

**REPORT ON PROCEEDINGS BEFORE**

**PORTFOLIO COMMITTEE NO. 1 – PREMIER AND  
FINANCE**

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

**CORRECTED**

**At Jubilee Room, Parliament House, Sydney on Thursday 27 October 2022**

**The Committee met at 10:15 am**

**PRESENT**

The Hon. Tara Moriarty (Chair)

Ms Abigail Boyd

The Hon. Scott Farlow (Deputy Chair)

The Hon. Mark Latham

The Hon. Taylor Martin

The Hon. Daniel Mookhey

The Hon. Chris Rath

The Hon. Penny Sharpe



**The CHAIR:** Welcome everybody to the hearing of the Portfolio Committee No. 1 inquiry into the Property Tax (First Home Buyer Choice) Bill 2022. The inquiry is examining the provisions of the Property Tax (First Home Buyer Choice) Bill 2022. The bill would make changes to legislation to enable certain first home buyers to opt to pay an annual property tax rather than stamp duty when purchasing their home. I acknowledge the Gadigal people of the Eora nation, the traditional custodians of the land on which we are meeting today. I pay my respects to Elders past and present, and celebrate the diversity of Aboriginal peoples and their ongoing cultures and connections to the lands and waters of New South Wales. I also acknowledge and pay my respects to any Aboriginal and Torres Strait Islander people joining us today. Today we will be hearing from a number of stakeholders, including government agencies, legal experts, peak bodies, think tanks, academics and real estate organisations. While we have many witnesses with us in person, some will be appearing via videoconference today. I thank everyone for making the time to give evidence to this important inquiry.

Before we commence, I would like to make some brief comments about the procedures for today's hearing. Today's hearing is being broadcast live via the Parliament's website. A transcript of today's hearing will be placed on the Committee's website when it becomes available. In accordance with the broadcasting guidelines, the House has authorised the filming, broadcasting and photography of Committee proceedings by representatives of media organisations, from any position in the room, and by any member of the public, from any position in the audience. Any person filming or photographing proceedings must take responsibility for the proper use of that material. This is detailed in the broadcasting resolution, a copy of which is available from the secretariat.

While parliamentary privilege applies to witnesses giving evidence today, it does not apply to what witnesses say outside of their evidence at the hearing. Therefore, I urge witnesses to be careful about comments they may make to the media or to others after they complete their evidence. Committee hearings are not intended to provide a forum for people to make adverse reflections about others under the protection of parliamentary privilege. In that regard, it is important that witnesses focus on the issues raised by the inquiry terms of reference and avoid naming individuals unnecessarily. All witnesses have a right to procedural fairness according to the procedural fairness resolution adopted by the House in 2018. Witnesses will not be able to take questions on notice. The Committee has previously resolved that there is insufficient time for stakeholders to provide answers to questions on notice or supplementary questions. Witnesses can provide any additional information by the close of business today. If witnesses wish to hand up documents, they should do so through the Committee staff.

With regard to the audibility of the hearing today, I remind both Committee members and witnesses to speak into the microphones. As we have a number of witnesses in person and via videoconference, it may be helpful to identify who questions are directed to and who is speaking. For those with hearing difficulties who are present in the room today, please note that the room is fitted with induction loops, compatible with hearing aid systems that have tele-coil receivers. Finally, would everyone please turn their mobile phones to silent for the duration of the hearing.

**Mr SCOTT JOHNSTON**, Deputy Secretary, Revenue NSW, Chief Commissioner of State Revenue, and Commissioner of Fines Administration, affirmed and examined

**Mr JOSH ETHERINGTON**, Acting Valuer General of New South Wales, Office of the Valuer General, affirmed and examined

**Mr NICK O'REILLY**, Executive Director, Property Reform Implementation, Revenue NSW, affirmed and examined

**The CHAIR:** I now welcome our first witnesses from the Office of the Valuer General, and Revenue NSW. Each organisation is welcome to make a very brief opening statement if you wish, or if you've got submissions that haven't been tabled, you're welcome to do that. But please, if you do want to make one, keep it very brief. We're very short on time today.

**SCOTT JOHNSTON:** I have a brief statement and it will be brief. Chair, Deputy Chair and Committee members, thank you for inviting me to appear before you today to discuss the Property Tax (First Home Buyer Choice) Bill 2022. I'd also like to acknowledge the Gadigal people of the Eora nation, traditional owners of the land where we meet today, and I pay my respects to the Elders past, present and emerging and celebrate the diversity of Aboriginal peoples and their ongoing culture and connections to the lands and water of New South Wales. And I pay my respects to any Aboriginal and Torres Strait Islander people joining us today. Should the Property Tax (First Home Buyer Choice) Bill 2022 be passed by Parliament, Revenue NSW will be responsible for administering it. As one would expect, given the Government's objective of commencing the legislation in January 2023, Revenue NSW has made preparations for this eventuality. It's not open to Revenue NSW to simply wait for the legislation to be passed, so adjustments to various systems and process must be made, and I take this opportunity to commend the efforts of our agency in making these preparations.

We are confident that if the bill is passed, Revenue NSW will be well placed to implement it. My colleague Mr Nick O'Reilly, who is the Executive Director, Property Reform Implementation, and I are happy to contribute to the Committee's deliberations and will attempt to answer any questions you have regarding the practical administration of the First Home Buyer Choice initiative and our preparations. I should, however, stress that the policy underpinning the legislation, as well as the drafting of the legislation itself, was led by the Treasurer and his department. Therefore, any questions going to policy, the modelling or assumptions used and legislative design or detail ought to be directed to the Treasurer or his department.

**JOSH ETHERINGTON:** I'd like to thank the Chair, Deputy Chair and Committee members for the invitation to appear as a witness to this inquiry. I have confidence in the New South Wales valuation system and, if required, the NSW Valuer General could deliver the valuations which underpin the property tax reforms utilising existing systems, processes and land values, with some minor adjustments. Thank you.

**The CHAIR:** Thank you. We'll begin with questions from the Opposition.

**The Hon. DANIEL MOOKHEY:** Thank you, Chair. I welcome the Chief Commissioner and the Acting Valuer General. Acting Valuer General, why are you acting as Valuer General?

**JOSH ETHERINGTON:** The Valuer General is on leave.

**The Hon. DANIEL MOOKHEY:** When is he returning?

**JOSH ETHERINGTON:** I am advised my acting arrangement has been approved until the end of December.

**The Hon. DANIEL MOOKHEY:** Is the Valuer General returning from January?

**JOSH ETHERINGTON:** I'm not aware, sorry.

**The Hon. DANIEL MOOKHEY:** I don't plan to canvass this extensively but, given that this entire system turns on the role of the Valuer General for valuations, there have been some high-profile matters in which the Valuer General has alleged political interference by government in his office. Is he on leave in relation to the dispute that's been ongoing now for two years?

**JOSH ETHERINGTON:** I'm not aware, sorry.

**The Hon. DANIEL MOOKHEY:** Okay. Are you likely to be appointed as Valuer General from 1 January?

**JOSH ETHERINGTON:** I'm not aware, sorry.

**The Hon. DANIEL MOOKHEY:** Okay. Are you able to give us any assurance as to who precisely will be the Valuer General when this system is meant to be implemented from 13 January?

**JOSH ETHERINGTON:** No, sorry.

**The Hon. DANIEL MOOKHEY:** Thank you, Mr Acting Valuer General. Can I firstly ask about a couple of basic points of fact? It is the case, is it not, that there are roughly 2.2 million residential properties for which you maintain valuations?

**JOSH ETHERINGTON:** There are. Yes, that's correct.

**The Hon. DANIEL MOOKHEY:** How many of them are in stratas?

**JOSH ETHERINGTON:** A point of clarification: The 2.2 million parcels of land—some of those include strata towers. I don't have the exact number of how many of those are strata towers, but I could provide that by the end of the day.

**The Hon. DANIEL MOOKHEY:** That would be helpful. You do not maintain valuations of individual units within stratas, do you?

**JOSH ETHERINGTON:** We hold the valuation as an apportionment based on the unit entitlement.

**The Hon. DANIEL MOOKHEY:** But you don't have that information recorded in the publicly available data, do you?

**JOSH ETHERINGTON:** I'll come back by the end of the day to confirm the answer on that, please.

**The Hon. DANIEL MOOKHEY:** To be fair, this is what your valuer says. This is from the fact sheet *Valuing land in a strata scheme*. It says:

Rating and taxing for a single strata unit is worked out using the unit entitlement listed in the strata plan. The unit's land value is a portion of the strata scheme land value, based on the unit entitlement.

The Valuer General does not allocate unit entitlement.

That's correct?

**JOSH ETHERINGTON:** That's correct; we do not allocate the unit entitlement.

**The Hon. DANIEL MOOKHEY:** So each strata is responsible for allocating it themselves according to the apportionment test that's lodged, correct?

**JOSH ETHERINGTON:** I'll confirm that by the end of the day, but I think that the intention of that passage is we don't set the actual unit entitlement itself.

**The Hon. DANIEL MOOKHEY:** No, you don't. It relates to this practical problem: Any first home buyer who wishes to purchase a property in a strata scheme, which is very common now, can't rely on any publicly available data as to what they'll actually have to pay. That's correct, isn't it?

**JOSH ETHERINGTON:** I'll confirm that by the end of the day.

**The Hon. DANIEL MOOKHEY:** Can I just read you the disclaimer from the property tax calculator on the Service NSW website? I will give copies to you and the Chair too. It states:

For some strata title and company title dwellings ... the calculator is not able to identify the land value of an individual dwelling and is thus unable to estimate the applicable property tax.

Are you aware that that disclaimer is on the website?

**JOSH ETHERINGTON:** I am now, thank you.

**The Hon. DANIEL MOOKHEY:** So there is no way for any first home buyer who wishes to buy an apartment—short of going to the strata scheme, getting the lot out and figuring out how the strata scheme has apportioned value to the unit—to determine precisely what they will be paying in property tax.

**JOSH ETHERINGTON:** I'll confirm that by the end of the day.

**The Hon. DANIEL MOOKHEY:** What guidance can the Valuer General provide to a person who wishes to buy into a strata scheme as to how much they will have to pay in property tax?

**JOSH ETHERINGTON:** Once again, I'll confirm that by the end of the day.

**The Hon. DANIEL MOOKHEY:** Chief Commissioner, are you in a position to provide any advice as to precisely what a first home buyer who wishes to buy a unit in an apartment block has to pay?

**SCOTT JOHNSTON:** We utilise the Valuer General data to make that assessment.

**The Hon. DANIEL MOOKHEY:** There is no data from the Valuer General, so every single person who wishes to buy in an apartment building has absolutely no guidance as to what they will have to pay. It is subject to the apportionment test. That's not a criticism of the Valuer General or the valuation system; that's just how it works. Can you shed any further light as to what else is available, or not?

**JOSH ETHERINGTON:** Yes, I'll confirm by the end of the day.

**The Hon. DANIEL MOOKHEY:** Chief Commissioner, can we talk about mixed use developments? You have a responsibility under the Act to effectively run a valuation for mixed use developments, correct?

**SCOTT JOHNSTON:** Yes, that's right.

**The Hon. DANIEL MOOKHEY:** To put that in practical terms, an apartment block near where I live has 40 apartments above and a business down below. That's in one strata scheme. It's your responsibility to effectively figure out the value of the business versus the value of the homes, correct?

**SCOTT JOHNSTON:** The property tax is based on the unimproved property value of that land.

**The Hon. DANIEL MOOKHEY:** Under the Act, you have to separate them into two separate classes, don't you? You have to deem them as a deemed class. Are you aware of that?

**SCOTT JOHNSTON:** Yes, that's true.

**The Hon. DANIEL MOOKHEY:** After you deem them, your responsibility is to figure out the value of each of the classes in the building, correct?

**SCOTT JOHNSTON:** That's correct.

**The Hon. DANIEL MOOKHEY:** To do that, you will need to figure out the value of each class in the building, correct?

**SCOTT JOHNSTON:** We will.

**The Hon. DANIEL MOOKHEY:** And then you would have to apportion the residential component to each of the apartment owners, correct?

**SCOTT JOHNSTON:** I believe so; that's how we'll have to approach it. We—

**The Hon. DANIEL MOOKHEY:** You will have to do that at mass scale, because that is a very common system now. It's a good thing in our design and planning laws that we now have mixed use buildings, where there's a shop down below and there are apartments above. But as a result of that policy shift, two things need to happen every time any first home buyer chooses to buy in mixed use land: Every single parcel of land needs to be valued and then, within the residential class, it has to be apportioned to all residential owners for one buyer to make a choice. That's correct?

**SCOTT JOHNSTON:** That's right, but—

**The Hon. DANIEL MOOKHEY:** How is that simple?

**SCOTT JOHNSTON:** If the legislation is passed, we'll have to put further guidelines and an explanation around how we do this. Clearly—

**The Hon. DANIEL MOOKHEY:** Valuer General, under this mixed use thing—which again is very common in the first home buyer markets—the way the Act works is that the chief commissioner has to come to you to get you to do the valuations. I presume you're aware of that?

**JOSH ETHERINGTON:** Yes.

**The Hon. DANIEL MOOKHEY:** How much resources have you put aside to do this?

**JOSH ETHERINGTON:** We currently, presently, already do it for mixed use apportionment factors and mixed development apportionment factors.

**The Hon. DANIEL MOOKHEY:** But that's under a different system. That's when you don't have to classify them as two different classes.

**JOSH ETHERINGTON:** Yes, and my understanding, based on the legislation, is it's going to be a similar calculation based on the rental value.

**The Hon. DANIEL MOOKHEY:** But you can see the obvious conflict that's got to arise here, which is that every single apartment owner is going to say the value of the building comes from the business, not from the homes, and transfer the value to the business, not the homes. That's just going to be a conflict that will run in every single building. That's obvious as well. What sort of assistance are we putting in place for strata schemes that you're aware of that will have to now resolve all these conflicts that will reside around the fact that every single property is going to be inclined to be valued in order to figure out what one person will have to pay?

**JOSH ETHERINGTON:** In terms of the process, we have a set process under the Valuation of Land Act, where we compare the rental value of the portion that needs to be valued—compared to the rental value of the rest of the building.

**The Hon. DANIEL MOOKHEY:** But, again, in my neighbourhood, for example, the cafe at the bottom—under the existing system, you benchmark that to a different set of properties than you would to the apartments. That's correct? It's a zone commercial—that particular space within the building?

**JOSH ETHERINGTON:** We value the underlying land of the building.

**The Hon. DANIEL MOOKHEY:** According to its highest and best available use?

**JOSH ETHERINGTON:** Yes.

**The Hon. DANIEL MOOKHEY:** And that's commercial, correct, for that part of the building?

**JOSH ETHERINGTON:** It'll be for the whole land in its entirety. The highest and best use could be a mixed use development.

**The Hon. DANIEL MOOKHEY:** My only point here, again, is that this isn't a simple system by any means. In order for one person in an apartment to make the choice, which they may well be able to make, you will require, in a mixed use development, which is very common—you will catalyse a whole series of valuations, which is almost certainly going to catalyse conflict. That's fair?

**JOSH ETHERINGTON:** I'll come back to you at the end of the day on that one. There's potentially already a valuation based on the unit entitlement and whether or not we have to do an apportionment for that building.

**The Hon. DANIEL MOOKHEY:** Valuer General, can I just ask you about the valuation history—the land values from the last few years. In the gazette you just recently published it's the case, is it not, that land values—actually before I do that, can I ask you this: Right now under this system, if a first home buyer decides to vacate their property and retain ownership and offer it as a rental, that property ceases to have the primary residence exemption under the existing land tax system, correct?

**SCOTT JOHNSTON:** Yes, correct.

**The Hon. DANIEL MOOKHEY:** Should a first home buyer decide to offer their property as a rental under the property tax Act, that will result in their rate trebling from the 0.3 per cent to the 1.1 per cent, that's correct?

**SCOTT JOHNSTON:** That's correct.

**The Hon. DANIEL MOOKHEY:** But, equally, the same parcel of land will now be included in the threshold assessment for the other land tax, correct? It's no longer exempt from the other land tax.

**SCOTT JOHNSTON:** That property—

**The Hon. DANIEL MOOKHEY:** It will have to be aggregated with any other property that they have in order to assess whether they have a liability under the existing land tax?

**SCOTT JOHNSTON:** That's correct. We'll have to assess a particular—but that person's—this isn't combining this now investor property tax into their land tax obligations. It will be considering it separate.

**The Hon. DANIEL MOOKHEY:** But where in the Act is there an exemption from the ownership of that property for the purposes of whether or not you reached a threshold to pay the existing land tax? Because I couldn't see it. I'm looking at this and kind of going—under this system the rate trebles from 0.3 per cent to 1.1 per cent, which is a design feature of the Government. It can be debated whether it is a good thing or a bad thing. But the question that I have is once a person ceases to have the ability to claim an exemption from the existing land tax system, there's a real chance that they're going to be paying land tax and property tax—that's just logical, depending on where they lie?

**SCOTT JOHNSTON:** Not on the same property.

**The Hon. DANIEL MOOKHEY:** Why not? Under the existing land tax system, a person's values—all their landholdings are aggregated, correct?

**SCOTT JOHNSTON:** It is. So I'll have to come back to you to clarify how that exemption—

**The Hon. DANIEL MOOKHEY:** But this is the risk of double taxation.

**SCOTT JOHNSTON:** The intent of what is to happen is not to do this twice.

**The Hon. DANIEL MOOKHEY:** I accept that that's not the intent. But I can't see anything that exempts that property once it becomes an investment property from being subject to the existing land tax system in addition to this property tax system. If you are able to point me to which section of the Act does that, that would be helpful. Because otherwise it looks like it's a recipe for double taxation.

