

## ***Duties Act 1997 (NSW)***

### **The Real Estate Institute of New South Wales Limited**

**Submission on adjusting the stamp duty “bracket creep”**

**18 November 2024**

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**AND:** The Hon. Daniel Mookhey MLC  
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# 1. Introduction

This Submission has been prepared by The Real Estate Institute of New South Wales Limited (**REINSW**) to raise concerns about the stamp duty bracket creep in the hope that Government revisits it to minimise its significant and detrimental impact on consumers.

REINSW is the largest professional association of real estate agents and other property professionals in New South Wales. REINSW seeks to promote the interests of its members and the property sector on property-related issues. In doing so, REINSW plays a substantial role in the formation of regulatory policy in New South Wales.

This submission has been prepared in consultation with REINSW's Residential Sales Chapter Committee who are licensed real estate professionals with experience and expertise in residential sales. Their extensive knowledge within the industry allows them to offer valuable insight on the impacts of stamp duty and the bracket creep in practice.

This submission outlines issues and recommendations for Government to consider in relation to how stamp duty could be adjusted to ensure it remains proportionate to the modern housing market and does not adversely impact housing affordability and turnover.

## 2. Stamp duty bracket creep.

Despite assurances in the second reading speech of the *Stamp Duties (Amendment) Bill 1986* (NSW) that increased stamp duty rates would not “affect the average home purchaser”, stamp duty is a significant cost for purchasers today. While increased property values relative to income and changes in policy are contributing factors, the stamp duty “bracket creep” is an important reason why the cost of stamp duty is so high in sale transactions.<sup>1</sup>

Properties are taxed in different brackets according to their price. Since their commencement in the 1980s, these tax brackets have only once been updated for indexing purposes and that was back in 2019, while property prices have continued to increase dramatically over the last several decades.<sup>2</sup> As a result, even median priced houses are taxed in the higher price brackets, causing stamp duty to be excessive and impacting most average buyers in a way that was not intended by the original legislation. For example, during the 1990s, very few purchasers paid stamp duty of 3% or more on the purchase price, whereas this is commonplace today.<sup>3</sup> REINSW is concerned that this has had the following unintended and undesirable consequences for the property market (noting that this list is non-exhaustive):

- **It affects housing affordability:** Today, stamp duty is a significant cost that purchasers must budget for on top of the purchase price and other costs associated with a transaction (for example, agent's fees, conveyancing, searches and inspections). Although it may appear to be a seemingly small percentage of the total purchase price, as an upfront cost, the impact that stamp duty has on housing

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<sup>1</sup> Angus Moore, 'The Growing Burden of Stamp Duty – Proptrack Report' *Proptrack* (Report, 2024)7 <https://cdn.rea-group.com/wp-content/uploads/2024/02/29101030/PropTrack-Report-The-Growing-Burden-of-Stamp-Duty.pdf>.

<sup>2</sup> Ibid; NSW Government 'Stamp duty change makes buying a home fairer' *NSW Government* (web page 06 November 2018) <https://www.nsw.gov.au/news/stamp-duty-change-makes-buying-a-home-fairer>.

<sup>3</sup> Moore (n 1) 7.

affordability can be immense.<sup>4</sup> For example, 4% in stamp duty on an \$800,000 property with a \$160,000 mortgage deposit is \$32,000, which represents 20% extra that the buyer must pay upfront in order to purchase a property.<sup>5</sup> Of concern is that a purchaser is likely to be set back \$45,000 (or approximately 6 months of a full-time net salary) for stamp duty on a median-priced Sydney home, whereas the 1983 equivalent would have only been \$1,550 or 1.1 month's salary<sup>6</sup>. This makes the bracket creep a real, significant and burdensome issue when it comes to an individual's ability to afford a home amidst a cost-of-living crisis, housing crisis and increasing property prices. REINSW is concerned that stamp duty might outprice from the property market (or at least delay) individuals who otherwise have the capacity to become an owner occupier, but who need to continue to rent because they lack funds to pay stamp duty. If stamp duty was not such a burden, these individuals could afford to purchase a property, which would help to relieve pressure on the already tight rental market. Similarly, high stamp duty costs are also likely to dissuade investors from entering the property market, and these investors would provide much needed private rental accommodation to aid the housing crisis.

