REIWA

State pre-budget submission 2017-18

August 2017

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REIWA is Western Australia's real estate institute, the peak body for the real estate profession in the state. We exist to make the selling, leasing and buying of property as simple as possible for all West Australians.

We are a member-owned organisation representing over 1,100 real estate agencies and over 90 percent of agents in WA.

We represent the real estate industry in WA and lobby the Australian and Western Australian Governments on issues that impact the property industry.

REIWA exists to help everyone win in WA real estate.

INTRODUCTION

The WA property market is an important part of the State's economy. It provides a regular source of income for the state through property taxes, but more importantly it provides a basic human need – housing for all West Australians.

The State's economic climate continues to remain challenging. WA is shifting from its reliance on the resources construction phase, to a production economy. This has an impact on major economic and housing variables such as population and house price growth. It will be important to ensure policy settings continue to encourage both investment and owner occupation in the residential and commercial WA property markets.

Entering the property market is still a dream of most West Australians. Ensuring there is enough appropriate, affordable and diverse housing stock for those entering the market is crucial. Housing diversity should be a priority for any state government, so that downsizers, lifestyle seekers or any household can make the right housing decision for them.

Housing affordability impacts both the established residential market and the private rental market. In the current market conditions where prices in both markets have been easing, this represents an opportunity for West Australians to find more affordable housing to meet their needs in the short term.

A softer market, can in some way, help to ease the burden on state provided social housing as the private rental market becomes more accessible. However, this is not a long term solution given the cyclical nature of the property market. REIWA analysis (as at June 2017) using average weekly earnings and median rent prices shows that West Australians are now paying less of their income on rent, moving them out of rental stress. This is a good thing, but we also know that not all West Australians are making this level of earnings.

The December 2016 quarter results of the Adelaide Bank/REIA Housing Affordability Report highlighted that housing affordability measures in WA deteriorated marginally over the quarter. However, in comparison to the same time last year, affordability measures have seen an improvement. Whilst this is indication that affordability in terms of loan repayments has

seen an improvement, it still remains a key issue. In particular, the impost of transfer duty and the assistance of first home owner grants cannot be underestimated.

The removal of the $3,000 First Home Owner Grant (FHOG) for established dwellings in the 2015-16 budget was not well received by REIWA or the established residential market. The FHOG provided additional support for first home buyers who want to buy an existing dwelling. The full impact of the grant removal can now be seen with declining sales trends evident in the established residential market.

First home buyers play an important role in both the established residential market and the new build market. REIWA estimated first home buyers represented 21 per cent of transactions in the established residential market in the March 2017 quarter. First home buyers facilitate the turnover of stock as they buy homes that enable other to trade-up out of. Trade-up buyers represented 63 per cent of the market in the March 2017 quarter.

Transfer duty revenue is most effected by the trade-up market. Current policy settings allow first home buyers to receive an exemption from transfer duty up to the value of $430,000. This exemption plays a significant role in ensuring the affordability and accessibility of the established residential market for first home buyers and must remain.

Planning and development policy reform is another area that impacts the residential property market. As the demographic profile of the West Australian population changes to an ageing population, more housing options need to be available for retirees looking to right size and people trying to enter the market. Now more than ever, planning policies that encourage a diversity of lot size and housing typology options through infill and land developments is more important.

REIWA acknowledges the McGowan Government has inherited the most fiscally challenging set of accounts. Whilst it is important for the State Government to bring the budget back into surplus and reduce debt levels, as a priority, this should not be done at the expense of the property industry and the average WA home owner or first home buyer.

The trend in recent times to increase land tax rates and make changes to thresholds is having a significantly detrimental effect on residential property investors and commercial land holders. This is exacerbated at a time when both of these markets are softening in terms of achievable rents, and even though we are in an easing phase of monetary policy.

Property investors are now faced with the difficult decision as to whether they continue to hold their property or sell given the return on investment is in some cases negligible. REIWA encourages the State Government to start a state tax reform discussion with the community. This will ensure that the State can rely on efficient and sustainable tax revenue streams, the community can be taxed more efficiently and equitably, and investors are encouraged to keep investing in the WA property market.

During this difficult fiscal time, the State Government must balance these policy areas. Keeping state property taxes at current levels and not increasing or meddling with taxes will

provide some assurance to investors and owner occupiers, particularly in a market that continues to remain soft.

Ensuring there is suitable affordable housing and keeping the policy goals of the Affordable Housing Strategy and Perth and Peel at 3.5 million will be critical. Of course, all of this needs to be considered within the national policy context where there is a federal tax debate, and specifically the Productivity Commission's review into GST redistribution. REIWA acknowledges the urgent need for GST reform and more importantly the redistribution methodology. REIWA encourages the McGowan Government to continue to advocate at the Federal level for GST reform.

Whilst long term taxation reform remains a priority for REIWA, fiscally now is not the time. Rather the focus should be on starting the conversation with the community.

This submission to the State Government's 2017-18 budget process focusses on the issues that impact the WA property industry the most. Historical trends and the market outlook for 2017 creates the backdrop to a discussion of the impact this will have on key state property tax revenue streams and the broader need for state tax reform.

At a time of prudent financial management and budget balancing, REIWA looks forward to working with the McGowan Government on a budget that assists all West Australians to win in real estate.

