TRANSCRIPT

LEGISLATIVE COUNCIL ECONOMY AND INFRASTRUCTURE COMMITTEE

Inquiry into Land Transfer Duty Fees

Melbourne – Friday 28 April 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

Nicholas McGowan

WITNESSES

Mr David Martine, Secretary,

Mr Chris Barrett, Deputy Secretary, Economic Division, and

Ms Miranda Forehan, Executive Director, Revenue, Economic Division, Department of Treasury and Finance.

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 today 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, and I welcome any members of the public watching via the live broadcast.

To begin, we will just go around the room and introduce ourselves, starting with Evan.

Evan MULHOLLAND: Evan Mulholland MP, Northern Metropolitan Region.

Katherine COPSEY: Katherine Copsey, MP for Southern Metro.

Tom McINTOSH: Tom McIntosh MP, Eastern Victoria Region.

The CHAIR: Georgie Purcell, MP for Northern Victoria.

David LIMBRICK: David Limbrick, MP for South East Metro Region.

John BERGER: John Berger, MP for Southern Metro.

David DAVIS: And David Davis, Southern Metro.

Jacinta ERMACORA: Jacinta Ermacora, Western Victoria Region.

The CHAIR: Great. I would like to welcome the witnesses, if you just want to quickly introduce yourselves.

David MARTINE: I am David Martine, Secretary of the Department of Treasury and Finance.

Miranda FOREHAN: Hi, I am Miranda Forehan, the Executive Director of Revenue.

Chris BARRETT: And Chris Barrett, Deputy Secretary, Economic, Department of Treasury and Finance.

The CHAIR: Great. Thank you. 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, can you please state your name and any organisation you are appearing on behalf of. You can do so in your opening statement, which we now welcome you to do but please keep it to approximately 15 minutes if possible.

David MARTINE: Thank you, Chair. David Martine, Secretary, Department of Treasury and Finance, and thank you for the opportunity to discuss land transfer duty with the committee today.

Victoria's tax system raises the revenue required to finance public services and infrastructure. Land transfer duty is an important source of tax revenue in Victoria, with revenue of $10.4 billion, or 34 per cent of total state tax revenue, in 2021–22. Land transfer duty is payable on most transactions that result in a change of ownership of land and associated real estate assets. This includes residential, commercial, industrial and primary production properties. Various land transfer duty concessions and exemptions are available to eligible Victorians. Land transfer duty revenue is dependent on property prices and settlement volumes and therefore is heavily influenced by fluctuations in the property market. The volatility of land transfer duty revenue is higher than other state taxes, and revenue predictability is important for budgeting and decision-making. When an activity or a transaction is subject to taxation, households and businesses can be expected to factor its costs into their decision-making, potentially changing behaviour. For example, property taxes, including land transfer duty, can influence housing and investment choices, including whether to move house or develop a property. This can have an impact on economic activity.

Land transfer duty can influence property decisions through transaction volumes and capital investment. On volumes, land transfer duty increases the cost of transacting property and therefore can reduce the number of transactions. This can negatively impact on household and labour mobility. On capital investment, land transfer duty taxes capital improvements as part of the total value of a property, and so it can impact on the capital investment made in property. There is a body of academic research that examines these effects.

Land transfer duty can also influence decisions of individuals and businesses. For example, it may discourage individuals from relocating for opportunities such as a new job or moving to a property better suited to their needs. Business owners may choose to continue normal operations instead of relocating to expand or take advantage of opportunities in growth areas. Because of the impacts on behaviour associated with land transfer duty, estimates of its efficiency rank it as one of the least efficient taxes levied by governments across the country, with a higher value of welfare loss to the economy for each dollar of revenue raised than other taxes.

All taxes have an economic cost, but an efficient tax will raise a given amount of revenue in a manner that minimises unintended distortions in behaviour and therefore economic costs. While there are many examples of proposals for state tax reform which identify land transfer duty reform as a key priority, any major tax reform will have various challenges that need to be considered. This in particular includes identifying an alternative, efficient and sustainable source of revenue. It would be difficult for any state government to undertake such reform without financial support from the Commonwealth.

Thank you again for the opportunity to contribute to this discussion. We are pleased to take any questions the committee may have.

The CHAIR: Great. Thank you. I will invite members to ask questions for approximately 5 minutes each and then we will go back around the room if necessary and if we have time, starting with Mr Mulholland.

Evan MULHOLLAND: Okay. Thanks for your attendance today; we certainly appreciate it. I want to get to stamp duty waivers, as I know it is something that affects people of my generation, particularly that the stamp duty waiver for first home buyers only goes up to $600,000 and then ramps down to zero for properties valued over $750,000. April's CoreLogic figures say that the average unit price in Melbourne is $600,000, so only half of apartments get the full concession. The average house price in Melbourne was sitting at around $900,000, so most houses have no stamp duty concessions at all and make up over 80 per cent of all dwellings. Do we still think the thresholds are at the right level?

David MARTINE: Thanks for your question, and you are right. In terms of first home buyers, it is fully exempt to $600,000 and then phases down to $750,000. In our short submission, page 7 sort of outlines the concessions. So there is the first home buyers, there is the off-the-plan, the primary place of residence for properties up to $550,000 and then there are some various concessions for pensioners. I guess the important point about all of these concessions – and you will see on page 9 of our submission, which we publish every year in our tax expenditure statement – is all of these concessions cost forgone revenue, so in effect it is similar to, you know, a grant program.

