2024 – 2025

Victorian State Budget

Submission by the Real Estate Institute of Victoria (REIV)

February 2024

Introduction

Established in 1936, the Real Estate Institute of Victoria (REIV) is the peak professional association for the Victorian real estate sector. Over 2,000 real estate agencies in Victoria are members of the REIV. These members are in city, rural, and regional areas.

The real estate sector employs more than 10,000 people in Victoria in a market which contributes over $14.1 billion to state tax coffers, with property taxes accounting for 43.6% of total state revenue.

Members specialise in all facets of real estate, including residential sales, commercial and industrial sales, auctions, business broking, buyers' agency, property management, owners corporation management and valuations.

To enhance the professional excellence of our members to the benefit of the communities they work within, and to advocate and represent their interests.

Key Priorities of the REIV

The REIV recognises that to expedite the provision of housing supply and affordability, Victoria needs a strong and stabilised pipeline of investment in the property sector.

The Victorian rental market relies predominantly on ordinary Victorian households for maintaining optimal supply. This is reflected in the fact that almost 90% of all Victorian renters rent from a private rental provider with 71% of these private providers nationwide owning just one investment property. Tax policy is one of the major levers that can be used to attract and retain private investment in the property sector.

For the 2024 – 2025 State Budget, the REIV urges the Victorian State Government to initiate a comprehensive review of property tax policies and policy proposals pursuant to attracting and retaining investment in the sector. This will have long lasting impact by:

- Adequately funding the plans laid out in Victoria's Housing Statement.
- Improving rental affordability as a result of greater supply.
- Better management of state revenue by reducing reliance on inefficient taxes like stamp duty.

Snapshot of recommendations

The REIV is urging the Victorian Government to initiate a comprehensive review of its property tax policy with the objective of attracting and retaining investment in the state's property sector. The REIV has provided several key recommendations below for the 2024 – 2025 State Budget to achieve this objective.

Attract and retain investment in Victorian real estate to address housing supply and affordability issues.

Land tax incentives for properties retained in the long-term rental market

No new or increased property taxation

Review and reform stamp duty to promote mobility and economic development

Overview

Effective tax and regulatory reform are a necessity for any forward-thinking government, particularly given the economic conditions that arose following the pandemic and population growth over the last half decade. The Victorian Government received a total of $26.95 billion in state tax revenue in the FY2023 to support its budgetary commitments, more than double its intake less than just a decade prior (State Revenue Office (A), 2023). Property taxation accounted for 43.6% of the state government's revenue base. This suggests a heavy reliance on property taxes. Furthermore, data from the Victoria State Government's Treasury and Finance indicates that by the end of the FY2022, property taxation accounted for almost half of the state government's tax revenue at 47.5% of annual income (The Department of Treasury and Finance Victoria (A), 2024). This reinforces the principle of dependence on the property sector which currently needs to encourage investment cash flow rather than obstruct it through taxation deterrence.

Taxation, at its most efficient, is targeted, proportionate, and diffuse in its distribution. The Victorian State Government has introduced or increased forty-four taxes since Labor was first elected back to government in 2014. Successive budgets in recent years have been designed to reduce the impacts of COVID and lockdowns, in addition to supporting Victoria through the lifting of restrictions and its subsequent financial recovery measures (Australian Financial Review (B), 2023). The types of property taxation discussed here include land tax and stamp duty, which are the two of the central housing tax settings in Australia, alongside capital gains tax and negative gearing (Parliament of the Commonwealth of Australia, 2022). Other varieties such as vacant land tax generate negligible amounts of revenue comparative to land tax and stamp duty and are not a core focus of this submission due to their lack of wider implications on the overall state tax revenue system (The Department of Treasury and Finance Victoria (A), 2024).

The REIV seeks to make Victoria a competitive place to invest and considers tax reform as a determining factor to achieve this. This paper advocates on those principles to make Victoria an attractive state for prospective investors, with effective incentives bolstering housing supply and relieving current economic pressures facing Victorians. The REIV appreciates the level of revenue that property taxes contribute towards state budgets and the essential nature of taxation to ensure that state governments can fulfil their functions. However, it does not believe that this revenue should be procured whilst sacrificing the basic principles that drive investment confidence, such as predictability, cost management and clear policy settings. Failure to contemplate on how investment opportunities emerge disregards ongoing housing sustainability issues and the core drivers that are exacerbating them.