LATEST MARKET TRENDS

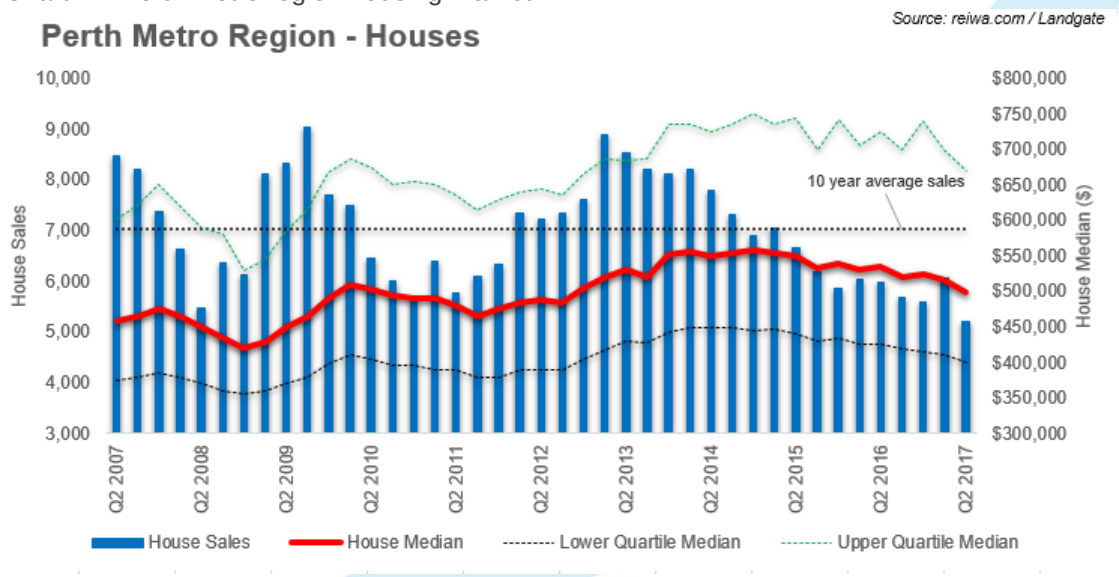
Perth housing market

There has been a continuing downward trend in house sales activity in the Perth Metro Region since the March quarter 2013 peak. Preliminary sales for the June 2017 quarter are 26 per cent below the 10 year average (Chart 1) and are trending below the 2010-11 cyclical low after the FHOG boost in 2009.

The overall Perth median house price has continued to retrace after peaking at $558,000 for the quarter ending December 2014. In 2016, quarterly median prices trended between $535,000 in the early part to $525,000 by the end of the year. However, the first two quarters of 2017 have seen the median price decline to $515,000 during the March quarter, and to most recently, $500,000 for the latest June quarter (preliminary data). Based on the median, the annual change in Perth's quarterly median house price is now down 6.5 per cent.

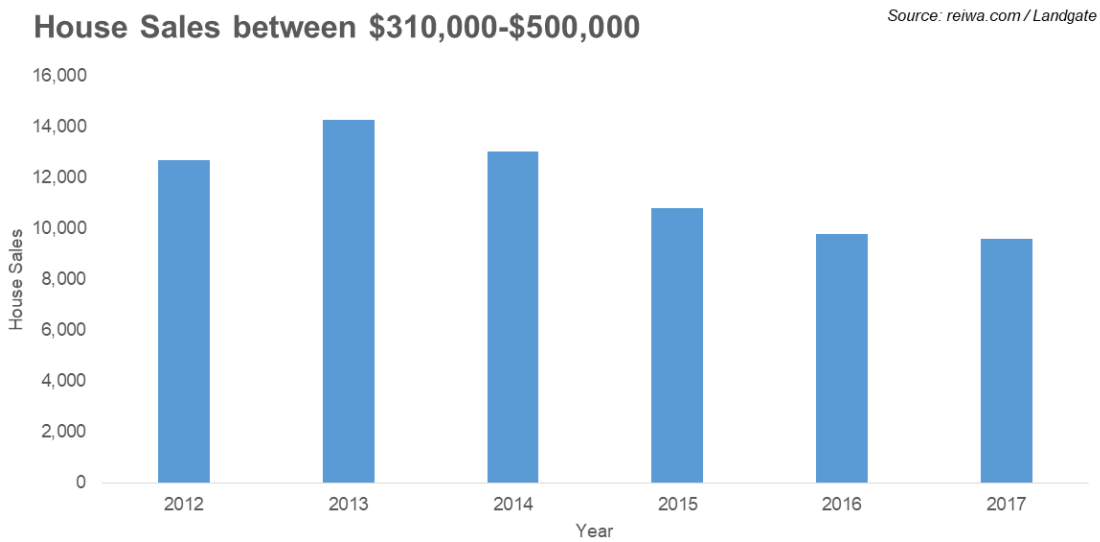
Chart 1 shows that the lower quartile median had been trending upwards since early 2012 up until the second quarter of 2015. Since then, a downward shift has been established. The lower quartile median is particularly relevant to first time home buyers looking to enter the residential property market.

Chart 1 – Perth metro region housing market



Since peaking at $450,000 in 2014, the lower quartile median price has trended lower to $400,000 for the June 2017 quarter. Sales activity saw an accelerated downward trend between 2014 and 2016. However, year to June 2017 data (chart 2) shows that activity levels have bucked the trend to remain at similar levels to the year to June 2016. The data indicates the declining trends in lower quartile prices may be finally creating an opening for consumers, be it first home buyers or downsizers to gain an entry point into the lower end of the market.

Chart 2 – Perth metro region house sales ($310,000 - $500,000 price range)



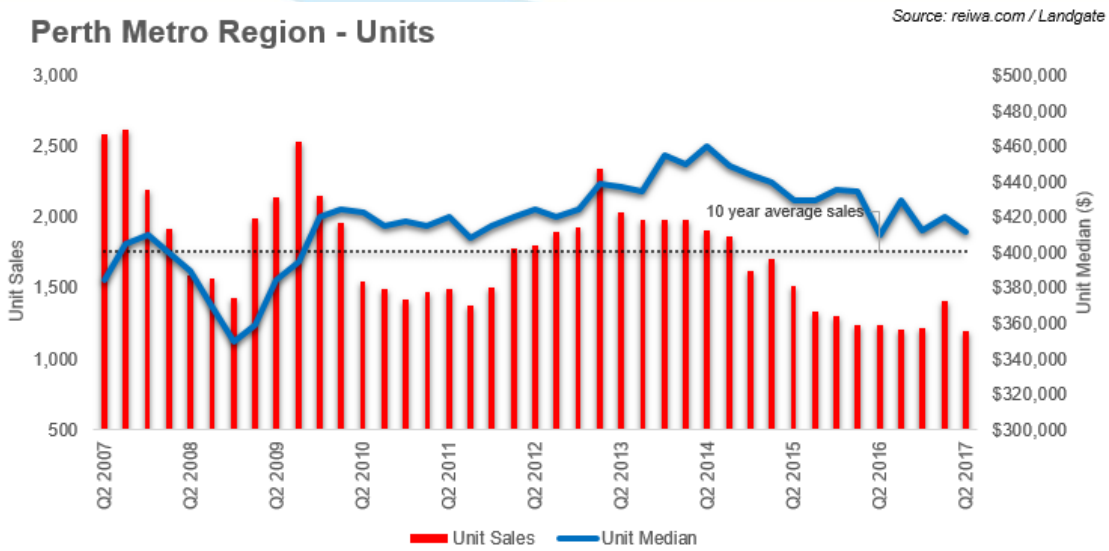
Perth multi-residential market

The multi-residential market continues to remain soft in terms of sales, with data showing volumes are down approximately 15 per cent in the June 2017 quarter. Based on the latest quarterly estimates of activity, the multi-residential market is almost 32 per cent below the long term average. Some of this may be attributed to weak investor activity particularly since APRA changed the capital adequacy requirements for investment lending in July 2015 as well as the impact of more supply hitting the market as off-the-plan strata developments finish construction.

