



Policy costing—outside the caretaker period

Name of proposal:	Financing state property tax reform
Summary of proposal:	<p>Under this proposal the Commonwealth Government would provide concessional loans to state and territory governments (excluding the ACT) to enable them to replace their existing stamp duty on sales of residential and non-residential property with a broad based land tax.</p> <p>From 1 July 2017, property acquisitions would not be liable for stamp duty, but would instead commence paying an annual land tax.</p> <p>The Commonwealth would pay the states up front the difference between stamp duty and land tax collections for each financial year, with the states returning future land tax payments until the Commonwealth loan has been paid off. Concessional loans would only be provided until the financial year ending 30 June 2030.</p> <p>The Commonwealth Government would only provide the concessional loans to cover the foregone stamp duty on the first sale of a property, not subsequent sales of the same property.</p> <p>The land tax rates would be set by each state and territory (the states) so that the expected state revenue collection is broadly revenue neutral across the term of the proposal, with no Commonwealth loans outstanding at 30 June 2030.</p> <p>States would also be required to cover the Commonwealth’s borrowing costs for the proposal, with interest charged annually at a rate equal to the Commonwealth’s cost of borrowing.</p> <p>The tax would not apply to land owned by local, state or federal governments, pastoral leases or native title or freehold title held by Aboriginal land councils.</p>
Person/party requesting the costing:	Senator Richard Di Natale, Australian Greens
Did the applicant request the costing be confidential:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Date costing request received:	26 October 2016

Date costing completed:	18 November 2016
Expiry date of the costing:	Release of the next economic and fiscal outlook report.

Costing overview

This proposal would be expected to decrease the fiscal balance by \$800 million, have no impact on the underlying cash balance, and decrease the headline cash balance by \$47,000 million over the 2016-17 Budget forward estimates period.

The fiscal balance impact of the proposal entirely reflects an increase in net concessional loan expenses of \$800 million. The concessional loan expense arises because the states' individual borrowing costs are higher than the Commonwealth's.

The underlying cash balance impact of this proposal reflects net interest payments comprising an increase in receipts from the states charged on the concessional loans of \$2,300 million (interest receipts) which would be expected to be completely offset by an increase in public debt interest (PDI) payments of \$2,300 million over the 2016-17 Budget forward estimates period.

The headline cash balance impact of the proposal reflects an increase in concessional loan payments to the states of \$47,000 million.

This proposal would be expected to have an impact beyond the 2016-17 Budget forward estimates period that differs significantly to the impact in this period due to the timing of loan repayments and the unwinding of the concessional loan expense that predominately occurs beyond the 2016-17 Budget forward estimates period. The proposal would be expected to have no impact on the fiscal, underlying cash and headline cash balances over the period to 2029-30. Further details of the financial impact of this proposal over the period to 2029-30 are included at [Attachment A](#).

Departmental expenses associated with administering the proposed loans are not expected to be material and have not been included in this costing.

This costing is considered to be of very low reliability. The number of properties sold in each state and territory is highly uncertain and varies significantly from year to year. There is also considerable uncertainty surrounding estimates of stamp duty collections beyond the forward estimates period.

Table 1: Financing state property tax reform – Financial implications (outturn prices)^{(a)(b)}

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Fiscal balance	-	-300	-300	-200	-800
Underlying cash balance	-	-	-	-	-
Headline cash balance	-	-19,000	-15,900	-12,100	-47,000

(a) A positive number represents an increase in the relevant budget balance, a negative number represents a decrease.

- Indicates nil.

Key assumptions

General

- It is assumed that the states would agree to participate in the scheme.
 - Note that the concessional loans would be provided to the states to cover the loss of expected stamp duty on the first sale of a property only. In cases where a property is subsequently re-sold, the loss of stamp duty from this sale would not be compensated by an additional concessional loan. It would therefore be possible for the states to receive less taxation revenue in the short term. The ongoing amount of land tax revenue received by the states would also be significantly larger than comparable stamp duty revenue at the end of the concessional loan period.
- The proposed land tax would be payable on a quarterly basis in arrears. This results in less than a full year's worth of land tax being collected in the first year of the proposal.
- The states would pay the Commonwealth the interest charged on the outstanding loan balance when the Commonwealth is due to pay its PDI expenses.

Property market assumptions

- The number of properties sold in each state and territory is assumed to grow by the rate of that state's forecast population growth.
- The aggregate value of properties sold in each state is assumed to grow in line with nominal gross domestic product.
- A proportion of properties are assumed to be re-sold in each financial year. States would not be compensated for the loss of stamp duty on these subsequent sales. Over the period to 2029-30, approximately half of all existing properties are assumed to be sold at least once.

