

STAMP DUTIES IN THE AUSTRALIAN TAX SYSTEM

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I. INTRODUCTION

There exists a substantial consensus that stamp duties are seriously defective taxes. Thus many commentators have advocated the abolition of stamp duties or, at the very least, a downgrading of their importance. Generally, however, little attention is paid to the question of how such tax reform could be funded. As a result, recommendations of this type fail to influence politicians who must address the issue of the way in which such policy changes can be funded. They must place stamp duty reform in a more general tax reform context.

The objective of this paper is to review the role and performance of stamp duties in the context of the Australian tax system as a whole. The paper examines the nature and performance of stamp duties and considers whether alternative sources of revenue available to State governments could be expected to perform any better than the taxes which they would replace.

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II. DEFINITION OF STAMP DUTIES

According to the Australian Bureau of Statistics¹ stamp duties are imposed in Australia on:

- financial and capital transactions, including stamp duties on contracts, cheques, admission tickets and sales receipts;
- vehicle registrations;
- third party insurance premiums and other insurances; and
- private lotteries and betting instruments.

In practice it is impossible to identify from published data the revenues from the last two categories of stamp duties, but they can be assumed to be relatively insignificant. Thus the discussion will concentrate upon the first two categories of duties. Virtually all stamp duty revenues accrue to State governments.

III. STAMP DUTIES IN THE AUSTRALIAN TAX SYSTEM

Stamp duties are, as indicated above, almost exclusively a State tax. It is, however, useful to put them in the context of the Australian tax system as a whole.

Table 1 presents data on the broad structure of Australian taxes.

Table 1: Taxation by Level of Government

	Revenue			Proportion of Total Revenue		
	Commonwealth Govt	State and Territory Govts	Local Govts	Commonwealth Govt	State and Territory Govts	Local Govts
	\$m	\$m	\$m	%	%	%
1990/1	93410	21122	4480	78	18	4
1991/2	87528	22572	4703	76	20	4
1992/3	88814	24095	4969	75	20	4
1993/4	93309	26816	5141	74	21	4
1994/5	105097	28174	5261	76	20	4

Note: Percentages may not total 100% as a result of rounding

Source: Australian Bureau of Statistics, *Taxation Revenue, Australia*, 1995, reference number 5514.0.

State taxes consistently raise about one fifth of total Australian tax revenue.

Table 2 shows the structure of State taxes and the place of stamp duties in the State tax system.

¹ See Australian Bureau of Statistics, *Government Finance Statistics, Australia. Concepts, Sources and Methods*, 1994 (reference number 5514.0).

Table 2: State Government Tax Revenues, by Type of Tax

	1990/1	1991/2	1992/3	1993/4	1994/5
	\$m	\$m	\$m	\$m	\$m
Employers payroll taxes	5802	5904	5807	6023	6579
Taxes on immovable property	6149	6533	6698	6718	6779
Taxes on financial and capital transactions	4032	4464	4882	6000	5912
Excises and levies	388	436	484	505	532
Taxes on gambling	1946	2018	2236	2578	2958
Taxes on insurance	1176	1298	1430	1600	1688
Motor vehicle taxes	2349	2472	2781	3106	3359
Franchise taxes	2620	2842	3394	3999	4197
Other taxes	30	50	68	68	70
Fees and fines	1109	1257	1283	1359	1362
Total taxes, fees and fines	25601	27274	29063	31956	33436
Of which:					
Stamp duties on financial and capital transactions	2926	3027	3341	4165	3998
Stamp duties on vehicle registration	641	626	750	872	987
Total stamp duties	3567	3653	4091	5037	4985

Source: Australian Bureau of Statistics, *Taxation Revenue, Australia*, 1995, reference number 5514.0.

Table 3 indicates the level of importance of stamp duties as a source of State tax revenue and of overall Australian tax revenue.

Table 3: Stamp Duties as a Proportion of State and Total Revenues

	1990/1	1991/2	1992/3	1993/4	1994/5
	%	%	%	%	%
Percentage of total State tax revenue	13.9	13.4	14.1	15.8	14.9
Percentage of total Australian tax revenue	3.1	3.1	3.6	4.3	4.0

Source: Calculated from Tables 1 and 2.

