The growing burden of stamp duty is holding Australia back

Why replacing it with a fairer, more efficient land tax should be top of the Economic Roundtable's agenda

In August, the Commonwealth government will bring together business, unions and experts to chart a path to stronger productivity. One reform stands out as urgent, obvious and overdue: replacing stamp duty with a broad-based land tax.

It's hard to find an economist who will defend stamp duty. It is one of the most damaging taxes in Australia – distorting housing decisions, penalising mobility, and locking people out of home ownership. It acts as a drag on productivity and a handbrake on a more dynamic, better-matched housing market.

A national shift to land tax would remove a major barrier to buying and selling, improve the efficient use of housing, and boost labour market flexibility – all while delivering more stable and predictable revenues for governments.

Stamp duty costs have outpaced incomes – by a lot

Stamp duty has become a major hurdle for aspiring home owners, with costs rising far faster than incomes over recent decades. Across Australia, the tax has outpaced household income growth by a wide margin. In the eastern states, stamp duty costs have grown between 2.7 and 3.4 times faster than incomes since 2000 (figure 1).

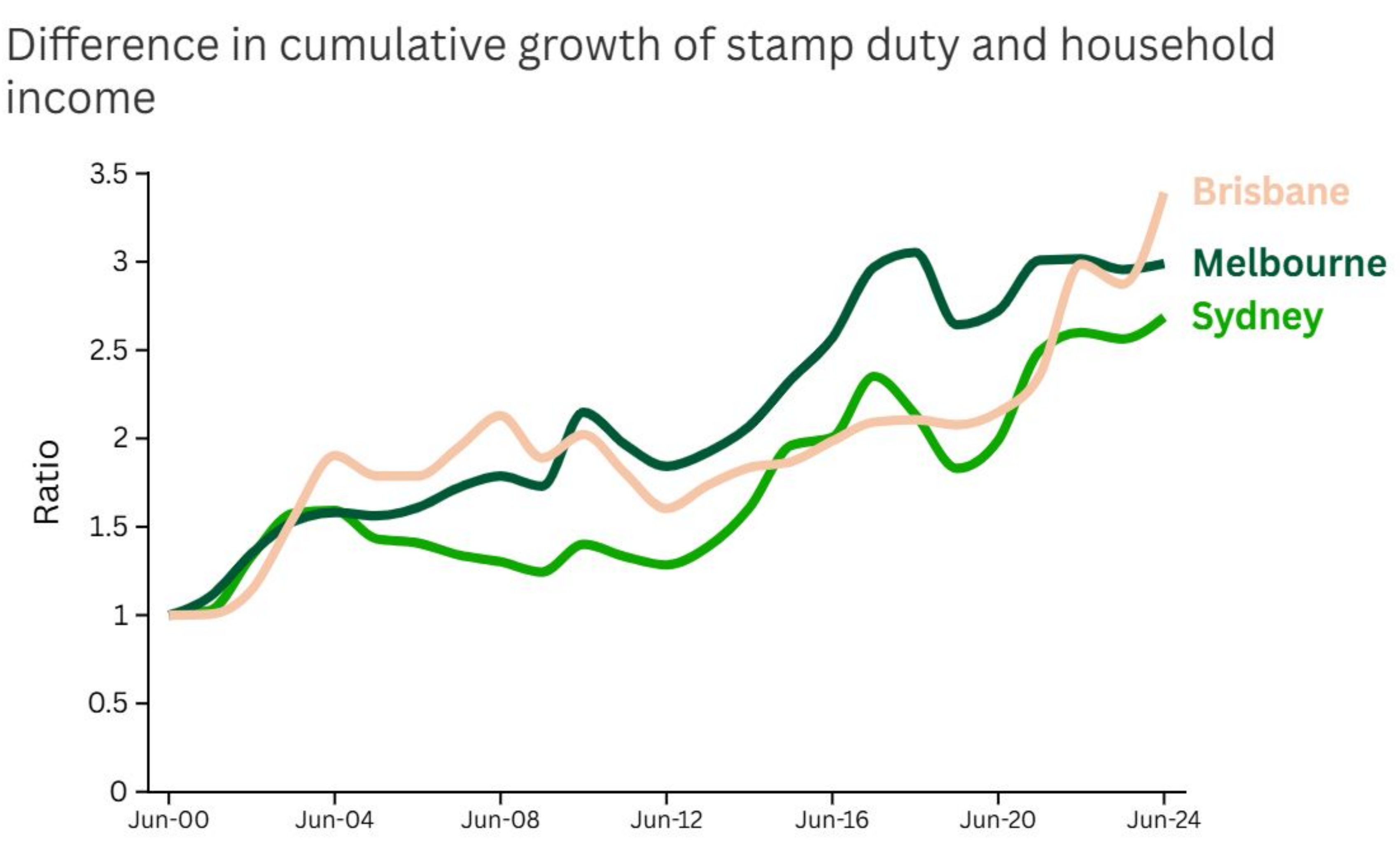
What was once a relatively manageable upfront expense is now a significant barrier, forcing buyers to save for longer and pay more – on top of already steep deposits. To put that into perspective, the stamp duty on a median-priced house in Sydney has increased from 45% of gross household disposable income per capita in 2000 to 120% in 2024 (figure 2).

