

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

Organisation: Housing Industry Association (HIA)

Date Received: 26 October 2022



4 Byfield Street
Macquarie Park NSW 2113
T (02) 9978 3333
hia.com.au

26 October 2022

Ms Tina Higgins
Director Committees
Portfolio Committee No. 1
Parliament House
Macquarie Street
SYDNEY NSW 2000

email: portfoliocommittee1@parliament.nsw.gov.au

Dear Ms Higgins

Property Tax (First Home Buyer Choice) Bill 2022

Introduction

The Housing Industry Association (HIA) welcomes the opportunity to make a submission to the Portfolio Committee No. 1 (the committee) on the Property Tax (First Home Buyer Choice) Bill 2022 (the bill).

Taxation reform to replace stamp duty with a more predictable and equitable property tax has long been called for by HIA and this letter builds on our submission to *the NSW Budget 2020-2021 Consultation Paper - Buying in NSW, Building a Future*, November 2020.

A copy of HIA's submission to the NSW Budget 2020-2021 Consultation Paper is attached to this letter.

Stamp duty reform was one of the key directions for efficient land taxation within the Australian Government's Australia's *Future Tax System Review Final Report*, May 2010.

Housing Industry Association

HIA is Australia's only national association solely representing the interests of the residential building industry. HIA represents a membership of 60,000 across Australia which includes a diverse mix of companies, including new home builders, renovators, trade contractors, land developers, related building professionals, and suppliers and manufacturers of building products.

HIA members build over 85 per cent of the nation's new housing stock.

HIA's position on stamp duty

HIA's longstanding position on stamp duty is that it is an inefficient, inequitable, and unreliable tax, that could be replaced with another more efficient and equitable revenue measure. The reasons for this are clearly set out in HIA's most recent *Stamp Duty Watch Report* (Winter 2022), as follows:

1. *Stamp duty is an inefficient tax: It impedes the smooth flow of the workforce to locations of high employment and restricts the opportunity for seeking education or training. This restriction on the free movement of labour has additional adverse effects on efficient provision of public services such as schools, hospitals, and public transport. It also hampers the ability for the population to move to alternative housing that suits their needs such as downsizing.*
2. *Stamp duty is costly: The Australian Treasury reports that “the economic cost of collecting each additional dollar of revenue through stamp duty on property is 72 cents in the dollar, compared with 19 cents for the GST and virtually zero for a broad-based land tax”.*
3. *Stamp duty is inequitable. Stamp duty impedes the ability of the elderly and others to move closer to health services and care and it falls most onerously on those households that are forced to relocate due to changes in family structure (death/divorce/separation). Stamp duty also impedes home ownership by creating an additional barrier for first home buyers.*
4. *Stamp duty is unreliable: During the GFC, stamp duty revenues fell by more than a third. Just as governments needed a reliable income stream to stimulate the economy, they found their main tax measure failed to provide certainty. The states also learnt this lesson in 2019 when revenues fell sharply due to the impacts of the banking Royal Commission. NSW downgraded their stamp duty revenues in the 2019/20 Budget by approximately \$10.6 billion over the forward estimates while Victoria revised theirs down by \$5.2 billion. With stamp duty accounting for up to 40 per cent of state revenues, it can lead to sudden changes in budget estimates.*

HIA's *Stamp Duty Watch Report* provides further data on the dollar cost of stamp duty and the impact on households. The report summarises that If stamp duty were not levied, homebuyers would have the choice of buying the same home with less debt, as they could put down a larger deposit. Stamp duty can potentially cause homebuyers to take on more debt, with some homebuyers likely to be borrowing more to cover the cost of stamp duty.

Where homebuyers are not borrowing more to cover the cost of stamp duty, this means they are purchasing a less expensive home than they could if stamp duty was not levied. These homebuyers are effectively covering the cost of stamp duty by restricting their choice of home, such as forgoing a back garden, reducing the space of their home environment, increasing their commute to work, and/or reducing their proximity to friends and family.

