

How does removing stamp duty for land tax impact purchasing power?

Think removing stamp duty makes housing more affordable? Not always.

20 June, 2022: On the surface it is logical to think switching stamp duty to land tax will make it easier to get into the property market. Removing stamp duty can materially reduce the upfront cost to buy a property by 0-50%. The reduction depends on the price of the property and whether you're a first-time home buyer or not. Reducing the upfront cost will increase your purchasing power thereby allowing you to enter the property market sooner.

However, replacing stamp duty with a land tax defers the cost from upfront into an annual payment. This increased expense will need to be assessed when determining your borrowing capacity. But what impact will this have on your purchasing power?

How does land tax impact purchasing power?

FrontYa research has shown the proposed land tax solution could leave poorer households worse off, and richer households better off. It all depends on how much your stamp duty is as a percentage of the property compared to the borrowing capacity reduction when land tax payments are incorporated into your assessed expenses by a home loan lender.

FrontYa analysis shows that on average borrowing capacity reduces by 3-4%, compared to stamp duty which can be up to 4.5% of the price for properties under the proposed \$1.5m purchase cap for land tax.

This trade-off means if today under stamp duty you can afford to buy a property for more than \$770k you might be able to increase your purchasing power by up to 2%, however, if your budget is under \$770k you might actually be worse off, potentially by up to 3% of the purchase price.

The analysis assumes the proposed land tax is \$400 + 0.3% of the land value each year, buyers are purchasing property for the first time making them eligible for stamp duty concessions and they are borrowing 90% of the purchase price which is often common with that customer cohort.

Some examples

See examples below for two households, one with \$100k in savings who can afford a \$721k property today under stamp duty, and another with \$240k who can afford a \$1.45m property today under stamp duty.

Household with \$100k in savings to buy a home:

	Purchase price under stamp duty	Purchase price under land tax
Deposit	\$85k	\$100k
Stamp duty	\$15	\$0
Upfront cost	\$100k	\$100k
Mortgage	\$636k	\$615k
LMI	\$13k	\$9k
Home loan	\$649k	\$624k
(-3.7% lower due to land tax)		
Purchase Price	\$721k	\$715k
(-0.8% less)		

Household with \$240k in savings to buy a home:

	Purchase price under stamp duty	Purchase price under land tax
Deposit	\$175k	\$240k
Stamp duty	\$65k	\$0
Upfront cost	\$200k	\$240k
Mortgage	\$1,283k	\$1,247k
LMI	\$23k	\$15k
Home loan	\$1,306k	\$1,262k
(-3.3% lower due to land tax)		
Purchase Price	\$1,458k	\$1,487k
(+2.0% more)		