Is land tax to replace stamp duty in NSW?

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It is very interesting to hear that the New South Wales State government is considering the abolition of stamp duty. No doubt any recent purchaser of real estate would have wished that that had happened already!

Even Scott Morrison has been quoted as saying:

"*Every economic analysis puts it (stamp duty) at the top of the list of worst taxes. Every $1 raised by it does about $0.80 of harm.*"

Benefits of abolishing stamp duty

The obvious benefit from abolishing stamp duty is in the property market although it is not clear yet whether the abolition is expected in relation to all stamp duties or just those relating to purchase of real estate.

Given that stamp duty of $40,000 is payable where the purchase is for $1m, it would certainly improve affordability, particularly at a time when the property market is so high. Currently, in NSW mortgages are significant to be able to buy into the market and the imposition of stamp duty comes at a time when the buyer has probably already extended themselves to the ultimate to get a foot into the market.

It would also benefit the older generation who are downsizing.

We commonly hear stories of people "rattling around" in large homes which they had bought or developed when all the kids were around. Now the kids have grown up, married, moved on and Mum and Dad are left in the so-called "McDonald's Mansion". And we have often heard that one of the deterrents for Mum and Dad downsizing is the money lost in the process, particularly in relation to stamp duty.

There would no doubt be benefits also for commercial, retail and industrial property purchasers; in particular where businesses have outgrown the premises and need a larger property to work from. This is on the assumption that the abolition of stamp duty would be for real estate transactions generally but it’s unclear if talks are also related to non-residential transactions.

Replacing stamp duty with land tax

Economists, think tanks and other groups have long advocated for stamp duty to be replaced by a broad-based land tax paid over a number of years.

The imposition of a lump sum stamp duty payment upon the purchase of real estate is seen as an inefficient tax as compared to a more broad-based annual land tax.

There would no doubt be people disadvantaged by having to pay land tax although it is noted that the suggestion is a transition over a period of years for purchasers of real estate to either voluntarily opt in to pay stamp duty on the purchase or to choose the annual land tax fee.

The intention too is that, over time, the duty will be wholly abolished and land tax will be paid by all landowners.

As to how much the land tax fee would be is something that would be of great interest to know.

Will stamp duty be abolished in NSW?

It would be great to see the abolition occur, but will it?

The government would no doubt have some fear of losing votes from constituents who have already paid stamp duty. And a transition from the opt in to pay stamp duty and the extension of an annual broad-based land tax will potentially take longer than the current election cycle.

So, politically, there are challenges to whether the State government is prepared to see through the proposal.

Watch this space!

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Contacting E&A Lawyers

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