

# FINANCIAL REVIEW

## Property hit by \$2.7b tax austerity plan in Victoria



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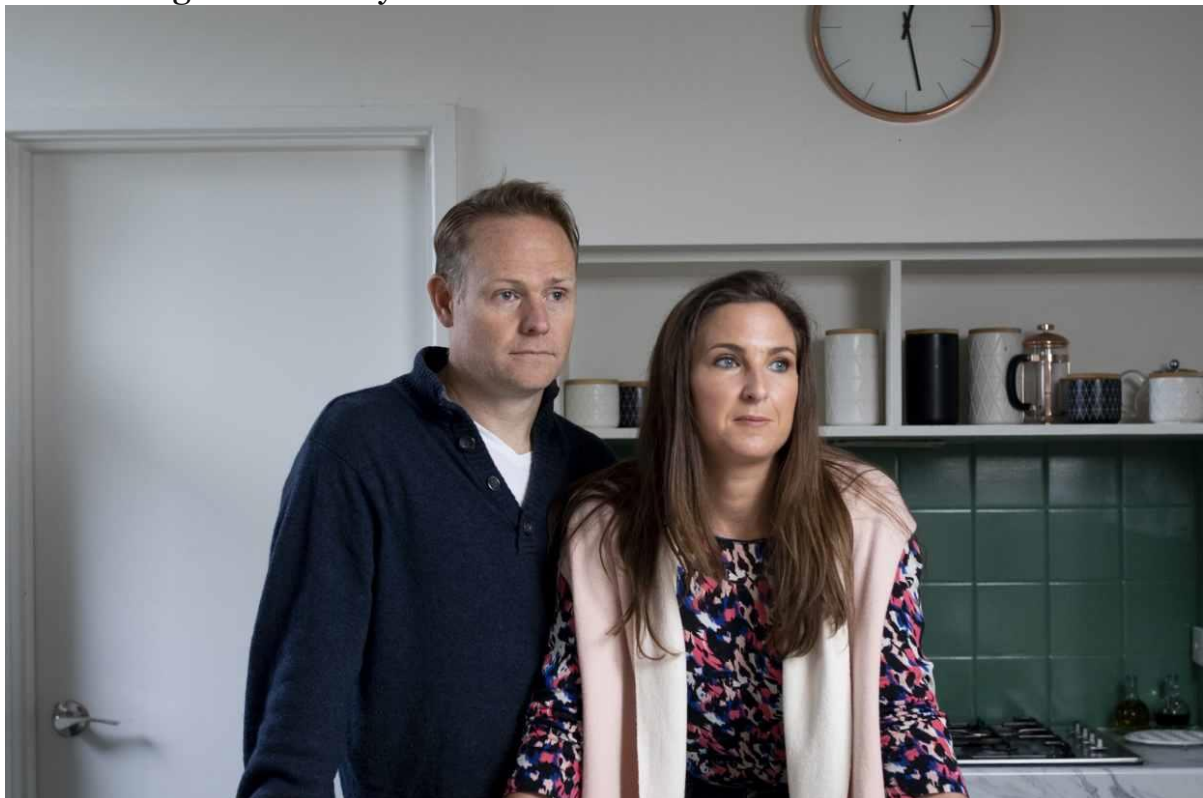
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The property sector is locked in last-minute crisis talks with key Victorian cross-benchers in an effort to block or revise a \$2.7 billion property tax slug to be unveiled in Thursday's state budget.

Economists have blasted the Andrews government for [doubling down on stamp duty, the country's worst tax](#), even after the NSW and Victorian treasurers agreed last year to look at ways to scrap the levy to help tackle the housing affordability crisis.



Homebuyers Jess and Andrew Johnson will be impacted by the stamp duty rise in the Victorian Budget. **Arsineh Houspian**

Economist Saul Eslake, who led a confidential tax review for the Victorian Treasurer Tim Pallas, said an increase in stamp duty for home buyers flew in the face of his report and those by David Thodey for NSW and Ken Henry for the federal government.

The Andrews' Labor government quietly revealed its plan over the weekend to claw its way out of last financial year's \$23.3 billion budget black hole with \$2.7 billion in new taxes and fines, including increases in stamp duty and land taxes.

More than \$500 million a year will be added to the state's coffers through extra taxes on home buyers and land developers in the midst of the global pandemic and a housing affordability crisis.

The tax hike includes an 18.2 per cent increase for stamp duty – from 5.5 per cent to 6.5 per cent – on property valued above \$2 million, increasing the tax by about \$20,000 for a \$2 million dollar property.

The government will introduce a 19 per cent increase in land tax on properties valued at between \$1.8 million and \$3 million, with the rate to increase from 1.3 to 1.55 per cent. Land tax on properties valued at more than \$3 million will increase from 2.25 per cent to 2.55 per cent, which the property industry warned would hit office rents.