- **It inhibits people's movement and sales transactions:** Recent research has found that stamp duty affects people's decisions to move and relocate their home. Analysis by the e61 Institute found that Queensland's 2011 policy to increase stamp duty found that "for each percentage point stamp duty rates rose, the volume of home purchases fell 7.2%" across regional and urban areas and houses as well as apartments.<sup>7</sup> The research went on to extrapolate that if "sensitivity is constant across stamp duty rates" that this could see an extra 100,000 moves annually were NSW to remove stamp duty altogether.<sup>8</sup> This research also found that stamp duty "disincentivises job switching, downsizing, and moving into a more suitable home, potentially closer to work or family" impacting the community's wellbeing<sup>9</sup> and, by deterring decisions to downsize, results in inefficient use of NSW's housing stock<sup>10</sup>.

The incongruence in housing stock suitability can be clearly seen from the below charts from census data showing where the spare bedrooms are both needed and located.<sup>11</sup> REINSW's view is that by restricting movement and encouraging inefficient use of NSW's housing stock, stamp duty indirectly and significantly impacts the housing crisis.

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<sup>4</sup> Nick Gavin 'Stamp duty is holding us back from moving homes – we've worked out how much' *ABC News* (News Article, 18 March 2024) <https://www.abc.net.au/news/2024-03-18/stamp-duty-holding-us-back-from-moving-homes/103596026>.

<sup>5</sup> Ibid.

<sup>6</sup> Moore (n 1) 5-6.

<sup>7</sup> Nicolas Garvin et al. 'Stepped on by stamp duty: the effect of housing transfer taxes on home purchases and people movement' *e61 Research Institute* (Report, 12 February 2024) 1 <https://e61.in/wp-content/uploads/2024/02/Stamp-duty-effects-on-purchases-and-moves.pdf>.

<sup>8</sup> Ibid, 3.

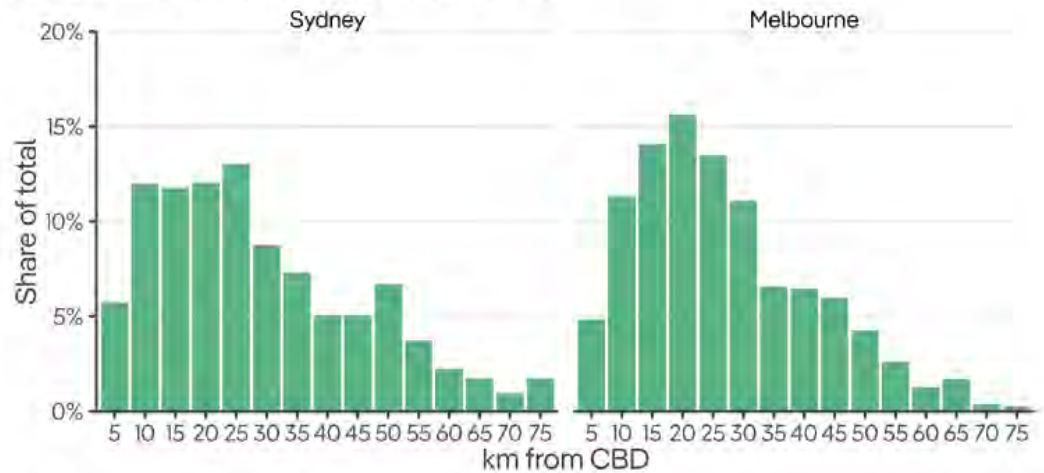
<sup>9</sup> Ibid.

<sup>10</sup> Moore (n1) 5-6.

<sup>11</sup> Ibid.

