From: [redacted]
Sent: 15/03/2021 4:13:39 AM
To: Tax Reform Taskforce [taxreformtaskforce@treasury.nsw.gov.au]
Subject: NSW property tax reform

Flag: Follow up

Dear NSW Treasury,

Thank you for allowing the opportunity to respond to the NSW Proposed Property Tax consultation paper.

As a property owner, investor/landlord and community member please find below the concerns and feedback on the NSW Proposed Property Tax. Unless particular items below are acted upon by Government, we will find ourselves paying much more property taxes in the future than we do now.

LOSS OF LAND TAX THRESHOLD

Of major concern is the fact that the Government has not specified how the annual increase in the existing land tax thresholds will be calculated or if indeed, there will be land tax threshold increases each year as there has been in the past.

If Land Tax thresholds are not increased in the same manner in which they are currently done pursuant to section 62TBB (3) of the *Land Tax Management Act 1956*, *("the percentage by which average land values of land within residential, commercial, business and industrial zones have changed between 1 July one year and 1 July the next")*, <u>then it will be obvious that this lack of increasing threshold that has existed in the past is not being renewed in order to specifically force investment land owners move over to the new Property Tax.</u>

Over the last 10 years, the average percentage increase of the General and Premium land tax threshold has been 6.6%. With increasing land values without a corresponding increase in the land tax threshold, all investment property owners will eventually be hit with land tax once their land values eventually exceed the current stationary threshold.

If that is the case then no property investor will want anything to do with the proposed Property Tax.

THE EFFECT ON SMALL SELF FUNDED RETIREMENT INVESTMENT OWNERS

The proposed Property Tax payment scheme for investors in the long term is unsustainable. Property is used by the majority of property investors as a vehicle to build equity for retirement and thus allow the individual to fund their own retirement rather than rely on Government handouts.

Given that the average number of investment properties owned by any property investor is 1.49 (refer ABS and ATO statistics although you may have better access to the exact average calculation), the proposed Property Tax will hinder middle class working small (typically denoted as “Mum and Dad”) investors to build their retirement funds as costs keep increasing.

Property owners (in particularly investors) are now being continually penalised or disadvantaged by Government policy, higher lending rates and tenancy legislations that make investing in property more difficult and less financially viable.

HOW CAN THE ELDERLY MEET NEW PROPERTY TAX PAYMENTS FOR THEIR OWN HOME

Our membership is concerned that the focus of the Government is on the deflection of the real issue which is to introduce a new money train for the Government with property purchases. Is the Government able to explain how, in 30-40 years' time, an elderly person is going to meet an additional land tax impost on their home, when currently most struggle to pay their rates and power bills in today's market? Will this not only increase this hardship and force more elderly home owners on to Government assistance again?

OWNER OCCUPIER AND INVESTOR SHOULD BE AT THE SAME RATE

Land should be taxed the same base amount and rate for all people and not provide advantages or disadvantages to one group or another. Under the current system this is done because Owner Occupiers and Investors with only one or two properties (and thus total NSW Land Value under the $755,000 threshold) do not pay land tax.

In proposing the new Property Tax, the Government quotes the manner in which Council rates are levied as an example of how the new Property Tax will work.

Council rates are the same for everyone with a possible discount for seniors. Why does the NSW Government not follow a similar methodology for all property owners and thus charge the same rate for both Owner Occupiers and Investors? And if it does want to have a system similar to that of Council rates, then also provide a discount for seniors?

The new Residential Investor Property Tax rates shown are significantly higher than the Owner Occupier rates. At this stage with an Unimproved Capital Value of say $450,000, you are looking at $6,000 per year Property Tax compared to $1,850 for the Owner Occupier. This is more than three times the amount. This is too much of a difference. Investors should not need to pay three times as much as an owner occupier in Property Tax.