In the five most recent financial years for which the relevant tax statistics are available stamp duties have represented in the order of 14-15% of State revenue and 3-4% of revenue overall.

One significant characteristic of stamp duties, the implications of which are discussed later in this paper, is the very significant fluctuations in the rate of growth of revenue. Table 4 compares the annual rates of revenue growth for stamp duties, all State tax revenues less stamp duties, and all Australian taxes less stamp duties. The unstable nature of stamp duty revenues, compared with other taxes, is clearly illustrated in this table and in Figure 1, which is based on the data in Table 4.

Table 4: Annual Rates of Growth of Revenue

	1990/1 %	1991/2 %	1992/3 %	1993/4 %	1994/5 %
Stamp duties on financial and capital transactions	-19.7	3.5	10.4	24.7	-4.0
Stamp duties on vehicle registration	-12.0	-2.3	19.8	16.3	13.2
Total stamp duties	-18.4	2.4	12.0	23.1	-1.0
State taxes, fees and fines less stamp duties	12.5	7.2	5.7	7.8	5.7
Australian taxes, fees and fines less stamp duties	4.1	-3.7	2.4	5.7	11.1

Source: Calculated from Table 2.

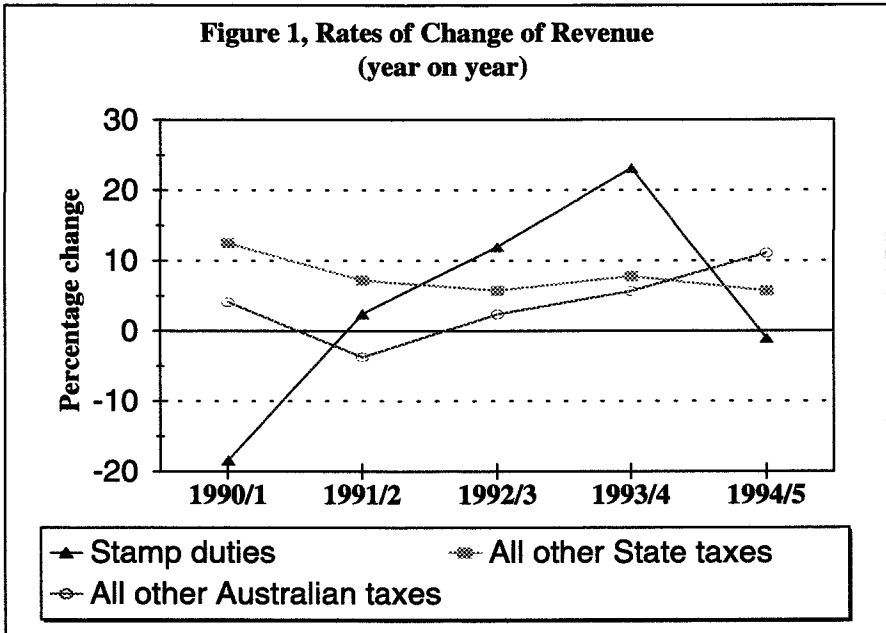
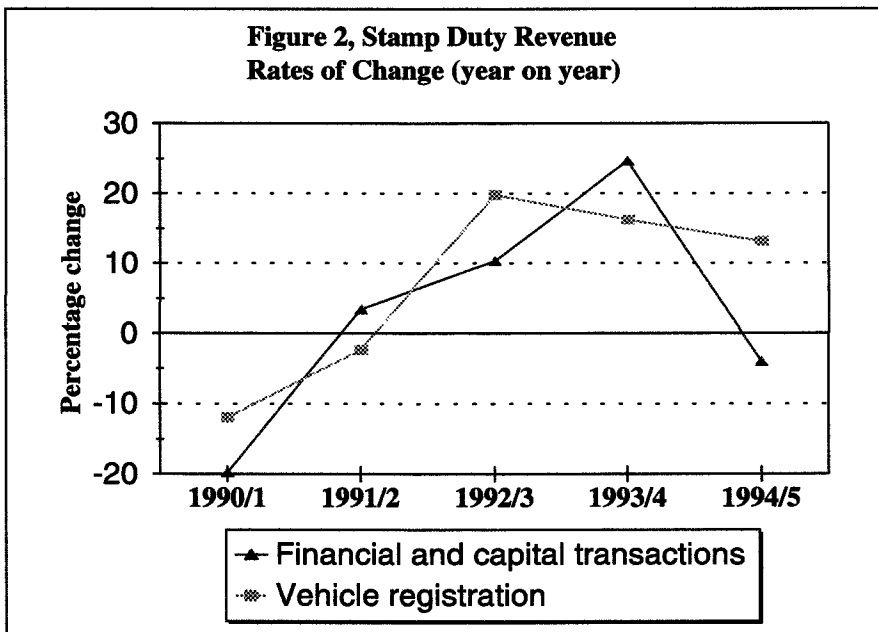
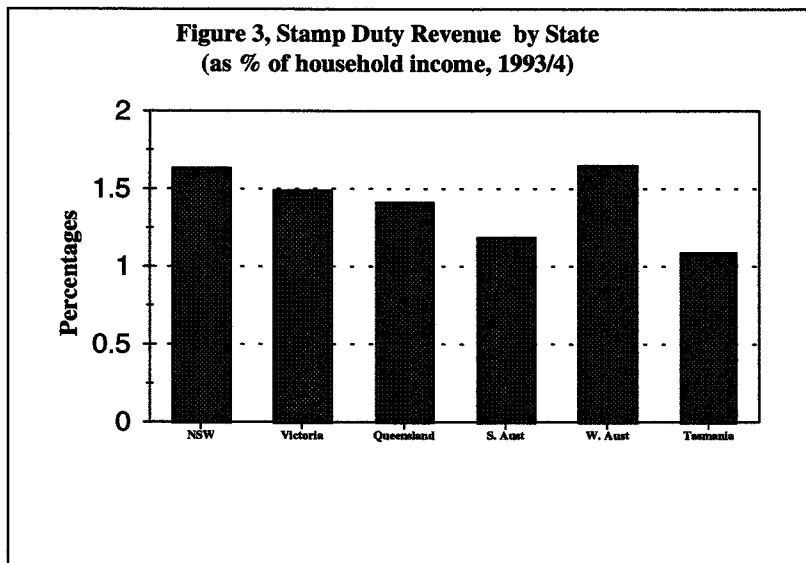


