

15th March 2021

Mr Michael Pratt AM
Secretary
NSW Treasury

Via email: TaxReformTaskforce@treasury.nsw.gov.au

Dear Mr Pratt

Buying in NSW, Building a Future - Consultation Paper

I write regarding the NSW Treasury Consultation Paper – *Buying in NSW, Building a Future* (the Consultation Paper). On behalf of the members of the Urban Taskforce, I thank you for the opportunity to provide feedback on this timely and important paper.

The Urban Taskforce **supports** the proposal to give property purchasers the option of paying an annual property tax as an alternative to stamp duty.

Urban Taskforce responses to each of the questions posed in the consultation paper are detailed below.

- *Do you agree that stamp duty is out of date and is a handbrake on the economy?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

Every report on tax reform published in the last two decades has called for the abolition of stamp duty.

Stamp Duty is highly inefficient and fosters intergenerational inequity as it:

1. Effectively acts to suppress housing market transactions and limits the supply of existing homes for sale by deterring people from changing homes when they otherwise would, to downsize for example;
2. simultaneously punishes first home buyers who perceive it as one of the biggest hurdles to home ownership.

Stamp duty represents a clear message to homeowners that you will be punished for changing your home. It is a direct price signal which acts in the opposite direction to the functioning of a market system. It prevents people moving home when they change jobs – hence it results in longer commutes, increased traffic congestion and greater greenhouse gas emissions.

As noted above, those who own large homes but whose children have moved away are given a clear price signal through Stamp Duty to stay in their large home, no matter how inappropriate it may be for their lifestyle. This means that there are fewer large homes on the market for young families. Worse, our most precious resource (developable land) is under-utilised – and the tax system is favouring that perverse outcome.

Stamp Duty is an unreliable source of revenue for governments. Stamp Duty revenue is dependent on property transactions and is vulnerable to market variations. By contrast, a property tax is less volatile and more predictable.

A property tax, once established, must be locked in to ensure public confidence that it will not be moved about with the electoral cycle.

The proposed property tax will be a much-improved mechanism for the on-going funding of infrastructure. The new tax, by being based on the underlying land value, will increase with the delivery of new publicly funded infrastructure or rezoning, therefore having a multiplier effect for the funding of future and on-going infrastructure needs.

A property tax will keep pace with economic growth. It will facilitate infrastructure contributions from all of society that benefits from economic growth and subsequent general land value increase, and from owners close to new infrastructure, who enjoy a higher value uplift and therefore would pay more land tax.

- *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?*

Urban Taskforce supports this approach. The replacement of an upfront, lump sum with an ongoing land tax based on the unimproved value of land could incentivise more turnover, and more efficiency in the use of housing stock. Further, Urban Taskforce would strongly oppose a new tax on economic activity or investment – which would be the case if the property tax were applied to the improved value of the land.

- *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?*

Yes. This gives consumers a choice and will assist in the implementation of the new policy.

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

Yes.

- *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?*

It's expected that many potential homeowners, particularly first home buyers, would delay a purchase in avoiding stamp duty and instead pay the property tax.

Previous research from CoreLogic suggests first home buyers perceive one of the biggest hurdles to home ownership is stamp duty, together with saving for a deposit.

Urban Taskforce broadly supports a 'limited window' for as long as the property tax is not compulsory, so support of this will be dependent on the details. Facilitating the transition to a property tax is seen by the Urban Taskforce as a positive so as to shift the public finance burden from new home purchasers towards a broader base of all property owners. This recognises the contribution made by the new housing sector and our growing population towards the growth of the economy and the associated benefits that are derived for the broader community.

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

No – the Property tax should be simple and have a few exemptions or conditions as possible.

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

Yes – it is long overdue.

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

No – these properties will yield the greatest amounts over time as they are typically located on large and expensive plots of land in highly sought-after locations.

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

None.

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

Just as a transaction for the transfer of a property is voided if the Stamp Duty is not paid, so should those who fail to pay their tax obligations be subject to penalty.

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?

It is important to ensure any new tax avoids unfairly disadvantaging the lower socio-demographic populace. There may be some limited circumstances where Government may consider the granting of exemptions or deferment of payment however, these should be kept to an absolute minimum.

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

Bring it in with alacrity.

The Urban Taskforce congratulates the NSW Treasury on its work to date in the publication of the Consultation Paper and urges the Treasury to maintain its rigour in this reform area. The Urban Taskforce eagerly awaits the implementation of reforms.

Yours sincerely



Chief Executive Officer