**SCOTT JOHNSTON:** I'll come back to you on that. Our operating efforts to try to launch this, if it happens in January—it's not to create that circumstance where they would be hit twice. Could I make another comment, Mr Mookhey? I think the opportunity for objections continue to exist around land value, which is an important aspect where there is conflict or disagreement. From a Revenue NSW perspective, we've got a long relationship where there are maybe land tax objections et cetera. That's quite helpful.

**The Hon. DANIEL MOOKHEY:** You are familiar with the problem.

**SCOTT JOHNSTON:** Yes, that's right.

**Ms ABIGAIL BOYD:** Good morning to all of you. I will start with you, Chief Commissioner. At what point were you made aware of this bill? On what date were you made aware of this bill—the actual terms of it?

**SCOTT JOHNSTON:** I know I am not meant to take questions on notice, but a specific date is very hard for me to come to.

**Ms ABIGAIL BOYD:** Could you give me a ballpark?

**SCOTT JOHNSTON:** Could I come back at the end of the day?

**Ms ABIGAIL BOYD:** At the end of the day?

**SCOTT JOHNSTON:** It would have been in the last couple of months where the creation of this—the discussion around property tax has been a long one, but the creation of this bill—

**Ms ABIGAIL BOYD:** Yes, this particular proposal in this bill.

**SCOTT JOHNSTON:** For this proposal in this form over the last few months, we work closely with Treasury around the design so that we can implement it.

**Ms ABIGAIL BOYD:** At some point did Treasury come and say to you, "Can you have a look at what's being proposed in this bill and do some scenario planning and modelling around that?" Did that occur?

**SCOTT JOHNSTON:** The modelling falls in Treasury's space, but we would have worked to get—

**Ms ABIGAIL BOYD:** Not the modelling on the impact on the budget, but the modelling in terms of—in the last 10 minutes we've heard from the shadow Treasurer just a few of the problems that have been identified by the submissions we've received and by some analysis by others where it's deeply unclear how this works in practice. I'm hoping that you were given the chance to feed back how this works in practice. Were you given that chance?

**SCOTT JOHNSTON:** Yes, absolutely, Ms Boyd. We have a very close relationship with the people who are appearing later today around design, modelling and impact. I think it's been constructive feedback where we've given ideas, thinking through how they flow through to practices—it's really important. Similarly, the relationships we have with stakeholders and others is—

**Ms ABIGAIL BOYD:** Did you give specific feedback in relation to a draft of this bill before it was finalised?

**SCOTT JOHNSTON:** I would say yes.

**Ms ABIGAIL BOYD:** Did you?

**SCOTT JOHNSTON:** Yes.

**Ms ABIGAIL BOYD:** What was that specific feedback that you gave in relation to the bill?



**SCOTT JOHNSTON:** I think these things have various iterations of how, through the development process—and we would have given feedback on how, practically, different elements would have been implemented. Is there a specific—

**Ms ABIGAIL BOYD:** Did you, for example, run some sort of modelling, some sort of scenario—for example, a mixed use property, strata—exactly what the calculation would look like under the draft of the bill and feed back into that, or was that work not done at that point?

**SCOTT JOHNSTON:** No. I would say, practically thinking through what the policy proposal was, we worked very closely with Treasury.

**Ms ABIGAIL BOYD:** But the specifics of the bill.

**SCOTT JOHNSTON:** Specifically thinking about this, which then forms into the bill, where we gave feedback as to whether we thought that was consistent with what we were expecting.

**Ms ABIGAIL BOYD:** Did you run a scenario analysis or some sort of individual, specific examples within the department of, "Okay, here are the bill's terms, this is the type of property we have, this is how much we think the property tax will be?" Did you do that, yes or no?

**SCOTT JOHNSTON:** Yes, in the sense of how would this relate to an individual's experience through the system and what decisions would they need to make and how would we provide information. As to the value of the property tax that they would have to pay, we didn't. That was Treasury's space around doing that comparison about where you would set the limits or what that impact on revenue would be.

**Ms ABIGAIL BOYD:** Yes, but it sounds very much to me—and correct me if I'm wrong—that in terms of the actual operational implementation of calculating an individual's property tax based on various scenarios, that was not done on a draft of the bill, or was it?

**SCOTT JOHNSTON:** I would say yes, it has been done. We have worked through multiple scenarios about how this would work and circumstances where unusual cases or edge cases might play out. We absolutely have done that work and continue to learn—

**Ms ABIGAIL BOYD:** So, having done that work, you then fed that back into the drafting of the bill?

**SCOTT JOHNSTON:** We gave feedback to Treasury on the bill, the substance of the bill, which, broadly speaking, was consistent with the discussions we'd had.

**Ms ABIGAIL BOYD:** So the fact that there are now errors and holes in the bill is not a result of a lack of modelling of these scenarios, then.

**SCOTT JOHNSTON:** I think this—there could be many reasons why one would have a view that there are errors in it. I think there's been a considerable effort that we've made, and our colleagues in Treasury, on thinking through the implementation and the impact of it. Translation into the bill—I mean, we regularly need to refine our legislation around administration of tax, which is complex.

**Ms ABIGAIL BOYD:** It is, very. Would you admit, then, that this is a complex bill?

**SCOTT JOHNSTON:** But I would argue all taxation legislation is quite complex.

**Ms ABIGAIL BOYD:** Very much so.

**SCOTT JOHNSTON:** So it's important that we can convey this in a way that, practically, we can deliver; give people support where they're in hardship; we can give clarity of what they're going to need to pay. I think it's—

**Ms ABIGAIL BOYD:** Do you wish you had more time before the bill was brought in to actually nut these complexities out, so we don't end up with the bill like this?

**SCOTT JOHNSTON:** No. I'm actually confident, with the bill as it's presented, that we'll be able to deliver on the intention of this in January. I think there will be issues where there might be objections around land value or there might be cases where people have issue with the assessment, but I think there is also good scope for the Chief Commissioner to consider their circumstances within the bill—which is me, currently. And, to that end, I think there's flexibility to support the—I think a lot of the exceptions that we're talking to, notwithstanding Mr Mookhey's earlier comments around strata, is that—

**The Hon. DANIEL MOOKHEY:** There's millions of them.

**SCOTT JOHNSTON:** Yeah, there's millions of them, but we have got—

**Ms ABIGAIL BOYD:** It's just not been thought about.

**SCOTT JOHNSTON:** No, no, it has been. I'd encourage questions to our Treasury colleagues this afternoon about how they're handling that, but we've got a calculator which gives you information as to what your cost will be.

**The Hon. MARK LATHAM:** Mr Johnston, at Revenue NSW you must get a fair number of queries, requests for information and appeals—interactions with citizens of New South Wales. On an annual basis, how many of those do you get?

**SCOTT JOHNSTON:** Oh, we—

**The Hon. MARK LATHAM:** Millions?

**SCOTT JOHNSTON:** Well, it wouldn't be millions, but it would be—

**The Hon. MARK LATHAM:** Hundreds of thousands?

**SCOTT JOHNSTON:** In relation to taxation it would be probably low thousands, I would suspect, but I'll—

**The Hon. MARK LATHAM:** No, but other revenue matters that take up your time?

**SCOTT JOHNSTON:** Yes. We have a broad range of work that we deliver, so we have lots of letters and queries, objections, but we've got a solid process.

**The Hon. MARK LATHAM:** Yes, but how many of those? How many interactions do you have, as Revenue NSW, with the people of the State each year?

**SCOTT JOHNSTON:** Would you include the work we do with fines in that? Would you like that?

**The Hon. MARK LATHAM:** Yes. Everything that keeps you busy.

**SCOTT JOHNSTON:** So about three million people interact with Revenue NSW each year.

**The Hon. MARK LATHAM:** Okay. So when I said "millions", that was accurate.

**SCOTT JOHNSTON:** Well, that was, but most is—

**The Hon. MARK LATHAM:** Okay. And this little property tax thing that's only going to raise \$88 million over the forward estimates—you're expecting that, compared to the three million, is a drop in the bucket.

**SCOTT JOHNSTON:** Yes, I think very manageable for us to deliver.

**The Hon. MARK LATHAM:** So, very manageable for you to deliver. It's not a big thing, given the broad scope of your work, handling three million requests, appeals, queries—

**SCOTT JOHNSTON:** That's right. We collected \$35 billion in revenue last year. This is a fairly small—

**The Hon. MARK LATHAM:** How much—35?

**SCOTT JOHNSTON:** Billion.

**The Hon. MARK LATHAM:** And this is, supposedly, an onerous extra collection of \$88 million over the forward estimates, so an average of \$22 million a year. In your eyes, it's basically next to nothing.

**SCOTT JOHNSTON:** I wouldn't say it's next to nothing. I think we've got to think through how we deliver it—

**The Hon. MARK LATHAM:** It's a small scheme compared to your broad work.

**SCOTT JOHNSTON:** —but in terms of scale compared to everything else, it's—

**The Hon. MARK LATHAM:** It's a small scheme compared to your broad work.

**SCOTT JOHNSTON:** And a small subset of households.

**The Hon. MARK LATHAM:** And the calculator you mentioned earlier on—how do you handle the strata issue, whether it's mixed or single use, at the moment?

**The Hon. DANIEL MOOKHEY:** He can't. He said he can't. He said he can't do it.

**The Hon. MARK LATHAM:** Are you answering the questions, or can we allow the witness to answer, please?

**The Hon. DANIEL MOOKHEY:** I'm happy to, but—

**The Hon. MARK LATHAM:** It's good to be a know-all but it's better to allow the witnesses to give their knowledge.

**The CHAIR:** Alright. Mr Johnston, you can answer the question.

**The Hon. DANIEL MOOKHEY:** You haven't done your homework.

**The Hon. MARK LATHAM:** I'm asking a question to get it on the public record—

**The CHAIR:** We've limited time. Let's not waste it.

**The Hon. MARK LATHAM:** —a question maybe you should have asked.

**The CHAIR:** Mr Latham, you've asked a question. Let's hear the answer.

**SCOTT JOHNSTON:** So if you use the calculator and put in an apartment block, you would get an estimate of the property tax.

**The Hon. MARK LATHAM:** And what's that estimate based on?

**SCOTT JOHNSTON:** Maybe the Valuer General can answer.

**JOSH ETHERINGTON:** I can clarify now that we do have a publicly available link on our website that provides the land value for each unit in New South Wales.

**The Hon. MARK LATHAM:** If the small number of people that Mr Mookhey is talking about come to you and make a more specific inquiry about the division of all this within the strata arrangements, what are you planning to do to help them to get a more accurate figure?

**SCOTT JOHNSTON:** That would be a Valuer General question.

**JOSH ETHERINGTON:** If we were requested by the chief commissioner to do an apportionment, we can do that.

**The Hon. MARK LATHAM:** So it's manageable.

**JOSH ETHERINGTON:** Yes.

**The Hon. MARK LATHAM:** It's only \$88 million over the forward estimates. How many people are you expecting to make that request?

**JOSH ETHERINGTON:** I don't have an estimate, sorry.

**The Hon. MARK LATHAM:** But if you had to project forward now, you are not expecting hundreds of thousands, are you?

**JOSH ETHERINGTON:** No.

**The Hon. MARK LATHAM:** You wouldn't even get to tens of thousands, would you?

**JOSH ETHERINGTON:** I don't believe so.

**The Hon. MARK LATHAM:** We're talking maybe hundreds?

**JOSH ETHERINGTON:** I'm not sure, sorry.

**The Hon. MARK LATHAM:** But not something that's big in the scope of your work?

**JOSH ETHERINGTON:** No.

**The Hon. MARK LATHAM:** Given that small number and the small amount of revenue we are talking about, both of you feel that you can handle that if the legislation is passed and the practical administration of it comes into place?

**SCOTT JOHNSTON:** From a Revenue NSW perspective, I think we are well positioned to do this and deliver it very well.

**The Hon. MARK LATHAM:** In your customer service and accurate information for people, you're not expecting this to be a big deal?

**SCOTT JOHNSTON:** I think it's very important that we provide, if this was passed, a very strong communication effort to provide clarity for people who are unsure—I think we're quite good at that in general—and show the mechanisms for people to object.

**The Hon. MARK LATHAM:** It's no different to the other challenges you have faced in the past about revenue and customer service and accurate information?

**SCOTT JOHNSTON:** In many respects, no. It's very similar.

**The Hon. MARK LATHAM:** Over to you, Mr O'Reilly. You handle property reform implementation, so I suppose you are the theorist in this space. Say someone out there in the suburbs is wanting to buy an apartment and they have insomnia and they read Mr Mookhey's speeches to help them of a night and they are all worried about the uncertainty and the difficulty in all this. In your experience, when a consumer is faced with the choice to pay the up-front stamp duty, which is enormous in Sydney, or go into property tax and they are faced with uncertainty, what do they normally do?

**NICK O'REILLY:** From experience, the scheme will allow people choice. Your question about what would they do with the decision—

**The Hon. MARK LATHAM:** Yes, they have a firm choice. They know how much the stamp duty is; it averages over \$50,000 in Sydney. It's a huge barrier to housing affordability. They have read all this Opposition stuff and political gameplay and they are a bit worried about the uncertainty of the property tax regime. Wouldn't they logically just stick with the devil they know?

**NICK O'REILLY:** Not necessarily. Previous to this role I was the director of stamp duty for three years. Feedback from customers was about the interest in having choice, and this scheme allows them to choose. I don't think, necessarily, they'll go for the devil they know. I think they'll look at a case-by-case scenario. They'll look at their unimproved value of the property and make an informed decision on what is best for them, potentially with professional input from an accountant or solicitor.

**The Hon. MARK LATHAM:** You think consumers increasingly are informed and sophisticated in our society, particularly about big investment decisions like housing. The Treasury is expecting two-thirds of people to take the property tax choice. Do you think that's accurate?

**NICK O'REILLY:** It's hard for me to determine.

**The Hon. MARK LATHAM:** It's feasible?

**NICK O'REILLY:** Treasury have modelled a lot of different scenarios. We are working towards the scenario that they have modelled and scaling and resourcing towards that.

**The Hon. MARK LATHAM:** So you don't regard it as unfeasible. It's doable that we'll end up with two-thirds.

**NICK O'REILLY:** We are resourcing for that and we are resourcing higher than that. To give you an idea in terms of scale, the estimate is around 6,000 people opting in per year. We deal with around 200,000 to 300,000 dutiable property transactions a year. People that opt in—

**The Hon. MARK LATHAM:** What is your number on how many people are opting in?

**NICK O'REILLY:** Around 6,000.

**The Hon. MARK LATHAM:** What's that overall number that you gave us?

**NICK O'REILLY:** As you know, the property industry in the last couple of years has been up and down, but normal dutiable transactions—transactions that we operate with that have gone through a transaction—are around 200,000 to 300,000.

**The Hon. SCOTT FARLOW:** Mr Etherington, when it comes to land valuations, that is the fundamental basis for both council rates and also land tax assessments. Is that correct?

**JOSH ETHERINGTON:** Yes, it is.

**The Hon. SCOTT FARLOW:** In supplying that information for either council rates or land tax assessments, you would do that for strata schemes as well, wouldn't you, on individual strata properties?

**JOSH ETHERINGTON:** Yes.

**The Hon. SCOTT FARLOW:** You would do that whether it was a mixed use development or a single residential development, wouldn't you?

**JOSH ETHERINGTON:** Yes.

**The Hon. SCOTT FARLOW:** That information would be readily accessible, wouldn't it?

**JOSH ETHERINGTON:** Yes.

**The Hon. SCOTT FARLOW:** To be able to identify that information, you can go on to your website and implement an address and find that property, can't you?

**JOSH ETHERINGTON:** Yes. You can do a land value search on our website, and it provides you with the underlying land value for the unit complex, so the total land value, and the individual unit's land value proportion of it.

**The Hon. SCOTT FARLOW:** So that is the property ID, isn't it, that's required on that website?

**JOSH ETHERINGTON:** Yes.

**The Hon. SCOTT FARLOW:** Then you plug that property ID into your land valuation portal on your website for the land valuation—is that correct?

**JOSH ETHERINGTON:** I believe so.

**The Hon. SCOTT FARLOW:** Mr Johnston, you would be using this information, wouldn't you, before issuing land tax assessments?

**SCOTT JOHNSTON:** Yes, that's right.

**The Hon. SCOTT FARLOW:** That's readily accessible information for Revenue NSW, isn't it?

**SCOTT JOHNSTON:** Yes. From a system and relationship basis, this is just an alternative use of the same information that we receive for the purposes of the land tax.

**The Hon. SCOTT FARLOW:** This whole strata argument is just a furphy, isn't it? What is the difference in terms of being able to put forward an assessment for this property, First Home Buyer Choice scheme, compared to either a land tax valuation or, indeed, for council rates? Is there any difference?

**JOSH ETHERINGTON:** For the majority of the land values that are existing, there is in the legislation a potential for consolidated properties to require an extra land valuation. For mixed use properties where there is an existing unit entitlement apportionment or an existing mixed development apportionment factor, if the chief commissioner requests us to make one for a property that doesn't currently have one then there is a potential for some additional valuations required in that scenario.

**The Hon. SCOTT FARLOW:** Mr Etherington, in terms of how many properties this would apply to in New South Wales, what percentage would we be looking at here?