So the concessions provided to first home buyers that fully phase out at $750,000 come at a cost. Like any tax concession, like any grant program, they are decisions that governments need to make, and they have got to trade off giving up forgone revenue versus other priorities. So at the moment they are the thresholds. Embedded in your question – correct; they are not indexed thresholds. This does not mean that governments from time to time do not make decisions to change thresholds. And that is generally the typical approach you see in the tax system both at the state level and the Commonwealth level. With the big taxes at the Commonwealth level, particularly income tax, for example, those thresholds are not indexed. So from time to time governments make those choices. And this is very similar to that; they are available for the government of the day to then make a decision that it may increase the thresholds and extend that exemption to a higher level.

Evan MULHOLLAND: Do you think it is fair or have a view on the fact that in order to get concessions people, young families in particular, are being made to choose between either quite small apartments or going right out to growth areas in order to take advantage of this concession? And do you think that is distorting the market?

David MARTINE: That is a hard question to answer, because obviously the amount of stamp duty you pay as a potential buyer is just one of many factors that you take into account in making a property purchase. The stamp duty on a $600,000 property is not an insignificant thing for the first home owner, but in terms of making those decisions on whether you are buying a property in the outer suburbs of Melbourne versus some of the inner suburbs, I suspect the key driver of that will be just the actual price of the property. You are probably looking at $600,000 versus $2 million or something like that.

But every tax, particularly if you are taxing a transaction – there is no question that tax on a transaction can distort behaviours, because you have got to take then into account and you can avoid the tax by just not doing the transaction. So I would not pretend that it does not impact decision-making, but in the example you gave about the choice between the inner suburbs and the outer, I suspect the big driver is really just the absolute price of the property concerned.

Evan MULHOLLAND: Do you think improving housing density in our inner suburbs would help address these pressures, and do you think local councils need to do more in encouraging developments in inner suburbs rather than opposing them?

David MARTINE: If you just think about the issue conceptually, then anything that encourages supply will certainly help affordability. So if there are initiatives that encourage the stock of housing, that can be a good thing in terms of housing affordability. If you are talking about inner suburbs where you have a limited stock of product, things that increase the supply will conceptually make them more affordable.

Evan MULHOLLAND: I note the government has admitted we are under target on new housing development in inner-city suburbs, which is I think putting pressure on growth areas. Do you think we are on track to meet that 1 million new homes target in our existing suburbs?

David MARTINE: I probably need to take that one on notice. I am not quite sure –

Chris BARRETT: Let us take it on notice. I do not think we are, but we can take it on notice.

David MARTINE: We are happy to take that one on notice.

Evan MULHOLLAND: Just more broadly, how long are people staying in houses before moving? And is that time increasing house prices and therefore stamp duty?

David MARTINE: That is a good question. Some of the modelling that gets done when people are looking at the stamp duty switch to an annual land tax, for example, often picks a time frame of about 10 or 11 years as the average time that someone would normally flip a house. So they try and neutralise the revenue impact by developing it at about that time frame. Now, obviously some people move sooner and some might be in their property for decades, but the average tends to be around that 10 to 11-year mark for residential.

The CHAIR: That has been 5 minutes. We will come back to you if we have time. Ms Copsey.

Katherine COPSEY: None from me today, thank you, Chair. I thank the department for the clarity of the submission.

The CHAIR: Mr McIntosh.

Tom McINTOSH: Thanks. Just following on from Mr Mulholland's questions around the exemptions and concessions that are available on the land transfer duty, would you mind just talking us through a bit about the usage of those by Victorians, and how they have been taken up?

David MARTINE: I will try my best. I am not sure if I have got any material with me today on actual take-up, but in a way the consequence of the take-up is outlined on page 9 of our submission. We report it in the budget papers each year, and it is basically the estimated tax expenditure, which is effectively the estimated revenue that is not collected as a result of a particular concession. If you track those over time, you can actually see growth in particular ones. So for example on page 9 of our submission, the land transfer duty concession for first home buyers of properties valued up to $750,000, the forgone revenue is $614 million in 2018–19, and in 2021–22 that has grown to $834 million. I do not have with me the data that sits behind the actual numbers of people, but my gut feel on those numbers –

Tom McINTOSH: From a value perspective.

David MARTINE: Yes. Certainly from a forgone revenue perspective it has grown, and you can see most, not all, of the concessions on that page – some of them are a bit lumpy, but certainly that one has grown over that four-year period.

Tom McINTOSH: If we could just also talk through the off-the-plan transfer duty concessions for investors. Also I would be interested in commercial and industrial properties in regional Victoria as well.

David MARTINE: Okay. So in terms of off the plan, we have got a little bit of material on page 7 – concessions available for eligible purchases off the plan, either as a land or building package. Effectively the way it works is it enables the construction costs incurred when entering into the contract to be deducted from the dutiable value, which is what the stamp duty is applied against. There is a little example there: if you purchase an apartment off the plan for $700,000 and the construction costs are $400,000, then the stamp duty would actually be applied just to the difference, which is $300,000.

