

# Consultation on GST Distribution Reforms

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## Introduction

The Real Estate Institute of Australia (REIA) serves as the national peak body representing the real estate profession, advocating for policies that foster a prosperous and sustainable industry since 1924, comprising the State and Territory Real Estate Institutes (REIs) as its members. As the leading voice for real estate professionals in Australia, we appreciate the opportunity provided by the Productivity Commission to provide feedback on the GST Distribution Reforms Issues Paper.

A well-designed federal financial relations system must promote economic productivity and labour mobility by supporting states and territories to reform inefficient revenue bases. This inquiry represents an opportunity to address one of the most significant drags on the Australian housing market, which is stamp duty.

The necessity for reform is underscored by a worsening affordability crisis. REIA's latest data shows the national median house price in capital cities has reached \$1,130,518, making homeownership increasingly unattainable for first-home buyers due to prohibitive upfront costs. Furthermore, housing stress is intensifying, with average loan repayments now consuming 47.0% of the median family income.

To address these challenges, REIA is supportive of a holistic review of Australia's tax system. This aligns with the OECD's latest economic survey, which recommends that Australia increase the rate of goods and services tax and broaden the base, while lowering income taxes. By reforming the GST distribution framework, the Federal Government can provide states with the fiscal stability required to phase out stamp duty, ultimately creating a more mobile workforce and a more accessible housing market for all Australians.

## GST Reform as an Alternative to Stamp Duty

REIA's primary position is that the current GST distribution framework must be utilised as a strategic lever to encourage states and territories to abolish stamp duty. Stamp duty is widely recognised as one of the most inefficient and distortionary taxes in the Australian economy. This tax significantly increases the costs of delivering new homes, restricts household mobility, discourages the efficient use of existing housing stock and imposes a large economic cost.

### *Economic Impact of Stamp Duty*

The current reliance on stamp duties creates several market failures. It has reduced the number of homes for sale. Housing market liquidity, which is the percentage of total homes on the market, has nearly halved, falling from a peak of 4.5% in 2008 to under 2.5% today. This decline is most severe in cities with the highest stamp duty, like Sydney and Melbourne, making it harder for Australians to find suitable homes.

Due to "bracket creep," the stamp duty payable on a median-priced house is now a huge upfront cost. In Sydney and Melbourne, it equates to nearly 50% of the average annual wage, a massive obstacle for first-home buyers and a major deterrent for downsizers. Stamp duty acts as a tax on mobility. It discourages people from moving for better job opportunities, downsizing in retirement, or upsizing to accommodate a growing family. This "lock-in" effect leads to an inefficient use of our existing housing stock.

### *REIA Recommendation*

The GST distribution system is the most effective mechanism to facilitate the phased removal of stamp duty. By utilising a broad-based consumption tax as a nationally consistent alternative, the government can ensure revenue certainty, fiscal sustainability, and fairness. A nationwide shift away from stamp duty is a necessary step to address Australia's housing productivity challenges. This transition should be part of a broader evaluation of housing reform options, encompassing all tax settings and regulatory frameworks across federal, state, and local levels. A well-designed, fair property tax system, supported by a robust GST framework, will create a housing market that is more responsive to the needs of all Australians.

A critical factor in stamp duty reform is ensuring the transition to nationally consistent alternatives is equitable. Different cohorts, including homeowners, investors, retirees, and first-home buyers, face distinct financial impacts during a tax transition. To ensure distributional effects are minimised, REIA recommends that GST-backed reforms be considered alongside specific transitional provisions.