The REIV welcomes recent tax reform policy efforts initiated by the Victorian Government such as the tax reform decision to transition away from stamp duty for commercial and industry properties that was announced in 2023. Whilst this is set to positively impact 265,000 properties across Victoria (The Department of Treasury and Finance Victoria (B), 2024), the REIV believes that more can be done through comprehensive tax reform to bolster housing supply across the state.

Land Tax

At the conclusion of FY2023, land tax revenue had generated $5.372 billion, an almost 25% increase on the prior's year intake of $4.132 billion and more than double the land tax revenue generated five years prior (State Revenue Office (B) 2023). As noted above, property taxation accounted for 43.6% of the total state government taxation revenue, with land tax alone accounting for 16.6% of its income (The Department of Treasury and Finance

Victoria (A) 2024). With the reduction of the tax-free threshold from $300,000 to $50,000 and increased fixed levies of $500 on properties up to $100,000 and $975 on those up to $300,000, plus an increased amount of 0.1 percent of the land value over $300,000, land tax now has a far more demonstrative impact on landowners. It is expected to lift the land tax burden from 380,000 to 860,000 homeowners across Victoria, a total increase of 125% (The Australian, 2023). This incorporates unexpecting cohorts that may have otherwise not anticipated or prepared for new taxation measures.

The current median house price in Metropolitan Melbourne is $909,000, whilst in regional Victoria it is $616,000 (REIV, 2024). With the current land tax applied on properties between $600,000 and $1,000,000 being $2,250 plus 0.6% of the difference over $600,000 (State Revenue Office (C), 2023), these properties would have annual tax land tax bills at $4,104 and $2,346 respectively. These are by no means insignificant sums for those maintaining an investment property. Given the current high interest rates and cost-of-living pressures, these increases may be too much for some investors to absorb, forcing them to sell the house and remove it from the rental market. This would only act to further constrict rental supply.

The REIV advocates for effective tax concessions to facilitate the return of properties to the rental market. For example, rather than a vacant property tax or the proposed short stay levy, consider a discount on land tax liability for owners who keep their property on the long-term rental market for an agreed period.

Another such consideration could be to extend the land tax concessions provided to large Build-to-Rent developments. Subdivisions of blocks, owned privately, can result in 8 - 10 apartments. Such an initiative would allow families to retain ownership whilst adding to the available rental stock. This would incentivise owners and ensure long term security for renters. Incentives can play a crucial role in maintaining consistency of rental stock.

Stamp Duty

Stamp duty, or land transfer duty, has shown the same disproportionate level of increase when analysing its contribution to state tax revenue in recent years. The FY2023 intake of $8.738 billion, down from a high in the FY2022 of $10.361 billion that was likely driven by the exchange of property during the COVID-affected period of the last few years, is still markedly higher than the $6.424 billion received in the FY2021. As a proportion of the total state government tax revenue, FY2023's stamp duty income accounted for a total of 27% of the state government tax coffers (The Department of Treasury and Finance Victoria (A), 2024). This increase of more than 25% in just two years indicates an increased reliance on stamp duty as a means of income for the government. Stamp duty is heavily related to market conditions, such as consumer confidence driving the volume of transactional activity and the value of property itself. This creates uncertainty of revenue at times where governments may require greater funds.

Stamp duty has been accepted by experts as an inefficient tax measure, one which penalises homeowners simply for moving and a tax that can cause potential economic disruption through dissuading them from relocating in scenarios such as family obligations or work opportunities. The use of stamp duty also discourages people from downsizing from properties too large for them, preventing those dwellings from going onto the market (The Grattan Institute, 2023). A further study from the ACT found that a reduction of stamp duty by 10% would lead to a proportionate increase of 6% in property sales, allowing more homes to be bought, sold, and subsequently rented (The Centre of Policy Studies & Victoria University, 2020). Considering these factors, reduction of a reliance on stamp duty would give people more mobility and options in their place and type of residence and foster a dynamic housing market. The REIV calls for a major review and reform of the current stamp duty regulations, including consideration of the complete replacement of the tax with alternative, better designed tax measures to support government revenue requirements.

