REAL ESTATE INSTITUTE OF AUSTRALIA LTD

EXECUTIVE SUMMARY OF REAL ESTATE INSTITUTE OF AUSTRALIA SUBMISSION TO THE PRODUCTIVITY COMMISSION INQUIRY INTO FIRST HOME OWNERSHIP

BACKGROUND

1. Recognizing that home ownership is very highly valued by families and is central to social and family stability, the Federal Treasurer has requested that the Productivity Commission undertake to evaluate the affordability and availability of housing for first home buyers.

HOME OWNERSHIP

2. The socio-economic benefits of home ownership are indisputable however home ownership is declining in Australia, particularly in the generation cohort of 25-34 year olds. The overall affordability of homes is low, particularly for first home buyers. Whilst affordability is not at its lowest point over the last 20 years, the trend for the foreseeable future is downwards.

3. The Commonwealth Government is broadly committed to policies that, inter alia, promote self-funded retirement. Self-funded retirement explicitly assumes home ownership.

AFFORDABILITY

4. Home loan affordability is defined by the REIA as a ratio of family income to average loan repayments. The price of houses, and therefore mortgages, has increased due to many factors including low interest rates, high consumer and business confidence, low unemployment rate, relatively poor performance of the share market, implications of the baby boomers, ‘herd mentality’, and changing demographics. Future house prices will increase whilst sound economic fundamentals are in place, e.g. low interest rates and low unemployment rate.

5. Moreover, the future demographics show that demand for housing is likely to increase, e.g. household size expected to decrease, international students increase, and population increase.

WAY AHEAD FOR AFFORDABILITY

6. To improve affordability, property supply should increase, wages should increase, and/or mortgage repayments decrease. In order to decrease mortgage repayments some options are available:

   a. Stamp Duty. Stamp duty is a progressive tax. However, stamp duty scales must be adjusted to reflect the recent increases in house prices, in order to avoid stamp duty 'bracket creep'. Models are proposed which would address the problem.

b. First Home Owners Grant Scheme (FHOGS). The current real value of FHOGS at $7,000 has been significantly decreased due to increased property prices. The deposit gap for first home buyers is widening and this can be redressed by indexing the FHOGS against either a rising national median house price or more specifically median prices in each separate State/Territory. Additionally, the FHOGS must continue to apply equally to new and established homes in order to ensure choice for first home buyers and not unduly skew the property market.

c. State Property Taxes. These taxes remain an impediment for the whole property market. They are inefficient and inequitable. For example, States charge stamp duty on GST (tax on tax) and the taxes are aimed only at the property market compared to other more broad-based and stable taxes such as payroll tax in the context of options to offset revenue for the States. The Commonwealth Government should initiate the process to undertake the promised review of the InterGovernment Review of State taxes by 2005.

d. Wealth Creation. Many Australians consider that residential and commercial properties are a safe form of investment. However, impediments such as stamp duty are inhibiting investment. Moreover, the REIA welcomes announcements by both major parties that negative gearing for property should remain. Negative gearing is applied to property, shares and business. It depends on the ability of the investor to repay the mortgage and also depends on after-tax capital gain.

e. Holistic Reduction of Stamp Duties. Notwithstanding that the States/Territories are dependent on property taxes for revenue, there are sound economic benefits and implications for property prices, from a reduction of these taxes across the Board. For example, an Access Economics report concluded that reducing stamp duties on residential conveyances by $100 million would result in net benefits to economic welfare, GDP and investment respectively 2 times, 6 times and 6 times the gains from a $100 million reduction in payroll taxes. Applying the Access Economics ratios would benefit the nation by an estimated $15.5 billion and elimination of residential conveyances would benefit the nation by an additional estimated $7.7 billion.

f. Access to Superannuation. The deposit gap for first home buyers can be difficult. A recent report commissioned by the REIA shows that access to superannuation could be examined to address a range of contemporary social concerns regarding affordability of education, health, and housing.

7. In order to increase supply of property, there should be better coordination of the release of land and developmental approval processes at State and local

government levels, together with a realistic tax regime in place to ensure affordable property. This can effectively be coordinated through the establishment of a federal Government housing portfolio. The purpose of this portfolio is to develop and coordinate the implementation of a housing strategy to work with State/Territory governments for the future socio-economic development of Australia.

Prepared by:

Secretariat
REIA

16 October 2003

REAL ESTATE INSTITUTE OF AUSTRALIA LTD

REAL ESTATE INSTITUTE OF AUSTRALIA SUBMISSION TO PRODUCTIVITY COMMISSION INQUIRY INTO FIRST HOME OWNERSHIP

PROPOSAL

1. The Real Estate Institute of Australia (REIA) proposes that affordability of housing, particularly for first home buyers, be increased through the following initiatives:

a. State governments reduce stamp duty on residential property,

b. State governments adjust stamp duty scales for residential property to account for changes in median prices,

c. Commonwealth Government index link the First Home Owners Grant Scheme (FHOGS) to either the Australian house price index or each separate State median house price,

d. retention of FHOGS being applicable to new and established homes,

e. State governments abolish the practice of tax on tax (stamp duty on GST) in purchasing a home,

f. retention of negative gearing in current form,

g. Commonwealth and State governments fulfil their commitment to review the Inter-Government Agreement (IGA) of July 1999 to abolish some State taxes and identify other inefficient taxes for abolition or reduction,

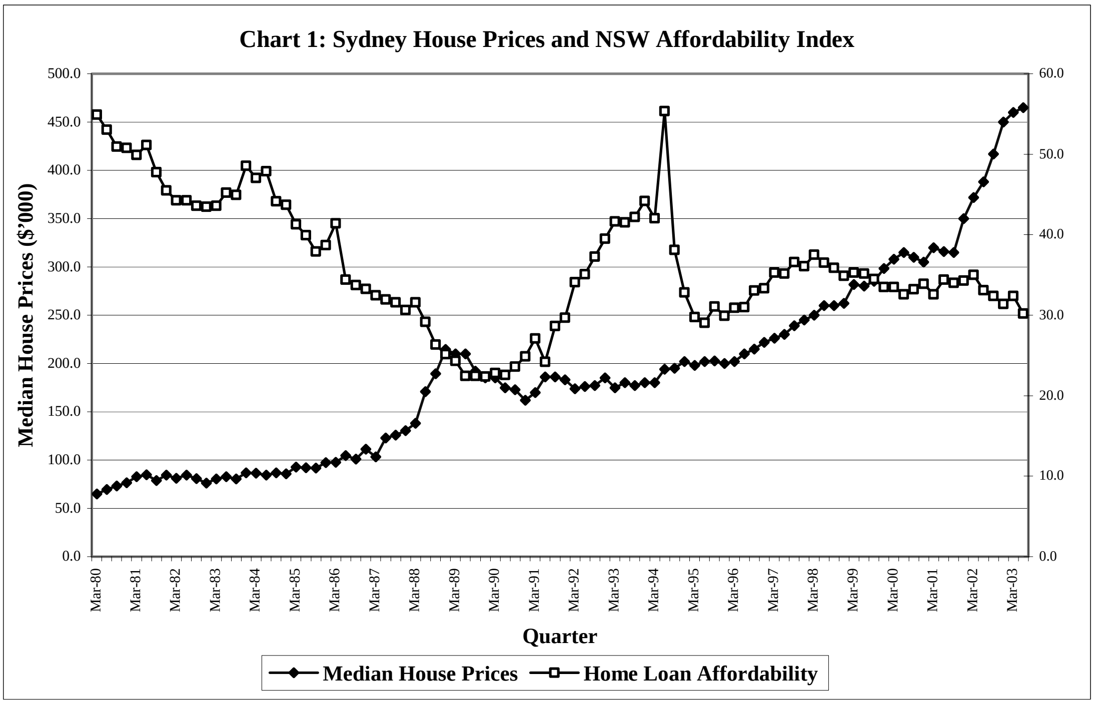
h. examination of the benefits and implications of a scheme for the purchase of property by early access to superannuation, and

i. federal Government establish a Minister for Housing to coordinate housing with the State and Territories.

BACKGROUND

2. House prices have increased significantly in most Western countries, including Australia, and home affordability is low as shown indicatively for Sydney in Chart 1.

Chart 1 – Sydney House Prices and Affordability



Source: REIA

3. Recognising that home ownership is very highly valued by families and is central to social and family stability, the Federal Treasurer has requested that the Productivity Commission undertake to evaluate the affordability and availability of housing for first home buyers.

4. The Productivity Commission issues paper of September 2003 identified three key objectives:

a. to evaluate price trends and examine implications for the affordability of home ownership (especially for first home buyers) and the Commission will interpret 'affordability' in a broad way,

b. to consider whether inefficiencies in the operation of the housing market or related government policy settings have contributed to price rises, and

c. to identify the key influences on recent trends in housing prices and affordability and assess the scope for government action to lead to better market outcomes.

The REIA will assess affordability and availability of housing against these objectives.

HOME OWNERSHIP

Home Ownership Declining

5. The socio-economic benefits of home ownership are indisputable. However, a report from the Committee for Economic Development of Australia (CEDA) in December 2001 entitled "Future Directions in Australian Social Policy" has indicated … "concerns about the widening divisions and inequalities in Australian society, an increasing burden on individuals to cope with new uncertainties and risks, and a questioning of the balance between reliance on the market as a distributive mechanism and a role for government in risk prevention and mitigation, social investment and social protection." Indicatively, the report stipulated that the home purchase rate among the generation cohort of 25 to 34 year olds has dropped by 10% in the period 1981 to 1996. Similarly, the 2001 Census shows that overall home ownership rate amongst all Australians has dropped from 69% in 1986 to 67% in 2001. Additionally, the Council of Australian Postgraduate Associations stated that "there had been little research on the social or economic impact of student debt so far", but there is a strong likelihood that this would affect home ownership.

6. The CEDA report concluded that "…in the face of a contracting ownership sector and expanding private rental market, the policy issues for a new social settlement revolve around how to extend many of the benefits of ownership to those who are not now, or may never be, owners." "In a new social settlement it is worthwhile to remember the philosophy embedded in the old housing policy is about much more than bricks and mortar. Housing markets shape urban and regional forum and the liveability of cities and regions." In essence, home ownership is an integral part of cultural development, social stability, economic welfare and community development.