A full copy of the HIA's *Stamp Duty Watch Report* (Winter 2022) is attached to this letter.

First time buyers

HIA supports initiatives that can enable first home buyers to enter the housing market sooner, and any measures to reduce the up-front costs required to purchase a first home are supported. Saving for a deposit, together with meeting the stamp duty obligation can be one of the largest hurdles that first home buyers face. HIA fully supports the NSW Government's proposal that first home buyers who sign a contract of purchase between the passage of the legislation and the commencement of the legislation to be eligible to opt into the property tax. This proposal is outlined on the NSW Government's webpage on the First Home Buyer Choice (<https://www.nsw.gov.au/initiative/first-home-buyer-choice>).

HIA argues however, that it is not enough to only relieve first home buyers from the stamp duty obligation. The government should therefore consider the bill to be the first step in stamp duty reform covering the wider housing market. As previously discussed, stamp duty restricts the smooth flow of the workforce to locations of high employment and the opportunity to relocate for others seeking education or training. It also restricts options for the elderly and others to move closer to health services and care, and on those households that are forced to relocate due to changes in family structure.

Property tax calculation

The approach being explored in the bill is an opting-in approach. First home buyers can choose between a one-off stamp duty payment or an annual tax. For those buyers, the decision making process will be the same - will the costs of incorporating stamp duty into a mortgage be greater than the costs of paying an annual property tax.

As a significant barrier to home ownership is saving the deposit and stamp duty, first home buyers are likely to defer as many costs as possible and take on the annual property tax.

The bill is that first home buyers, who are owner-occupiers, could choose to pay a property tax, comprising a \$400 annual fee plus 0.003 per cent of the property's land value, up until 30 June 2024.

The bill proposes a differential rate of property tax for land that is not owner-occupied which is a fixed \$1,500 annual fee plus 0.011 per cent of the property's land value, up until 30 June 2024.

Formulas for calculating the fixed component and land value rate for financial years beyond 30 June 2024 are provided within Schedule 2 of the bill, and HIA notes that the committee is seeking views from experts about whether the bill's proposed formulas for calculating the new tax are clear and easy to understand.

HIA submits that the experts should also be invited to provide an opinion on whether the proposed formula result in a fair and equitable property tax rate for first home buyers. The property tax must remain affordable and in-line with the first home buyers' capacity to pay.

Conclusion

The Housing Industry Association (HIA) has welcomed the opportunity to comment on the *Property Tax (First Home Buyer Choice) Bill 2022* and supports in principle, the proposal for first home buyers to choose between a one-off stamp duty payment or opting into an annual property tax.

Taxation reform to replace stamp duty with a more predictable and equitable broad-based tax has long been called for by HIA and this letter builds on our submission to the *NSW Budget 2020-2021 Consultation Paper - Buying in NSW, Building a Future* (November 2020).

HIA supports initiatives that can enable first home buyers to enter the housing market sooner, and any measures to reduce the up-front costs required to purchase a first home are supported.

The bill, however, should be the first step in broader stamp duty reform and not just for first home buyers. Stamp duty restricts the wider housing market as the high up-front tax impacts family decisions to relocate for work and education and restricts options for the elderly and others to move closer to health services and care, or to relocate due to changes in family structure.

Please contact me _____ to discuss the matters raised in this letter. HIA's Assistant Director Planning Cathy Towers can also be contacted for further information _____. We look forward to hearing the outcome of the *Property Tax (First Home Buyer Choice) Bill 2022* inquiry in due course.

Yours sincerely
HOUSING INDUSTRY ASSOCIATION LIMITED

David Bare
Executive Director

Attachments

1. Housing Industry Association submission to NSW Treasury on *NSW Budget 2020-2021 Consultation Paper - Buying in NSW, Building a Future* (November 2020).
2. HIA Stamp Duty Watch – Winter 2022