Behavioural responses and macroeconomic implications

- The impact of this proposal on property markets would be highly uncertain. The PBO has not included any impacts on property prices or on the supply and demand of residential and non-residential properties in this costing.
- The 2009-10 Australia's Future Tax System review highlighted that a broad based land tax is a more economically efficient tax than stamp duty. This implies that replacing stamp duty with a broad based land tax would increase economic activity over the medium to long term. As tax revenue generally increases in line with economic activity, this would be expected to increase taxation revenue over time. However as the timing and magnitude of the macroeconomic impact of the proposal would be highly uncertain, the PBO has not included it in the costing.

Methodology

The values, types and numbers of properties (including new properties) sold in each state and territory were calculated for each year the scheme is in operation. The properties for each state and territory were separated into deciles based on overall land value and separated into capital city properties and non-capital city properties.

These calculated property figures were used to estimate:

- the expected stamp duty amount under the current system for each year of the proposal to determine the size of the concessional loans provided by the Commonwealth. These stamp duty estimates were benchmarked to forecasts of stamp duty revenue from state government budget papers
- the amount of land tax applied to these properties, at the estimated average land tax rate for the state, to determine the amount repaid to the Commonwealth in each year
- the loan cashflows for each year. The loan cashflows were calculated as the amount of new concessional loans provided in each financial year less any repayments.

Interest, equal to the Commonwealth's borrowing cost (as per the specification), was applied to the amount of financing outstanding at the end of each year. The costing also includes an increase in Commonwealth Government PDI expense to reflect the additional Commonwealth borrowing required to finance the concessional loans. The interest rate was set so there is no net interest expense to the Commonwealth over the period to 2029-30 (as per the specification).

The fiscal balance impact of this proposal reflects the net interest flows from the concessional loans (on an accruals basis), plus an upfront concessional loan discount for each new loan which is then unwound as the loans are repaid.

The underlying cash balance impact of this proposal reflects the net interest flows from the concessional loans (on a cash basis).

The headline cash balance impact of this proposal reflects the net interest flows from the concessional loans (on a cash basis), less the loan amounts made to the states, plus repayments made by the states. The loans would be expected to be fully repaid over the period to 2029-30.

Estimates in this costing are rounded to the nearest \$100 million.

Data sources

Australian Bureau of Statistics, 2016. Population Projections (Cat. No 3222.0), Canberra: Australian Bureau of Statistics.

Australian Bureau of Statistics, June 2016. Residential Property Price Indexes: Eight Capital Cities, Canberra: Australian Bureau of Statistics.

Commonwealth of Australia, 2010. 2009-10 Australia's Future Tax System review, Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2016. 2016-17 Budget, Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2016. Pre-election Economic and Fiscal Outlook, Canberra: Commonwealth of Australia.

Department of Environment, Land, Water and Planning, 2015. A guide to Property Values - Statistics 2015, Melbourne: Victorian State Government.

Gavin Wood, R. O. M. C. a. E. T., 2012. The spatial and distributional impacts of the Henry Review recommendations on stamp duty and land tax, Perth: Australian Housing and Urban Research Institute.

Stamp duty forecasts for participating states were taken from relevant state budget papers

Attachment A – Financing state property tax reform—financial implications

Table A1: Financing state property tax reform—Fiscal balance^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2029–30	
Net concessional loan expense	-	-300	-300	-200	-800	-100	..	100	200	200	100	100	100	100	100	..	-
Interest revenue	-	500	900	1,200	2,600	1,400	1,600	1,700	1,700	1,600	1,500	1,300	1,000	600	..	14,900	
PDI interest expense	-	-500	-900	-1,200	-2,600	-1,400	-1,600	-1,700	-1,700	-1,600	-1,500	-1,300	-1,000	-600	..	-14,900	
Total	-	-300	-300	-200	-800	-100	..	100	200	200	100	100	100	100	..	-	

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.

Sensitive

Table A2: Financing state property tax reform—Underlying cash balance^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2029–30
Interest receipts	-	400	800	1,100	2,300	1,400	1,600	1,700	1,700	1,600	1,500	1,300	1,000	600	..	14,900
PDI interest payments	-	-400	-800	-1,100	-2,300	-1,400	-1,600	-1,700	-1,700	-1,600	-1,500	-1,300	-1,000	-600	..	-14,900
Total	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in outlays or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.

Sensitive

Table A3: Financing state property tax reform—Headline cash balance^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2029–30
Loan cash flows	-	-19,000	-15,900	-12,100	-47,000	-8,300	-5,000	-1,300	2,300	5,600	9,200	12,700	16,000	15,700	..	-
Interest receipts	-	400	800	1,100	2,300	1,400	1,600	1,700	1,700	1,600	1,500	1,300	1,000	600	..	14,900
PDI interest payments	-	-400	-800	-1,100	-2,300	-1,400	-1,600	-1,700	-1,700	-1,600	-1,500	-1,300	-1,000	-600	..	-14,900
Total	-	-19,000	-15,900	-12,100	-47,000	-8,300	-5,000	-1,300	2,300	5,600	9,200	12,700	16,000	15,700	..	-

(a) A positive number in headline cash balance indicates an increase in cashflow. A negative number in headline cash balance indicates a decrease in cashflow.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.