Recent tax measures introduced in the Federal Budget targeting foreign investors will only exacerbate the situation by potentially limiting foreign investment into WA property. Overseas investment comprises of a small proportion of residential sales and any further policy measures that potentially hinder investment would only further dampen the already small market.

The overall preliminary median unit price for the June 2017 quarter sits at $412,000 which is down 1.9 per cent on the March quarter figure of $420,000. The median unit price is now approaching levels last seen during late 2011.

Chart 3 – Perth metro region multi-residential market



Listings and selling days

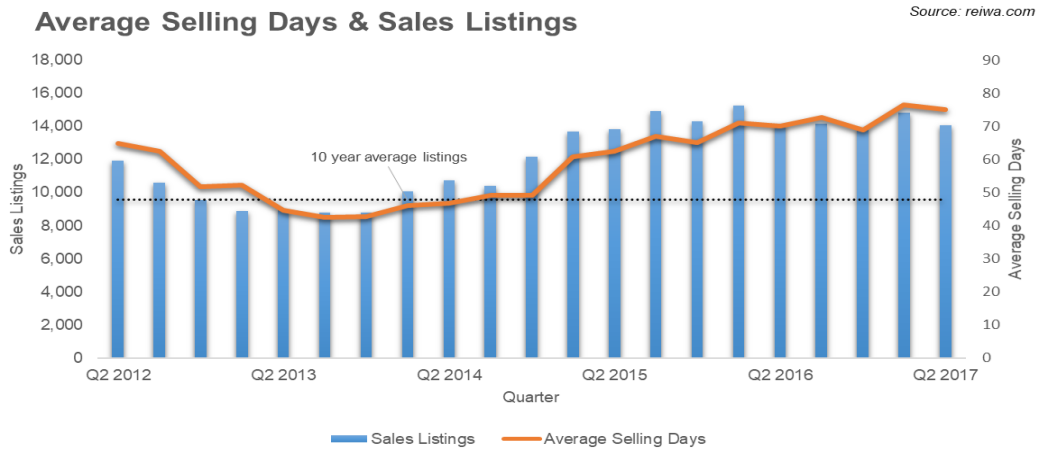
Sales listings have been on a general upward trend since the beginning of 2014 (at the end of the WA migration boom). In October 2015, listings peaked to 16,319 before edging back to near 15,000 levels for the rest of the year. 2016 saw listings trend around the 14,000 mark which has continued to remain the case halfway into 2017.

Commentary from REIWA members indicates that some sellers are hesitant in current market conditions and are withdrawing properties for sale from the market which explains the ceiling found in sales listings over the last 12 months. In present times where overall sentiment

remains weak, encouraging activity in the market, for instance with the aid of policy levers is crucial in order to ensure the stability of the established residential market.

Average selling days in the Perth Metro Region has continued to remain at elevated levels and are currently trending near 10 year highs. Based on reiwa.com data, it takes on average 75 days to sell a dwelling in the Perth Metro Region. There is plenty of choice in the current market which has led to the higher figures in average selling days.

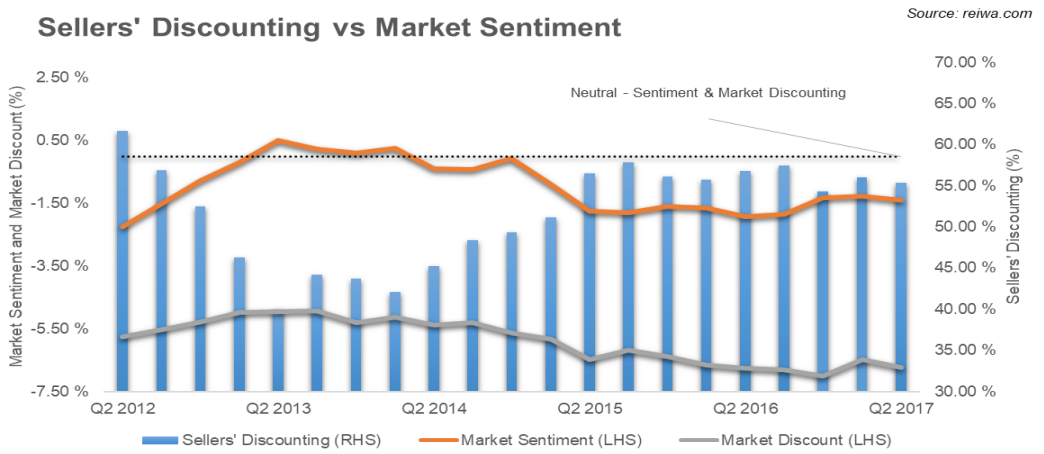
Chart 4 – Perth metro region listings and selling days



Sellers' discounting and market sentiment

To reflect the current state of the Perth Metro Region residential market, chart 5 below shows the proportion of sellers' discounting against the overall market sentiment and average market discounting levels. Market sentiment has continued to trend lower into negative territory and remains firmly below zero (neutral market sentiment). The proportion of sellers' discounting their dwellings peaked at 58.84 per cent during the third quarter of 2015 and has remained at near all-time high levels. The average discount offered on dwellings sold lies at 6.74 per cent.

Chart 5 – Perth metro region discounting and market sentiment



Perth rental market

The Perth Metro Region calculated an overall median rent of $350 per week (chart 6) for the quarter ending June 2017. This is 2.7 per cent lower than the previous quarter and down 7.9 per cent to the June 2016 quarter. The quarterly median rent for houses is $360 and $330 for units.

