Conveyancing revenue

This technical paper examines the nexus between population ageing and property market activity, and the implications for conveyancing duty — a transaction based property tax. Conveyancing duty receipts are an important component of States' own revenue.

9.1 Introduction

What is conveyancing duty and when does it apply?

Conveyancing duty is a stamp duty levied on the value of property purchased. It is a transactions based tax — duty is only payable when a transfer of ownership occurs. State governments levy conveyancing duty in a broadly similar fashion. All transfers of property are subject to conveyancing duty, with few exemptions.[1] There are no tax free thresholds but some concessional arrangements exist for certain home buyers. Each jurisdiction operates a tiered rate structure, with increasing marginal rates. The number of tiers vary between States ranging from nine tiers in South Australia to two tiers in the Northern Territory. The top marginal rates of duty vary between the jurisdictions, as does the transfer value at which it applies. The Northern Territory applies its top marginal rate to the entire transfer. All other jurisdictions apply the top marginal rate to the value in excess of the top tier, together with a fixed fee reflecting the cumulative effects of previous tiers (table 9.7).

The importance of conveyancing duty as a source of revenue for States

Collectively, conveyancing duty raised approximately $8.79 billion in revenue in 2002-03, around 24 per cent of States' own revenue. The overall importance of conveyancing duties varies considerably between the States, reflecting both differing rates (table 9.7) as well as underlying property values. Conveyancing duty

[1] For example, exemptions apply to transfers relating to charitable, benevolent, religious recreational and social purposes in some jurisdictions.

receipts accounted for around 27 per cent of States' own revenue for Western Australia. In contrast, duties only made up 16 per cent of States' own revenue in Tasmania (table 9.1).

Table 9.1 **Conveyancing duty, State Governments**
2002-03

Jurisdiction	*Stamp duty on conveyances*	*Stamp duty on conveyances as a proportion of total receipts*	*Per capita stamp duty on conveyances*
			($)
	$m	%	$s
NSW	3 623	25.58	541.41
Vic	2 116	22.87	429.23
Qld	1 382	24.69	366.16
SA	428	17.61	280.08
WA	929	27.42	476.08
Tas	91	16.13	191.10
NT	43	17.48	218.15
ACT	176	25.73	543.56
Total	**8 788**	**24.19**	**442.16**

Source: ABS (*Taxation, State and Territory Governments,* 2002-03, Cat. no. 5506.0 table 13).

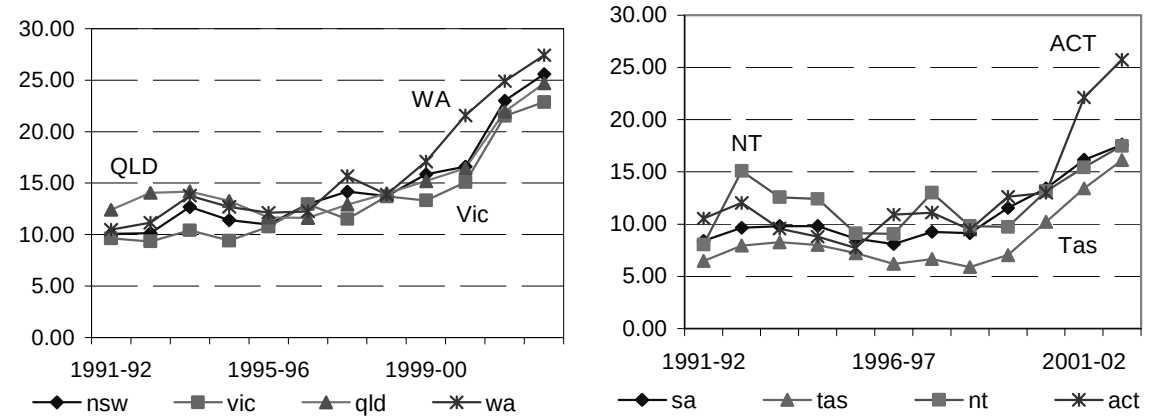
Historical movements in conveyancing duty receipts

Conveyancing duty receipts have moved in a cyclical pattern, in line with swings in property market values, especially in the residential market.