Figure 2 compares rates of growth of revenues from financial and capital transactions, on the one hand, and from vehicle registrations, on the other. This figure clearly shows the substantially greater degree of volatility of revenues from stamp duties on financial and capital transactions.



It is interesting to compare stamp duty burdens across the States with measures of ability to pay, given that these abilities vary between States. Figure 3 makes this comparison using State household incomes as measures of ability to pay. This comparison is for 1993/4, the last year for which State National Accounts² were available at the time of writing. There is substantial variation between the States in stamp duty burdens, with stamp duties as a percentage of income being relatively high in New South Wales and Western Australia, and relatively low in South Australia and Tasmania.



IV. THE STRUCTURE OF STAMP DUTIES

With so many types of stamp duty implemented in each of the six States and two Territories, it is possible to give only a general summary of the provisions of the main stamp duties.³

Contracts and conveyances duty

- Progressive rate scales.
- No tax free thresholds.
- Minimum marginal rates ranging from 1% to 1.75%.
- Maximum marginal rates ranging from 3.75% to 5.5%.
- Various concessions for first home buyers.

² See Australian Bureau of Statistics, *Australian National Accounts: State Accounts*, 1995 (reference number 5242.0).

³ The basic source for this summary is NSW Treasury, *Interstate Comparison of Taxes 1995-6*.

Motor vehicle registration duty

- Some States have flat rate scales and some have progressive scales.
- Minimum marginal rates ranging from 1% to 3%.
- Maximum rates in progressive systems ranging from 4% to 5%.

Cheque duty

- Exists only in Western Australia and South Australia.
- 10¢ per cheque.