While property prices have soared, incomes have failed to keep pace. The result is a tax that once helped fund local services now acts as a powerful brake on home ownership and mobility. Australians are staying put for longer, with the average hold period now stretching to nine years for houses, an increase of three years compared to 15 years ago.

Why the gap keeps widening

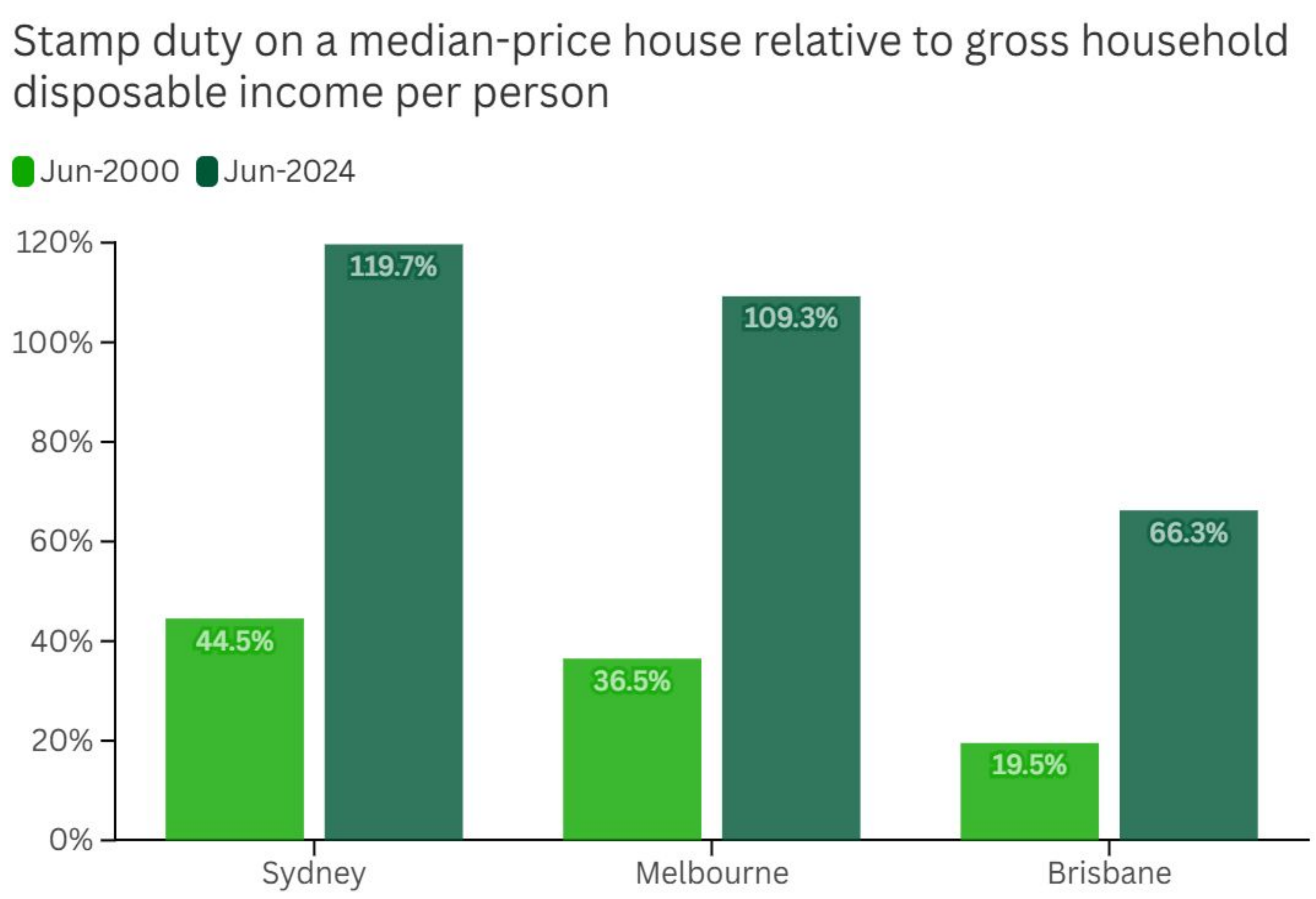
For decades, stamp duty thresholds were frozen, pushing more buyers into higher tax brackets as prices rose. Between 1986 and 2019, thresholds remained largely the same in most states – even as home values surged – pushing more buyers into higher tax brackets and inflating government revenues.

