
From: [REDACTED]
Sent: 17/02/2021 10:51:57 PM
To: Tax Reform Taskforce [taxreformtaskforce@treasury.nsw.gov.au]
Subject: Property Tax Proposal Feedback

Hi,

I have taken the 12 questions from the back of the consultation paper and responded below.

Cheers,
[REDACTED]

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 Do you agree that stamp duty is out of date and is a handbrake on the economy?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?

Yes I do, however, the approach taken in this submission is counterproductive as outlined below.

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 the worst part of the proposal. Lets take 2020 as an example. A young couple I know were forced to move out to regional NSW as they simply could not afford a house within Sydney. Over the last year house prices have skyrocketed in regional centres with people realising that they can work from home. This couples unimproved property value on the 1st July 2019 was \$348,000 and on the 1st July 2020 is now \$452,000, (based on the valuer generals website) that is a huge increase in property value in just one year. Now lets assume they had opted in to the new property tax when buying the property, initially they would have been paying \$1,544 annually, however, just one year later they are paying \$1,856 (using the potential rate listed in the paper). That is an increase of \$312 per year in just one year of ownership. This couple still has a very small house so the market value is not too much greater than the unimproved land value, so the initial stamp duty they paid was \$17,243. Assuming the initial property tax rate, this couple would have broken even with stamp duty after 11.2 years. With the increase in land value over just one year, they break even after just 9.3 years. If this rise in value continues at any rate, that time frame continues to fall. So if they don't move until their kids are grown up, this couple is worse off.

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?

It is attractive to people who do not sit down and do the maths to calculate how much worse off they will be in the long term. Anyone that calculates the rate will be astonished as to how bad this new proposed system is actually is for people.

This system staying affordable relied on everyone moving house every 15-20 years. This is simply not the case and is unrealistic to try force that on people.

4. Is an opt-in and gradual approach the best way of ensuring a fair transition to the property tax?

This is only being offered as the government knows that savvy people will calculate how much the property tax will cost them and ultimately continue paying stamp duty. Rather than take this approach, the system should be changed to one that is fair and reasonable for all parties.

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?

Absolutely not, if properties get changed over to the new system they ultimately fall off my radar for a house that I would look to purchase as my first home.

6. Should there be different property tax rates for residential owner-occupied properties, residential investment properties, farmland, and commercial properties?

I agree with differences for farm land due to the huge sizes of land, however, not for residential investor/owner or commercial land. You are taxing a set square meterage of land, if an investor owns that land, the proposed cost increase will be passed directly to the tenant living in that house. You are not penalising the investor, you are penalising someone who already cannot afford their own home. If you want to increase the tax on investors, look into an 'empty dwelling' tax.

7. Given this tax reform is an investment into our future, do you think it is worth the cost?

It is an investment in the governments bottom line, this proposal helps reduce the cost of the up-front purchase, however, the price they pay each year for that up-front reduction only continues to grow and burden the individual.

8. Should price thresholds be used to exclude people buying the most expensive properties from being able to choose the property tax?

No, as outlined above, the property tax costs more in the long run for those who opt in. Those who can afford the most expensive houses should be the ones who have no choice but to opt in to this new system.

9. What arrangements should be made for residential and commercial tenants if their landlord chooses to pay the property tax?

This cannot justifiably be passed onto the tenant. However, regardless of any legislation that gets passed to prevent this, the rent will inevitably increase accordingly.

10. What should happen for people who have chosen the property tax, but then can't afford it?

This question appears to sum-up my entire argument and highlights that it is a known problem. How can this proceed if it is known that it will negatively affect people.

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?

If the property tax was fixed to the unimproved land value at the time of purchase, this will ensure that the property owner knows exactly how much they will be paying each year. This does not detract from the fact that they will ultimately be paying more over the long term, however, at least there isn't the unknown of how much they will be paying even just one year into the future.

12. Is there a specific aspect of our proposed reform you would change to help make the proposal better?

I believe the fundamental idea of changing to a property tax is sound, however, there are two aspects of this proposal that make this poorly executed. Firstly, the rate is too high meaning home owners pay far too much in the long term unless they are moving house every 15-20 years (not the case in the vast majority of people). Secondly, basing the property tax on the unimproved land value opens this system up to blow outs and ever increasing taxes.