Revenue increased with the booming property market of the 1980s, before declining with the downturn that followed. As activity in the commercial property market picked up in the early 1990s, so did the revenue from conveyancing duty. The steady growth in housing prices from 1996 to present, particularly in the last three years, and increases in housing turnover, has seen strong growth in conveyancing duty revenues in recent years (figure 9.1).

Increases in conveyancing duty receipts also reflect changes in the rate structure applied to the underlying land values. Scheduled rates of duty in Western Australia, South Australia and the ACT have all increased in the last five years (PC 2004a).

Figure 9.1 **Conveyancing duty as a proportion of States' own revenue**
Actual and estimates (per cent)[a]



[a] Data on conveyancing duty receipts were available for New South Wales, Victoria, South Australia and Tasmania for the entire period depicted above. Estimates were used for Queensland (1991-92 to 1997-98), Western Australia (1991-92 to 1997-98), Northern Territory (1991-92) and the Australian Capital Territory (1991-92 to 1997-98). Estimates assume that conveyancing duty receipts were approximately 75 per cent of stamp duty on properties.

Data source: ABS (*Taxation Revenue, Australia*, Cat. no. 5006.0).

9.2 Housing stock – the projected number of households

Houses are occupied by households. Therefore, allowing for unoccupied dwellings, the projected stock of housing is equivalent to the projected number of future households.

Commission projections of household formation

The Commission projected the number of households for each jurisdiction to 2044-45 using the 'propensity' methodology developed by McDonald and Kippen (1998). This method is also employed by the ABS (in its more short-run projections). The methodology, based on data collected from the Census of Population and Housing, identifies the propensity of people to belong to different living arrangement types. Trends observed in the propensities over the last four censuses for each five-year age group are then projected forward and applied to the projected population (ABS 2004d). Numbers of households are then derived from the projected living arrangements of the population.

The Commission's projections of households are based on the assumption that there is a 'low rate of change' in propensities over time. Specifically, it is assumed that

the trends observed over the period 1986 to 2001 continue at the full rate of change to 2006, half the rate of change to 2011, one quarter the rate of change to 2016 and then remains constant to 2045.[2]

Changes in the housing stock over time

During the 1990s and into the 2000s, growth in the number of dwellings (1.8 per cent per annum) exceeded population growth (1.2 per cent per annum) resulting in a decline in the average number of residents per household. During this period, average household size has declined from 2.8 to 2.6 people.

This pattern is expected to continue into the future. The Commission estimates that the number of households will increase from 7.4 million in 2001 to around 12.3 million in 2045, an increase of around 67 per cent. This growth is faster than Australia's projected population growth of 44 per cent for the same period. As a result, average household size will continue to fall to around 2.3 persons per household by 2045.

This pattern is attributable in part to growth in the number of lone person households. Such households are projected to double over the 40 year projection period. This is related to the ageing of the population and the fact that older women, in particular, are more likely to live alone than others. Most older people remain living in separate houses as their children leave home or their spouse dies (McDonald 2003).

Changes in the housing stock by jurisdiction

Trend growth rates in the number of households over the period 2004-05 to 2044-45 for each jurisdiction are given in table 9.2. Growth in household numbers is projected to taper in most jurisdictions, commensurate with reductions in population growth. In both Tasmania and South Australia household numbers are projected to fall from around 2034 and 2040 respectively reflecting, in part, declining populations in those jurisdictions.

[2] These assumptions are based on the assumptions underlying the ABS Series II projections of households, with the exception that the ABS estimates only cover the period to 2026.