In terms of regions, I am just trying to think whether we had a breakdown by region.

Chris BARRETT: We have got the amount, which is on page 9 of the submission, but we do not have the detail behind that.

Miranda FOREHAN: We do not have that broken down by region. I think we can provide that.

Tom McINTOSH: Yes. Thank you.

Chris BARRETT: But the item is there on page 9 – the value of the concession. So that is $3 million in 2019–20 and growing to $97 million in 2021–22.

Tom McINTOSH: Thank you. Land transfer duty has had a trend of strong growth, but obviously there are property values but also the number of properties transferring. Can you start to unpack that a little bit – the impact of property values versus the number of properties and how that is impacting on what we are seeing?

David MARTINE: So if you look at figure 4 of page 4, you can see the land transfer duty revenue levels going all the way back to 2004. From 2004 to 2011 you can see on that chart it is reasonably stable, and then there is very strong growth from 2012 up to 2017–18, when it dropped a little bit. No question – in 2021–22 there was really strong growth, which was largely driven by some very strong interventions by governments both at the Commonwealth and state level when COVID hit as part of the economic response package for COVID. It is not shown in this chart, but when I put out the pre-election budget update back in November last year we actually cut the stamp duty for 2022–23 by 22 per cent. I mentioned in my opening statement stamp duty for 2021–22 was at $10.4 billion. The estimate in the pre-election budget update dropped it back to $8.1 billion, so it actually was quite a large decrease. It is very much driven by both price and volume.

It is not one of the easiest taxes to forecast, which you can see on page 11, figure 14, of our submission. We do a little comparison between payroll tax and stamp duty, and you can see the lighter blue line – stamp duties – goes up and down in terms of growth rates, whereas payroll tax is generally a pretty stable sort of tax. It is pretty volatile because, as I mentioned in my opening statement, you are taxing a transaction, so you are trying to predict what people are going to do in terms of those transactions, which is much more complex than trying to forecast land tax, for example, because you have got a reasonably stable stock of properties that it applies to, or forecasting payroll tax, where you have got a reasonably stable stock of businesses. So you are trying to predict human behaviour by trying to predict whether someone is going to undertake a transaction or not, and obviously that is affected by so many variables – not just price but what is happening in the economy generally. Obviously interest rates have an impact. Just the general consumer sentiment out there can have quite a big impact. That is why you get those sorts of charts where it bounces around quite a lot, and it is both price and volume that very much drives that volatility rather than one over the other.

Tom McINTOSH: Okay. Thank you.

The CHAIR: Mr Limbrick.

David LIMBRICK: Thank you, Chair, and thank you, Mr Martine and team, for appearing today. Mr Martine, in your opening statement and in your submission you point to a number of things around the inefficiencies of this tax, so things like impacts on labour mobility, housing stock allocation – people living in suitable housing. I have heard of other effects – people have described it as a divorce tax. There are all sorts of negative behavioural incentives with this tax. How concerning is it to you that a tax that is so inefficient also happens to be our number one source of taxation revenue in the state?

David MARTINE: Thanks for your question. And you are quite right: because you are taxing a transaction, by definition it will distort behaviour. So, yes, it is correct to say that it is a more inefficient tax than payroll tax, land tax, GST et cetera because you are taxing a transaction, and because you are taxing that transaction, there is no question that it can impact on things like labour mobility – people change jobs, move to a job on the other side of the city but the transaction cost of selling and buying is too great so they do not move. So, yes, it has all of those distortions, and I think I have got a bookcase full of tax reviews that say exactly the same thing.

But to me that is not really the key issue. The key issue is: what can governments do about it, because what is the alternative? And that is really to me the big challenge. I think there is a universal consensus pretty much that this is not a necessarily efficient tax, but trying to work out what one moves to is very, very difficult, and I have seen that debate go on within governments for decades both here in Victoria and when I was in the Commonwealth treasury as well. It is really hard to work out what is the alternative, and that to me is what the biggest challenge is.

David LIMBRICK: Yes. I noticed when I debated this inquiry in Parliament no-one stood up and defended stamp duty. As you say, there are many books written on the topic, and I am yet to find an economist who will stand up and say, 'It's great.' What do you think is the biggest barrier? I know from your submission that DTF itself has looked at different alternatives. There must be some political barrier here, because this is not a new thing; it has been around for a long time. People have been criticising this tax. What is the barrier to reform here? Also, you mentioned you did not think it would be possible without some sort of support from the Commonwealth. How do you imagine that would work if there were some sort of transition to another type of more efficient regime?

David MARTINE: It is really hard for governments to make this change because it is a very difficult move to make, because as I mentioned: what is the alternative? What is the efficient, sustainable alternative? And there are some examples that some jurisdictions have tried. The biggest example we have here in this country is the ACT, and they are going through that sort of 20-year slow reform, so they are slowly bringing down stamp duty and increasing rates, remembering though that they do not have that extra level of government – their government is the local government. New South Wales tried to announce something along these lines, which was not really a major reform in that you could choose as a first home buyer to pay your stamp duty over time but when you sold the property it is back into the pool of normal stamp duty properties.

