
From: [REDACTED]
Sent: 9/03/2021 5:11:16 AM
To: Tax Reform Taskforce [taxreformtaskforce@treasury.nsw.gov.au]
Subject: Tax Reform Taskforce - Property Tax Proposal - Response

9 March 2021



Tax Reform Taskforce for and on behalf of
NSW Treasury

By email to TaxReformTaskforce@treasury.nsw.gov.au
Cc State Members of NSW Parliament

Dear Sir/Madam,

This document has 4 sections, and 2 Annexures:

- A Preamble;
- B Executive summary;
- C Stamp duty alternative to ‘alternative Annual Property Tax’; and
- D Conclusion
- Annexure 1 - Responses to detailed questions within the Consultation Paper
- Annexure 2 - Flaws, errors, inconsistencies and omissions in the Consultation Paper

A Preamble

This is my written response to the Consultation Paper to replace stamp duty and land tax in NSW with an ‘alternative annual property tax’. It is accompanied by my written request for confidentiality. Extracts may be freely quoted, without attribution, by all recipients of this letter. NSW Treasury and/or Tax Reform Taskforce and/or the hired-in consultants are requested not to publish this submission in full on their website(s).

It is noted the advice provided to responders to the Consultation Paper is that the Government at this stage sees the main emphasis as ‘seeking feedback on the broad design of the reform’.

It is also noted the stated ‘Vision’ in the Consultation Paper of the Government is ‘for more people to own their own home’. I refer to this admirable ‘Vision’ below several times because it is core and fundamental as the given reason to change from current processes.

The Consultation Paper ‘sets out the case for the change’, which it does. It is a sales document to champion a new proposal. It does not give a balanced view of the proposal to allow

responders/citizens of NSW to weigh up the advantages/disadvantages of possible change and come to an informed opinion to relay to the Tax Reform Taskforce.

I am sure all parties, responders included, hope this does not mean an outcome has already been pre-determined by the Tax Reform Taskforce to be presented to NSW Members of Parliament/NSW Treasury as 'reflecting the result of an extensive public consultation process' - because that would be false. The Tax Reform Taskforce must be tasked with genuine community consultation, not just tasked to conduct an affirmation exercise to justify the Annual Property Tax proposal.

B Executive summary

I am strongly against the replacement of the current Stamp Duty (owner occupiers) and Land Tax (owner investors) systems with an Annual Property Tax. There are no cogent reasons why this need occur. I respectfully suggest there is a clear, obvious, working and financially and emotionally viable alternative that delivers 'the Vision' - without implementing an Annual Property Tax.

The proposed Annual Property Tax:

- Replaces certainty/any ability to pre-calculate NSW Government charges (Stamp Duty/Land Tax) with uncertainty/an inability to pre-calculate, this being due to varying Annual Property Taxes as property values vary over time, along with the ability of the government of the day to simply change the % basis of the tax to increase tax yield;
- Reduces the ongoing buying power of all residents (both owner occupiers and tenants) as they would have less disposable income due to the payment of the Annual Property Tax, either directly or via rents. This would impact the whole NSW economy. It is naïve to assume property owners will not pass on such charges to tenants, and assurances this would be policed and not be allowed to occur are just wishful thinking. If the market rent includes/factors-in the Annual Property Tax, it is (regardless of wordplays) 'the market rent'. NSW Government has no genuine ability to legislate to exclude the Annual Property Tax from determining market rent. Increased rent penalises those attempting to save to enter the home buyers' market by reducing their disposable income. An Annual Property Tax would be adverse to those attempting to enter the Home Buyers' market;
- Forces people to choose between paying the Annual Property Tax/putting food on the table/running up debt – primarily impacting the very people it is purporting to assist;
- Proposes replacing a simple working solution with something far more complex. It replaces a known and pre-calculated one-off entry charge (for which the timing to pay is dependent upon the discretion of the homebuyer) with an annual whole-of-home-ownership-period expense - where the homebuyer loses any ability to budget for a significant annual but unknown expense. It would impact the less financially astute/more financially vulnerable members of the NSW community – the very groups who (it is said) 'the Vision' seeks to assist – 'the first home buyer, the frontline worker, the retiree ready to downsize';
- Advantages property developers, property flippers and 'short term owners' to the disadvantage of the mainstream NSW owner/residents who, once settled into a community, tend to remain in that community, remaining in their chosen house (with renovations, if necessary);

