

Submission re: Property Tax Proposal

15 March 2021

St Vincent de Paul Society

The St Vincent de Paul Society NSW (the Society) is a member-based lay Catholic organisation that has been assisting people experiencing poverty and disadvantage across NSW for 135 years. We seek to shape a more just and compassionate society by working to address the causes of poverty and injustice.

Introduction

The Society supports the proposal to offer home buyers the choice of paying an annual property tax rather than stamp duty, understanding that this will both place downward pressure on the long-term price of housing across NSW and provide Government with a more consistent source of revenue. We recommend that a key design feature of such a transition is that low-income earners and other households experiencing disadvantage are protected against having to sell their home to pay property tax.

We contend that everyone has the right to home. A home is not just the roof over your head. It provides light and warmth, food and comfort. It is where we raise our families, socialise with our friends, and become part of our local community. Home makes it possible to study to realise our potential, to maintain gainful employment, and to retire with dignity. Home is a place where we can belong.

Yet right now, tens of thousands of people across NSW are experiencing homelessness or housing stress. The Society sees the people behind these statistics every day. The lack of safe, secure and affordable housing can mean there is not enough money to pay for other household essentials including food and electricity. It can be a catalyst for relationship breakdown, substance abuse, and mental ill-health. It can impede access to education, employment, and health and other support services.

The NSW Government plays a critical role in ensuring that all people—especially those experiencing poverty and disadvantage—have access to housing that affords them physical safety, protection from the elements, and security of tenure, at a cost that does not compromise access to other essentials like food and energy. Specifically, decisions about taxation are critical to ensuring households are able to access housing.

To this end, the Society thanks the NSW Government for the opportunity to provide feedback to the NSW Property Tax Proposal. We hope that our input serves to support the NSW Government to ensure everyone has a place to call home across our state.

Cost of housing

The Society understands that the introduction of a property tax should reduce the long-term cost of housing. The Henry Taxation Review concluded that reforming land tax and stamp duty arrangements would go some way toward improving housing affordability.¹ Modelling by the Australian Housing and Urban Research Institute confirmed that a transition from stamp duty to land tax would improve housing affordability. It found that with this change, in suburbs located closer to the CBD—which are relatively affluent and have the most expensive land—the expected decline in land value was estimated at around 12%. In suburbs further away from the CBD, the percentage decline in mean land value will be around 8% or less.²

This is of critical importance to the Society and the people we assist because, across Australia, the cost of purchasing a home has more than doubled in real terms over the past 20 years. Since 2012, house prices have risen 70% in Sydney and 50% Melbourne.³ The persistent high cost of housing relative to household income means that purchasing a home is out of reach for many low-income households. For these households, very few homes across NSW—fewer than three percent—are considered affordable to purchase.⁴

In line with earlier research, the Property Tax Consultation Paper also advises that the proposed changes would place downward pressure on home prices over the longer term, making housing more affordable for all. We understand that NSW Treasury is likely to have modelling that underpins this assessment. We ask that this

modelling be made public so that, together with other stakeholders, we may assess the expected long-term impact of this proposal on the price of housing.

On the assumption that the proposed framework will make housing more affordable in the long-term, the Society offers support for the introduction of this broad-based property tax.

Protection for households experiencing disadvantage

The Society contends that a key design feature of any transition to a broad-based land tax must be that low-income earners and other households experiencing disadvantage are protected against having to sell their home to pay property tax.

In our experience, households where the main or sole income earner loses their job and cannot secure new employment are vulnerable to not being able to pay their bills. Low-skilled and older workers are especially at risk of not being able to readily find replacement work. This is particularly so in an economic climate where there are far more job seekers than vacancies, as is the case presently. Ideally, income support would allow recipients to make ends meet but, as the evidence presented to the current Senate Inquiry into the *Social Services Legislation Amendment (Strengthening Income Support) Bill 2021* overwhelmingly demonstrates,⁵ the JobSeeker payment is significantly below what is required. Amongst those people provided practical and financial assistance by the Society, people receiving unemployment benefits are consistently and significantly over-represented.⁶

Similarly, people who were previously working full time but acquire a disability or experience moderate to severe mental ill-health and are eligible for the Disability Support Pension are also at risk of being unable to make ends meet, including paying their Council rates, energy, water and phone bills. In such circumstances, an unexpected but prolonged inability to pay property tax is also possible.

