines of 'double taxation' since the next buyer will pay both a stamp duty and eventually, after 10 years, a land tax, but that is really a furphy. The stamp duty they pay will get them 10 years free of land tax. Ten years, I expect, is about equal to the average holding time, and if the reform model is not raising more revenue than before, there is really no logic to claiming in any way that this is a tax hike.

As for who bears the tax, there is no change. Stamp duty is borne by the vendor in lower prices, land tax will be the same. The idea that business, buyers or renters might suddenly have to pay more because of this change has no grounding. There is plenty of evidence and 100 years of undisputed economic theory that land tax is fully borne by the owner of land not passed through to users of land or buyers of land. And for what it is worth, that logic also applies to the land tax change, the flattening of the schedule, which they have labelled the 'COVID debt levy'. There is no chance this will increase housing rents. Rents are not set by costs; they are set by demand given the available supply. It is nothing to do with costs such as mortgage rates or taxes. If rents happen to rise in the next few years, this will not be anything to do with the land tax any more than it is to do with mortgage rates and the RBA. So I will wrap up my comments there. Of course we are very happy to take questions.

The CHAIR: Great. Thank you so much. We will commence with questions going around the room, and I ask that members keep their questions to around 5 minutes to ensure everyone has time, and then we will go back around if time permits. Starting with Mrs Broad – no questions? Ms Copsey.

Katherine COPSEY: Thank you. Thank you, Mr Helm, that was a great summary, and thanks also for the commentary on yesterday's announcement, which we are all assessing. You know, it changes the context in which this committee does its work, so I appreciate that and your quick thought to it.

Obviously, Prosper's approach to this is guided by your overall values and principles as an organisation, and I wonder if you might elaborate a little bit more on some of the inequity that flows from stamp duty versus alternatives that are proposed in your submission.

Tim HELM: Yes, certainly. The inequity of stamp duty is essentially around the frequency of transaction bearing no relation to the costs that the state incurs to provide services and infrastructure, and really the frequency of transaction is a very arbitrary basis for tax. We often think about the equitable basis for tax as relating to the vertical equity – the more your ability to pay, the higher the tax you should pay – or relating to costs you somehow impose on society or particular benefits you gain from society, such as windfall gains from infrastructure and rezoning. The fact that stamp duty is borne on lower property prices and therefore if you sell property more regularly, you bear more of this tax is really divorced from any social cost, from any particular benefit you gain or from any other equity rationale. So we see stamp duty as unfair, I would not say particularly stemming from our own organisation's values and purposes, simply on the logic that the frequency with which you transact determines the share of the overall stamp duty burden on society that you bear, yet that is a really arbitrary basis for taxation. That is the equity rationale for changing stamp duty to a recurrent land tax.

I will comment briefly on the equity rationale for a land tax. Land values express really all the benefits that society at large creates for the owner of the land. An owner of land does not change their own land value. All they can do is change the value of what is on the land, so land tax, if you like, is a beneficiary pays tax. Your land value represents, if you like, all the benefits that society is providing you – everything relating to public services that are provided, relating to the amenity of neighbours, the value of markets and agglomeration. All these things are expressed in land value, so there is a strong inherent equity rationale in land tax as the basis for taxation. Having said that, the transition to land tax raises its own distinct equity issues that require, always, careful consideration. I hope that addresses your question.

Katherine COPSEY: It does, thank you, and is a perfect segue to my next question, which is around transition and some of the risks that can arise in that process. There is a live example unfolding in the ACT, and I wonder whether you could comment on the length of time a transition arrangement is implemented across and whether you see there are particular risks or advantages around the length of a transition process.

Tim HELM: Yes. That is an excellent question. This is a really important issue, how the transition is conducted and, if the transition is like in the ACT – a phase down and a phase up – the time period over which that is conducted. There are essentially I think three different transition models. One is phase down and phase up, like in the ACT. Over 20 years in the ACT they are attempting to fully replace one with the other, and no properties will be left paying stamp duty after 20 years. That was the original design. Another model is to have everybody paying land tax immediately but giving a credit to recent buyers. We favour that model. And the final model is a switch-on-sale model where upon the next transaction the new buyer pays land tax but the previous buyers, the current owners of property, receive essentially a grandfathering of their tax-free treatment. They never pay land tax until that property transacts. That is essentially what we saw yesterday for commercial and industrial with the Victorian government's announcement.

