Submission to NSW Treasury
concerning the NSW Government's Property Tax proposal

March 2021

CPSA is a non-profit, non-party-political membership association founded in 1931 which serves pensioners of all ages, superannuants and low-income retirees. CPSA's aim is to improve the standard of living and well-being of its members and constituents. CPSA receives funding support from the NSW Government Departments of Communities & Justice and Health and the Australian Government Department of Health.

Key points

Regardless of the larger economic benefits of the property tax proposed by the NSW Government, as more and more properties are opted into the property tax, eventually hundreds of thousands of low-income households will not be able to pay it.

The NSW Government appears not to have grasped on which scale financial hardship would occur as a consequence of property tax and what effect this might have on the success or otherwise of its property tax scheme.

The proposed financial hardship scheme relies on tax deferral, effectively making financially distressed households borrow against the equity in their homes.

Projecting this proposed financial hardship scheme onto the present, an estimated 231,000 households would need access to financial hardship arrangements if property tax were introduced now. The NSW Government would be underwriting tax deferrals to the tune of $418 million annually and on a very conservative estimate would be managing a loan book with a value of more than $6 billion (not taking compound interest into account).

The NSW property tax will make downsizing impossible for those low-income retirees who are now just able to afford it, paying stamp duty.

The NSW property tax will cause financial hardship in a delayed fashion, over a number of decades, when its architects will have moved on.

Introduction
CPSA is a non-profit, non-party-political membership association founded in 1931 which serves pensioners of all ages, superannuants and low-income retirees. CPSA's aim is to improve the standard of living and well-being of its members and constituents. In relation to the NSW property tax proposal, CPSA represents Age Pensioners, Disability Support Pensioners, people on Carer Payment and older people effectively retired on JobSeeker Payment.

Ability to pay
The NSW Government's proposal to introduce a property tax as a replacement of stamp duty on the sale of owner-occupied property is a sensitive issue for low-income retirees as it is levied on illiquid wealth, the owner-occupied home. They as owner-occupiers are generally unable to access or leverage this wealth without compromising their housing security, defined as the ability to exchange their home for another one should such an exchange become necessary.

The incidence of financial hardship among low-income retirees in relation to property tax would be high. The poverty line for a single pensioner (Age, Disability, Carer) was $455.07 a week in the June 2020 quarter, while the pension on a weekly basis was $472.15 (approximately $24,500 p.a.). For pensioner couples combined, the poverty line was $750.75 p.w., while the pension was $711.80 (approximately $37,000 p.a.).

For people-over-55 on JobSeeker Payment (excluding the temporary coronavirus supplement), the single rate was $337.25, while the poverty line was $561.22. For couples, the rate was $518.70, while the poverty line was $750.75.[1]

To provide an order of magnitude of the number of households likely to become property tax financial hardship cases, CPSA estimates that there are 231,000 households in NSW who are on full rate social security payments and have poverty line incomes.[2]

NSW social security payments	Owner-occupier households in NSW at poverty line	1-year's property tax deferral due to financial hardship
Age Pension	23846	$ 43,208,952
Carer Payment	46586	$ 84,413,832
DSP	120302	$ 217,987,224
JobSeeker55+	39868	$ 72,240,816
TOTAL	**230602**	**$ 417,850,824**

[1] Melbourne Institute: Applied Economic & Social Research, Poverty Lines: Australia, June Quarter 2020.
[2] This estimate is based on data from the Department of Social Service's DSS Demographics - September 2020, https://data.gov.au/data/dataset/cff2ae8a-55e4-47db-a66d-e177fe0ac6a0/resource/a3da3714-96f1-48e2-994c-f5dd01a06745/download/dss-demographics-september-2020.xlsx . Refer to the appendix for details of CPSA's estimate. Note that excluded from this estimate are households on full rate pensions paid by the Department of Veterans' Affairs (DVA), which does not publish data as regularly and as detailed as the DSS. Roughly 50,000 households are on a full rate DVA payment. Also excluded are people with poverty line incomes who do not receive social security assistance and people on JobSeeker Payment aged under 55, as well as people on social security payments other than the Age Pension, Carer Payment, DSP and JobSeeker Payment.