Credit card transaction duty

- Based on sum assured (except in SA).
- Progressive rate scales.
- Marginal rates ranging from 0.5% to 1.2%.

General insurance duty

- Wide variety of provisions.
- Rates on premium paid ranging from 2.5% to 11.5%.

Share transfer duty

- On-market transactions, generally 15¢ per \$100 for each of the buyer and seller.
- Off-market transactions rates vary between listed and unlisted companies.
- Generally 30¢ per \$100 for listed companies, 60¢ per \$100 for unlisted companies.

Hiring arrangements duty (goods)

- Zero tax thresholds in some States.
- Marginal rates ranging from 0.43% to 2% of rental value.

Hire purchase arrangements duty

- Only specifically levied in NSW, Queensland and Tasmania.
- 0.43% to 2% of purchase price.
- Maximum \$4 000 per transaction in Tasmania.

Mortgages and loan security duty

- Based on sum secured.
- Substantial variation between States.
- Rates generally 35¢ to 40¢ per \$100 in excess of thresholds.

Leases of land or premises duty

- Residential leases exempt.
- Substantial variation between States.
- Rates ranging from 0.35% to 1.2%.

Loans duty

- Only in Queensland and Tasmania.
- 0.03% in Queensland.
- \$10 or \$20 in Tasmania.

V. CRITERIA FOR EVALUATING TAXES

If judgments are to be made as to whether taxes perform well or poorly, they must be made by reference to some performance standards. Economists tend to apply a standard set of tax criteria against which performance can be judged. These criteria are efficiency, equity, simplicity and revenue-raising potential.

Efficiency requires that taxes are neutral in their impact upon producer or consumer choices. Economic decisions should not be influenced by their tax effects. In practice, it is virtually impossible for taxes to have absolutely no impact upon choices, but these impacts should be minimised. This objective will be better achieved by broad-based, comprehensive taxes than by narrow-based, partial taxes.

Equity relates to the incidence of the tax, to the question of who bears the tax. Identification of incidence is a complicated task, particularly when the tax initially falls on business, as is the case with many stamp duties. Such taxes may ultimately be borne by consumers (through higher prices), employees (through lower wages and salaries) or shareholders (through lower profits, and so dividends or capital gains). Incidence estimation is necessarily an inexact science. Moreover, whether a particular tax incidence is "good" or "bad" is a subjective judgment, although there does appear to be general community consensus that regressive taxes (which bear proportionately more heavily upon low income earners) are less desirable.

Simplicity relates to the costs of the tax system, both the administrative costs to the public purse and the compliance costs borne by taxpayers.

Revenue raising relates to the revenue potential of the tax and, incidentally, to the volatility of revenue over time and the predictability of the revenue. In principle, revenue volatility should not be a problem if expenditures are smoothed over the revenue cycle rather than being adjusted to match revenues (and, as a result, fluctuating markedly) in the short-term. However, there is little evidence that Australian State governments have been able to exercise the financial discipline necessary for this type of approach.

VI. EVALUATING STAMP DUTIES

In assessing stamp duties a clear distinction should be made between duties on financial transactions and on motor vehicle registrations. The former are by far the more important in revenue terms and in this paper attention will be concentrated on them. The latter will be briefly considered later.

There have been, in recent years, various reports and inquiries which have assessed the operation of stamp duties on financial transactions in Australia.⁴ All

4 See, for example, Committee of Enquiry into the Australian Financial System, *Final Report* ("Campbell Report"), AGPS, 1981; Committee of Inquiry into Revenue Raising in Victoria, *Report* ("Nieuwenhuysen Report"), 1983; TJ Valentine and EW Wallace, *A Review of Taxes on Financial Transactions in New South Wales: Report to the Finance Industry Consultative Council*, 1985; New South Wales Tax Task Force, *Tax Reform and NSW Economic Development: Review of the State Tax System* ("Collins Report"), 1988;

have been highly critical of stamp duties and have called for their reform and/or replacement. The Campbell Report⁵ provides probably the best summary of the deficiencies of stamp duties on financial transactions and, even though the report was published in 1981, most of the criticisms still hold.

