



## Submission

### Property tax/Land tax/Stamp duty

Thank you for the opportunity to make a submission in relation to the proposed property tax.

There is too much uncertainty as to how the market would react to a property tax and who would take it up. In my view uncertainty equals volatility and this is not a good thing for a stable real estate market. The property tax will work for a few that can benefit in the short term, which will shift the current burden from Property developers and short-term investors to family homes and farms. The complexity with the different rates for farms, homes, investments and commercial property is also a concern as it complicates and confuses matters as well making it administratively challenging.

Any tax on property, whether it is land tax, stamp duty (transfer duty) or a property tax creates distortions in the market and a barrier to ownership. Any tax is a burden; however, it is accepted that taxes are necessary for a society to operate. Therefore, taxes need to be simple and fair. Stamp duty for all its faults is simpler and a fairer tax than a Property tax.

The proposition that a change to a property tax will result in more Australians achieving home ownership seems to be merely wishful hope. A property tax will be a bigger financial barrier to home ownership, as it is an ongoing cost that will increase over time, making it more difficult to borrow and budget and plan for families and retirees as well as investors. The proposed property tax would also create a confusing market for real estate as there will be properties that are locked into the property tax and some that are not. There is a high probability that there will be a significant difference in value of identical properties dependent on whether they are locked in or not to a property tax.

Banks already factor in local council rates and will now have a property tax to consider as to the amount they will lend responsibly. Banks understand and appreciate that a property tax will be a risk to home ownership, as a borrower has to commit to an uncertain amount in future years. The amount they will lend will therefore be reduced and make it harder for most Australians to purchase a home.

Shifting the land tax burden from investors and developers to family home owners seems to be a high-risk strategy. It is clear from the consultation paper that Land tax is a distorting tax falling on a small proportion of land owners, and has been increasing at a rapid rate. This burden is merely a result of escalating land values and not by any action by the land holder. Perplexingly the answer seems to be to shift the burden from these land holders who are predominantly investors to family home owners and farmers.

There is no basis for the assertion that this new tax will inject \$11 billion over 4 years into the economy. It might cost the NSW government \$11 billion in lost stamp duty revenue but this does not

mean that it will stimulate the economy. It might merely be absorbed by higher property prices and greater profits by property developers. Further, any economic benefits in the short term will be quickly offset by rapid increases in property tax revenue over time. This injection into the economy is based on the assumption that people will embrace the proposed property tax. It is noted that large commercial property managers have already publicly indicated that they will stick with the existing Stamp duty as they are long term investors. And accounting firms are indicating that the advice they will provide clients with, would generally be to stick with stamp duty unless there were clear short-term benefits. Farming organisations have also suggested that for cyclical businesses subject to droughts a property tax should be avoided. The common theme is that if you are a long-term investor then the Stamp duty option is a much better option.

As a retired accountant having dealt with many clients from Public companies to individuals, my view would be that property tax would provide substantial benefits to some, and financial stress and uncertainty to others.

#### The big winners would be

##### Property developers

- As it would be easier to sell to an investor both overseas and local. A common complaint is that overseas investors want the developer to pay the stamp duty cost, and many reluctantly do. It is a cost to both the developer and investor.
- As it provides opportunities to transfer properties within corporate groups to achieve financial advantages. To distort values by transferring at above or below market values depending on the circumstance.
- Opportunities to avoid or evade income tax and GST, by sales to related entities offshore or family at below market values. This would distort values and the property tax on similar properties.
- Opportunities to launder funds through multiple property transfers, during the construction phases. Movement to an associated entity and then the original entity is liquidated.

##### Overseas investors

- Stamp duty is not tax deductible
- Property taxes will be tax deductible, reducing income tax paid

##### Renovation flippers

- Increase profits by not having to pay Transfer duty (stamp duty) and Land tax.

##### Accounting firms

- Provision of financial planning advice in relation to home ownership, holiday homes, farms and property investments.
- Preparing corporate structures for home ownership.

#### The losers would be

##### Families

- Property tax will not be tax deductible
- Less disposable income on a year-on-year basis
- Need for professional financial planning advise as to how to purchase a home, or holiday house or investment property.

##### Federal government

- Loss of revenue from Increased tax deductions for certain investors, and greater scope for tax avoidance and evasion.