Whether it is recognised by the Government or not, residential property investors do help to provide housing to those who cannot afford to purchase their own home and helps to assist in providing housing where the Government is often expected to provide such housing – e.g. housing commission or "social housing".

Since some of these Residential Property Investments thus provide an element of social housing, especially whilst the Government is in the process of selling a lot of such public housing, investors should not be penalised in the way that they currently are but rather be supported. This would thus help the Government in the provision of housing, property investors to not rely on Government grants in retirement and social housing for the community – a win/win/win situation.

In discussing the role of Residential Property Investors in providing housing for those not able to yet purchase property, rents should be determined by market conditions and not have additional Government imposed factors which favour the tenant to the detriment of owners. More and more legislation and rules are being enacted by Government for the benefit of tenants and this is a good thing. PICA's view is that any property investor who does not treat their tenant in a manner which they themselves would want to be treated as a tenant, should not be a property investor.

However, it is the property investor and not the Government that is the entity that must pay for all of the additional costs that these changes cause and which are solely for the benefit of the tenant. Yet whilst the Government is decreasing its social housing expenditure, it expects the costs caused by these new rules to be borne by the property owner. Property owners everywhere would always support additional legislation and rules for the benefit of tenants if all of the cost burden of such rules was paid by the Government.

For this reason we call for the new Property Tax to be the same for all property owners and not a different rate for Owner Occupiers versus Investors.

WHY NOT SIMPLY CHANGE THE STAMP DUTY TO A FAIRER RATE?

When Stamp Duty was first introduced by the NSW Government it was at 0.5%. If the Government wants a fairer tax then Stamp Duty should revert more to the original level than the current 4+% which has only disadvantaged property buyers across NSW. That would be a fairer system for all people purchasing property.

CAPPING RENT INCREASES?

This new Property Tax will eventually result in increased taxes for the majority of property investors. As ATO statistics (2017-2018) show, around 90% of residential property investors own only one or two investment properties and the majority of these people in NSW have total NSW land holdings which are below the current land tax General threshold of $755,000 for 2021.

Increased taxes have to be paid by someone. It is lacking in sense to believe that taxes may be increased and rents will not increase because a household at the 'end of the line' will 'feel the pinch' and respond in some way. If property investment was a risk-free investment, why would the Government not become more involved in this themselves?

Property investment has been taken on by many Australians and New South Wales citizens because they feel they do not have the business acumen or capability to commence their own business, they are too worried about the total loss of their savings to invest in the stock market and they cannot get anywhere near a reasonable return on any funds they may have in the bank. Yet these same citizens want to try and give themselves every possibility to be able to eventually retire and not go to the Government in retirement for continual handouts.

This only leaves Property Investment as a means of achieving this and the majority of these investors do not know enough about anything other than Residential Property.

Such property investors should not be penalised by having onerous rental caps in place or tenancy legislation aimed specifically against them. It is already the case that property investment has become much more difficult due to Government and Banking decisions which have targeted property investors by increasing the interest rates for Investors and for Interest Only loans. When the Government and Banks took these decisions to make it easier for Owner Occupiers, they did not reduce the interest rates for Owner Occupiers but instead increased the interest rates for investors.

Further disadvantaging Residential Property Investors by making them pay three times the amount of Property Tax as for a normal Owner Occupier is wrong.

OUT OF PROPORTION WITH WAGES GROWTH

Land value increases at a greater rate than wages growth. The Government needs to set this new Property Tax such that annual increases in the Property Tax are based on the actual increase in wages of the people and not simply applying a percentage increase based on Government land valuations.

PROVIDE ADVANTAGE FOR ACCOMMODATION FOR LESS WELL-OFF

The Government should look to provide concessions for holders of multiple properties who provide accommodation for people who cannot afford property. Governments now appear to be selling off Government or community/social housing and wanting everyday Mum and Dad investors to fill the gap.

