

Feedback for NSW Property Tax Framework

22 November 2020

Name: [REDACTED]

My submission is made as an Individual. I rent, but would like to be a first home buyer soon.

Key Points

- Yes to land tax
- No to Opt-in transition. Credit scheme and capitalise payments are preferred.
- Prefer a progressive scale.
- Prefer no difference between Land Types

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 Do you agree that stamp duty is out of date and is a handbrake on the economy?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. It is currently unfair. Owners who live for long periods pay a lot less tax than they should.

Our parents' generation payed a lower rate of stamp duty than the current generation of younger buyers.

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?

Yes, that's fine. I would prefer to see the land valuation frequency change back to 1 year. This reduces the lag time for land tax payments to reflect real time price. This improves efficiency, and may place a break on the boom/bust cycle.

Those who flip properties will exploit this gap.

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?

At first, yes, land tax is better, but it's the rising payment each year over time that's the issue, and thus I end up paying more compared to stamp duty.

(Based on Opt-In) In the context of Sydney's property market, I would expect that stamp duty will continue to be chosen as the majority (for houses), as it avoids capital uplift, and results in owners paying less tax than others who pay land tax over the long term.

If property doubles in price every 7-10 years, so does my land tax. **Yet my income is 0-2% increase per year.** So I need to lock in a property as soon as possible. So I will choose stamp duty. By taking out a loan for the stamp duty, and paying down the loan amount each year, I'm assured these payments don't rise with the rising land value and they are limited to the length of the loan.

The property tax would be much more attractive if I could capitalise my payments and pay at the end after my property goes up in value. This essentially moves the lump sum stamp duty to the back end. Which is at the same time as buying the next property. So it feels like no change.

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

The Opt-In is absolutely NOT ACCEPTABLE.

The question asks for a “fair” transition.

The Opt In option creates inequity. Long term owners and existing will have paid a lot less, and will continue to do so.

Those who have just paid stamp duty, but would have considered land tax will feel robbed. The consultation paper offers nothing for these people.

The Opt In option leaves the door open to the risk that, as explained above, stamp duty is likely to be favoured in a rising price environment with limited wage increases. In fact between now and the implementation of the Opt-In framework, if land tax is popular, you should see a fall in demand, because buyers will wait. This places the property market at risk of falling. I suspect this will not happen, as buyers prefer stamp duty due to my previous reasons. This will then mean the introduction of the property tax will take several decades, and the efficiency objectives will not be achieved.

The Opt In approach will create two markets. Over time, the number of properties remaining with stamp duty will boom in price. Owners will hold onto them as long as possible and try and pass them onto their next of kin.

What people are doing is taking the path of least resistance, because it is offered to them.

A better and simpler option is a credit scheme for previous purchases and capitalise payments for current owner occupiers.

The credit scheme is the only option that is fair to implement, with land tax applied at day one. Those who have paid stamp duty in the last 10-15 years should be provided a credit. Those (owner occupiers only) who have previously bought and still retain some credit, should be rebated their stamp duty if they wish to move again very soon after implementation.

Introducing tax payments straight away will create cash flow shock for owners. Hence all existing owner occupiers should be allowed to capitalise their payments until sale of the property when they have their capital. This is at the same time they buy their next property. So it looks no different to paying stamp duty. This could be permanent, or for the current property only.

If it's not permanent for owner occupiers, then for new purchases by owner occupiers, a similar scheme should be considered, but transition for the first 5-10 years of implementing the new property tax framework. For example a minimum percentage of 10% payment is required with the rest capitalised. Each subsequent year, the minimum payment rises, and capitalised component is lowered.

The credit scheme aligns with “We are all in this Together”. And it treats everyone equally.

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?

If the system were to be Opt-In, with a limited time window, this will create a rush on buying properties with stamp duty, especially if it has no transition to land tax.

The ACT model deals with this by transitioning both stamp duty and land tax at the same time, and from the start. But land tax is not fully available straight away. So the benefits take two decades to appear. That is too slow, given the immediate circumstance of COVID.

To achieve the greatest benefits as soon as possible, there should be no more stamp duty. And existing owners are transitioned across to a credit scheme.

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

I suspect most people would consider a like for like replacement.

But...

It would be best to treat all land equally. The considerations are as follows.

Low Income Earners

With investors taxed at 1%, I believe this is transferred onto renters. This is unfair when compared to owner occupiers at 0.3%.

NSW Housing Commission rents are benchmarked on private sector rental housing. Of which about 10% of tenants pay the full market rent.

So we end up taxing lower income earners more. This is regressive.

Taxing renters higher also delays time to save to buy a property. And taxing owner occupiers less, means there is less influence on decision making to retain the house or move on.

By taxing the owner occupier a bit higher in line with investors, this places more properties onto the market, thus reducing property prices. And having lower taxes for renters, allows them to save more. Hence having equal tax rates is probably preferred.

Future of Work

Covid has changed the way we work. The future of work will mean people will undertake work and/or business from their home. Trying to differentiate between home ownership and business will be difficult.

This can be simplified if all land is treated the same.

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

Yes, though the Opt-In option is laying debt onto the next generation, whilst protecting existing buyers. And is made worse by still offering stamp duty into the future.

A credit scheme may also do the same, but at least the credit scheme captures uplift to all land from Day one. Providing a much better chance of paying down the debt.

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

Yes. Above a certain threshold, it should be land tax only. And a higher tax as well. This would mean tax rates are progressive which is preferred.

Land tax should be applied from Day one for these properties, with the credit scheme applied, but excluding capitalisation of payments.

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

N/a

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

As explained above in Question 4, the ability to capitalise the payment is clearly a good outcome.

It would be no different to paying a lump sum like stamp duty, but payed at the end when you have the money.

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?

Have progressive land tax rates. So lower income and retirees have an incentive to move to those areas with a lower percentage. And higher rates for those who can afford to pay in more affluent areas.

To sustain the budget, land tax is applied from day one. This captures capital uplifts from all the large infrastructure spend.

Also, consider for example a 0.1% in addition to the tax rate to pay down the long term debt.

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

Definitely.

No to Opt-In.

A better solution is to apply land tax from day one. For current owners, provide a credit for previous stamp duty. And rebate owner occupiers who have just paid if they want to move.

Payments for owner occupiers should be capitalised until sale of the property. This ensure no cash flow shock.

Low income earners and the elderly should be offered to capitalise their payments until sale. This matches people's lifestyles and needs through the lifecycle. It also ensures that the vulnerable in our society are not pushed out of their homes. And government eventually gets it revenue.

New buyers should be offered a 10% per year minimum payment in the first year, with the rest capitalised. Each subsequent year this rises. After 10 years of transition, the full payment is required upon purchase.

The credit scheme aligns with "We are all in this Together". And it treats everyone equally.

Other Consideration

To determine if Land Tax is a popular choice, buyers would wait until its implementation. Government should monitor if a reduction in demand for property occurs between now and the implementation of the property tax. This may place the property sector at risk of falling prices.

If buying demand is well supported before the implementation of Opt-In, then that would indicate that stamp duty will still be a favoured option into the future. Which is not a good sign if the objective is to transition across to land tax.

I fear the proposal is fatally flawed.

This would not be a risk under a credit scheme with removal of stamp duty immediately.