7. The percentage of homes being purchased is falling as a result of declining home affordability, and private renters are increasing, as shown in Table 1.

Table 1 – Home Ownership

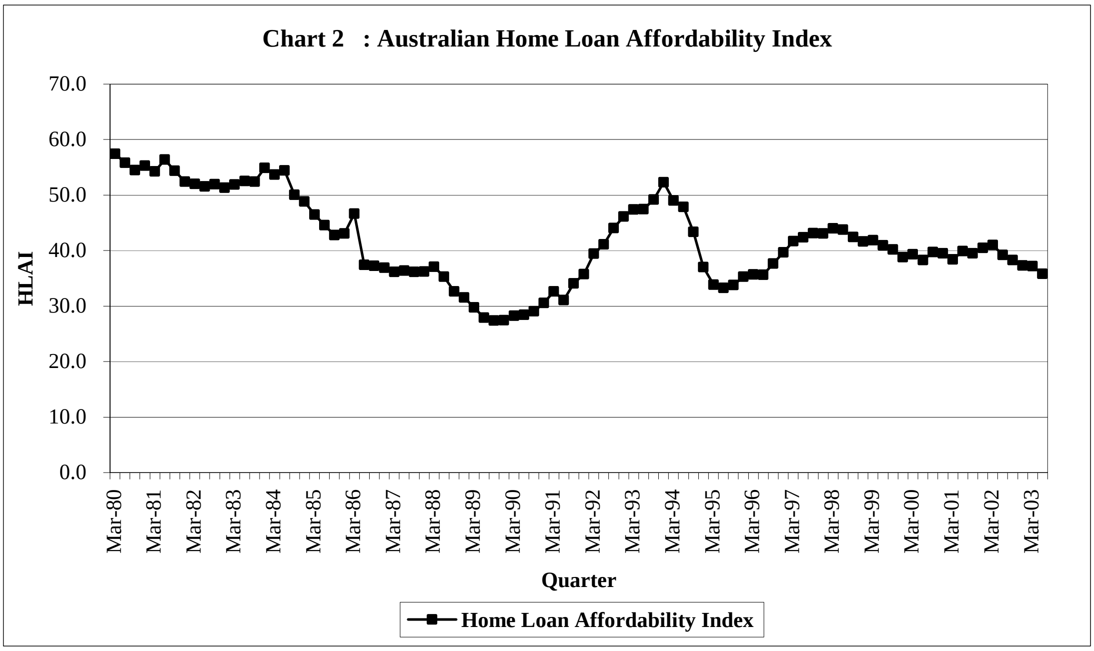
Tenure	**Census Year Households Per Cent**						
	1971	**1976**	**1981**	**1986**	**1991**	**1996**	**2001**
Owned	na	31.6	33.2	38.2	40.3	41.4	40.2
Being Purchased	na	34.7	33.0	30.9	27.0	25.5	26.5
Total Owners	**67.3**	**66.3**	**66.2**	**69.1**	**67.3**	**66.9**	**66.7**
Renters: State Housing	5.5	4.9	4.9	5.4	5.7	5.1	4.5
Renters: Private Landlord	21.8	20.3	20.0	20.4	20.9	23.6	23.1
Total Renters	**27.3**	**25.2**	**24.9**	**25.8**	**26.6**	**28.7**	**27.6**
Other Tenure	5.4	8.5	8.8	5.1	6.1	4.4	5.8
Total Occupied Dwellings ('000)	**3,670**	**4,140**	**4,669**	**5,187**	**5,765**	**6,496**	**7,072**
Total Unoccupied Dwellings ('000)	339	431	469	543	597	679	718
Total Dwellings ('000)	**4,009**	**4,571**	**5,138**	**5,730**	**6,362**	**7,175**	**7,790**

Source: ABS Census data, various years.
Percentages calculated as percent of total occupied dwellings

Home Loan Affordability

8. The overall affordability of homes is low, particularly for first home buyers, as shown in Chart 2. Whilst affordability is by no means at its lowest point over the last 20 years, the trend for the foreseeable future is downwards, therefore measures to correct this trend should be taken in the near future to improve the prospects of home ownership, particularly for first home buyers.

Chart 2 – Australian Home Loan Affordability



Source: REIA

Implications for Society and Government

9. Inter alia, the Commonwealth Government is broadly committed to the socio-economic development of Australia through a prosperous economy with policies that promote business development and self-funded retirement in order to ultimately help reduce reliance on Government support and the taxpayer. Self-funded retirement explicitly assumes home ownership.

10. In the Commonwealth Government Report of May 2002, it was stated that: "While the population of labour force age is projected to grow by just 14%, the number of people aged 55 to 64 years old is projected to increase by more than 50% over the next two decades." The proportion of the population aged over 85 years is expected to treble by 2042. Home ownership will play an increasingly important part in reducing Government expenses related to the health of an aging population.

11. Home ownership contributes to social capital. Recent research has shown that home owners have better health than equivalent renters[1]. Home ownership is also associated with a more stable society. More generally, Troy (1991) states that if there

[1] Waters (2002), Do housing conditions make a difference to our health? A study of home ownership and renting in Australia", AHURI, Melbourne

are more homeowners in a society…"more people would be incorporated into the society and accept, support and defend dominant values".

12. Home ownership also contributes to self- funded retirement because it reduces housing costs in later life. This in turn results in lower take up rates of the age pension and relieves some of the burden on the Government of supporting an ageing society, particularly in the context of a shrinking tax base. Home ownership for the older generation means that they have an asset which can be used to obtain entry to retirement villages and nursing homes. If affordability of housing continues to decline, people under 45 years old will find it more difficult to enter the property market. This implies that they may have significant housing costs in the retirement years with implications for their lifestyle and increased dependency on Government.

13. A recent NATSEM[2] report showed that the wealth of older generations was rising and the wealth of younger generations was falling. The authors find that this was mainly due to falling home ownership rates and the growing value of mortgage loans for the younger generation. The report also found that the age pension contributed less to the after tax income of older Australians in 1997 than in 1986. In 1986, 62% of older Australians were recipients of the age pension. This proportion decreased to 57% in 1997. This was in part because older Australians with investment properties had benefited from the increase in house prices over this period. Thus, providing support to young people to get on the property ladder means that the pressure is reduced for the government in providing financial support for older generation.

AFFORDABILITY

Home Loan Affordability Indicators (HLAI)

14. The AMP Banking/REIA HLAI is a ratio of family income to average loan repayments (an increase denotes easier affordability).

HLAI = median family income/average loan repayments

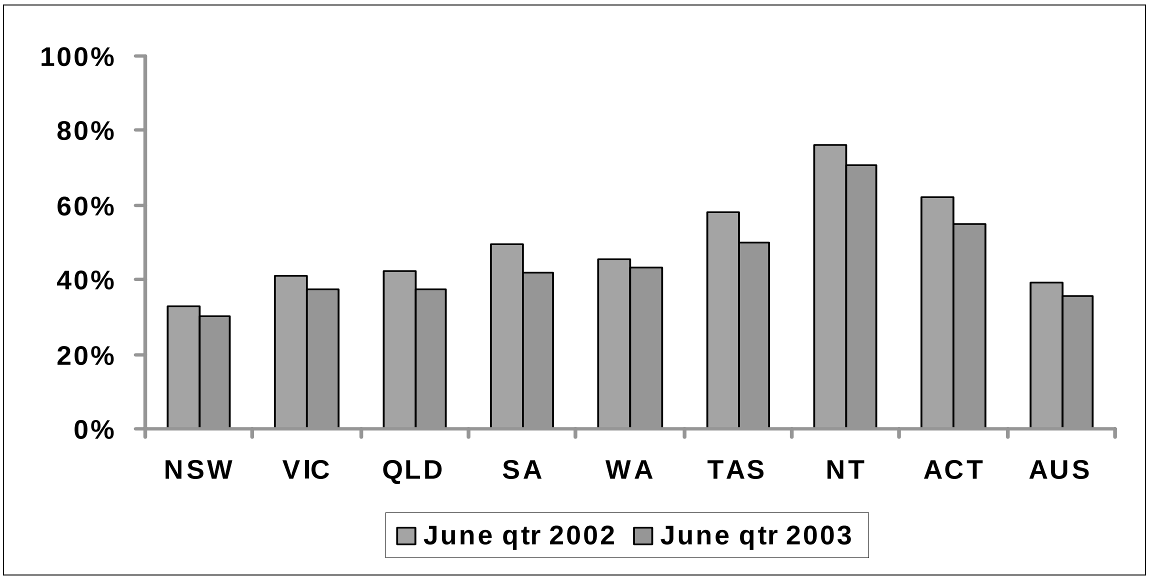
This index includes the main determinants of housing affordability, i.e.:

a. family income,
b. interest rates, and
c. house prices.

15. Nationally, housing affordability has deteriorated by 9% in the year to June 2003 as shown in Chart 3. The biggest falls in affordability are evident in Canberra and Tasmania where house prices have risen considerably in the last year. For example, the median house price has increased by 38% in Hobart and the corresponding fall in affordability was 14%.

[2] Harding, King and Kelly (2002), "The Income and Wealth of Older Australian", NATSEM, Canberra.

Chart 3 – Home Loan Affordability Index 2002/03



Source: ABS Cat No. 5609.0

16. The price of houses has increased significantly since the mid 1990s due to a number of factors including:

a. historically low interest rates (see Annexes A, B and C for indicative median house prices and first home prices {lower quartile of median prices}) compared to interest rates,

b. historically high consumer and business confidence as shown by the results of the Sebsus /Bysubess Ubdex - Small and Medium Enterprises of August 2003,

c. relatively poor performance of alternatives for investment, particularly the share market, as shown at Annex D,

d. “herd mentality” of property buyers who are keen not to miss out on involvement in a buoyant market,

e. implications of aging baby boomers as they approach retirement in terms of their relocation for retirement life style; including a holiday home, changing location to the coast, downsizing the family home, and purchasing investment property for an income stream in retirement,

f. low unemployment rate, and

g. changing demographics including a drop in the number of persons per private dwelling from 2.78 1991 to 2.65 in 1996 and 2.58 in 2001 as shown in a recent population study from Swinburne University commissioned by the REIA.

