Response to Consultation Paper - Buying in NSW, Building a Future (Property Tax Reform)

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NSW Tax Reform Taskforce
GPO Box 5469
Sydney
NSW 2001

By email to *TaxReformTaskforce@treasury.nsw.gov.au*

Dear Sir/Madam,

RE: Consultation Paper: Buying in NSW, Building a Future (Property Tax Reform)

I attach a written response to the NSW Tax Reform Taskforce currently investigating the Property Tax Reform proposal.

I request that this cover page and my name be withheld from publication on the website.

[redacted]

EXECUTIVE SUMMARY

The NSW Government proposes to replace stamp duty with a broad-based annual property tax.

As a recent first home buyer (1Br unit within the last 5 years), I reviewed the arguments put forward with interest. After careful consideration of the Consultation Paper, I **oppose** the proposal to introduce a property tax in the terms set out.

My conclusion was based on several reasons, with the main two being:

1) *Equitable tax system:* The proposal is a variable tax based on land value,[1] creating a tax on unrealised 'paper' capital gains that disregards record-low disposable incomes and negligible wage growth to effectively fund tax payments.
2) *Economic arguments:* The paper cites a variety of macroeconomic hypotheses or arguments which simply did not meet the 'kitchen table' test.

My **alternative recommendation** would be far simpler approach that retains stamp duty, but creates an option for buyers to repay the cost over a period (or at resale if sooner). This ensures that:

a) Owners are not exposed to runaway capital price growth not anticipated at original purchase, and
b) NSW Government can retain a revenue-neutral pool and simpler administration cost than designing a major new tax and developing anti-avoidance mechanisms.

EQUITABLE TAX SYSTEM

To consider how property (in general) should be taxed, the NSW Government should be satisfied it is a 'fair' amount levied at a 'fair' time to the taxpayer. Stated as a simple test:

a) What is a fair amount to tax the owner?
b) At what fair moment(s) in time can the owner afford the tax levied?

MODEL 1: TAX AT POINT-OF-SALE (EXISTING STAMP DUTY)

When an individual buys property, the exact value of the exact asset is known to government. This is a fair and indisputable basis to calculate a fair amount of tax, and allows consideration of special circumstances (e.g. first home buyer) as a clear discount or penalty.

Likewise, affordability can be ascertained easily – the purchase never arises if the individual cannot afford the tax.

MODEL 2: ONGOING TAX (BROAD-BASED PROPERTY TAX AND LAND TAX)

Taxes levied post-purchase on a 'council rates' style model are forced to take more indirect approaches to asset valuation and affordability.

[1] https://www.treasury.nsw.gov.au/budget-financial-management/reform/nsw-property-tax-proposal/why-change-and-why-now

Currently, the NSW Valuer General assesses undeveloped value of land based on recent property sales[2] which has the effect of creating 'on paper' capital wealth for all owners in an area, as the tax basis (whilst losses are conceptually possible, prices have almost doubled since 2012)[3]

It is not inherently fair that the 'amount' of tax is artificially lower for a new purchaser who benefits from historical sales and not their actual purchase price, whilst being artificially raised for all other residents in the area who played no part in recent sale(s) and receive no benefit from the increased land value until they sell. This is a capital gains tax on unrealised increases in value of peoples' homes.

The capacity of an owner to afford a tax on this basis is critical. Principal places of residence are non-income producing, thus the majority of people will have to fund tax through wage growth. Yet the RBA notes disposable income has remained extremely low (<3%),[4] wage growth has stagnated at <2.5% since 2014,[5] and is almost completely eroded by CPI effect already.[6]

In my personal circumstance, my wage growth has been negligible since 2015, whilst the unimproved land value of my 1Br unit has risen ~25% in the period.

It would be a manifestly unfair application of tax powers to anticipate owners at the margins of affordability will sell their home to pay a tax invoice (and potentially trigger other involuntary tax consequences e.g. superannuation erosion or aged pensions in later life).

Properties already attracting land tax (investment or second properties) can justifiably be charged as they are today, as owners can be expected to sell, use them as income-generating assets, and/or have a variety of offsets available e.g. tax deductible expenses.

ECONOMIC ARGUMENTS

The Consultation Paper and NSW Treasury website make several statements to the effect that macroeconomic analysis indicates a property tax would be net-beneficial to economic activity.

However, the paper does not consider the signalling effect to owners that an ongoing tax (like council rates or utilities) are a constant 'money worry' that may depress spending in general, versus a one-off and immediately forgotten Stamp Duty cost.

For succinctness, many of these arguments were simply not compelling with a 'kitchen table' test, which are summarised with observation:

1) It is illogical than an ongoing tax, tied to paper asset prices that are rising faster than wages, will somehow release more disposable income to NSW residents and the NSW economy.[7]
2) Stamp Duty cost has grown over time, yet no provision is proposed to prevent any future government disregarding the 'revenue neutral' intent of the current ministry and simply increasing tax rates with simple legislative change.

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[2] https://www.valuergeneral.nsw.gov.au/__data/assets/pdf_file/0004/198625/Valuation_of_single_residential_land_policy.pdf
[3] https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/residential-property-price-indexes-eight-capital-cities/latest-release#data-download – table 6
[4] https://rba.gov.au/chart-pack/household-sector.html#1
[5] https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/wage-price-index-australia/dec-2020
[6] https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release#selected-tables-capital-cities
[7] https://www.treasury.nsw.gov.au/budget-financial-management/reform/nsw-property-tax-proposal/why-change-and-why-now

3) A more volatile market without any 'brake' of stamp duty would seem to encourage even more rampant speculation by investors, and even less purchasing power by genuine long-term owners who currently provide a stabilising effect.
4) Claims of benefits like 'higher property turnover' seem to oppose other NSW Government policies to reduce housing insecurity (e.g. increasing turnover by landlords creates uncertainty for tenants of those properties).
5) Landlords could evade any anti-avoidance / anti-gouging controls by classifying costs as simple 'market price increases' with a limited risk of NCAT action by tenants.
6) The Consultation Paper represents the scheme to be perennially optional/opt-in, but the intention is to make it compulsory in perpetuity once a property is subject to the new property tax.

CONCLUSIONS

I **oppose** the proposal to introduce a broad-based property tax in the terms set out by the Consultation Paper, and have noted a simpler alternative to collecting stamp duty that relives the high upfront cost whilst remaining revenue neutral.

I do not believe that creating and collecting tax on unrealised 'paper' capital gains has been adequately considered against the impact on actual households.