These households would be unable to pay an annual property tax as proposed by the NSW Government if that property tax were imposed and levied now.

While it is clear that current low-income retirees would have the opportunity to avoid the annual property tax by either not selling and moving from their owner-occupied home or by buying a home and paying stamp duty, the slow but sure transition from stamp duty to a recurrent property tax would eventually capture all low-income retirees.

The closer NSW gets to the dominance of property tax, owner-occupier low-income retirees will increasingly feel the effect of this transition. They will find they cannot afford to pay annual property tax, either as soon as they retire or when they are a way into retirement, having bought a property registered for property tax, or perhaps even having opted for property tax when they were younger and *could* afford it.

Financial hardship fallback

CPSA is pleased that the NSW Treasury's property tax proposal acknowledges the issue of financial hardship but is concerned about the proposed method of its resolution, viz by encumbering owner-occupied residential property with debt through a tax deferral scheme.

In CPSA's view this home equity release resolution is not only fraught with problems for low-income retirees but also for the NSW Government, which appears not to have grasped on which scale financial hardship would occur as a consequence of property tax and what effect this might have on the success or otherwise of its property tax scheme.

The NSW Government is not the first to come up with the idea of home equity release funding new proposals. The recent federal Retirement Income Review strongly suggested that retirees should use their home equity to help fund their retirement. In NSW, the Independent Pricing and Regulatory Tribunal has unsuccessfully recommended on a couple of occasions that home equity should be used to pay for that other property tax, the council rate, which, incidentally, is the number one financial problem cited by people who contact CPSA about income security issues.

It seems that in the minds of the policy makers home equity release is something uncomplicated that can be easily triggered and used to fund taxes and pay for services new and old, and also that this can be done without any coordination between agencies. Policy makers also seem to think that it can be safely assumed everyone can access their home equity and that this home equity will be of adequate value both as a source of funds and as a loan security. They seem to regard home equity release as a magic pudding.

For an analysis of home equity release as a public policy instrument, we refer to an opinion piece by the respected economist Satyajit Das in the Australian Financial Review on 4 February 2021.[3]

The most notable attempt to access the wealth locked into owner-occupied housing was by the Productivity Commission as part of its 2011 *Caring for Older Australians* inquiry. This

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[3] https://www.afr.com/policy/tax-and-super/why-you-ll-work-till-you-are-dead-20210202-p56yw4

scheme, the Australian Aged Care Home Credit Scheme, was to allow “individuals to draw on the equity in their home to contribute to the costs of their aged care and support, in an easy and secure manner with a very low interest rate. Repayment not due until care recipient and all protected persons choose to vacate the residence.”[4] The Productivity Commission envisaged the Australian Aged Care Home Credit Scheme to be financially underwritten by the Australian Government.

The scale of the Australian Aged Care Home Credit Scheme was to be vast. In June 2011, when the Productivity Commission published its report, the Commonwealth was providing residential aged care to 220,000 people, respite care to 46,000 people and what are now called home care packages to 75,000 people, 341,000 people in total.[5]

The Commonwealth wanted to meet the unmet demand for home care packages, provided it could find a source of funding. No estimates of the unmet demand were published at the time. An indication of the size of the unmet demand at the time can be found in the size of the current waiting list for home care packages (100,000) and the current number of active packages (120,000). Subtract 75,000 packages already in existence at the time, the estimated maximum unmet demand at the time was 145,000 packages, the funding of which was envisaged to be achieved principally through home equity release via the Australian Aged Care Home Credit Scheme.