17. The specific consequence of these issues is that first home buyers are finding it increasingly difficult to enter the property market. According to the ABS, the proportion of first home buyers in the housing finance market has dropped from 17.6% in June 2002 to 13.9% in June 2003.

Future House Prices?

18. All the indicators show that the trend of low affordability is likely to continue because the reasons behind the high price of housing generally show little likelihood of change. House prices are, to an extent, a victim of the success of sound economic fundamentals such as low interest rates, low unemployment and business and consumer confidence. Most economic analysts are forecasting that these fundamentals are unlikely to change in the near future.

19. Moreover, the recent REIA Swinburne University population study shows that, in terms of demographics, the demand for housing is likely to increase significantly, thereby affecting house prices:

a. the base forecast for the higher education sector shows an increase from 68,405 international students in 2000 to 562,000 students in 2025 with a concomitant demand for housing,

b. "it is reasonable to assume that with changing levels in living standards and the distribution of income and wealth of households in the 'Equitorial Artice Cone' (West Asia, South-East Asia and south Central Asia), the impact on the Australian property market will be profound in the decades ahead",

c. "under a range of fertility, mortality and migration assumptions, the population of Australia is expected to grow to between 24.1 million and 28.2 million persons by 2051",

d. "of all the household types identified in the projections, lone-person households are expected to display the strongest increase over the projection period from 2001 to 2021; increasing by 674,100 units or approximately 39%", and

e. household size is expected to continue to decline from 2.6 in 2001 to 2.3 persons per household in 2021.

WAY AHEAD FOR AFFORDABILITY

Broad Options

20. The HLAI can only improve if one, or both, of two things change – either wages increase and/or loan repayments decrease. An increase in wages without corresponding productivity increases is unlikely to improve affordability because it would increase inflation which would further add to house prices. A reduction in interest rates can improve affordability through lower loan repayment. Interest rates are controlled by the Reserve Bank of Australia (RBA) and recent reports by the RBA indicate that interest rates are on hold for the foreseeable future. This leaves reducing the total cost of first home buyers acquiring a home as the main method for improving affordability.

21. A mortgage loan is usually taken out to cover the cost of buying a house. The cost of buying a home includes:

a. price of house (including construction or renovation costs),
b. stamp duties,
c. conveyances fees, and
d. other fees including land transfer fees, mortgage registration fee, mortgage discharge fees etc.

22. Partly offsetting these costs for first home buyers is the First Home Owners Grant Scheme (FHOGS) and the first home buyers stamp duty concessions in the States/Territories where applicable. The price of the house represents by far the largest proportion of the cost of buying a home and this proportion has been increasing because house prices have been rising. House prices are determined by the interaction of the demand and supply of housing. Therefore, the affordability of housing can be addressed from the demand and supply sides. The focus of this submission is the demand side but some supply side issues are raised later. On the demand side, the increase in house prices has meant that stamp duty contributes more now to the cost of buying a home than two years ago and that the offsetting cost effects of the FHOGS has lessened significantly. As such, the current system of applying stamp duties and the current value of the FHOGS are not improving affordability for first home buyers. The following section discusses how these issues can be addressed.

Stamp Duty (this section from Econtech Study dated September 2003)

23. Stamp duty is a State tax imposed by all Australian States and territories on documents or transactions that affect or record the transfer of the ownership of assets. State Governments have their own legislation for imposing stamp duty rates.

24. Stamp duty is a progressive tax which means that the higher the house price the higher the percentage of the house price that is payable in stamp duty. The amount of stamp duty that is payable should increase in line with house prices. However, because stamp duty scales have not been adjusted to reflect the recent increases in house prices, the percentage of stamp duty that is payable is increasing faster than the percentage increase in house prices.

25. The REIA commissioned Econtech to conduct a study of stamp duty on residential property. Econtech concluded that indexing the stamp duty by 20% will ensure that the FHOGS maintains its relative value. A comprehensive submission with modelling on stamp duties provided by the Real Estate Institute of Victoria to the Victorian Government in September 2002 proposed two alternative approaches to developing a stamp duty scale. One is based on dividing the sales for the previous year or for the previous four years into percentiles (at 10%, 20%, up to 90%) and establishing fixed stamp duty rates within each percentile category. The second method uses percentiles (e.g. at 20%, 40%, 60% and 80% in their model) to define the categories based on the previous year's sales history (or the previous four year average) and sets rates within categories that are progressive. See Annex E for a more detailed analysis.

First Home Owners Grant Scheme (this section is taken from Econtech Study dated September 2003)

26. The FHOGS was introduced with the New Tax System in July 2000, in order to offset the additional costs to house prices as a result of the introduction of GST. First home buyers are eligible for a grant of $7,000 if they bought either a new home or an existing home. To qualify for this, the owner or the spouse should not have owned a home before and must occupy the home within 12 months of settlement.

27. The FHOGS is a fixed dollar grant that has not been adjusted as house prices have risen. It now makes a smaller contribution to the cost of purchasing a home compared to when it was first introduced. Thus, the relative value of the FHOGS has been reduced as house prices have risen.

28. From March to December 2001, an additional $7,000 was available for first home buyers when purchasing a new home rather than an existing home. This was reduced to $10,000 total and subsequently back to $7,000 total.

29. If the FHOGS is indexed to the rise in median house prices, the grant will rise in line with the increase in price. This will prevent the relative value of the FHOGS from falling as a result of the booming property market. As shown in Table 2, indexing the grant means that the actual value of the grant would rise to over $10,000 today. As such, the FHOGS would make a bigger contribution to offsetting the cost of buying a home for first home buyers. As shown in the table, because the FHOGS is not indexed, the purchase of a new home today costs first home buyers around $4,000 more than when the FHOGS was introduced in 2000.

Table 2: The Effect of Indexing the FHOGS

	% increase in median house price	FHOG- no indexation	FHOG- indexation	Difference in FHOGS
Australia[a]	56.4%	$7,000	$10,911	$3,911

[a] Estimated from a weighted average of the increase in house price in each State since July 2000

30. Affordability indices that measure the affordability of housing do not take into account the FHOGS. When the grant was introduced it had a big impact on the

number of first home buyers in the property. The impact has lessened since then because its relative value has decreased and its contribution to buying a home has been eroded.

31. The FHOGS should continue to apply equally to both new and established homes in order to provide choice to first home owners, ensure an equitable approach to home ownership, and not unduly skew one part of the marketplace. See Annex F for a more detailed analysis of the case for indexing FHOGS.

State Dependency and Inefficiencies of Property Taxes

32. By international comparisons, Australia ranks the fifth highest nation in OECD countries in respect of its reliance on property taxes. Governments in Australia now collect nearly as much from property taxes as they collect from motor vehicles, general payroll taxes, and gambling taxes combined as shown in Table 3.

Table 3: Total Taxation

MAJOR COMPONENTS OF TOTAL TAXATION 2000-01	$m	%
Employers payroll taxes		
General taxes (payroll tax)	9 322	4.4
Other employers labour force taxes	3 537	1.7
Taxes on the use of goods and performance of activities		
Motor vehicle taxes	4 030	1.9
Taxes on provision of goods and services		
Taxes on gambling	3 553	1.7
Taxes on property		
Taxes on immovable property	9 062	4.2
Taxes on financial and capital transactions	9 766	4.6
Total motor vehicles, general payroll and gambling	***20 442***	***9.7***
Total taxes on property	***18 828***	***8.8***

Source: ABS, (Taxation Revenue Report, Cat. No. 5506.0, released Friday, 12 April 2002)

33. In 2000, the REIA commissioned a report from Access Economics entitled 'The Economic Case for Cutting State Taxes on Real Estate'. The report shows State property taxes have increased as a share of State and local government taxation revenue for each of the States, except Victoria, from 1989/90 to 1997/98. In 2002, Access Economics provided another report for the Business Coalition of Tax Reform which essentially concluded that: "A theme emerging from this Report is that the initial promise of scope for further State business tax reform has been progressively disappointed:

a. First, the problems in the Senate reduced the scope and delayed the timing of the original State tax reform package envisaged under ANTS Mk 1.
b. Second, the net revenue dividend from GST is clearly not a good indicator of individual States' capacity responsibility to further cut State business taxes.
c. Third, even States enjoying revenue 'windfalls' (eg due to the property boom) have partly spent those on other measures".

34. Access Economics ranks the inefficiency of State taxes in order of priority in three groups; firstly, as stamp duties on non-residential conveyancing; secondly, stamp duty on residential conveyancing and land tax; and thirdly, payroll tax.

35. The significance of the reliance of the States on property taxes as a component of revenue from total State taxes and as a component of total State revenue is shown in the following table derived from the 2002-2003 State Budgets.

Table 4: State Reliance on Property Taxes

State/Territory	NSW %	VIC %	QLD %	S.A. %	W.A. %	ACT %	TAS %	N.T. %
Land Tax + Real Property Stamp Duties as:								
% Total State Taxes	29.3	27.4	23.9	23.4	28.8	27.3	15.2	15.0
% Total State Revenue	11.1	9.5	6.4	6.4	8.2	6.7	3.3	1.5

Source: REIA estimates from State Budgets

Property Taxes Are Inequitable

36. The cyclical nature of the property market and implications of government adjustments to the State budget in a downturn can be avoided. Property taxes are fundamentally narrow-based wealth taxes which discriminate against property owners, particularly potential first home owners. Property taxes are aimed only at the property market (commercial and residential) and affect small business, tenants, home owners, investors and self-funded retirees. Payroll tax is the most broad-based, stable, and robust State tax as shown in the report by Access Economics in 2002.

37. The following points illustrate the pervasiveness of stamp duties associated with property transactions. In total, they have no parallel in any other form of investment:

a. Stamp duty, or conveyance duty, on the transfer of property is usually calculated on the purchase price. Because stamp duty usually involves payment of several thousand dollars, it will tend to be capitalised into the next sale price of the property having the effect of increasing the second round property sale price and stamp duty. For example, the NSW stamp duty on the sale of commercial premises worth $800,000 is $31,490, and the stamp duty on transaction of a lease worth $200,000 per year and attracting GST would be $2,310 per year.

b. Stamp duty on property mortgages (except in the ACT and the NT) are based on the amount financed: that tends to increase as property prices rise.

c. In the case of new residential property, GST is payable on the costs of construction. The vendor will seek to recover the GST from the purchaser when the property is sold. When this occurs, stamp duty paid on the total purchase price will involve a component of a tax on a tax. In other words, States charge stamp duty on GST inclusive supply prices. In contrast to such conduct by the States, the ACCC would be expected to prosecute any private sector firm that took advantage of, and profited by, the GST. Payment of a tax on a tax also occurs when stamp duty is paid on the GST component of a vendor's agent commission.