**JOSH ETHERINGTON:** Unsure, but I can't see it being high in terms of the 2.6—

**The Hon. SCOTT FARLOW:** It would be a miniscule amount, wouldn't it?

**JOSH ETHERINGTON:** Yes. In terms of the 2.6 million values we do, it would be a very small subset of that.

**The Hon. SCOTT FARLOW:** With respect, Mr Johnston, in terms of the argument that was put about double taxation previously, do you have the bill that we're looking at in front of you at all? If you can bring it up.

**SCOTT JOHNSTON:** Digitally, yes.

**The Hon. SCOTT FARLOW:** Yes, indeed. Would you say that schedule 5.2 would be the section in the bill that takes account of the interaction between land tax assessments and the property tax?

**The Hon. DANIEL MOOKHEY:** "Reduced"—what does that mean?

**SCOTT JOHNSTON:** Yes, I believe the intent of that is right, but I just want to confirm, if I could, by the end of today how that's positioned. There is some complexity to this, its interaction with other legislation, so I want to be clear. I think the point that I hope I can leave with is that the intention is not to double tax anyone in this process. So I'd like to just clarify, mechanically, how we—

**The Hon. SCOTT FARLOW:** I suspect there are regulations as well to give effect to the finer details of these too—the intention.

**SCOTT JOHNSTON:** Yes, we will need to—

**The Hon. SCOTT FARLOW:** I hear Mr Mookhey chirping away with, "Reduced—what does that mean?" An individual could, for instance, own several properties, which may attract land tax but perhaps only one is on this property tax scheme. Therefore, you would need a reduction rather than a complete carve-out, wouldn't you, for that individual?

**SCOTT JOHNSTON:** The reason you would be paying the investment or the investor rate would be that you bought it as a first home buyer to live in as your primary residence, and after a period of time you chose to use it as a rental property. To that end, you only have one chance at this in itself because you're only a first home buyer once. Similarly, the requirements to further purchases and how that works would be subject to land tax in its own setting, so this will be different. I mean, the higher rate is to try to ensure that people—it's not a way to navigate through a tax advantage to—

**The Hon. SCOTT FARLOW:** Yes, to play this game.

**SCOTT JOHNSTON:** It's designed for first home buyers to enter the property market to live. But obviously over time people will make other choices—

**The Hon. SCOTT FARLOW:** They might accumulate other properties and the like, yes.

**SCOTT JOHNSTON:** —so that's to adjust to it.

**The Hon. CHRIS RATH:** Would you say that the property values fluctuate to a much greater extent than GSP growth per capita?

**SCOTT JOHNSTON:** I would encourage you to ask that question to Treasury. I think GSP is a fairly stable measure historically and property prices have been more variable.

**The Hon. CHRIS RATH:** But in terms of revenue to the New South Wales Government, by having an indexation of the property tax linked to GSP growth rather than to property values, you are in all likelihood, we assume, smoothing out the amount of revenue that will be received, rather than having more fluctuations in the revenue received by the Government. Is that something that you've looked at?

**SCOTT JOHNSTON:** Again, I think Treasury would want to talk to the modelling, but that's the clear intention of this. The GSP is fairly stable and predictable but lower.

**The Hon. CHRIS RATH:** Have you been involved at all with the hardship provisions?

**SCOTT JOHNSTON:** Yes, absolutely. I think this is critical.

**The Hon. CHRIS RATH:** Do you want to explain that in more detail? Obviously, if people can't pay the property tax that they opt into—because it is their choice to opt into it—how would that work if they fall on hard times and can't pay it?

**SCOTT JOHNSTON:** This is a really important part of the bill from a perspective of people make a decision at a point in time and things can change in their circumstances whilst they are owning a property. This bill gives me, as chief commissioner, the ability to defer people's payments and continue to do that, which is a new—we don't have that ability in other legislation. What that will mean is it can accrue over time. There's also an established hardship board, which has been going for many years, where, if a decision was not to support that, there's a second chance to consider those circumstances. There is no intention to take people's homes from this or to force them to sell. There are some strong powers to the chief commissioner to enable that follow-through.

**The Hon. CHRIS RATH:** Maybe it was mentioned before, but how much funding has been provided to roll out these reforms?

**Ms ABIGAIL BOYD:** It's \$68 million.

**SCOTT JOHNSTON:** Thank you. It is \$68 million.

**The Hon. SCOTT FARLOW:** Is that \$68 million through Revenue NSW?

**The Hon. DANIEL MOOKHEY:** No.

**The Hon. SCOTT FARLOW:** I know, but how much funding goes to Revenue NSW to roll out these reforms?

**SCOTT JOHNSTON:** Just give me a moment.

**NICK O'REILLY:** I can talk to it.

**SCOTT JOHNSTON:** Mr O'Reilly's got it.

**NICK O'REILLY:** The cost to implement for this financial year for Revenue NSW and Service NSW is \$36.4 million, with an estimation of \$18.5 million per year for future years.

**Ms ABIGAIL BOYD:** So that adds to the implementation funding of \$65 million that's specified in the Treasurer's—

**SCOTT JOHNSTON:** Yes, that's a subset of that too. Primarily this is about system development and having a platform to work with and then, operationally, we'll have staff working on it.

**The Hon. CHRIS RATH:** I know you probably don't have the figure, but how many people pay land tax in New South Wales? I assume it would be very small.

**The Hon. PENNY SHARPE:** No, it's not.

**SCOTT JOHNSTON:** No, it's quite a large number.

**The Hon. CHRIS RATH:** But it's only investors.

**The Hon. DANIEL MOOKHEY:** No, it's commercial.

**The Hon. CHRIS RATH:** Yes, in terms of non-commercial?

**SCOTT JOHNSTON:** It is a large number. I'll come back to you. Land tax delivers—

**The Hon. DANIEL MOOKHEY:** You do 300,000 assessments, don't you?

**SCOTT JOHNSTON:** It's about that.

**The Hon. CHRIS RATH:** Yes, but they wouldn't be first home buyers.

**The Hon. DANIEL MOOKHEY:** There's no way we do know that.

**SCOTT JOHNSTON:** No. We actually don't know. But this is very much framed, in my thinking, as more of an extension to the supports that are already there for first home buyers beyond \$800,000.

**The Hon. SCOTT FARLOW:** To that point, Mr Johnston, how many individuals would claim the first home buyers grants at the moment or exemptions? Do you have those figures?

**SCOTT JOHNSTON:** Do you have that handy, Mr O'Reilly?

**NICK O'REILLY:** Below \$650,000 is 21,872. Between thresholds of \$650,000 and \$800,000, 11,406.

**The Hon. SCOTT FARLOW:** With respect to this initiative, the anticipation is an additional 6,000 people being given that option and choice, or opting into that choice, to be able to take the first home buyers property choice package.

**SCOTT JOHNSTON:** That's the expectation, yes, because this is taking it up to the \$1.5 million value. Typically someone who purchases above the \$800,000 threshold, whether it's their first or their fifth home hasn't been an area of concern for us. But that's the big change where that 6,000 come from.

**The CHAIR:** Thank you to all of you for your attendance this morning. We appreciate it. As I mentioned in my opening statement, there was no provision for supplementary questions, but thank you for saying that you'll provide some information by the end of today. We look forward to receiving that. We've completed this round this morning. Thank you, again, for your attendance.

**(The witnesses withdrew.)**

**Mr MATTHEW CRIDLAND**, Solicitor, affirmed and examined

**Ms JOANNE SEVE**, Solicitor, sworn and examined

**Mr RICHARD HARVEY**, Chair, Property Law Committee, The Law Society of New South Wales, sworn and examined

**Mr ADRIAN CHEK**, Chair, Revenue NSW/Law Society Liaison Committee, The Law Society of New South Wales, sworn and examined

**The CHAIR:** Good morning, everybody. Welcome. Thank you for joining us today. You are entitled, if you'd like, to make a very brief opening statement. We've got very limited time. We'll start with Mr Chek.

**ADRIAN CHEK:** The Revenue NSW/Law Society Liaison Committee was given a brief opportunity to review the bill and make some comments. We put in a written submission, which makes a couple of points. Mr Harvey I think will speak to one of them, which is mainly a conveyancing law point. We had mainly one technical point, which is really a drafting point on the relationship between the Duties Act and the property tax bill to make sure that if the property tax is switched off where it's sold to a person who isn't an eligible home buyer, to make it clear that the Duties Act and the exemptions that apply under that Act will apply. The Act literally says that duty will be payable, but it's not clear how that is the case or whether the exemptions under the Duties Act will apply. It's a technical drafting point. Otherwise, we did not take a position on the policy or the politics of the proposal.

**The CHAIR:** Thank you. Ms Seve, would you like to make an opening statement?

**JOANNE SEVE:** I am Joanne Seve, a sole practitioner solicitor specialised in State taxes. I was formerly a solicitor and partner at Freehill, Hollingdale & Page, and then a partner at PricewaterhouseCoopers. I was a part-time judicial member of the Administrative Decisions Tribunal, assigned to the Revenue Division and the Appeal Panel. I have made a written submission to the Committee on the bill, with six pages of comments and questions on it. Since writing that submission, I have had the opportunity to further review the bill, and I have some additional comments. I hope to mention just two of them in this opening statement.

I turn straight to schedule 2 of the bill, which deals with the calculation of the property tax. I have commented in my submission that schedule 2 is incredibly complex. Since writing that and further reviewing the schedule, I have come to say that I actually think it's unworkable on the basis of how it's currently drafted. It's not enough that there be a computer program out there that can provide amounts of property tax. The calculations need to be verifiable. To be verifiable, they need to be understandable. I refer particularly to the G—the gross State product per capita. I have raised in my written submission the question about clarifying whether it is real or nominal GSP, because that can make a big difference for that formula.

I draw attention now to the L—the land value indexation factor—in the second formula that is to be applied under schedule 2 in clause 4. That clause refers to the aggregate land value of the land as at 1 July in the preceding financial year. Members can look at that in their own time, but I will say that there is no definition of what that is. One needs to try to infer what is being aggregated for the purposes of that aggregated land value. The paragraphs within clause 4 are disjointed. I think a tribunal member or a judge would need to be asked to do that inference, and it is tricky and not straightforward.

I noted that the New South Wales parliamentary office has a policy document on its website called "Plain Language Policy". In it, it states that "legislation should be able to be understood with a minimum of effort by its users" and that "the use of plain language in legislation is intended to remove barriers to communication and so make the law more accessible." It also refers to a suggestion of including examples, tables or diagrams. I have suggested in my submission that there should be examples of the calculations to be done under the schedule because, having spent several days trying to work through it—it wasn't a short time—I still can't quite fathom how to do the calculations. There might be others who can do that; I can't. I have submitted that it would be helpful to include those things.

I have one other issue that I will flag, but there are many issues that I raise as technical problems in the drafting. Were this bill to be passed, I would suggest that there needs to be amendments to the bill to get it into a shape that would be reasonable for administration. I see that there are loopholes in it. I won't go through those but, just to flag an example, the legislation ties in with other State taxes legislation, so it builds on it. As it was said earlier with the Land Tax Act, there is a concession and amendment to the Land Tax Act to give a credit for duty payable in respect of land tax, were it to be payable.

In the context of the Tax Administration Act, which imposes interest and penalty tax, under the bill under section 31, a tax default occurs when a person fails to pay the property tax that's due. Under the bill it says it's due



no earlier than 30 days after assessment. So if you don't get an assessment, if you haven't notified the commissioner of a change in use that attracts the higher rate, and just sit back and do nothing, it's up to the commissioner to find out that there's been a change in use, the commissioner issues an assessment, 30 days for payment, it's only from that time that an interest or penalty tax exposure can exist. That's an example of an issue that perhaps is unintended and would need to be addressed, but there's many more. I've identified just two extra ones—

**The CHAIR:** We might need to wrap up. We do have your submission but we've got very limited time. Did you want to make a final point? We need time for questions.

**JOANNE SEVE:** No, I've made my points, thank you.

**The CHAIR:** Mr Cridland?

**MATTHEW CRIDLAND:** Thank you, Chair. I've just got three points. The first is that in the first year the calculation's relatively straightforward. I think that the online calculator is an excellent tool. However, in future years applying the formula is going to be very, very difficult to the points that have been raised by Ms Seve. The second point is that the benefits of the proposed tax are highly skewed to purchasers of high-rise residential units as compared to purchasers of freestanding homes. I've provided an example in my paper where the difference can be over 425 per cent in terms of the higher cost for a purchaser of a freestanding home as compared to a high-rise unit purchaser.

Consistently, I'd also just highlight that if you do change from using the premises as your principal place of residence to using it as an investment property, the increase in the tax is 375 per cent. That's not particularly onerous in the context of a purchaser of a high-rise residential unit. However, it is very, very high in the context of the purchaser of a freestanding home. I've highlighted in my paper that that's in excess of \$13,500 for the purchaser of a home in the order of about \$1.4 million. Thank you.

**The CHAIR:** We'll begin with questions from the Opposition.

**The Hon. DANIEL MOOKHEY:** Mr Cridland, Ms Seve, Mr Chek and Mr Harvey, thank you for taking the time to be with us this morning. Mr Cridland, I might just pick up from the point you were talking about. Can you take us through the points in your submission in which you say the benefits are mostly favourably skewed to high-risk apartment purchasers?

**MATTHEW CRIDLAND:** High-rise, I believe you mean.

**The Hon. DANIEL MOOKHEY:** Sorry, high-rise.

**MATTHEW CRIDLAND:** Yes, I just refer to page 4 of my commission. I've included a table. There's two residential properties that I've identified. I've taken those addresses from the realestate.com website. I've used the online calculator, which, as I've said, I do think is an excellent tool for calculations in the first year. You can see that for the St Leonards apartment, which has a list price of \$1.48 million, the property tax would be \$487 in the first year, as compared to transfer duty of over \$65,000. So, naturally, a purchaser in that situation is highly likely to opt in.

In relation to a freestanding home, I've identified one at 3 Parma Place, Carlingford. The price is advertised for a range between \$1.35 million and \$1.485 million. The property tax is \$3,610, which is 425 per cent higher than for the residential unit purchaser, whereas the transfer duty would be a comparable amount, depending on the price that was paid. Consistently, if I could also just refer to page 5 of my submission, in the event that the person who acquired the property in Carlingford switched to using that as an investment property, their tax would jump to \$13,270, which contrasts with about \$4,000 which they would otherwise pay as land tax under the existing tax rules.

**The Hon. DANIEL MOOKHEY:** And the reason why a freestanding house is likely to attract more property tax than a unit in an apartment block is—you say in your paragraph 4.3 and 4.4 it's because the unimproved value of the freestanding house is set for the lot or for the parcel of land, whereas for the apartment it's apportioned between all the apartments, correct?

**MATTHEW CRIDLAND:** Correct. That's correct.

**The Hon. DANIEL MOOKHEY:** You're an experienced practitioner in apportionment disputes?

**MATTHEW CRIDLAND:** Yes.

**The Hon. DANIEL MOOKHEY:** Are apportionment disputes straightforward?

**MATTHEW CRIDLAND:** No, they're not.

**The Hon. DANIEL MOOKHEY:** Are they easy to resolve?

**MATTHEW CRIDLAND:** No, they're contentious.

**The Hon. DANIEL MOOKHEY:** Is there one source of truth as to how the apportionments have been appointed or is it the case that they're actually contained within each of the lot plans?

**MATTHEW CRIDLAND:** It is based on the lot plans. It's based on unit entitlement.

**The Hon. DANIEL MOOKHEY:** And the Valuer General doesn't determine that unit entitlement, do they?

**MATTHEW CRIDLAND:** No.

**The Hon. DANIEL MOOKHEY:** And it's required, each strata has to do that itself, correct?

**MATTHEW CRIDLAND:** Correct.

**The Hon. DANIEL MOOKHEY:** And it's far more likely that if this was to be implemented, those disputes are likely to intensify, in your view?

**MATTHEW CRIDLAND:** I would agree, yes.

**The Hon. DANIEL MOOKHEY:** And that's likely to result in quite a lot of acrimony within strata schemes. That's reasonably foreseeable, correct?

**MATTHEW CRIDLAND:** It's particularly contentious in circumstances where there's two strata lots within the one building. So you might have a retail and a car park area, and then you might have high-rise residential above it. You need to firstly apportion the land value between the two strata lots, and that's a highly contentious exercise. The owners of the retail and car park component obviously want a lower land value apportioned to that parcel and a higher value apportioned to the residential units. There is often contention in that sort of context.

**The Hon. DANIEL MOOKHEY:** Can I quickly ask a few questions to the Law Society. I've had the opportunity to read your submission to this inquiry, but also I've had the opportunity to read your submission to the consultation process that was run last year in respect of the broader proposal—is probably how I would term it. With respect to that point—I think you alluded to this in your opening statement when you made reference to conveyancing issues—you said in your submission last year:

Depending on the design features of the property tax, it is quite likely that standard conveyancing and other legal documentation will require amendment to make provision for the property tax. For example, changes may be necessary to the 2019 edition of the Contract for Sale and Purchase of Land. Lead times for documentation and system changes should be adequately addressed in the implementation timeline.

I presume you would also think that is still a concern?

**RICHARD HARVEY:** Yes, it is.

**The Hon. DANIEL MOOKHEY:** Given that this scheme is meant to be operating in 10 weeks-ish—maybe 12—do we have enough lead time to change every standard contract for sale? Have you been consulted on that?

