

TRANSCRIPT

LEGISLATIVE COUNCIL ECONOMY AND INFRASTRUCTURE COMMITTEE

Inquiry into Land Transfer Duty Fees

Melbourne – Wednesday 28 June 2023

MEMBERS

Georgie Purcell – Chair

David Davis – Deputy Chair

John Berger

Katherine Copsy

Jacinta Ermacora

David Limbrick

Bev McArthur

Tom McIntosh

Evan Mulholland

PARTICIPATING MEMBERS

Gaelle Broad

Georgie Crozier

Rachel Payne

David Ettershank

Sarah Mansfield

WITNESS

Dr Michael Fotheringham, Managing Director, Australian Housing and Urban Research Institute.

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 paying 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.

We will begin by introducing committee members to our witness, starting at this end of the table with Mrs McArthur.

Bev McARTHUR: Bev McArthur, Western Victoria Region.

David LIMBRICK: David Limbrick, South-Eastern Metro.

The CHAIR: Georgie Purcell, Northern Victoria.

David DAVIS: David Davis, Southern Metro.

John BERGER: John Berger, Southern Metro.

Katherine COPSEY: Katherine Copsey, also Southern Metro.

Evan MULHOLLAND: Evan Mulholland, Northern Metropolitan Region.

The CHAIR: We do have Tom McIntosh on the screen. He is just having some technical issues, but he might join us at some point. Thank you very much for coming and appearing today.

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 this 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, can you please state your full name and the organisation you are appearing on behalf of.

Michael FOTHERINGHAM: Michael Fotheringham, the Australian Housing and Urban Research Institute.

The CHAIR: Great. Thank you. We will now ask you to make your opening statement, but request you keep to 10 or 15 minutes so we have plenty of time for questions. Shorter is fine too, though.

Michael FOTHERINGHAM: I will allow more time than that. I will go shorter. I think the core of this inquiry is looking at stamp duty and whether it is helpful or less so. It is less so. A transition to a land tax model, well-implemented, would be an improvement for a whole range of reasons. For first home buyers it eases entry into home ownership. At the other end of the age scale, downsizing is much easier if that hurdle does not play a role again. It allows labour force mobility to be much more manageable because people can move to where their jobs are a lot more easily if there is not an enormous lump sum attached to the purchase of properties. It is more financially manageable, easier for the banking system and easier for everybody. I am happy to leave it there.

The CHAIR: Incredible. All right, well we have got plenty of time for questions then. We will go around the room, with members keeping it to approximately 5 minutes, and then we will go around again. Mr Mulholland.

Evan MULHOLLAND: Excellent. Thank you for your submission and for appearing before the inquiry. I just want to expand on your thoughts on an annual land tax model and the transition to that. I ask this because, as we have heard in this inquiry, you can, especially in the ACT if you drag it out for too long and dependent on government direction, end up with both land tax and a stamp duty. So I just want to know your thoughts on that model and how it might be better done in Victoria.

Michael FOTHERINGHAM: I think we need to separate policy design and policy implementation. I think the issue that you are referring to in the ACT is about implementation rather than policy design. I think the intent of the policy design was appropriate; implementation may not have reached those heights, but that can happen, as we have seen in many fields over the years. It does require bipartisan support and a dedicated approach over a number of years. It does take some time to transition from this, because it requires each property to change hands, in effect, to do this well. Some of the work that AHURI has done in this space – we published research on this in 2017 by Richard Ecclestone in AHURI Final Report No. 291; I am happy to provide that to you later on – looked at the political and policy barriers to changes in state taxation as part of a broader inquiry into Australia's taxation system in relation to housing, but also looked at federal responsibilities as well. One of the things that work suggested was a transition model with a neutral level levy for a short period, which would enable reduced impact for lower income households and lower value properties over a one to three-year period before moving through to a land-based tax model. It is quite detailed modelling, I am not going to try and cover it verbally, but the intent being to move over time to a land tax model which has all the benefits we have referred to.