As I said, I have seen tax reviews for decades saying the same thing. I do not think personally this can be delivered without some support and leadership at the Commonwealth level, because one of the problems when you start making that move is the impact it has on your budget. If you are replacing a $100,000 lump sum payment with something that is averaging a much smaller amount spread over the lifetime of that property, then you can immediately take a budget hit. First of all, I think states need some assistance there, and then, secondly, in thinking about what is the alternative, at the state level you only have a couple of options. If you are not applying stamp duty, you have effectively only got two other things, which are payroll tax and land tax. That is kind of it. While there is a series of other state taxes, when you look at the sense of scale, our three biggest revenue lines are stamp duty, payroll tax and land tax. Unless a jurisdiction is prepared to go into land tax or payroll tax, you are really left with a Commonwealth tax such as the GST or something else. But for that to happen you would need whoever is in power in Canberra to agree that increasing the GST is a good idea and you would need pretty much every jurisdiction to also agree. To try and get everyone lined up on these things is very difficult.

David LIMBRICK: Can I just clarify there, you are suggesting that one alternative might be to simply raise GST and have consensus from the states to remove stamp duty. I think that is what they were talking about when they first introduced the GST.

David MARTINE: Yes, that can certainly be one of the options. But the key in this is it needs to be replaced with something and it needs to be replaced with something pretty big. So you have got that challenge and then you have got the challenge of how you transition. I mean, if one was starting with a blank bit of paper designing a tax system for a state, you probably would not introduce something called 'stamp duty'. But given that is what we have got, the real challenge is how do you transition out of what we have to something else that is going to work, that is an efficient, sustainable tax which deals with any equity kind of issues. Clearly if you are applying an annual land tax to people's properties, then it raises a whole series of equity issues that a government would need to consider about asset-rich income-poor people, for example. So there are all sorts of complexities and challenges, which is one reason why we have not seen many examples other than the one that is really happening at the moment, which is the ACT.

David LIMBRICK: How is that going?

David MARTINE: I am just trying to remember how many years they are into their 20 years, because I was up there when it started. I cannot remember now. It must be at least 10 –

Chris BARRETT: About 10 I reckon.

David MARTINE: I reckon it would be about 10.

David LIMBRICK: Did those transitional arrangements help with that hit to the budget, because not everyone is transitioning at the same time? It is like smoothed over a period.

David MARTINE: Because they have designed it in such a long period of 20 years, basically they have minimised the budget hit by slowly bringing down the stamp duty each year and slowly increasing the annual rates. And I remember being there at the time and for the first few years no-one even talked about it because you did not really notice on your rates that it had gone up a bit. But the anecdotal evidence I have at the moment is that people are now really recognising that, 'I'm paying all this now and if I look back in time, I was paying a lot less on my annual rates.' I mean, there are various ways of doing the transition. That is one way, and there are different, other options that get floated around in various reviews. But this is one of these public policy issues that is really, really difficult. I think everyone understands the problem, but moving to something else is really, really difficult.

Chris BARRETT: ACT started in 2012 by the way, so 11 years ago.

David LIMBRICK: Yes. Okay.

The CHAIR: Thank you. We will go to Mr Berger. I think we will get back around again, though, for members who do have other questions.

John BERGER: Thank you, Chair. And thank you, Mr Martine, for your appearance today. Section 2.1 of your submission says that land transfer duties are expected to decline in 2022–23. Presumably this reflects the cool property market. Was this decline predicted in this year's budget?

David MARTINE: I think I mentioned it a bit earlier. In the pre-election budget update which I released in November, from 2021–22, it was $10.4 billion. In the 2022–23 estimate, which is our latest published estimate in the pre-election budget update, we brought it down to $8.1 billion, which is a 22 per cent reduction. So we saw a very strong increase for 2021–22 on previous years, which is embedded in figure 4 on page 4. Now we have got a 22 per cent reduction in 2022–23, reflecting the slowdown in the property market, and obviously at the time of the PEBU in November we were anticipating the impact of rate rises from the Reserve Bank, you know, on the slowing down in the economy and those sorts of things. So that is our latest published number for stamp duty for 2022–23.

John BERGER: Thank you.

The CHAIR: Great. Mr Davis.

David DAVIS: Thank you, Chair. And Secretary Martine, thank you for your evidence and your submission. I have got a few questions here. First of all, you referred to modelling and other materials that the department has accessed and the department has in its possession. I am certainly aware of a number of these, and I just thought it might be worth getting our committee secretary Michael Baker to distribute a list of modelling that I am aware of – there may be more that I am not aware of – between 24 September 2020 and 30 April 2021. And I guess for this committee looking at this de novo, looking at all of this matter of the possibilities of certain types of tax reform and tax change, it would be helpful for us to have access to as much of the government's modelling as possible. For example, PricewaterhouseCoopers did some modelling for the department in April 2021, and Deloitte did work in September 2020. I wonder if you could commit to the committee that you will provide this material and any other relevant modelling so that we are aware of what the government has considered, what the options might be and what the impacts of those various alternatives might be.

David MARTINE: Thanks, Deputy Chair, for your question. I will need to take that on notice. Some of the material listed, just looking at it briefly, may in fact be covered by cabinet in confidence as part of advice. But I will just need to take that on notice and, having only seen the list, work my way through it.

