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President

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Creating Jobs and Securing our Future - NSW Property Tax Consultation
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The NSW Farmers' Association welcomes the opportunity to provide feedback on the Consultation Paper that sets out a possible approach to replacing stamp duty and land tax in NSW with an alternative annual property tax. It is understood that the intent of this consultation paper is to seek views "... on all aspects of the possible reform and that at this stage the main emphasis is to seek feedback on the broad design of the reform."

The Association notes that while a rate (0.3 per cent) for the proposed property tax to be applied to primary production land (farmland) is included in the consultation document, our reading of the document indicates a primary focus on the potential broader economic benefits of applying this proposed tax to residential properties.

The consultation document does not outline any possible challenges in applying an annual property tax collection for farm businesses, whose primary asset and basis for business is the land and its productive output.

It is further noted that under the proposal:

- there is an assumption that as the broader population is more mobile in employment this proposed change will aid transition of home ownership to complement this mobility;
- there will be a choice for purchasers to elect to pay a one-off stamp duty or to apply the annual property tax that will apply to further transactions of the land, once selected;
- an initial price threshold will be applied above which, in the short term, the choice to pay property tax will not apply; and
- that existing stamp duty concessions for first home buyers could be replaced by a grant of up to \$25,000.

Consultation across the broad NSW Farmers' membership has indicated considerable concern regarding the potential negative impact of applying an annual property tax on farmland. This concern is based on the interdependency between family income and farm land productive output.

Farmers across NSW are emerging from severe drought lasting several years, and which at its height, affected over 98 per cent of the State. The reality of drought is that farm income is severely reduced through a nil harvest return or through destocking of cattle or sheep – particularly core breeding stock. The long-term drought, followed by widespread bushfires, affecting conservatively 15,994 land-based primary producers and destroying over 600,000 hectares of pasture, has placed considerable pressure on the cash flow management of farmers.

While the above impacts have been severe, environmental conditions have an ongoing and significant role in farm businesses. Farm incomes can vary widely across multiple years and many farm businesses therefore

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carry significant debt as a consequence. Members have indicated that an additional annual property tax charge is a major concern that has the potential to significantly affect the ongoing business viability of primary producers.

Farmers in NSW already have significant annual liabilities. They pay higher Local Council rates due to the size of the landholding; pay annual Local Land Services (LLS) rates to fund biosecurity, animal health and emergency work; and those in Western NSW pay an additional LLS 'dog rate' to contribute to the maintenance of the Border Fence.

Additionally, the 2019 NSW land value review showed significant increases in land valuations by the Valuer General. In response to a written inquiry by NSW Farmers' in August 2020, the NSW Deputy Valuer General advised that "... Land values are made as at 1 July annually and reflect the market for land that existed at that time. Land values are determined following analysis of the property market for comparable properties. It follows that each land value must be able to be supported by market evidence".

Given that the proposed property tax will be applied based on 0.3 per cent of the Valuer General's valuation, there is significant concern that the annual property tax liability for farmland will rise substantially over time.

While it is further noted from discussions with the Tax Reform Taskforce that the intent is to index the potential property tax rate to Gross State Product (GSP), the consultation document contains the observation on page 15 that "In the long run, property tax reform is expected to lift GSP by 1.7 per cent."

With the historic and projected ongoing annual increase in the Valuer General's valuations and the stated intent to increase GSP, it is likely that the annual property tax liability for rural farm properties will increase substantially over time. For long-term owners of primary production land there is a real concern that the proposed property tax will result in a higher tax liability than the choice of stamp duty over the medium to long term.

It has been a long-held position of NSW Farmers' Association that the availability of a stamp duty exemption for first home buyers results in significant inequity for young farmers purchasing their first property who are not eligible for this exemption. It is disappointing to note that this inequity is perpetuated in this consultation on the proposed property tax.

The possible reform framework proposes "existing stamp duty concessions for first home buyers could be replaced with a grant of up to \$25,000." Primary production land, in the main is both a home and a source of economic contribution and yet there is no consideration of purchase support by either applying a stamp duty exemption or a property tax grant for those purchasing their first property if it happens to be a farm.

In early 2020 the NSW Government consulted on proposals to address taxation efficiency – the *Federal Financial Relations Review*. NSW Farmers' response supported much of the intent of the review, specifically to review and reconcile state taxes across the jurisdictions to address the current inefficient taxation system. The Association also indicated in-principle support for a significant refocussing of funding mechanisms that provide for longevity and increased certainty of revenue streams to deliver essential services and infrastructure without increasing the overall tax burden.

However NSW Farmers' did not support Proposition 7:

As a more equitable and efficient approach to taxation, the NSW Government should replace transfer duty with a broad-based land tax. The transition should be managed with the support of detailed distributional and financial modelling and public communication and consultation, so that the transition is fair, efficient and minimises the amount of revenue foregone"

NSW Farmers understands that the current property tax proposal is this broad based land tax. The Association's position has not changed and the response provided to the Federal Financial Relations Review is reiterated below:

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- NSW Farmers does not support the application of land tax to farm land.
- NSW Farmers strongly opposes land tax on farming land that is any increase to the tax burden for farmers due to the mere ownership of land through a widening of the land tax base.
- Due to the nature of the farming business, large areas of land are typically required to carry out operations. Farmers hold strong concerns about being subject to land tax on these large areas of land, resulting in an unfair and disproportionate cost to their business.
- The expansion of land tax to farmland would place farmer profitability in jeopardy.
- Additionally, farmers are already taxed extensively on their land through the local government rating system. It would be unfair and inequitable to further add to the farm business land tax burden.
- NSW Farmers does support the removal of transfer duty, but not its replacement with a broad-based land tax.

It is the Association's significant concern that the proposed property tax **would** increase the overall tax burden for farmers due to the ongoing nature of the proposed property tax that over time would deliver a tax burden greater than stamp duty applied at the point of transaction.

As a sustainable agriculture sector is essential to the economic and social wellbeing and liveability of regional communities, NSW Farmers' Association opposes any increase in the annual and ongoing financial burden on farm businesses through a new State Property Tax on farmland.

Yours sincerely


President