Evan MULHOLLAND: Yes. I want to ask, particularly in the context of tax and whatnot – we have seen changes in the budget that would increase land tax on property owners: what do you think that will do to supply of new housing and rental affordability?

Michael FOTHERINGHAM: Land tax is unlikely to have a large effect on supply. Workforce capacity and the financial stability of the residential construction industry is a much bigger concern, and we have certainly seen, both in Victoria and other parts of the country, real challenges in that space. That is paired with material supply chain issues that are preventing us from building more rapidly than we are. Those two barriers, along with some land banking in some places, are the main problem in terms of supply for us.

Evan MULHOLLAND: Yes. And we have seen recently, allegedly, a supposed deal where the government may investigate rental caps and has not ruled out implementing them. This is something that has been trialled around the world. It has been quite a failure in different cities, like San Francisco. What is your view on rent control in general?

Michael FOTHERINGHAM: I think it is important to understand what we are talking about when we talk about rent control, because there are a number of terms that in the public domain recently have been used interchangeably, as though they are the same thing, when they are actually quite different concepts. A rent freeze is a complete halting of any progress of rent for a defined period – hopefully for a defined period. That is a rare model that has not been used extensively, and I am yet to find any evidence that it works anywhere.

Rent caps come in two forms. There is the frequency of rent creases, which around the globe is typically once a year. In Queensland they have recently moved from twice a year to once a year, or they are about to do that within, I think, a couple of days of now. Officially Western Australia still has twice a year, as does the Northern Territory, but the rest of the country and most of the Western world use a once-a-year model. Then the second dimension is the size of rent increases. Now, the ACT have what is typically referred to as 110 per cent of CPI as a rent cap. It is technically not a rent cap; it is a guideline. It is not 110 per cent of CPI, it is 110 per cent of the rent component of the CPI in the ACT, and landlords can appeal against that if they believe that it is still below market rate, against the prevailing market. So it is not quite the full cap that we see in some other parts of the world, but that is the closest we have in Australian experience.

It is too soon to say much about whether it works, but it is important to note that it has been paired with rapidly increasing rental supply in the ACT and with strong provisions around the quality of properties and the

protection of tenants. Without those two things – the protection of tenants and the quality of properties, including environmental performance, which the ACT now leads the country in in terms of those protections – and new supply, then a rent cap can be quite risky. In terms of the deteriorating quality of properties, we have seen maintenance fall through the floor where rental yield is kept at a capped level, and that has significant conditions for the quality of life and in fact the health of renters, so we need to be very careful taking those steps without the surrounding precautions.

Evan MULHOLLAND: I just want to draw out what you were saying before about the limitations of new construction and things like that. There has been ongoing debate about local government halting new supply. Whether it be that or the VCAT process or the ministerial process and department process as well, there have been musings that the government might look to take over the local government planning process. Other witnesses before this inquiry and expert economists have suggested housing targets to streamline that process. What do you think are the main barriers, as you were talking about?

Michael FOTHERINGHAM: Look, I think planning tends to be used as an excuse. I think it is much less of a barrier than land banking at this point. Landowners hold property that has approval for development that is not being brought forward, and they are then selling that for capital gains to another developer, who then gets approval –

David DAVIS: Flipping.

Michael FOTHERINGHAM: Flipping, yes – for a higher-level property on it and sells it for more capital gains. That can continue for years and years on key sites. That is a much bigger impediment to supply than planning, which actually protects the quality and safety and appropriateness of housing.

Evan MULHOLLAND: Cool.

The CHAIR: Thanks, Mr Mulholland. Ms Copsey.

Katherine COPSEY: Thank you. I am just keen to hear your thoughts around various transition models that have been canvassed publicly. You have touched already on differences that you could have in the length of time of transition, but I would love it if you could just expand a little bit on your views on measures to assist with implementation, particularly any equity issues, avoiding double taxation, and touching on credits and deferrals.

