# How to Abolish Property Stamp Duties

Former heads of the Federal Treasury, Ken Henry and Martin Parkinson, have added their voices to the many others which over the years have called for replacing State Government stamp duties on property transfers with annual property taxes. Given the clear efficiency and social benefits that would result, why hasn't this idea taken hold in the major states?

The reason, and also the solution, is simple. Stamp duties are a major source of government revenue. Replacing them with an annual property tax applied to all properties would be seen as unfair to existing property owners who have previously paid stamp duty.

So, an alternative is to abolish stamp duty on any transfer after some specified date and only levy annual property tax on those properties sold after that date (ie those where the owner has not paid stamp duty). This is "fair" in the sense of no "double taxation". The tax rate could be set to generate similar annual government revenue in the long run to that lost from stamp duties.

The catch is that there would be a significant short term hit to government revenue. The State Government might forgo $5 billion p.a. or more of stamp duty in the initial years following the change. Annual property taxes on properties sold after the change could recoup the same (present day value) amount over, say, thirty years, leaving the government no worse off over the long term. But there would be a significant short term drop in government cash receipts.

Can that be easily overcome? Yes, if it were not for outmoded accounting rules and views. The simple solution (which I proposed in 2017) is to securitise the future property tax receivables. The government would receive a current cash inflow from investors purchasing securities giving them claims on those future tax receivables. This would offset the drop in cash flow from loss of stamp duty receipts.

Not only would inefficient stamp duty be immediately removed, but a new class of long term securities would be created for Australian capital markets. And there would be new issues of such securities for a number of years as more properties are sold and shift from the stamp duty regime to the property tax regime.

What prevents such a solution. Undoubtedly there are many complications in the appropriate design and sale of such securitisations. But these are matters with which securitisers have much expertise and are solvable. They could also, I'm sure, design a catchy name (maybe "Tax Return Notes") to appeal to investors.

But the big problem is the intransigence of accountants and ratings agencies. They would view such securities as obligations (a form of borrowing) of the government. Government debt would be recorded as increasing and the State's credit rating put at risk.

Logic suggests that it need not be so. When banks securitise loan receivables the securities issued do not need to be treated as a liability of the bank. A Special Purpose Vehicle (SPV) will be established into which loan receivables are sold by the bank, and the SPV will issue securities to investors to fund that purchase. Provided there is no recourse by those investors or the SPV to the bank, the bank has exchanged one asset (loan receivables) for another (cash) and not increased its borrowings.

Why should it be different in the case of a Government selling future tax receivables into a SPV and the SPV issuing claims against them? If the Government is "front loading" its cash flow stream, at the expense of future generations, to increase current spending, as can occur with excessive borrowing, there is clearly reason for concern.

But in this case, the incoming cash flow stream from securitisation is simply replacing the lost cash flow from stamp duty abolition. Those future (property tax) revenues wouldn't exist unless the negative short term cash flow effects of abolition of stamp duty revenues can be offset by the securitisation.

Yes, there is something different and potentially problematic, compared to loan securitisation, about a government hypothecating future tax revenues. But not in this case where it would facilitate a desirable change in tax structure.

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