QPRC

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9 March 2021

NSW Tax Reform Taskforce

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Dear Sir/Madam.

Property Tax – Consultation Paper

Thank you for the opportunity to present our views on the Consultation Paper. We acknowledge the Government ambition to make property more affordable upfront and enable more residents to own their home. We recognise bundling stamp duty and land taxes into the proposed property tax reform smooths out the lumpiness of revenues generated by the property market for Government. We presume for those who elect to not pay the duty as lump sum - essentially as an interest free loan – will pay any balance from the proceeds of the next sale of that property. With the Government expectation of more mobility as a consequence of reducing the upfront cost of property, then the more property transactions, would likely yield more revenue. It is noted post-Covid, that potential for mobility has accelerated.

Observations

While similar in structure, the annual property tax differs to annual local government rates. The base charge and ad valorem rate, and the differentiation of residential owner-occupied, investment, commercial and farmland property taxes is akin to the rating categories and levies for local government. That similarity though, may confuse tax/ratepayers.

The Consultation Paper indicates the ad valorem component of the proposed property tax will grow in direct proportion with land values. This will result in growth over time and property tax windfalls for the State Government. This will further exacerbate the crowding effect on council rates, particularly where councils need to seek increases above the rate peg via the Special Rate Variation process.

Notwithstanding the principles outlined in the Paper, it could be interpreted the annual property tax may become a progressive tax, as the value of the tax is subject to the cyclic changes in ULV. There may be an argument then, that the principle of revenue neutrality espoused by the Government may not be achieved. At the potential property tax rate of $500 + 0.3% of ULV for owner-occupied residential, as the ULV rises as a consequence of land revaluations every three years – so too will the expected tax revenue to Government.

In contrast however, as local government general rates are capped, the ad valorem (or %) charge would reduce as the ULV rises, to generate the same capped rate yield. Clearly the Government had the ULV and new approach to property taxes in mind, when it rejected the IPART recommendation to introduce a CIV for local government rates.

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Issues

While noting the principles outlined in the Paper below, we're concerned with potential hardship to taxpayer/ratepayers. The Government proposal would seem to shift the tax arrangements for investors: normally the lump sum stamp duty would be claimed on CGT, and land tax on income. Both (as the annual property tax) would now become deductible on income and may be a risk that annual tax may flow to increased rent expectations and place some marginalised renters at risk, including pensioners.

The Government is urged to use this opportunity to revise pension rebates and subsidies for owner occupied residences, assisted by the potential higher revenue streams brought about by elevated property transactions.

THE PROPERTY TAX WILL BE AN ANNUAL TAX ON LAND VALUE

The property tax would consist of a fixed amount plus a rate applied to the unimproved land value of an individual property, and not aggregate landholdings. This is the same approach as council rates.

BUYERS WILL BE GIVEN THE CHOICE OF WHICH TAX TO PAY

Buyers could choose to pay the property tax at the time of purchase. It would replace stamp duty and (where applicable) land tax. Once a property is subject to the property tax, subsequent owners must pay the property tax.

IF YOU ARE NOT BUYING A PROPERTY, THERE IS NO CHANGE

There will be no double taxation. If you have already paid stamp duty on your property then you will not have to pay the property tax.

BALANCED RATES

Residential owner-occupied and primary production properties would pay lower rates than residential investment properties, which in turn would pay lower rates than commercial properties.

PRICE THRESHOLDS WILL HELP MAINTAIN FISCAL RESPONSIBILITY

Price thresholds would limit the number of properties initially eligible for transition to keep revenue and debt impacts within reasonable levels, while ensuring over 80 per cent of residential properties are eligible to opt-in from day one.

PROTECTIONS

Protections would apply so that the property tax does not result in rent increases without a tenant's agreement. A hardship scheme would recognise that taxpayers' financial situations can change over time and ensure that no one facing hardship needs to sell their home to meet property tax liabilities.

REVENUE NEUTRALITY

In the short term, the proposed model will reduce the NSW Government's revenue. Over the longer term, the property tax would be revenue neutral, collecting the same amount of revenue as stamp duty and land tax.