38. The benefits to individual home buyers of reducing or eliminating State stamp duties on residential conveyances and home mortgages are clear from the information contained in Table 5. For each capital city, the stamp duty payable on median house prices in the June quarter 2003 has been calculated and is also shown as a percentage of the median house price. In addition, the mortgage stamp duty applicable to the average home loan recorded for each State in the June quarter 2003 has been calculated and is also shown as a percentage of the average loan.

Table 5: Duties Payable on Median House Prices and Average Home Loans - June Quarter 2003

City	Median House Price[1] $	Stamp Duty Payable $	Stamp Duty as Percent Of Median House Price %	Average Home Loan[2] $	Mortgage Stamp Duty Payable $	Mortgage Stamp Duty as Percent of Average Loan %
Sydney	465,000	16,415	3.53	228,576	855	0.37
Melbourne	359,000	17,200	4.79	188,163	717	0.38
Brisbane	289,000	8,590	2.97	171,912	688	0.40
Adelaide	220,000	7,630	3.47	140,110	480	0.34
Perth[3]	210,200	6,773	3.22	155,276	569	0.37
Canberra	305,000	9,700	3.18	206,751	Nil	Nil
Hobart	180,000	4,975	2.76	105,030	357	0.34
Darwin	206,000	7,084	3.44	132,839	Nil	Nil

1. Market Facts, June quarter 2003 edition, Real Estate Institute of Australia.
2. Home Loan Affordability Report, June quarter 2003, AMP Banking/ Real Estate Institute of Australia
3. Stamp duties on Conveyances in Western Australia will increase 15% from 1 July 2003

39. Investment incentive has decreased significantly with the introduction of State land taxes - these vary from State to State. For example, in the ACT, land tax can represent an annual average impost on the landlord of 15 – 20% of rent return after tax on a median residential property price in addition to mortgage repayments, normal rates, and maintenance etc. This additional impost can be considerably higher in some cases, eg inner suburbs can attract an impost of 40%. Investors without significant cash flow in addition to the rental return are denied the opportunity to invest in property. Moreover, there is no stamp duty or on-going taxes on other investment opportunities such as property trusts and shares. This does not augur well for potential income opportunities in the property market to encourage wealth creation and self-funded retirement and therefore less dependence on government.

Wealth Creation Affects House Prices

40. All governments are encouraging self-funded retirement. There are only a few ways in which the average Australian self-funded retiree can create wealth, for example: shares, bank deposit, small business, and property (most residential). Sound financial planning for retirement would include a balanced portfolio, for example substantial cash would be needed to invest at 4% return from a bank deposit – (assuming the self funded retiree is living in his own home) $750,000 would provide an income of $30,000 pa but the capital is being eroded by inflation at about 3% pa.

41. Many Australians consider that residential property is a safe form of investment which has historically performed well (see Annex D). However, the price of houses is such that it is beyond the means of nearly all Australians to save and buy a house outright or provide a substantial deposit. Therefore, their equity in their own home provides the wherewithal to purchase investment property. Clearly, this will help to increase demand and therefore increase property prices, including for first homes. But what is the alternative(s) for wealth creation?

Negative Gearing

42. The rationale for negative gearing is that investors are entering into a business venture which might include buying a property for wealth creation. This is balanced by Capital Gains Tax if a profit is made when the property is sold. Negative gearing is not designed solely for the purposes of saving on tax. The profitability of a negatively geared investment depends on the ability of the investor to repay the mortgage and also depends on after-tax capital gain.

43. Data from the ATO show that in 2002-03, an extra 60,000 rental property owners (investors) came into the tax system bringing the total number of taxpayers who declared rental income to 1.3 million and the total declared rental income to $12.6 billion. The total rental deductions claimed amounted to $13.2 billion resulting in a net tax return to tax payers from declared rental income of $0.6 billion. Rental income and deductions claimed were both up 8% on the previous financial year (2001-02).

44. Negative gearing assists all income levels and is a key instrument to assist the wealth-creation process. It is now much easier for would-be investors in residential property to get a start, since banks require very little capital to back negatively geared loans, and lines of credit have given investors access to funds that previously were not so readily available.

45. In July 1985, the Treasurer announced quarantining of the tax benefits of negative gearing. This meant that incurred losses from mortgage repayments exceeding net rental income could only be carried forward to reduce future tax liabilities from capital gains tax. The effect of this was a downturn in building activity and consequently in September 1987, negative gearing was reintroduced. Only six months later, there was clear evidence from ABS data (Catalogue No. 8731), that the reintroduction of negative gearing had encouraged significant numbers of investors back into the residential property markets. Table 6 shows the effect on new dwelling approvals as a result of the removal of negative gearing in 1995, and its

reinstatement in 1997. The data for 2002-03 have been included for comparative purposes.

Table 6: Private Sector New Building Dwelling Approvals

1985-86		1986-87		1987-88		2002-03	
No.	$m	No.	$m	No.	$m	No.	$m
126,017	6,645	108,611	6,342	140,464	8,977	172,002	28,026

Source: ABS Catalogue No. 8731

46. Whilst REIA acknowledges that negative gearing is an incentive for investors to enter the property market it does not agree that negative gearing has been a major driving force behind the rapidly rising property prices since mid-1996. According to a 1999 survey by ABS, only 23 per cent of those who considered investing between June 1997 and June 1999 nominated negative gearing as a main reason for investing in property compared with 14.3% of investors in 1993. Negative gearing is an incentive for investors if used sensibly. Negative gearing is not designed solely for the purposes of saving on tax. Furthermore, components of negative gearing and tax arrangements should not be diluted for fear of the consequences in removing an incentive for wealth creation for Australians which might also significantly and adversely affect the rental market; e.g. use of equity in property for borrowing, depreciation deductions, and claims for expenses against all income. The progressive improvement in the national economy through the 1990s that led to historically low rates of interest, strong levels of consumer confidence (particularly from 1997 onwards) financial deregulation and the serious deterioration in the performance of the share markets in Australia and around the globe, were more likely to be the key factors that attracted investors into the property markets. In comparison with these significant macroeconomic developments, the effects of negative gearing would have been considerably overshadowed.

47. Investment in property does have an impact on overall house prices including the market for first home buyers. However, REIA supports the retention of negative gearing as a tax concession for investments in real estate property along with other asset classes for investment and business. Removal of negative gearing would discriminate against the real estate industry as does the retention of stamp duty on real property under the *ANTS*, and it would remove an important incentive to assist Australians to create wealth by investing in property to create wealth including self-funded retirement for their benefit and the benefit of the nation.

Effect of Real Estate Practice on House Prices

48. Indicative costs associated with selling a residential property will involve some, if not all of the following items: fee for service, advertising and marketing, legal costs, removalists, other costs such as energy rating in the ACT.

49. Since 1995, agent’s commissions have been deregulated in several States, whilst in others they are calculated on a sliding scale according to the sales price. In all States, commission may be negotiated between the agent and the vendor and are highly competitive, usually being agreed well within the pre-deregulation ‘norm’ of an average rate of up to 3%. By comparison, commissions in New Zealand have also

been deregulated. The equivalent commissions in New Zealand are up to approximately 4% plus an administration fee of between $200 and $500.

50. Whilst the costs of selling a home do vary, they have little or no influence on the sales price of a property. A comparison of properties sold privately by vendors with those sold by real estate agents attests to this. A sale reflects current market values and the vendor who sells his own property would receive the sales price less his costs of marketing the property. The only cost that the vendor would not incur is the agent's sales commission – the vendor would not want to discount the sale price by the agent's fee. The vendor usually sells his own property in order to save the cost of the agent's fee but this does not affect the sale price. Inter alia, an agent is able to attract a much larger interest group of potential buyers for a property so that potentially a better price is obtained for the vendor.

51. Indicative costs of buying a residential property will involve some, if not all of the following items: stamp duty on the purchase price, conveyancing/solicitor's fees, land transfer registration fee, mortgage registration fee, mortgage discharge fee and other fees such as for loan application/establishment, building inspection, pest inspection and removalists. By far the greatest cost burden among these costs is State stamp duty. The imposition of State property taxes has a far greater impact on decreasing the affordability of homes than any other cost item listed above for buying or selling residential property.

52. Agents work in a highly competitive environment and most (members of the State/Territory Real Estate Institutes) adhere to the industry codes of practice. The industry has also been subject to the scrutiny of the ACCC e.g. the ACCC "authorised" the code of practice of the Real Estate Institute of Western Australia in 2002. Under these circumstances, the practices of real estate agents have little or no effect on the prices, and hence affordability of residential property. The real estate industry is a case of market competition where prices are determined by supply and demand.

Access to Superannuation

53. The deposit gap for first home buyers can be insurmountable. Consideration should be given to a scheme for early access to superannuation, including the examination of the benefits and implications of such a scheme. A recent report commissioned by the REIA shows that this proposal could be examined to address a range of contemporary social concerns in Australia regarding affordability of education, health, housing, household debt and wealth generation.

54. Early access to superannuation for property purchase would promote home ownership in Australia and could alleviate the impact of a decline in affordability of home ownership due to record level house prices. It could help first home buyers secure sufficient funds to pay deposits for home ownership, could provide some security in the event of severe difficulties in meeting mortgage payments (for example, if interest rates rose dramatically), and could allow home ownership to be an achievable goal for low-income earners in a high-cost housing market.

55. An early access scheme to superannuation could be targeted at people who would not otherwise be able to achieve full home ownership before or upon retirement. This could involve, for example, restricting access to first home buyers with incomes below a specified maximum, and limiting withdrawal amounts. Current rules which allow early access to superannuation due to financial hardship could be expanded. Future superannuation entitlements could be made available as security for loans for home purchases.

