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**Submission to the NSW Government Treasury  
Tax Reform Taskforce**

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**NSW STAMP DUTY REFORM SUBMISSION FROM COLLIERS**

**Colliers (NASDAQ, TSX: CIGI)** is a leading diversified professional services and investment management company.

With operations in 67 countries, our more than 15,000 professionals work collaboratively to provide expert advice to real estate occupiers, owners and investors.

For the past 30 years, we have extensive experience in planning, launching and selling out residential projects of all types and sizes. Our expertise ranges from the largest multi-staged mixed-use development to boutique, niche development

and housing estates throughout Australia.

Our global resources and extensive local residential market intelligence are fully utilised by our teams and we are the only residential real estate specialists with dedicated Australian property desks offshore, actively seeking overseas investors. The depth of our activity and constant market interaction gives us a detailed insight to the housing market.

NSW Treasury have requested open public submissions regarding the proposal to change how stamp duty, relative to property transactions, is changed with the possible choice of an annual land tax on the option of an opt-in and opt-out for buyers.

Colliers has a long and extensive agency role across the residential property market in NSW and also across Australia and internationally.

Reflecting our past experience and exposure to the market and taking account of the many buyers and developers we have encountered; we make the following submission to NSW Treasury.

In part we have adopted a Q & A format as we believe this will help highlight particular concerns.

***Do you agree that stamp duty is out of date and is a handbrake on the economy?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?***

The very simple answer to this question is yes. This is a reform that has been debated for many years and while the introduction of the GST did focus attention

on all areas of stamp duty, reforms associated with the property market have so far lacked substance and political will.

Policy review is long overdue however, there are other factors that act as a 'handbrake' on development, and these include planning delays. They erode the return to developers, then restrain supply and negatively impact affordability.

Developers in the apartment market often have to limit their plans because of the impact of the current stamp duty. This impacts the creation of employment as the impact of the current stamp duty is an un-equal burden on off-the-plan (OTP) buyers and this restricts development and is at odds with what happens in some other states, placing NSW at a disadvantage.

There's also a very basic question that has surfaced in the stamp duty debate and that is: When should any duty be paid and who should pay - buyer or seller, or possibly both parties?

***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?***

We are in agreement that any reform should have unimproved land value at its core. In this area we would, however, raise particular concerns as to how stamp duty is currently applied to off-the-plan apartment sales and some house and land packages to the advantage of those buyers.

The proposed land tax element would eliminate these concerns, but only in part, as any ongoing stamp duty would also need to be based on the unimproved value and not the sale price.

Allied to how any land tax is levied are questions that concern the role of capital gains tax and how values are impacted by land zoning flowing onto levels of supply.

***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?***

This is a very complex question, and one where we have received many comments and noted a degree of confusion and many concerns. Perhaps the main concern is that if stamp duty is also only levied against unimproved value, as we suggest it should, then the level of stamp duty should fall, but this is not clear.

If adjusted to a more even and reasonable level, then many buyers have indicated they would 'rather pay the stamp duty and get it over and done with'. As opposed to the idea of a 'forever' land tax that may go up over time and could in retirement years become a considerable tax burden when added to council rates, and for apartment owners body corporate levies.

We also suggest that a different rate for investors requires far more consideration. The proposed reforms give rise to the impression that property investors, who are an essential part of the housing market, will again have been 'penalised' and singled out for harsher treatment related just to this one class of investment.

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

In our view, no. Any transition period is, we suggest, bound to have a big impact

on the market and this will also impact developer investment plans and timing which would distort the market, and the access and demand for development finance.

Despite any negatives, the reforms should be thoroughly explained but set in place in total from day-one of the legislations of any reforms, drip-feed policy only creates confusion and speculation.

***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?***

While this is mainly a personal question, we would speculate, as per our comments above that many buyers would react differently based on their own varied circumstances. This, we suggest, has the potential to distort the market.

One option is to allow for flexibility between stamp duty or land tax – for example what happens when a property has been subject to land tax for 15-20 years and then it's taken to market with very different market conditions prevailing.

Is there potential to create a two-tiered market with homes not subject to land tax selling for more or less than those requiring stamp duty to be paid, and what view will lenders adopt. Perhaps one solution is to allow a 'flip-clause' possibly every 3-5 years.

When considering when to purchase we suggest that the FHB will be impacted as they often buy to trade up in the market and this impacts the supply of homes on the market.

Currently the housing stock fails to meet the needs of the community partly as the costs of transaction are so high, for example every time a property is sold duty is payable even when a sale takes place after a few months or a few years, and while this can be either by choice or circumstance, it's a cost burden.