The Productivity Commission’s proposal for an Australian Aged Care Home Credit Scheme was eventually not adopted by the Government of the day. It is very likely that the financial risk associated with being a home equity release lender or underwriter was what prompted the Government to reject this proposal. This risk appears to have also played on the minds of those financial services industry players who marketed equity release products: they did not seize the opportunity to lobby for their involvement in an equity release scheme for the funding of aged care.

With its tax deferral/financial hardship scheme, the NSW Treasury’s property tax would create a similar set of circumstances as would have been faced by the Australian Government had it gone ahead with the Australian Aged Care Home Credit Scheme recommended by the Productivity Commission in 2011.

With an estimated 231,000 households who would need access to financial hardship arrangements if property tax were introduced now, without the proposed choice between stamp duty and property tax, and with an average stamp duty of $1,812, the NSW Government would be underwriting tax deferrals to the tune of $418 million annually (not taking compound interest into account)[6]. CPSA was unable to estimate for how many years financial hardship households would use the tax deferral facility. However, by just taking 16 years as a conservative example (a retirement from age 67 to 83 is 16 years), it is obvious how big the NSW Government loan book would become, in excess of $6.6 billion without even looking at compound interest.

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[4] Productivity Commission 2011, Caring for Older Australians, Report No. 53, Final Inquiry Report, Canberra.

[5] Report on the Operation of the Aged Care Act 2011.

[6] This estimate is based on data from the Department of Social Security’s DSS Demographics - September 2020. See appendix.

We stress that this is a worked example, the purpose of which is to demonstrate the magnitude of financial hardship relief required. The NSW population will grow and so will the numbers of our worked example.

Policy objectives of the NSW property tax

According to the NSW Treasury consultation paper *Buying in NSW, Building a Future*, one of the two objectives of introducing a NSW property tax is: "…for more people to be able to own their own homes for themselves and their family at every stage of life … from first home buyers … to frontline workers …., to retirees who are ready to downsize."

The NSW property tax will not assist low-income retirees who want to, or need to, downsize. It already is difficult for many low-income retirees to downsize, because the home they're downsizing from is old. A typical downsizing move from a free-standing home to an apartment or townhouse in the same area is often impossible because the proceeds won't cover the purchase price.

Those low-income retirees who *can* afford to downsize have little to no money left over from the proceeds of sale to invest with a view to the investment returns to help pay for an annual property tax, even if they could add to their investment money previously required for stamp duty. There would be no guarantee that those savings if invested and used as an annuity would support their tenancy for a sufficient number of years.

In other words, the NSW property tax will make downsizing impossible for those low-income retirees who are now just able to afford it, paying stamp duty.

Again, for years to come there will still be a choice between stamp duty and property tax, but the time will come when there is not.

Financial hardship at the start of tenancy

A necessary addition to the financial hardship scheme proposed by the NSW Government is to keep open the possibility for people who are in financial hardship to pay a lump sum upfront at the start of a new tenancy even if the property they have bought has been opted in for property tax.

We submit that, even though this option would have more than a passing resemblance to stamp duty, from the NSW Government's point of view it makes more sense commercially to collect a lump sum upfront at a time someone is able to pay than effectively lend them the money until they sell again. Unless the NSW Government can guarantee all financial hardship cases in relation to property tax have access to a non-NSW-Government equity release product without the need for the NSW Government to underwrite that equity release debt, there is no point in allowing financial hardship cases to run up debt against owner-occupied residential property.

Again, current low-income retirees are unlikely to be affected, but future low-income retirees will be.

Financial hardship arising during the tenancy
However, allowing property tax to be paid upfront in cases of financial hardship can by definition only work at the start of a tenancy, when purchasers are able to budget for it. It is far harder to manage financial hardship cases which arise during the course of a tenancy. Unfortunately, cases of financial hardship in relation to property tax are likely to have a much higher incidence during a tenancy than at the start of it.

In view of the number of households potentially involved and the high risk and cost of using home equity release to build a property tax deferral facility, it is difficult to see how the NSW Government would be able to offer such a facility for all financial hardship cases arising during the course of tenancies.