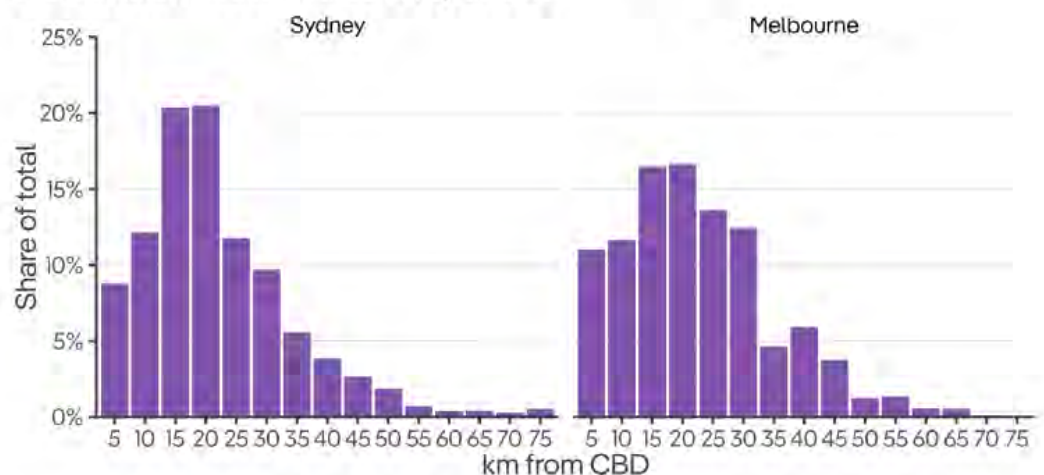
## Where spare bedrooms are located

Share of total spare bedrooms, 2021 Census



## Where homes do not have enough space

Share of total needed bedrooms, by distance



- **It inflates property prices:** stamp duty inflates property prices as vendors seek to recover these costs by factoring it into the property's price upon sale.
- **First home buyers may not always be eligible for concessions:** While first home buyer concessions can help to address the high costs of stamp duty, an individual must meet the eligibility requirements, which includes a property's price. For example, one criterion of the First Home Buyers Assistance scheme in NSW is that the "property value must be within the threshold amounts".<sup>12</sup> From 1 July 2023, to qualify for a full exemption, the property's value must be \$800,000 or less for new and existing properties and \$350,000 or less for vacant land.<sup>13</sup> To qualify for a partial exemption, the property's value must be between \$800,000 and \$1 million for new and existing

<sup>12</sup> NSW Revenue, 'First Home Buyers Assistance scheme' *Revenue NSW* (web page) <https://www.revenue.nsw.gov.au/grants-schemes/first-home-buyer/assistance-scheme>.

<sup>13</sup> Ibid.

homes or between \$350,000 and \$450,000 for vacant land.<sup>14</sup> However, given that the median property price for houses in Sydney was \$1,627,625 and for apartments it was \$806,137 as at March 2024,<sup>15</sup> not all first home buyers will qualify, especially as affordable houses in NSW are in high demand.<sup>16</sup>

- **Discourages property investment:** Private investors play an important role in NSW's rental market, especially as social housing has not kept up with demand in recent decades.<sup>17</sup> Currently, more than 944,000 rental accommodation options in NSW are supplied by private investors.<sup>18</sup> However, the Property Investment Professionals of Australia's (PIPA) 2024 Annual Investor Sentiment Survey Report found that "the past three annual PIPA investor surveys...have shown that investors are continuing to offload their rental dwellings which is fundamentally reducing the supply of stock available to tenants, with the percentage of investors selling over the past year higher than the year before".<sup>19</sup> Tellingly, almost one out of five survey participants, who had recently sold investment properties (14.1%), had owned that property for less than three (3) years with a further 29% of participants indicating an intention to sell in the coming two (2) years.<sup>20</sup> Higher compliance costs, "land tax and government charges" (57.1 and 53.3% of participants respectively), proposed tenancy reforms (47.9%) and potential rental freezes and caps (47.9%) were fundamental reasons these property investors were considering selling.<sup>21</sup> These statistics indicate that taxes, especially combined with other factors such as increased compliance costs and anti-investor reforms, discourages property investment at a time when private investors play an important role in providing much needed rental stock in NSW.

As is clear from the matters raised above, stamp duty, as it currently stands, negatively impacts property owners, affects housing affordability and turnover and discourages property investment. REINSW believes that adjustments to these stamp duty brackets in New South Wales are well overdue to ensure that this tax is not an impediment to home ownership and property investment.