Michael FOTHERINGHAM: Double taxation should not really come into it. If you have paid stamp duty on a property, you are all clear until you leave that property and take on another one in any sensible model of this, because otherwise it is a double-dip and that is not a justifiable outcome. The modelling that we did in 2017 used what was referred to as a fairer transfer system – I am just going to check the language to get this right – a neutral transfer duty, so a set rate of percentage against properties. That protects particularly the lower income, lower cost housing from excessive fees being attached to it, using that as a short-term transition into a land tax model.

Obviously the level of the land tax is an important consideration in this and there needs to be some stability and consistency in this. We have recently seen New South Wales adopt a sort of hybrid model where first home buyers under a certain price point can choose land tax or stamp duty. I think restricting that to first home buyers is problematic for a range of reasons. Originally the New South Wales government were looking at doing that across the whole market. They have, as part of a negotiation I guess, ended up with a partial model. Partial models run risks. They add complexity, and complexity is not the friend of good policy.

Katherine COPSEY: Great. That was my main question around transition models, so thank you.

The CHAIR: Thanks, Ms Copsey. Mr Berger.

John BERGER: I have no questions at this stage.

The CHAIR: Thanks, Mr Berger. Mr Davis.

David DAVIS: Dr Fotheringham, thank you for your input. I am interested in your paper *The Spatial and Distributional Impacts of the Henry Review*. Some of us remember the Henry review. In the end it went

nowhere, but I just thought it would be helpful for this committee if you briefly summarised what that review found, what it recommended and perhaps an assessment of why it did not go anywhere.

Michael FOTHERINGHAM: The Henry review was a very, very good review of taxation policy. It had a number of good mechanisms. We did a lot of modelling of the impact of those, and they were largely positive, as suggested by Ken Henry. As for why it was not implemented, I guess to answer that in 2017 we funded research to determine how taxation changes around housing and property could navigate the political terrain. It was not so much a policy question of ‘What should we do?’ but ‘How do we get this through the politics?’ I think that is really the nub of the answer to your question; it is politics rather than policy outcomes that were the barrier.

David DAVIS: What did the review say, though, about the proposed changes with respect to stamp duty?

Michael FOTHERINGHAM: I have to confess that is a 2012 report. It is a little while since I have read it. I will have to go back to my notes. I am happy to provide advice after.

David DAVIS: Sure. Thank you.

The CHAIR: Thanks, Mr Davis. Mr Limbrick.

David LIMBRICK: Thank you. Thank you, Dr Fotheringham, for appearing today. We are getting towards the end of this inquiry, and I think it is safe to say that there have been a number of things identified. One is: what is the overall model that you would want to head to? And some of the models that we have heard have been around a simple reduction of stamp duty, which would relieve some of the problems and potentially increase transactions which may not have a big revenue effect. The other model is replacing stamp duty with some sort of land tax, and the other one is some sort of cooperation with the federal government, maybe, as Mrs McArthur said, through broadening the GST and using that to replace it. Then on the other side there is this transition, and the transition seems to be the big political barrier. I do not think we have had anyone say before this committee that they love stamp duty. Everyone seems to dislike it. The argument seems to be about what you replace it with, if anything.

How do you think that we can overcome those political barriers? Because some of them – people have spoken about taxing grandma out of her home – are a real concern. Things like people who signed up to a deal when they bought a house, paid their stamp duty and now might be hit later in life with some sort of land tax which was not part of the deal. These are all very politically charged issues. How do you think that we can design something that might actually get enough traction to go ahead and not get knocked on the head like what happened in New South Wales? It sounds like they are backtracking on that.

Michael FOTHERINGHAM: Watered down. The ‘taxing granny out of her home’ bit – I would like to understand a little bit more what that is suggesting. But the underlying principle that if you have paid stamp duty on a property, you do not then pay this land tax that replaces it should fend off most of that, done properly. And I understand that there are concerns about the ACT’s implementation, but that principle should cover most of those issues. So the taxing of grannies out of their home, I am not sure –

David LIMBRICK: If we went forward with a land tax immediately that was broad-based, that would imply that older people who do not currently earn an income would all of a sudden have a new expenditure that they were not planning on.

Michael FOTHERINGHAM: Only if they purchase a new property.