Stamp duties are non-neutral in their impact because:

- they apply to some forms of borrowing but not to all;
- they apply to life insurance policies but not to other types of saving;
- they apply to cheques (in some States) but not to other forms of payment;
- they are not levied on all financial transactions;
- their rates of duty are not uniform, varying both between States and between different classes of financial instruments;
- their incidence has a greater impact on relatively short-term asset portfolios than on longer-term portfolios.

All these defects mean that the pattern of financial transactions will be distorted by stamp duties, as taxpayers restructure their activities to minimise tax liabilities. Furthermore, interstate differences mean that the geographical pattern of transactions will be distorted. Indeed, some States deliberately exploit these differences to create competitive advantages *vis-a-vis* other States. This “destructive” tax competition tends to lead to increased avoidance activities, with all their attendant problems.⁶

Generally, the evidence of the incidence of stamp duties suggests that they are regressive and therefore, in most people’s eyes, inequitable. They are levied with scant regard to individual capacities to pay and often treat less credit-worthy or lower income borrowers more harshly. Individuals or companies engaged in large financial transactions very often have greater ability to minimise stamp duty liabilities than do small transactors.

The simplicity criterion is offended by the lack of harmonisation of stamp duties between States, although the current Rewrite promises some improvement. Interstate differences in the mix of duties imposed, and the rates and conditions of these duties, cause substantial extra costs for businesses operating simultaneously in more than one State. Because these differences provide the basis for substantial tax avoidance activity, private costs can be increased by the resources used in these avoidance activities. These activities are perfectly rational from the viewpoint of the individual enterprise since they yield private tax benefits but, from a social viewpoint, they represent wasted resources. They also necessitate substantial expenditures of public resources in anti-avoidance activities designed for revenue-protection purposes.

Stamp duties on financial transactions do not perform well as revenue raisers. Receipts tend to be volatile from year to year, as is clearly illustrated in Table 4. This volatility results from fluctuations in asset prices (particularly in real estate),

Committee for the Review of State Taxes and Charges, *Tax Reform in Tasmania Towards 2000: Today's Problem - Tomorrow's Opportunity* (“Smith Report”), 1993.

5 *Ibid.*

6 For a discussion of destructive and constructive tax competition see DJ Collins, “Competition and Harmonisation in State Taxation”, in C Walsh (ed), *Issues in State Taxation*, Centre for Research on Federal Financial Relations, Australian National University, 1990.

exacerbated in relation to some duties by progressive rate scales. Taking revenue growth rates between the financial years 1989/90 and 1994/5, financial stamp duty revenue growth (9.7%) has been much lower than the rates of revenue growth from other State taxes (45.3%) or all Australian non-stamp duty taxes (20.4%). Although this lower growth rate results partly from the stage of the asset price cycle for which the comparison is made, and partly from stamp duty reforms (for example, abolition of cheque duty in most States), the underlying revenue buoyancy of stamp duties is undoubtedly low.

As indicated above, revenue volatility need not be a problem if States are willing to undertake longer term financial planning and expenditure policies. States can generate budget surpluses in years of fat to finance deficits in lean years. However, there is little evidence of such financial self-discipline among Australian State politicians.

Valentine and Wallace⁷ summarise their evaluation of financial stamp duties as follows:

...[S]tamp duties appear to be regressive and to introduce some significant distortions into the financial system. They bear unevenly on different transactions and financial institutions, they often involve repeated taxation of the same basic transaction, and so their collection often imposes considerable and, in some cases, very substantial costs on the private sector.

Stamp duties on motor vehicle registrations can be dealt with briefly. It is hard to justify the imposition of what is, in effect, a tax on the transfer of ownership of motor vehicles on efficiency grounds, and policy-makers have clearly never thought of the tax in this light. Why tax only the transfer of vehicles, rather than the ownership of vehicles (by, for example, increased registration fees)? Why tax the transfer of ownership of motor vehicles, but not of many other forms of physical assets? The answer surely lies in the simplicity of the collection of these revenues. It would appear that both compliance and administration costs of the tax are low. In addition, revenues (although volatile) have been much less volatile than those of financial stamp duties (see Figure 2) and have risen much faster than those from financial stamp duties (see Table 4).