Table 9.2 **Projected growth in households**

Annual trend growth rates, by jurisdiction, various periods[a]

State	*2003-04 to 2014-15*	*2014-15 to 2024-25*	*2024-25 to 2034-35*	*2034-35 to 2044-45*	*2003-04 to 2044-45*
	%	%	%	%	%
NSW	1.44	1.11	0.81	0.56	0.99
Vic	1.50	1.12	0.81	0.55	1.00
QLD	2.38	1.76	1.33	1.01	1.61
SA	0.99	0.55	0.22	-0.08	0.42
WA	2.07	1.50	1.10	0.79	1.36
Tas	1.05	0.44	0.04	-0.34	0.29
NT	1.32	1.03	0.78	0.65	0.94
ACT	1.42	0.95	0.62	0.40	0.84
Australia	1.66	1.23	0.90	0.63	1.11

a Trend growth rates were estimated by fitting a regression of the natural log of the household numbers against a time trend.

Source: Commission estimates.

9.3 Housing turnover

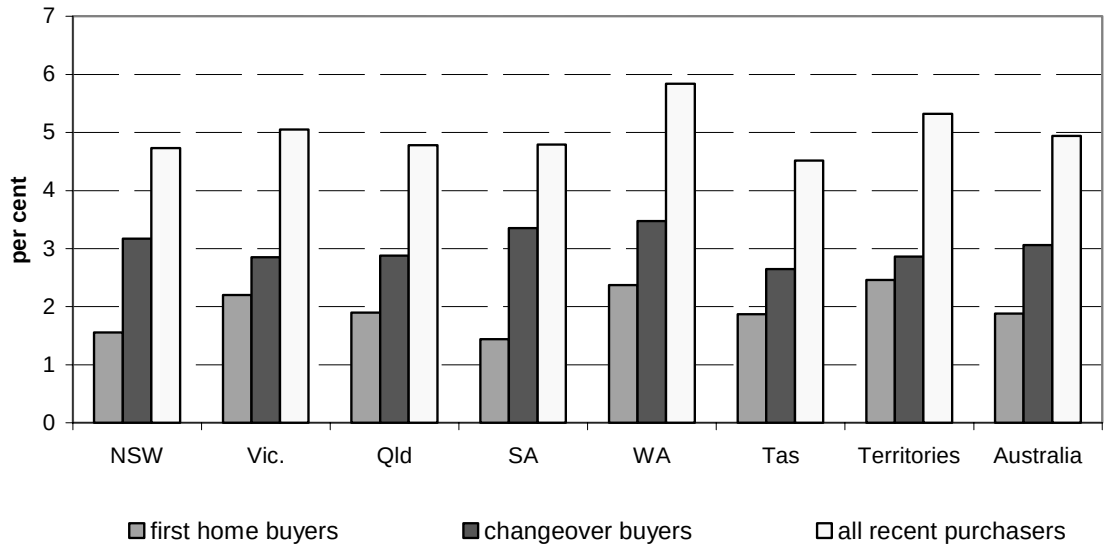
In the three years spanning 1999-2001, around 1.1 million households purchased a home, representing around 15 per cent of households (ABS 2001a). This equates to an average of around 5 per cent of households per annum. Housing turnover varied by jurisdiction, ranging from 4.5 per cent of households in Tasmania to 5.8 per cent in Western Australia (figure 9.2).

Housing turnover by age of the household reference person

As noted by the Queensland Government, population ageing might slow the level of activity within the property market:

> Population ageing could slow property market activity, particularly turnover of properties. Younger and middle aged adults have a greater propensity to form new households and upgrade accommodation as they leave home, marry and have families. The decline of this age group as a proportion of the population … is likely to lead to a reduced rate of property turnover. Moreover, older people are generally not inclined to adjust their housing and may continue to live in their pre-retirement homes (Kendig and Neutze). This trend would reinforce any slowdown in property turnover. (sub. 17, p. 43).

Figure 9.2 **Recent home buyer households**
Proportion of households who purchased a home (per annum)



Data source: Commission estimates based on ABS unpublished data from the Surveys of Income and Housing Costs 2001 (Cat. no. 6541.0).

This view is supported by the 'purchase' rate profiles by age of the household reference person. The purchase rate defines the number of households who purchased a dwelling expressed as a proportion of total households (figure 11.10 in chapter 11).

Those aged 25-29 years recorded the highest rate of dwelling purchase (9.9 per cent of households), followed by the 30-34 years age group (8.2 per cent of households). In contrast, purchase rates for older households were very low (for example, 1.5 per cent for the 70-74 years age group).

