



AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Email: AFTSSubmissions@treasury.gov.au

SUBMISSION – HENRY REVIEW ARCHITECTURE PAPER

The REIA is the peak national professional association for the real estate industry in Australia. REIA has eight members, comprised of the State and Territory Real Estate Institutes, through which about 80% of real estate agencies are collectively represented. The industry has about 77,000 directly employed individuals.

The Real Estate Institute of Australia (REIA) is a member organisation of the Business Coalition for Tax Reform (BCTR) which has already made a submission to the review of “Australia’s Future Tax System”.

Whilst the REIA submission should be considered as a separate submission it will provide supporting information to the BCTR’s suggested principles for a tax and transfer system.

The REIA’s comments relate to property taxes, stamp duty and land taxes which are an unstable source of revenue, inequitable and inefficient. The comments on these relate to principles 2, 4 and 7 of the BCTR submission.

Property taxes are an unstable source of revenue

Property taxes provide a significant part of states' revenue yet they are a very unstable revenue source for the states with their quantum being directly related to the cyclical nature of the property market. Typically, around one half of all of the states' tax revenue is from property taxes including municipal rates. In 2005-06, Western Australia had the highest reliance at 57% and the Northern Territory the lowest at 42%. In the past, movements in state government expenditures have moved in line with receipts from property tax revenues. As such, state governments' spending tends to exacerbate the impact of property cycles on their economies.

Property taxes are inequitable

Property taxes can be seen as a narrow based wealth tax which discriminates against property owners yet at the same time adversely impacts on non-property owners. Whilst the taxes are directly aimed at the property market they affect small business, tenants, home owners and investors. The introduction of State land taxes, for example, has decreased investment in rental housing and lead to increased rents.

Property taxes are inefficient

Stamp duties on non-residential conveyancing, stamp duty on residential conveyancing and taxes are inefficient state taxes with stamp duties on non-residential conveyancing being the most inefficient.

The REIA would advocate tax reform initiatives be prioritized on the basis of efficiency payoffs. If complete abolition is not immediately feasible the inefficient taxes should be priorities for rate reductions. Shifting the mix of state taxes and less of a reliance on relatively inefficient ones will yield economic benefits.

Benefits of Reducing Property Taxes

The states' increasing reliance on inefficient and inequitable taxes has an adverse impact on social and economic development.

Economic analysis indicates that there are economic benefits – economic welfare, economic activity and investment - from reducing property taxes and placing a greater reliance on other, more efficient, taxes. The benefits are greatest in those states that have a greater reliance on property taxes.

Access Economics¹ estimates that the abolition of all state stamp duties and replacing them with more efficient taxes would increase household consumption by between 1.1% and 1.8%, the equivalent of between \$6.1 billion and \$9.9 billion (in 2005-06 prices). These estimates are of a scale that ranks with major microeconomic reforms over the last twenty years and at its upper limit is equivalent to the measure announced by the Commonwealth Government this week in strengthening the Australian economy during the current global financial crisis.

The REIA will provide further input to the review of the tax system as issues are further refined and possible solutions identified in the in the process.

Yours faithfully

A handwritten signature in black ink, appearing to read 'N. Fisher', is positioned below the closing 'Yours faithfully'.

Neil Fisher
Chief Executive Officer

Secretariat
Real Estate Institute of Australia

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Ph: 02 6282 4277
Fax: 02 6285 2444
PO Box 234
Deakin West ACT 2600
www.reia.com.au

¹ "Analysis of State Tax Reform", a report by Access Economics Pty Ltd for the Financial Industry Council of Australia. April 2008.