

Thank you for the consultation paper *Buying in NSW, building a future*.

I strongly support the principle of replacing one off stamp duties with recurrent property based charges.

The principal benefit I see is the better allocation of land because of reduced transaction costs.

The principal difficulty I have with the proposed implementation concerns distribution of the proposed tax and inherent relative subsidies to some types of land use. Much of that is related to other taxes and tax concessions, particularly under the Commonwealth tax system.

It does seem to me that the tax system overall in Australia encourages over investment in housing, that it penalises renters over owner occupiers, and it discourages property transactions.

Principal among the relevant taxes is capital gains tax. Principal place of residence is exempt from capital gains tax. That strongly encourages over investment in housing, resulting in McMansions, suburban and rural suburban blight, and over taxation of other activities to raise revenue.

Capital gains tax is payable on investment properties, which are typically occupied by renters. So renters end up paying capital gains tax, while owner occupiers are exempt. Capital gains tax is payable in the year a capital gains tax event, i.e. sale of a rental property, takes place. To all intents and purposes it becomes a transaction tax: no transaction, no tax that year. So it also discourages efficient allocation of land.

Land taxes are also only levied on investment properties, so also fall disproportionately on renters.

I cannot see the policy justification for renters paying taxes that owner occupiers do not. Yes, the taxes are levied on the property or the investor, but it is the renters that pay the rent. So the issue of allocation of property to renters v owner occupiers needs to be considered in the proposed changes to stamp duty. The proposed tax should not exacerbate the problem. Renters should not pay for owner occupiers dreams coming true.

Part of the justification given for the proposed changes is that they will encourage additional expenditure on housing (p.15). Housing is dead weight consumption and we are already encouraged to do too much of it: we are already building the largest new houses in the world.

The paper recommends that the tax be based on unimproved property values. That will also encourage additional expenditure on housing, as it is tax free. The paper states that a tax based on market value of properties would reduce the positive economic impact. It is not clear why. A tax on the full value of a property would be at a lower rate in the dollar. It would favour efficient, low cost housing. It would favour rental properties (typically lower value housing, though often on expensive land). It would tax profligate expenditure on McMansions, it would balance the capital gains tax exemption for owner occupied housing, it would have more of the character of a broad based, low rate, wealth tax. It would be more progressive. If the additional 'economic benefit' arises largely from increased expenditure on housing, i.e. empty consumption, then it is of little or negative social benefit. It just increases wealth disparities. We need triple bottom line accounting here: what are the social and environmental costs and benefits, not just what is the change in GDP.

A charge only on unimproved property value gives unreasonable advantage to owners and occupiers of high rise towers: the value of the land is spread among many, many owners and is a small component of total property value. A tax on the whole property value would more reasonably spread the tax.

I agree that it would be more difficult to assess improved property values, and a lot of possibly expensive valuation work would have to be done just to impose the tax. But the tax comes in on a

sale, so that provides a base mark. Add some annual indexation and depreciation assumptions and you might have the start of a workable system. But 10 years out it would be pretty unreliable and I don't see any easy answer.

The proposed \$500 poll tax (fixed charge, p.19) seems particularly iniquitous and regressive. I can see the justification for a fixed charge in council rates - councils incur substantial costs for each property, independent of its size or value - but I cannot see it for property taxes for which no direct property related benefit is provided. There is a fixed administrative cost to collect the tax but it should not be of the order of \$500 pa. That is close to the fixed charge for electricity supply, which covers not only administration but also the provision of poles and wires. I cannot see the justification for two \$500 base property charges, one for rates and a second for taxes: they should be integrated and a single \$500 charge should be quite sufficient. Particularly if they are both based on the same property valuation as proposed: there are no additional valuation expenses.

Re the proposed different rates according to property use, they need to consider why a relative subsidy should be given to the particular use, and whether this is the best way of delivering that subsidy. Re a higher tax rate on investment properties, I can see that it is an efficient way of raising state revenue at the expense of commonwealth revenue if state charges are tax deductible at commonwealth level. That should be considered at the general level of commonwealth-state vertical fiscal imbalance, and the commonwealth might want to consider whether to continue to allow the deduction. But investment (rental) properties are already over taxed compared to owner occupied properties, and to impose the proposed tax at a higher rate on investment (rental) properties does not seem warranted. What is the policy basis for giving farmland a subsidy? Is a lower rate of property tax an efficient and effective way of delivering that subsidy? Farmland already has a lower value because of the restrictions on use (planning controls), which means it will already be paying lower rates even if they are levied at the same rate in the dollar. What is the principle behind giving farmland owners another reduction on top of that?

In summary, I think owner occupiers already get too many tax benefits relative to renters; that too much money is already spent on housing, particularly excessive housing; that the tax should not include the regressive fixed charge component; and that the tax should not reinforce other current tax distortions and subsidies. Address those issues and it is a very good thing.