Financial implication of this new tax and the variants/options will require professional financial planning for families. A significant cost that is currently not required. As a retired accountant I would estimate it would take a minimum 10 hours to work through an individual's circumstances to make a very tenuous proposal as it would require insight to future circumstances that are unknown. It is also acknowledged that families would generally not see an accountant and would try and make a decision based on emotion.

People on fixed incomes will be attracted to the property tax option. It is likely to be the most expensive in the long term for them, and place them into financial stress as property taxes increase with time and their incomes do not. Any graph showing wage growth (stagnant) and property prices (exponential) will show a rapidly increasing gap. Their disposal income will decrease and there will be an adverse impact on the NSW economy.

Young families might be attracted to the property tax option for their first home. However, if they live in that home until retirement their financial position will have been compromised. Having potentially paid 10 times, the stamp duty in real terms. Most will have locked in a 30-year mortgage and the future interest rates will not be known.

The proposed property tax is not so much of a reform but just another tax on property. It is not a broad tax on all types of appreciating assets in NSW, just property.

Stamp duty was to be abolished with the introduction of the GST. It did not happen. The spin doctors just changed the name to a transfer duty. People will not trust this new tax and given the long implementation period the risk is high for all residents of NSW.

Some investors will opt for the property tax option. They will pass on the cost to tenants. Rents will increase. No matter what the safe guards this is what will happen over time.

Many people are calling the proposed property tax a home ownership tax. Effectively a penalty tax for owning a home. It is a new tax, as Stamp duty and Land tax will not be abolished.

Commercial tenants generally pay outgoings. That is, they pay the landlords land tax currently. These businesses will now be paying property tax which will be a combination of stamp duty and land tax. This will result in NSW being viewed as not suitable for businesses or at least as a high-cost State.

Many studies have found stamp duty as a tax that should be removed, as it is a burden. However, a property tax is a greater burden to both families and most business. As a retired accountant working with Property developers, they have been pushing for stamp duty to be replaced with anything else for decades. It is the holy grail for them, as it will increase their profits and provide multiple opportunities to avoid or evade tax through rapid property transfers with associated entities. Property developers have often had to discount their apartments by the cost of stamp duty particularly to overseas investors.

Stamp duty is simple to understand and calculate when purchasing property. Property taxes will be more complex as future increases will not be known and individual circumstances might change. Examples being

- Loss of income

- Reduced income
- Birth of children
- Pandemic
- GFC
- Retirement
- Ill health

All of the above will have been stressful and with the added financial stress of a property tax I would be very concerned for their wellbeing.

Interest rates. What will happen if interest rates start to increase? What will happen to the real estate market and NSW revenues? Just imagine the stress that families with large mortgages will face and if they have opted for the property tax, they will be under extreme pressure to sell. They will become forced sellers as over 50% of their income will be to provide a home to live in.

The property tax is a penalty tax for homes or property ownership. This is recognised in the consultation paper as one of the aims is to reduce the values of homes over time, by having a property tax. Which means that the tax will be a greater burden than Stamp duty and disposal income to spend in NSW. This will distort the real estate market with some properties increasing in value (stamp duty option properties) or potentially decreasing in value if burdened with a property tax.

Property tax on unimproved land benefits apartments over homes and farms. This is why property developers are so keen on this model. It benefits their products and penalizes people who would prefer a home and a garden.

The property tax is effectively a wealth tax for land ownership, whether for homes, farms, or holiday homes.

The cost to the NSW government is a huge risk. The debt from moving from stamp duty to a property tax will take 50 years to repay and the challenges that might arise in that period are unknown.

The cost to a property owner from a property tax would equate to them agreeing to provide an annuity to the State government while they wish to own a property. It seems crazy for an ordinary person to be committing their life to provide an ongoing annual payment to the government for the rest of their lives if they want to have a home.

Using council rates as a model is disappointing as council rates have doubled in 10 years. People know this, and will assume property tax will double at least every 10 years. Does the NSW state government want voters be as dissatisfied with the State government as they are with their local council? Each time a property tax bill arrives they will be unhappy and question what they are getting for the tax.