David LIMBRICK: Well, there are varying models on how this would be implemented. Some of them would do it universally and immediately, some of them would do it after the next purchase, so there are a range of different models. One of the ways of dealing with this that was presented in one of the submissions was to just do it immediately everywhere, and that tax would not necessarily be charged; it could be held as a liability, so you would run it up and then pay that when the property was sold. Another way could be to have an exemption for people who have already purchased it and then do it slowly over time as new transactions take place. What is your view on the path of least political resistance here?

Michael FOTHERINGHAM: I think some of those are fascinating proposals. I confess I have not read all the submissions put in to the inquiry, perhaps I should. But I really would have thought that the principle is that if you have paid stamp duty on a property, you have paid your tax on that property, and any implementation could not be universal but would have to be per new property. A transitional model has to be, to my mind, the only fair way to do that.

David LIMBRICK: Yes. Okay. So that would not tax anyone out of a home because they could make the choice to just stay.

Michael FOTHERINGHAM: That is right. And if I have understood you correctly, the suggestion that for those who have paid stamp duty that tax is imposed but not charged or held over sounds like an implementation disaster. That is adding enormous complexity and confusion, and I think adding a more confusing system is likely to be a problem.

David LIMBRICK: Yes, because one of the other proposals was that if you did it universally, the question there is not only on people who have held property for a long time but people who may have paid stamp duty quite recently. So one of the solutions put forward was to give people a credit on that land tax so that they would not have to – you know, if you have recently paid stamp duty, if you paid it in the last year, then you get a 100 per cent credit on it; if you paid it over a longer period of time, then you get less credit on it. In your view, are you saying that we should not be taxing anything that has already been there and rather do it on new transactions?

Michael FOTHERINGHAM: Re-taxing and then reimbursing according to keeping track of each property – and as households split, that becomes complicated – introduces a lot of complexity and a lot of administration and I think probably undermines the benefit long-term. I think the biggest challenge really in all of this is the income for state government, of losing that stamp duty. In the first few years, as the number of properties that transition is relatively small, the yield from that land tax is quite small compared to getting the lump sums of stamp duty, and so there is a period of pain until you get to a more sustainable model. So in previous years a lot of the discussion had been around Commonwealth support for that transition. New South Wales did not seek that support. The ACT is a much smaller, more contained jurisdiction, and as I understand it has not sought that support, but I have not checked that recently.

David LIMBRICK: Yes. And one other thing that has been brought up in previous hearings, which I found quite interesting, is that – we have spoken many times about labour mobility – if Victoria scrapped stamp duty first, it could be potentially making Victoria a rather attractive destination to move to from interstate, potentially even internationally. Do you think this is a good advantage? Like, if Victoria moved quickly on this and got ahead – well, we are going to get ahead of New South Wales by the look of it and other states – that could make us a far more attractive place to live.

Michael FOTHERINGHAM: I think that is a plausible argument not just for companies or individuals but also for the construction industry, for developers. If effectively the sale price is reduced by that stamp duty amount, that could have benefit in terms of attracting sector.

David LIMBRICK: Thank you.

Michael FOTHERINGHAM: That is speculation, but it is certainly plausible.

David LIMBRICK: It certainly makes sense, yes.

The CHAIR: Do you have more questions that you want to ask? We will come back around. Thanks, Mr Limbrick. Mrs McArthur.

Bev McARTHUR: Thank you, Dr Fotheringham. Do you have a view on the issue of school zoning? How does that affect the housing market and the supply of housing?

Michael FOTHERINGHAM: School zoning, much like the layout of public transport, is one of the drivers of house prices, and the phrase ‘location, location, location’ is fairly familiar, I think. People move to be within the zone of good schools. They move to be within preferably a walking or short commute to train stations and the like. They want access to good transport, they want access to good schools and they want access to

employment. Those are all part of the geography of house prices, along with environmental effects like nice beaches. They all play a role in this.

Bev McARTHUR: But do you think we should have it or abolish it?

Michael FOTHERINGHAM: I think that is an education portfolio question.

Bev McARTHUR: No, it is not. It is a housing issue.

