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Dr Ed Shann  
Associate Commissioner  
Inquiry into first home ownership  
Productivity Commission  
Locked Bag 2 Collins Street East  
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Submission by fax to (03) 9653-2305  
and email to: [housing@pc.gov.au](mailto:housing@pc.gov.au)

Dear Dr Shann

**RE: INQUIRY INTO FIRST HOME OWNERSHIP**

I welcome the opportunity to provide a submission to the inquiry into First Home Ownership with particular reference to Term of Reference part (c) – namely “the efficiency, transparency, of taxes, levies and charges imposed at all levels of the housing supply chain”.

My submission relates to taxes and charges in the state of Western Australia and will focus on the impact of taxes on the total cost of housing and more particularly, on the impact of double taxation on housing prices.

I submit that the impact of state government taxes, local government fees and charges and head works charges have directly driven up the cost of housing.

Head works and land development charges and taxes add to the price of developing land and building application fees add to the costs of building houses. Last year, for example, the West Australian State Government’s budget increased stamp duty by 15% payable on house and land sales. Furthermore, the costs of ensuring that houses are built to conform to the environmental and energy efficiency regulations of the Building Code are also passed on to homebuyers in the form of higher prices.

My primary concern is that the homebuyer is not only paying the taxes included in the head works charges and building fees components of their house and land package plus GST, but is also paying stamp duty calculated on the gross value of the sale thereby paying a double tax.

As stamp duty applies to the GST component on a house and land package, this has the effect of adding to the cost of housing affordability.

I put forward the following three scenarios in support of this fact:

Example 1:

A new house and land package in the new subdivision of Dalyellup in the Shire of Capel, Western Australia, would on average sell at the lower end of the market for \$150,000 plus GST. Stamp duty applies to the sale price but the stamp duty also applies to the GST amount.

Purchase price of \$150,000 attracts 10% GST totalling \$165,000.

State Government stamp duty payable on \$165,000 is \$5,617.50

(compared with the \$4,905 stamp duty payable on the purchase price of \$150,000 - a difference of \$712.50.)

[source: <http://rol.osr.wa.gov.au/taxcal/>]

The State Government apply its taxes on top of the GST amount and this produces a double taxing effect. An additional tax on top of the 10% GST component of \$15,000 increases the stamp duty payable by a further \$712.

This is just the difference on the calculation of stamp duty on the GST alone and does not include all the other taxes wrapped up in the land and house prices. It would also not be unusual for the full amount of the Federal Government's First Home Owner's Grant of \$7,000 to be fully utilised in the payment of the State Government's stamp duty.

Example 2:

The GST on the house and land sale price is not the only component on which stamp duty is levied. All gross land development charges are included in the sale price to which stamp duty is levied. This further artificially inflates the stamp duty collected.

In the subdivision of the land, head works charges for drainage, sewer and water, as well as the public infrastructure of roads, lighting, parks, etc that the developers are required to supply; are charges that the State Government utilities impose theoretically to help build and maintain water supply, waste treatment plans, roads and public open spaces. GST does not apply to the subdivider in the first instance for head works. However, when the subdivider sells the land and/or the project builder constructs and sells the house and land package; GST does apply to the sale price of the house and land package because that sale price includes the cost of the head works development charges. Therefore GST does apply to the head works charges – albeit indirectly - and stamp duty is then calculated on the total sum of the sale price plus the GST.

The same applies to the building permit cost that does not attract GST. Like all other costs, permit fees are incorporated into the costs of house and land packages when they are sold. At that stage, GST will apply and then stamp duty applies on top of that. Stamp duty not only applies to the value of the house and land package, but also on the GST amount.

An example of the double taxing effect can be demonstrated in the WA State Government's stamp duty on hire equipment at the rate of 1.8% applicable to hire equipment used when building a house, such as site toilets, site sheds, power poles and scaffold hire, etc. These taxes are ultimately included in the final price of the house and land package plus GST, plus stamp duty calculated on the full amount, which in this case has a triple taxing effect (i.e.: a tax on a tax on a tax). The State Government has already received the hire tax paid, GST will apply and will again receive the stamp duty inclusive of the hire tax component.

A further example of the hidden taxes and inconsistencies with the double taxing effect within building development costs is that the building permits are levied by local government at 0.02% on the net price of the contract, that is exclusive of GST. However the Building and Construction Industry Training Fund (BCITF) is charged at the rate of 1.82% of the GST inclusive price. And then, of course, stamp duty is calculated from this cumulative total sale price.

### Example 3

To ensure new subdivisions are well presented with fences, lawns, gardens and reticulation already established, it is commonplace for many developers to “throw in” a \$7,000 fencing and landscaping package.

This is an added attraction to the homebuyer as it is wrapped up in their loan application. The problem being that the \$7,000 package is subject to GST and stamp duty as part of the total package. It is of note that stamp duty also applies to the loan mortgage documents. If the homebuyer took the \$7,000 in cash, they would still be required to pay GST for other purchases of goods or services utilised in the landscaping package, but no stamp duty would be applicable.

Applying a state government tax on GST has a double taxing effect as it is essentially taxing a tax that the State Governments receive in any event as State Governments receive both the GST component and the stamp duty.

I therefore recommend that:

1. State Government stamp duty should not apply to the GST components of house and land packages;
2. State Government taxes and charges be calculated on the real cost of services, such as head works, rather than on the GST inclusive costs.
3. State Government stamp duty should not apply to that component of the house and land development costs previously taxed such as equipment hire stamp duty.

If adopted, I believe these recommendations would bring about substantial savings to homebuyers through the removal of double taxation driving up prices.

Yours sincerely

**GEOFF PROSSER MP**  
**Federal Member for Forrest**

17 October 2003