**RICHARD HARVEY:** No, we haven't been consulted. I would say it's not ideal, but it could be done.

**The Hon. DANIEL MOOKHEY:** Sure. But you haven't specifically been consulted on it? Has it been flagged with you given that this is something that the Law Society has quite a role in, in terms of what the standard contract of sale is?

**RICHARD HARVEY:** Yes, it's a joint copyright with the REI and ourselves. It's the contract which is used in almost 100 per cent of transactions in New South Wales.

**The Hon. DANIEL MOOKHEY:** Ms Seve, I did want to ask you one question that arose from the application of the formulas. Just with respect to the formulas, I'm right in understanding that the way in which the land value indexation factor turns on the class of property who have already opted in, that's the class of property that is being indexed—or did I read that wrong?

**JOANNE SEVE:** That's another question that I have also, because unfortunately that L—that land indexation factor—refers to:

- (a) identifying all land ...
  - (i) subject to property tax on 31 December—

and I was uncertain as to whether that is all land that is opted in or if it's only land the subject of a particular taxpayer who was being taxed. Again, you have just highlighted—I don't know the answer to that.

**The Hon. DANIEL MOOKHEY:** That's a material factor, though, isn't it, because that's how—

**JOANNE SEVE:** It's certainly not all land; it's land in a—

**The Hon. DANIEL MOOKHEY:** I mean, for a person to know whether or not the land tax is going to rise into the future and how much, we don't even know what properties it's going to be assessed against. Is that fair?

**JOANNE SEVE:** I believe there might be an intention, but it's not clear in schedule 2.

**The Hon. DANIEL MOOKHEY:** Mr Cridland, do you have those concerns?

**MATTHEW CRIDLAND:** I do, yes.

**The Hon. DANIEL MOOKHEY:** You said in your submission you're concerned about the complexities of the formulas. Do you want to take us through your concerns?

**MATTHEW CRIDLAND:** Look, I haven't done as detailed a submission as Ms Seve. I had the benefit of reading her submission. But, yes, I think the key distinction between, say, land tax and the proposed property tax is the way in which, on a go-forward basis, there is going to be this indexation both of the fixed component and also of the land value rate. We don't have similar indexation applying in the context of land tax. I think that's one of the key reasons why this particular property tax is going to be more difficult and complicated to implement compared to existing land tax.

**The Hon. DANIEL MOOKHEY:** How is the first home buyer meant to be able to reach a reasonable projection as to what their liability is likely to be after a year, two years?

**MATTHEW CRIDLAND:** I've noted in my paper that, as a practical matter, I think it would be impossible and that the home buyer would have to rely upon that information being supplied by the chief commissioner.

**The Hon. DANIEL MOOKHEY:** But at this point in time, a first home buyer who finds themselves in year two can't opt out of the system, correct?

**MATTHEW CRIDLAND:** That's right.

**The Hon. DANIEL MOOKHEY:** They'd have to sell the property. Basically, whatever the commissioner tells them they have to pay, they're going to have to pay.

**MATTHEW CRIDLAND:** That's right.

**The Hon. DANIEL MOOKHEY:** And there's no way to reasonably predict it.

**MATTHEW CRIDLAND:** I completely agree. There is, of course, the proposed cap of only a 4 per cent increase, but subject to that particular cap, I agree it's all but impossible to state with any certainty what the future tax is likely to be. I think that's an impact not only for the first home buyer but also for other stakeholders, including financiers and the like—and advisers, of course.

**Ms ABIGAIL BOYD:** Thank you all for taking the time, in the limited time available, to go through and really pick out all the drafting issues in this bill. Mr Chek, when did you first get a draft of this bill, and were you given the opportunity to make detailed comments on a draft before it was introduced to Parliament?

**ADRIAN CHEK:** No, we weren't. It is sometimes the case that State tax legislation—we are given a draft bill, an exposure draft bill on a confidential basis and the committee is given time to provide their comments and a submission is made. But in this case we weren't given a draft. We only had the bill as it went into Parliament. As a result, we haven't had much time to go through the bill or give any comments on technical drafting issues.

**Ms ABIGAIL BOYD:** Understood. Thank you. Are there additional issues caused with the conveyancing aspects, caused by the part of the bill that allows a purchaser to buy a property now, with stamp duty, and then seek to have that stamp duty repaid in the future, to go onto land tax? I think they say, from the moment of assent until 16 January or February, if you purchase during that time, you purchase with the stamp duty. Are there additional complexities with conveyancing caused by then having to unwind that?

**JOANNE SEVE:** Can I just say one thing, Mr Chek? To say that the actual bill refers to the date of commencement, the date of commencement is not necessarily the date of assent. Section 2 refers to commencement dates to be proclaimed—a date or dates to be proclaimed. So we're uncertain as to when that is. That's one of the comments that I raised, the very first comment in my submission, about the date of

commencement. There's uncertainty about that. But in terms of practical, it would mean that if a contract is exchanged within three months the duty is payable. If settlement is intended, it tends to sometimes be brought forward. Duty would have to be paid—then an application for a refund if this is opted into. That's how I see practical—from a stamp duty point of view.

**MATTHEW CRIDLAND:** As a practical matter, all conveyancing now in New South Wales with respect to residential property is done electronically via PEXA. You can't actually do the transfer via PEXA without having a duty assessment first. So it would be necessary for the first home buyer to get a duty assessment, pay the duty. It's typically paid as a part of the settlement process via PEXA. It would then be necessary to make a formal application seeking a reassessment and a refund after that acquisition had been completed. It would be necessary to outlay the money first in order to complete the transfer and then make a reassessment application and seek a refund.

**Ms ABIGAIL BOYD:** Under the hardship provisions, if there was an amount that was being accrued to the State as a creditor, would that appear on the system, the land title system, in the same way a mortgage would? Do we know what the intention is there?

**MATTHEW CRIDLAND:** I can't say specifically. My expectation would be that it would be a first charge on the land, similar to land tax charges, but I can't answer that definitively.

**Ms ABIGAIL BOYD:** Thank you. Ms Seve, you were cut off in your opening statement. I just wanted to check whether the comments that you had were additional to what you had in your submission and give you a chance to say what they are, because you've have been so useful.

**JOANNE SEVE:** Thank you. No. I did summarise the two issues too. But there were more as well. But if I can also flag for the Committee, if I may, one issue. That is that unimproved land values of strata units, it is possible that the unimproved land value can actually exceed the market value. There was a case on that, *Alexandrou v Valuer General*, in 2020. That's an issue that perhaps needs to be addressed in the Land Tax Act and the Land Tax Management Act if that's not intended to apply and flow through to the property tax.

**The Hon. MARK LATHAM:** Ms Seve, why did you say there's confusion about the GSP number, "Is it real or nominal"? It's an indexation number where you take the amount from two years ago and divide it by the amount from three years ago. So it's a real number, isn't it?

**JOANNE SEVE:** It's a real number. As you'll see in my submission, I said "I'm informed". It was an actual analyst, my husband, who explained to me what the GSP is and explained that there are two aspects to it. It can be real or nominal. It's a different number—

**The Hon. MARK LATHAM:** But in this bill it is real, isn't it?

**JOANNE SEVE:** I don't know. It doesn't say.

**The Hon. MARK LATHAM:** If you don't know that basics of high school economics, why are you making a submission?

**JOANNE SEVE:** I'll just say this. I understand from an expert in the area of economics and mathematics that, regarding the GSP, economists can look at it in two ways. It's not spelt out as to which way it's intended here—

**The Hon. MARK LATHAM:** Yes, it has. It's an indexation factor, taking it from two years ago and dividing it by what it was three years ago. So it's a real number.

**JOANNE SEVE:** I understand that if you use nominal, inflation is included and that's the number. It can make a different result.

**The Hon. MARK LATHAM:** Yes, but that's not what the bill does. You can understand what you like about nominal. But, if it's not in the bill, it's not relevant to our deliberations. Yes?

**Ms ABIGAIL BOYD:** But "real" is not in the bill either.

**The Hon. MARK LATHAM:** Mr Cridland, all your confusion about the out years—doesn't the 4 per cent cap just seal that off? You'd expect people in their calculations to assume the worst, which is normal consumer habit, and factor in the 4 per cent compounding.

**MATTHEW CRIDLAND:** I've acknowledged that in the paper, but also acknowledged that there are instances where the 4 per cent cap won't apply.

**The Hon. MARK LATHAM:** That's where they go out for an investment property, but clearly it's the purpose of the bill to encourage owner occupation because it's a housing affordability bill.

**MATTHEW CRIDLAND:** Sure.

**The Hon. MARK LATHAM:** Have you got a problem with the higher rates on people who go out to the investment stream?

**MATTHEW CRIDLAND:** The point I'm making is that there's a skewing in the way in which that applies to people who have bought a freestanding home as compared to a high-rise apartment. If you look at Orange or Dubbo, there aren't too many high-rise units out there. So if you're looking at people who are purchasing freestanding homes and they suddenly have to switch to using it as an investment property—perhaps for circumstances beyond their control—suddenly you're looking at \$13,500 in tax compared to \$4,000.

**The Hon. MARK LATHAM:** Sure, but the people buying apartments haven't got that choice now. I suppose what you're doing is clarifying and contradicting Mr Mookhey's point that it's dreadful for apartment owners. It's actually a benefit that they haven't got at the moment.

**MATTHEW CRIDLAND:** I certainly think that the benefits of this particular proposal are skewed to purchasers of high-rise residential units.

**The Hon. MARK LATHAM:** That's a good way to get into the housing market in Sydney, isn't it? You buy an apartment and then you can trade up later on. That's good news, yes?

**MATTHEW CRIDLAND:** It could be.

**The Hon. MARK LATHAM:** To the Law Society, Mr Chek, you said you haven't taken a position on the politics of the proposal. What about the economics of it? Does the Law Society have any problem with this as a micro-reform? The Productivity Commission in Canberra found that 25 per cent of potential home owners, thinking they want to move closer to where they work or where their children go to school, are blocked from doing that because of the up-front impost of stamp duty. So it's a good thing, isn't it, to give people a choice to avoid that problem? It makes our cities and our economy more efficient, and there are major productivity gains.

**ADRIAN CHEK:** In our earlier submission we did generally think that the broader proposal was a good reform. As to the current bill, we haven't taken a position on the economics.

**The Hon. MARK LATHAM:** But the current bill is sort of a microcosm of the broader bill. There's also a consideration that economists would identify that what a lot of people at the moment—say, a young family who might have a child on the way or one with one on the way—tend to do is invest bigger in a bigger home than they need at the current time, knowing that they can't trade up later on to a bigger home because of the stamp duty costs that they'll bear. Again, it's another inefficiency in housing investment that holds back productivity and urban efficiency and the like. That's important too, isn't it?

**ADRIAN CHEK:** In my personal capacity I would agree with you, yes. The Law Society hasn't taken that position or done that analysis.

**The Hon. MARK LATHAM:** Paul Keating has, and he's in politics.

**The Hon. SCOTT FARLOW:** I will return to the point that Mr Latham raised. Mr Cridland, it is a few isolated instances, isn't it, where the cap of 4 per cent wouldn't apply? Apart from that, every other property purchaser could be relatively assured that if they chose the property tax system, there would be no greater gain than 4 per cent per annum.

**MATTHEW CRIDLAND:** I would agree, yes.

**The Hon. SCOTT FARLOW:** To that point as well, to the investor argument that if somebody—I think it was 325 per cent you cited, was it?

**MATTHEW CRIDLAND:** Yes.

**The Hon. SCOTT FARLOW:** Or that was the difference in terms of—

**MATTHEW CRIDLAND:** It's a 325 per cent increase. That's correct.

**The Hon. SCOTT FARLOW:** Yes, with the investor argument. That would be a motivation for somebody to sell a property, which would then allow other first home buyers to come on the market and there would actually be more home ownership rather than that being a rental property.

**MATTHEW CRIDLAND:** I definitely agree that the implication, particularly for an owner of a freestanding home, is likely to be that they would have to sell. I mean, \$13,500 as an annual property tax is going to be uneconomic in terms of an investment property. So I agree, it would force a sale. Whether that's a good thing, I couldn't say. It would depend on the person's circumstances.

**The Hon. SCOTT FARLOW:** It is a policy choice, though, in a sense, in terms of actually encouraging more home ownership rather than more investors in the market.

**MATTHEW CRIDLAND:** Sure. But I would say that with respect to, say, a high-rise residential unit—again, I've given the comparable in the paper—the property tax would only be around \$3,000 for somebody who's bought a \$1.5 million unit. So for a high-rise unit purchaser, there wouldn't, I don't think, be an incentive to sell. But for the purchaser of a freestanding home in a regional area, I do think they would have to sell.

**The Hon. SCOTT FARLOW:** But there would still be a significant impact on that apartment owner in comparison to what they'd be paying as the primary place of residence.

**MATTHEW CRIDLAND:** Yes, correct. It would be \$3,000, whereas it would otherwise be exempt.

**The Hon. SCOTT FARLOW:** It would be \$1,000, for instance, on the other. So there still is an incentive for them to be able to transition across.

**MATTHEW CRIDLAND:** Yes.

**The Hon. SCOTT FARLOW:** And there still is choice, which is enshrined in this system, that you could choose to be on the stamp duty scheme if you felt that that was suitable to your purchasing circumstances at the time.

**MATTHEW CRIDLAND:** I agree, yes.

**The Hon. SCOTT FARLOW:** Mr Cridland, I was interested in the proposal in your submission. I've got to say, it is one that I have actually explored myself in the past as well, about how we could address home ownership challenges with the 15-year deferral. Have you had any consultation with the banks as to how they would treat a scheme like that at all? Or do you have any understanding of that?

**MATTHEW CRIDLAND:** No, I have not.

**The Hon. SCOTT FARLOW:** I might turn to the Law Society in terms of the standard form contract. Has there been any consultation at all with the Law Society, or anyone at the Law Society, in terms of the preparation of the standard form contract in anticipation of this?

**RICHARD HARVEY:** No, not at this stage. We, in fact, just changed the contract. The 2022 version came out on 1 October. When it comes to the changes in contract, we need to actually know what the final bill is and the actual legislation, otherwise we can't really accurately look into how it is going to affect the conveyancing process. Obviously, the contract is there to assist in fairness between vendors and purchasers so you can navigate your way through the conveyancing process.

**The Hon. SCOTT FARLOW:** The longer the Parliament stalls on this, the more challenging it is for you in terms of the standard form contract and having that ready?

**RICHARD HARVEY:** I couldn't say that, no.

**The Hon. SCOTT FARLOW:** But that is the effect. In terms of the PEXA arrangements that you talked about, Mr Cridland, that would be applicable until the scheme came into place. Is that correct?

**MATTHEW CRIDLAND:** That's correct.

**The Hon. SCOTT FARLOW:** This is for that period of which the bill allows for that retrospectivity to 16 January, to be able to claim back, correct?

**MATTHEW CRIDLAND:** Correct.

**The Hon. CHRIS RATH:** Ms Seve, you have been a long-term campaigner against stamp duty. What are the existing problems with stamp duty? Obviously, you think that we should eventually move away from stamp duty in New South Wales, given how inefficient it is. Can you talk about some of the problems that currently exist with the existing system of stamp duty that we have in this State?

**JOANNE SEVE:** Mr Rath, I need to correct it. I haven't been an opponent to stamp duty as such. Stamp duty has been an enormous revenue raiser and has contributed to incredible infrastructure—you name it—in this State. The State is often above budget with collections, so it has been incredibly beneficial—and, basically, I have had a career in it. I didn't intend to start into stamp duties, as such, but it's developed, et cetera., and all States and Territories are involved. My complaint has been the stamp duty bracket creep. I believe that it has contributed to unaffordability. I will also add that stamp duty on GST, a tax on a tax, which is one of the problems—all States and Territories have that. My belief is that, if these matters were to be redressed, it would make a significant impact across the board in the economy.

The question is often asked, "Well, if you do those things, that is going to reduce the revenue?" The submission is—and I have looked at the empirical evidence over the years—that when States and Territories have actually reduced rates of stamp duty, what has been the impact? Transaction numbers increase. Revenue tends to be maintained. Not only do you get the revenue from the stamp duty, but you actually get it from other taxes as well for the economic uplift across the board. That is so simple. That has been what my advocacy has been on that score. I hope I have answered the question.

**The Hon. CHRIS RATH:** Sorry to call you an anti stamp duty campaigner. That is just what the Financial Review called you in an article.

**JOANNE SEVE:** I missed it.

**The Hon. CHRIS RATH:** But I'm sorry to mislabel you, if you don't think that that label applies to you. But I am very interested in the numbers, which I know are probably difficult to get, in terms of the people that might want to sell their property and move to another property, but at the moment there is just significant burden with stamp duty. Which is what you were getting at before: that it creates a problem where people are disincentivised from moving from property to property because of the transaction costs that are involved.

**JOANNE SEVE:** Mr Rath, thank you so much for this opportunity to address that, and it is something that I did address in submissions to the Federal Inquiry into housing affordability and supply. Other experts were there. Urbanised, Mr Stephen Albin gave representations as to the impact of reducing stamp duty, which can actually increase existing supply. When you cut the rates so that it's not as much a barrier, you can actually increase the supply there.

Without throwing the baby out with the bathwater by totally abolishing stamp duty—as we've seen even in jurisdictions like the Australian Capital Territory where there hasn't been a significant loss of stamp duty revenue with the rates being cut there, with their program of a 30-year transformation or reform—were rates to be cut, were the brackets to be lifted to where they were meant to be originally, the average home is not meant to attract a 5.5 per cent rate of duty. When the brackets were originally established, the maximum rate was a maximum of 3.5—it was more towards the 2 per cent factor.