VII. POLICY RESPONSES TO REDUCTION IN STAMP DUTY REVENUE

In reviewing, and drawing attention to the defects of, stamp duties it is insufficient merely to indicate that they operate less than perfectly and, on this basis, to recommend that they be abolished. Any government wishing to abolish a particular tax, or to reduce the revenue importance of that tax, is faced with one, or a combination, of three possibilities to compensate for the revenue shortfall:

- increase the revenue from some other tax(es) (the “revenue-neutral” option);
- reduce expenditures by the amount of the revenue reduction (the “budget-balance-neutral” option);

7 Note 4 *supra* at p 90.

- increase the budget deficit (or reduce the budget surplus) by the amount of the revenue reduction.

At the present time, most, if not all, States are attempting to reduce their budget deficits and/or reduce State debt liabilities. Thus blowing out the deficit to accommodate tax revenue reduction cannot be seen as a realistic option.

To reduce expenditures merely to fund tax revenue reductions would be unsound practice. Expenditure decisions should be made upon the basis of rate of return comparisons (derived from cost-benefit analysis or, at the least, cost-effectiveness analysis) or of non-quantifiable social considerations (relating to such matters as education, health, policing and drugs policies). Issues involved in expenditure decisions are quite different from those relating to tax policies and they cannot usefully be linked by proposing tax cuts to be funded by expenditure cuts.

Thus the conclusion must be that tax reform proposals should be revenue-neutral - that is, if tax cuts are proposed, the sources of revenue replacement should be indicated. The issue in the present context of stamp duties then becomes, not:

- “are stamp duties a defective source of tax revenue?”; but rather
- “are there alternative sources of revenue which are less defective than stamp duties?”

Viewed in this light, the problem of stamp duties becomes substantially more intractable. It cannot be tackled without an examination of State taxing powers, which are substantially limited by provisions of the Australian Constitution.

Section 90 of the Constitution gives the Commonwealth the exclusive right to impose customs and excise duties. The High Court has interpreted this section in such a way as to prevent the States imposing sales tax, purchase tax or value-added tax. As a result of the High Court decision in *Dennis Hotels Pty Ltd v Victoria*⁸ and subsequent cases, the States are able to levy franchise (licence) fees on alcohol, tobacco and petroleum products, but the *Capital Duplicators* decision⁹ has effectively prevented the extension of this taxing power to other commodities. The reasoning in this decision is beyond the comprehension of a mere economist although it is no worse, from the standpoint of economic analysis, than the *Dennis Hotels* decision that to levy licence fees on the basis of past rather than current sales changes the nature of the tax. Both judgments are economic nonsense. The serious implication of the *Capital Duplicators* decision is that hopes of State access to a broader-based indirect tax have evaporated for the foreseeable future.

Nor do the States have access to income taxing powers. Constitutionally they are not debarred from taxing income but the Commonwealth, by judicious use of s 96, has prevented them from doing so. Section 96 confers upon the Commonwealth the power to “grant financial assistance to any State on such terms and conditions as the Parliament thinks fit”. The Commonwealth used this power as the threat by which it was able to take over all income tax collections in 1942 and to prevent the States subsequently reimposing income taxes. To be fair, the

8 (1961) 104 CLR 117.

9 *Capital Duplicators Pty Ltd v Australian Capital Territory (No 2)* (1993) 178 CLR 561.

States should also bear some of the blame, since they were reluctant to take advantage of the *Income Tax (Arrangements with the States) Act 1978* (Cth) which conferred upon the States the power to levy surcharges on federal personal income tax liabilities. Their argument was that the Federal Government had failed to make "tax room" for State surcharges by lowering federal income tax rates. In practice, one suspects, the real reason was a general sympathy among State politicians with the view of then Queensland Premier Johannes Bjelke-Petersen that "the only good tax is a federal tax". However, as soon as the States started to exhibit an interest in State income tax surcharges in the late 1980s, the Hawke Labor Government hurriedly repealed the 1978 Act. The result is that the States, for all practical purposes, have no access to income taxes, whether broad or narrow-based.

