



## **Tax Rip Off - Some Home Truths - Tuesday 8 July 2003**

Spiralling state and local government taxes on new housing are destroying the home ownership aspirations of young Australians. It's ironic that when housing interest rates are at a 40 year low, taxes on new housing are at a 40-year high.

The claims were made in a new report titled, "Restoring Housing Affordability", released today by the Housing Industry Association.

New home buyers are under a tax attack with more than 20 different state and local government taxes on a new housing development. These include stamp duty on land purchased by the developer, stamp duty on house and land packages purchased by the home buyer, as well as public transport levies, local council contributions and fees for community facilities, major roads, drainage and public open space. And, of course, the GST has to be paid on the price of a new home.

In Sydney, almost \$125,000 in indirect taxes is paid on a typical new house and land package. For many new home buyers the amount of tax built into the house price is now more than the cost of having the house built! It is hard to believe that up to 25 per cent of the purchase price for a new house and land package is deadweight indirect taxes. Imagine the community's contempt if the government proposed to have a 25 per cent rate of GST on the purchase of all household items. But that is the effective rate of indirect tax many new home buyers now face on the biggest item of purchase most will make in their lifetime.

Some indirect taxes are levied several times on a new residential development. Then all of these taxes have GST added to them except for stamp duty, which is added to the GST paid on a new home. In future all of the GST receipts are paid to state government, so when state taxes on new housing are increased, so will the amount of GST paid to the states.

The system is in a mess with taxes on taxes and the real tax burden hidden from new home buyers. To add insult to injury, there is no consistent approach to the setting of residential development taxes between different developments. Consequently, there is no clear link between the amount of development fees charged and the true costs of supplying the infrastructure or the value of the services to those footing the bill, namely new home buyers.

New home buyers delivered more than \$4.7 billion in indirect taxes to the NSW state and local government coffers in the 2002-03 year. The great tax grab on new housing has turned new home buyers into a cash cow for all levels of government. The burden of funding community and social infrastructure has been shifted unfairly onto purchasers of new housing instead of the broader community.

The galloping state and local government tax bill on new home buyers is out of control, and needs a circuit breaker. The task of restoring housing affordability should be embraced by the three pillars of government.

HIA is seeking an independent Inquiry into Housing Costs commissioned jointly by the federal and state governments. The Inquiry could be undertaken through the Prime Minister's and Premiers' Council of Australian Governments.

A key policy issue for the Inquiry should be reform of funding arrangements for the provision of community and urban infrastructure, which presents the single greatest challenge to achieving affordable housing.

If the federal and state governments agreed to remove the double dipping of GST on state and local government taxes on new housing, the cost of a new house and land package would drop by up to \$12,300 in Sydney.

Eliminating the double taxation of new housing would be a first step in addressing the yawning housing affordability gap. Moreover, it would avoid putting upward pressure on the price of existing housing because state and local government infrastructure taxes and the GST apply only to new housing. Indeed, a reduction in the price of new housing might take pressure off existing house prices.

HIA is confident that highly competitive conditions in the housing industry would see cost savings passed onto new home buyers. By the same token, the Association accepts that governments might wish to have the Australian Competition and Consumer Commission (ACCC) monitor new house prices to ensure that the savings in taxes were passed on in full to consumers, as occurred during the GST transition.

Without a priority commitment from federal, state and local government, the great Australian dream of home ownership will further descend into a total tax nightmare.