So just to say, were that to occur, that would be just a simple change across the board—adjust the computer programming, everyone is on board. No new taxes as such, just maintaining revenue. Just one more thing regarding the first home buyers; the costs and the numbers of persons involved, there is a disproportionality, it seems to me. Although Mr Latham has questioned my mathematical economics ability—it's true, I don't express myself or suggest in any way that I am an expert in those areas, but I will say I've been looking at State taxes legislation, as you can tell, for decades and, from a layperson's point of view, the amount of investment versus the return, I can say that if we're looking at choice it doesn't seem to be that there were any choices—although, Mr Farlow, you mentioned that you did consider the loan option that Mr Cridland has suggested.

**The Hon. SCOTT FARLOW:** That's a personal consideration, not a government one—but, yes.

**JOANNE SEVE:** But there are other ways of helping first home buyers. That's all.

**The CHAIR:** Thank you, to all of you, for your attendance and your submissions this morning. We really do appreciate it. We have now finished with this round. The Committee will take a break until 11.45 a.m.

**(The witnesses withdrew.)**

**(Short adjournment)**

**Mr PAUL VERSTEEGE**, Policy Manager, Combined Pensioners & Superannuants Association of NSW Incorporated, affirmed and examined

**Mr LEO PATTERSON ROSS**, Chief Executive Officer, Tenants' Union of NSW, affirmed and examined

**Ms JEMIMA MOWBRAY**, Policy and Advocacy Manager, Tenants' Union of NSW, affirmed and examined

**The CHAIR:** Welcome back, everybody, and welcome to our new witnesses joining us for this next round. Each of your organisations is entitled to make a very brief opening statement, if you'd like. We might start with you, Mr Patterson Ross.

**LEO PATTERSON ROSS:** Sure. Thank you so much. Thank you to the Committee for inviting us. We'd like to acknowledge that we're meeting on Gadigal land and, particularly, that is relevant today as we talk about the treatment of land and the way that our society interacts with it. We support the introduction of a broad-based land tax. We think it is a fair, efficient form of taxation that discourages behaviour in property ownership such as land banking and leaving properties vacant. Land taxes are not just about government revenue or influencing behaviour; they are also a recognition that the land on which we live and work is a communal asset that the broader community protects and enhances—both the property value and the property rights. It is not only the introduction of sweat, bricks and mortar, and finance that increases the value of the property, but the neighbours and neighbourhood, the sport and culture, the roads and rail, the police preventing trespass and the poles and pipes that all contribute to making places valuable, and homes. In short, it is the broader community's economic development that creates much of the value, and it is fair that the broader community receives some of the benefit.

We do think that introduction of a land tax should seek to avoid hardship to both the people transitioning to a different scheme and people impacted more broadly—primarily, obviously, renters in properties under the property tax. Some people who may have high wealth in the form of property but low incomes could find the tax unaffordable at some point during their ownership. This is ideally addressed through deferrals in whole or in part on collecting the land tax until the time that wealth becomes liquidated at the point of sale. These features are in the bill that is before Parliament. Any introduction of a scheme like this should be concerned with the potential ramifications for others. We were pleased to be a part of the hardship working group considering these issues last year and the potential responses to them.

We have provided a brief, joint submission with colleagues from the St Vincent de Paul Society and Shelter NSW that made two particular recommendations to this inquiry. The first is that government ensure that data relating to this program and related housing data be made public and transparent. This would complement the Housing Evidence Centre outlined in the New South Wales Government's housing strategy *Housing 2041*, but it must be as transparent as possible to enable interested groups to provide feedback to the Government on how the transition is going.

The second is that the supply of generally affordable housing funded or facilitated by government should not be impacted by the implementation of the program, despite any reduction in revenue as a result. However, we do recognise that the first home buyers choice does not fit the definition of a broad-based land tax of the type that we support or of the type that was originally proposed. In effect, it is a support for purchasers of their first property and those kinds of demand-side supports generally do act to inflate the cost of purchasing property for everybody. In this instance, we don't believe the first home buyers choice will act to further inflate the already inflated property market, although it also won't reduce the cost of purchasing overall, which ultimately should be the aim of housing policy. Chiefly, centring housing policy generally with a primary purpose of housing people with finance and investment is the means to an end rather than an end itself.

If introduced, we hold some hope that the introduction of this program will assist in transitioning to a broader based land tax, primarily by revealing actual behaviour in the market in a relatively harmless way. The implementation also gives us the opportunity to put in place hardship responses and data infrastructure that will tell us how to progress and tell government how to progress. A big risk we see is that we don't continue to transition. One risk is that having a narrow version of a land tax or the property tax means that the community won't see the benefit because it lacks the breadth and depth required to have the positive system-wide effects that a transition promises. We look forward to continuing to engage with government and all parliamentarians as New South Wales moves forward.

**PAUL VERSTEEGE:** I thank the Committee for giving CPSA the opportunity to give evidence as part of this inquiry. CPSA's interest in the Property Tax (First Home Buyer Choice) Bill does not relate to macro-economic implications of land or property taxes. It also doesn't relate to 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 the technical competence of the bill. CPSA's concern about the property tax, as it is proposed in this bill, is that it may be about the introduction of a universal property tax in New South Wales by stealth and small beginnings.

CPSA is concerned that efforts to date by the New South Wales Government to introduce a property tax have ignored the fact that there are hundreds of thousands of low-income owner-occupying households in New South Wales unable to pay such a tax. A hardship scheme does nothing for households like that. They would simply be asked to pay a tax they can't afford and, despite Government assurances, would sooner or later be forced to sell their homes. It is obvious that today's first home buying household may be a future low-income household unable to pay a property tax, in spite of any benefits conferred on this household when it entered the housing market.

Finally, CPSA notes that the property tax proposed is one unable to call on the main selling point of property tax schemes, which is that property tax enables ease of buying and selling homes and, in that way, enables economic flexibility and benefit. But the first home buyer under the scheme legislated in this bill—if they want to sell up and buy another place, they are stuck with stamp duty. The next home they buy, they will pay stamp duty. That might discourage them from selling. In short, the proposed property tax is not really a property tax.

**The Hon. DANIEL MOOKHEY:** Firstly, I thank both organisations for appearing. Can I just clarify, to the Tenants' Union, did you say you put a proposal in to this inquiry?

**LEO PATTERSON ROSS:** Obviously, it was a very short time frame, so a very short joint letter with St Vincent de Paul and Shelter NSW.

**The Hon. DANIEL MOOKHEY:** Thank you. I appreciate that, and I also appreciate that I've had the opportunity to look at the submission you made to last year's proposal. In short, you'd like this to go further?

**LEO PATTERSON ROSS:** Yes, we have supported a broad-based land tax for many years. We see it as a fair and efficient form of taxation. The dominant discourse is around replacing stamp duty with land tax, and that's supported by a range of, mostly, economists, the OECD and a number of organisations. For us, it is about the benefits of land tax and the benefits that the community provides to the owners of the property being recognised in that way. You could argue that stamp duty already does that, but if we move from stamp duty to a land tax, the economic benefits come with that. It's also very efficient. It's much harder to avoid than other kinds of taxes because the land doesn't disappear.

**The Hon. DANIEL MOOKHEY:** There are a few other questions I wanted to tease out with the Tenants' Union before we get to pensioners. In respect of the point you made that your support for this proposal assumes that there is no detrimental impact on the State's capacity to build affordable housing and other forms of social housing—or other forms of housing—did I understand that appropriately?

**LEO PATTERSON ROSS:** We would understand government's ability to pay for essential services to be a choice of government. The loss of revenue shouldn't be tied to expenditure in other important areas.

**The Hon. DANIEL MOOKHEY:** At any point were you consulted about any alternative uses of the \$776 million which this proposal will cost the State budget in the first four years?

**LEO PATTERSON ROSS:** We are usually not consulted at that level.

**The Hon. DANIEL MOOKHEY:** Then I can only presume you were not consulted about the additional \$900 million of lost revenue that would arise from this in the five years after 2026 either, I assume.

**LEO PATTERSON ROSS:** Like all government revenue, except for our own program funding, we are almost never consulted.

**The Hon. DANIEL MOOKHEY:** But nowhere in any of these workshops did people canvass what the alternative strategies could have been with you?

**LEO PATTERSON ROSS:** No.

**The Hon. DANIEL MOOKHEY:** Secondly, in respect of the renters' conditions, right now there is a huge shortage of rental stock. Correct?

**LEO PATTERSON ROSS:** Yes.

**The Hon. DANIEL MOOKHEY:** And that's the reason why rents are the fastest growing component of household expenditure right now. Correct?

**LEO PATTERSON ROSS:** Yes.

**The Hon. DANIEL MOOKHEY:** How much do you expect rents to go down if we implement this proposal?

**LEO PATTERSON ROSS:** We wouldn't expect rents to fall as a result of this proposal.

**The Hon. DANIEL MOOKHEY:** You are aware that, for good or for ill—and there have been various reforms that have been canvassed in this respect as well—a lot of the rental stock that is available arises from people who are effectively investment property owners. Correct?

**LEO PATTERSON ROSS:** Almost all of it.

**The Hon. DANIEL MOOKHEY:** So in a scenario where this rate leads to first home buyers having to triple that, I understand your—as in, under this proposal the rate of tax that a first home buyer has to pay, should they offer their property on an investment market, triples. You are aware of that?

**LEO PATTERSON ROSS:** Yes.

**The Hon. DANIEL MOOKHEY:** And your argument is that has no impact on rental stock?

**LEO PATTERSON ROSS:** Yes. Landlords' rent setting isn't set by their costs. Supply and demand sets rents. That's why a shortage of supply leads to higher rents. We can see, we can test in the real world that landlords don't set rent based on costs because, if they did, we wouldn't have negative gearing; it wouldn't exist as a concept. In fact, half of landlords charge more than—

**The Hon. DANIEL MOOKHEY:** I am across the logic. But you are aware of the fact that a first home buyer under this scheme could then claim the \$13,000 they pay to the State Government and they can negatively gear that cost?

**LEO PATTERSON ROSS:** Yes. We would recommend the Federal Government reform negative gearing.

**The Hon. DANIEL MOOKHEY:** The whole point, though, is effectively we are setting up a scenario in which there is going to be a transfer of revenues to the Commonwealth—or, actually, the Commonwealth will be providing an additional subsidy to investors under this scenario. Correct? Because they are basically going to be able to negatively gear their land tax to the State.

**LEO PATTERSON ROSS:** Yes, they can negatively gear many things. The interest rate is far greater than land tax.

**The Hon. DANIEL MOOKHEY:** I accept that. Having looked at the tax data, the biggest component that is negatively geared is interest rates, that is true, which are going up. Right now, as interest rates go up, the subsidy that the Commonwealth provides to investors goes up too. Correct?

**LEO PATTERSON ROSS:** Yes.

**The Hon. DANIEL MOOKHEY:** But then, in addition to this, the Commonwealth will now also be subsidising investors further. Correct?

**LEO PATTERSON ROSS:** That's a choice for the Commonwealth Government.

**The Hon. DANIEL MOOKHEY:** Yes, but under existing settings. Correct?

**The Hon. SCOTT FARLOW:** They won't be paying land tax.

**LEO PATTERSON ROSS:** Yes, it's a relatively small number of people that we expect to access the scheme but, as I said, I think that is a problem for the Commonwealth Government.

**The Hon. DANIEL MOOKHEY:** But it's a pretty big incentive. All I am saying is that it's complicated as to how this system sits within the existing housing tax laws at both the Commonwealth and State level. You would agree with that?

**LEO PATTERSON ROSS:** Not in principle. Land tax is already claimable.

**The Hon. DANIEL MOOKHEY:** Yes, exactly. And then the quantum of the subsidy will go up.

**LEO PATTERSON ROSS:** Yes, but so do many things.

**The Hon. DANIEL MOOKHEY:** Sure, that's fair. Can I turn to the pensioners? Were you aware that the Premier has said that he would like pensioners to have the choice to opt into this system too?

**PAUL VERSTEEGE:** I read the transcript of the budget estimates committee, yes.

**The Hon. DANIEL MOOKHEY:** Did you see his comments to Channel 9 when he was in Japan as well?

**PAUL VERSTEEGE:** No, I didn't see those. My take on it was not that he was going to introduce it to pensioners.

**The Hon. DANIEL MOOKHEY:** Are your members clamouring for the opportunity to pay an annual land tax?

**PAUL VERSTEEGE:** No, they are not clamouring.

**The Hon. DANIEL MOOKHEY:** Is this a choice that your members want?

**PAUL VERSTEEGE:** The land tax?

**The Hon. DANIEL MOOKHEY:** Yes.

**PAUL VERSTEEGE:** No, of course not.

**The Hon. DANIEL MOOKHEY:** Is the reason why because pensioners tend to be on fixed incomes?

**PAUL VERSTEEGE:** They tend to be on fixed incomes but they tend to also be on low incomes. That is really the crucial thing here.

**The Hon. DANIEL MOOKHEY:** How concerned are you with the fact that the Premier hasn't ruled out extending this to pensioners despite giving multiple opportunities?

**PAUL VERSTEEGE:** The concern for pensioners on low incomes is what has brought us here. That's why we campaigned against the fire and emergency services levy, which was really a land tax. That's why we campaigned against the proposal last year, which was for a very slow cooker introduction of property tax. On both occasions, low income owner occupiers were simply ignored. There was talk of a hardship scheme but that was simply delay of payment. It did not address the fact that people would be asked to pay a tax they could not afford.

**The Hon. DANIEL MOOKHEY:** I see in your submission and in your public comments you've described this as the thin end of the wedge. Is that what your concern is?

**PAUL VERSTEEGE:** Yes. Obviously we've had two attempts at introducing a property tax in New South Wales. As I said in my opening statement, we see this as a let's try with a very small scheme, see how that works, and perhaps it will catch on and we can extend it. That is how we see this attempt and that's why we've made our submission and why we are here today.

**Ms ABIGAIL BOYD:** Thank you to all of you for coming along. I'll start with you, Mr Ross. I agree that there are benefits of a transition away from stamp duty to a broadscale land tax. That's not what this bill is though, is it?

**LEO PATTERSON ROSS:** No.

**Ms ABIGAIL BOYD:** No. Do you think it's a housing affordability scheme? Do you think it's a measure that would improve housing affordability?

**LEO PATTERSON ROSS:** In a limited sense, it does make it easier for a first property purchaser to compete with people who already own properties, but it's a limited cohort.

**Ms ABIGAIL BOYD:** If you had \$1.6 billion over 10 years and you wanted to improve housing affordability, what would you spend that money on?

**LEO PATTERSON ROSS:** We have a range of ways to address housing affordability, some of which don't cost the Government revenue at all, but the best intervention a government can make is by building public housing.

**Ms ABIGAIL BOYD:** Yes, \$1.6 billion worth of public housing would go a long way, wouldn't it, over 10 years?

**LEO PATTERSON ROSS:** It would not go far enough, to be honest, but it would go a long way.

**Ms ABIGAIL BOYD:** Yes. Can I ask you in relation to the pensioners: If this instead was a plan that said over the next 10 years we will transition to a broadscale land tax, we'll do it in a similar way to the way that the Labor-Greens Government did it in ACT where we have a very structured plan where you can see for 30 years what's going to happen, what the exceptions will be for people who are pensioners, what the limits will be. If we had a fully-fledged set out plan, do you think there would be the same level of opposition as you're seeing to this bill?

**PAUL VERSTEEGE:** Well I can only speak for pensioners, of course. I think there would be because whatever scheme you introduce you are asking people to pay a new tax, which they pay according to land value. Even if it's set out very clearly when they have to pay it, they're still unable to pay it. Also, I think it's important to realise that retirement planning in Australia is not all that advanced. People might not be across the detail of the introduction. The main point—I make it again—is that it's a tax that people can't afford.

**Ms ABIGAIL BOYD:** That's right. I understand the fear that this is the beginning of something very similar being rolled out, I think the benefits of having a 10-year plan that you've actually consulted with people on is that you can build in where it would be inequitable to have the land tax applying and then people can have that certainty. Do you think that if you were brought into that process on a 10-year plan or a 20-year plan where you could get those equitable exceptions up-front, that people would have less of an opposition to a move towards land tax for the whole system?

**PAUL VERSTEEGE:** If what you are saying is that there would be exemptions for people on low incomes, I don't think we would have a problem with property tax. As I said in my opening statement, we're not against this because of all those reasons but people can't pay. I have to say that when—last year—what I called the slow cooker property tax introduction was on the table, I mentioned exemptions to the person who was leading the consultation. They just laughed because there are so many households which can claim that they cannot pay and that they are low income. If you are a single pensioner on—what is it?—\$26,000 maybe \$27,000 now a year, where are you going to get \$2,000 or \$3,000?

**The Hon. MARK LATHAM:** Mr Versteegen, how many of your members are first home buyers?

**PAUL VERSTEEGE:** I haven't counted them, Mr Latham.

**The Hon. MARK LATHAM:** Would you have any?

**PAUL VERSTEEGE:** I don't think so, no.

**The Hon. MARK LATHAM:** So they are not directly affected by the bill. Wouldn't your members love the idea of the broader reform, where it's easier to downsize and avoid the up-front impost of stamp duty going into the recurrent property tax regime?

