Submission No 3

INQUIRY INTO PROPERTY TAX (FIRST HOME BUYER CHOICE) BILL 2022

Organisation: Combined Pensioners & Superannuants Association

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COMBINED PENSIONERS & SUPERANNUANTS ASSOCIATION

Submission

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– Premier and Finance

Inquiry into the

Property Tax (First home Buyers Choice) Bill 2022

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CPSA receives funding support from the New South Wales and Australian Governments

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.

CPSA thanks the Committee for the opportunity to make a brief submission to its inquiry into the *Property Tax (First Home Buyer Choice) Bill 2022*.

CPSA's interest in the *Property Tax (First Home Buyer Choice) Bill 2022* does not relate to the macro-economic implications of land or property taxes. It also does not relate to the implications for housing affordability for first-home buyers, the desirability of a land or property tax from the point of view of first-home-buyers or to the technical competence of the Bill.

CPSA's concern about the *Property Tax (First Home Buyer Choice) Bill 2022* is that it may be about the introduction of a universal property tax in NSW by stealth and small beginnings.

If that concern is justified, the *Property Tax (First Home Buyer Choice) Bill 2022* represents the NSW Government's third attempt at the introduction of a universal property tax in NSW.

The first attempt was back in 2018, when the NSW Government wanted to introduce its Fire and Emergency Services Levy. This levy was presented as something that would address not a taxation issue, but a social equity issue. Property owners with building insurance, it was argued, were paying with their premiums for fire and emergency call-outs of which uninsured home owners were also the real and potential beneficiaries.

This attempt at introducing a property tax by another name failed when NSW experienced a collective penny-drop: this was a charge dependent on unimproved land value and would cost, in many cases, thousands of dollars a year. There was a public outcry, and the proposal was dropped.

The second attempt at introducing a property tax was in 2021. This attempt focussed on the unpopularity of stamp duty. NSW needed to get rid of it and replace it with something far better (property tax) was the NSW Government's argument.

This proposal did not fail after a public outcry, but as the result of the NSW Government's inability to finance the transition from stamp duty to property tax over a forty-odd year estimated period.

The NSW Government's calculation at the time was that mainly first-home buyers would opt for the property tax. That choice would then be locked in for the property they had bought, and property tax would be raised against it in perpetuity.

No public outcry resulted, probably because no one would immediately be affected unless they wanted to participate in the property tax scheme. What did become clear, however, was that once the transition had been completed, there would be no exemptions from the annual levying of the property tax. That's bad news if you are on a low income, as many pensioners are.

The NSW Government presents the *Property Tax (First Home Buyer Choice) Bill 2022* as addressing a social equity issue: housing affordability. The Bill essentially offers stamp duty relief for first-home buyers, as have a number of previous schemes. First-home buyers can opt into paying an annual property tax, a much lower amount than the applicable stamp duty. If and when they move and purchase another property, they will have to pay stamp duty on the new property. The purchaser of their first property, unless a first-home buyer, will not have the option of paying property tax instead of stamp duty.

Incidentally, it appears that these provisions destroy the main selling point of property tax schemes: that they enable ease of buying and selling homes and in that way enable economic flexibility and benefit. However, the first-home buyer under the scheme legislated in the *Property Tax (First Home Buyer Choice) Bill 2022* , if they want to sell up and buy another place, are stuck with … stamp duty.

The attempted introduction of this odd property tax scheme prompts the question: why does the NSW Government bother with a *Property Tax (First Home Buyer Choice) Bill 2022*? Why not simply allow first-home buyers to pay off stamp duty owed in annual instalments, or give them a hefty discount? Why would the NSW Government badge a first-home buyer stamp duty relief scheme as a property tax when it knows that property tax is very unpopular with the electorate?

It should be noted that an important commonality between the abandoned general property tax scheme (to be introduced over a period of decades) and the scheme offered by the *Property Tax (First Home Buyer Choice) Bill 2022* is the first-home buyer component. The earlier, abandoned scheme effectively relied on uptake by first-home buyers. The currently proposed scheme explicitly and exclusively targets first-home buyers.