Michael FOTHERINGHAM: I think equally we need land for schools to be on, and that land could also be used for housing if there was not a school there. So there are always trade-offs.

David DAVIS: Kids have got to go to school somewhere.

Michael FOTHERINGHAM: That is right, and preferably we have schools distributed across our cities.

Bev McARTHUR: But should we have a situation where the price of a house depends on a zoning policy which is dictated by government?

Michael FOTHERINGHAM: In the absence of that, the best schools will be swamped with too many students. There needs to be some means of filtering people to appropriate schools. I do not have an issue with that.

Bev McARTHUR: Really? Okay. Why are you part of the crew that seem to believe we need to provide solutions to the government to increase our taxes?

Michael FOTHERINGHAM: I do not recall saying that.

Bev McARTHUR: Well, moving from one tax to another is just basically increasing a tax or providing another form of taxation. You are not of the school that thinks we should tax people less?

Michael FOTHERINGHAM: I think large lump sums of tax, like a stamp duty, are difficult and require additional loans for people, whereas an ongoing fee each year is a much smaller amount of money and can be managed within family budgets, so that is quite a different proposition. I am not suggesting that that needs to be a larger amount of money.

Bev McARTHUR: In any case, you are not of the view that we should do away with a land tax altogether?

Michael FOTHERINGHAM: I understand the purpose of tax in providing government services and all the rest, yes.

Bev McARTHUR: Well, then, do you think agriculture should be exempt?

Michael FOTHERINGHAM: From stamp duty?

Bev McARTHUR: From a broad-based property tax.

Michael FOTHERINGHAM: Look, that is an interesting question. I do not have a view on that particularly. The value of land is dictated by a number of factors – you have pointed to a couple yourself – and then the use of that land and the zoning of that land is also a layer to this potentially. So there are a number of ways you could manage that.

Bev McARTHUR: How?

Michael FOTHERINGHAM: If you zone it as non-residential land, you could treat it differently than if it was residential land. If it was industrial land, it would be treated as – there is a range.

Bev McARTHUR: But isn't a good tax one that is broad based and applies to everything?

Michael FOTHERINGHAM: I have argued for simplicity.

Bev McARTHUR: Isn't that the problem with the GST, that it is currently on a declining number of products and that the best tax is one that is applied across the board?

Michael FOTHERINGHAM: I think there is probably a range of challenges for the GST, and that is probably one of them, yes.

Bev McARTHUR: So if you exempt agriculture, are you still going to accumulate the amount of money that you would need to abolish stamp duty?

Michael FOTHERINGHAM: Again, that depends on the level of tax. That is an overly simplistic question, because the amount that is charged is based on a range of factors, and that would have to be one of the considerations if that was done.

Bev McARTHUR: The last witnesses suggested we should go up, not out. Is the Australian Housing and Urban Research Institute of that view as well?

Michael FOTHERINGHAM: Sorry, can you define that a little more?

Bev McARTHUR: Increasing the supply of housing within an urban area – say, in Melbourne – rather than increasing suburbia out into –

Michael FOTHERINGHAM: The urban sprawl –

Bev McARTHUR: Yes.

Michael FOTHERINGHAM: and the growth boundaries that are actually boundaries.

Bev McARTHUR: Yes.

Michael FOTHERINGHAM: Yes, we should certainly work within the current footprint of our major cities and work on better density within that. In Australian cities we tend to do two things quite well. One is building on large properties, quarter-acre blocks and the like, on the fringe – the increasingly distant fringe – of our cities and the other is high-rise apartments in the very centre. What we tend not to do well is infill development through the middle suburbs – what is often called gentle density – or more modest increases in density. We are not talking about 20-storey buildings; we are talking about two- and three-storey buildings and use of smaller apartments, particularly around public transport.

Bev McARTHUR: So therefore do you think that we should better streamline access to development within the urban footprint that we have got, instead of having overlays and restrictions on growth that would allow housing and development in increased supply nearer the services that taxpayers have to produce, like transport and schools?

Michael FOTHERINGHAM: We clearly need more supply. We need it to be connected to transport and infrastructure, so yes.