David DAVIS: There may be other materials too – and I would be surprised if there were not over the last four years, perhaps. So it is relatively modern, but at the same time it would be helpful for the committee. Particularly any external work that has been done I think would be valuable for the committee to have access to.

David MARTINE: Sometimes it comes out with slightly different figures, but generally most of the modelling is saying the same sort of thing: this is a tax on a transaction; transaction taxes are generally inefficient. There is a debate about the level of inefficiency, but regardless of the methodology used, it always generally comes out as more inefficient than other taxes. So most of the modelling supports the general hypothesis that it is an inefficient tax, and if you moved to something different then generally it would improve economic wellbeing, economic growth, labour mobility – those sorts of things. But as I have mentioned to one of Mr Limbrick's questions, to me the real issue is: what is the alternative? Until there is a general consensus about a sustainable, efficient alternative, it is really hard for any government both at a state and Commonwealth level to come up with the solution, which I think is why we have been discussing the fact that, you know, it has not happened for decades.

David DAVIS: I concede all of that. Nonetheless I think it would be extremely helpful to have access to the broadest range of information. I mean, if the government has requested it, particularly where there are external people involved and taxpayers have paid for it, I think it would be very helpful for our committee to have access to that material rather than go and reinvent something. We want obviously the most recent arrangement.

David MARTINE: Very happy to take that on notice.

David DAVIS: Thank you. In the case of the Canberra experiment, as you correctly point out, there is not a local government level there in the same way that there is here in Victoria or elsewhere around the country, and they have moved to this position where they now actually have both taxes in operation. I understand and concede many of the economic theories and modelling and so forth about the potential advantages. But what makes me very, very nervous about the current government moving towards a broad-based land tax on the family home is that we may end up with both. And that is practically what has happened in Canberra – people are very agitated about the fact they thought stamp duty was going but now in fact they have land tax and stamp duty. There is one risk, the one you pointed to, which is: how do you replace the revenue, and do you need the Commonwealth to help and so forth? But the other risk is a mendicant government might simply keep both taxes. Have you modelled, for example, the impact of a land tax on top of stamp duty?

David MARTINE: Thanks for your question. A couple of comments: firstly, I am not aware of the government making a commitment that they are going to transition out of stamp duty and tax the family home. On the ACT example, I guess by definition, if you are slowly bringing down stamp duty and replacing it with an increasing rate, then you will have a period over that 20 years that you do have both. But their objective is, based on their start date, that in nine years time the last of the stamp duty will then wash through the system and it is purely just an annual amount. But like all of these taxes – I mean, a government can choose at any time to introduce land taxes regardless of whether one is transitioning out of stamp duty. But certainly in the ACT example their policy objective, which has not changed for 10 years or 11 years, is that by year 20 stamp duty will be zero.

David DAVIS: It has been described by some, most notably in the *Australian Financial Review* late last year, as a fiasco because people feel that they are being stuck with both and there is a question of how quickly some of the other tax is being brought down.

David MARTINE: Their approach to transition is certainly a slow one – 20 years is a slow transition. They are heading down that path, but it is not without its complexities and challenges. There is no question about that.

The CHAIR: Thanks, Mr Davis. Is Ms Ermacora still with us?

Jacinta ERMACORA: Absolutely.

The CHAIR: Hi. Do you have some questions?

Jacinta ERMACORA: Yes, I do have a question. Thank you, Mr Martine, for your submission and also for being present and the team there today. There is a table in chapter 2, and it is on page 3, which shows stamp duties increasing for higher value properties, so it is describing the progressive nature of the land transfer duty in Victoria. Just a little bit of history or background that I am not aware of: has stamp duty in Victoria always been progressive or was it introduced more recently?

David MARTINE: Now you are testing my memory, because stamp duty has been around a very long time. As far as my memory recalls, it has been progressive, but whether very early on – whenever it was introduced – it was flat, I would need to take that on notice. But this sort of progressive nature is not unusual. If you look at the stamp duty regimes across all the jurisdictions, they are all progressive. They are not uniform, so we all have different rates and thresholds. In fact the highest rate of stamp duty here in Australia is actually in New South Wales. There it is 7 per cent for property transactions above $3.1 million. Our top rate, as you see on page 3, is 6.5 per cent above $2 million. New South Wales has a higher top-end threshold, but then they also have a higher rate. But all of the state regimes do have a progressive element to it.

Jacinta ERMACORA: Thank you, and I do not need you to take that on notice; that is fine. That is all I have got. Thanks, Georgie.

The CHAIR: Thanks, Ms Ermacora. We have around 15 minutes left, so I am going to go around the room for the members who have questions. Mr Mulholland.

Evan MULHOLLAND: Just wanting your view on particularly those later in life that might be hanging on to larger homes due to the disincentive of stamp duty. Do you think there might be a need for reform around concessions going the other way to encourage people to downsize, therefore freeing up a lot more availability in the market?