**PAUL VERSTEEGE:** It's an interesting question. We are talking about taxing residential property—owner-occupier property—and also investment property on the basis that it's either stamp duty or it's land tax. Stamp duty is hated and land tax is hated.

**The Hon. MARK LATHAM:** But we get a lot of complaints about how hard it is in this country to downsize, so haven't we got to find a feasible way to do that? Obviously, with this property tax regime, you avoid the up-front cost.

**PAUL VERSTEEGE:** You would, but the problem with downsizing is not the stamp duty. I'm sure it's a factor, but the main thing is that people who downsize, particularly people who are not wealthy in retirement, tend to live in older stock. If they want to downsize in the area in which they live—which, generally speaking, would be a good thing because that's where they have their support systems and there are services there—they would basically be spending as much as they get for their property.

**The Hon. MARK LATHAM:** Certainly, if they pay stamp duty, they are spending a lot more. I will go to Mr Ross. You would support the broader reform, wouldn't you? The NATSEM report two years ago on the ACT proposal to replace stamp duty and insurance duty over 20 years with the broad-based land tax through the general rates system is very positive for the impact on rental properties and rents. It states that there is a clear number in the increase of rental properties in the ACT and lower rents and costs for three of the four lower income quintiles and a high for the highest quintiles, so equity built in. Rental prices for units show a decline of between 5 per cent and 16 per cent due to the reform. NATSEM, which is very well regarded, of course, sees this modelling as statistically significant and robust. If you were truly interested in what some people call the progressive side of politics—social justice and equity—you wouldn't be opposing this thing. You would actually say, "The bill needs to be the broader reform on the ACT model to get these benefits in the rental market in particular."

**LEO PATTERSON ROSS:** That is why we have supported a broad-based land tax for a long time. It might be worth noting that in the ACT it doesn't apply to owner-occupier properties and so we might say it should do that. But it's certainly true that that modelling found those results. It's even interesting to note that in Queensland—where the stock of rental property in Brisbane had been fairly stable for a couple of years—since the announcement of a tweak to land tax in December last year, there has been a 3.4 per cent increase in rental supply despite the property industry's claims about landlords fleeing the market in fear. This isn't something that people are or should be worried about.

**The Hon. TAYLOR MARTIN:** I start by asking the Tenants' Union to begin. This reform is part of a broader suite of reforms to encourage and enable people to get into a first home. While you are here today, would you mind commenting on the shared equity scheme that we have proposed as well and your views on that?

**LEO PATTERSON ROSS:** I haven't prepared to comment but, in principle, the shared equity schemes have a risk for the purchaser where if property values don't continue to increase—and that's not a certainty—unless the equity scheme is well designed to prevent this, you can go out backwards. That's the risk that they face. Most people now buying property are leveraging very, very heavily. So they're taking on a large amount of risk, even for their owner-occupied properties. That means that if you take away the amount of money that a person is leveraging the value on and then prices go down, you're at more risk of coming out backwards. Now that's not necessarily actually a problem if we consider housing as a utility to live in. If you consider that even if prices didn't increase as quickly as possible but you're paying a reasonable amount in costs over that time, then that's not a terrible thing to do. In general, we'd like to see all people able to have a stable home that they can rely on for the long term, regardless of their ownership model.

**The Hon. TAYLOR MARTIN:** Thank you. I'll give Mr Versteegen the opportunity to comment, if you'd like.

**PAUL VERSTEEGE:** I have no comments about the shared equity scheme.

**The Hon. TAYLOR MARTIN:** Sure. No problem. I want to pick up on that line of questioning from Mr Latham in regard to downsizing, if we can continue with that. Does the Tenants' Union have a view on any reform that could be looked at in regard to downsizing?

**LEO PATTERSON ROSS:** As Paul really referred to, I think we recognise the issues with downsizing extend beyond the financial implications. They do seem to come back to the availability of appropriate attractive places for people to move to that are somewhere that someone would want to downsize to. So if we can ensure that there's a diverse range of housing that's accessible where that meets people's needs, then the downsizing question will be made easier. There are certainly some people who—the question of finance or the question of "Are they holding onto a property for the inheritance value?" or something like that might be in play but, in general, we'd see more benefit from more accessible, attractive homes in good locations.

**JEMIMA MOWBRAY:** I'm just going to add in there that I think there is an overlap between the downsizing—so owner-occupiers looking to see "Is there accessible appropriate housing in my local area?"—with the problems that we see for older renters and renters with disability in the same way that there's just really a lack of accessible, affordable rental housing. We know people with a disability and older people really struggle to find housing that is appropriate. I think that really is something that we need to take seriously in terms of how we address the lack of supply of accessible housing and a diversity of housing in areas.

There have been some great developments in terms of the National Construction Code and adoption of accessibility standards, and we'd love to see that progress here in New South Wales. We think it would not only impact kind of the accessible housing that's available for people to downsize to, if you're thinking about owner-occupiers, but we've certainly considered that to be something that needs to happen if you want to see more accessible rental housing available for either people who would like to age in place or people with a disability.

**The Hon. CHRIS RATH:** The higher investor rate, compared to those who are owner-occupiers, that's a great thing for owner-occupiers, right? That would be a good thing for your members and for, say, people who are currently renting. We know a lot of young people in particular rent, and they're trying to save up for a home. Stamp duty is a significant barrier to entry because of how expensive it is, and then they have the option to pay the stamp duty, should they wish, or to have the lower rate, compared to the investor rate for owner-occupiers. Do you want to comment a bit more on that?

**LEO PATTERSON ROSS:** One of the issues that I think all governments face in their housing policy is what is a kind of economically rational behaviour is not necessarily how people behave in the real world. I'm not sure that many people would pay that much attention to the difference between the owner-occupier and the investor rate when they're making a decision. They would look at the owner-occupier rate to the stamp duty. But then there's also this question about how much people are going to do the math to work out what's the best deal for them. One of the questions that we'd sort of be interested in seeing play out—that's why we need a really strong evidence base—is how many people are making those kinds of decisions.

Much of our property investment, both investment by landlords and investors by owner-occupiers, does not feel as intentional as perhaps economic modelling would like it to be. People routinely get into owning property because it's a cultural expectation because their parents have incentivised it or modelled it, rather than because they've done the numbers and think it's a really clear and sensible strategy for them. So how much this plays out is one of those unanswered questions, I think, in the potential for this program.

**The Hon. CHRIS RATH:** Mr Versteege, I think Mr Mookhey quoted an historical comment that the Premier made. Are you aware that the New South Wales Government has ruled out these changes to any other cohorts, that it only applies to first home owners?

**PAUL VERSTEEGE:** In relation to this bill?

**The Hon. MARK LATHAM:** They've ruled it out.

**The Hon. CHRIS RATH:** We've ruled it out.

**PAUL VERSTEEGE:** That's the way I read the bill—that it would be first home buyers only that would qualify for the scheme. I don't think there are many first home buyers among older people.

**The CHAIR:** Thank you very much to all of you for your attendance this morning and your submissions. We appreciate your work on this. We have finished with this panel now, and we will bring in our next group.

**(The witnesses withdrew.)**

**Ms ADINA CIRSON**, Acting NSW Executive Director, Property Council of Australia, affirmed and examined

**Mr DAVID HARDING**, Executive Director, Business NSW, sworn and examined

**The CHAIR:** Good morning and welcome to both of you. Thank you for joining us. You are both welcome to make a brief opening statement if you wish.

**DAVID HARDING:** Business NSW has long advocated for stamp duty reform as a way to partially address housing availability and affordability. Business also supports reform that will improve workforce availability and mobility. People moving to pursue job opportunities need affordable local housing options and not big stamp duty bills. Since 2016 this organisation—as in Business NSW—has published two detailed reports and a major survey on how to tackle this very change, one in conjunction with NCOSS. Central to addressing the costs-of-living pressure is the proposed change from stamp duty to a land tax option for first home buyers. With Australia's soaring housing costs, the lack of supply and the rental crisis, this initiative could help first home buyers enter the property market.

Stamp duty is an inefficient tax. It has been around for 150 years. It drives poor outcomes when it comes to housing affordability and the mobility of families and workers who most need housing at this time. By providing a choice, a potential first home buyer can sit down and calculate which option is best for their circumstances, with many better off choosing the annual property levy rather than an up-front stamp duty which can take up to two years to save for.

**ADINA CIRSON:** The Property Council is supportive of this legislation. We thank both the Government and this Committee for allowing us to provide input into this process. The first time we saw this bill was actually on introduction, but we certainly have had lots of opportunities to engage with the Government around tax reform and our support of that. Again, we have had a long-held position around the fact that stamp duty is an inefficient tax, and we take the approach that any taxation applied across the board should be simple, efficient and equitable. We don't think that stamp duty is an efficient tax. It is a break on economic activity. We want to see economic efficiency applied, and so anything that does genuinely look at tax reform across the board is something the Property Council has been very supportive of. We'd like to make a differentiation, I think. While the legislation that is being considered does obviously have an impact to first home buyers and will impact on housing affordability, the approach that we have been taking is a much broader tax reform agenda. We note that this is a bit of a slimmed-down version but a welcome first step towards broader tax reform.

I'm normally the ACT executive director, so I do have quite a bit of experience with the ACT tax reform agenda, which is halfway through its 20-year transition. I'm happy to provide some reflections on that if the Committee would so like. There are a couple of principles to our broad support, and that is that this remains an opt-in option. We've been very strong on that: This has to be opt-in. We don't want to see a disproportionate impact to any part of the market, like in the ACT we have seen once the tax reform has been taken on a broader journey. This is obviously the first tranche of this, but in further tranches of tax reform down the track, we would really like to make sure that that's not having a disproportionate impact on the commercial market and commercial sector in particular. Also we don't want to see the ironic impact of this going towards making housing more accessible but actually see a cost increase in housing prices. I'm happy to speak to that as well.

**The Hon. DANIEL MOOKHEY:** Thank you for your contributions this morning. I've had the opportunity to get across your submissions you made to last year's proposal. As I understand it, you haven't actually made a submission to this inquiry, which is understandable. But it's fine for me to ask you some questions about that?

**ADINA CIRSON:** Of course.

**The Hon. DANIEL MOOKHEY:** I might start with the Property Council if that's possible. First things first, you make the point that you would basically like this system to go further. Is that fair?

**ADINA CIRSON:** Yes, that is fair.

**The Hon. DANIEL MOOKHEY:** The proposal you actually support is the one that was canvassed last year.

**ADINA CIRSON:** Yes, that's correct.

**The Hon. DANIEL MOOKHEY:** Is the reason why you supported that proposal was because basically it eliminated the progressive nature of the existing land tax system and replaced it with a flat tax system?

**ADINA CIRSON:** What we've been supportive of is a removal of stamp duty and a transition to a broader land-based tax system indeed, yes.

**The Hon. DANIEL MOOKHEY:** But you also supported the elimination of the progressive nature of the existing land tax system and its replacement with a flat tax system. Correct?

**ADINA CIRSON:** Yes.

**The Hon. DANIEL MOOKHEY:** You set a couple of conditions for your support last year.

**ADINA CIRSON:** Yes, indeed.

**The Hon. DANIEL MOOKHEY:** I just want to see whether or not they are still the conditions that you have today. You made the point that your support is that reform does not result in higher taxes for the commercial property sector. That's still your position?

**ADINA CIRSON:** Yes, it is, and it really comes from the ACT experience. What we've seen in the ACT is 10 years in—

**The Hon. DANIEL MOOKHEY:** We will get to that.

**ADINA CIRSON:** Sorry?

**The Hon. DANIEL MOOKHEY:** I will ask you that. I just wanted to check that because there is another one I want to ask.

**ADINA CIRSON:** Yes, that is still correct. That is based on our experience in the ACT.

**The Hon. DANIEL MOOKHEY:** But the actual model you would prefer was for us to increase the GST and use that to eliminate land tax and stamp duty, or certainly stamp duty and commercial stamp duty especially. Correct?

**ADINA CIRSON:** I think there are different forms of tax reform that can be undertaken. I'm not sure that we made specific reference to GST in our 2021 submission.

**The Hon. DANIEL MOOKHEY:** You did. You said, "The possibility of replacing stamp duty with a broad consumption tax was originally canvassed." And you've also made the point that you'd like to see that sort of remain on the table elsewhere in your submission too, but that's okay.

**ADINA CIRSON:** Yes, obviously in the context of the New South Wales Government. That's obvious. The GST is not something that we can provide context to.

**The Hon. DANIEL MOOKHEY:** But you made that to the Federal financial interstate reform process in 2019 that kicked off this entire process, didn't you, to the Thodey review and the Anderson review?

**ADINA CIRSON:** I'm not aware of the national submission that the Property Council made.

**The Hon. DANIEL MOOKHEY:** No, it was with the New South Wales Government. When Mr Perrottet launched this in 2019 by doing a Federal interstate tax review that was led by David Thodey, you made it quite clear that you'd actually like the GST to be broadened and use that to replace flat property tax.

**ADINA CIRSON:** I am not aware of our position in 2019, I'm sorry.

**The Hon. DANIEL MOOKHEY:** Let's talk about the ACT experience. You did mention it before. I want to get to Business NSW in the limited time that I have. You made the point in your submission last year that total property tax revenues in the ACT have increased by 77 per cent over this time. Is that still about accurate?

**ADINA CIRSON:** Yes. What we've seen in the ACT is the rates that are being paid in the commercial sector are nine times higher than that in the residential sector, is what we're effectively seeing. It's mainly because the thresholds where stamp duty waivers are given has remained fairly stagnant. We've also seen a lack of transparency. I note Ms Boyd's comments earlier around having a clear path. Having clarity around what the transition is is really important. It was a hard lesson learnt in the ACT.

**The Hon. DANIEL MOOKHEY:** But you would oppose the introduction of an ACT-style scheme in New South Wales?

**ADINA CIRSON:** We are supportive of tax reform in the ACT. There are some conditions around that. The thresholds have to marry. If you're going to take away stamp duty, the land tax has to remain revenue-neutral. We haven't seen revenue neutrality in the ACT. In fact, the commercial sector has paid \$220 million more than what they paid 10 years ago in commercial taxes. We haven't had a smooth journey. It's something the Chief Minister has actually recognised and put in place a cap on increases to further rate rises, to provide certainty going forward, at 3.75 per cent. That was critical after the first five to six years of 6 per cent, 7 per cent and 8 per cent increases in rates there. A cap has been put in place to ease the transition, I suppose, to the broader reform.



**The Hon. DANIEL MOOKHEY:** But the point is you would not like that model introduced here unless those changes are met?

**ADINA CIRSON:** It's around certainty. It's about knowing what the rate increases are. It's around not having a disproportionate impact on anyone in the market, like the commercial sector.

**The Hon. DANIEL MOOKHEY:** And that's because, despite the best of intentions from the ACT Government when they introduced it, it's always very hard to predict what conditions are likely to be in five years', 10 years' and 20 years' time, correct?

**ADINA CIRSON:** That's right. That's why you need to constantly be reviewing. We are certainly appreciative of the Chief Minister's review and putting a cap on those rate increases.

**The Hon. DANIEL MOOKHEY:** I appreciate that. Under this proposal, effectively, a first home buyer will have to, for good or for ill, choose to accept that uncertainty or not. That's basically why this system works.

**ADINA CIRSON:** Yes, but I'm certainly conscious that the proposed—there is a cap. The 4 per cent increase is a cap, essentially. It has been made fairly clear through the announcement what the fee is going to be—the annual fee of \$400, plus 0.3 per cent of the land value. I would say very clearly, though, that what I have learnt from the ACT is that there is a constant need to review, particularly in operation. Post-January, let's have a look at it and make sure there is an annual review process. That's something that I think is probably missing within the current drafted bill.

**The Hon. DANIEL MOOKHEY:** Do you expect property prices to fall if this model is introduced?

**ADINA CIRSON:** I don't think anyone in Australia is expecting property prices to fall. What I would see is that, when you take out impediments like stamp duty, you will see a bringing forward of economic activity. It is certainly what we saw in the ACT. Anything that brings supply into the market at this point in time is a very welcome move. I certainly acknowledge that is part of the intention behind this.

**The Hon. DANIEL MOOKHEY:** Can I turn to Business NSW? Business NSW has been campaigning for this for a long time. That's fair?

**DAVID HARDING:** Yes, indeed. Since 2016.

**The Hon. DANIEL MOOKHEY:** You've also favoured the greater use of consumption taxes in place of property taxes in general, correct?

**DAVID HARDING:** In general, we've called for stamp duty reform. We've seen it as a partial measure to go towards the really bad problems with affordability, availability and agility.

**The Hon. DANIEL MOOKHEY:** That wasn't my question. In general, you've supported the greater use of consumption taxes in lieu of property taxes?

**DAVID HARDING:** In general.

**The Hon. DANIEL MOOKHEY:** Can I just talk about the other parts of your submission from last year, if you don't mind?

**DAVID HARDING:** The March 2021 submission?

**The Hon. DANIEL MOOKHEY:** Yes, your March 2021 submission, if that's possible. You made the point that we actually just need more supply in addition to this measure. That's a fair characterisation of your position?

**DAVID HARDING:** I think it's a fair characterisation that this is a complex issue, and supply is part of the problem, but not all of it.

**The Hon. DANIEL MOOKHEY:** You would acknowledge that it's a pretty big part of the problem, isn't it?

**DAVID HARDING:** It is a part of the problem, yes.

**The Hon. DANIEL MOOKHEY:** I'm asking you, though, given that completions in New South Wales have fallen from 40,000 per year when this Government was elected to 24,000—to be fair to the Government, it's been a complicated time in the past 10 years. You've made the point that we need planning reform. You would agree with that?

