From: [redacted]
Sent: 15/03/2021 9:31:53 AM
To: Tax Reform Taskforce [taxreformtaskforce@treasury.nsw.gov.au]
Subject: Response to NSW Proposed Property Tax Consultation Paper

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 a 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.

Your sincerely,
[redacted]

Property Owner | Property Investor and a Member of Property Investors Council of Australia

Feedback

MOST IMPORTANT QUESTION LEFT OUT OF GOVERNMENT SURVEY

Q4 of the Government Survey asked
"*How important would each of the following be to you when deciding to purchase a residential property in NSW? "*

Nowhere in the options available was there a possible answer of the greatest interest to almost all property owners.

Land Tax was not offered as an option for comment. Property Tax was not offered as an option for comment.

And yet, current Land Tax and possibly the new Property Tax may well possibly be the main reason that property owners do not purchase in NSW.

Although 65% of our membership was concerned about how much stamp duty they'll pay when deciding on purchasing property in NSW, they were more concerned with current Land Tax and the new Property Taxthey would pay than any other factor and this factor was not mentioned in the question.

The feedback from our members is that this may be the main reason that they would not purchase an investment or home in NSW.

GOVERNMENT PRESENTATION OF EXAMPLES APPEARS BIASED

The Government produced a web page entitled "What Could This Mean For You"

see
https://www.treasury.nsw.gov.au/budget-financial-management/reform/nsw-property-tax-proposal/what-could-mean-you

This appeared to be a very biased communication citing examples which favoured the new Property Tax when in reality, there were serious disadvantages of the new system and information not forthcoming.

1. No Increase in Land Tax Thresholds
Will the current Land Tax General and Premium thresholds be increased each year as they have done at the approximate rate of 6.6% per year for the last 10 years?

2. No Property Tax Rates for SMSFs
No rates were provided at all for Self-Managed Superannuation Funds, or in fact for any Trusts for that matter.

3. The "I am Planning to Buy a Residential Investment Property" case study within

https://www.treasury.nsw.gov.au/budget-financial-management/reform/nsw-property-tax-proposal/what-could-mean-you

presented a number of anomalies:

a. The land values chosen in the example can be calculated as $566,750 for the couple's first investment property and $552,000 for their second investment property. This gives a land valueto total purchase price ratio for the newly purchased second property of 69% ($552,000 divided by $800,000). This appears to be extremely high. In samples taken from our members, their land to total value ratios for NSW investment properties were between 29.3% and 59.2%.

b. The case assumes that the land tax and Property Tax both grow by 3.8% each year. This is a most unusual way of calculating increases in land or Property Taxes since normally you would estimate your land value growth and then derive your land taxes and your Property Taxesfrom that growth in land tax value. The Government case study does this the other way around – it simply says that the land tax and the Property Tax both increase at 3.8% per year. If you do the calculations on this, then a 3.8% increase in land tax or Property Tax equates to land value growth rates of between 1.26% and 4.52% per year over the 10 year period. According to the NSW Government, the percentage change in residential land value between 2019 and 2020 was 4.0% (see "Report on NSW land values at 1 July 2020", page 5). It was questioned by members as to why the assumed rate of growth in land value was so low?

* As an aside, it was indicated in the above document ("Report on NSW land values at 1 July 2020" at page 4) that land values had increased by 11.3%, 15.2%, 56.4%**, -5.3% and 3.6% per annum over the last 5 years. This is an average land value growth of 6.1%! (** note that this figure of 56.4% increase in land values between 2017 and 2018 actually calculates out to be 6.4% and this is the figure used in our calculation here to derive 6.1%). If the Government is using assumptions in its Case Studies of land value growth of between 1/5th and 2/3rds of the more realistic figure, then the new Property Tax would be expected to bring in significantly more revenues than indicated in the Case Studies.

c. There is no growth in the annual Land Tax threshold so that as land values increase each year, the amount of land tax payable grows much more quickly than it would had the threshold also been increased. (the average Land Tax threshold has increased by approx. 6.6% over the last 10 years)

The Case Study provided by the Government in "What Could This Mean for You" shows a benefit of the new Property Tax of $18,250 over the 10 year period.

It would thus be interesting to see what the results are if more realistic figures were chosen.

For the land value, if we still assume the purchase price of the second investment property is $800,000 and take a more realistic land to total value ratio of around 35% then the land value would be say $300,000 (this is 37.5%).

For the land growth value, let's take the figures that the Government uses in this example for the growth in the land tax and Property Tax each year (i.e. 3.8%)

What now does the comparison look like?