In terms of the various sub-regions, the inner and middle areas experienced a stabilisation in their median rents whilst the outer sub-regions saw declines. Within the central sub-region, Fremantle was the best performing sub-market with a four per cent rise in weekly rents whilst Vincent fared the worst losing three per cent. The North East sub-region saw a three per cent fall in median rents whilst the North West, South East and South West also experienced declines of five, two, and three per cent respectively.

Listings for rent (chart 6) have been trending close to all-time high values over the first half of 2017. As at the end of June 2017, listings totalled 10,753 which is up 2.9 per cent in comparison to March 2017, but down by 2.4 per cent compared to June 2016. The lift in listings over the quarter is due to most areas increasing in rental listings. Some of these areas include Melville (up 14 per cent) and Perth City (up 11 per cent) in the Central Sub-Region, Swan (up eight per cent) from the North East and Wanneroo South (up 12 per cent) in the North West. Canning, in the Central Sub-Region bucked the trend by reporting a decline in listings by 13 per cent over the quarter.

Perth's vacancy rate (chart 7) has lifted from 5.6 per cent for the quarter ending June 2016 to a record high level of 7.3 per cent for the latest June 2017 quarter, a 1.7 basis points increase over the year. With close to 11,000 rental properties available in the market currently, together with the high vacancy rate, it is clear the slowing population growth is key to this market.

Chart 6 – Perth rental listings

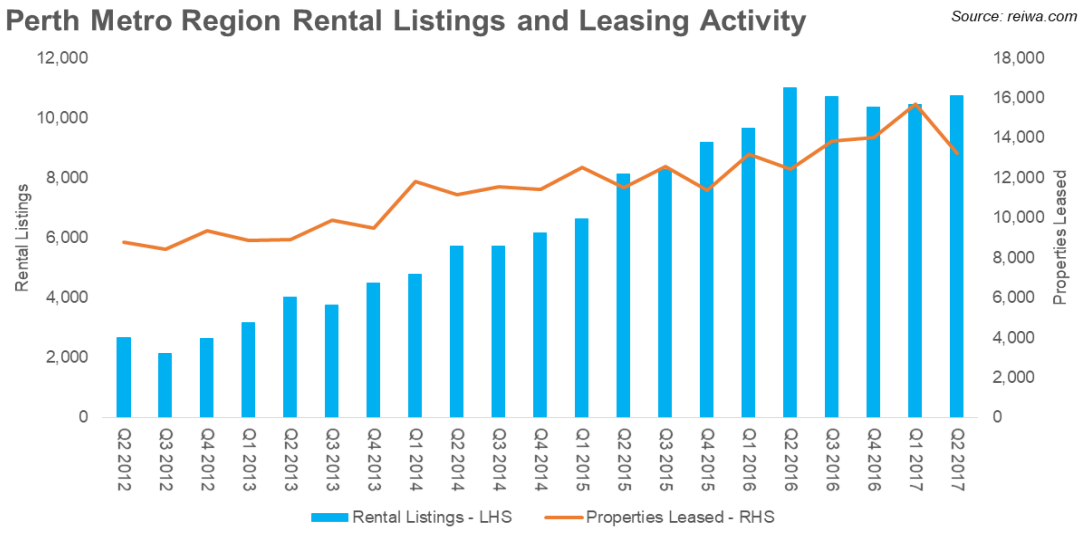
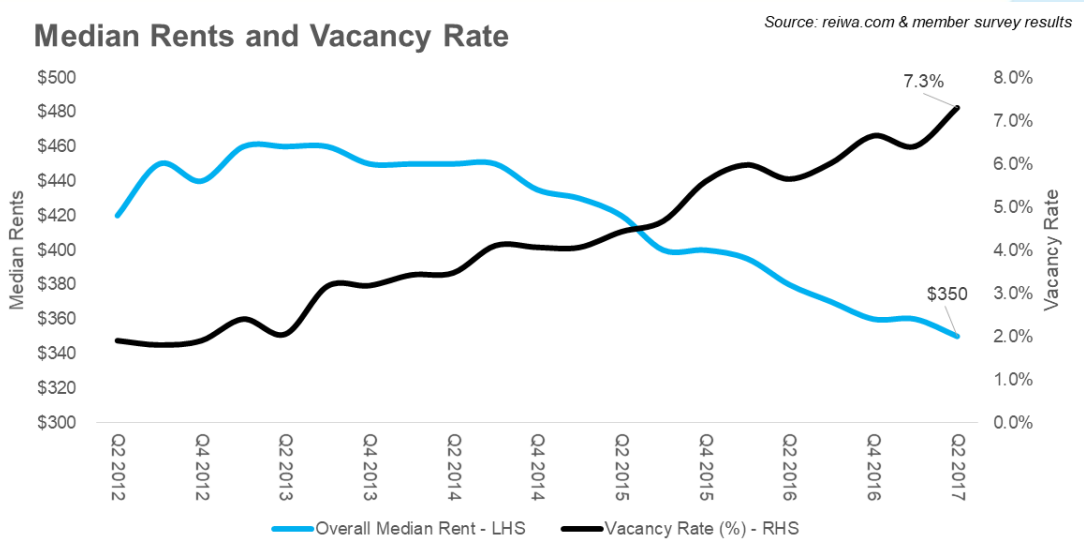
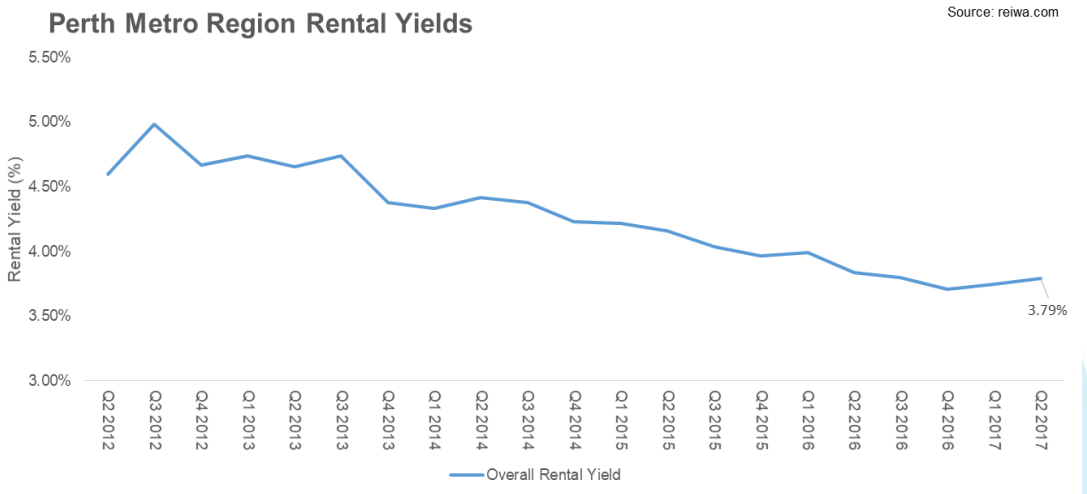