**REINSW recommends** the adjustment of stamp duty rates so that they reflect the intention when initially introduced and to align them with the current property market. REINSW's view is that reducing, or adjusting, stamp duty rates would benefit Government as well as the

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<sup>14</sup> Ibid

<sup>15</sup> Domain 'March 2024 House Price Report' *Domain* (Report, March 2024)

<https://www.domain.com.au/research/house-price-report/march-2024/>.

<sup>16</sup> Moore (n1) 9.

<sup>17</sup> Paul Miller, 'The housing and homelessness crisis in NSW explained in 9 charts' *The Conversation* (Article, 16 March 2023) <https://theconversation.com/the-housing-and-homelessness-crisis-in-nsw-explained-in-9-charts-200523>; Hal Pawson, 'Why are some of the problems with the housing stress and homelessness worse in New South Wales than in other states?' *University of NSW Sydney* (Blog post, 17 March 2023)

<https://www.unsw.edu.au/newsroom/news/2023/03/the-housing-and-homelessness-crisis-in-nsw-explained-in-nine-cha>.

<sup>18</sup> Property Investors Council of Australia, Submission No 16 to the Legislative Assembly Select Committee on the *Residential Tenancies Amendment (Prohibiting No Grounds Evictions) Bill 2024*" (27 June 2024) 1-2.

<sup>19</sup> Property Investment Professionals of Australia "Annual Investor Sentiment Survey 2024" *Property Investment Professionals of Australia* (Report, September 2024) [https://www.pipa.asn.au/wp-content/uploads/PIPA\\_Investor-Survey-Report\\_2024.pdf](https://www.pipa.asn.au/wp-content/uploads/PIPA_Investor-Survey-Report_2024.pdf).

<sup>20</sup> Ibid 1-2.

<sup>21</sup> Ibid, 2.

consumer as it would stimulate the market, leading to increased property transactions and, in turn, increased stamp duty revenue.

**REINSW also recommends** that Government incentivise property investment in the rental market, thereby helping to increase much needed rental stock, by offering exemptions or stamp duty reductions to property owners who provide rental accommodation for a specified period of time (for example, a 5-year threshold). **REINSW recommends** that this stamp duty exemption or reduction could be implemented on a pro-rated basis. For example, a property investor might pay the stamp duty upfront but would receive a refund each year that they held the investment property, up to a maximum of five years. REINSW believes that this proposal would encourage long-term property investment, which would, in turn, increase rental market supply and help to stabilise, or reduce, rent increases arising from an undersupply of rental accommodation available in the market.

Alternatively, **REINSW recommends** that Government at least extend the first home buyer's grant to investment properties as well as primary residences. There are many circumstances where first-time purchasers might wish to enter the property market but are not in a position to live in the property. Just a few examples include:

- Where a person currently works interstate but wishes to buy property in NSW because it is close to family, and they intend to settle down in NSW eventually. In these circumstances, the property might not be their primary residence immediately but may be in the future.
- A person may be unable to afford to purchase in a location in close proximity to their commute or work demands and so may rent in that area while purchasing an investment property further afield. This would allow them to enter the market at a price range which is available to them.
- Where a person is still living at home with their parents but purchases a property as an investment.

REINSW's view is that extending this grant to first time investors, in addition to first time owner occupiers, would make the property market more accessible to those whose legitimate lifestyle demands do not permit them to reside (at least immediately) in the property they are buying. In the case of the last example above, a person living with their parents already has accommodation so any investment property they buy would help create a much needed surplus of rental accommodation.

### **3. Conclusion**

REINSW has considered the negative impacts that excessive stamp duty has on the market and has provided its comments above, aiming to provide input on as many pertinent issues as possible. However, REINSW's resources are very limited and, accordingly, it does not have the capacity to undertake a thorough review and is unable to exhaustively investigate all potential issues in this submission. Nonetheless, REINSW has identified a number of matters that it believes will cause significant consumer detriment, some of which appear above.

REINSW appreciates the opportunity to provide this submission and would be pleased to discuss it further, if required.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Tim McKibbin', written in a cursive style.

Tim McKibbin  
**Chief Executive Officer**