Bev McARTHUR: So you could join the yimby movement?

Michael FOTHERINGHAM: I am aware of them; I am certainly not a nimby.

Bev McARTHUR: Pleased to hear it.

Michael FOTHERINGHAM: I am not a member of any of those groups, actually, or any political party for that matter. I mean, there is a reasonably longstanding yimby organisation in Queensland. I am certainly aware that a new one has started in Victoria recently and in some other states. In terms of that principle of increasing density within our urban footprint, there is strong evidence in support.

Bev McARTHUR: How do you think the new tax that is going to be applied to development, the windfall gains tax, is going to affect supply?

Michael FOTHERINGHAM: As I said earlier, I think the biggest challenges for supply are not in that sort of space. They are in the workforce capacity and supply chain issues, and, as I said earlier, the land banking that

is going on is also a significant barrier, the flipping of land over long periods of time. I do not think a windfall tax is a key issue.

Bev McARTHUR: Really? So wouldn't that also involve land banking? I mean, if you are a potential developer these days, why wouldn't you sit on your land in the hope that that tax might change, or do you think if there is such a tax, it should be hypothecated?

Michael FOTHERINGHAM: That is a good question. I would have to look at that. I have not done so. You know, one of the other proposals that has been around is around vacant land tax, and there is opportunity there to incentivise use of the land.

Bev McARTHUR: So you think they are a good idea?

David DAVIS: There is already a land tax on vacant land.

Michael FOTHERINGHAM: That is correct, but it is quite a small one just within the greater Melbourne area.

David DAVIS: But it is a regular tax.

Michael FOTHERINGHAM: Yes.

Bev McARTHUR: But you think it is a good idea?

Michael FOTHERINGHAM: Vacancy tax? I think they have potential, yes. I think the current vacancy tax in Victoria is set at a level where it is unlikely to have much effect. It is quite a small sum.

The CHAIR: Is that all, Mrs McArthur?

Bev McARTHUR: Yes, that is fine. Thank you, Chair.

The CHAIR: Thanks, Mrs McArthur. Mr Mulholland?

Evan MULHOLLAND: No.

The CHAIR: Ms Copsey or Mr Berger? No. Mr Davis.

David DAVIS: I am going to be very quick. Dr Fotheringham, your paper, *The Spatial and Distributional Impacts of the Henry Review Recommendations on Stamp Duty and Land Tax*, February 2012, is a good paper. It has a lot of useful material, but I draw your attention in particular to figure 9 and pages 34 and 35. It says here:

... we identify the municipalities responsible for the increased concentration and inequality of tax revenue under the broad based land tax.

And this is a modelling process that your organisation did.

For example, the Boroondara municipality (which covers suburbs such as Kew, Hawthorn, Balwyn and Camberwell) would be responsible for over \$218 million of land tax, the highest among the 31 municipalities. Approximately one-third of all revenue would be generated by just three municipalities – Boroondara, Bayside and Stonnington.

And then it goes on and there is a table, figure 9, which lays out this quite closely, looks at the stamp duty aggregate and looks at the proposed land tax.

For example, tax revenue generated from Boroondara would double from approximately \$100 million to over \$218 million if reforms are introduced.

You know, this is going to have a major impact on some people if that arrangement is put in place, and indeed the land tax, it seems to me, would actually be an absolute slap for many people.

Michael FOTHERINGHAM: I mean, I think the geography you have talked about there describes the wealth distribution of our city.

David DAVIS: So it is just a pure wealth tax now? It is not a property transaction tax anymore; it is just a pure –

Michael FOTHERINGHAM: Well, no, no, no. But the value of land is attached to that, yes.

David DAVIS: I am just trying to understand this. But it is going to be concentrated under your modelling in a small number of suburbs. Port Phillip and Stonnington are amongst them – and Boroondara. Bayside is prominent amongst them. If you were a resident in, for example, Bayside, and you were going to see a huge increase in this issue, you might not be so enthusiastic.