Chart 7 – Perth median rent and vacancy rate



Overall gross rental yields (chart 8) for the Perth Metro Region are 3.79 per cent. House yields are currently 3.74 per cent and unit yields are higher, at 4.20 per cent. Although property continues to offer returns greater than deposit savings rates (currently at 1.65 per cent), the downtrend in yields remains a caution for possible future investors looking to invest.

Chart 8 – Overall gross rental yields



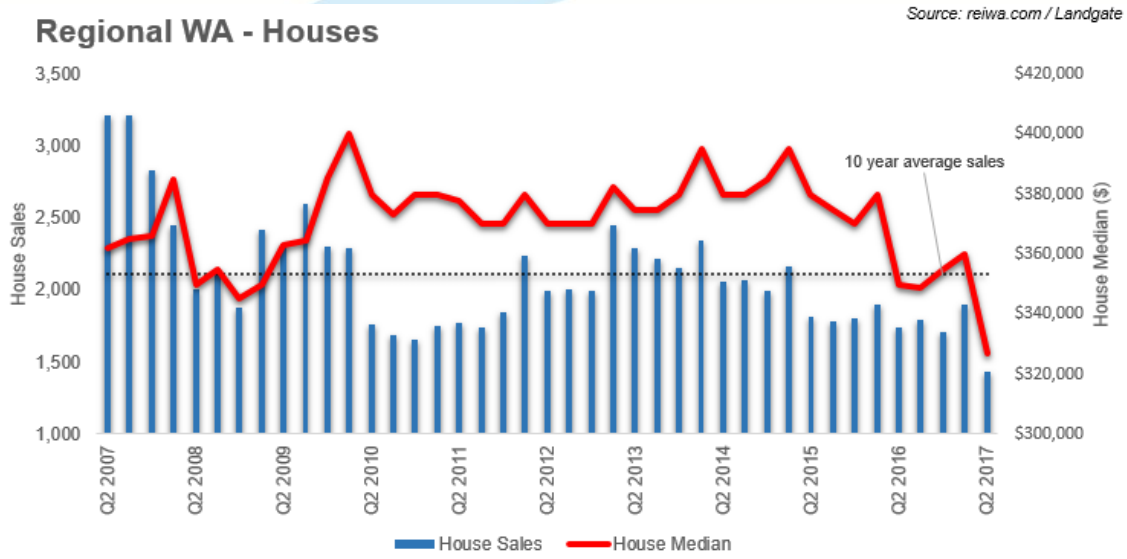
Regional WA housing market

In the WA regional market, we have seen further declining trends in house sales activity. The strong sales results during the previous March 2017 quarter (chart 8) is due to seasonality factors that typically boosts sales during this period. Sales activity across Regional WA continues to trend around levels last seen during the global financial crisis (GFC) period in 2008.

The preliminary Landgate overall median house price for Regional WA is $327,000 for the latest June 2017 quarter. However, current estimates from reiwa.com data indicates that once further transactions for the June quarter settle, this figure is set to increase to around $350,000. This would represent a 2.7 per cent decline in prices over the quarter.

A mixed bag of results can be noted in terms of quarterly changes in median prices for the various regional centres. For instance, the regions of Albany, Bunbury, Busselton, Geraldton, Kalgoorlie, Karratha, Dunsborough, and Margaret River have seen increases in quarterly median prices whilst Broome, Esperance, Mandurah and Port Hedland have seen decreases in median prices.

Chart 8 – Regional WA housing market



2017 OUTLOOK AND BEYOND

A slowdown in WA's population growth has caused serious implications on the economic growth and the performance of the housing market since the end of the resources construction phase in 2014. According to recent population data released by the Australian Bureau of Statistics, Western Australia's population grew by just 0.7 per cent during the year to December 2016. The State's population has continued to grow close to its slowest level in at least 35 years.

Over the year, net overseas migration to the state dropped by 21.5 per cent and a more significant drop of 50.8 per cent on a quarterly basis. Net interstate migration in Western Australia declined by 50.8 per cent over the quarter to December 2016 and declined even more significantly over the year by 79.7 per cent. The significant loss in interstate migration shows bluntly the impact the mining investment slowdown is having on the resources-focused WA. Nevertheless, according to the Department of Treasury, whilst forecast population growth figures have been revised in the short term, WA's population will continue to grow over the long term.

This slowdown has had a dramatic impact on rental markets with Perth's vacancy rate recording a historical high of 7.3 per cent as of the June 2017 quarter. It is expected to remain at elevated levels as the record level of new dwellings commenced in the booming years of 2011 to 2014 are completed and now in the market for rent in 2017. However, going forward it is expected that the supply of new dwellings will slow which should ensure the vacancy rate remains close to its current levels.