With the switch-on-sale transition we saw yesterday, the risk is that some properties that just do not turn over never make it into the land tax net and we are left, if you like, with a distinction between property A and property B in terms of the tax they are paying. That is not necessarily inequitable. It is just messy in the tax system to have, if you like, two properties that are otherwise identical paying different taxes. In the long run that looks strange, and it also means that the potential efficiency benefits of a land tax over and above stamp duty are slow to arrive. A lot of property takes a very long time to change hands. This is one reason why we did not favour a switch-on-sale model in our transition analysis.

In the ACT's transition, which is over 20 years, they have gone with quite a conservative – a long, slow – transition. We have looked at the numbers, and the objective of speeding up that transition would be to realise any efficiency gains faster and also to move to a more equitable tax system more quickly. But as you compress that transition period for phasing out stamp duty and phasing in land tax, you end up with some unfairness around the most recent buyers, who only receive a certain number of years tax free, even if they have just paid stamp duty, which ends up creating a rationale for making a credit for the most recent buyers. That is why we concluded that going all the way to being explicit about crediting recent buyers with a fixed formula for how much tax credit or refund they get and then having everybody pay the land tax from day one was a cleaner and potentially more efficient model.

I do not know if the ACT could have run a 10-year transition without significant unfairness for people that bought just before the beginning of the transition. I hope that answers your question.

Katherine COPSEY: Thank you. You can come back to me.

The CHAIR: Cool. Thanks, Ms Copsey. Mr Mulholland.

Evan MULHOLLAND: Cool. Thank you for coming in today, Tim. You support the abolition of stamp duty for land tax for commercial and industrial properties. I just want to flesh out a bit something you said about the same sort of incentive in transfer and rollover not really eventuating for residential property. What evidence do you have behind that, and why do you think that might not eventuate?

Tim HELM: I do not think that there is no case on economic grounds for residential property. I think the key point we wanted to make was that the evidence base that stamp duty is a really terrible tax for the economy has these flaws. These models just cannot produce answers to the questions that we really want to ask. Given that, there is no economic benefit to blowing a lot of money on a budget cost on a highly revenue negative reform or doing anything to get rid of stamp duty – abolishing this tax and accepting higher debt and, you know, kicking the can down the road for some other government to deal with. Why I think – it is my intuition – we may have higher benefits in business and industrial land from the abolition of stamp duty relative to residential land is that we can see changes in land use more readily in the residential sector and that it is happening more easily via leasing, renting a property, than we can see with commercial and industrial land, where sometimes very specific investments need to be put on the site to serve the specific business that wants to occupy it. And in that case, ownership is quite important to productive use. But in the residential sector the ownership of land can really be the wrong person occupying a house, and the stereotypical example is a retired person or an elderly couple or whatever it is whose children have moved out and who are swimming around in a large house. They can move out and lease that house to a family that, if you like, would use it more productively and would occupy the space better. That model is really well established. Housing is something that we all have relatively common needs and preferences for. I think with industrial and business land, there is a higher risk that you need to put specific investments on your site to serve your business that require you essentially, for security or for property rights, to be the owner of that site, and it is not so easily replaced with a leasing model. That is why I think the benefit of smoother transfers and easier transfers for commercial and industrial is probably higher than for residential. I suppose my meta point is that we just do not have good evidence of this.

Evan MULHOLLAND: Thanks. Just another quick question. You said that changes to land tax would not be passed on through rents. Everyone that seems to represent those investors in the industry say they would. The Treasurer said there would be almost $1300 a year for investors that own an average parcel of land worth about $650,000. Don't you think that surely some of that cost for people that own that investment would be passed on to the tenants of those properties somehow? Explain your rationale for that. Does that money exist in a vacuum? Why wouldn't it be passed on to renters?