With the above in mind, the Society's support for a transition to property tax is contingent upon the introduction and availability of robust hardship provisions to protect low-income earners and other households experiencing disadvantage against having to sell their home to pay property tax.

Such measures should include proactive identification of households likely to be experiencing difficulties paying property tax, tailored payment plans, deferred payments that are payable upon sale of the property, financial incentives to make payments where possible, and vouchers to help reduce the outstanding balance.

To develop an appropriate response, the Society urges NSW Treasury to examine the hardship provisions outlined in the *National Energy Retail Law 2012* and the associated policies offered by electricity and gas providers. The Australian Energy Regulator publishes a quarterly performance data about the application and outcomes of hardship programs.⁷

Equally, there may also be value in NSW Treasury reviewing the obligations placed on the financial services industry under the *National Consumer Credit Protection Act 2009* and the associated programs offered by banks across Australia.

Noting that the efficacy of hardship programs can vary, we also recommend that Treasury convene a working group with representation from key service providers (e.g. the Society, Mission Australia), peak bodies (e.g. the Council of Social Service of NSW, Financial Counselling Australia) and consumer advocates (e.g. the Public Interest Advocacy Centre, Financial Rights Advocacy Centre, Consumer Action Law Centre) to inform the development of a best practice hardship policy.

Protection for tenants

The Property Tax Consultation Paper notes that tenants could have concerns about the effect of the property tax on rental prices and that legislation could protect tenants against the pass-through of property tax. Many of the people experiencing disadvantage who the Society assists by providing food parcels and paying bills are already experiencing housing stress and struggle to pay their rent every fortnight. As such, we would be concerned about any increase in rents and would welcome legislation to protect renters from landlords who seek to pass on the cost of property tax in increased rents.

The Consultation Paper also notes that the introduction of property tax could generate a 50% increase in the number of property transactions. We recognise the value in a reform that supports people to move to properties that best meet their needs. However, we also note that, presently, landlords can and do use the ‘no grounds’ evictions clause from the *Residential Tenancies Act 2010* (NSW) to evict tenants so as to be able to market properties as untenanted. We submit that the increase in the number of property transactions could lead to a commensurate increase in the number of ‘no grounds’ evictions at point of sale and are concerned about this increase in rental insecurity across NSW. With this in mind, we would also welcome legislation to protect renters by ending ‘no grounds’ evictions in NSW.

Government revenue and expenditure

The Society understands that the gradual transition from stamp duty to property tax will see an \$11 billion reduction in NSW Government revenue over the first four years but that, over the longer term, this tax reform will be revenue neutral.⁸

In the short-term, we seek assurances that the temporary decline in Government tax receipts will not be accompanied by a commensurate reduction in investment in the social services and infrastructure relied on by so many low-income earners and households experiencing disadvantage across NSW. Given the long-term cost neutrality of the transition, we submit that the NSW Government should take advantage of record low-interest rates and borrow funds from the financial markets or secure bridging finance from the Federal Government to make up the revenue short fall.

Further, Treasury would be aware that the St Vincent de Paul Society NSW and several other organisations have put forward pre-budget submissions recommending significant investment in new social housing. Presently, chronic under-investment means there are more than 51,000 applicants—or more than 110,000 adults and children⁹—waiting for social housing in NSW.¹⁰ The recently updated *Expected Waiting Times* advised that the waiting list for social housing actually increased over the last twelve months. In parts of the state the wait time is in excess of 10 years.¹¹

In order to address this unmet need, we have recommended the NSW Government invest in at least 5,000 additional social housing homes every year for the next 10 years. Such investment would have the additional benefit of bolstering the post-COVID economic recovery. It would also strengthen the safety net available to very low-income earners who may be impacted by any increase in rental prices as a result of this reform.