Consider how much a family will be taxed on even on a modest small home on the outskirts of Sydney or even Wollongong

- Local rates
- Property tax

What will be their disposal income given many will also have a HECS debt and income tax? It is most likely to be almost half of their income will go in taxes.

Disconnection between income and assets. Raising taxes on people who might have assets but not income. Buying a house should be an asset decision and stamp duty is part of that asset decision. If a person does not have sufficient income, they are likely to be seduced into a short-term decision about the property tax, but ultimately find themselves in financial stress.

Shifting the burden from apartments to family homes with a backyard seems to be policy driven by property developers. Stamp duty is based on the value of a property while the property tax will focus on the unimproved land value. As an example, a \$2 million apartment or a family home currently attracts the same stamp duty, but a property tax will more aggressively tax a home on land, or even a farm, relative to a waterfront apartment purchased by a foreign investor. This does not seem fair or equitable.

This reform will take nearly 50 years to implement and the protections and safeguards mentioned are admirable. The critical question is do the people of NSW trust the government to maintain the protections and safeguards, and not change the rules. The answer would have to sadly be NO.

The proposed property tax is complex and confusing compared to Stamp duty. Property tax is also impossible to quantify from a financial planning perspective as it is unknown and is dependant on the persons ongoing income to pay and future land values. Stamp duty is also a burden; however, it is incurred at a time when a capital decision is being made and will not impact ongoing disposable income. In my view stamp duty is fairer and more equitable as it is certain, quantifiable and payable at a time when people are making a capital decision, and equally taxes apartments and homes.

**Below is your suggested topics for discussion which I have completed, reflecting my views.**

The following are just some of the topics on which public comment is sought:

Discussion topic	Observation/comment
1. Do you agree that stamp duty is out of date and is a handbrake on the economy? Is there merit in replacing it with a broad-based annual property tax?	No. A property tax as proposed will be a greater hand brake on the economy. A property tax will be more complex and create distortions in the market.
2. The annual property tax would be based on unimproved land value, much like the way council rates are currently calculated – what do you think of this approach?	This is shifting the burden from apartments to those that have a house or a farm. Property developer utopia.
3. Do you agree that it would be attractive to be able to choose an annual property tax rather than paying a large lump-sum stamp duty on a purchase and, for investors, the current annual land tax?	Only if I were a property developer or short-term investor, as I would be shifting the burden to others in the community and generating greater profits that I could potentially conceal.
4. Is an opt-in and gradual approach the best way of ensuring a fair transition to the property tax?	I do not support the proposed property tax as it will distort the market and create confusion. Properties that are burdened with a tax for life and others that are not.

5. Would you delay a home purchase if it meant you could opt-in to the property tax? Should there be a limited window for retrospective opt-in to the property tax, after it commences?	No No
6. Should there be different property tax rates for residential owner-occupied properties, residential investment properties, farmland, and commercial properties?	There should to try and make it fair, but it adds complexity and confusion especially if circumstances change. Also consider holiday homes and units.
7. Given this tax reform is an investment into our future, do you think it is worth the cost?	It is a huge risk to the NSW government and all residents; it is unclear how the market will react and what will happen to interest rates in the future. NSW might become a high tax anti-business state.
8. Should price thresholds be used to exclude people buying the most expensive properties from being able to choose the property tax?	Do not understand this question. Are you thinking commercial properties or a socialist position for wealth distribution? Or are you assuming that wealthy people would for some unknown reason be attracted to a property tax?
9. What arrangements should be made for residential and commercial tenants if their landlord chooses to pay the property tax?	This seems to be a privacy issue. Is it proposed that tenants are told what taxes a landlord pays?
10. What should happen for people who have chosen the property tax, but then can't afford it?	Good question. This will be a significant issue for many. It seems that the government would have to become a financier and this will add cost and complexity to this proposed tax.
11. What is the best way of ensuring that the property tax remains affordable for taxpayers, while generating the same amount of long-run revenue as stamp duty and land tax?	Good question. My concern is that it will not be affordable for many that have chosen it, and that politically there will be changes and the burden will shift over time.
12. Is there a specific aspect of our proposed reform you would change to help make the proposal better?	Stamp duty for all its faults is simpler and fairer. The current land tax system reflects the problems that a property tax will create in the future