56. Potential concerns about early access to superannuation eroding retirement income could be addressed through promotion of strategies to unlock the value of retirees' homes through reverse mortgages or similar schemes.

HOLISTIC REDUCTION OF STAMP DUTIES

57. For all levels of housing, State stamp duties are decreasing housing affordability including first home ownership. Indexing stamp duty to account for increasing house prices will improve affordability for first home buyers. Notwithstanding that States are dependent on property taxes for revenue, there are economic benefits from a reduction of these taxes across the board. Access Economics compared the net economic benefits estimated to be derived from a reduction of $100 million in each of a range of different State taxes benchmarked against the net economic benefits from a $100 million reduction in State payroll taxes. The key findings of the report were that:

a. Reducing stamp duties on conveyances of non-residential property would result in gains to economic welfare, economic activity and investment many times greater than the gains from reducing payroll taxes by the same amount.
b. Reducing any of the State taxes on property individually would provide economic benefits greater than the benefits that would be achieved by reducing payroll taxes by the same amount.

58. The net economic benefits measured by the change in economic welfare resulting from a reduction in a State tax depend on whether the tax impacts mainly on capital, labour, and the overall cost of production or on a specific item of consumption. For example, the economic benefits of reducing taxes on capital such as stamp duties on non-residential conveyancing are likely to be large because capital supply responds elastically to changes in its price. On the other hand, the economic benefits from reducing taxes like payroll tax that acts alone on the price of labour will be comparatively unresponsive to changes in the real wage rate. Payroll tax is borne by large businesses and the majority of employers are small/medium businesses. Therefore, a decrease in payroll tax would not affect the majority of employers because they are below the threshold. Overall, the higher the economic benefits estimated for a $100 million reduction in individual State taxes in the Access Economics analytical models, the stronger the case for reducing the specified State taxes.

59. The important detailed results of the analysis measure the effects of a $100 million reduction in specific State taxes in terms of the net national benefits to economic welfare, economic activity (measured in terms of GDP) and investment. In summary, the key findings of the report were:

a. Reducing stamp duties on *non-residential* conveyances by $100 million would result in net benefits to economic welfare, GDP and investment respectively 4 times, 12 times and 10 times the gains from a $100 million reduction in payroll taxes. In dollar terms, the benefits from a $100 million reduction in *non-residential* conveyances would be $50 million to economic welfare, $74 million to GDP and $22 million to investment.
b. Reducing stamp duties on *residential* conveyances by $100 million would result in net benefits to economic welfare, GDP and investment respectively 2 times, 6 times and 6 times the gains from a $100 million reduction in payroll taxes. In dollar terms, the benefits from a $100 million reduction in *residential* conveyances would be $22 million to economic welfare, $38 million to GDP and $13 million to investment.
c. Reducing land taxes, local government rates and insurance contributions to fire brigades by $100 million would result in net benefits to economic welfare, GDP and investment respectively 2 times, 6 times and 4 times the gains from a $100 million reduction in payroll taxes.

In 2000-01, the total revenue collected by all States and Territories from payroll tax was approximately $10.6 billion.

Benefit to the Nation

60. Applying the Access Economics ratios of benefits of reducing State Stamp duties compared with reducing State payroll taxes, elimination of *non-residential* conveyances would benefit the nation by an estimated $15.5 billion and elimination of *residential* conveyances would benefit the nation by an additional estimated $7.7 billion.

61. From Commonwealth budget papers GST grants to the States in 2000-01 totalled $24.4 billion. Projections over the next four years were made in 2001-02 and 2002-03 and are compared below:

Projected GST payments to the States

	2001-02 Projections	2002-03 Projections
• 2001-02	$27.5 billion	$27.6 billion
• 2002-03	$29.2 billion	$29.7 billion
• 2003-04	$30.8 billion	$31.3 billion
• 2004-05	$32.6 billion	$33.1 billion

GST revenue to the States is clearly increasing.

62. Under the ANTS *(Commonwealth-State Financial Arrangements) Act 1999*, the Commonwealth guaranteed that in each of the transitional years following the introduction of tax reform, each State's budgetary position would be no worse off than had the reforms to Commonwealth-State financial relations not been implemented.

63. The amount of funding each State would have had available to it under the previous system of financial relations is the Guaranteed Minimum Amount (GMA) and is calculated for each transitional year, commencing in 2000-01. To meet its guarantee, the Commonwealth pays the States transitional assistance known as Budget Balancing Assistance (BBA) to cover any shortfall of GST revenue below the GMA. The estimated BBA payments to the States in the first three transitional years are shown below:

	2000-01	**2001-2002**	**2002-2003**
Total Guaranteed Minimum Amount ($ billion)	27.1	30.5	31.4
GST Revenue Provision ($ billion)	24.2	27.6	29.7
Budget Balancing Provision ($ billion)	2.9	3.9	1.7

Source: Commonwealth Budget Papers

64. From the budget papers, the GST transitional period is expected to continue at least until 2005 although there is some prospect that the period is shorter than this, eg in Queensland. From the agreements negotiated between the Commonwealth and State Governments, in respect to the deferred dates when the abolition of the State property taxes specified under the terms of the Act is to be reconsidered, there is no specified time when those State taxes will be abolished or reduced.

65. Based on the analysis in the Access Economics Report, the States ought to abolish the State Stamp Duties on all types of non-residential property and other business transactions as soon as GST payments to the States reach the level of the Guaranteed Minimum Amount. By doing so, the States will not only benefit from a more secure and less volatile source of revenue through GST allocations than the taxes and grants being replaced, but also from the gains to economic welfare, economic activity and investment that will build over time after the stamp duties have been abolished.

66. The rate at which GST payments to the States are being made to achieve their respective Guaranteed Minimum Amounts is either equivalent to, or exceeding expectations. There is a very strong case for individuals and Commonwealth and State Governments to reap significant benefits by reducing and abolishing State property taxes. But if this goal is to be achieved within a few years, a way to compensate the States for the loss of revenue that they receive through property taxes must be addressed. The growth in GST revenue beyond the levels needed to satisfy the total Guaranteed Minimum Amounts will provide a viable solution and an increase in payroll tax will provide immediate offset. The review of the InterGovernment Agreement is needed.

AVAILABILITY

67. House prices are, in large part, affected by supply and demand. If supply is restricted inevitably land and house prices will increase. Availability of property is influenced by the release of land and government development approval processes. The cost of land development comprises the cost of the land, infrastructure

development, the duration and content of development process (e.g. environmental studies), and government charges/taxes.

68. The Master Builders Australia (MBA) carried out a comprehensive survey of its members to gain, inter alia, an insight into the impacts caused by planning and regulatory problems. The MBA kindly granted REIA permission to briefly reproduce some of the key findings of the survey.

69. There was clear evidence that 'Regulation and Compliance Issues' were regarded as a major contributor towards increasing the costs of new housing. Many specific issues were cited such as the need to reduce 'red tape' and paperwork, and the difficulties of obtaining work cover and public liability insurance. The MBA survey also identified 'Taxes, Fees and Charges' as major impediments to the provision of low cost and affordable housing and REIA has dealt with them at length in earlier sections of this submission.

70. The third most significant set of issues identified by the MBA as major contributors to the reduction in affordability of housing comprised of 'Infrastructure and Land Issues.' There was a need for better planning of infrastructure developments which currently are helping to drive up the cost of homes for new home buyers in new development areas. Land shortages and artificial land boundaries for new housing developments are helping to drive up land prices and hence the cost of homes for new home buyers.

71. The MBA survey highlighted many more issues that were identified as impediments to the efficient supply of affordable housing in Australia. Overall, planning and approval processes and regulatory provisions clearly are in need of review to substantially improve their efficiency with a view to improving the rate of building processes and reducing construction costs. The current level of public and private investment in infrastructure is too low, and the cumbersome ways of providing residential infrastructure for new housing developments add significantly to land prices and ultimately to the costs of new housing.

72. There is clear benefit in Governments at the federal, state and local levels working within the framework of a broad coordinated planning strategy which will provide for the release and development of land: when and where needed, at reasonable costs. It is proposed that the federal Government should consider establishment of a housing portfolio at ministerial level in order to better coordinate arrangements across Australia. This portfolio would account for demographic changes, regional and urban development, and contribute to the broader socio-economic development of Australia within a planning framework which would be flexible enough to account for fluctuations in market prices for residential properties and land.

SUMMARY

73. Home ownership is very highly valued by families and is central to social and family stability. For many years, the available ABS Census data has showed that home ownership has been declining and in recent years home affordability has decreased, particularly for first home owners. This is a particular concern because there will be significant implications for self-funded retirement, in an ageing population and shrinking tax base, because self-funded retirement assumes home ownership.

74. Home loan affordability will only be improved by increasing wages, decreasing mortgage repayments, and/or increasing supply of property.

75. The supply of property can be improved through better coordination of the release of land and developmental approval processes at State and local government levels.

76. Mortgage repayments are high because the cost of housing has escalated. There are various impediments, particularly for first home owners, including State property taxes, the decreasing value of FHOGS, tax on tax, and inappropriate scales of stamp duty. Taxes and the FHOGS must be revised in accordance with the effect of recent rises in the property market.