Economists normally prefer broad-based to narrow-based taxes. Broad-based taxes generally have a less distorting effect upon the allocation of productive resources, that is they create fewer competitive advantages or disadvantages based on tax considerations. Revenues are more robust because broad-based taxes are less susceptible to avoidance activity. There is no reason to think that broad-based taxes will necessarily be more (or less) regressive than narrow-based taxes. This depends upon the nature of the particular taxes under consideration. Unfortunately, constitutional factors prevent the use by States of broad-based taxes, and therefore their use as replacements for stamp duties. This fact is reflected in Table 2, which shows the types of taxes used by the States.

If stamp duties were to be abolished, or their revenues reduced, would the available alternative tax sources represent improvements? The replacement tax sources should be broad-based so that they would be relatively neutral in their effects, avoiding unnecessary distortions in private or business choices. They should either be harmonised across the States or levied upon tax bases which are relatively immobile and therefore would not migrate to other tax jurisdictions if significant interstate differences remained. Taxes whose bases either are immobile or have low interstate mobility will not be vulnerable to interstate tax avoidance activities.

In the search for revenue sources alternative to financial stamp duties, the following approaches or a combination of them are available:

- expand the base of existing taxes;
- increase the rates of existing taxes;
- introduce new taxes.

In 1994-5 financial stamp duties raised almost exactly \$4 billion, 7 per cent of total State tax revenue.

Some indication of the potential for *expansion of the bases* of State taxes is given by calculations by the NSW Tax Task Force of the levels of tax expenditures in that State in 1986/7. A tax expenditure represents the cost of exempting certain activities or assets from liability to a particular tax. In other words, it is the revenue loss resulting from a failure to implement a fully comprehensive tax base. A summary of the NSW Tax Task Force results is presented in Table 5.

Table 5: Estimated Tax Expenditures, NSW, 1986/7

Type of Tax	Tax Revenue	Tax Expenditure	Expenditure/ Revenue
	\$m	\$m	%
Payroll tax	1724	479	27.8
Stamp duty	1307	97	7.4
Land tax	346	1886	545.1
Business franchises	382	108	28.3
Liquor and gambling taxes	760	75	9.9

Source: NSW Tax Task Force, note 4 *supra* at p 125, Table 10.1.

Since there has been little significant tax reform since these calculations were made it is to be expected that broadly the same percentages of tax expenditures to total revenues still apply. Similarly, it is likely that broadly comparable percentages apply to the tax systems of the other States, although direct evidence of this is not available.

The State taxes for which base-broadening could yield significant revenues are payroll tax and land tax. The sources of revenue loss for these taxes were:

Payroll tax exemptions for small businesses; charitable, educational and religious bodies ("CERs"); non-commercial local government employees; hospitals; and non-profit bodies.

Land tax land tax thresholds and exemptions for owner-occupied dwellings, non-company owned farms, councils, CERs, clubs, friendly societies, unions and employer-bodies.

Of the payroll tax expenditures 83 per cent was attributed to the small business tax-free threshold. Of the land tax expenditures 55 per cent was accounted for by the exemption for owner-occupied dwellings and 24 per cent by the exemption of non-corporate firms.

The NSW Tax Task Force's calculations might have included inheritance and gift taxes which, prior to their abandonment by the States in the 1970s, yielded more than half as much revenue as was attributable to stamp duties. In this case the tax concession was so great that the tax disappeared.

Before consideration of possible revenue sources to replace stamp duty revenues three points should be emphasised:

1. The real need would be to eliminate stamp duties whose initial impact is on business rather than on private individuals. These are the stamp duties which produce both the major distortion of economic activities and the major use of resources in tax avoidance activity and government measures to counter that avoidance.
2. It would not seem desirable to replace stamp duties borne by business with some other form of tax which is directly borne by private individuals. This

is partly because this type of tax reform would very probably lead to a less progressive/more regressive tax system. It is also because the change would represent an effective shift of some part of the responsibility for tax raising from the Federal Government to the States, since State business taxes are deductible for the purpose of the Federal company income tax but State taxes on individuals are not.