Figure 1. Stamp duty costs have increased considerably faster than incomes.



Source: ABS, Domain, Various State Revenue Offices
Note: Stamp duty estimated on median priced house. Income measured by gross household disposable income per person.

Figure 2. The financial burden of stamp duty is significant.



Source: ABS, Domain, Various State Revenue Offices

Falling interest rates added fuel, with cheaper borrowing driving prices higher[1] relative to incomes – further amplifying the impact of stamp duty on households.

Even in NSW, where stamp duty thresholds were indexed to inflation in 2019, the relief has been minimal because home prices typically grow faster than CPI. The result is a tax that climbs steadily faster than wages.

The economic cost is huge

Stamp duty is not just unpopular, it is one of the most economically damaging taxes in Australia.[2,3] For every dollar it raises, around 70 cents of potential economic activity is lost. By contrast, raising the same amount through a broad-based land tax costs the economy less than 10 cents.[4]

Its downsides are far-reaching, starting with the impact on individual buyers and rippling through to the broader economy and state finances:

- **Raises the barrier to home ownership** – adds a significant upfront cost, especially for first-home buyers who already face high deposit hurdles.[5]
- **Reduces housing mobility** – discourages people from moving to take up job opportunities, shorten commutes or find homes that better suit their needs.
- **Exacerbates housing mismatch** – locks Australians into homes that are too large or too small simply to avoid paying stamp duty. For example, some studies suggest that stamp duty is deterring close to 25% of potential downsizers.[6]
- **Discourages housing investment** – penalises improvements by taxing the increased value of upgraded properties.
- **Hurts productivity and wage growth** – limits the ability of workers to relocate to where skills are most needed, reducing the dynamism of labour markets and cities.
- **Creates volatile state revenues** – property cycle swings cause stamp duty revenues to fluctuate wildly.
- **Deepens inequities** – falls disproportionately on younger Australians and frequent movers, while long-term owners contribute nothing additional despite rising property values.

These effects lock people into homes that no longer meet their needs, reduce the fluidity of labour markets, weaken productivity growth, and expose state budgets to damaging revenue volatility. Over time, they also worsen generational divides in housing wealth and opportunity.

Studies suggest that a 100 basis point decrease in the rate of stamp duty would increase property transactions by about 10%, and the removal of stamp duty in NSW would lift transaction volumes between 40-70%.[7] This highlights the large costs that stamp duties impose on Australians, as these transactions improve the welfare of people as they transfer property to the person or entity that values the property the most.

The ACT's reform shows the way

Despite the economic benefits of land taxes, the ACT remains the only jurisdiction to fully commit to the shift. In 2012, the ACT government began a 20-year reform program to gradually phase out stamp duty and replace it with higher annual rates – effectively a broad-based land tax that applies to all residential properties, including owner-occupied homes.

This staged approach avoided fiscal shocks, gave households time to adjust, and ensured all properties contributed to revenue.

The ACT's unique governance structure – combining both state and local government functions – helped smooth the path for reform. Other states face more complex institutional barriers, particularly the need to coordinate with local councils that rely on property-based rates for revenue.

NSW's short-lived opt-in model for first-home buyers in 2020 was a step in the right direction but was scrapped in 2023 following a change in government – highlighting the fragility of reform efforts without bipartisan and long-term support.

Why national leadership is essential

The core barrier is fiscal. Stamp duty delivers large, immediate revenues to state governments, while land tax produces smaller, more predictable flows over time. Bridging that short-term revenue gap is difficult for states to manage alone.

Federal support – through transitional funding and a national reform framework – would make the shift politically and financially viable. The broader gains, from higher labour mobility to more efficient housing use, flow through to the national economy, making federal involvement not just desirable but justified. Reviews such as the Henry Tax Review have long highlighted the need for coordinated reform and federal involvement.

While some fear that shifting from stamp duty to land tax could inflate property prices, the short-term impact on prices is likely to be small. Reduced transaction costs may boost purchasing power, but this would be largely offset by higher annual charges. Over the longer term, however, the reform could lead to a more efficient use of housing – particularly lowering prices for larger homes that are currently held onto due to high transaction costs.[8]

A moment for reform ambition

Stamp duty is a relic of an earlier era: a blunt, inefficient tax from a time when property values were modest and mobility less vital to economic growth. If governments are serious about improving housing affordability, labour market dynamism and productivity, replacing it with a broad-based land tax is one of the clearest wins available. The economics are settled. The barrier is politics.

The Economic Roundtable is the moment to break that deadlock – and to put Australians on a path to a fairer, more efficient, and more mobile housing system.

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