Investors should be encouraged and incentivised to keep providing accommodation thus creating more housing for people who may not be ready or able to buy. -

BAD DEAL FOR THE MAJORITY OF RESIDENTIAL PROPERTY INVESTORS

LOSS OF LAND TAX THRESHOLD

This is a really bad deal for owner occupiers or owner occupiers with only one or two investment properties. The majority of investment property owners are in this category – (The average number of investment properties owned by Australian residents who own any investment property is 1.49 based on ATO statistics 2017-2018). Currently no land tax is payable in the case of an owner occupier or an owner occupier with one or two investment properties (where total investment land value in NSW is less than $755,000 this year). Eventually, these people will need to pay land tax either because they purchase an investment property which has previously paid Property Tax (and therefore is now forced to take up the new Property Tax scheme) or because of land tax "bracket creep" due to no increase in land tax thresholds.

The new Property Tax proposal does not include increasing the old land tax threshold at all let alone anywhere near its current average annual increase of around 6.6%. If there is no increase in the land tax threshold, this means that over time those current investment owners with only one or two properties will end up paying land tax as their total land value grows and begins to exceeds the 2021 land tax threshold of $755,000.

This will also distort the market in that a property which has been purchased using the new Property Tax instead of the old Stamp Duty and Land Tax will not be able to revert back to Stamp Duty and Land Tax. Any owner with one or two investment properties looking to live in that property or rent it for a long period of time will therefore favour purchasing any property which is not under the new Property Tax regime. In this way they will only pay Stamp Duty and not land tax. A person owning an investment property with say $400,000 land value will thus have the choice of paying zero land tax (plus Stamp Duty) or $5,500 per year Property Tax as their choice. The longer they own this property, the more advantageous is the zero land tax option (unless the new proposal does not increase Land Tax thresholds as described above)

IF MORE TAX THEN MORE RIGHTS

Governments seem to think that businesses and investors are cash cows who may be milked for more taxes but in return do not receive any compensation, reduced red tape, improved support or services.

Increasing the effective taxation on investment properties should be accompanied by commensurable benefits such as:

* Lifting restrictions on rental bonds to more realistic levels based on property damage claim statistics,
* removing the one month limit for initiating the eviction of a defaulting tenant,
* giving the Police powers to intervene in property related emergency incidents such as threats of property damage, actual property damage, clear cases of trespassing / illegal occupation and
* giving investors the right to select any resident they choose without restriction,
* making approved damages compensation much more accessible, and
* making direct tribunal orders against income rather than having to go through a court process after a tribunal process.

The main reason one would not invest in another rental property in NSW is that it is not an investor friendly jurisdiction to invest in; the tenants being given way too much leeway and the investors way too little. The property investment framework in Australia is becoming more socialist-like from an international perspective with owners having too few property rights. If the Government want to tax investors more they should give investors more rights.

NOT LOCKED IN TO PROPERTY TAX

All purchasers should have the choice of paying stamp duty / land tax or paying the new Property Tax. One shouldn't have to pay Property Tax just because the owner before you opted to.

Within our survey over 65% of our members want to be able to choose stamp duty/land tax or Property Tax regardless of whether the new Property Tax was already in place for that property. Also the new Property Tax should not be a perpetual tax but should be capped at the equivalent of what the stamp duty & land tax would have been. This way the purchaser is not worse off overall.

CHOOSING OTHER STATES OR ASSET CLASSES

When a person buys an investment property the amount of rent to be received is mostly based on similar prices in that area. If the rental cannot be increased in order to offset the annual Property Tax because the property rental is now too high and the property cannot be leased, then that investor would either have to choose to invest in other states that don't have such a Property Tax or, if all states begin to move to such an annual tax without threshold, would have to move to another asset class such as shares. It is interesting that other asset classes such as shares do not have any such annual tax based on their value as at a certain date each year.

PROPERTY TAX FOREVER

Trying to look positively at the new Property Tax proposal, the biggest concern our members had was that the ongoing Property Tax with no end date is actually providing a disadvantage to those who cannot afford a lump sum.