3. It is not to be expected that any assistance in the provision of alternative revenue sources would be forthcoming from the Federal Government. There seems no prospect that the Federal Government will, in the foreseeable future, either devolve extra taxing powers to the States or enter into some Federal tax revenue-sharing arrangement. The States must find their own solutions to the stamp duty problem.

VIII. SOURCES OF REPLACEMENT REVENUE

Amongst existing taxes, the one that stands out as a source of substitute revenue is the payroll tax. This is a tax which has a bad reputation in business and the community at large but which has a much better reputation among economists.¹⁰

It is nowhere near as discriminatory against the employment of labour as is generally believed (because there is a substantial embodiment of labour costs in the costs of capital equipment). It is levied at much lower rates in Australia than in many other countries. Its effective rate is reduced by the fact that it is a deductible expense against federal company income tax. A combination of a broadening of the base, achieved by reducing the small business exemptions, and an increase in the rate would have the potential to produce substantial extra revenue. The inflationary impact could be expected to be small in a revenue-neutral change.

There is, as Table 5 indicates, substantial scope for broadening the base of land taxes, particularly by removing the exemption, available in all States except Victoria, for the primary residence. The basis for this exemption is surely political expediency, as opposed to rational tax policies.

Some scope exists for raising the rates of franchise taxes, even if the *Capital Duplicators* case has effectively prevented any base expansion. An increase in tobacco taxation could be justified on the basis of the high costs which smoking imposes on the community as a whole.¹¹ There would be strong arguments for replacing the stamp duty on motor vehicle registrations with the broader-based tax on fuel use, which would not discriminate against the purchase of new vehicles or the transfer of ownership of second hand vehicles and which would provide extra incentives for fuel conservation.

The Campbell Report¹² originally recommended replacement of distortionary financial taxes by a broader-based financial institution duty ("FID"). The

10 See, for example, I Kerr in DJ Collins (ed), *Vertical Fiscal Imbalance and the Allocation of Taxing Powers*, Australian Tax Research Foundation, 1993, pp 83-7.

11 See DJ Collins and HM Lapsley, *The Social Costs of Drug Abuse in Australia in 1988 and 1992*, National Drug Strategy Monograph Series No 30, AGPS, 1996.

12 Note 4 *supra*.

subsequent introduction of the FID has, however, been used more as a source of increased revenues than as a replacement for pre-existing stamp duties. Substantial avoidance and administration difficulties with FID have emerged and State tax reviews have tended to favour new forms of financial taxes.

The NSW Collins Report¹³ recommendation 20.15 proposed the introduction of a broad based stamp duty on loans and credit (a "financial accommodations tax"). A subsequent NSW review¹⁴ recommended a tax on the assets of financial intermediaries (a "financial assets tax"). The Tasmanian Smith Report¹⁵ favoured a financial accommodations tax, together with the replacement of conveyancing duty by use of a broader land tax base.

There would appear to be no other State taxes, actual or potential, which would be capable of yielding sufficient revenue to finance major stamp duty reform (unless by some unprecedented miracle of interstate co-operation it proved possible to reintroduce death and gift duties). The political resolve of policymakers to increase revenues from the taxes discussed immediately above must be seriously doubted.

IX. CONCLUSION

It is clear in principle that the phasing out of stamp duties is desirable for reasons of efficiency, equity and simplicity. In practice, the issue is complicated by the limitations on State taxing powers and the unwillingness of State politicians to reform taxes in a way which, while improving the integrity of the tax system, would be likely to prove electorally unpopular. The States have not been helped by Commonwealth attitudes which have recognised the urgent need for tax reform at the Federal level but which have seen no need to provide the necessary support for State tax reform.

It is difficult, therefore, not to feel pessimistic about the prospects of reform of stamp duties. There have been too many disappointments in the past to permit optimism for the future.

13 *Ibid.*

14 See NSW FID Committee, *Financial Institutions Duty - A Better Way?*, NSW Office of State Revenue, 1990.

15 Note 4 *supra*.