Conclusion
Regardless of the larger economic benefits of the property tax proposed by the NSW Government, hundreds of thousands of households will not be able to pay it.

A tax deferral scheme to allow these households to borrow against the equity in their homes is unlikely to be able to be funded commercially and risk-free to the NSW Government.

Apart from that obstacle, if the NSW Government went ahead with a tax deferral scheme, it would effectively be replacing the in-advance payment of stamp duty with an in-arrears pay-out of loans which it has written or underwritten. This does not make sense, and certainly not given the amount in tax deferrals incurred.

Even if the proposal for the NSW property tax would allow financial hardship households to pay stamp duty or a lump sum where a property has already been opted in for property tax, the bulk of financial hardship cases can be expected where people have been paying property taxes but run into difficulty, at which point the NSW Government has the choice between (1) an expensive and risky tax deferral scheme and (2) socially and politically unpalatable bankruptcy proceedings ending in the eviction of many owner-occupier households.

CPSA is concerned that the NSW Property Tax proposal may not receive the scrutiny and censure encountered by an earlier attempt to introduce a property tax, the ill-fated Fire and Emergency Services Levy (FESL). The FESL failed because its introduction would have caused financial hardship from day one.

The only difference between the FESL and the NSW property tax is that the latter will cause financial hardship in a delayed fashion, long after its architects will have moved on.

Appendix – Estimated number of households in financial hardship

The number of owner-occupier households in NSW has been estimated by subtracting the number of households in receipt of Commonwealth Rent Assistance (CRA) in NSW from the number of total households on full rate payments in NSW. NSW CRA households are assumed to be one-third of the national number of CRA households.

Age Pension
To estimate the number of Age Pensioner owner-occupier households who would be put into financial hardship if they had to pay the NSW property tax, we assumed that all Age Pensioners with assets less than $50,000 (excluding everyday-use assets like furniture, whitegoods and cars) were in that position. The number (172,428 Age Pensioners nationally) can be found in the DSS data spreadsheet at tab 'Age Pensioner Assets'. Note that the average asset value achieved for this group is just over $27,000, including 'OTHER ASSETS', which are household goods. Excluding other assets yields an average asset value of $12,500. We then assumed these 172,428 Age Pensioners were all partnered, to ensure the estimate of Age Pensioner financial hardship households would be conservative. We then divided the number of couples by 3 to estimate how many of them were in NSW. We then applied the rate of the *number of owner-occupier households on full rate in NSW / number of households on full rate in NSW* to estimate how many Age Pensioner financial hardship households were owner-occupier households.

Carer Payment and DSP
We assumed that all Carer Payment recipients and Disability Support Pensioners nationally with earnings over $250 a fortnight were in single households (ensuring the estimate is conservative), divided their number by 3 to estimate the NSW number, and subtracted that NSW number from the total number of number of households on full rate payments for Carer Payment and DSP. These numbers can be found in the DSS data spreadsheet at tab 'Earnings'.

JobSeeker
We assumed that JobSeeker Payment owner-occupier households were all in financial hardship.

Property tax deferral
We assumed that financial hardship households would be liable for the average property tax referred to in the NSW Treasury's property tax consultation paper of $1,812.

Based on DSS data - September quarter 2020	Partnered on full rate in NSW	Single on full rate in NSW	Number of households on full rate in NSW	Number of households on CRA in NSW (/3)	Owner-occupier households on full rate in NSW	Owner-occupier households in NSW in financial hardship	1-year's property tax deferral ($1,812 per property)
Age Pension	419881	380033	589974	100433	489541	23846	$ 43,208,666
Carer Payment	57204	50931	79533	25862	53671	46586	$ 84,413,832
DSP	51110	187189	212744	90063	122681	120302	$217,987,828
JobSeeker55+	33448	37641	54365	14497	39868	39868	$ 72,240,816
TOTAL				**230855**	**705761**	**230602**	**$417,851,142**