

Our reference : 5217376

Mr G Banks  
Chairman  
Productivity Commission  
Level 28  
35 Collins Street  
MELBOURNE VIC 3000

Dear Mr Banks

**WESTERN AUSTRALIAN GOVERNMENT RESPONSE TO THE  
PRODUCTIVITY COMMISSION'S DRAFT REPORT ON FIRST HOME  
OWNERSHIP**

The release of the Productivity Commission's Draft Report on First Home Ownership raises a number of issues regarding the Commission's views on issues of taxation and timeliness of land release, which warrant further consideration.

I note the Commission's comment that the contribution of stamp duties to rising house prices has been minor. This is consistent with the views submitted to the Commission by Western Australia and other States.

I am therefore concerned by the strength of the recommendation in the Draft Report that stamp duties be abolished and replaced with other taxes. The strength of the Commission's conclusion is even more notable in the context that, despite acknowledging that the Commonwealth tax treatment of housing has magnified the impact of surges in investor activity on house prices, the Commission has made what is a relatively weak recommendation in relation to Commonwealth taxes – that is, that there be a broad review of the impact of Commonwealth taxes on all alternative forms of investment.

As you would be aware, State governments have limited taxing options available to them, reflecting Constitutional constraints, the Commonwealth's monopoly on income tax and, in Western Australia's case, our commitment to prohibit gaming machines outside of the Burswood Casino.

As a consequence, all States rely on stamp duties for a significant proportion of their revenues. In Western Australia's case, stamp duty on property transfers (including housing) is expected to raise \$1,062 million in 2003-04, which equates to around 25% of general government total taxation or around 8% of general government total operating revenue.

As the Commission has acknowledged in its Draft Report, an alternative revenue source would need to be found if the States were to abolish stamp duty on property transfers while maintaining the same level of services. In this regard, the Draft Report suggested that the abolition of this type of stamp duty could be funded through an increased reliance on payroll tax, land tax, or the use of the growth component of the GST.

With regard to payroll tax and land tax, more effective use of these tax bases would mean either removing exemptions currently available, increasing existing tax rates, or a combination of the two. While the Commission's proposals may, at least in theory, improve the efficiency and equity of the tax system, there is simply no support in the community for increasing reliance on these taxes – particularly if this were to be achieved by removing existing exemptions. As you would be aware, the community considers that the land tax exemptions currently available to owner-occupiers and primary producers are sacrosanct. Similarly, there would be little support for removing the payroll tax exemption currently available to small and medium sized businesses.

The alternative of increasing reliance on these taxes through higher tax rates would not achieve the same efficiency or equity benefits as the base broadening measures. That aside, funding the abolition of stamp duty on property transfers through higher payroll tax or land tax rates, would in Western Australia's case require either a doubling of the payroll tax rate (from 6% currently to around 12%) or a fourfold across the board increase in land tax rates. These options are neither desirable nor politically viable.

With respect to the proposal to use GST revenue growth to fund the removal of property stamp duties in broad terms, GST revenue would have to grow by 30% just to fund the abolition of conveyance duty in all States. Any gains from GST revenue growth are also likely to first raise expectations that these be used to abolish taxes identified for review under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA). The gains are also intended to allow the States to fund increasing cost and demand pressures for services. This is reflected in clause 2 of the IGA:

“The objectives of the reforms set down in this agreement include...an improvement in the financial position of all State and Territory Governments...relative to that which would have existed had the current arrangements continued”.

Current forecasts of the growth in GST collections suggest that it will be many years before this source of revenue would be adequate to contemplate abolishing a revenue source such as that provided by stamp duties on residential property transactions, while at the same time ensuring an improvement in State finances as noted above. It is also relevant to bear in mind that the States' share of national revenue raised by governments is projected to continue to decline, making it increasingly difficult for States to fund their expenditure responsibilities.<sup>1</sup> In this regard, the Commonwealth is not providing adequate growth in key specific purpose payments to the States (e.g. funding for hospitals and housing was cut in 2003, and grant indexation is often significantly less than the growth in States' cost of services). A continuation of this trend will further constrain any proposition of replacing existing State taxes with the GST revenues.

Turning to other matters, I note that you have recommended targeting the First Home Owners Grant (FHOG) to benefit those most in need of financial assistance. This would be supported by the Western Australian Government, which has already proposed an effective capping to property values of \$500,000. Capping access to the grant is likely to be reasonably effective in terms of preventing affluent people from obtaining the grant. While it is possible to buy a house under the cap value, get the grant, and then trade-up afterwards, up-front transaction costs such as stamp duties and brokerage fees tend to mitigate against such behaviour. However, any action to target the FHOG would most likely require the approval of the Commonwealth.

In relation to your comments regarding the need for improvements in the efficiency of land release planning processes, I note that the Western Australian Department for Planning and Infrastructure (DPI) has:

- undertaken a Planning Process Review Study to address industry concerns about the timeliness of planning approvals. Outcomes of this study include the establishment of a dedicated taskforce to implement its recommendations and also to undertake additional reviews; and
- established a joint Industry-Government Planning Processes Review Study to focus on improving the way the DPI works with customers and other agencies involved in statutory planning to provide a more effective service to customers. This study will focus on planning approval processes for regional and local statutory planning schemes, structure planning and subdivision and development applications.

The role of the Government in land release (around 20% of total supply in the Perth metropolitan area) is another important element of ensuring supply and price conditions are balanced and land remains affordable. In Western Australia, the Department of Housing and Works in particular seeks to ensure an adequate level of sales in the lower quartile of prices of all land sales. In 2002-03, three quarters of DHW land sales were in the lowest quartile of prices.

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<sup>1</sup> See Chapter Six of the Submission by the Western Australian Government.

In response to the Commission's concerns about shortcomings in the development and implementation of building regulations, I note that the DHW is currently in the early stages of developing new building legislation. This new legislation will establish a framework for building regulations and streamline the buildings approval process, as well as adopting the national Building Code of Australia as the primary building standard. In developing the new legislation the DHW will:

- consider measures that will prevent local governments from adding to or varying building standards (consistent with the aim of achieving and maintaining uniformity in building standards across the State);
- review the number of State Government agencies dealing with building regulation, in an attempt to reduce confusion and increase efficiency in building regulation; and
- investigate options for separating planning issues from building regulation.

As a broader comment, strategies to promote a greater variety in the types of housing produced would likely assist with affordability (for low income earners in particular) and meet the needs of home buyers across their life cycles (such as when downgrading from family homes to more manageable units). Given the focus on first home ownership, such strategies would involve promoting an increased availability of low-cost and appropriately located housing.

In regard to developers' contributions, the Western Australian Public Accounts Committee is undertaking an inquiry into Developer Contributions for Infrastructure Costs Associated with Land Development. Among other things, this inquiry, which commenced in late 2003, is examining the use of developers' contributions in all Australian States in relation to urban growth and density management. The inquiry is expected to be completed by mid-2004.

As a closing comment, it is appreciated that the Inquiry requires the Commission to cover a large number of issues in a relatively compressed time frame. However, I remain of the view, as expressed in the Government's earlier submission, that an area that is of considerable importance is the interaction of the rental market, demand for public housing and the nature and extent of affordability problems for low income households.

Once again, thank you for the opportunity to comment on the discussion draft of your Inquiry into First Home Ownership. I trust these comments are of assistance.

Yours sincerely

**ERIC RIPPER MLA  
DEPUTY PREMIER; TREASURER;  
MINISTER FOR ENERGY**