

Sent: 15/03/2021 5:34:02 AM
To: Tax Reform Taskforce [taxreformtaskforce@treasury.nsw.gov.au]
Subject: [REDACTED] Response to NSW Government Property Tax Consultation Paper

NO SURVEY QUESTION ON EXISTING LAND TAX OR PROPOSED PROPERTY TAX

Q4 of the Government Survey asked questions in regards to people's views of a number of important areas or issues related to the purchase of a residential property in NSW.

It is disappointing that the Government thinks that neither the existing Land Tax nor the proposed new Property tax is worthy of including in Question 4 of its survey asking about the importance of an issue when purchasing a residential property in NSW.

From my own point of view, I cannot buy any more investment properties in NSW because I am already above the General Land Tax threshold and the 1.6% of land value that I will pay in land taxes is not sustainable for me. I am already confirmed to sell some of the NSW Investment Properties I have as soon as my fixed interest rate period with the bank has concluded in order to bring me under the Land Tax threshold.

BIASED CASE EXAMPLES IN "WHAT THIS COULD MEAN FOR YOU" WEB SITE

It is also disappointing that the Government appears to be choosing biased examples within the five examples it has provided in its "What This Could Mean For You" web page and so does not give a truly unbiased account of the effects of the new tax. See:

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

Even the "I am planning to buy an Investment Property" example is biased by choosing an example which conveniently has the existing investment property having the first investment property land value reasonably close to the current land tax threshold so that the addition of another investment property (again with a very high land value) now takes the combined value significantly over that threshold.

Most residential property investors who have two properties would not have their combined land values in NSW anywhere near the \$1,118,000 that this example shows.

Regarding the other examples:

1. I Have No Plans to Buy A Property

No changes

2. I Am Planning To Buy My First Home

Mobile Family

In this illustration, the Government presents the property as having \$750,000 total value but with a land value of only \$247,667 (this gives the property tax in the first year of \$1,243 as stated). Obviously with a high purchase price and thus high Stamp Duty and low land value and thus low Property tax, the benefit will lay with the new Property Tax even though this example covers a 10 year period.

It is extremely interesting to note here that the land value to purchase price ratio is only 33% and yet in Example 5 that the Government uses for demonstrating a Residential Investment scenario (see below), this ratio is more than twice that figure at 69%

If the land value was 69% of the purchase price (as it is in Example 5 for the Property Investor) and thus \$517,500, the total new Property Tax over the 10 year period would be \$24,421 (based on the 3.8% growth in property tax each year as stated in the example) and thus \$9,641 worse off than the stated Property Tax of \$14,780.

3. I Am Planning To Buy My Next Home

Again, this is a misleading and deceptive example.

The first home has a total purchase price of \$600,000 and a land value of \$315,450 (if land value increases at 3.3% per annum as per Government statistics – (refer to the NSW Government's own documents "Report on NSW Land Values at 1 July" for the years 2016, 2017, 2018, 2019 and 2020 and take the average of these years growth in residential values) since the total property tax over 3 years is \$4,530). This gives a land to purchase price ratio of 52.6%.

Alternately, we can use the method that the NSW Government uses in later examples and say that the property tax increases in the example by 3.8% per year. If this is the case instead of land values increasing by 3.3% per year, then the land value at purchase time would be \$318,015 or a land to purchase ratio of 53% which is similar to the above 52.6%

The second home has a total purchase price of \$700,000 and a land value of \$379,000 (if land value increases at 3.3% per annum as per Government statistics – (refer to the NSW Government's own documents "Report on NSW Land Values at 1 July" for the years 2016, 2017, 2018, 2019 and 2020 and take the average of these years growth in residential values) since the total property tax over 3 years is \$5,025). This gives a land to purchase price ratio of 54.1%.

Alternately, we can use the method that the NSW Government uses in later examples and say that the property tax increases in the example by 3.8% per year. If this is the case instead of land values increasing by 3.3% per year, then the land value at purchase time would be \$370,977 or a land to purchase ratio of 53% which is similar to the above 54.1%

The third home has a purchase price of \$800,000 and a land value of \$432,000 (since the first year property tax is \$1,796). This is a land to purchase price ratio of 54%.

As you can see, this compares with the example provided for Investors in Example 5 of a Land to Purchase Price ratio of 69% - this is most deceiving.

If we insert the same land to purchase price ratio of 69% in this Example 3 as is given in Example 5 for the Investors, the results are as follows:

With land value at 69% of purchase price, the new Property Tax for 3 years is

Home 1: \$5,477 and not \$4,530; an increase of 21% over that stated,

Home 2: \$6,140 and not \$5,025; an increase of 22% over that stated,

Home 3: \$2,156 and not \$1,796; an increase of 20% over that stated.

In the total 7 years of ownership, this is thus \$2,422 more than the Government has stated the new Property Tax would be.

Further, the Government has left the example at the end of the 7 year period with the example of the third home only being a year old. This has the effect of costing the whole Stamp Duty for the third home of \$31,335 against only a single year of the new Property Tax of \$1,796. This is extremely deceitful.

It appears from the example that Gaurav and Amrita are now ensconced in their home so let's look at the case where they now stay there for the rest of their lives, let's say 40 years.

At the original land value of Home 3 of \$432,000, and with land values increasing at 6.6% per year as taken from the Government's own increase in Land Tax Thresholds over the last 10 years, the Stamp Duty for Home 3 is still \$31,335 and the land tax is zero since it is Owner Occupied. However, the new Property Tax in this example would be now \$253,497! This completely overwhelms the new Property Tax advantage of \$69,154 as stated in the example.

Even if land value growth was not 6.6% but was the more conservative figure of 3.3 % (refer to the NSW Government's own documents "Report on NSW Land Values at 1 July" for the years 2016, 2017, 2018, 2019 and 2020 and take the average of these years growth in residential values) the new Property Tax would be \$124,642 thus dwarfing the figures provided by NSW Treasury of the new Property Tax having an overall benefit of \$69,154.

4. I Am Renting

No changes

5. I Am Planning To Buy An Investment Property

I consider this to be a very deceiving example provided by NSW Treasury.

In comparing with the existing Stamp Duty and Land Tax system, the Government has not increased the General Land Tax Threshold each year as it currently does. My understanding is that this threshold has increased by around 6.6% average over the last 10 years.

The land to purchase price ratio is extremely high. It is around 69% whilst the examples that the Government quotes in Examples 2 and 3 above are around half that value. This has the effect of pushing these two investment property land values over the \$1.1M mark which is extremely high for two residential investment properties and would not be the normal figure for people who only own one or two investment properties.

If a \$300,000 figure is used for the land value (representing a 37.5% ratio of land to purchase price which is higher than the Government examples 2 and 3 above) and using the same annual increase in Land Tax threshold as that stated by the Value General for land tax threshold increases over the last 10 years averaged out) then the new Property Tax is of disadvantage of \$12,771 and not of benefit by \$18,250. This demonstrates the biased and misleading nature of the examples quoted by the Government in this paper (in this case to the tune of a \$31,021 disparity!!)

6. I Am Planning To Buy Commercial Property

I have not reviewed this example since it is related to Commercial Property and I am concerned with Residential Investment Property.