

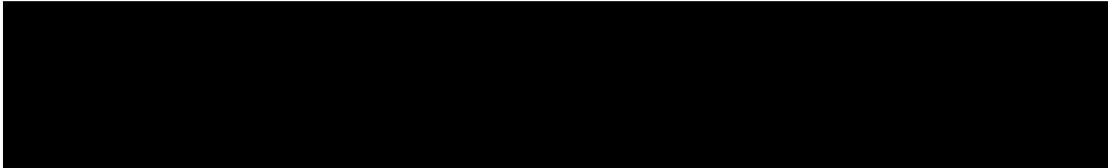
Dear NSW Treasury,

Thank you for allowing the opportunity to respond to the NSW Proposed Property Tax consultation paper.

As a property owner and investor/landlord and 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,



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 h_o_w_ _m_u_c_h_ _s_t_a_m_p_ _d_u_t_y_ _t_h_e_y'_l_l_ _p_a_y_ _w_h_e_n_ _d_e_c_i_d_i_n_g_ on purchasing property in NSW, they were more concerned with current Land Tax and the new Property Tax they 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 p_r_o_d_u_c_e_d_ a_ _w_e_b_ _p_a_g_e_ _e_n_t_i_t_l_e_d_ _“W_h_a_t_ _C_o_u_l_d_ _T_h_i_s_ _M_e_a_n_ _F_o_r_ _Y_o_u_”

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. T_h_e_ _“l_ _a_m_ _P_l_a_n_n_i_n_g_ _t_o_ _B_u_y_ _a_ _R_e_s_i_d_e_n_t_i_a_l_ _I_n_v_e_s_t_m_e_n_t_ _P_r_o_p_e_r_t_y_”_ _c_a_s_e_ _s_t_u_d_y_ _w_i_t_h_i_n_

<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 t_h_e_ _c_o_u_p_l_e's_ first investment property and \$552,000 for their second investment property. This gives a land value to 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 Taxes from 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 \$31,021 better 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.

This has 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.

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.

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 for seniors. 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. P_I_C_A'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 Government wants a fairer tax then Stamp Duty should revert more 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 become more involved in 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 acumen or 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 Tax as for a normal Owner Occupier is wrong.

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.

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 Tax regardless of whether the new Property Tax was 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 Tax because the property rental is now too high and the property cannot be leased, then that investor would either have to c_h_o_o_s_e_t_o_i_n_v_e_s_t_i_n_o_t_h_e_r_s_t_a_t_e_s_t_h_a_t_d_o_n't_h_a_v_e_s_u_c_h_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 Tax should be limited and capped with a fixed amount. Such an annual Property Tax will be expensive for holding any property for the longer term. F_r_o_m_N_S_W_p_r_o_p_e_r_t_y_o_w_n_e_r_s'_p_o_i_n_t_s_o_f_v_i_e_w,_t_h_e 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)

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 keep raising 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 Tax annual payments is affordability and thus labour mobility as d_e_m_o_n_s_t_r_a_t_e_d_b_y_o_n_e_o_f_t_h_e_C_a_s_e_S_t_u_d_i_e_s_i_n

t h e "W h a t T h i s C o u l d M e a n f o r Y o u"

G o v e r n m e n t e x a m p l e s. 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%