David MARTINE: That is a very good question. I actually think the impediments are more at the Commonwealth level. One of the big impediments is how the family home is treated in the asset test for the old-age pension, because at the moment it is exempt. You do have examples of people who are on the full pension, asset rich, income poor, and that is an impediment to releasing some of that housing stock, particularly in the inner suburbs of cities around the country. So you might have single pensioners in a five-bedroom house. It is not worth their while selling it and downsizing because the difference they get on the sale – they have got to put in investments, the bank or whatever – gets picked up in the asset test. I actually think the biggest impediment is not the stamp duty element, there are some Commonwealth taxation and pension issues that I think are the real impediment there. Even when people move out of the family home – maybe into an aged care facility, for example – there are still some problems there, and that is why you have got examples of just empty properties sitting there, because the incentive is not to necessarily sell and free up that stock.

Evan MULHOLLAND: Yes. That is fair enough. You already touched on it before, but just on the New South Wales reform, do you think that is an optimal model, or does it need to be something more serious?

David MARTINE: Effectively, all New South Wales have done – this is the former government in New South Wales – is they have basically given a stamp duty concession for first home owners. So they set a threshold at $1.5 million, and at $1.5 million you can choose to either pay stamp duty or effectively pay an annual amount. Then, when you sell that property, that property is still back in the old system, so if whoever buys it is not a first home owner, they are back just paying stamp duty. So in that sense it is not really a reform in transitioning out of stamp duty, because over time it is not as if the stock of properties that are just liable for that annual amount is growing.

Evan MULHOLLAND: Do you think there is something in transitioning? I know from my own experience that a lot of people buy and they might decide to go with a land tax. Do you think it might make it easier, if you were to, say, have a couple of kids and then move, to move to another house rather than face that full stamp duty cost again without any concessions?

David MARTINE: Yes. That comes back to the point we were discussing earlier about household and labour mobility. There are some studies around, particularly international studies – not so much on labour mobility but certainly on residential or household mobility – coming out of Europe and the UK that have tried to examine, for example, what a one percentage point increase or decrease might do to encourage people to move. I mean, conceptually it makes sense. If the transaction cost of moving is substantially lessened because you are not paying stamp duty, then you will be more inclined to shift and move. If you change jobs and move to the other side of the city, you will potentially move across closer to where your job is. That happens at the moment, but the cost of doing it is quite expensive. So it is something that does impact on that household and labour mobility.

Evan MULHOLLAND: All right. Thank you.

The CHAIR: Thanks, Mr Mulholland. Mr McIntosh.

Tom McINTOSH: Look, just with the talk around the concessions that are available, I grew up on a farm and a lot of my constituents in Eastern Victoria are on farms, so I just thought I would take the opportunity to ask around family farm and first farm purchases – just the policies that are in place and how they play out.

David MARTINE: Well, firstly, stamp duty does apply to primary producers. One of the tax concessions outlined on page 9 of our submission, sort of towards the bottom of the table, is land transfer duty exemption for the family farm. So there is an exemption if the property is transferred between family members. I will just see if I have got the actual definition. Well, as you would expect: children, parents, siblings, nieces, nephews, uncles and their partners. It can also include transfers to and from trusts. So there is that exemption at the moment for family farms. But just generally, primary production, similar to what happens with commercial and industrial – they are subject to stamp duty. The rates are exactly the same as what happens on residential, so in that table in our submission on page 3, those thresholds and rates apply not just to residential but also to non-residential. Some states slightly have different thresholds depending on whether it is residential or not; some states have the same, and Victoria is in that category.

Chris BARRETT: I might add there is also an exemption from duty available for young farmers under the age of 35 buying their first farm. You might notice that is also in that table on page 9. It is the second item up there with the concession amounts stated there.

Tom McINTOSH: Yes, fantastic. Thanks for talking us through that.

The CHAIR: Mr Limbrick.

David LIMBRICK: Thank you, Chair. Very soon we are going to have a new tax, the windfall gains tax, and I would be interested if the department has given any thought to the interactions of these taxes, because windfall gains tax will tax the uplift from a rezoning and then, on top of that, stamp duty will be levied on the sale price of that uplifted property. Is there going to be some sort of interaction between these taxes?

David MARTINE: There is the interaction in the sense that the tax base does relate to property. But in a way it is similar to investors who pay stamp duty on a property and then an investor who pays annual land tax, so in that sense there is that relationship. But we do not see it as a major conflict or whatever in terms of applying a windfall gains tax in a regime where you have also got stamp duty in place.

Chris BARRETT: I think there is a conceptual difference as well, if I may, in the sense that the windfall gains tax is applied on the value created by the rezoning, so there is no capital improvement necessarily but it is literally from the stroke of the pen as it were and it is a prior sort of period of value if you like and then the land transfer duty applies to the transactions after that.

David LIMBRICK: Another question: stamp duty is, as you said, based on the value but also on the number of transactions. If we were going through building a million new homes, for example, could that potentially provide an opportunity to lower the tax rate, because presumably you would be getting more revenue because you have got a million new homes being sold and if you wanted to maintain a consistent revenue, there would be a potential to lower the tax rate and still maintain the same revenue stream?

David MARTINE: You could. I mean, governments at any time can make that choice when they look at the total revenue that they are both collecting and receiving, particularly from the Commonwealth through the GST and other grants. They add all that up and they make those choices about comparing on what to spend. It may be that one of their spending decisions is in effect reducing the level of a tax, whether it is payroll tax or stamp duty. A government could do that at pretty much any time.