***Should there be a different property tax rate for residential owner-occupied properties, residential investment properties, farmland and commercial properties?***

For residential property we suggest no, rather there should be a single rate applied. The case to vary other property types may be valid, however the details of how rates would be varied and then changed is a key question to be clarified. However, why investors should pay a different rate is very hard to justify.

While personal income taxes vary, owner-occupiers and investors pay the same level of council rates, GST where applicable, and the same strata levies. Again, the suggestion (assuming a higher) rate looks like a penalty. We would also ask the opposite question, if there was a shortage of rental housing, would the land tax be varied to encourage investment.

Currently some values & rates of stamp duty are out of sync with today's values, and any new tax structures should we suggest being considered in light of the total tax burden on the property market. While flat rates may not be possible across all asset classes, greater transparency is required, and a flat rate should not be seen as impossible.

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

This is a question that to a major degree relates to the already highlighted and urgent need for the reform. Our answer would be yes. The reform is for the long-term and is acknowledged as an inter-generational change and if there's an associated cost to do so, then it's a reasonable investment.

The industry and consumers will, however, need some concrete assurance that the changes will not see by design or accident an increase in the overall tax applied to the property industry.

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

We suggest that there is little justification to exclude any 'high-end' sales from the proposal. If the land tax is at a fair rate, whatever that might be, and is applied to the unimproved value then the land tax payable will be proportional and could over a long period yield a better revenue flow. Creating varied rules can also lead to distortions.

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

This question is a major concern. It is one reason some buyers say that they prefer the short-term liability of stamp duty in contrast to the 'forever' nature of any land tax. We have found that this is a very real concern among older buyers who may face many years of fixed or reduced levels of income.

Some suggestions in this area have included the freezing of land tax liability either until a sale of the property or until the home passes to an estate. Even if this was to be seen as some form of death duty, any such liability would not fall upon those

who may be least able to afford it.

***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?***

Any potential increase of either option remains a problem for governments to solve. One legacy issue associated with the current stamp duty has been the failure to adjust rates as values increased and this contributed to a windfall for governments. Potential increases in land tax rates tend to push consumers to again favor the stamp duty option.

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

The reform of stamp duty is an emotional topic, for many it is seen not so much as an unfair tax, but one that is too high and creates a hurdle to moving either by design or circumstance. There's also a few we encounter over the fact that stamp duty can be collected many times on the same property, even if they are different buyers.

Also, when the GST was introduced there was a direct 'promise' that other taxes, including all stamp duties, would be removed or reduced, but this did not happen as promised and reductions were marginal. However, in any debate, existing owners and the management of how the policy will be introduced must be given clarity as they have already paid stamp duty.

Any policy should reflect when the duty was paid, and while 'grand-fathering' is welcome, far more detail is needed. Will the earlier payment of duty on a property



lead to an automatic land tax in the future?

Against this background it might be more logical to reduce stamp duty or remove it and increase the GST to 12.5% or even 15% - the current rate looks low by the standards of other countries. Also, the current stamp duty proposed reform is taking place in isolation and wider reform of taxes is still warranted.

***In summary:***

**NSW Stamp Duty Reform – Is it Possible?**

- Tax reform is never easy, but there must be a better way as stamp duty in its current form is a poor tax.
- For NSW it is the second highest source of revenue to pay for state Government services.
- The review could create wider property ownership which has been in decline.
- The current stamp duty constrains the market and impacts housing supply.
- There is also a strong case for considering the role of government in both restraining and adding to housing supply and affordability via the role of government in planning including land use and zoning.
- It's time for an open-minded approach to take on the task of reform.
- First time buyers need structural 'guaranteed' support.
- Land Tax unlike stamp duty should be universal tax, applied to all classes of property.
- There's a need to ensure that people are not worse off.
- The growth and rate of land tax would be locked up (like the GST).
- Now with the lowest interest rates in history it's the ideal time to do this.
- But there's also a down-side to interest rates for buyers as they will increase, and the new tax may be a big financial burden.
- The stamp duty changes are an inter-generational change.

- The transition period will be difficult and should not be complex or drawn-out as this may both inflate and then possibly deflate prices.
- Retirees may not be able to afford a land tax. Even if they sell their current homes the trade-down may need to be large - 30/40%.
- The in or out option suggests there's a need to better define the choices and allow some flexibility.
- Why further disadvantage investors with a higher or non-deductible rate?
- What happens when someone cannot pay, that looks a very real possibility with retired buyers facing shrinking incomes.
- Is a death duty a better option?
- Should the seller pay and not the buyer? Or share the duty?
- Should the GST be increased, and the tax system made simpler?
- The big question still remains around how to make housing more affordable, and this reform alone will not do that.

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