



15 March 2021

NSW Treasury
52 Martin Place
SYDNEY NSW 2000

Re: Property Tax Consultation Paper

Dear Sir/Madam,

I write to you in response to the consultation paper relating to the proposed property tax. I am a



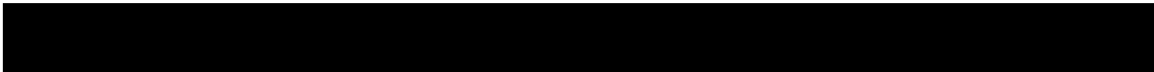
While I understand the inefficiencies created by the current regime and in principle am not against measures to address such inefficiencies, I do foresee problems with the property tax as proposed.

In response to some of the questions posed in the consultation paper, I comment as set out below.

Question 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?

I agree that it would be attractive for some property purchasers to be able to choose to enter the new property tax regime, but it will not be attractive to all purchasers.

Individuals purchasing their home who plan to live in the property long-term may prefer to continue



property with the intention of using the property for an extended period of time may prefer to continue with the current regime, as may investors with long-term investment strategies.

The main problem that I see with the property tax regime as proposed is that once a property is in the regime, it is in forever. I understand that it may not be feasible to allow short-term owners such as property developers the choice to pay the proposed property tax instead of stamp duty, but the

inability of a property to exit the proposed property tax regime will be to the detriment of purchasers who intend to own property long-term, who may pay much more in annual property tax than stamp duty and land tax under the existing regime.

The inability for a property to exit the property tax regime may also create distortion in property markets with properties not subject to the property tax regime demanding higher prices than those already covered by the property tax regime.

The issues above could be alleviated if there was a mechanism for property to exit the proposed property tax regime.

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

Yes, I see this as the only fair and reasonable approach.

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

Currently landlords and tenants have the flexibility to negotiate terms including for outgoings, including land tax to be passed on to commercial tenants. The proposed property tax regime creates an obstacle for such provisions to be included in leases going forward. It also creates complexity for commercial properties with existing arrangements in place where that property is sold and where the purchaser elects to enter the property tax regime. I don't think there is an easy answer to this question other than to say that landlords should have the ability to pass on some of the property tax as they currently do with land tax.

Question 10 - What should happen for people who have chosen the property tax, but then can't afford it?

This is a difficult question to answer. The option to pay stamp duty on the purchase may assist in reducing the number of people finding themselves in this position.

Question 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?

Allowing purchasers to choose to pay stamp duty on the purchase of property while they have the funds to do so is the easiest way to ensure that property tax remains affordable. For example, a middle-aged couple with a good income may be able to fund the stamp duty on the purchase of a home to be used as their principal place of residence, but may find it difficult to pay annual property tax in old age if they purchase the property under the property tax regime.

The counter argument here is that the couple would need to borrow more to purchase their home in the first place. It would be interesting to look back at the effect of stamp duty and first home buyer concessions offered in the past and to look at the effect that these schemes had on residential property prices. My expectation is that the removal of the need to pay stamp duty on the purchase of residential property will increase the price that people are able to pay which will push up the price of residential property. If that is the case, then the stamp duty saving, is not really a saving at all.

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

With any type of tax reform there will be winners and losers. The losers in this case being homeowners, businesses and investors who purchase property with the intention of holding for the long-term. I believe the ability to choose to apply the existing regime of stamp duty and land tax would result in the proposed property tax being a fairer system. I understand that this choice will exist for properties not already covered by the proposed property tax regime, but in time we will see most properties covered by the proposed property tax regime with no mechanism to exit.

In addition to the questions raised above, rental yields as a percentage of market value have decreased over recent years. If we consider industrial property which was returning around 4.7% for the greater Sydney metropolitan area late last year and seemingly trending downward, an annual property tax of 2.6% on the unimproved land value (which often represents a significant portion of the total value for industrial property), the proposed property tax of 2.6% doesn't seem viable.

This raises the question not only whether the rate of 2.6% payable under the proposed property tax regime is appropriate, but also whether the rates and thresholds under the existing land tax regime are appropriate, noting that a large portion of land tax is often passed on to business.

This provides an opportunity not only to consider the rates payable under the proposed property tax regime, but also the rates of land tax payable on commercial property and its effect on business.

Thank you for taking the time to read my comments.

