
— Opinion

Government tax take as much as 40 per cent of total home cost

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The forgotten cost in the push for more affordable housing is the level of tax on new home buyers.

In some new communities, the government take on a block of land – in stamp duty, GST, land tax, development fees and infrastructure charges – can be as much as 40 per cent of the total cost.

In Sydney the total impost, including that last hit of stamp duty, can be more than \$100,000. In a tight market, the developer has no choice but to shift the cost straight to the end buyer.



The cost of a new house is often heavily weighed down by government taxes.

In essence, governments are talking the talk on housing affordability whilst stinging new home buyers to boost their revenue.

Value capture

And it is likely to become worse. The latest revenue raising concept, the seductively titled, value capture, is little more than a new tax.

In Perth recently, 600 developers gathered for the annual congress of the Urban Development Institute of Australia.

Ahead of the meeting, members provided some real-life examples of the government imposts involved in land development.

Grant Dennis is the chief executive of the Dennis Family Corporation which builds about 1000 homes a year. "Land development is nothing more than manufacturing," he says. Developers take raw land and turn it into housing lots. In a balanced market the price to the consumer is the cost of the land, plus the cost of the inputs, plus a margin.

A lot of those inputs are government taxes and charges, as the accompanying tables show.

Taxes that make up a new house in Sydney

	SW SYDNEY LAND PROJECT A		SW SYDNEY LAND PROJECT B	
	Cost per lot	Tax % of total dev cost	Cost per lot	Tax % of total dev cost
State stamp duty	\$8,042	3.5%	\$8,860	3.4%
Federal GST	\$27,666	12.2%	\$23,883	9.2%
Council rates	\$282	0.1%	\$367	0.1%
State land tax	\$4,170	1.8%	\$2,667	1.0%
Local council section 94	\$28,333	12.5%	\$31,389	12.0%
State infra contribution	\$9,181	4.0%	\$10,112	3.9%
Total taxes & charges	\$77,675	34.1%	\$77,277	29.6%
Total development cost	\$227,520	100.0%	\$260,950	100.0%
Purchaser stamp duty	\$15,750	16.9%	\$15,750	4.4%
Total taxes & charges	\$93,424.72		\$353,977	

SOURCE: UDIA

GST is a real forgotten cost. Developers, just like any manufacturer, pay GST on each input and then, except on land purchases under the margin scheme, can claim a credit. But on the last stage of the process, on the final sale of the land or house, no credit can be claimed.

"We pay one-eleventh of the gross sale price on settlement, and we don't get it back", says Peter Icklow, chief executive of the Monarch Investments Group. On a \$750,000 new home in Sydney, that is a direct cost of \$68,000.

No GST is paid on secondhand housing in Australia. Nor, in many jurisdictions around the world, is VAT or sales tax paid on new housing. The Howard government's decision in 2000 to extend the GST to new homes, puts the sector, and new home buyers, at a clear disadvantage.

The other cost most forget, is the complex and opaque system of developer charges and contributions.

In the examples, Section 94 charges by local government add about \$30,000 to the cost of a Sydney block, with State Infrastructure Contributions adding another \$10,000.

In other states, the names and costs are different but the principal is the same. Developers, and ultimately the buyers, pay for facilities – like roads and community centres – that were once funded by the broader community through general revenue.

User pays is a well enshrined principal. But the baby boomers, when they moved to the new suburbs years ago, did not pay these costs. Government paid for them out of general revenue. And when governments today pick up some of the infrastructure costs, as the NSW government did with the Housing Acceleration Fund, the benefits to the broader community are substantial.

Lack of transparency

In 2004, the Productivity Commission report on First Home Ownership recommended that price and affordability pressures could be moderated over time by "ensuring that developer charges for infrastructure relate appropriately to the benefits provided to new home buyers in new housing developments."

The lack of transparency – of who pays for what and where the money goes – is also an issue with many of these developer and infrastructure charges.

The Productivity Commission recommended that developer charges should be "equitable – with a clear nexus between benefits and costs" and governments should "be accountable for how money raised from the charges is spent".

Mike Scott, chairman of the Homeworld Builders Group, warns that taxation by negotiation and agreement, which is the essence of many Voluntary Planning Agreements between developers and local governments, increases the risk of corrupt conduct.

Stamp duty is a widely recognised bad tax, which many state governments now tweak to help first home buyers and boost to derive extra revenue from offshore investors.

The 2004 Productivity Commission report recommended that "reducing the reliance on stamp duties would help first home buyers and improve the efficiency of housing markets over time".

If all that is not bad enough, buyers pay taxes boosted by other taxes. Stamp duty applies to the GST inflated price of homes.

Scott warns about further taxes like value capture.

"Governments need to recognise all the existing taxes and charges they are getting from the industry and not seek to add further costs to the supply side," he says.

"We are at that stage in the cycle where councils and others think developers are making a killing so they are trying to use the developers as their tax collectors by getting us to pass on new indirect taxes to either the land vendors or end purchasers.

"The result will not be new, cheaper land but large tracts of land which are frozen and cannot be sold into the development pipeline until the land price rises to the new adjusted level of price expectations by the vendors."

Michael Corcoran is the National President of the Urban Development Institute of Australia