**DAVID HARDING:** I would absolutely agree with that. Planning reform is fundamental, and certainty in planning decision-making is important.

**Ms ABIGAIL BOYD:** Thank you both for your considered opening comments. When we look at the consultation process for this, from what I understand from what you've said already, there was no prior consultation with you in relation to this particular bill.

**ADINA CIRSON:** In this bill, yes.

**Ms ABIGAIL BOYD:** But there was in relation to the broader tax reform previously.

**ADINA CIRSON:** The broader tax reform agenda of the Government, yes, certainly.

**Ms ABIGAIL BOYD:** Other than the opt-in aspect of this, are there any other striking similarities between this proposal and the proposal you consulted on before, or is it quite different?

**ADINA CIRSON:** I would describe it as a slimmed down version of tax reform. I think it's a welcome first step, but it's certainly not as far-reaching as we would have hoped.

**Ms ABIGAIL BOYD:** Do you want to comment on that as well, Mr Harding?

**DAVID HARDING:** Yes. I would agree that the March 2021 consultation was broad. It looked to commercial, it looked right across the board and it was a wide catch net of opinions at that time. Being here today, talking about something which is indeed much more definable and narrow.

**Ms ABIGAIL BOYD:** Were you disappointed that we didn't end up with something much broader being put to the Parliament at the end of such a detailed process?

**ADINA CIRSON:** If I just simply reflect on the previous witness talking about people who are making the last purchase of their lives—their downsizing options—I think there are opportunities to increase mobility across the housing market that perhaps are missed by this. But that being said, it's a first step. Our commercial members of course would like to see reform in taxation property taxes there to make us more competitive as a State, absolutely, and we think tax reform is a key part to that, of course.

**Ms ABIGAIL BOYD:** And I would agree with you. When you say it's a welcome first step, I guess a step to what, when we don't know what's going to come next? Do you—

**ADINA CIRSON:** Well I guess putting in place a model which could be scaled up or diverted to other parts of the market, like the commercial sector or to other purchasers. We would like to see a broader ability for the market to be able to opt into this.

**Ms ABIGAIL BOYD:** But, again, this is so slimmed down it has no details. In terms of what it would look like if it was made more broad, how can you refer to it as a first step without knowing? Or are you saying that if this was just scaled up to everybody, if this applied to all properties, that that would be something you'd be in favour of?

**ADINA CIRSON:** We were hopeful that there was going to be a broader based tax reform agenda put on the page.

**Ms ABIGAIL BOYD:** But this particular proposal, with these particular rates, the lack of exceptions, the lack of consideration of the commercial sector et cetera et cetera—but that's not in here, so are you comfortable that if this was scaled up on its current basis that that would satisfy your concerns and your feedback from your previous consultation?

**DAVID HARDING:** I might answer that in perhaps a slightly different way. Hopefully, it will go some way to answering your question. I represent 90,000 businesses who are members of Business NSW. In a recent survey which garnered over 1,100 responses, 62 per cent of businesses felt that this particular move was a good one. Exactly the same number also were keen to see it extended across a broader remit. But I think as an organisation we would need to judge any extension of this on merit and answer questions at the time, having read the proposition.

**Ms ABIGAIL BOYD:** Understood. Thank you.

**The Hon. MARK LATHAM:** Mr Harding, in knowing business, by definition you must know consumers. This notion of choice of course is integral to how we run a modern, open, free economy. Would you say consumers are better informed now than ever before, especially in the housing market?

**DAVID HARDING:** People have access to more information than ever before and certainly more than they did 150 years ago when stamp duty was introduced in Australia.

**The Hon. MARK LATHAM:** On a scale of one to 10, 10 being the top, take the case of Mr and Mrs Finlayson living in a Guildford townhouse with one child aged three, another on the way and they plan to

have a family of four or five. They've spoken to their mortgage broker, their income level is fine and they'd like to move to a four bedroom home at Oran Park—a bit further out, out near my way. Obviously stamp duty is a major problem. In looking at this reform and potentially going into the property tax regime, on that scale of one to 10, how would you rate their awareness and the sophistication of their consumer knowledge and choice?

**DAVID HARDING:** Very difficult to answer that question.

**The Hon. MARK LATHAM:** Well have a crack at it!

**DAVID HARDING:** I'll have a crack with five—go straight down the middle.

**The Hon. MARK LATHAM:** Five?

**DAVID HARDING:** It's very difficult to answer that question.

**The Hon. MARK LATHAM:** I was giving them nine.

**DAVID HARDING:** But in general, with access to information out there, more choice is a good thing. We would stand by more choice being a good thing. For your Mr and Mrs Finlayson, I welcome the choice that they now have in front of them.

**The Hon. MARK LATHAM:** On a scale of one to 10, how would you rate our knowledge here, sitting around this table? We've never met Mr and Mrs Finlayson. Some people here have never been to Guildford.

**The Hon. DANIEL MOOKHEY:** That's a subjective question. You're under oath, tell us the truth!

**The Hon. MARK LATHAM:** Some people here have never been to Oran Park and never spoken to their mortgage broker but so arrogantly assume they can make the choice on behalf of Mr and Mrs Finlayson by knocking back this bill and denying them any choice at all. On a scale of one to 10, how do you rate us for knowing the choice decisions of this family out there in Guildford?

**DAVID HARDING:** I would say—

**The Hon. MARK LATHAM:** We're a zero, aren't we? We're an absolute, clueless zero.

**DAVID HARDING:** I would say that we need to give Mr and Mrs Finlayson as much choice going forward. I can't comment on how much this panel knows about what's in front of them.

**Ms ABIGAIL BOYD:** Maybe all taxes should be a choice? Is that the point?

**The Hon. MARK LATHAM:** Well, I've been to Guildford and Oran Park and I'm giving myself a zero because—

**The Hon. DANIEL MOOKHEY:** I agree.

**The Hon. MARK LATHAM:** —I don't know them, their mortgage broker or their circumstances. I think that says it all. Thanks, Chair.

**The CHAIR:** Government questions?

**The Hon. SCOTT FARLOW:** Ms Cirson, I might start with you. Apologies that you've got the short straw of being here today in the acting role and having to—

**ADINA CIRSON:** I'm more than happy to be here. Thank you.

**The Hon. SCOTT FARLOW:** —answer questions about things that were submitted, not under your purview, some time ago. But from your experience in the ACT in particular, is there any comparison, really, between what we've got in front of us today with this bill and the ACT's land tax scheme that's in place?

**The Hon. MARK LATHAM:** Sadly not.

**ADINA CIRSON:** Very different schemes, but I think the underlying principles are the same—that is, that stamp duty is an inefficient tax. Moving towards a broader-based land tax is certainly what has been the objective in the ACT, and certainly the engagement we've had with the New South Wales Government around what is being tried to be achieved here, which we have been supportive of indeed.

**The Hon. SCOTT FARLOW:** I know you've to go back to the ACT and be able to talk to, of course, the ACT Government, but one of the things with the ACT system is there is no choice, isn't there? Whereas—

**ADINA CIRSON:** There is no choice, that's right. That has certainly informed our approach here, that this should be a genuine opt-in if this is going to be equitable across the board.

**The Hon. SCOTT FARLOW:** This provides an option for stamp duty to be paid as it currently is, and it also provides an option for individuals, dependent on their circumstances, to be able to choose an annual property tax instead.

**ADINA CIRSON:** Yes, agreed.

**The Hon. SCOTT FARLOW:** That's correct? Okay, excellent. With respect to the questions that came before about the uncertainty that exists within this legislation, you've talked about the ACT example and the increases that have occurred in the ACT. But of course under this legislation there is a 4 per cent cap. That is the worst circumstance that anyone could be faced with under this legislation, is that correct?

**ADINA CIRSON:** I agree, and as I referred to—

**The Hon. SCOTT FARLOW:** If they remain as an owner-occupier resident.

**ADINA CIRSON:** Yes. I reflected to Mr Mookhey that I think that was a lesson that was hard learnt in the ACT and something that the Chief Minister did move to address. We would have to wait until the budget papers came out every year to see how much your rates would go up on the commercial side or the residential side. Certainly, our early advocacy from the get-go was, "Have a clear path, a clear transition". Certainly we hit it hard in the ACT, and certainly having those caps in place of no more than 3.75 per cent across residential and commercial have actually helped ease and created certainty.

**The Hon. SCOTT FARLOW:** Thank you. Mr Harding, from the Business NSW perspective, since 2016 you've been a supporter of a move like this. What are some of the advantages that Business NSW sees from a proposal like we have before us today?

**DAVID HARDING:** I'd only speak really on behalf of the feedback that we have from our members, who are looking for as little impedance to agility and movement of the workforce for families, whether that be finding a home in the regions or buying a new house in the metropolitan areas. Anything which gives choice—anything which frees up those choices and agility of movement—our members would support, and we fully back in our members on this issue.

**The Hon. SCOTT FARLOW:** Thank you, Mr Harding. Of course, this is a first home buyers package. This is about first home buyers getting into their first home sooner. Would there be an impact, from the Business NSW perspective, in terms of additional construction, potentially, to cater for that, or would there be a broader economic impact that you see—even if small—because of the small cohort when it comes to this policy?

**DAVID HARDING:** Yes. I think that's absolutely right. I think where there's extra choice there's extra movement in the market, basically, red tape, which makes it more difficult for people to trade up, trade around and get onto the ladder which, undoubtedly over time, have a flow-through effect to more housing over time. But I would point out that this is a partial measure in a very complex area, whereas, as discussed with Mr Mookhey, supply is part of it—and all manner of other issues. But this is a good step. This is a good move to bring agility and movement and choice to a challenged marketplace.

**ADINA CIRSON:** If I might add, I think one of the other conditions or predicators that we want to see here is a really watching brief on the impact to housing prices. I know the Productivity Commission did note that there is potential, when assistance is given, for an assistance spiral to happen and that you actually see, due to increased demand, the supply not being able to keep up. I think what's good about this measure is that bringing forward that construction activity is certainly something. If the supply can be increased I think that certainly can counterbalance that impact a little bit.

**The Hon. SCOTT FARLOW:** Thank you very much. I might just ask a question in the abstract as well. I don't think we've had a witness who's come before us today—but I think they were suggested on the list—who had some concerns about potentially inflationary pressures of schemes such as this when it came to the housing market. I am interested in your perspective, Ms Cirson, on this point. While this is a very small cohort of 6,000 people, if you were to broaden the scheme—let's say for instance, to change the first home owner grant concessions to \$1 million or \$1.2 million—would you say that that could potentially have an inflationary impact on the property market?

**ADINA CIRSON:** I think we have to tread very carefully, with inflation going up to 7.3 per cent and predictions that it's going up further this year. We know interest rates are not at the end of their rise either. I think all jurisdictions have to take very careful steps at the moment to make sure that policy levers which are pulled are done so in a coordinated and collaborative way and certainly welcome the Federal Government's announcement this week, around establishing a national housing supply and affordability council to really make sure that all levels of government are working together on the issue. But to your original point—let's tread carefully. Why I would strongly recommend a review mechanism in this to make sure that we are on track and that we're not

having a disproportionate impact on any part of the market here at a very critical time for housing affordability and supply.

**The Hon. CHRIS RATH:** Ms Cirson, you mentioned how, in the ACT, the tax keeps going up. You're aware, with the indexation in this particular reform, of how it's set to GSP per capita, rather than to property prices or land values. Is that something that you can speak to? It seems like it probably fluctuates less.

**ADINA CIRSON:** I note that I was talking generally about the importance of having transparency around any further increases, not that they are going to be very equally applied as the ACT scheme to New South Wales. My point was to Ms Boyd's point earlier around importance of having long views to what's going to happen in the future in terms of increases in any tax coming forward. I often say that the commercial sector in the ACT or in New South Wales—anyone can plan for increases in things, not that we would ever advocate for tax increases. But if you at least know what they are then you can always factor them into your financial decision-making and your feasibility. What happened in the ACT was a bit like pot luck on budget day, about how much you were going to be worse off on an eight- to 10-year commercial lease. So we were very welcoming around the principle of setting in place caps but also having a clear lead time about those reforms and the transition periods that were going to be put in place.

**The CHAIR:** Thank you very much for your attendance today. We do appreciate your time and submissions. That concludes this session. Thank you.

**ADINA CIRSON:** Thank you, Chair.

**DAVID HARDING:** Thank you, Chair.

**(The witnesses withdrew.)**

**Dr MICHAEL FOTHERINGHAM**, Managing Director, Australian Housing and Urban Research Institute, before the Committee via videoconference, sworn and examined

**Mr BRENDAN COATES**, Economic Policy Program Director, Grattan Institute, before the Committee via videoconference, sworn and examined

**Mr MICHAEL BUCKLAND**, Chief Executive Officer, The McKell Institute, sworn and examined

**The CHAIR:** Each witness is able to make a brief opening statement, if they wish. We will start with you, Mr Buckland.

**MICHAEL BUCKLAND:** I want to start by saying that perhaps a year and half ago, when consultation on the property tax proposal was first underway, I was very supportive of the New South Wales Government and what it was trying to achieve. The McKell Institute first published *Homes for All: The 40 things we can do to improve supply and affordability* in 2012, and transitioning away from stamp duty to land tax was one of those. We also published *A plan to end Stamp Duty* and *Choosing Opportunity: A policy blueprint for a fairer Australia* in 2016. I want to start with that. One thing I am pleased about in the legislation as it exists at the moment is the deferral scheme for people who are experiencing some hardship. This was actually proposed in our submission, that you should be able to, if experiencing financial hardship, defer your tax liability to the point at which you sell your home. That seems to be a recommendation that the New South Wales Government has adopted.

However, outside of the positives and the great hope we had originally, we are concerned about the scheme as it currently stands. I think it's being walked back probably so much so that it doesn't achieve a lot of the benefits that it was originally intended to achieve. I make this point that the way the scheme is developed now, being limited to first home buyers, harks back to the 2011 New South Wales financial audit—the Lambert review, as it's more commonly known, which stated:

First home buyer assistance contributes to demand for home ownership, tending to increase home prices, particularly for typical first home buyer properties.

Also, when it talks about specifically ending stamp duty, it states that there is no evidence that concessions help in purchasing property. So there are a few concerns under this proposal that I think need to be looked at.

I want to make one point in the opening statement. The key benefit of transitioning to a land tax proposal is in the allocation benefit of price. Pricing has two economic benefits: allocation and rationing. In terms of allocation, that really requires a broad number of people to be subject to the same tax rules. In terms of rationing, that's not the key benefit to this proposal. We've tried to find evidence that it would reduce house prices, under the former scheme or this one. In the long run that may be the case, but in the short run the proposal will increase purchasing power for some buyers and, therefore, push up prices—albeit possibly a very small amount, depending on the take-up of the scheme.

The other thing I'm concerned about is the timing, given that we do have a land tax scheme in New South Wales—it's called council rates—and we do have rising interest rates at the moment. I think that is something that this Committee, given that it's addressing the issues to do with the report, should be looking to seek to address in one way. The final point I would make is that one of the things we noticed when we tried to look at this ahead of the hearing—although I think it was still in the early stages, given the speed of the hearing—is that this is not a new proposal. In the 1990s there was a proposal where first home buyers could defer their stamp duty and pay it back over a five-year period. The only difference between this scheme and that scheme is that this scheme is for a longer period of time, but arguably at a lower price, and that scheme was not. Then you have, I think, an interesting point in the politics of all of this, which is political leaders of both sides of both major parties are criticising and supporting that scheme at various times.

I make the point that, for instance, when the idea was proposed in 2015, the Treasurer Andrew Constance had said, "Stamp duty will then be slugged on you every month when you can least afford it." And formerly, when Michael Egan was the Treasurer in 1998, he made the point that only 25 per cent of first home buyers took up the scheme and that it created a financial trap—his words, not mine—with almost 48 per cent of them in arrears. While I haven't had a chance to look at that scheme in its entirety, I think that if we're trying to give recommendations to this Committee, having a proper review of that scheme, given we're replicating something very similar, should be undertaken before it is legislated. Thank you.

**MICHAEL FOTHERINGHAM:** I'll keep it very brief, given timing. AHURI has published research over many years looking at a range of issues that touch on stamp duty. A common finding is that stamp duty is a barrier to home ownership and is a clumsy mechanism, these days, that really should be removed. We are broadly supportive of the intention of this legislation. Removing stamp duty will improve mobility, will improve land use

efficiency, productivity, and a range of other benefits that have been detailed in our previous advice and submissions.

Look, it's one of choice. It's an important one, and we certainly support that. I guess we have some concern around the limitation to just first home buyers, but would encourage that provision be made in the legislation to review it regularly to take evidence of what is the impact of this legislation, both for continuing work within New South Wales, but also other jurisdictions who are looking at similar legislative reform, and to be able to inform that work across the country. Thank you.

**BRENDAN COATES:** Like Ryan, like Michael, Grattan has done a lot of work in looking at stamp duty over time. It is, essentially, probably the most costly State tax in existence, and moving away from it would have big benefits. The challenges to that transition have always been around people who had recently purchased a home paying stamp duty, and whether they would be slugged paying land tax. Long-time owners that currently sit outside the tax net—so if you're currently paying stamp duty, once you've paid it, you don't have to contribute to the tax net again for 30 or 40 years while you own that home. And then asset-rich income for households. As Ryan pointed out, there is a scheme in place to allow deferrals, so that shouldn't be such a problem.