Ongoing Property Tax should be limited and capped with a fixed amount. Such an annual Property Tax will be expensive for holding any property for the longer term. From NSW property owners' points of view, the Government may as well keep the one off stamp duty tax as it is now.

This new scheme disadvantages buyers who hold property for the long term as they will pay more than the initial stamp duty. The annual Property Tax should stop when the buyer has paid out the same amount as the initial stamp duty would have been.

AMORTISE STAMP DUTY

If you elect stamp duty then why not pay it off over a standard 5 year period? This will allow those with smaller deposits the ability to purchase (first home owners can enter the market a little easier)

ASSISTING YOUNG PEOPLE

We believe this is a positive move to get younger people into the property ladder especially in major cities. There is not really much in this for investors. There is further clarity needed around the impact on existing land tax rules?

REMOVE STAMP DUTY AND INCREASE GST

We had some feedback on removing Stamp duty or at least substantially reducing it as it clearly distorts market behaviour.

Land tax is a bad answer - the Government(s) should stop slugging all types of property owners with excessive tax for trying to put roofs over people's heads including their own and raise GST on non-essentials - or other consumption based taxes instead.

The huge surge in retail and online spending proves there's no shortage of cash to be spent - stop taxing necessities and hard-working people trying to get ahead or ensure a comfortable retirement, and instead tax those who can afford to buy overpriced fashion clothes, huge TVs and luxury cars.

WILL AFFECT WHICH PROPERTY I PURCHASE

Over 65% of our members said they would opt for the stamp duty if buying a property and if a property for sale had already opted in to the annual Property Tax this would be factored into the decision when buying that particular property and how much to pay. 20% of our members were unsure which tax they would use and 14% said they would not be purchasing in NSW.

In regards to future properties, the majority of members said they would be more likely to be looking at those properties that had previously paid the Stamp Duty as it will be more financial beneficial for them in the long term.

There was some strong feedback that buyers would look to purchase investment properties that were either in NSW and are not paying the Property Tax or would simply buy outside of NSW. This new tax introduction could mean it may be better to purchase in states outside of NSW.

NOT TRUSTING GOVERNMENTS

There was a concern that most felt the Government will keep raising taxes.

73% of our members felt the new Property Tax was a way of getting property owners to pay more taxes. If this goes ahead there should be legislation enacted that the new Property Tax is genuinely revenue neutral compared to existing revenues and that how this is calculated should be transparent to the people of NSW.

Many felt that the new proposal was not good for anyone except the State Government.

CAPPING OF PROPERTY TAX TIME PERIOD

A positive of such new Property Tax annual payments is affordability and thus labour mobility as demonstrated by one of the Case Studies in the "What This Could Mean for You" Government examples. Annual payments should not prejudice those holding properties longer term i.e. they should be capped.

To encourage business and investment generally, they should be taxed less, not more. The consequence would then be an increased supply of business services and goods and of rental properties which should place downward pressure on prices and rents.

PROPERTY TAX THRESHOLD??

Perhaps the Government should consider a threshold for each property in much the same way that currently exists for Land Tax. This way, Owner Occupiers would still maintain some form of advantage whilst the small property investor would not try and increase rent to cover such a large cost.

NEW SYSTEM NOT EXPLAINED SUFFICIENTLY – TOO MANY UNKNOWN DETAILS

The Government has not outlined how joint ownership will be handled? Is this $500 each for owner occupiers plus 0.3% as opposed to $500 in total plus 0.3%. And is it $1,500 each for property investors plus $1% or is it $1,500 in total plus 1%?

There has been no explanation of what rates will apply for Self-Managed Super Funds, Special Trusts, and Fixed Trust? This sounds like something is being hidden from us?

The Government has not explained whether or not the current Land Tax thresholds will be increased each year in much the same way they have increased over the last 10 or 11 years – i.e. around 6.6%

Your sincerely,

[redacted]