Submission
No 9

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

Name: Mr Douglas Cummings

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26 October 2022

Committee Chair,
The Hon Tara Moriarty MLC
NSW Government House

Dear Ms Moriarty,

<u>Property Tax (First Home Buyers Bill 2022</u>
<u>Stamp Duty v Proposed Land Tax Legislation</u>

Some months ago I wrote to the Premier, Treasurer and the Minister assisting the Treasurer in respect to what was then a proposal to introduce Legislation to replace Stamp Duty on real estate purchases and replace it with a form of Land Tax based on the Unimproved Land Valuation (ULV).

The concept sounds fine in principle, but fails miserably in its detail or lack thereof, especially how you can achieve fairness and equity between, single housing stock and apartments using the Unimproved Land Valuation (ULV) system.

This proposal should be held under a much wider debate of Taxation Reform.

It is clear to all citizens that all Governments need a revenue stream to pay for the services and facilities that they demand be provided by Government.

One cannot merely remove a large chunk of income which according to CoreLogic in the financial year 2020/21, Stamp Duty raised over $8.3 billion without replacing that revenue to be derived from some other source.

It remains abundantly clear and incontestable that State taxation reform is sorely needed, however, attempting to make some inroad into tax reform using this proposition would be not only bad policy but will fail to modify the revenue base in an **equitable** manner nor to secure long-term annual funds to part finance State spending in a fairer and more equitable manner for all NSW residents.

As a result of strong criticism to the initial proposition, the current Government has adopted a much more cynical approach to supposedly focus this Land Tax concept under the guise of helping first home buyers of property with a value less than $1.5 million, secretly hoping that once, "getting-a-foot-in-the-door" to later spread the model onto every property purchased within the State so that eventually 100% of properties are subject to a Land Tax.

That objective is not that untenable in itself but to do so using the Unimproved Land Valuation (ULV) system is to us, clearly untenable, unjust and inequitable.

What could be of greater assistance to help families to either;

- enter the housing market for the first time, alternatively
- for any property owner to upsize or downsize their existing property than the removal of the current exorbitant State Stamp Duty?

With due respect, the previous and now current proposed changes by this Government to replace Stamp Duty on certain properties with an option to take a payment of Land Tax based on Unimproved Land Valuation (ULV) is hardly the best, fairest or most transparent way forward to secure long-term revenue, least of all, assist first home buyers especially within a falling housing market.

The States dependency on Stamp Duty revenue is well understood and was made abundantly clear in a well scripted Morningstar article (copy attached) which reported Stamp Duty revenue at the time of $8.3 billion from the sale of 592,622 properties resulting in an average Stamp Duty fee of **$14,005** per sale, with the stamp duty fee on many properties far exceeding this average.

If you accept that the CoreLogic numbers referred to in the Morningstar article are in the correct order of magnitude, then surely it would be far more equitable to introduce a very broad Land Tax/State Levy from all 6 million residential properties across the State individually contributing a far smaller annual amount (on average approximately $1,383 per property) to raise the desired revenue (being the equivalent gross Stamp Duty revenue of around $8.3 billion) rather than that revenue being raised from just the annual property sales.

This could be achieved as a true and fair method of Taxation Reform provided a Capital Improved Valuation system was to be adopted in-place of the notional Unimproved Land Valuation where each residential property within the State would contribute an annual State Fee or Levy at an "across-the-board" Advalorem rate of **$0.00094318** per dollar of Capital Improved Value of each individual property.

By way of examples;

- a property that sold for $860,000 would contribute an annual Levy of **$811.13** compared to,
- a property that sold for $1,200,000 will contribute **$1,131.81** irrespective of whether it be a single dwelling or apartment.

Clearly these amounts are significantly less than current Stamp Duty fees on actual property sales and would not deter residents turning over real estate properties on a more regular basis.

This outcome is a far more equitable than either the current Stamp Duty system or the recently announced Land Tax mishmash by the Government.

It would ensure that every property would contribute at the same Advalorem rate of the actual market price or calculated Improved Capital Valuation of each property irrespective of location within the State.

This Capital Improved Value would automatically reset on each subsequent sale of each property and be a very clear indicator of the owner's "ability-to-pay" and hence contribute to the annual cost of running the State.

We would applaud the Government to remove Stamp Duty at the time of Sale replacing it with an annual State Levy payable by every property owner based on the first recommendation of the IPART enquiry that was called by the then Premier Mike Baird in Dec 2015 into the Local Government rating system.