Method for projecting dwelling sales

In order to project the total number of residential transactions per annum a series of 'purchase' rate indices were developed. Data were collected on the number of purchasers as a proportion of households:

- for each of the six States plus a combined category incorporating both the Northern Territory and the ACT;
- by age of the household reference person, incorporating 13 different age cohorts; and

- by type of purchase (whether it was a first home purchase or 'change over' purchase and a summary category incorporating all recent purchasers).

This yielded a total of 273 purchase rate indices. Due to the small number of observations for some of the categories, the national purchase rate index for a particular age cohort scaled by the ratio of total state to national purchasers replaced any spurious indices. Six such replacements were made.[3] Purchase rate indices were then multiplied by the projected number of households in the relevant category in order to obtain projections of dwelling sales.

The approach adopted assumes that the patterns of home purchase exhibited over the period 1999 to 2001 will continue into the future. Implicit in this is that current levels of (relatively high) home ownership will also continue. Some question this. For example, Yates (1997), Yates (1999) and Beer (1999) point to a number of factors that may curtail home ownership rates in the future, including: increasing income polarisation; reduced job security for many low income earners; high real estate prices in metropolitan areas; and changes in family size and consumption preferences. On the other hand, the expected growth in average income per person is likely to lead to a higher level of home ownership. On balance, we assume that the current pattern of tenure by age group will remain unchanged.

Finally, it was not possible to construct individual indices for the Northern Territory and the ACT due to lack of available data — results for these jurisdictions should be treated with caution. [4]

Projected number of dwelling sales

Given the lower rate of dwelling purchase recorded for those in the 60 plus age cohorts, there is a reduction in the growth rate of dwelling sales over time as the population ages (table 9.3).

The projected trend growth rate of dwelling sales reduces over time in all jurisdictions and indeed, South Australia and Tasmania are both projected to experience negative growth after a period.

[3] Replacements were made for change over buyers aged 40-44 years and 60-64 years in South Australia, first home buyers aged 15-19 and change over buyers aged 55-59 in Victoria, change over buyers aged 65-69 years in Tasmania and change over buyers aged 40-44 years in Queensland. The proportions of all buyers (first home buyers plus change over buyers) were then updated to reflect these replacements.

[4] What data there are suggests that actual dwelling sales in the ACT are likely to be somewhat higher than projected, and those in the Northern Territory correspondingly lower. But in the absence of sufficiently good data, it was not possible to determine by how much.

Table 9.3 **Projected growth in dwelling sales**

Annual trend growth rates, by jurisdiction, various periods

State	*2003-04 to 2014-15*	*2014-15 to 2024-25*	*2024-25 to 2034-35*	*2034-35 to 2044-45*	*2003-04 to 2044-45*
	%	%	%	%	%
NSW	1.12	0.67	0.38	0.39	0.62
Vic	0.92	0.53	0.25	0.30	0.46
QLD	1.90	1.43	1.02	0.87	1.28
SA	0.43	0.07	-0.10	-0.18	0.01
WA	1.75	1.15	0.76	0.70	1.06
Tas	0.44	-0.25	-0.40	-0.49	-0.20
NT	0.62	0.81	0.53	0.46	0.66
ACT	0.83	0.62	0.30	0.28	0.51
Australia	1.24	0.78	0.48	0.48	0.71

Source: Commission estimates.

9.4 Projections of conveyancing duty receipts

Modelling assumptions

In order to project conveyancing duty receipts it was necessary to make assumptions about the rate of conveyancing duty over time and real house price growth.

Rate of house price growth

Since 1970, real prices for (detached) houses in Australia have grown at around 2.3 per cent per annum (PC 2004a). For the purposes of projecting conveyancing duty it is assumed that, in the main, this long-run trend will continue into the future for all jurisdictions. As noted in chapter 11, a trend of this magnitude is probably better able to pick up the fundamental determinants of house prices over the longer run than recent trends.

