

NSW Treasury Tax Reform Taskforce
Via email:
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Submission: Property Tax Proposal

This submission has been prepared by the Community Housing Industry Association NSW (CHIA NSW) in response to the NSW Government's Property Tax Proposal.

CHIA NSW is the peak body representing 94 registered, not-for-profit community housing providers (CHPs) in NSW. Our members currently own or manage more than 51,000 homes across NSW for individuals and families who cannot afford to rent or purchase a home on the private market. Since 2012, CHPs have delivered more than 4,000 new homes across NSW, representing an investment of over \$1.5 billion.

Investment in social and affordable rental housing is critical to tackling the housing affordability crisis in NSW, noting that the COVID-19 pandemic has not eased affordability pressures for vulnerable households. Pre-COVID, modelling undertaken by the University of NSW (on behalf of CHIA NSW) showed that, across the State, an additional 317,000 social and affordable rental housing properties are needed by 2036 to meet current and future demandⁱ. More than 50,000 applicants are currently on the waiting list for social housing in NSWⁱⁱ. Without significant investment in social and affordable housing, some people will be left waiting for 10 years or more to be housed, forcing people to remain in unsafe or unhealthy circumstances, pay unaffordable rents, live in substandard housing, or, at worst, into homelessness.

CHIA NSW welcomes the NSW's Government efforts to improve housing supply and affordability. It is noted that an objective of the proposed tax reforms is to reduce the up-front costs of purchasing property. Careful consideration must also be given to unintended impacts of the proposed reforms which may negate the potential for CHPs to invest in affordable supply and disadvantage property owners and tenants over the longer term. Critically, if tax exemptions currently available to the sector are lost, this could affect the development viability of new housing projects, meaning that there is insufficient revenue to proceed.

Tax exemptions for charitable bodies must be maintained

CHPs with charitable status are currently exempt from land tax and stamp (transfer) duty, which is an integral component of a CHP's financial viability. This is especially critical at a time when land prices and operating costs, such as insurance premiums, are rising. CHPs typically have an operating margin of 2-3%, which is primarily comprised of rental revenue received from tenants. Most tenants will contribute 25% of their income support payment, plus 100% of Commonwealth Rent Assistance, towards rent.

It is vital that existing land tax and transfer duty exemptions for charities and not-for-profit organisations are retained. These organisations must also be exempt from the proposed Property Tax,

noting that the exemption must be applied at an organisational level and not to the residential or commercial property. Exemptions must also include shared equity schemes delivered by CHPs. By retaining these existing exemptions, the NSW Government can ensure that CHPs are strongly positioned to continue building new social and affordable housing.

CHIA NSW strongly recommends that the NSW Government continue to consult widely with diverse representatives of the housing, disability, aged care, early childhood, sporting, crisis response and mental health sectors to ensure that the proposed reforms do not have adverse or unintended impacts on the financial viability of the not-for-profit sector.

Concerns over impact on land costs

Even with existing exemptions being maintained, there is a risk that the proposed reforms may have unintended negative impacts for not-for-profit organisations, including CHPs. It is anticipated that buyers may use any available tax savings to increase their purchasing capacity, thereby creating increased market competition and market distortion. Higher land and property costs will place additional financial barriers on CHPs, given that land is the most significant cost in residential development. It is noted that CHPs will be unfairly disadvantaged in these scenarios as the current reform proposals will not provide them with any cost savings, unlike other types of investors.

For example, our calculations (outlined in Table 1 below) indicate that, under the proposals, investors currently paying transfer duty and land tax could save up to \$342,658 in tax over three years for the purchase of land with a value of \$5 million. This saving is equivalent to 6.9% of the site's value. For land with a \$10 million value, the saving to these investors could be \$842,658 over three years (8.4% of the site's value). These savings would not be available to CHPs. Rather, if the current exemptions are lost, the property tax would represent an increase in costs.