Tim HELM: It is a great question. There is a long answer, but the short answer is: if landlords could extract another $1300 from their tenants, why aren't they doing it already? Are they just irrationally pricing their property or running a charity business? Our point really here is that – and this is mirrored in the economics of land; I am giving you the casual version – rents are set by the availability of property and the number of people trying to occupy that property. And rent extracts everything it can from the renter. If the landlord could hike the rent by $1300 and not lose a tenant or have to deal with a lower quality tenant, of course they would have done it already. In a market like this some landlords will, if you like, try it on – they will try and price their property on a cost-plus approach – but ultimately they will lose a tenant. They will be forced to lower the rent to market rent, or they will acquire a substandard tenant that will cost them more. Rents are already reflecting as much as tenants can afford to pay, and there is just no chance that landlords will be able to squeeze them further. I suppose I should note that what that means is it is borne by the landowner – if you hike a tax, that is borne by the landowner.

In essence land's use is not priced on costs, because land has no cost; it is already there. You have a price to buy it, sure, but you do not have to produce it; it is already there. We have this concept called 'land rents', which is just the price that you can extract for land and is unrelated to any costs you incurred in putting that land into use. When you impose a land tax, you effectively reduce the land rent that the landowner gets. It will be priced into lower land values. It is just a hit that is going to be borne by landlords and owners of these typically holiday homes that will now be included in the land tax scale. I just see no rationale in any economic theory or evidence that you can successfully pass this on. Sometimes casually through media reports we have seen claims and anecdotal evidence that a new land tax will be passed on, but these are usually coinciding with some period where rents are rising for some external reason. Any time economists and econometricians seriously look at this question, they find that the tax cannot be passed on, which is fully consistent with theory that we have had right back to the dawn of economics, if you like. I hope that answers your question.

Emily SIMS: May I add something to that?

The CHAIR: Yes. Go for it.

Emily SIMS: We take great issue, actually, with the mischaracterisation of this issue. As an organisation we have had conversations with industry about the way they represent tax incidence and about the kind of fear that gets generated in the community when these issues are misrepresented, as they are regularly. I am glad we can speak this into the Hansard, and we continue to try as an organisation to essentially correct what is not accurate public information.

The CHAIR: Thank you, Ms Sims. Mr Davis.

David DAVIS: First of all, can I thank both of you for your testimony today. I might just state for the record that I actually preferred your old name, the Henry George League, and was an occasional frequenter of the old shop down just off Bourke Street. Look, as I read Henry George and some of the case that you are making, and indeed picking up Ms Copsey's point about Canberra, you would not mind if we landed with both taxes or a version or a cocktail of both taxes.

Tim HELM: As a general proposition, taking more revenue from land as the base is generally more efficient and, we think, more equitable, if the transition is fair, than taking revenue away from workers and punishing employers and punishing investors for investing and savers for saving. So generally we want more revenue for all forms of government out of the land base. It has got economic merits; it has got an equity rationale. So that is to say yes, we would, if you like, be happy with a land tax that was sitting alongside stamp duty. We already have that. We have council rates, which is a land tax; we have a stamp duty; and we have a state land tax on business and commercial land. Having said that, stamp duty itself, as I have raised, is inequitable, with potential economic costs – if admittedly hard to quantify – and there are more equitable ways to be levying a transaction tax, such as a value capture tax that is at the point of transaction, like stamp duty, but levied on a far more fair basis, which is to capture these windfalls that people receive through no effort of their own. So that is a yes.

David DAVIS: Yes. That is all right. Thank you.

The CHAIR: Thanks, Mr Davis. Mr Limbrick.

David LIMBRICK: Thank you, Chair. Thank you for your submission and evidence today. With regard to the recently announced stamp duty changes yesterday, one question I had was around rezoning. The government has left residential land alone, but we know that sometimes land gets rezoned. What sort of effect do you see when you have got something that is currently commercial or industrial getting rezoned to residential? How might this new tax interact with the residential market?