Prepared by

Secretariat
REIA

16 October 2003

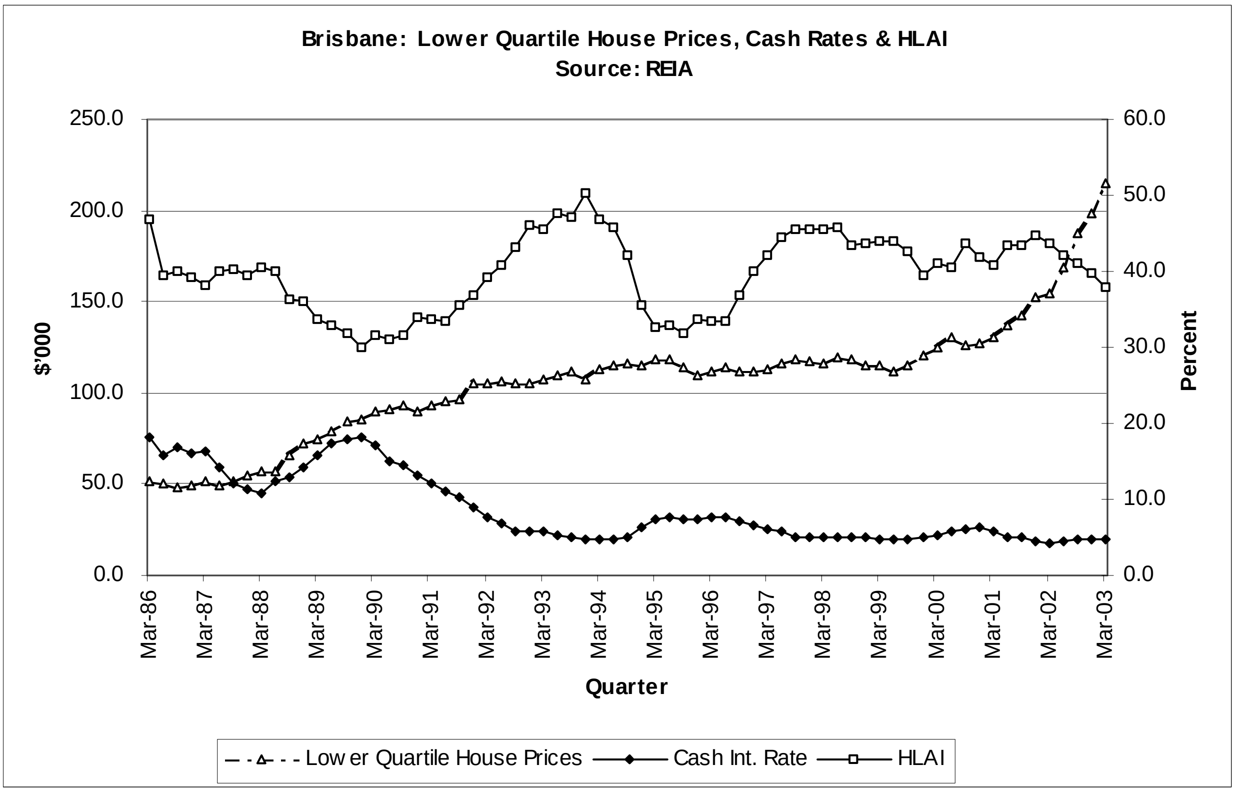
Charts:

Tables:

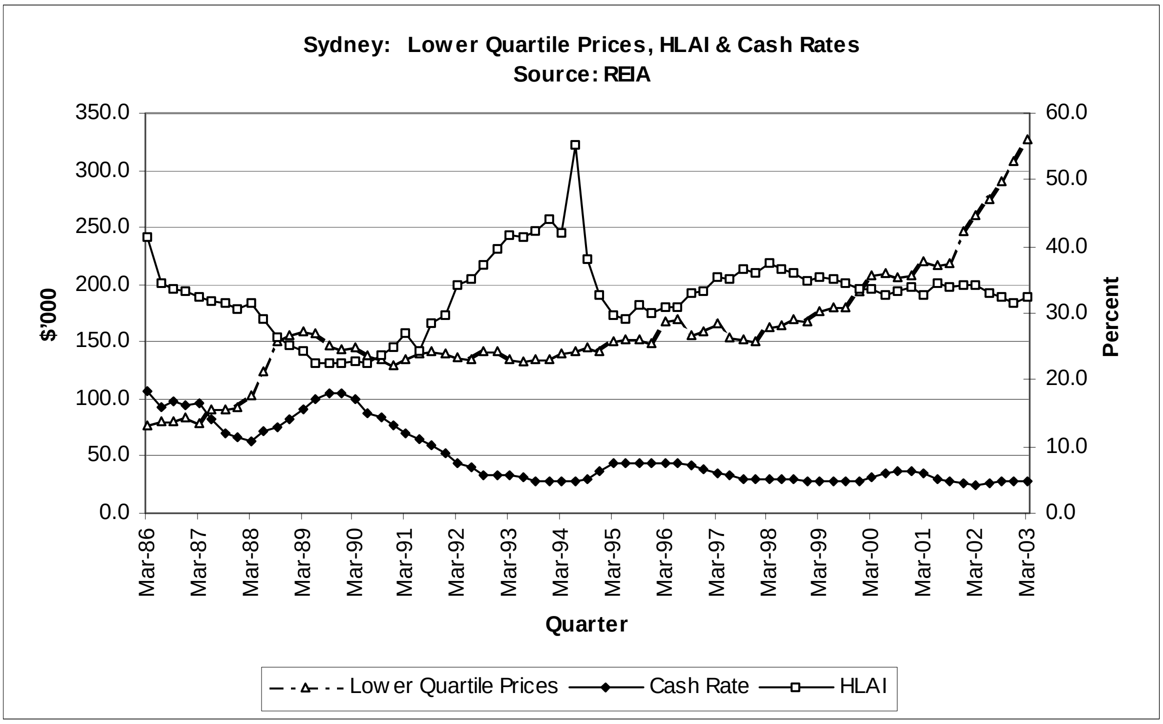
Annexes:

Appendixes:

ANNEX A


Brisbane: Lower Quartile House Prices, Cash Rates & HLAI
Source: REIA
$'000
250.0
200.0
150.0
100.0
50.0
0.0
Percent
60.0
50.0
40.0
30.0
20.0
10.0
0.0
Mar-86
Mar-87
Mar-88
Mar-89
Mar-90
Mar-91
Mar-92
Mar-93
Mar-94
Mar-95
Mar-96
Mar-97
Mar-98
Mar-99
Mar-00
Mar-01
Mar-02
Mar-03
Quarter
Lower Quartile House Prices
Cash Int. Rate
HLAI

ANNEX B



Sydney: Lower Quartile Prices, HLAI & Cash Rates
Source: REIA
350.0
300.0
250.0
200.0
150.0
100.0
50.0
0.0
$'000
60.0
50.0
40.0
30.0
20.0
10.0
0.0
Percent
Mar-86
Mar-87
Mar-88
Mar-89
Mar-90
Mar-91
Mar-92
Mar-93
Mar-94
Mar-95
Mar-96
Mar-97
Mar-98
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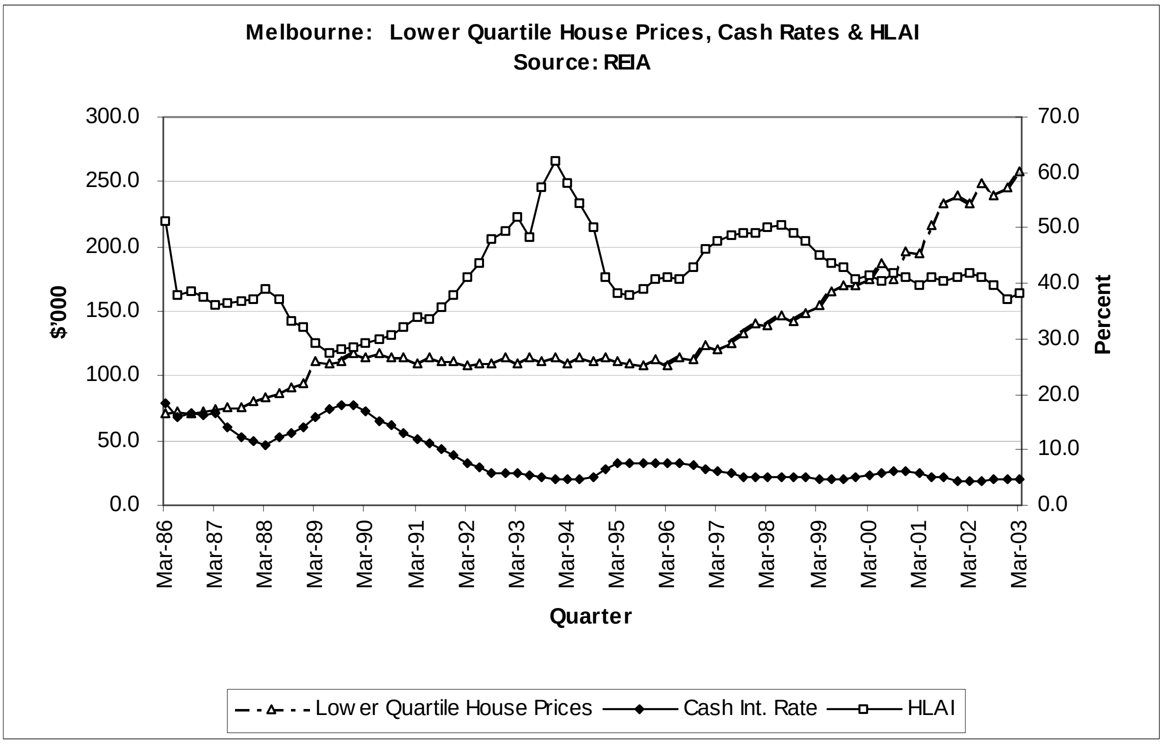
Mar-00
Mar-01
Mar-02
Mar-03
Quarter
Lower Quartile Prices
Cash Rate
HLAI