Victorian Treasurer Tim Pallas announced a suite of taxes on Saturday. **Luis Ascui**

Property developers will be hit with a tax of up to 50 per cent on windfall gains above \$500,000, applied to planning decisions to rezone land from July 1, 2022. The property sector warned the move would reduce the supply of cheap housing.

“This has bugger all to do with housing affordability, it’s about revenue raising,” Mr Eslake told *The Australian Financial Review*. “It is flying in the face not only of my recommendation but NSW, Ken Henry, he is taking what’s universally agreed as the worst state tax and increasing it” by almost 20 per cent. “He’s taking a bad tax and making it worse.”

Business groups claimed the country’s biggest state deficit was a problem of the government’s own making through the twin failures of hotel quarantine and contact tracing, followed by prolonged lockdowns and generous support funds.

The move is also seen as a blow to federal Labor leader Anthony Albanese as [he seeks to paint himself as a leader of fiscal responsibility](#) and to put some distance from Labor’s failed 2019 campaign to tax the aspiring middle class by abolishing franking credits and negative gearing.



Saul Eslake says stamp duty is the worst of all taxes. **Louise Kennerley**

Mr Pallas has painted the changes as a tax on the rich, claiming that it is “only fair those making large profits return a reasonable proportion to the

community”, despite supporting moves to scrap the much loathed tax 12 months ago.

Families like Andrew Johnson and wife Jess, who own a small unit in Melbourne’s inner south-east, have been searching for their first family home for more than 12 months. They reacted with dismay to the move expected to add an extra \$20,000 tax to a \$2 million home, insisting that they were hardly among Australia’s rich.

“We’re not poor. We are just a couple trying to find a family home and a lot of the houses we’ve been looking at have gone \$300,000 or \$400,000 over the reserve range,” Mr Johnson, a project manager, said, after missing out again at an auction in the Melbourne suburb of Blackburn on Saturday. “It just makes finding a family home that little bit harder.”

Melbourne’s median house price has already passed \$1 million and the Property Council estimated the tax hike would hit more 70,000 homes, with the number worth over \$2 million rising quickly.

It comes as New South Wales [leads the way on tax reform](#) to transition from stamp duty to a land tax, as part of a suite of measures to stimulate its economy.

Victoria had been part of those discussions for reform with Mr Pallas [backing the push 12 months ago](#). “Certainly there will be a need for a discussion around tax reform,” he said, as NSW Treasurer Dominic Perrottet argued it was “time to find ways to take the handbrake off our economy”.

Mr Eslake said economists universally agreed stamp duty was a terrible tax.

“How is it fair that someone who lives in the same property for 25 years [such as a Toorak millionaire] contributes nothing to the cost of providing schools, hospitals, police, roads and public transport. But someone who moves three times because they change job or their family is growing, do?” he said. “Setting the threshold at \$2 million doesn’t change that.”

The state government is also ramping up fines and penalties by 10 per cent – with a penalty unit increasing from \$165.22 to \$181.74 – to raise another \$250 million over four years.



Reason Party MP Fiona Patten agreed that stamp duty was “not a good tax”. **Justin McManus**

Mr Pallas argued the government was also introducing cost cutting measures, including reducing its wages policy from a guaranteed annual increase from 2 per cent to 1.5 per cent.

The property industry was not consulted about the taxes and was in shock and dismay over the weekend, insisting they would engage with cross-benchers over the next 48 hours.

Property Council’s Victorian director Danni Hunter said the property industry already paid 59 per cent of all state taxes and called it a “huge, greedy tax grab which will undermine the recovery”.

“You’ve got the federal government committed to stimulus to create jobs and investments, but the Andrews government have just put a complete handbrake on new investment, job creation and new projects,” she said.

“We need to make a case to the cross-benchers that they need to negotiate with the government to have this tax increase taken out of the budget bill.”

Key Victorian cross bench MP Fiona Patten agreed that stamp duty was “not a good tax”.



Property Council's Victorian director Danni Hunter calls it a greedy money grab. **Joe Armao**

“We need to fundamentally shift away from stamp duty which experts agree is not a good tax. I think we have to look at another way,” she said, but added that while she could take issue with the measure “we can't stop the budget”.

CEO of PhilipWebb Real Estate Anthony Webb, who manages 6,000 rental properties and sells around 500 homes a year in Melbourne's eastern suburbs, said the tax hike would “kill the golden goose”.

“I think this government has decided it's not a good thing to own a home. There is a massive misconception about who is rich these days,” he said. “If you own a \$2 million property it might make you asset rich, but certainly not cash rich.”

“I have some landlords who actually pay more land tax than they receive in rent,” he said. “One of the big unintended consequences is it will impact affordable homes.”

“The 50 per cent windfall tax will just get passed on, so while it is painted as a tax on the rich it is going to affect the lower income earners.”