The CHAIR: Thanks, Mr Limbrick. Mr Berger.

John BERGER: Thank you, Chair. The first paragraph of section 3.2, on page 10 of your submission, states:

> Land transfer duty has been characterised by a strong trend growth and high cyclical volatility. In broad terms, the volatility in land transfer duty revenue is linked to fluctuations in property prices and property settlement volumes …

Could you unpack that a bit? And how much of the volatility is due to property price fluctuations and how much is to do with settlement volumes?

David MARTINE: Thanks for your question. The best way to sort of explain that is if I perhaps start on figure 14, which I talked about a bit earlier, which really demonstrates how volatile stamp duty is. This is the chart of actual growth rates. The light-blue line versus the dark blue, which is payroll tax, it is very volatile. One year, you know, you might be up 30 per cent; next year you are down 30 per cent. So the point about volatility is reinforced in figure 14, and then if you look at figures 11 and 12 on page 10, you can actually see a bit of a correlation there between the average land transfer duty for all transactions – this is between June 2015 and June 2022 – and then figure 12 is a chart on the CoreLogic home value index. For example, in the period from January 2021 through to July 2022, where we had that sort of increase in property prices, you can actually see in the chart in figure 11 the growth in the average land transfer duty on transactions. There is certainly that linkage, but as I mentioned earlier, it is volatile for both reasons. It is volatile because of the number of transactions, it is volatile because of what happens on price, and you are trying to model both, which is why it is not an easy tax line to model.

John BERGER: And do the fluctuations really matter?

David MARTINE: Well, they do in the sense of trying to plan a budget, because governments need a bit of certainty in making decisions, particularly if they are committing to spending programs that might extend for three or four years. You want to be in a position to know as best advice we can provide in terms of what the revenue levels are going to be over the next three or four years. Our two most volatile sources of revenue are – stamp duty is one and GST is the other, which is a Commonwealth tax, but we obviously forecast it for our budget. That is another one that is not an easy one to forecast. So it is important for us to be able to give the government of the day that advice to give them a bit of certainty about what money is available over the next four years for spending.

John BERGER: Thank you.

The CHAIR: Mr Davis.

David DAVIS: Chair, I would like to ask a couple of simple questions, but first I just want to say to Mr Mulholland: Evan, it was us, our government in 2011, that introduced the exemption for people downsizing, which I think was very popular. But I think the Secretary is also correct: that there are Commonwealth factors at play on people being able to successfully downsize. But my question is actually a very clear one. The REIV figures show for the March quarter a median house price of $956,000. The stamp duty on that is between $52,000 and $53,000, as I see it on the calculators. The state government collected last year $10.4 billion in stamp duty, and that might be off just a measure this year. It seems to me, with that 10-year period we were talking about before, if you are thinking about a broad-based land tax as an alternative to stamp duty, you are going to have to collect more than $5000, perhaps approaching $10,000 a year, over that 10-year period in land tax to replace those big licks of stamp duty that are there. Have you modelled and can you tell us what the size of the broad-based land tax would be on a median house in Melbourne? If the stamp duty was gone and you replaced it with a broad-based land tax, what would it be?

David MARTINE: It is a difficult question to answer because it really depends on what model is being suggested in terms of what you replace the stamp duty with. But effectively if we completely replaced our current stamp duty – 2021–22 was a bit of an aberration, where we jumped up to $10.4 billion. We are back at $8.1 billion. The five years before that the average was $6 billion. So let us say stamp duty goes, we are looking at probably a $6 billion to $8 billion replacement. Now that does not mean the government of the day chooses just one revenue source to replace that. It may be a combination of things. It may ultimately be a bit of GST increase; there might be a bit of land tax. The South Australian government transitioned out of stamp duty over a three-year period on commercial and industrial, and they actually did not replace it with anything that impacted commercial or industrial. So there are all sorts of different options available to a government. Based on where we are at the moment, you are probably looking at around $8 billion. If you wanted to get rid of stamp duty, you would have to find about $8 billion from different sources, which as I said may be one source or it might be five different sources.

David DAVIS: So it might be $6000 or $8000 a year in land tax to replace it – it could be that amount?

David MARTINE: If the choice that was made was you would only apply it to certain properties, then you would have to find, obviously by definition, all of the $8 billion from those particular properties. But it really depends on how one structures the alternative.

David DAVIS: I think what people will want to hear is what they are going to pay, and it seems to me that there is a risk that they are going to pay a lot in land tax every year.

David MARTINE: Sorry, just on that, though, people are going to be paying zero because there is no –

David DAVIS: On stamp duty.

David MARTINE: No, on the land tax, because the government has not come out with any policy to say that stamp duty is being replaced by annual land tax. So there is no actual increase in land tax for anybody.

David DAVIS: One of your proposals, on page 13 at 4.1, was broad-based land taxes, so I am trying to work out how that would actually translate into an actual tax – how much?

David MARTINE: In 4.1, that is basically just if governments wanted to move from stamp duty – what the different particular models are. And we talked a bit about the ACT, which is sort of that long phase-out-type approach. There are other models. There has been a bit of a discussion in some of the tax reviews about a switch-on-sale model with some sort of opt-in arrangement, where people can choose whether to opt in to the new system or not. So section 4 really just outlines that these are the different options or ways that one could transition out. But of course there are different ways beyond just looking at the land tax. As I said, GST could be one option. It could then be a combination of a whole range of different tax measures to replace the single stamp duty.

