Section 6 answers:

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 Do you agree that stamp duty is out of date and is a handbrake on the economy?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 believe the current stamp duty scheme is a large financial obstruction to the buying and selling of property. It needs to be changed, and if the alternative is a broad-based annual property tax this is probably more equitable in the long run.

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?

Sounds fair as the replacement of stamp duty. It would be a lot of work (and difficult regulation) to impose individual valuations for every property improvement for the alternative based on market value.

I think there is still a case to maintain a land tax based on aggregate landholdings that are not for farmland or primary residence purposes. However, maybe the threshold for this may be raised. The existing tax is only a maximum of 2% which is a minor penalty considering these property owners are asset rich and hoarding a large portion of property that could otherwise be mobile in the market, being allocated to their best use. As these properties are also being used as investments, it is likely that this minor 2% tax is being used for negative gearing purposes anyway and these property 'moguls' should not be able to get away with further tax avoidance. There is no reason why someone who owns 5 investment properties should pay the same proportion of tax based on land value as someone who owns only 1 investment property. Under the proposed scheme it seems this is the intention - those with greater holdings should be liable for more tax.

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?

Yes, everyone has a different lifestyle and people are certainly more mobile these days. For those with a more mobile lifestyle, it would be attractive to be able to choose a taxation system that does not penalise that, rather than being a large obstruction to property ownership with that lifestyle (as their only current alternative to avoid the penalty of stamp duty is to remain a perpetual tenant).

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

As we have seen with schemes regarding property purchases in the past, when there is a sharp deadline there is significant market activity to obtain/avoid the scheme. This is unfair pressure on the market, and results in property price activity that is not solely based on the value of the properties themselves. I believe it is best to have the gradual approach for this scheme, despite the negatives that will also come with that approach.

The main negative of the gradual approach from my perspective is that, unfortunately, some people who intend to buy short term, will have more money available to offer as a purchase price, compared to someone who is intending to buy for the long term and is trying to avoid being penalised for that. There will be a significant skew in the buying power of these parties during the transition period. This in some ways might be mitigated by the banks, if they have the ability to discern the additional expenses and offer lesser loans to those opting to pay the annual tax. However, relying on the efficiency of our banking system to regulate this bug in the market is not something I would bank on! Unfortunately, the current banking loans analysis system utilising HEM already works against those who live frugally - (from anecdotal evidence from my personal social circle). Regulating a compulsory addition of the annual property tax payments on top of the minimum HEM might exclude more potential buyers from the market.

I understand that first home buyers will get a grant instead of stamp duty exemptions. Not only is the grant much less than the stamp duty saving, it also has significant constrictions on it currently - hopefully these will be revisited.

Ideally, the introduction of the new reforms will see property prices continue to follow current growth trends, with the ‘saving’ on deposit held by purchasers to pay the annual tax. In practice, particularly in the high demand residential market, I think it is highly possible we will see a jump in purchase prices as purchasers have more money available to them to offer. This will force those wanting to get into the market with no option but to to opt in to the annual tax, but be disadvantaged financially for purchases that are for the long term. I have suggested the addition of a time limitation for the annual tax (detailed in the answer to question 12) that might reduce this inequality.

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?
No, we have just purchased our hopefully forever home. If, however, I was in a position to buy on the cusp of the reforms I would not delay, as we were looking for a forever home to move into.

If, hypothetically, I was in a position where I had not finalised, or almost finalised my family circumstance (number of kids etc) I might delay or appreciate a retrospective opt-in so that I could buy a stepping-stone home rather than one that I hoped would be sufficient for my future needs.

I do believe that those buying for investment, rather than as a residence, should not have the benefit of being able to opt in, as a major problem of the market at the moment is supply, and that is a significant obstruction to the ability to achieve a stereotypical Australian dream of owning one’s own home. Those purchasing for investment purposes should be contributing adequately to relieve the tax burden upfront and should not be given a ‘leg up’ into the market during the transition period.

6. Should there be different property tax rates for residential owner-occupied properties, residential investment properties, farmland, and commercial properties?
Yes. As investment properties and commercial properties are being used for financial gain, there should be a greater tax burden on the owners of these properties. As for farmland - it would depend on the use I presume… But I have no knowledge in that area.

Another aspect to review would be properties lying empty instead of being rented out due to the 'sharp' increase in tax rate that would be applied. This would include policing 'airbnb' type rentals. From a quick calculation a property might cost $80 more a week in tax from being rented out - in a climate where tenants have greater powers against eviction, and rental prices are decreased there needs to be greater incentive introduced to rent out properties instead of 'let fallow'.