Incentivising Investment

The REIV supports a Victoria that is underpinned by appropriate investment in line with effective government tax policy settings. The REIV is advocating for deeper tax reform to promote investment, and whilst the Commercial and Industry Property Tax Reform is a step in that direction, significant further action is required to address the growing housing shortage. There is pronounced concern across the real estate sector that financial burdens relating to increasing property taxes will be passed onto renters or lead existing and prospective investors to look interstate for more attractive investment options (ABC, 2023). Reports have emerged from both property and business groups stating that new tax settings will have adverse impacts on the rental market, with one manager at CPA Australia indicating that the new property tax measures have made Victoria the least attractive state in the country to invest in. They have stated that rental providers will need to increase rents to pay for additional costs when considering the wall-to-wall interest rates hikes that small-time investors have incurred in recent months (The Age, 2023). SBS supported that sentiment in January of this year, stating that data indicates a nationwide trend of property investors selling up due to climbing costs (SBS News, 2024).

When considering rising interest rates and the overall cost of maintenance and associated overheads with property ownership, an awareness of how additional taxation burdens may impact investors is an ongoing concern, particularly as the sector and market continue to work on bolstering housing supply. Clear statistical examples above indicate how taxation might impact investment interest and opportunities. Doubling the amount of homeowners liable for land tax whilst reducing the threshold by more than 80% only serves to push investors away from the market, especially when considering the current prohibitive interest rates and general overhead costs. Since 71% of Victorian property investors own only a single investment property (Parliament of Victoria, 2023), introducing new or increasing the burden of taxation measures aren't simply affecting those with extensive portfolios; they're impacting everyday Australians, many who are not certain in their capacity to absorb extra levies on their investments. New taxes that were introduced in the last budget were justified by an increase of land values of 84%, a statistic that is cold comfort when discussing an illiquid asset during a cost-of-living crisis. When further rationales for the comprehensive taxation are placed on a false prevalence of Victorians with several properties whilst disregarding the amount of single investment property owners, the logic of liability doesn't stack up.

Negative gearing is often touted as a key reason for rising housing prices as investors and first home buyers compete for the limited available stock. The limited tax benefit available to investors is in turn saving governments millions in potential aged pension costs as these investors are likely to be self-funded retirees. The REIV does not believe that negative gearing needs to be removed or adjusted from its current configuration. It is a necessary component of the housing market through its facilitation of investment. This is especially apparent when noting the above statistic that 71% of property investors own only a single property, whilst nine in ten renters are leasing privately-owned housing (Commissioner for Residential Tenancies, 2022). Removing the option for these owner-operators to be able to claim losses on their properties would lead to further destabilisation of the rental market and the pulling of rentals, leaving sizeable gaps when the vacancy rates are already at record lows.

Discussion

There is a consensus view across the public and private sectors that boosting housing supply, whilst simultaneously removing obstacles that might hinder development, are the central tenets of remediating costs in the housing market. The REIV's pledged position is that housing supply must be increased, and this can only feasibly occur through increased investment in the overall housing stock throughout the state. In line with less regulatory obstructions and lowered taxation to reduce the barrier of entry for investment, Victoria can expedite the provision of supply across the state. In a system that can be characterised by carrot-and-stick policies around investment punishment and reward, the REIV believes that incentivising investors rather than penalising them through efficient tax reform is the most effective means of increasing housing supply throughout Victoria.

The REIV continues to support, in line with stakeholder expectations, a broad-based tax. Optimally, this would involve Federal Government consultation for implementation. The REIV stands by its contention that a broad-based tax system would be more equitable in enabling housing accessibility, provide a more stable and predictable government stream of revenue, and would act to avoid house bracket creep that is being accelerated by rapidly increasing median house prices.

Current trends indicate an impending reduction in interest rates, which in turn could inspire investment in the housing market due to increased accessibility for new and existing investors alike (Australian Financial Review (B), 2023). However, this is reliant on market forces, vehicles that are capricious in that they remain subject to conditions that are prone to volatile economic and demographic change. As only structural change can ensure the remediation of our housing supply issues, the right government intervention in providing effective tax reform would adjust these circumstances, spurring confidence in the market for investors and bolster housing supply along the way.

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Appendix

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