The assumption on which the legislation appears to be based is that first-home buyers, after having benefitted from being able to avoid paying stamp duty through paying a property tax, will demand access to property tax for their second purchase. The assumption also appears to be that, when first-home buyers start trading up, there will be public support, even public pressure, for the property tax scheme proposed to be introduced by the *Property Tax (First Home Buyer Choice) Bill 2022* to be extended.

If those assumptions are true, effectively, first-home buyers are being recruited as property tax ambassadors through the *Property Tax (First Home Buyer Choice) Bill 2022*. It's entirely plausible, given the NSW Government's previous attempts at introducing a property tax in NSW, that that is the NSW Government's calculation.

NSW homeowners vehemently rejected the the Fire and Emergency Services Levy. The public weren't interested in the NSW Government's second attempt at the introduction of an explicit property tax because the majority did not think it would ever affect them, and – anyway – the scheme went nowhere because of financing issues. Now we could have an attempt at converting essentially young home buyers to the property tax cause in the hope it will catch on that way. It is again noted here that the attempt at introducing a wider property tax last year strategically targeted first-home buyers as well.

Obviously, young homebuyers who are intent on moving up the property ladder - upgrading from perhaps an apartment to a townhouse to a semi-detached to a freestanding house – have a good chance of benefiting from a property tax if they end up paying less in tax than in stamp duty.

It is therefore plausible that the scheme presented in the *Property Tax (First Home Buyer Choice) Bill 2022* could be gradually extended to second-home buyers and eventually to all home buyers.

It is also plausible that a discounted property tax may become available to purchasers who opt to lock the home they buy into property tax in perpetuity. In that fashion, although it would take decades, property tax could become universal in NSW. The NSW Government has demonstrated it is prepared for a transition from stamp duty to property tax to take decades.

Clearly, while people are developing their careers and growing their wealth, an annual property tax of a few thousand dollars will not be a great impost in perhaps the majority of cases. However, not everyone will be in a position to pay property tax once they retire or become unemployed without any prospect of finding a job.

In CPSA's March 2021 submission regarding the attempt to introduce property tax gradually over decades, CPSA demonstrated the scale of the financial trouble for NSW low-income homeowners once the then proposed property tax would have become universal.

CPSA's 2021 submission also pointed out that the incidence of financial hardship among low-income retirees in relation to a property tax would be high. At the time of the submission, 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.

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. There is no reason to think that the financial situation of Age and Disability Support Pensioners and Carer and Jobseeker Payment recipients will improve to the point where a few thousand more or less spent annually on household bills would not be a problem. An annual property tax is always going to be an insurmountable problem for these households and today's first-home buyers are likely to be prominently represented among those households.

When presented with this evidence and analysis, the NSW Government invited CPSA to a working group whose job it would be to devise a financial hardship scheme for the then proposed property tax. However, the scope of the financial hardship scheme envisaged effectively extended no further than giving people more time to pay. There were no exemptions for households who genuinely couldn't pay.

CPSA notes that the *Property Tax (First Home Buyer Choice) Bill 2022* does offer a scheme whereby households can effectively enter into a reverse mortgage arrangement with the NSW Treasury. However, these types of home equity release schemes are a lot more complicated than they seem, quite apart from the undesirability of people on low incomes encumbering their owner-occupied home with debt, which reduces their ability to trade into another home should health and mobility issues make such a move necessary.

The scheme legislated by the *Property Tax (First Home Buyer Choice) Bill 2022* is not the first time a government has come up with the home equity release idea. 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.

At the time, CPSA was critical of the Productivity Commission's proposal on the grounds that it would compromise the housing security of older Australians on low incomes and that it would be unaffordable to the Australian Government.

The 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. 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.

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 Government'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). 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.

Obviously, the NSW Government's exposure to financial risk associated with the payment deferral scheme included in the *Property Tax (First Home Buyer Choice) Bill 2022* would be much smaller, because participation would be much lower.

However, if the NSW Government's intention is to use this legislation as the thin-end-of-the-wedge, the deferral scheme would become unsustainable as the property tax system was extended. In other words, there would be no deferral scheme and no protection for delinquent owner-occupiers, other than a wishful provision in the current Bill that no one would have to sell their house to pay tax.