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

Definitely. The current stamp duty scheme requires change as it is a massive obstruction to people's ability to purchase property. It is also majorly outdated, being formed in a period where property cost significantly less compared to the median income. This means that tax revenue from the existing scheme far outstrips the intended duties levied on expenditure on property purchases. This should be kept in mind when determining the rate of the annual taxes to be applied.

The consultation paper talks in terms of 'lost revenue' from the removal of stamp duty. However, stamp duty was not intended to penalise purchasers to the extent that it does, it was formed in a period where market value of properties was much lower. Stamp duty revenue is thus what should be considered as surplus gains rather than assumed revenue, the changes not considered as a loss from it's removal but as returning to appropriate levels of taxation.

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

Yes. Those able to afford land for development or luxury (residential) properties would presumably have the funds to pay an upfront stamp duty. I am unsure of how this would apply to purchases of farmland etc - a price/land value ratio (or zoning thresholds?) might be useful to delineate 'luxury' purchases from large purchases.

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

Safeguards will need to be in place so that existing tenants do not get lumped with the 'additional cost' of the new landlord maintaining the property. Conversely, the landlords benefit from less taxation - as the tax instead of duty is spread over the holding of the property rather than just a figure to include on capital gains statements when the property is sold.

I'm not sure how tenants can be protected, perhaps excluding 'no reason' eviction of tenants and introducing minimum lease renewals/extensions of at least 2 years post purchase, (in the typical 6 or 12mo periods at the tenant's request) with only agreed (tied to inflation?) rent increases? Then at the end of the 2 years, minimum 90 days notice for termination at end of lease. 2 years of continuing stability should hopefully be sufficient for the tenant to recover any benefits from upgrades they may have paid for at the property and make other arrangements for future tenancy after while also not being so long that the purchaser of the investment property is not in control… The market (or at least real estate agents) of residential property already favours property being sold vacant (or at least with the vendors set to relocate, not under a formal lease) so this would enhance that approach.

I expect that in the long term the property tax will be integrated into the rental cost, but I'm not sure how this will pan out in the short term.

More for myself, as I presume those reading this are experts, my assumption is:
Looking long term, removal of stamp duty increases the fluidity of the market. Increased fluidity frees up more properties for ownership (ie, downsizers actually downsize, those upsizing actually sell off smaller assets rather than hold onto them using the equity for purchases). This decreases the rental market demand => rents decrease. Lesser rental income (and higher ongoing costs) reduce the viability of holding assets as investments, pushing the sale of the asset. Less upfront dead cost in buying properties means more people are able and willing to buy, rather than be deterred. People are also able to buy 'stepping stone' properties for their period of life/family rather than try to purchase their 'home for life'. This is the basis of decreased demand in the rental market. However less investor-owners mean the supply of rental properties declines pushing up rents. Also, there is a stable base rental market of those whose lifestyles prevent the saving of a deposit. Overall I think rental cost will rise slightly so the 'increase' of maintenance cost is somewhat offset.

10. What should happen for people who have chosen the property tax, but then can't afford it?
I think that a reverse mortgage should be applied to the property so that they do not have to sell their home/income-producing-asset in periods of short term hardship, but the tax burden/debt still applies. I agree that a commercial rate of interest should be applied to the deferred liabilities. There would also need to be a limit on this 'reverse mortgage' so that the property always has enough value to pay off the mortgage or a forced sale be invoked - unless it's their sole place of residence for over X (10?) amount of years. I believe the clause suggested in the following answer (Q12) also aids in limiting this tax debt.

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?
I'm not sure of the volatility of land values so cannot answer with reference to that.

With reference to changing financial positions of purchasers, quoting page 8 of the consultation paper
"And the amount of duty homebuyers pay has grown dramatically faster than house prices or incomes."
To me this statement is an admission that the duty/tax amount being received from transactions is much greater than the former or intended revenue of the scheme. In order for it to be an attractive option as an opt-in tax, for all parties, it is understandable that the long-run revenue needs to be comparable to the upfront stamp duty in a reasonably short term. However, it seems that for property owners intending to own for the long-term there is a significant disadvantage to choosing the annual tax option. Maybe a clause "after 25(?) years of continuous ownership (or bequeathed ownership) the annual tax will no longer be applied to the property". It would be expected that property transferring ownership outside of the passing of a deceased person's possessions will be subject to an annual tax again. This

would also be a substantial benefit to pensioners/retirees in that they could retain ownership of their own home with no ongoing taxation burdens. It would also limit any amount of tax debt against the property compared to property value/selling price, which would ensure recovery of the debt upon eventual sale.

