

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

This submission has been prepared by BlueCHP Limited (BCL) a Tier 1 Community Housing Provider not for profit property developer.

BCL was founded 12 years ago with \$5,000,000 of seed capital and has grown its portfolio of social, affordable and disability housing to over \$350,000,000. BCL continues to invest in new housing stock and is concerned that the exemptions currently used have not been explicitly preserved.

Whilst we understand the Government's desire to change the method of property taxation, however we are concerned that all consequences are carefully thought through and an appropriate regime to preserve charitable tax benefits both on a capital investment and operational basis are maintained.

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.

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.

The potential impact on NDIS Specialist Disability Accommodation has not been factored into the potential impact this will have on operational costs and the level of funding provided. Consultation with the NDIS is required otherwise the unintended impact may result in housing being unaffordable for NSW residents with disabilities.

Tax exemptions for charitable bodies must be maintained

CHPs with charitable status are currently exempt from land tax and transfer stamp duty. These exemptions support the financial viability of CHPs, given their slim operating margins (2 -3%) and obligations to offer housing stock at least 25% to 40% below market rent. This is especially critical at a time when land prices and operating costs, such as insurance premiums, are rising.

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.

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. Higher land and property costs will place additional financial barriers on CHPs given that land is the most significant cost in metro 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 over three years could be \$842,658 (8.4% of the site's value).

Table 1 – Comparison of current and proposed tax regime (investment residential property), over a three-year period

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.

Protections for owners and tenants

If increases with the property tax are not carefully managed, they could inadvertently push more households into financial stress and erode housing affordability over the long-term.

Given that housing costs or incomes may not rise uniformly across the state, the NSW Government should consider applying indexation on a regional basis.

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 Program¹. These protections must ensure that program delivery costs do not increase unfairly as a result of the reforms.



BlueCHP Limited