One obvious limitation of applying a national growth rate at a state level is the (partial) independence of the state housing markets, as evidenced by the variation in the rates of price increase between capital cities (table 9.4).[5] In particular, two jurisdictions, Tasmania and South Australia, have exhibited considerably lower house price growth than others. Moreover, these two States are projected to face

[5] It is important to note that part of the variation evidenced in the growth rates presented in table 9.4 might be explained by differences in the time periods assessed.

declining household numbers at some point in the next 40 years (after 2034 for Tasmania and after 2040 for South Australia). Accordingly, a lower trend growth rate is assumed for these two States (of 1.2 per cent per annum for non-capital city areas and 1.8 per cent per annum growth in the capital cities).

Table 9.4 **Trend growth in Australian house[a] prices**

	Period[c]	*Real annual growth rate[b]*
Sydney	1970 to 2003	2.7
Melbourne	1970 to 2003	2.1
Brisbane	1980 to 2003	3.2
Adelaide	1974 to 2003	1.2
Perth	1980 to 2003	2.8
Canberra	1980 to 2003	2.0
Hobart	1991 to 2003	1.5
Darwin	1987 to 2003	3.4
Australia	**1970 to 2003**	**2.3**

a Detached dwellings only. **b** Based on a regression of (log) real prices on a constant and a time trend, with prices deflated by the consumer price indexes for the respective capital cities. **c** Growth rates are sensitive to changes in the time period selected. For example, the Australian growth rate over the period 1959 to 2004 was around 2.5 per cent.

Source: PC (2004a, table 2.1).

Rates of conveyancing duty to apply for estimation purposes

The assumption of real house price growth and the fact that States apply progressive rate structures (table 9.7) implies an increasing proportion of transactions would be taxed at the highest marginal rate over time. As noted in chapter 11, this is not an appropriate assumption. To address bracket creep, total conveyancing duty receipts in the base year (2002-03) were expressed as a percentage of median house prices in order to obtain an average rate of duty for each jurisdiction. These average rates were held constant over the projection period.

Total conveyancing duty receipts (which include receipts from the sale of land and commercial property) rather than conveyancing duty receipts from dwelling sales alone, were used to calculate average rates of duty. This approach assumes that, over the long run, conveyancing duty receipts from the sales of dwellings remain constant as a share of total conveyancing receipts.

A further limitation of the methodology adopted relates to the proportion of buyers eligible for concessions. Calculations of average duty take account of concessions (including first home owner concessions) granted in the base year and project these out over the forty year period. However, Commission projections suggest that the proportion of first home buyers declines over the projection period in all

jurisdictions. This suggests that projections might slightly underestimate conveyancing duty receipts as a share of GSP.

Modelling results

Commission projections suggest that an ageing population will dampen property market sales over the next forty years. However, growth in the number of households and real long-run property prices mean that conveyancing duty receipts are likely to increase marginally as a proportion of GSP in all jurisdictions. However, as noted in section three, Commission projections of dwelling sales in the Northern Territory may be overstated. Hence, projections of conveyancing duty receipts as a share of GSP for the Northern Territory should be regarded as 'upper end' estimates.

Table 9.5 **Projected conveyancing duty receipts**
Trend growth rates of duties as a share of GSP

Jurisdiction	*Stamp duty on conveyances as a proportion GSP 2002-03*	*Projected stamp duty on conveyances as a proportion of GSP 2044-45*	*Projected trend growth rate of stamp duty on conveyances as a share of GSP*
	%	%	% per annum
NSW	1.37	1.82	0.70
Vic	1.10	1.38	0.63
Qld	1.08	1.45	0.78
SA	0.88	0.91	0.23
WA	1.12	1.58	0.94
Tas	0.72	0.75	0.16
NT	0.48	0.62	0.66
ACT	1.18	1.54	0.71

Source: Commission estimates.

9.5 The effects of ageing on conveyancing duty receipts

Population ageing impacts on conveyancing duty receipts in two ways.

First is via household formation. An increase in the proportion of people aged 65 years and over will see a corresponding increase in the number of people living

alone and in couple only families (as baby boomers become 'empty nesters').[6] This will contribute to a reduction in average household size and, for a given population, higher rates of growth in the number of dwellings.