Table 1 – Comparison of current and proposed tax regime (investment residential property), over 3 years

Land value	Current tax regime ¹			Proposals (\$1,500 + 1% of land value)		
	Stamp duty	Total land tax	Total	Total property tax	Total saving	Total saving as % of site value
\$5,000,000	\$288,490	\$208,668	\$497,158	\$154,500	\$342,658	6.9%
\$10,000,000	\$638,490	\$508,668	\$1,147,158	\$304,500	\$842,658	8.4%

¹ Calculated using NSW Revenue's online stamp duty and land tax calculators, as at 9 March 2021. Assuming premium stamp duty rate is applied to full value over \$3.101M. Excludes any foreign investor surcharges.

In addition to maintaining current exemptions, it is crucial that the Taskforce identifies policy responses that can effectively respond to market distortions that may arise during the implementation phase.

These responses include:

- Introduction of a grant scheme or subsidy to assist CHPs purchasing land for affordable build-to-rent housing.
- Releasing more government-owned land for social and affordable housing, including prioritising the delivery of such housing in new land release and urban intensification programs.
- Establishment of a streamlined approvals pathway for social and affordable housing projects with the objective of reducing the costs of planning and delivery.

Protections for owners and tenants

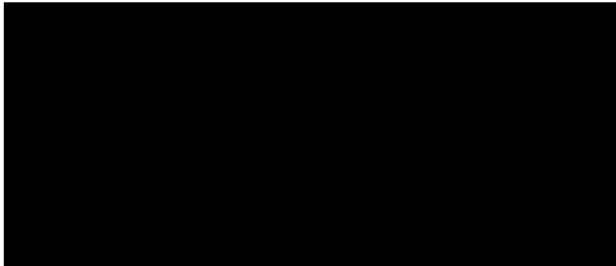
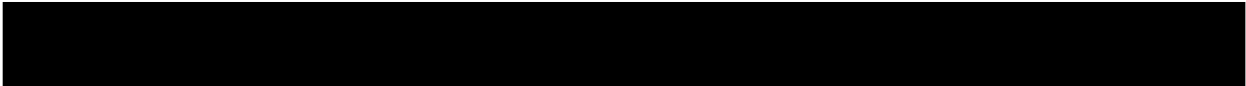
CHIA NSW supports the introduction of measures that ensure that any increases to property tax over time remain in line with a household's capacity to pay, noting that the reforms will apply to property owners who are currently not required to pay ongoing land tax. These measures need to be designed and ready before any reforms are implemented.

If increases to tax liabilities are not carefully managed, they could result in increased market rents and inadvertently push more households into financial stress, eroding housing affordability over the long-term.

Given that housing costs or incomes may not rise uniformly across the state, the index the NSW Government uses to determine annual property tax rates should be applied on a regional basis. Protections are also required for households whose incomes may not rise in line with the average income growth rate, such as retirees and those relying on rental income from affordable housing.

The transition implementation arrangements must also ensure the cost of the new annual tax is not immediately passed onto tenants in the form of higher rents, which would deepen the housing affordability crisis and place increased pressure on the social housing system. Such protections must be extended to CHPs that are leasing housing from the private market to provide additional social housing under the Community Housing Leasing Programⁱⁱⁱ. These protections must ensure that program delivery costs do not increase unfairly as a result of the reforms.

CHIA NSW appreciates the opportunity to provide feedback on the proposed reforms. Please contact



Chief Executive Officer

References

ⁱ L. Troy, R. van den Nouwelant and B. Randolph (2019) *Estimating need and costs of social and affordable housing delivery*, City Futures Research Centre, University of NSW, Sydney.

ⁱⁱ NSW Department of Communities and Justice (2020) *Guide to waiting times for social housing as at 30 June 2019*, Department of Communities and Justice, Sydney

ⁱⁱⁱ The Community Housing Leasing Program has been in operation since 2000 and is designed to give CHPs increased flexibility in accommodating eligible people in housing that suits their needs. Under the program, CHPs take on a head lease for the property and cover the shortfall between the rent paid by social housing tenants and the market rent for the property, with the help of funding from the Department of Communities and Justice.