FIRST HOME BUYERS

Existing stamp duty concessions for first home buyers could be replaced with a grant of up to $25,000.

Local government annual rate notices are issued initially at the end of July, then quarterly notices in October, February and May each financial year. Assuming annual property tax notices and local government rate notices are issued in July or January, we anticipate many ratepayers may not differentiate the source or purpose of those accounts. To many, the role and funding of state and local governments is blurred. Should an annual property tax (say $1400 for $300,000 owner occupied ULV) and annual general rate notice (say $1600 for same ULV) be issued at a similar time, then it's likely an owner will seek hardship relief or arrangements with the council (not government), in turn impacting local government cashflow.

An investor then, with an above-tax threshold of $300,000 ULV for their properties in 2020, would be charged $4500 property tax in lieu of duty, in addition (presumably) to $4900 in existing land tax. Allowing for tax deductibility, that may place pressure for up to $50 per week additional rent recovery.

Opportunities
The reforms may present an opportunity for Government to integrate the property tax, an emergency services levy, infrastructure contributions and council rates into a broader tax review. The Government may contemplate aligning the yield from the property taxes to expenditure or grants on infrastructure that residences and business rely upon. It would be interesting to consider what combined % of Government and local government revenues are collected via stamp duty, land tax and council rates; and what % is reinvested in the infrastructure and economic ambitions outlined in the Budget paper.

It is noted the Government is progressing reforms to the Emergency Services and Local Government legislation, and together with the recommendations of the Productivity Commission review of development infrastructure contributions, a fresh approach to property-based taxation that may be directed to infrastructure, environment and emergency services may be imagined. In line with the thrust of the Thodey 2020 NSW Review of Federal Financial Relations, it is suggested an emergency services levy be bound into this property tax reform.

Attached is a copy of a proposal prepared by Regional Cities NSW to revise the model for funding of emergency services in NSW, cleaning up the transfer of emergency assets and obligations for capital and operational contributions between Government, councils and the insurance sector. The ESL on councils, like the ESL and associated GST and stamp duty on insurance policies, are part of the same hidden tax regime.

Ratepayers and the insured are largely unaware of the levies they are paying. There is also a concern that the lack of transparency combined with the fact that the ESL on both insurance and local government funds over 80% of the emergency services budget, may have enabled the emergency services to avoid the same budgetary scrutiny and accountability that other agencies are subject to.

As a minimum, the Government is urged to include stamp duty, land tax and emergency service contributions – all based on ULV – on the annual property tax accounts, with the billing cycle structured to avoid conflict with local government legislated cycles. The removal of the current annual emergency service contributions and continued exemption from property taxes for councils is vital to the sustainability of local government.

As revenue growth for Government is smoothed and more property mobility and application of the cyclic ULV is likely, it is suggested part of those revenues be redirected to increasing and indexing the pension rebate on council rates to ease the impact of the new tax regime and potential flow on to rentals.

Our attached submission to the IPART Review of the Local Government Rating System in January 2021 proposed a progressive tax system also informs our submission to the Property Tax Reform. That submission proposed a mix of:

- special rates and infrastructure contributions to mirror rather than mitigate, the impacts of population growth; together with
- notional yield catchups to recover under-charging the rate peg or development contributions;
- supported by a redistribution of the rate burden through broader rate categories;
- a revision of rate exemptions based on land use (including crown corporations); and
- the introduction of special levies to support emergency services, with the removal of related contributions from councils, while the Local Government and Emergency Services Acts are under review

More broadly, the streamlining of Government tax and council rating into a single billing and recovery structure administered by councils or ServiceNSW/RevenueNSW should be explored. For example RevenueNSW may undertake billing and recovery of council and Government property taxes, and smooth out taxpayer impacts by billing monthly and managing collections and recovery; as well as assisting cashflows for councils by smoothing out the lumpiness of quarterly rate billing cycles. That approach may allow Government and councils to ringfence the tax/rating lines for emergency, infrastructure and environmental services for example, and improve transparency with associated reporting of the planned scope and actual deliverables for those tax/rates.

We would be pleased to expand on these suggestions at your convenience.

Yours sincerely,

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Chief Executive Officer
Queanbeyan-Palerang Regional Council
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