Tim HELM: That is an excellent question, and I do not have a firm view on this. Em, if you have thoughts, please jump in. The only thought I would have is that there may be an incentive for land to be reallocated from commercial use into residential use if there is a commercial user that would value the use of that land slightly higher than a residential user would but the tax makes the difference that bumps their valuation – if you like, their willingness to pay to occupy that land – below the valuation that residential buyers or renters would have for that land. Then at the margin there might be some reduction in the amount of land that is dedicated to commercial use and moved into residential use. It is actually similar in a sense to a land tax that applies to residential second homes but not to owner-occupiers. At the margin, that bumps some land from landlord use – investment properties – into owner-occupied use. Some people see that as a policy advantage; maybe an economic purist would not. We may actually see some of that as a result of this flattening of the land tax scale. So in other words I would think there will be some reallocation of land, but I could offer no thoughts on that. As for a relationship with the rezoning windfall gains tax, I am not sure if that was part of your question, so I do not have any specific comments; Emily may.

Emily SIMS: Do I understand the question? I am not quite sure that I understand the question. Was it to do with the interaction between the new commercial land tax – or the removal of stamp duty for commercial – and the existing windfall gains tax?

David LIMBRICK: No, I was not referring to the windfall gains tax, but that would come into it. We are having a situation where different property uses are having different taxation effects, effectively, and sometimes commercial and industrial property is rezoned to residential, which will have a different tax regime under this new system when it comes in. I am interested in what sorts of incentives that could make – do you know what I mean? – because the residential system will not have this land tax and therefore on the margins, as was pointed out, there might be some cases where land use would be pushed away from commercial and into residential.

Emily SIMS: I see. So the question is whether, given the different tax rates, an economic incentive would exist that might push commercial land into residential use.

David LIMBRICK: Yes.

Emily SIMS: My initial kind of take on that is, well, the gatekeepers in the planning system would have to have a strategic conversation about that. So, you know, depending on the way the planning system deals with any particular site, it is not that we can see a commercial site being used for residential land without quite a substantial amount of mediation from the planning system through a rezoning planning scheme amendment and a council- or state-based process that would identify that that land should be used for residential. So I would not see that there was a huge amount of risk that would not be identified at that layer of strategic planning.

David LIMBRICK: So you see the planning barriers as bigger barriers than what might exist through tax differences.

Emily SIMS: Well, there are planning barriers, in the sense that we as the state or that particular local government area will make a strategic decision about the future of that site based on a range of different factors, not just on whether or not there is appetite for residential uses. I mean, we sustain commercial and industrial land out of residential use because we need it for commercial and industrial uses, and those are often lower value uses in certain locations. So we do that strategically. That is informed by a range of different kinds of planning considerations beyond I think just that sort of underlying economic pressure.

David LIMBRICK: Thank you. Again with the announcement yesterday – a lot of the discussion in your submission is around transition models and what the pros and cons are of those different types of models – one of the things that caught my eye is that they are announcing it at a date in the future, so it is not a rip-the-bandaid-off type of approach. Do you see this as potentially having some sort of chilling effect on transactions up until that date? Because if I was planning a commercial or industrial property transaction and I knew that as of 1 July 2024 I would not have to pay stamp duty, there is a possibility I may delay that transaction to avoid that tax. Do you see that as a possibility, that there might be some sort of chilling effect over the next year?

Tim HELM: The general answer would be that if taxes were significantly lower – all the taxes applying to a purchaser in the future, including stamp duty and land tax – after a certain date then, yes, there would be a chilling effect before that date. That is not my understanding of this reform. The second point to make is that my understanding of the transition model – and I will acknowledge the publicly available information was not too voluminous – is that after 1 July 2024 the next purchaser will still pay stamp duty at the old rates, and by paying it they will buy themselves 10 years free of a land tax. The clock starts ticking upon the purchase date, and after 10 years of ticking, the 1 per cent land tax kicks in. The other small aspect of this transition model is that instead of paying your stamp duty up-front you can pay it annually, so it has got that recurrent aspect. That is essentially a pure financing play on how you pay your land tax. As for the chilling effect, site by site, there may be sites where the prospect of – look, I do not think so, because stamp duty is the same after 1 July 2024 as it is prior. If anything, the prospect of a land tax that kicks in down the road in 10 years may encourage more transactions before the date, but I think that would really be a case-by-case basis, and we have, what, 13 months until that date, so no-one is going out and arranging a land transfer just for reasons of tax minimisation, especially for a tax that seems broadly equivalent in its magnitude of revenue collected. So I do not think so, in summary.