The CHAIR: Mr Davis, I just need to interrupt for a moment. Are witnesses okay to go slightly over, if we just go around the room for a few more questions?

David MARTINE: Yes, that is fine.

The CHAIR: Great. Mr Davis, we will come back to you at the end. There are about three members with other questions. If I could just ask that you keep it to around 2 minutes. Mr Mulholland.

Evan MULHOLLAND: I will just circle back to what I was talking about before on the first home buyers stuff. Infrastructure Victoria made an interesting point, in that they said there was a perverse incentive on the exemption cut-off, which is basically almost identical to the pricepoint of those sort of outer fringe growth areas, forcing people to move to the growth areas or the outer fringe. Would you agree with that sentiment that was outlined?

David MARTINE: I think, as we were discussing a bit earlier, that may be a factor, but I actually think the bigger factor on the choice a first home buyer would be making about buying outer Melbourne versus inner is not about the stamp duty or the threshold. It is really the price differential – you can buy a house for $500,000 to $600,000 in the outskirts of Melbourne versus a $2 million or $3 million house in some of the inner suburbs – that is really going to be the main driving factor, not where the threshold sits.

Evan MULHOLLAND: No worries. That is all from me. Thank you.

The CHAIR: Thanks, Mr Mulholland. Mr Limbrick.

David LIMBRICK: Thank you, Chair. One of the options for removing stamp duty that you spoke about a couple of times could be if stamp duty was totally eliminated and replaced, for example, by an increase in the GST. Have you seen any modelling to see how much GST would have to rise to cover that shortfall?

David MARTINE: I do not think I have, but it would have to be a national approach.

David LIMBRICK: Of course.

David MARTINE: So setting aside all of the complexities of getting every state government and the Commonwealth government of the day all aligned on the one thing, effectively you would – I have not got all of the state figures, but we are sitting at $8 billion – be talking tens of billions to replace everybody's stamp duty. Now, whether you did that in one hit from a certain date or whether it was phased in – because one of the problems is if it is just from a certain date, you have then got the issue that those people who transacted on a property one month before the new date would pay stamp duty and then they would get hit with, well, in this case, paying the extra GST. So it would not be insignificant, but you would be basically – and you could do a rough back-of-the-envelope calculation just by working out what everyone's stamp duty figures are in their budget papers and looking at what the current GST, at 10 per cent, raises. You could do a rough back-of-the-envelope calculation to work out how many percentage points one would need to adjust the 10 per cent to get roughly that ballpark.

David LIMBRICK: Okay.

The CHAIR: Thanks, Mr Limbrick. Mr Davis.

David DAVIS: I just have another couple of questions. Have you got any research that deals with the international jurisdictions that have done this movement that is proposed in a sense by this inquiry – and that is from a stamp duty into some other model, but most likely the ones that you have laid out here in your set of options?

David MARTINE: Some international jurisdictions do not actually have stamp duty.

David DAVIS: New Zealand, for example. My mother-in-law reminds me of this regularly. She says, 'I don't know how you guys do it.'

David MARTINE: There is a whole body of international research that does try and look at what impacts these sorts of transaction taxes have on transaction volumes, household mobility, capital investment, those sorts of things. It is in some Australian studies as well, and some of the data is quite interesting. I will just make reference to this: there was a 2021 recent study basically reviewing a lot of the international and domestic research in this area that actually concluded that removing stamp duty altogether could actually increase transaction volumes between 40 and 70 per cent, so they are quite big numbers. There is some research coming out of Europe as well which says similar sorts of things. But this 2021 research was sort of an academic study of all of the different bits of research – what is the sort of consensus.

David DAVIS: Is that the Clifford and Freebairn one?

David MARTINE: No, it is Malakellis and Warlters, 2021.

David DAVIS: There is the abstract and the theoretical. But what I am interested in is which jurisdictions perhaps internationally have actually moved from a stamp duty-based system to another system? That is what I am interested in. We get the academic and the theory over here but the jurisdictions that go from X to Y, from X being a stamp duty-based system to a new system, that is what I am interested in. Which jurisdictions can you point to which would be a model for Victoria?

David MARTINE: I would probably need to take that on notice to get back to you. There are certainly some examples in the United States, more at the state level, but it is just in sort of small ways where some of the states have made some adjustments to their transaction taxes and there is some research about what impact that has on the factors we have spoken about. But I am not aware necessarily of a jurisdiction like us that has got a large tax base on stamp duty and has made that move across to something else. But I am happy to take it on notice just to double-check whether we can find a good example. As I mentioned, the only example we have here domestically is the ACT, because I would not put the New South Wales example as similar because they are not really moving out of stamp duty. I think the new New South Wales government may have made a statement about that anyway.

The CHAIR: Thanks, Mr Davis. We are at time now, so thank you.

David MARTINE: I could talk stamp duty all day.

The CHAIR: Thank you very much for your contribution today. As a committee, we really appreciate you coming along.

Committee adjourned.