Michael FOTHERINGHAM: If I was going to not have to pay –

David DAVIS: I am picking a municipality at random there.

Michael FOTHERINGHAM: Sure. And if I was going to avoid paying \$300,000 in stamp duty, I might be a little more comforted. There are swings and roundabouts to this.

The CHAIR: Thanks, Mr Davis. Mr Limbrick.

David LIMBRICK: Thank you, Chair. One other thing that was brought up during this inquiry, and I touched on it in my previous question, was the idea of simply, firstly, the government experimenting by reducing stamp duty to see how that affects overall revenue, because stamp duty is not just a function of house prices, it is also a function of levels of transactions. One of the things that I wanted to ask DTF – but they did not come in again – was around whether that modelling had been done. But the suggestion is that if we lowered stamp duty, let us say we halved it, that is clearly going to have some sort of effect on increasing transactions, and it may be the case that the overall loss in revenue may not be as great as one would immediately think. I would be interested in your views on that. Obviously it is a lesser reform than getting rid of stamp duty. But do you think that it is a worthwhile thing for this committee to recommend to the government that they experiment or model that lowering of stamp duty and see what effect it might have on transaction volumes?

Michael FOTHERINGHAM: That is not entirely different to the neutral transfer duty model that we talked about in the 2017 paper, which looked at an interim approach, a similar time frame – so a more neutral duty at a flat rate that provided particularly assistance at the lower income ends. It is not entirely different to that concept; I mean, that is just a different way to calculate it. But I would think the effect would be similar, and I am happy to share the report that looked at that.

David LIMBRICK: Thank you. One other – I cannot remember which submission it was, but it was quite interesting – was the idea of rather than switching to a land tax, one possibility might be to effectively keep the current system but amortise it over a long period of time, potentially around whatever the average holding time was for a house. That sort of flattens government revenue streams so they do not get these peaks and troughs, and the effect on a person who purchases a property means they are not paying this tax in perpetuity. What are your thoughts on that and how that sort of approach might affect labour mobility and things like that?

Michael FOTHERINGHAM: Look, I think it is an interesting approach. I have not modelled that particular approach. I think the barrier to labour mobility is the lump sum that stamp duty represents.

David LIMBRICK: Yes, and this would get rid of that.

Michael FOTHERINGHAM: So any version that takes a more gradual taxation model rather than that big up-front lump sum that just sits on top of a mortgage cost is likely to help with labour mobility.

David LIMBRICK: Okay. Thank you.

Michael FOTHERINGHAM: And I should say not just labour mobility but mobility more generally, and in particular downsizing. There is a real barrier to downsizing. We want people to use our housing more efficiently. We are worried about empty nests. If we want people to move out of what used to be the family home before the kids grew up and moved out, removing stamp duty and having a land tax model helps with that. So there are a range of ways that that mobility is assisted that are good for our housing systems – access to schools.

The CHAIR: Thanks, Mr Limbrick. Mrs McArthur, did you have any more questions?

Bev McARTHUR: Only that you seem to have faith in governments that they are not going to fleece the poor old taxpayer.

The CHAIR: Is there a question or is this just a comment?

Bev McARTHUR: What confidence have you got that once they introduced a property tax, they would not just ramp it up and up to the point where it became –

Michael FOTHERINGHAM: I think the electoral backlash of doing so is a pretty good protection from that. I cannot guarantee the behaviour of governments, but look, I do have faith in good policy.

Bev McARTHUR: But people like you encourage governments to tax. Isn't that an incentive for governments to go, 'Oh, hang that group and that group'?

Michael FOTHERINGHAM: No, I am encouraging a pathway to move away from a difficult tax that is unhelpful to a more helpful version of that.

Bev McARTHUR: One where they could just increase the rate at will.

Michael FOTHERINGHAM: I do not anticipate this government working as voluntary organisations do.

Bev McARTHUR: Okay. That will do. Thank you, Chair.

The CHAIR: Thank you, Mrs McArthur. If there are no other questions from committee members – okay. Thank you very much for coming along today and sharing your expertise with us. I will declare the hearing closed.

Witness withdrew.