David LIMBRICK: Thank you. A large part of your submission also is around this deferred taxation idea that people who have low liquidity can effectively defer this land tax up until the sale. You have done some quite detailed modelling in your submission, and effectively what would happen is there would be government assets which they would charge interest on, which would be a liability of the landowners. That is fine if property values continue to go up. If there is a marked decline in the property market, which has happened throughout history, is there a possibility that these assets that are being held by the government effectively become bad debts and a big problem for the government?

Tim HELM: That is an excellent question, and thank you for reading that deep into the submission. You had to wade through many tables and charts on the way. The answer is that in principle there is such a risk – a default risk, a repayment risk – but in practice, given the types of tax rates that we are talking about, we are never going to get to anywhere where a property price slump harms the value of that asset, impairs the value of the asset such that the government is losing money and taking on risk. We have calculated some numbers. I am aware the Grattan Institute did something similar pointing out that a stamp duty replacement land tax, even over a horizon of – I cannot recall – 30 years or 50 years, does not even get close to a portion of the property value that could be endangered by a property price crash. The other point I would note about that is that typically with deferred taxes – we have this in the land tax system if you are slow paying your taxes – that tax lien or liability is first charged on the property title, which means in the event of payment default the state gets its cut before the bank or the mortgage lender does. So the state gets the lowest risk slice of this lending against property. It essentially nudges itself ahead in the creditor queue on that land title. So as a practical matter, there is just no risk to the state.

David LIMBRICK: That was going to be my next question. In the event of foreclosure for a loan, from the bank's point of view this would be an extra risk for the bank, wouldn't it? They would have to effectively price it into interest rates because they would know that over time the government would be a creditor in the case of foreclosure. They would take a chunk of the value of the property, as you say, because they would be first in line, and the lenders would effectively have to price that new risk in, which would potentially mean higher interest rates, wouldn't it?

Tim HELM: Yes, it is a possibility. We think maybe more likely is a sort of gradual withdrawal of mortgage credit. So, for example, we sometimes have interest-only loans, where the banks lend to investors on an interest-only basis. If there is an accruing land tax liability, that type of loan is leading to the total liability on the property then rising from, say, 90 per cent up to 100 or more than 100 per cent of the property value. Now, a bank is not going to want to expose themself to that, so rather than offering someone an interest-only loan, they are more likely to have a loan that maintains the total loan–value ratio, including the private loan and the public loan, at a level that the bank is comfortable with given their risk appetite. There will be some behaviour change in the bank lending sector, but to say what that is exactly would take people that know banking a bit better than I do.

David LIMBRICK: Thank you.

The CHAIR: Thanks, Mr Limbrick. Ms Ermacora, do you have any questions?

Jacinta ERMACORA: Thank you very much for taking the time to do the submission and the presentation. I do not have any questions, but I really appreciate the level of evidence and examples that you are using in explaining it. I appreciate it.

Tim HELM: Thank you very much.

The CHAIR: Thanks, Ms Ermacora, and I agree with you. Mr McIntosh, do you have any questions?

Tom McINTOSH: Yes, I do. Thanks very much also. I have really enjoyed it. Just on that last point about the potential factoring-in of interest rates for banks, you could probably say that, given that the stamp duty is not there being paid up-front – and I understand this might diminish over time – the capacity for the purchaser to have a smaller ratio loan would probably be a benefit if you are looking at the bank loan anyway, would it not?