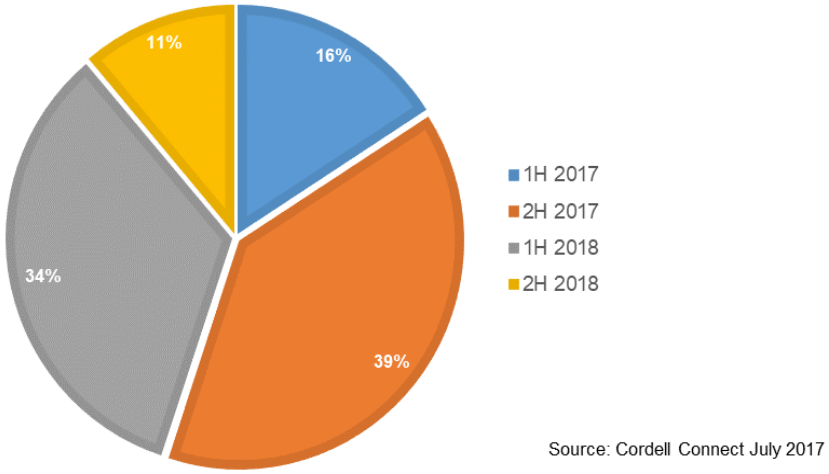
Based on data collected by Cordell Connect, there are about 2,985 multiple / grouped dwellings within the Perth Metro Region which are currently under construction and expected to be completed in 2017 and 2018. The majority of the impending supply (39 per cent) is expected to be completed during the second half of 2017 and the first half of 2018 as illustrated in Chart 9.

The impending supply of new dwellings, coupled with the downturn in population may continue to lead to a surplus supply of dwellings in the short term, but ultimately be absorbed in the long term as fewer new dwellings come onto the market. This may ensure downward pressure on median house prices continues in the short term, albeit at a slower pace.

The Perth residential market experienced a rapid turnaround in listing stock during 2015 as it peaked at just under 17,000 in November 2015 before gradually declining thereafter. As of 30 June 2017, listings for sale have remained steady at 14,039 listings for sale across houses, units and land in the Perth Metro Region. This is 5.4 per cent lower than the March 2017 quarter but at similar levels in comparison to the same time last year.

Average selling days is expected to continue to trend at current elevated levels in line with the steady trends in sales listings. Recent data shows that average selling days for a dwelling is 75 days as of the June 2017 quarter. This is a decrease of one day in comparison to the previous March 2017 quarter but higher by five days in comparison to the same time last year.

Chart 9 – Impending supply of multiple and grouped dwellings (Perth Metro Region)



In REIWA's last State Budget submission, attribution was made to historical high rental listings levels at 9,849. Expectations then were for the trend to continue going forward. The latest figures prove this to be the case with current listings as at 30 June 2017 sitting at 10,753. Subdued economic conditions, especially low population growth is clearly affecting the rental market.

In Regional WA, the South West market remains the bright spot in WA in terms of median house prices and continue to operate around long term levels. Market conditions in the regions of Port Hedland, Karratha and Geraldton have recently experienced an uptick in residential sales, which could be attributed to the recent resurgence in commodity prices. On the other hand, the Kalgoorlie Urban Area has yet to experience an uptick in sales trends.

Record low interest rates have done little to stimulate activity over the past 12 months in the WA housing market. Recent rate reductions have done little to lift activity due to the strength of socio-economic forces that are stifling investment and confidence in WA. Recent regulatory changes made by the Australian Prudential Regulation Authority (APRA) to limit the flow of new interest-only lending for owner occupation and investment loans may only further dampen the residential market as this would potentially limit new investment into property.

Chart 10 shows the effect of the removal of the first home buyers' grant of $3,000 in October 2015. Estimated activity is down approximately 25 per cent in the last 12 months in comparison to the 12 months to October 2015. It is clear that the removal of the grant has had a negative effect on first home buyer activity. This market is a crucial component of the overall residential market as it enables an entry point into property. Furthermore, flow on effects also arise in the form of trade-up activity, which is where the largest proportion of transfer duty revenue is collected by the State Government.

RESIDENTIAL TRANSFER DUTY

The continuing downward trend in housing sales activity since the March 2013 peak has clearly had an impact on the State's transfer duty receipts since. Treasury projections have revised down transfer duty receipts further in the December 2016 mid-year review. REIWA believes that sales volumes in the WA market will continue to remain soft over the remainder of the 2017-18 financial year. However, recent data indicates that the decline in activity levels is not as severe as it was between 2014 and 2016. If volumes are to remain steady going forward, this would still present pressure on projected transfer duty receipts, but possibly limit further losses in being accrued.

This is no time to meddle with transfer duty rates as a means for improving the budget position. The WA residential market is finally showing early signs of stabilisation. Any upward adjustments to transfer duty rates will only halt the early signs of confidence and instead cause further adverse effects in the market.

Recommendation

REIWA strongly recommends that the State Government does not increase transfer duty rates or change thresholds.

The importance of first home buyers in the WA established residential market

The latest FHOG data from the Department of Treasury and estimates taken from ABS housing finance data indicates first home buyers of established housing continues to trend down, falling 33 per cent over the 12 months to May 2017 in comparison to the 12 months to October 2015 (until the grant was removed). During the month of May 2017, first home buyers of established housing represented just 46 percent of total first home buyer housing. On the other hand, grants for new dwellings decreased by only six per cent for the 12 months to May 2017 in comparison to the 12 months to May 2016.

In terms of housing finance commitments excluding refinancing, first home buyers represented 23.8 per cent for the month of May 2017. Using this measure, over the last year, first home buyer activity has remained reasonably constant ranging from 20 - 23 per cent of housing finance commitments. Chart 10 also demonstrates that the increase in the FHOG to $10,000 in 2013 for new dwellings has had a measurable impact in stimulating new dwelling activity.

Determining whether or not first home buyer activity remains stable over the coming months as a proportion of the established residential market remains to be seen. If however, first home buyer activity declines to levels like it did in 2003-04 and 2006-07 to approximately 14 per cent, such a slowdown could remove almost 7,000 established first home buyers in the market. This would have a significant knock-on impact to transfer duty. Potentially, the State would forgo between $160 - $195 million in transfer duty, assuming these trade-up buyers purchased a house with a value range of $600,000 - $700,000.

The overall impact is that the first home buyer established market has suffered at the expense of the new dwelling activity (refer to Chart 10).[1] This is an important issue, as those first home buyers who are active in the established market have important flow on effects to turnover and any trade-up activity. This means that the effect of lower trade-up activity as a result of fewer first home buyers in the established market will impact the State's future transfer duty receipts. This, coupled with lower sales volumes should be of concern for the State Government.