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

Fleshing out my suggested response to question 11.
I think that a clause should be included "after 25(?) years of continuous ownership (including bequeathed ownership) the annual tax will no longer be applied to the property until it's sale".
I think this clause should be included at least for the transition period if not a little longer.

I believe an addition of this kind would improve the taxation reform as:

1. From a few simple calculations, looking at an individual purchase of property (not aggregate buy/sell of the market) I believe that equivalent revenue from current stamp duty is well and truly paid after 25 years at the proposed annual revenue rates of the consultation paper. I also understand that those rates were not set in stone, and are also likely to change with inflation/other reforms in the future.
    a. I think there should be a legislated fixed rate for a significant period of time, so that those choosing between the options can actually calculate and compare, rather than a rude shock from increases to the annual tax 5 years down the line.
2. The reform is to replace the existing stamp duty upfront burden, and foster market activity, not to obtain greater tax revenue from those who don't have the funds to pay stamp duty upfront.
    a. Unfortunately the current scheme of stamp duty is a major factor in purchasing power. For instance, for a standard $1m property in the residential market in Sydney it is approximately a 6th of the deposit for 20% LMR. In the short term I am of the mind that it would certainly cause the annual tax to be chosen due to a lack of upfront funds and the constant purchaser urge to get a foot in the door in purchasing a property.
    b. Any plateau of property demand (presumably to be effected by the more fluid property market post-reform introduction) that would counter this urge will not be seen until some time has passed. After the 'transition period' the benefit of the time limitation clause can be reviewed/revisited.
3. It would reduce the tax burden impact of choosing the annual tax over the long term
    a. people should not be penalised for wanting to put down roots in a community
    b. people should not be overly penalised for spending to their limit when purchasing property (ie buying a higher cost property since they don't have the funds for stamp duty up front)

I would also suggest that perhaps there should be an exception for bequeathed ownership where tax duties in arrears require settlement or a payment plan. It might be an idea to also include exceptions eg for farmland where a significant investment and expertise are tied to the family's land.

Other points of review

I presume capital gains tax will be the next item to be reviewed regarding the financial impact of property legislation - the removal of stamp duty would place a significant burden on the ‘6 year’ rule regarding capital gains. We are likely to see an increase of sales just before the 6 year mark in order to avoid capital gains tax suddenly kicking in (under the primary residence rule). Personally, it was the comparative rate of stamp duty (on a new property) and capital gains tax that prevented me selling my first home (an apartment too small for my family to live in) on the cusp of the 6 years of non-residence. However, without stamp duty in play, it would have been likely that I sold and bought a next step property to live in rather than rent sub-standard accommodation until I could afford the forever-home. By sub-standard I mean slugs on the floor in the living room every night, daylight visible between the skirting board and the floor, the only toilet rocking when sat on, perpetually mouldy walls and an unusable swampy backyard for at least a week after each storm - and this for approximately equivalent interest only mortgage repayments that we would have been liable for should we have owned the property. We stayed there for almost 5 years, with kids, until we saved up enough of a deposit for our forever home.

Stamp duty strongly discourages property transactions. Reform would enable more mobility. Australian and international evidence suggests the number of property transactions would increase by about 50 per cent in the long run (Malakellis and Warlters, 2020) (page 14). Real estate agents will have even more of a windfall from the proposed change in legislation unless another market mechanism for the transferral of property is introduced.

Land tax
I have no disagreement with this tax ‘high rates of tax paid by a small group of taxpayers’. These select taxpayers seem to be those with a large holding - of course those with greater assets (and holding these assets for financial gain purposes rather than residence or farming) should have a greater tax burden! And it’s only a rate of up to 2% anyhow. They are probably negating this tax in negative gearing anyway… I don’t see that any changes need to be applied to the current land tax scheme (although admittedly it is not a scheme that I am familiar with). Keeping this land tax and adding the annual tax (without stamp duty) would ensure that these taxpayers do not hoard property and would stimulate greater movement in the property market which is the intent of these reforms.

I hope that the contribution of my thoughts has been helpful in the consideration of these reforms.
Kind regards,