For a $300,000 land value investment purchase with a land value increase of 3.8% per year and no increase in the land tax threshold each year (as is the case in the Government example) the current Stamp Duty and Land tax works out to be $76,500 over the 10-year period whilst the new Property Tax would work out to be $50,686 over the same period; a benefit of the new Property Tax of $25,814.

Using the same figures as above with the exception of using the annual increase in land tax threshold of 6.6% (the average of the last 10 years) instead of zero, the Stamp Duty and Land tax works out to $37,915 whilst the new Property Tax works out to be still $50,686. This time the existing Stamp Duty and Land tax is of benefit by $12,771.

Thus, using more realistic figures for the land value and growth of land value and using the existing increase in Land Tax thresholds each year, the new Property Tax is positioned by the Government in this example as being $31,021better than it actually is and that the new Property Tax is thus a better financial proposition for these investors than the existing Stamp Duty and Land tax (which it is not).

The example you have provided definitely has the result of showing the new Property Tax in a better light than what it actually is.

Thishas the effect of misinforming the public based on a number of factors including choosing a scenario specifically biased towards the new Property Tax (we have provided more realistic scenarios below),unrealistic average land value growth, abnormal land to value ratio, absence of land tax threshold annual increases, and Property Taxes based on a property type with no information on rates for trusts such as SMSF, Fixed Trusts, Special Trust.

The ATO has published the fact that 90% of the community have property interests in 1-2 properties (ATO statistics 2017-2018), and it would therefore be more relevant to understand what the average land values are for this group so that we can calculate what the true comparison is of the current land tax versus the new Property Tax.

MORE RELEVANT SCENARIOS

The example quoted above states Michelle and Rob own their First Investment Property and are now looking to purchase their Second Investment Property.

In the majority of cases that we have experienced with our members, if the First Investment Property is purchased in both names, it is more likely that the Second Investment Property would be purchased in only one of the partner's names, this being normally due to one partner being the significant breadwinner.

If you look at the case where Michelle purchases the Second Investment Property in her name alone, then even with the unrealistic land value originally quoted in the example of $552,000 and with no increase in land tax threshold allowed for and a land value increase each year of 3.8%, Michelle benefits more under the existing Stamp Duty and Land Tax scheme than the proposed Property Tax scheme by $10,134 over the 10-year period whilst Rob's benefit is zero (he does not own any of the second property and pays no land tax on the first property).

Over the 10-year period, this is a total benefit of the existing Stamp Duty & Land Tax system over the proposed Property Tax system of $10,134. This compares with the NSW Treasury stated benefit of the new Property Tax of $18,250 (where

the 2nd investment property was purchased in both names instead of only in Michelle's name). This is a difference of $28,384 in this example.

(We realise that this is a different set of circumstances but it is still a more realistic set of circumstances. And this shows the existing Stamp Duty and Land Tax is more financially beneficial whereas the Government's case study has chosen less reliable figures to derive an $18,250 benefit).

If the Second Investment land value is at the more realistic figure of $300,000 and the land tax thresholds are now increased at 6.6% p.a. as they have been on average over the last 10 years, then the result is even more beneficial for the existing system. In this case the benefit to Michelle of the existing Stamp Duty and Land Tax is $19,351over the new Property Tax over the 10-year period whilst the benefit to Rob is zero (he does not own any of the second property and pays no land tax on the first property).

Over the 10-year period and with annual increasing Land Tax Thresholds, this is a total benefit of the existing Stamp Duty & Land Tax system over the proposed Property Tax system of $19,351. This compares with the NSW Treasury stated benefit of the new Property Tax of $18,250 (where the 2nd investment property was purchased in both names instead of only in Michelle's name). This is a difference of $37,601 in this example.

The example you have provided will honestly misinform the public based on the sole scenario given above. Our view is that a "Comparison Calculator" that has the ability to input the various variables (land tax threshold annual increases, property prices, land values, rates of annual land value increase, number of years the property will be held, etc.) would be of more benefit to the people of NSW. This would allow NSW citizens to determine the true effect of the new proposal based on their own unique circumstances. PICA has developed such a calculator and is happy to share this.

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"*), 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.

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 RETIREMENTINVESTMENT OWNERS

The proposed Property Taxpayment 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 thusallow 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 byGovernment 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 forseniors. 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 Governmentwants a fairer tax then Stamp Duty should revertmore 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 becomemore involvedin 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 acumenor 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 Taxas for a normal Owner Occupier is wrong.

OUT OF PROPORTION WITH WAGES GROWTH

Land value increases at a greater rate than wagesgrowth. 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 Taxregardless of whether the new Property Taxwas 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 Taxbecausethe 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 Taxshould 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 keepraising 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 Taxannual 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%