Chart 10 – FHOG established and new dwellings

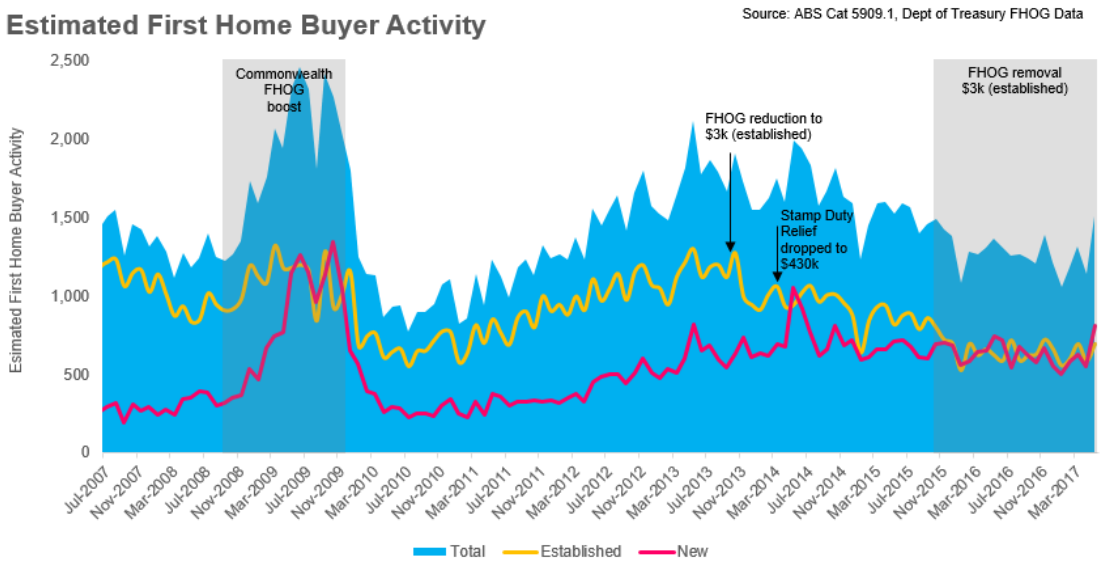


Chart 10 also shows the trade-off that has occurred between the established and new dwelling markets in terms of first home buyer activity. The chart clearly shows dwelling sales turnover continued to decline in the period after the FHOG established dwelling grant was reduced to $3,000 and again when the transfer duty exemption threshold was dropped to $430,000. This is coupled with a general decline in established dwelling activity.

Keeping first home buyers active in the WA property market is crucial. Evidence presented in our previous State Budget submissions indicated that first home buyer policy settings have a real impact on the broader property market in WA.

Recommendation

REIWA strongly recommends that the State Government maintains the existing transfer duty exemption for first home buyers at $430,000, and re-introduce the $3,000 FHOG grant for the purchase of existing dwellings.

[1] Estimated First Home Buyer (FHB) for established dwellings is calculated using ABS Housing Finance data and new FHB dwellings data from the Department of Treasury

Transfer duty trends

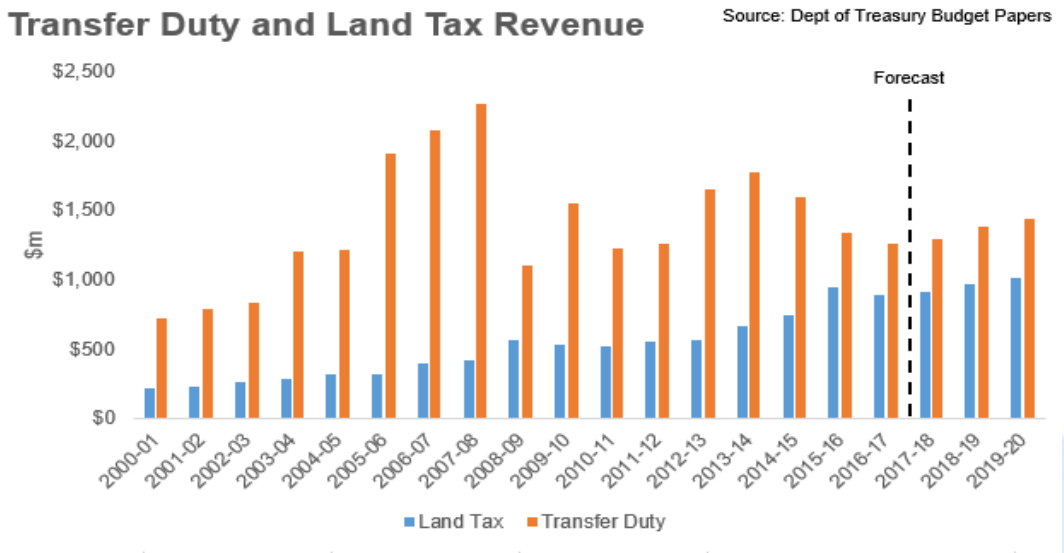
Transfer duty revenue as at the 2016-17 Government Mid-year Financial Projections Statement makes up 14.7 per cent of the State's tax revenue – almost 50 per cent of the total property tax envelope - a considerable proportion. On the whole, total property taxes equate to 33.6 per cent of the State's total tax revenue base.

In recent years, where there has been no changes to the transfer duty rates or thresholds, the proportion of transfer duty paid on quarterly median house prices has remained within 2.7 – 4.1 per cent of the quarterly median house price. Chart 11 shows the trends of actual and forecasted transfer duty revenue as per State Budget papers.

At a time when the established residential market is softening, REIWA cautions the State Government on raising transfer duty rates or changing thresholds as a means to address the shortfall in transfer duty revenue that is expected in 2017-18 and over the forward estimates.

The 2016-17 Government Mid-year Financial Projections Statement revised downwards the expected transfer duty revenue for the 2016-17 year by $134 million (or 9.6 per cent), and by eight to 10 per cent across the next two forward estimate years.

Chart 11 – Transfer duty and land tax revenue



Whilst the State Government has revised downwards its transfer duty revenue forecasts, REIWA believes there is further softening of the market which will impact sales volumes to come.

Impact of transfer duty on housing affordability and diversity of housing stock

In past pre-budget submissions, REIWA has indicated the extent to which transfer duty has an impact on housing affordability. This submission reiterates this position. It is widely understood that most buyers are not in a position to have surplus funds to cover the transfer duty impost upfront. As a consequence, buyers are forced to borrow this amount on top of the loan amount, amortizing the transfer duty cost across the whole life of their mortgage.