Tim HELM: Yes. You have raised a really good point, because stamp duty and land tax are probably equivalently priced into property sale prices. In the case of stamp duty, the buyer also has to borrow a bit more to pay the stamp duty, but in the case of a recurrent land tax, instead of borrowing a bit more, they have to pay a little bit every year. So I think there is going to be an impact on the mortgage sector where the total amount of lending, residential lending or mortgage lending generally, is lower in terms of initial loans but it is paid off more slowly. People may take a smaller loan from the bank but repay that loan in dollars per year on a slower basis. Whether this would expand the size of total mortgage lending and bank profits or the other way round I am not quite sure. I think what we essentially see with a stamp duty to land tax switch, if we have [Zoom dropout], is smaller loans paid off more slowly by buyers.

Tom McINTOSH: Just on the point earlier again, there was talk before about the potential of rezoning, and I agree with your points. I think just further to that too, given that there are already different concessions applied to stamp duty, we do not see necessarily, for different land uses or different purchases, that impact on land zoning, so I suppose that is just another now-and-then sort of example of different ways. The other point I wanted to pick up on you raised quite early on in your presentation and was just around the furphy of double tax. Do you mind just speaking to that a bit more?

Tim HELM: Yes. I have no live examples of this being raised, but typically the property industry, big landowners, big developers – it is a common phrase, 'double taxation'. In this case, after 1 July 2024 the next buyer of a property will pay a thing called stamp duty, and after 10 years they also will pay on an annual basis a thing that is called – I am not sure – the new property tax or the new land tax. I am not sure it has a name yet. So there are taxes with two different names that they will be paying over the course of their tenure. It would be easy to claim that taxes are somehow double if someone is paying two taxes when the right and fair approach is to pay a single one of those two, but because the land tax they are paying only begins after 10 years, it is not as though the new land tax is being paid on top of the existing stamp duty. The stamp duty in essence now buys you 10 years of land tax-free treatment. I am not sure if that is above or below the average for turnover for commercial and industrial property.

Tom McINTOSH: I very much appreciate that. Thank you, Chair.

The CHAIR: Thanks, Mr McIntosh. We have a few minutes left, and I know members have some more questions, so I am going to go around the room but ask that everyone tries to keep the questions and answers as short as possible, starting with Ms Copsey.

Katherine COPSEY: Yes, just one further question from me, thank you. You canvassed different transition proposals in your submission and ended up determining that tax credit is the preferred approach from Prosper's view. Can you just elaborate on some of the attractiveness of that option versus the others? Also, I would be interested in any reflections from the New South Wales experience of pitfalls that you might wish to avoid in transition.

Tim HELM: Yes, certainly. The benefit of a credit model is that you can target your concession spending – the money you are spending to make this politically feasible – at the true fairness issue in this transition. And the true fairness issue is a recent buyer of property who paid a full quotient of stamp duty, if they were asked to pay a land tax immediately after the reform date, truly would be facing a level of double taxation. That is the real unfairness. The unfairness is not that someone who bought land 100 years ago suddenly has to pay a new land tax. We think that is a very fair approach. So with a credit, you take your budgetary costs and you really target them at those that, for example, in the last 10 years bought property. You could just say 10 years on a sliding scale. If you bought in the last year before the reform, you get all your stamp duty back. If you bought 10 years before the reform, you get one-tenth of the stamp duty you paid, indexed for inflation, back as a form of tax credit you can apply against future land taxes.

So the attraction of this model is that it is not costing the budget an awful lot in, if you like, misdirected concessions to long-held properties that really ought to be in the tax net and have benefited very well from paying a disproportionately small share of the state's total stamp duty burden thus far. These people could be paying more; this is the fairness rationale. Every time we say that stamp duty is unfair on a property owner that transacts more often, the flip side of that is that property owners that have held their properties for a very long time are paying a less than fair share of what we need to fund state services. So that is on that model.

On New South Wales, the original talk was of a switch-on-sale model. They also included an option, an opt-in model, where the purchaser could choose between stamp duty and land tax. The opt-in model has its costs, and the cost here is that people that expect to pay less in land tax than they would in stamp duty will choose the land tax, but people who expect to pay more in land tax because they expect to hold the property for a long time will choose the stamp duty. That property will never enter the land tax net, and when it is sold there will be that same disincentive to sell that is slowing down property transfers.

