

26 April 2018

Hon. Ben Wyatt MLA
Treasurer
11th Floor, Dumas House
2 Havelock Street,
West Perth WA 6005

Via email: Minister.Wyatt@dpc.wa.gov.au

Dear Treasurer,

WA pre-budget submission 2018-19

The Urban Development Institute of Australia (UDIA) WA is the peak body representing the property development industry in Western Australia. UDIA is a membership organisation with members drawn from the residential, commercial and industrial property development sectors. UDIA members include both private and public sector organisations. Our industry represents approximately 12.3% of Western Australia's Gross State Product, contributing \$30.45 billion annually to the Western Australian economy and \$251.7 billion nationally. As well as helping to create sustainable and liveable communities, the industry employs a total of 228,500 Western Australians and over 2 million Australians across the country.

UDIA acknowledges the challenging economic conditions that the McGowan Government faces and fully supports the Government's economic priorities of delivering jobs whilst returning the budget to surplus. However, these difficult fiscal challenges also provide an ideal opportunity to reconsider and examine alternative approaches to managing Government revenue and spending, using new and innovative mechanisms that more effectively deliver the outcomes sought and better assist in the creation of new jobs and the diversification of the State's economy.

State Based Tax Reform: the long term

1. Comprehensive Review of State Based Property Taxes

UDIA believes that it is imperative for the future sustainability of property taxation revenues, that the Government undertake a comprehensive review of State based taxes to ensure that they are fair, competitive and efficient. In particular, this review should examine the effectiveness of the current residential property transfer duty regime.

As well as being an impairment to housing affordability, stamp duty is a significant barrier which prevents households from transition between dwelling typologies, restricting retirees from 'downsizing' and families 'upsizing' as their circumstances and housing needs change. As a result, our housing stock is not being used efficiently nor does it align appropriately to households needs. In order to avoid future stamp duty costs, first home buyers are encouraged to purchase larger homes that are

capable of fulfilling their maximum potential housing needs, rather than satisfying actual housing needs. Meanwhile, any equity released from older households seeking to ‘down size’ is lost to stamp duty, diminishing the value proposition offered. This is hampering Government efforts elsewhere to increase housing choice and provide greater diversity in our housing stock to support the emerging needs of WA communities.

In addition to these problems, the inconsistent application of stamp duty is creating a barrier which prevents the uptake of multi-unit housing options by owner occupiers. For new built form developments, such as apartments and medium density housing, stamp duty is currently applied to the combined value of the land and built form. This contrasts with ‘house and land packages’, where stamp duty is calculated on the value of land only. The inconsistent application of stamp duty therefore jeopardises other State Government initiatives, such as the development of the METRONET precincts and increased infill development targets, by restricting the uptake of more contemporary housing options.

To overcome these issues, UDIA reiterates the position clearly outlined in our State election priorities last year and calls on the Government to consider stamp duty reform, committing to the phasing out of the duty and the establishment of a broad based land tax system. This would facilitate the transition of households between different dwelling typologies that are appropriate to the changing circumstances of households more efficiently. Further, it would also distribute tax more efficiently, equitably and more consistently over the term of government.

Achieving a fair and equitable property taxation system is integral to the wellbeing and liveability of our communities whilst also encouraging the delivery of innovative and sustainable dwelling types, supporting our economy.

Recommendation 1:

That the State Government undertakes a comprehensive review of state based property taxes, including land tax and stamp duty regimes and gives consideration to the establishment of a broader based land tax system which distributes property taxes more equitably, during this term of government.

Immediate Actions: the short term

2. Cancellation of Foreign Buyer Duty Surcharge

UDIA acknowledges that carrying out a review of state based taxes and duties will take time to complete as will the implementation of its subsequent reforms. Therefore, in order to ensure that WA’s economic recovery is not hindered or delayed, appropriate measures should be undertaken in the interim period.

As we have highlighted, the property market is integral to the success of the wider WA economy. Further, housing affordability has a direct impact upon the competitiveness of the State’s economy. It is therefore important that investment in land and property remains an attractive proposition to

ensure that WA benefits from a diverse and affordable range of housing and employment land. Whilst conditions in the property market are showing signs of improvement, the market remains fragile. Therefore, the adoption of any additional 'budget repair measures' targeting the property market specifically are likely to have disproportionately negative implications. With this in mind, UDIA calls for the cancellation of the planned introduction of the Foreign Owner Duty Surcharge in January 2019.

Foreign owners are often critical to ensuring that development proposals generate sufficient pre-sales to enable commencement. The application of a 4% surcharge for foreign purchasers will discourage capital investment at a time when industry is in most need of investment to support local skills and employment.

WA's current lack of a tax surcharge on foreign investment provides WA with a competitive advantage over other states in Australia and to take that away now, will only further hinder foreign investment into this state.

Recommendation 2

That introduction of the Foreign Owner Duty surcharge is cancelled.

3. Maintain current Land Tax / Stamp Duty levels

UDIA acknowledges the need for budget repair, however property taxes appear to be disproportionately targeted with increased land tax rates revisions to thresholds. The increased tax that this generates is having a significant impact on property market investment. Strong evidence is starting to emerge that the decreasing rental vacancy rate is being driven by investor property sales. In turn this is likely to lead to increased rental costs and decreased housing choice for those renting. UDIA calls on the government to refrain from further increases and maintain current land tax rates and thresholds.

Recommendation 3

That no increases are applied to current land tax or stamp duty rates and thresholds.

4. Increase the threshold for Keystart loans by 25%

Housing affordability remains a critical challenge for many people across WA. According to recent Housing Authority data, very low or low income households account for 43% of all households within Perth. However, only 8% of established dwelling sales between 2013 and 2015 were affordable to these income groups.¹ Coupled with affordability challenges, socio-demographic changes are resulting in declining levels of home ownership. As a result, an increasing number of households are likely to be in rental accommodation as they enter into retirement. This will place additional strain on the state's resources if not adequately addressed.

¹ Housing Authority 2016 *Housing Affordability A study for the Perth Metropolitan area*



Given the recent withdrawal of the First Home Owner Grant boost, it is imperative that the State takes action to address declining home ownership. Therefore the Institute calls on the State Government to expand the eligibility and threshold criteria for Keystart loans by 25%. We believe this is a strong, initial measure that can be taken to address this issue proactively.

Recommendation 4

That the eligibility and threshold criteria for Keystart loans is increased by 25%

UDIA trusts that the comments and recommendations provided will assist in the finalisation of the 2018-19 state budget and future budgets. Should you or your department require any assistance or further information regarding this matter, the UDIA would be delighted to assist. Please do not hesitate to contact me at ahailes@udiawa.com.au or 9215 3400.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Allison Hailes'.

Allison Hailes
Chief Executive Officer