For example, a trade-up buyer purchasing a house at $600,000 would be repaying an additional $123.22 per month to cover transfer duty costs as part of a 30 year mortgage at five per cent. Similarly, a property costing $650,000 would incur additional costs of $136.07 per month due to transfer duty costs being amortized within the mortgage.

Within the bottom of the top-end threshold, a buyer purchasing a $700,000 property would be repaying an additional $148.82 per month. Amortizing the cost of transfer duty effectively adds $53,577 (over 30 years) to the dwelling price through principal and interest costs of the $27,723 transfer duty impost.

This simply highlights the inefficient and costly nature of this tax on a housing transaction. Whilst the State Government should be congratulated for their continued support of first home buyers through the accommodative exemption of transfer duty to the value of $430,000, this by no means justifies the existence of such an inefficient tax.

Not only is transfer duty a hindrance on affordability, but it also impacts the ability for households to make appropriate housing decisions in accordance with their lifestyle choices, changing needs or economic reasons like employment.

A key policy issue that REIWA consistently advocates on is the need for diversity in our housing stock. We know the current stock of housing does not meet the needs of society now, let alone in the future. Over 70 per cent of listings for sale are for dwellings with three or more bedrooms – this is not ideal.

It is well understood that transfer duty prohibits people from making better housing choices. For example, often older households struggle to raise the upfront cost of the transfer duty in order to allow them to right size into a house that is more appropriate for their needs.

REIWA has in the past recommended to the State Government that those households should be given the opportunity to right size and free-up their existing house by obtaining a rebate or concession on their transfer duty cost. In order to ensure that WA has the right mix of housing options and diversity needed to meet the changing needs of the community, the State Government is encouraged to look at ways in which to reduce the impact of transfer duty on the mobility of housing stock.

Recommendation

REIWA recommends that the State Government introduce a $10,000 concession on transfer duty for seniors over the age of 65 to encourage appropriate ‘right sizing’.

LAND TAX

Land tax trends

Chart 11 clearly shows the trends in land tax over the last 10 years. In the past three years, the State Government has increased land tax rates and more recently introduced additional thresholds as a means to fixing the revenue shortfall in the State budget. REIWA has in the past criticised the State Government for making these changes as they are now proving to have a longer term impact on the decision of property investors to continue to hold property.

REIWA is concerned that the decision to increase land tax in the 2015-16 budget, is having perverse outcomes on the investment decision and may lead to those investors selling their property holdings. This is particularly exacerbated in the current market as rental prices are soft and securing tenants is difficult.

In addition, this is adversely affecting self-retirees who are funded by their investment properties. This would have a significant impact on the residential rental market as supply would decline, adding pressure to rental prices. This could have flow on effects to the demand for social housing which the state government provides. With this in mind, REIWA strongly urges the State Government not to increase land tax rates or meddle with thresholds.

Recommendation

REIWA recommends that the State Government make no further changes to rates or thresholds for land tax.

LONG-TERM TAX REFORM – TRANSFER DUTY AND LAND TAX

Tax reform must remain a priority issue for the State Government. At a time when debates are being held about GST redistribution, at a national level, it will be important for the State Government to put state tax reform into context and to advocate for a more equal share of the GST.

REIWA supports the Chamber of Commerce and Industry WA's (CCIWA) latest submission to the Productivity Commission which proposes GST be reformed to create greater incentives for States to contribute to national economic growth. This should ensure that every State has an incentive to promote economic development.

For some time now, REIWA has been advocating for state tax reform. It is acknowledged that reform at a state level may be more difficult to achieve without reform at a federal level and the State's fiscal position is tough, but REIWA still believes that keeping tax reform front and centre is important to ensuring the State remains a competitive environment. In addition, reforming transfer duty and land tax will help to ensure a more sustainable revenue stream for the State Government.

In 2014, the Economic Regulation Authority (ERA) released its final paper and recommendations on the inquiry into Microeconomic Reform and state taxes featured strongly in that discussion. REIWA supports the recommendations that were made in that report and urges the State Government to consider them in earnest.

Whilst it is acknowledged that the Federal Government has undertaken a national taxation review and the GST inquiry in recent times, REIWA is of the view that the WA Government should undertake a state tax review. This review would enable the State Government to seriously look at ways of ensuring future revenue streams are more sustainable and that the well acknowledged inefficient state taxes, like payroll and transfer duty, be reformed.

REIWA supports long term tax reform that aims to abolish transfer duty and move to a broad-based land tax regime. There are a number of flow-on benefits from a land-based tax regime. It would allow for greater housing mobility across the community. Households could locate closer to employment and activity centres, thus reducing congestion, which are presently stymied by the current transfer duty regime.

Removal of transfer duty would also improve housing affordability, as most households currently borrow funds to cover transfer duty which is amortized across the life of the mortgage and increases repayments.

In their final report to the inquiry into Microeconomic Reform in WA, the ERA recommended that the State Government remove all concessions and exemptions on land tax and broaden the base (keeping the progressive scale) and as a result abolish transfer duty on residential property.[2] This is a position that REIWA supports and encourages the State Government to consider reviewing state taxes.

Recommendation

REIWA recommends that the State Government undertake a state tax review. This review must assess the viability of and financial implications on the community of a shift to a broad-based land tax system that ultimately removes transfer duty.

[2] ERA 2014, Fact sheet – Reforming state taxes.

SUMMARY OF RECOMMENDATIONS

1. REIWA strongly recommends that the State Government does not increase transfer duty rates or change thresholds.

2. REIWA strongly recommends that the State Government maintains the existing transfer duty exemption for first home buyers at $430,000 and re-introduce the $3,000 FHOG for the purchase of existing dwellings.

3. REIWA recommends that the State Government introduce a $10,000 concession on transfer duty for seniors over the age of 65 to encourage appropriate 'right sizing'.

4. REIWA recommends that the State Government make no further changes to rates or thresholds for land tax.

5. REIWA recommends that the State Government undertake a state tax review. This review must assess the viability of and financial implications on the community of a shift to a broad-based land tax system that ultimately removes transfer duty.