ANNEX C


Melbourne: Lower Quartile House Prices, Cash Rates & HLAI
Source: REIA
$'000
Percent
300.0
250.0
200.0
150.0
100.0
50.0
0.0
70.0
60.0
50.0
40.0
30.0
20.0
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Mar-86
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Mar-93
Mar-94
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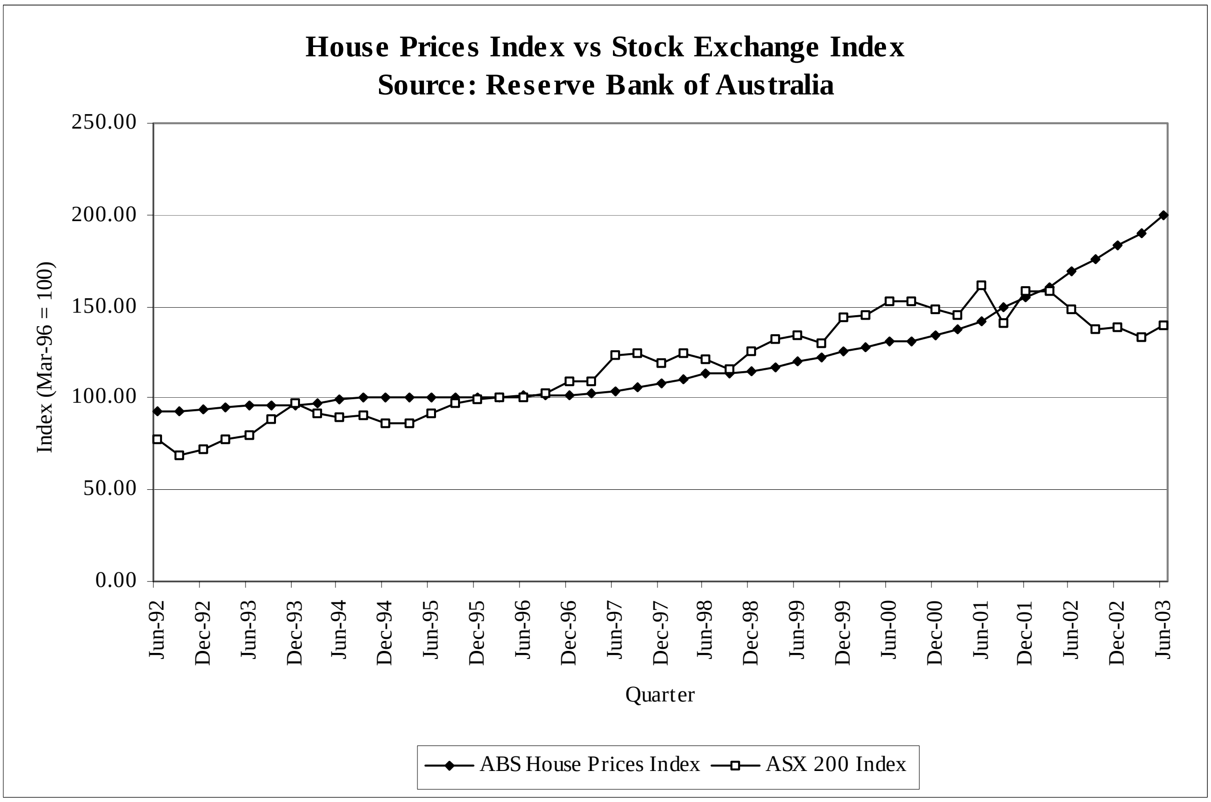
Mar-97
Mar-98
Mar-99
Mar-00
Mar-01
Mar-02
Mar-03
Quarter
Lower Quartile House Prices
Cash Int. Rate
HLAI

ANNEX D


House Prices Index vs Stock Exchange Index
Source: Reserve Bank of Australia
250.00
200.00
150.00
100.00
50.00
0.00
Index (Mar-96 = 100)
Jun-92
Dec-92
Jun-93
Dec-93
Jun-94
Dec-94
Jun-95
Dec-95
Jun-96
Dec-96
Jun-97
Dec-97
Jun-98
Dec-98
Jun-99
Dec-99
Jun-00
Dec-00
Jun-01
Dec-01
Jun-02
Dec-02
Jun-03
Quarter
ABS House Prices Index
ASX 200 Index

ANNEX E

THE CASE FOR INDEXING STAMP DUTY

1. The rate scale for stamp duty on residential conveyancing is different in each State as shown in Appendix 1. For example, the duty payable on property worth over $500,000 in Victoria is $7,225 and 3.5 per cent of the value of the house price over $500,000. In South Australia the duty payable on property over $500,000 is $21,000 plus 5.5 per cent of the price of the house over 500,000.

2. All States, with the exception of Tasmania, offer concessions on stamp duties to first home buyers. The concessions in Queensland are targeted at first home buyers and other buyers. The stamp duty concessions in the remaining States are confined to first home buyers. As shown in Appendix 2, the concessions to first home buyers in most states are geared towards low value properties.

3. The interaction of house prices, duty concessions and stamp duty rates are summarised in Table 1. For ease of explanation this analysis presents the interaction of house prices and stamp duty for Melbourne only. Table 2 calculates the amount of stamp duty that is payable for a distribution of house prices in Melbourne. It shows that home owners are required to pay more stamp duty as house prices increase. For example, a person wishing to buy a house valued at $260,000 is required to pay 4.33 per cent of that house price in stamp duty. Whereas, a person looking to buy a house priced at $486,000 has to pay 5.11 per cent of that house price in stamp duty.

Table 1: Stamp Duty in Melbourne- All Home Buyers, June 2003 ($)

	Price of home[a]	Total stamp duty[b]	Stamp duty as % of price
lower quartile	$260000	$11260	4.33%
median	359000	17200	4.79%
upper quartile	486000	24820	5.11%

[a] Market Facts, June Quarter 2003, REIA
[b] Calculated using the rates for Victoria shown in Annex E

4. The table above shows the stamp duty payable by all buyers. First home buyers are eligible for concessions and they generally pay less for their house compared to other buyers. The price of housing for first home buyers is estimated to be approximately 71 per cent of price of housing for all buyers[3]. Stamp duty concessions for first home buyers only apply to low value properties. This can be seen in the Melbourne example shown in Table 2. In this example, first home buyers are eligible for a concession for a house priced at $185,714. However, they are not eligible for a stamp duty concession if the house in the median or upper quartile.

[3] This proportion was estimated from median house price figures for FHBs and all buyers reported in the Australian Housing Survey, 1999 (ABS Cat. No. 4182).

Table 2: Stamp Duty in Melbourne- First Home Buyers, June 2003 ($)

	Price of home[a]	Full stamp duty[b]	FHB stamp duty[c]	FHB stamp duty as % price
lower quartile	$185714	$3765	1554	0.84%
median	256429	6240	6240	2.43%
upper quartile	347143	9415	9415	2.71%

[a] Market Facts, June Quarter 2003, REIA and ABS Cat. No. 4182
[b] Estimated using the stamp duty rates for Victoria shown in Annex 1
[c] Estimated using the FHB concessions for Victoria shown in Annex 2

5. There has been considerable growth in house prices in recent years especially since the September quarter in 2000. In fact, house prices in Australia have risen by over 50 per cent since September 2000. In comparison, the percentage of stamp duty payable on the price of a home has increased by more than 50 per cent over this period. This is because the stamp duty brackets have not been adjusted to account for this price increase in houses.

6. For example, a home buyer purchasing a house worth $100,000 in 2000 with say a stamp duty rate of 1 per cent, in 2003 would now need to pay $153,000 for the same house. The increase in house prices has moved the home buyer into a higher stamp duty bracket with say a stamp duty rate of 1.75 per cent. This means that the rate of stamp duty payable has increased by 75 per cent but house prices have increased by only 50 per cent. The issue for home buyers is not that increases in house prices attract a higher rate of duty but that the brackets are not adjusted to movements in house prices.

7. There are implications for indexing stamp duty brackets. In the Melbourne example, the effect of indexing stamp duty brackets is calculated for first home buyers house prices in the lower, middle and upper quartiles. Then, the amount of stamp duty is aggregated over the three house prices. This gives a more representative picture of the amount of stamp duty that is payable on houses in Melbourne than just taking the median house price.

8. In this analysis, the stamp duty brackets have been indexed to the increase in the median house prices from the September quarter in 2000[4] because this is when house prices began their upward trajectory. Indexing stamp duty brackets means that the brackets are adjusted in line with the increase in median house prices.

9. The results of the indexation analysis for Melbourne are shown in Table 4. The table shows that the total amount of stamp payable on the three houses has increased by 94 per cent since September 2000. This stamp duty increase is more than the increase in house prices in Melbourne of 53 per cent. Stamp duty brackets were not indexed to the rise in house prices over this period. If brackets are indexed, as shown in the second column of Table 3, the amount of stamp duty that is payable increases at the same rate as the rise in house prices. Table 3 shows that the difference in the amount of stamp duty payable between the no indexation and the indexation policy is 27 per cent. This 27 per cent increase represents a windfall gain

[4] REIA, "Market Facts", September 2000 and June 2003 issues.

to the State governments. An increase in the volume of transactions would increase the windfall gain would be greater.

10. Because house prices have increased, the amount of revenue from stamp duty collected by the Victorian government has increased by 93 per cent to $1,800m in 2002/03. If the stamp duty brackets are indexed the amount of revenue would increase at the same rate of house price at 53 per cent which would amount to $1,427m. The difference of $373m is the amount of revenue gain to the Victorian government because the brackets are not indexed.

11. Indexing does not remove the progressive nature of the tax. What it does remove is the revenue windfall to the State Government.

Table 3: Indexation of Stamp Duty, Melbourne (%)

	Increase in duty-no indexation	Increase in duty-indexation	Windfall
lower quartile[a]			
median	92.7%	52.8%	26.2%
upper quartile	77.4%	52.8%	16.1%
Total houses	93.6%	52.8%	26.7%

[a] The lower quartile house price for first home buyers are exempt from stamp duty

12. A summary of the effects in the remaining states of the current no indexation policy is shown in Table 4. In comparison to the Melbourne example, the other States analysis is based on the median house price for first home buyers rather than a distribution of prices. Similar to the Melbourne example, the increase in house price is measured from September 2000 to the present.

Table 4: State Effects of Indexation for First Home Buyers

	Increase in duty-no indexation	Increase in duty-indexation	Windfall
Sydney	91.3%	50.0%	27.6%
Brisbane	77.3%	77.3%	0.0%
Adelaide	126.0%	71.9%	31.5%
Perth	58.8%	34.2%	18.3%
Hobart	88.7%	66.7%	13.2%
Darwin	0.0%	0.0%	0.0%
Canberra	111.9%	72.0%	23.2%

ANNEX F

THE CASE FOR INDEXING FHOGS

1. As shown in Table 1, there have been a large number of recipients of the FHOGS since its inception. A total of 360,170 received the grant from 2000/02 to 2001/02. Over 80% of these received a $7,000 grant.