- Would further fuel spiralling house prices. Removal of Stamp Duty will result in increased house prices - buyers will spend to their maximum borrowing ability regardless of the split between amount paid to a vendor and amount paid in Stamp Duty (if any), if there is no stamp duty to pay the buyer will spend that borrowing capacity on the property;
- Is self-defeating of 'the Vision'. Page 19 of the Consultation paper states the unimproved land value across NSW is \$437,500 - which number currently attracts a once-off NSW Stamp Duty of \$15,315.30. The proposed Annual Property Tax for this valuation year would be \$1,812.50, and the Annual Property Tax amount would increase year on year as the value of the land rises, whatever that may be; and
- To make the issue plain. Assume there is no increase in land value. After 8.5 years of ownership ($\$15,315.30 / \$1,812.50$) the NSW resident will pay more in (proposed) Annual Property Tax than they would have under the existing one-off Stamp Duty regime. My belief is that those 'the Vision' seeks to assist – 'the first home buyer, the frontline worker, the retiree ready to downsize' will buy and hold for periods far longer than 8.5 years at least once in their homeownership lives.

The very groups who seek certainty and stability in life will be severely disadvantaged. The Tax Reform Taskforce's own numbers prove the supposed beneficiaries of any change will be penalised under the proposal were it to go ahead.

An inappropriate outcome as opposed to 'the Vision' would occur.

Further discussion on these points is contained within Annexure 1 - Responses to detailed questions within the Consultation Paper.

C Stamp duty alternative to 'alternative Annual Property Tax'

The Consultation Paper states that Stamp Duty 'is a major barrier to anyone saving for their first home or wanting to upgrade'. This appears to be anecdotal surmise, judging from what information the Consultation Paper provides. Responders to the Consultation Paper cannot know if this is an empirical fact or simply a working hypothesis/broad based assumption made by the Tax Reform Taskforce, but either way, there is a simple alternative solution.

The NSW Government can and should implement a Stamp Duty Loan repayment system/scheme, allowing for regular interest and principal repayments over a fixed period and that allows for early repayment should a participant find this is an option they want to take up. The eligibility for inclusion within the scheme can be targeted, just as does the current First Homeowners Scheme. If the suggestion first homeowners and upgraders can afford an ongoing Annual Property Tax (without deferring it and becoming mired in debt) is true, it is equally true they can afford repaying Stamp Duty via regular repayments - and so not be penalised for holding property beyond 8.5 years. This proposal also removes the adverse property price impacts of property owners becoming property flippers driven by the knowledge a quick flip will 'save' them Annual Property Tax.

D Conclusion

We should be simplifying our lives rather than making it more complicated. I find it outrageous that we are talking about burdening our children, and future generations with additional living costs. The proposed Annual Property Tax:

- Discourages steady property ownership.
- Is non-discretionary.
- Would add to the cost of living and is therefore inflationary.
- Is not equated with an increase in personal income received.
- Not included in Centrelink payments, which is a Federal jurisdiction.
- Proposes a 'hardship scheme' that would involve vulnerable people having to engage with yet another Government department. The icare NSW debacle comes to mind as a parallel of the cost (in money and in broken dreams) how government deals with the vulnerable it claims to be looking after.

The current system is not broken. The Annual Property Tax proposal is short-sighted. It is intended as a voter grab at the next NSW election, with longer term consequences to individuals ignored.

Yours faithfully,

(signed)

A solid black rectangular box used to redact the signature of the sender.