We therefore seek assurances that the short-term impact of this reform on the NSW Government’s balance sheet will in no way diminish their appetite to invest in more social housing. Rather, we hope that the more reliable revenue that this reform will generate in the longer-term will allow the NSW Government to better plan for and support a significant increase to the State’s social housing stock.

Choosing which tax to pay

The Society understands that, under the proposed framework, existing homeowners will not have to pay property tax but that buyers will be afforded the choice of whether to pay stamp duty or property tax until such

time as a purchaser decides to pay property tax, after which it will not be possible for a subsequent purchaser to revert to paying stamp duty.

The Society notes that the tipping point—when it becomes cheaper to pay stamp duty upfront rather than property tax each year—can vary markedly from property to property. In one example published by NSW Treasury the would-be owner would need to own the property for 14.3 years before this happens; in a second example this financial threshold occurs after 23.4 years.

Noting the multiple variables and the significance of the impact of the decision, we suggest that some people—namely those with low levels of financial literacy but also some who speak English as a second or third language—may need support to understand which approach will serve them best. As part of the transition to property tax, we encourage the NSW Government to publish and promote an online tool to help people looking to purchase their home to calculate and understand the financial implications of paying either stamp duty or property tax.

Conclusion

The Society has long been concerned that the high price of housing across NSW means that many households are experiencing housing stress and are at risk of homelessness. We are also interested in ensuring the NSW Government has a consistent revenue stream that will allow for planning and funding of social services and infrastructure, including social housing, to meet the needs of households experiencing disadvantage.

With this in mind, we welcome the proposal to introduce a property tax that will both place downward pressure on the long-term price of housing across NSW and provide Government with a smoother source of revenue than stamp duty.

We agree with NSW Treasury that existing homeowners should be protected from paying property tax and that, as the new arrangements are introduced, would-be home owners should be able to choose whether to pay stamp duty or property tax.

To ensure people experiencing financial hardship are not vulnerable to having to sell their home because of an inability to pay property tax, our support is contingent upon the introduction of a best practice hardship policy. We would welcome the opportunity to work with NSW Treasury to develop an appropriate framework.

We would also like to see the NSW Government protect tenants from rent increase and evictions by legislating to remove ‘no grounds’ evictions. And we call for the introduction of an online calculator to support households with low-financial literacy to make decisions that best serves their financial interests.

The Society thanks the NSW Government for the opportunity to comment on this proposal.

¹ Ken Henry (2009) Australia's future tax system: Report to the Treasurer <https://treasury.gov.au/sites/default/files/2019-10/afts_final_report_part_1_consolidated.pdf>

² AHURI (2013) How would proposed reforms in the Henry Tax Review affect housing affordability for private renters and property owners? <https://www.ahuri.edu.au/_data/assets/pdf_file/0019/2944/AHURI_RAP_Issue_160_How-would-proposed-reforms-in-the-Henry-Tax-Review-affect-housing-affordability-for-private-renters-and-property-owners.pdf>

³ Grattan Institute (2018) Housing affordability: re-imagining the Australian dream <<https://grattan.edu.au/report/housing-affordability-re-imagining-the-australian-dream/>>

⁴ Shelter NSW (2016) NSW housing: a fact sheet

⁵ https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/StrengthenIncomeSupport/Submissions

⁶ St Vincent de Paul Society NSW (2021) Filling the gap: The relationship between the rate of unemployment benefits and charity assistance for Job Seekers

⁷ <https://www.aer.gov.au/system/files/Schedule%204%20-%20Q1%202020-21%20Retail%20Performance%20Data.xlsx>

⁸ NSW Treasury (2020) NSW Property Tax Proposal <<https://www.treasury.nsw.gov.au/budget-financial-management/reform/nsw-property-tax-proposal/faqs>>

⁹ NSW Auditor-General (2013) Making the best use of public housing

¹⁰ NSW Department of Family & Community Services (2016) *Expected Waiting Times*

¹¹ Ibid