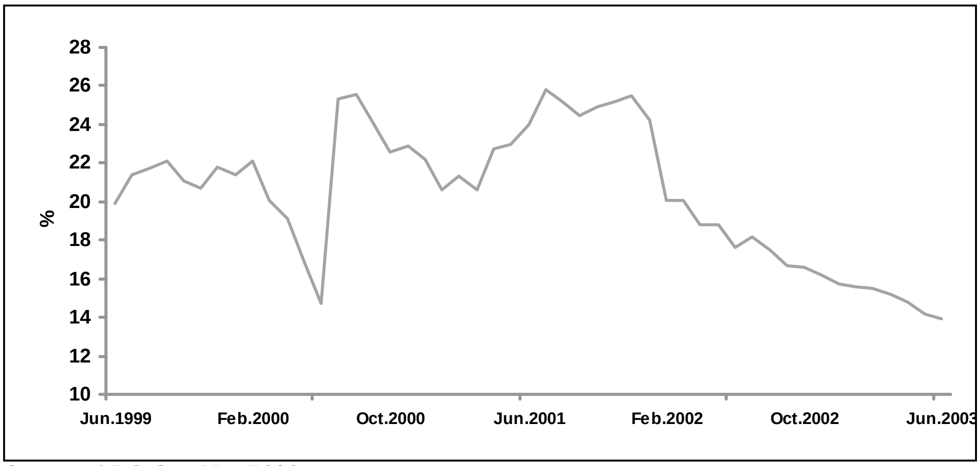
Table 1: First Home Ownership Grant, 2001/02

	Payment received			
	$7,000 (no)	**$10,000 (no)**	**$14,000 (no)**	**Total (no)**
NSW	93,937	646	11,062	105,645
VIC	80,140	510	12,699	93,349
QLD	63,044	867	11,157	75,068
SA	25,604	134	3,432	29,170
WA	30,342	341	7,015	37,698
TAS	9,017	17	539	9,573
ACT	6,079	42	522	6,643
NT	2,480	33	511	3,024
Australia	310,643	2,590	46,937	360,170

Source: ABS Cat. No. 4182

2. The FHOGS plays an important role in helping first home buyers enter the property market. As shown in Chart 1, there was an upsurge in the proportion of dwellings financed by first home buyers in July 2000 when the FHOGS was introduced. There was also a rise in activity in March/April 2001 to reflect the increase in the FHOGS for new dwellings. Further, January 2002 saw a decrease in the number of dwellings financed by first home buyers when the FHOGS was scaled back by $3,000 and the proportion has continued to fall since then.

Chart 1: The proportion of dwellings financed by First Home Buyers

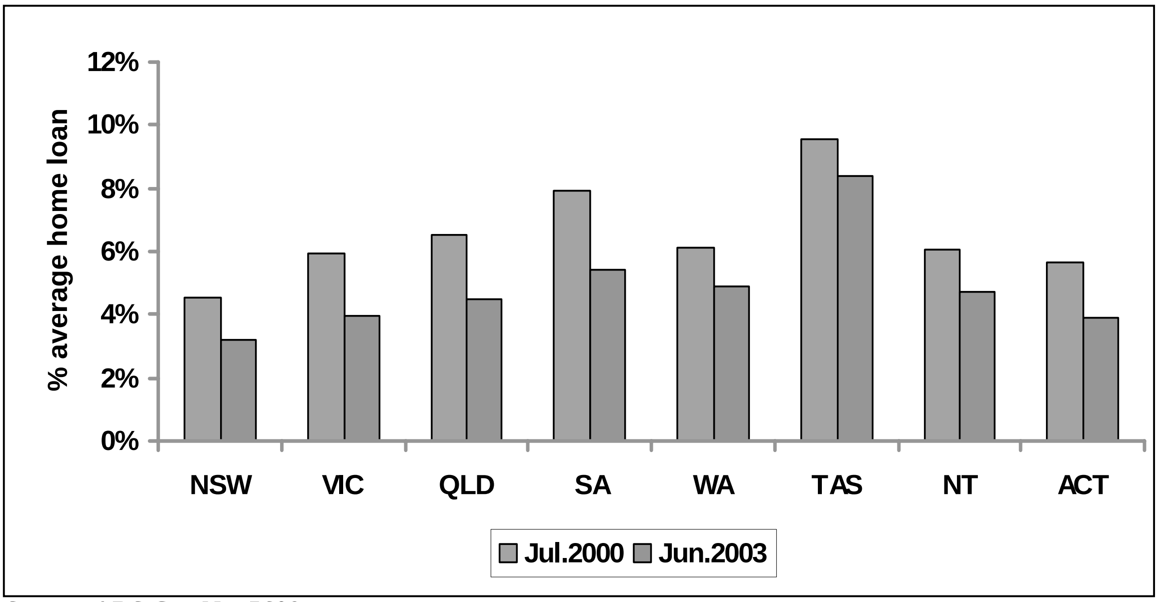


Source: ABS Cat. No. 5609

3. Payment of the FHOGS is not means tested and there is no upper limit on the value of the property being purchased. Thus the grant makes a smaller contribution to the cost of buying a more expensive home. The relative value of the grant has been

decreasing because house prices for first home buyers have been increasing. For example, Chart 2 shows the proportion that $7,000 represents of an average first home buyers home loan in 2000 and 2003. Since the introduction of the FHOGS the value of the grant relative to house prices has fallen in all states. This is particularly evident in South Australia and the ACT.

Chart 2: The FHOGS as a proportion of average home loan. 2000 vs 2003.



Source: ABS Cat. No. 5609

APPENDIX 1

SUMMARY OF STATE STAMP DUTIES

New South Wales

Value of property	Rate of Duty
$0-$14,000	1.25 %
$14,000-$30,000	$175 plus 1.5 %
$30,001-$80,000	$415 plus 1.75 %
$80,001-$300,000	$1,290 plus 3.5 %
$300,001-$1m	$8,990 plus 4.5 %
Over $1m	$ 40,490 plus 5.5 %

Victoria

Value of property	Rate of Duty
$0-$20,000	1.4 %
$20,001-$115,000	$280 plus 2.4 %
$115,001-$870,000	$2,560 plus 6 %
Over $870,000	5.5 %

Queensland

Value of property	Rate of Duty
$0-$20,000	1.5 %
$20,001-$50,000	$300 plus 2.25 %
$50,001-$100,000	$975 plus 2.75 %
$100,001-$250,000	$2,350 plus 3.25 %
$250,001- $500,000	$7,225 plus 3.5 %
Over $500,000	$15,975 plus 3.75 %

South Australia

Value of property	Rate of Duty
$0-$12,000	1.0 %
$12,001-$30,000	$120 plus 2.0 %
$30,001-$50,000	$480 plus 3%
$50,001-$100,000	$1,080 plus 3.5 %
$100,001- $200,000	$2,830 plus 4.0 %
$201,000-$250,000	$6,830 plus 4.25 %
$250,001- $300,000	$8,995 plus 4.75 %
$300,001- $500,000	$11,330 plus 5.0 %
Over $500,000	$21,330 plus 5.5 %

Western Australia

Value of property	Rate of Duty
$0-$80,000	2.3 %
$80,001-$100,000	$1,840 plus 3.45 %
$101,001-$250,000	$2,530 plus 4.75 %
$250,001-$500,000	$9,655 plus 5.9 %
Over $500,000	$ 24,405 plus 6.3%

Tasmania

Value of property	Rate of Duty
$0-$1,300	$20
$1,301-$10,000	1.5 %
$10,001-$30,000	$150 plus 2%
$30,001-$75,000	$550 plus 2.5 %
$75,001- $150,000	$1,675 plus 3.0 %
$150,001-$225,000	$3,925 plus 3.5 %
Over $225,000	$6,550 plus 4.5 %

Northern Territory

Value of property	Rate of Duty
$0-$500,000	Duty = 0.065P2 + 21P
Over $500,000	5.4%

P= value/100

ACT

Value of property	Rate of Duty
$0-$100,000	$20 or 2.0 % which ever is greater
$100,001-$200,000	$2,000 plus 3.5 %
$200,001-$300,000	$5,500 plus 4.0%
$300,001-$500,000	$9,500 plus 5.5 %
$500,001- $1,000,000	$20,500 plus 5.75 %
Over $100,000	$49, 250 plus 6.75 %

APPENDIX 2

SUMMARY OF STAMP DUTY CONCESSIONS TO FIRST HOME BUYERS

NSW

First home buyers are not required to pay stamp duty on homes costing up to $200,000 in the metropolitan area or up to $175,000 in other parts of the State. Concessions are on a sliding scale between $200,000 and $300,000 in the metropolitan area and between $175,000 and $250,000 in other parts of the state. The concession on a house valued between $175,000 and $250,000 in non-metropolitan states is calculated as follows:

P* 9,65% -$16,885

and for houses priced between 200,000 and 300,000 in metropolitan areas is:
P* 8.99% -$17,980

where P is price of the house.

Victoria

If you are a first home owner with a least one dependant child you are not required to pay stamp duty if the value of property is $150,000 or less. Partial concessions available where the value of property is between $150,000 to $200,000. No concession if property is valued over $200,000. The partial concession on property valued between $150,000 to $200,000 is calculated as follows:

18640 –466*P/5000

where P is price of house.

Queensland

If the property you are buying is intended to be your home the following concessional rates apply:

Value	
0-$250,000	1 %
$250,001-$500,000	$2,500 plus 3.5 %
Over $500,000	$11,250 plus 3.75 %

If you are a FHB, you are entitled to additional rebate calculated as:

Value	Rebate
0-$80,000	800
$80,001-$150,000	$500
$150,001-$155,000	$300
$155,001 -$160,000	$200
Over $160,000	nil

South Australia

Properties valued at $80,000 or less are not subject to stamp duty. FHB do not receive concessions on properties valued over $130,000. The concessions available for properties valued between $80,000 and $130,000 are available from the following website http://www.osr.qld.gov.au.

Western Australia

There is a rebate of $500 for FHB when the value of the property does not exceed $135,000. There is also a concessional rate of 1.5% if the value of the property is less than $100,000 and 5.5 per cent if the value of the property is between $100,000 and $135,000.

Tasmania

There are no concessions for first home buyers in Tasmania.

Northern Territory

There is a flat rate concession of $3,460.60 for all FHB in the NT. If the property is your principal place of residence a rebate of $1,500 is given.

ACT

Concessions for FHB are means tested. The income threshold is $50,000 and increases by $1,150 for each additional dependent child. The owner must not have owned residential property or vacant land anywhere in last two years. The concessions are outlined as:

Value of property		
0	180,000	$20 (min)
180,001	249,000	14.30
Over 249,000		