



March 2021

Submission NSW Government Property Tax Proposal

By email to: taxreformtaskforce@treasury.nsw.gov.au

Background

The Menzies Research Centre welcomes the opportunity to consider and discuss reform of the present stamp duty system in NSW.

As is well known, our philosophy and pursuit is for lower taxes. Any tax reform should start with that in mind.

The Government is to be commended for its courage in challenging the status quo. Stamp duty is a bad tax - it is lazy, inefficient and distorts markets. Reform is needed and careful consideration is required as to the best model of reform for the future.

It is also recognised that absent broad and deep reform to our federation (which we would encourage), we must be pragmatic about the fiscal requirements of the states.

Balanced against the above imperatives are the core liberal principles of home ownership, individual freedoms and private property rights. These are essential and timeless tenets laid down by Robert Menzies in his founding of the Liberal Party and sound future vision for Australia. They should be staunchly defended and upheld today.

Home ownership is a deep and abiding principle enunciated by Menzies throughout his career.

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Robert Menzies' saw a "Property Owning Democracy", where the family home was seen as an essential building block of society. In his seminal speech, *The Forgotten People*, he emphatically laid out the manifold centrality of the home physically, relationally and spiritually. He said that "the home is the foundation of sanity and sobriety; it is the indispensable condition of continuity; its health determines the health of society as a whole".

It is further essential to our liberal thinking that the individual is free to buy and hold property privately, assert rights over it and enjoy it free from encumbrance (to the fullest extent possible).

The main goal of home ownership allowed citizens to own their own land, and thus be free from both reliance on and interference from the government.

Menzies summed this up so well in declaring:

The material home represents the concrete expression of the habits of frugality and saving "for a home of our own." Your advanced socialist may rave against private property even while he acquires it; but one of the best instincts in us is that which induces us to have one little piece of earth with a house and a garden which is ours; to which we can withdraw, in which we can be among our friends, into which no stranger may come against our will. If you consider it, you will see that if, as in the old saying, "the Englishman's home is his castle", it is this very fact that leads on to the conclusion that he who seeks to violate that law by violating the soil of England must be repelled and defeated.

National patriotism, in other words, inevitably springs from the instinct to defend and preserve our own homes.

Throughout history private land ownership available to all remains a relatively recent point of progress. In bygone eras serfs were forced to pay rent to the powerful. Great thinkers such as John Locke conceptualised property and argued that private property was antecedent to and independent of government.

Majority homeownership has only been the case in Australia since the age of Menzies and he considered it his greatest legacy. Successive governments have upheld that notion and it is one of the reasons Australia is one of the most stable and successful democracies in the world today. The "great Australian dream" of owning one's own home is as real and relevant today as ever.

The proposal and concerns around it

The proposal will in time replace stamp duty with a broad-based annual land tax payable by all landholders to government.

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In history and political economy such a land tax may be known as ‘ground-rent’ or ‘land-rent’. This proposal effectively introduces a ground-rent/land-rent that every person must pay each year to the state.

The implications of this are deep. It gives greater power to the state in respect of private property at the expense of individual freedoms and private property rights. On one interpretation, under this proposal every homeowner becomes in effect a renter of land.

Generally, tax systems around the world have over time moved away from taxing illiquid assets (such as land) to taxes on income, sales and consumption.

Indeed, this proposal might in fact be regressive and do harm to future generations. The family home is the largest single asset for most low and middle-income households. The consultation paper notes that:

“Over the past twenty years, NSW land value growth has been higher and more volatile than household income growth. This means that a property tax based purely on land values, where the tax rate is fixed, might outgrow household incomes and erode housing affordability. The Government is considering mechanisms to ensure that the property tax remains affordable, and in line with households’ “capacity to pay.”

Land values go up faster than wages and forecasts show this has further to go. Therefore, the property tax is linked to something which is growing much faster than other taxes (especially those linked to income or consumption) and could see younger people paying more.

A fundamental requirement of tax reform is that it should not increase the overall level of taxation as a proportion of GSP. It is unclear that these proposals meet that requirement.

Indeed, the consultation paper suggests that the switch (if the reform proceeds) would initially be costly to the government, to the tune of \$11bn, but that in time that lost revenue would be recovered by expanding the number of “property tax properties to cover the whole State”. This suggests that the proposal would, at a future point in time (which is not specified), generate more revenue for government.

There is also the matter of future governments going about legislative changes to the rate (or other parameters) of the land tax, specifically to increase the level of taxation to meet budgetary needs.

The argument that the reform will make home-ownership more affordable and accessible may be countered by the premise that stamp duty reductions would be added into prices. Under the current arrangements, buyers are likely to factor in the cost of stamp duty into the price they are willing or able to pay. If stamp duty is removed, the property's sale price is likely to rise accordingly.

The proposed calculation method on 'unimproved land value' would incentivise high-rise development by making low and medium density housing comparatively more expensive. Taxing land rather than capital will encourage substitution of capital for land. In other words, developers will use more capital (building materials, engineering etc) per unit of land, building up rather than building out.

This is because unimproved value method means that if ten houses are built upwards, then the same land rent can be split amongst ten households. The unimproved land value method is a way to incentivise strata-living and its comparative cost-efficiency. This would normalise apartment living (where people live 'stacked' on top of each other, without creating house value improvements). It would also make medium-density (where people live 'side-by-side' in terraces) less economically achievable and would hit the freestanding suburban house the hardest.

Alternatives to the proposal

Stamp duty payment plans

A simple way to get the same, stated benefit of reducing the stamp duty burden is simply to allow home buyers to pay it off in instalments. This would also be revenue neutral to the state (if linked to inflation).

Value-Uplift Capture

A productive economy and opportunities for government can be created by understanding and acting on the difference between earned and unearned gains in the land market. This can take a number of potential paths.

In Germany for example, government has assembled land, purchased it before rezoning, rezoned it, and taken the land-value uplift. Such an approach incentivises the opening up of new land for development and helping to fund infrastructure projects. It also allows the state government to leverage its power over zoning to gain revenue whilst creating a sound benefit for housing affordability.

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The Singapore government has acted similarly which has likewise shown the allocation of capital towards improvement and innovation in land supply and development. Importantly, it avoids the need to impose a land-rent which raises the above concerns.

This area is well worth exploring for policy makers in Australia given our needs, competitive advantage in land, and the opportunities presented both for government and business.

Thank you for the opportunity to make this submission.



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