That recommendation is enunciated below, Box 1.1 Our key outcomes, item 1.

Box 1.1 Our key outcomes:

1. ***Use the Capital Improved Value (CIV) valuation method to levy local council rates****.*
2. *Allow councils' general income to grow as the communities they serve grow.*
3. *Give councils greater flexibility when setting rates in residential areas.*
4. *Modify rate exemptions so eligibility is based on land use rather than ownership.*
5. *Improve assistance to pensioners.*
6. *Give councils more options to set rates within rating categories.*

Continuation with the ancient and now disrespected, Unimproved Land Valuation system would, in our opinion be a gross retrograde step, especially in light of the findings and primary recommendation above, (ref December 2016 final IPART report) to replace Unimproved Land Valuations (ULV) with a Capital Improved Valuation (CIV) for determining Local Government rates.

The same CIV would therefore be adopted to levy an annual State Levy payable by every property holder in the State as well as being adopted to raise Local Government Rates.

Clearly the latest Government proposal continues to discriminate against single home buyers leaving a multi class revenue stream in a very sneaky and convoluted manner.

Adoption of a property Capital Valuation system to raise revenue removes the necessity to limit first home buyers to property valuations less than $1.5 million.

As we understand, once the Government's Land Tax approach is applied to a property it will stick with that property forever, thereby far increasing revenue from that individual property over the long term by an amount that greatly exceeds the once only Stamp Duty payment under current legislation and furthermore, fails to collect any revenue from properties that have not recently been sold in the market.

It is recommended that the Government adopt a Capital Improved Valuation system where every purchaser and owner of property (be it single dwelling or apartment) would be treated equally, irrespective of the type of property or where in the state the property is.

Furthermore, the Government of the day would be able to ensure an adequate revenue base, that would be highly equitable and transparent for all property owners and not be subject to the whim of a falling or rising overheated property market, a market where buyers or in broad terms, basically set the market valuation for each separate property.

To suggest the Government's recent proposed scheme is simple or equitable is a gross understatement.

We do not believe the Governments scheme will aid first home buyers but merely skew people toward apartment living and increase market prices across the board.

The Government proposed scheme has clear **intended** consequences to ultimately lock-in conversion of all property to an inequitable, perpetual Land Tax windfall to future Governments.

Furthermore, it will do nothing to assist unlock larger property held, primarily by the elderly, to help them "downsize" to a more appropriate living standard but will merely lock them into residing in inappropriate large homes.

These are not the actions one would expect from a Coalition Government nor is it a means of adequately addressing the inequity in real estate differences between apartments and single housing properties least of all to truly assist first home buyers without unintendedly pushing up home loans and property prices nor constitute any rational Taxation Reform.

The proposal is clearly inequitable and will penalise the unsuspecting future purchasers of those properties where the prior owner selected a false lower cost "Land Tax" option.

The broader populous will come to understand the true effect of this proposal will harm the desire of residents to buy and sell, within the property market, as a means to accumulate tangible assets.

It is suggested that the introduction of a broad based annual State Fee/Levy which uses a Capital Valuation system as its basis be phased in over a five year period. This is to provide a reverse 20% discount for those recent purchasers of property that have paid a large Stamp Duty fee at time of purchase.

Harking back to the IPART report, what our Group could not agree with in the Final Report was the proposed methodology as the how to arrive at the Capital Improved Valuation.

The IPART proposed method and "Valuation Services" as set out under sections 3.2 and 10.3 of the Final IPART Report are neither logical nor cost effective, but appear to appease or be driven by the Valuer General.

By far, the simplest method to arrive at the property valuation is to allow the "market" to set the capital valuation as at the date of purchase and to apply a compound factor to account for the time lapse between that date of purchase and the present time.

An appropriate compound factor is more likely to reflect the property owner's continued "ability to pay" to account for increased average wages, pension increases etc within the State over the elapsed time between purchase date and current date.

"Let the Market automatically reset a new Capital Improved Valuation at the next sale or transfer of Title of each property which automatically accounts for any capital improvements to said property".

We urge that you read the attached Morningstar article and act accordingly to prevent this latest Government proposal from becoming Law within NSW, save for the changes suggested above.

We would welcome meeting with you and your Parliamentary Advisors to discuss the State's proposal and its consequences along with how an equitable, market driven Capital Improved Valuation system can work for the betterment of buyers and sellers, including securing guaranteed future revenue for the State in what is considered the most transparent and equitable manner.

Yours sincerely,

Doug Cummings

Past chair of the Lake Macquarie Ratepayers Action Group