In order to examine the extent to which population ageing is likely to result in higher levels of growth in the number of dwellings, projections of dwellings were calculated under a 'without–ageing scenario'. In this case, the without–ageing scenario assumes that population growth occurs as forecast, but that the age structure of the population (the shares of the population of each age) remains at current levels (table 9.6).

Table 9.6 **Projected growth in households 'without ageing' scenario**

Annual trend growth rates, by jurisdiction, various periods

State	*2003-04 to 2014-15*	*2014-15 to 2024-25*	*2024-25 to 2034-35*	*2034-35 to 2044-45*	*2003-04 to 2044-45*
	%	%	%	%	%
NSW	1.06	0.84	0.64	0.45	0.75
Vic	1.12	0.84	0.63	0.43	0.76
QLD	1.98	1.48	1.16	0.89	1.37
SA	0.60	0.27	0.05	-0.19	0.19
WA	1.59	1.18	0.90	0.66	1.08
Tas	0.59	0.12	-0.18	-0.46	0.01
NT	1.32	1.03	0.78	0.65	0.94
ACT	0.99	0.69	0.49	0.32	0.62
Australia	1.27	0.96	0.73	0.52	0.87

Source: Commission estimates.

The second means through which population ageing impacts on conveyancing duty receipts is via lower rates of dwelling purchase by older households (chapter 11, figure 11.10). In order to assess the extent to which population ageing is likely to dampen housing turnover, projections of dwelling sales can be calculated under a without–ageing scenario. In this case, the without–ageing scenario assumes that household growth occurs as forecast, but that the age structure of households (the shares of households of each age) remains at current levels. This is analogous with growth in households under the base case scenario (table 9.2).

These two ageing effects are partially offsetting — increases in household formation are counterbalanced by a decrease in the number of transactions for a given number of dwellings. That said, conveyancing duty is likely to increase slightly as a share of GSP by 2044-45. This result is driven by the assumption that

[6] Declining fertility among younger couples will also contribute to growth in the number of couple-only families.

average house prices rise at rates higher than real per capita GSP (as they have done over the long run). Were house prices to rise by only around 1.6 per cent per annum then conveyancing duty would be roughly fixed as a share of GSP for most jurisdictions. Lower growth rates would result in contraction of the conveyancing revenue to GSP ratio.

Table 9.7 **Summary of conveyancing duty arrangements, by State and Territory, as at 1 January 2004**

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*
Number of brackets	6	4	6	5	9	7	6	2
Marginal rate:								
• at lowest threshold	1.25%	1.40%	1.50%	2.30%	1.00%	1.50% [a]	2.00% [b]	Up to 5.35% [c]
• value up to which minimum rate applies	$14 000	$20 000	$20 000	$80 000	$12 000	$10 000	$100 000	$500 000
• on highest value	5.50%	5.50%	3.75%	6.30%	5.50%	4.00%	6.75%	5.40 %
• threshold for maximum rate	$1 000 000	$870 000	$500 000	$500 000	$500 000	$225 000	$1 000 000	$500 000
Marginal rate applies to excess above lower limit of the range	yes	yes	yes	yes	yes	yes	yes	No, applies to total value of transaction
Concessions applying to home buyers generally [d]	No	Pensioners full exemption for properties up to $150 000, partial exemption for properties between $150 000 and $200 000	Concessional rate of 1% for property up to $250 000 plus scheduled conveyancing duty on the excess	Concessional rate of 1.5% applies for principal places of residence valued up to $100 000	Rebate of up to $1 500 for home units in the City of Adelaide meeting relevant criteria	No	Flat duty of $20 for eligible buyers of property up to $180 000, concessional rate of 14.30% for property between $80 000 and $93 000	Duty reduced by a maximum of $1 500 for principal place of residence

a A flat duty of $20 applies to transactions up to $1300. **b** A minimum duty of $20 applies. **C** Duty (D) calculated by the formula D=(0.065V2)+21V where V denotes the (total value/1000). **d** Does not include concessions available to first home buyers.