We are not particular fans of the opt-in model, but we can understand that the optics of opt in were kind of attractive. Yes, that is probably all I would comment on with the – sorry, one more comment on the New South Wales model is that there is a very large revenue hit when you stop taking stamp duty and you start taking land tax. Even if the amount paid from the perspective of the property buyer is the same over their tenure, it is paid much later, and in the state's books, in the revenue in the operating statement, that looks like a big cost. I can see the Victorian government has got around this by continuing to charge a stamp duty but limiting the amount of time that stamp duty buys you free of land tax – so a 10-year horizon. That is how they are managing the revenue hit in the short term from this version of the switch-on-sale model.

The CHAIR: Great. Thank you. Mr Mulholland.

Evan MULHOLLAND: Cool. I will try to be really quick. You spoke about value capture. I wanted to get your thoughts about zoning and density. There has been a lot of discussion lately, and there seems to be quite a universal view that local government has been frustrating the creation of new supply, particularly in inner-city areas. It has been floated in the media that basically the government could possibly absorb planning powers from local government. Other witnesses to this committee and other places have said a better model is housing targets with financial incentives to share in that revenue or that capture of the land. What are your thoughts on this debate and these kinds of proposals?

Tim HELM: I cannot do any kind of justice to this complex topic in the time, but Emily may want to give a quick pass view of this. Would you like to, Emily, or would you like me to give it?

Emily SIMS: Tim, I think maybe you offer your thoughts, and perhaps I will have some.

Tim HELM: Certainly.

The CHAIR: I will just interrupt quickly to say we are on time and we do have another lot of witnesses for the next hour, so we probably only have about 3 or 4 minutes. I just want to allow you the time because we were late starting, but David Limbrick also has one more question too.

David LIMBRICK: I will cede it.

The CHAIR: Okay.

Tim HELM: I will make the answer very brief. We released a report the other day, which you can find on our website, that touches on issues of planning and how that relates to house prices and rents. I could highly recommend this report for a more exhaustive discussion. There is inevitably debate about the degree to which the planning system is actually slowing down the supply of housing. There is a lot of evidence that planning restrictions and the way planning is governed in Victoria, and really all across Australia, is not a particular barrier to private sector supply of housing. Typically, when we measure the capacity that is ready to go and ready to be developed and then we compare that to the rates of development of property, we find that only a very small proportion of properties that could be developed, even property that could profitably be developed, is actually brought to market. It appears there is a private sector speed limit on how fast housing is built, and that is the constraint on new housing supply and therefore on affordability, not planning constraints. That is probably all I can do in the time available with your time limits.

The CHAIR: Thank you. I am sorry, Emily, just before you commence what you were just saying as well, we would be more than happy to receive that report to consider as part of the inquiry.

Emily SIMS: We also published a detailed discussion paper which sort of delves into what we see as some of the outstanding economic and conceptual issues around this conversation. The house view, essentially, over and above what Tim has said, is that we do not have any objection to higher levels of density being located in strategic and high-value areas in our cities, but we have some concerns about the 'upzoning equals housing affordability' equation, and that discussion is fleshed out in a lot of detail in the two reports that we recently released, which we will provide to the committee.

Tim HELM: If you would not mind, I would add one tiny comment to Emily's, which is that our concern also from a distributional justice perspective is that upzoning generates these huge windfall gains, and when we see residential land that is not included in the rezoning windfall gains tax upzoned to higher density, that is free money for the property owners. That is one strong reason why property lobbies want upzoning constantly: it is free money, and you did not do anything to earn it. That is essentially unfair when workers are paying tax on their payroll and employees are being punished for employing them. We would love to see upzoning paired – where upzoning is appropriate for planning goals – with capture of the value created.

The CHAIR: Thank you very much. We would be more than happy to receive both of those papers that you mentioned in your responses as well. That is all that we have time for today. Thank you very, very much for your detailed contribution and for sharing Prosper's views with us. It was very valuable to all committee members.

Witnesses withdrew.