The problem we have here, though, is what the New South Wales Government is proposing is allowing people to choose between stamp duty and land tax. That is one of the ways in which you can make that transition from stamp duty to land tax take place, because you relax a lot of those political constraints, because you allow people to make that choice. I think the fundamental flaw with the legislation as it is currently set up, though, is that, in any model of an opt-in model, which is what New South Wales has put forward, once someone has chosen to opt for land tax for that property rather than stamp duty, a future purchaser, when they sell that property, should no longer have the right to choose again. Because that is the only way in which you start to gradually see properties in the housing market transition away from stamp duty into land tax under the kind of opt-in model that the Government is seeking to implement here in a very limited form, and it has been the subject of inquiries from the Federal financial relations review, and others.

Ultimately, I think it leaves us not really with a reform that is about stamp duty, because it leads us into a cul-de-sac where, essentially, people get the choice. Once they have made that choice, the next person gets to make the same choice about choosing between stamp duty and land tax. I wouldn't characterise this as really being a stamp duty reform. This is really another way of assisting first home buyers into the market—not that dissimilar to some of the things like first home buyers grants. The main effect of those, in a long set of research, is that they tend to raise prices. They tend to be counterproductive. I would classify this legislation as falling into the same boat.

The thing I would urge the Committee to consider, with the powers that it has in the Parliament, is the number one thing that would need to change in the legislation for it to meaningfully take us on the pathway to stamp duty reform would be that, once someone has opted a property to be a land tax property rather than a stamp duty property, future buyers would not have the right to opt for stamp duty again. Thank you.

**The Hon. DANIEL MOOKHEY:** Can I, firstly, just place on the record my appreciation for the work that all three organisations have done. I have read all the McKell reports, I have read the AHURI submissions, and I have read Mr Coates' work—and I appreciated and very much enjoyed your Henry George lecture, as well, Mr Coates. Mr Buckland, I might start with you. You made the point around timing. Real wages are currently falling. Is that correct?

**MICHAEL BUCKLAND:** Yes.

**The Hon. DANIEL MOOKHEY:** Prior to the current outbreak of inflation—which, to be fair, we're not blaming the Government entirely for—wages growth in New South Wales has been falling each year, every year, since 2012. That's correct?

**MICHAEL BUCKLAND:** Wages growth has been falling. Real wages haven't fallen every year; they've fallen more—

**The Hon. DANIEL MOOKHEY:** Yes, but wage growth has?

**MICHAEL BUCKLAND:** Wage growth has, yes.

**The Hon. DANIEL MOOKHEY:** Going from 2015 onwards, it's the case that property price growth in the New South Wales land tax base has exceeded real wage growth by about 2½ times, on average. That's correct?

**MICHAEL BUCKLAND:** That's correct.

**The Hon. DANIEL MOOKHEY:** So we find ourselves in a situation where that's what has happened previously, but you made the point that you're concerned about interest rates rising?

**MICHAEL BUCKLAND:** Yes.

**The Hon. DANIEL MOOKHEY:** And I can presume you are concerned about real wages not growing?

**MICHAEL BUCKLAND:** Yes.

**The Hon. DANIEL MOOKHEY:** So, should we find ourselves introducing this system at this point in time, it will have a cost-of-living impact on the people who are in it, correct?

**MICHAEL BUCKLAND:** Yes.

**The Hon. DANIEL MOOKHEY:** And that will have to be financed from their disposable income. That's correct?

**MICHAEL BUCKLAND:** Yes.

**The Hon. DANIEL MOOKHEY:** That is because, fundamentally, at its core, we are taxing a non-income-earning asset, correct?

**MICHAEL BUCKLAND:** Yes.

**The Hon. DANIEL MOOKHEY:** So that does require them to have to subsidise it from their other forms of household income?

**MICHAEL BUCKLAND:** Yes.

**The Hon. DANIEL MOOKHEY:** And so, should we find ourselves in a situation where the system is introduced next year, regardless of its merits, it's not a good time to be introducing a system like this. Would you agree?

**MICHAEL BUCKLAND:** No, not this current system. If you were doing a broader system, where everyone was looking at transferring to stamp duty, then, maybe. But the current system is going to push up house prices. People will use the choice to get a larger loan so that they can get their property, which will give them greater debt at a time when interest rates are rising.

**The Hon. MARK LATHAM:** Transferring to stamp duty?

**MICHAEL BUCKLAND:** Transferring away from.

**The Hon. DANIEL MOOKHEY:** When you're making that point, you're agreeing with the AMP Capital chief economist who said that this has the potential to push up prices?

**MICHAEL BUCKLAND:** Yes.

**The Hon. DANIEL MOOKHEY:** And you're agreeing with the tax partner at BDO Australia, Fady Abi Abdallah, who says, "Any up-front stamp duty savings are likely to be offset by increased purchase prices"?

**MICHAEL BUCKLAND:** Yes.

**The Hon. DANIEL MOOKHEY:** And you're agreeing with CoreLogic, who says the new land tax "doesn't seem to be addressing much of the affordability issue in New South Wales housing"?

**MICHAEL BUCKLAND:** Yes.

**The Hon. DANIEL MOOKHEY:** And you're agreeing with Chartered Accountants Australia & New Zealand which says, "With all levels of government needing funds to finance services and debt, governments rely heavily on the taxation of land. There may be pressure to increase rates"?

**MICHAEL BUCKLAND:** Yes.

**The Hon. DANIEL MOOKHEY:** Okay. Thank you. You support the tax, though—a broad-based land tax?

**MICHAEL BUCKLAND:** I support a transition to a broad-based land tax.

**The Hon. DANIEL MOOKHEY:** And the only way in which these effects may be mitigated in the long term is if we apply this to everybody?

**MICHAEL BUCKLAND:** Yes.



**The Hon. DANIEL MOOKHEY:** Absent us applying that to everybody, basically, we're running all the risk but we're not getting the benefits. Is that a fair characterisation?

**MICHAEL BUCKLAND:** I'd say that's very fair, yes.

**The Hon. DANIEL MOOKHEY:** Okay. Great. Before I move beyond The McKell Institute to Grattan—

**The Hon. MARK LATHAM:** This is a pantomime.

**Ms ABIGAIL BOYD:** It's just that simple.

**The Hon. DANIEL MOOKHEY:** Can I just ask—

**The Hon. MARK LATHAM:** Seriously? Is this the best you've got?

**The CHAIR:** Order! Let us continue the questions. We don't have a lot of time.

**The Hon. MARK LATHAM:** That's just dreadful. Dreadful—defund this mob.

**The Hon. DANIEL MOOKHEY:** We need to pair it with supply growth, don't we?

**MICHAEL BUCKLAND:** Absolutely.

**The Hon. DANIEL MOOKHEY:** In fact, the way in which we make housing more affordable is to make more homes, correct?

**MICHAEL BUCKLAND:** I'd say there is a housing and a demand component. We focused heavily on demand when we proposed changes to negative gearing and capital gains tax concessions, but housing supply is also a key issue.

**The Hon. DANIEL MOOKHEY:** You made the point around tax reform, in terms of affordability, that any such reform here has to be pursued in conjunction with Federal tax reform, correct?

**MICHAEL BUCKLAND:** Yes.

**The Hon. DANIEL MOOKHEY:** And my party has lost two elections on that principle as well—technically, I'm not sure if that's true, but it might be. The point is we now find ourselves in a position where the State Government is going unilaterally without even a Federal financing agreement to assist with transition, let alone any reform to Federal tax settings, which means we're not really likely to realise any benefit. That's correct?

**MICHAEL BUCKLAND:** Well, I haven't heard of any Federal proposal to join with the scheme.

**The Hon. DANIEL MOOKHEY:** No. Can I just turn to the Grattan Institute. Mr Coates, again, I really do appreciate your advocacy for broad-based land tax reform. It has been really helpful in terms of developing thinking. I just want to turn to the points that you made in your Henry George lecture. You nominated six settings, or thereabouts, that needed to be done in order for there to be a meaningful impact. That's correct?

**BRENDAN COATES:** Yes.

**The Hon. DANIEL MOOKHEY:** You made the point, effectively, that we need to build more homes. That's fair? That's one of them?

**BRENDAN COATES:** Yes, that's correct.

**The Hon. DANIEL MOOKHEY:** You made the point that you also favour scaling back Federal tax benefits that encourage—you actually said abolishing negative gearing and capital gains tax discount. That's two of the reforms?

**BRENDAN COATES:** That would have a modest effect on prices. That's correct.

**The Hon. DANIEL MOOKHEY:** You made the point as well that we actually need incentives for States to build more homes. To be fair, I don't think States need incentives; I think they should be. But you basically also made the point that we need supply growth.

**BRENDAN COATES:** I made the point that there are incentives needed for States to relax planning rules, which would allow more housing to be constructed, particularly in Sydney.

**The Hon. DANIEL MOOKHEY:** You've also favoured the introduction of rezoning uplift taxes. That's fair?

**BRENDAN COATES:** That's correct.

**The Hon. DANIEL MOOKHEY:** You've also made the point that we need to encourage institutional investment in the renting market by adjusting land tax. Correct?

**BRENDAN COATES:** That's correct.

**The Hon. DANIEL MOOKHEY:** In respect to land tax as it applies to renters, it's a better reform, wouldn't it be, to allow us, effectively—the only case for any form of a flat tax in the land tax system is to allow institutional investors to aggregate landholdings without being punished financially. Correct?

**BRENDAN COATES:** That's correct, because the aggregation provisions are what prevent institutional investors from investing in rental housing because they lose too much of the rental yield through higher land taxes.

**The Hon. DANIEL MOOKHEY:** The other point that you made, which I felt was very persuasive, was we need to build more social housing. And you made that point very aggressively, correct?

**BRENDAN COATES:** Yes, that's correct.

**The Hon. DANIEL MOOKHEY:** In respect to the revenue loss that results from this reform, which is about \$776 million in the first four years and \$900 million in the five years after, it works out to be about \$1.5 billion over the next decade.

**Ms ABIGAIL BOYD:** \$1.6 billion.

**The Hon. DANIEL MOOKHEY:** Apart from creating structural issues for the budget, which may be good or may be bad depending on your perspective, that could have built a lot of social housing, couldn't it?

**BRENDAN COATES:** Yes, you could use that funding for other purposes.

**The Hon. DANIEL MOOKHEY:** Thank you. Can I turn to the AHURI research? Again, I really appreciated both the submission that you made to us today as well as the submission that you made before. You also made the point, broadly speaking, that there is a risk that this could increase property prices, certainly if not paired with supply growth?

**MICHAEL FOTHERINGHAM:** I don't know that we did make that point, but that is a possibility.

**Ms ABIGAIL BOYD:** Thank you to each of you for all of your work and your considered comments. I might start with you, Mr Buckland, because you're right there. I think we can all agree this is not a bit of legislation that is a transition reform. This particular bill does not do anything in terms of a transition from stamp duty to land tax.

**MICHAEL BUCKLAND:** That's right. There are no plans to expand it.

**Ms ABIGAIL BOYD:** From the perspective of The Greens, we're very much in favour of a broad-based transition. But we are also very, very aware of housing affordability concerns. These are the two things that we are trying to balance. In terms of the overall impact of this on housing affordability in the State, is it neutral, will it make housing affordability worse or will it make it better, in your view?

**MICHAEL BUCKLAND:** There are two things to consider. One is the difference between house prices and housing affordability. I'll start with prices, because affordability includes things like the tax and up-front costs. House prices—it's going to depend on the uptake of the scheme. But it would only put upward pressure on prices, the reason being that anything that increases purchasing power without any other effect—such as rearranging, decreasing the purchasing power of someone else or changing supply—only puts upwards pressure. That is on that side. For first home buyers, again it depends on the uptake of the scheme. With the up-front cost, it's likely theoretically that it would decrease their costs up-front because of stamp duty, but what we've found is that they're going to—

**Ms ABIGAIL BOYD:** Pay an interest price.

**MICHAEL BUCKLAND:** —take larger loans.

**Ms ABIGAIL BOYD:** Yes.

**MICHAEL BUCKLAND:** That's what they're going to use the additional money for. People are notoriously bad about factoring in future value changes. It's why there are a lot of concerns—and I've even heard it at this Committee—about stability or future certainty. I'd agree with that.

**Ms ABIGAIL BOYD:** When you're looking at housing affordability, though, is it first home owners that you would target if you were trying to increase the affordability as a whole of housing in New South Wales?

**MICHAEL BUCKLAND:** To change housing affordability, we need to put downward pressure on prices as a whole. We know that most people are going to move out of their first home within a couple of years. They are going to increase in size. We also know that we need to make it easier for people to downsize as well. Those are all the reasons why we supported the original proposal and are left a little bit unsure about the one in front of us.

**Ms ABIGAIL BOYD:** I will direct this one at you, Mr Coates, just to share it around. I have a particular concern about an imminent financial crisis or basically the drawing up of credit in the housing market as we go into the next couple of years. Do you think that this proposal, in light of that, is going to make it easier or harder for people to get the finance they need to buy a house?

**BRENDAN COATES:** That's a good question. I think it depends on who you are. If you are someone who currently has the 20 per cent deposit to not have to pay Lenders Mortgage Insurance, which is currently the constraint—and this takes away the fact that you may have to have an extra \$40,000 or \$50,000 in a deposit—then potentially it could make it easier for some of that group. Obviously there are the house price effects that other people have talked about as well. That will offset that to a degree. For some people it may make it easier, where the deposit is the constraint. For other people for whom loan serviceability is the constraint—essentially the bank is assessing their ability to repay the loan out of their income, and there are prudential standards around that—then it could make it for other people harder, because obviously if they choose the stamp duty versus the land tax, if they are paying the land tax then that is an ongoing expense. But the point I would note is that people get to choose, so people will probably sort themselves into the cohort that probably best suits or best maximises their ability to access finance and purchase a home.

**The Hon. MARK LATHAM:** Dr Fotheringham, I am interested in the data you've got on page 3 of your submission about how people who are downsizing lose 10 per cent of their equity. Have you got any data on the flipside of that, for people upsizing in advance? Because of stamp duty—say they are planning to raise a family and they'd like to move into a house to accommodate a couple of kids—they go, "No, we can't further upsize down the track. We'd better just do it all in one big hit right now and get an even bigger house and fill the bedrooms later on." Have you got any data or estimates on how much extra investment goes into those upsizing ventures as part of the reason why in a city like Sydney we have many more bedrooms than people?

**MICHAEL FOTHERINGHAM:** We don't have specific data detailing that sort of leapfrog decision that you're describing, but anecdotally I think that is a reasonably accurate description. People do tend to look at purchases for houses for the house or configuration they are anticipating over a number of years, not just their immediate needs, when making a purchase. In some ways that's the distinction between the housing people choose when they are renting and the housing they choose to purchase. They are thinking longer term with the purchase. But no, I don't have specific data to evidence that leapfrog decision.

**The Hon. MARK LATHAM:** But it could be of the same order, couldn't it? Some 10 per cent or probably a bit more. Is that an estimate that's reasonable?

**MICHAEL FOTHERINGHAM:** I couldn't speculate. There are too many different scenarios in that to put a number on it.

**The Hon. MARK LATHAM:** Mr Buckland, were you involved in the earlier McKell Institute research with the Treasury progress paper on the bigger reform that said that there is a net positive effect on housing affordability?

**MICHAEL BUCKLAND:** Yes, that's the difference—

**The Hon. MARK LATHAM:** Or was that your predecessor, Mr Crosby?

**MICHAEL BUCKLAND:** No, that was myself.

**The Hon. MARK LATHAM:** That was yourself?

**MICHAEL BUCKLAND:** That's the distinction between house prices and housing affordability for first home buyers.

**The Hon. MARK LATHAM:** On that point you made about house prices, say you take supply as being fixed, all other things being equal, is there any way of getting more people into the housing ownership market without having a short-term upward impact on prices?

**MICHAEL BUCKLAND:** Yes, you can offset it by encouraging people to either downsize or get rid of investment properties.

**The Hon. MARK LATHAM:** That's what this reform does, doesn't it? Downsizing makes it easier because you don't have to pay stamp duty up-front. With the bigger reform, not this one.

**MICHAEL BUCKLAND:** The bigger reform, yes, absolutely.

**The Hon. MARK LATHAM:** Earlier on you said that people are notoriously bad at failing to factor in future value changes. When in the long history of Sydney has that ever been the case?

**MICHAEL BUCKLAND:** I don't know of an example that's specific to Sydney but we know through insurance claims, through uptake of insurance, people underestimate the likelihood of bad events happening and are poor at planning out financials. It's the reason why we have the superannuation system, which is compulsory savings, for instance.

**The Hon. MARK LATHAM:** You said housing value changes, didn't you? You weren't talking about bad incidents.

**MICHAEL BUCKLAND:** No.

**The Hon. MARK LATHAM:** The whole history of Sydney is upward movement in house and property prices and people riding that cycle to a fair bit of success, isn't it?

**MICHAEL BUCKLAND:** I mean, not everyone. There was a downturn in 2019—

**The Hon. MARK LATHAM:** Well, not everyone. That's why we're here.

**MICHAEL BUCKLAND:** —and also right now. There's a downturn in house prices.

**The Hon. SCOTT FARLOW:** Mr Buckland, just in terms of the argument you made in terms of people will move the stamp duty price across to, effectively, the size of their mortgage, wouldn't that be impacted by the loan serviceability, the fact that there is actually an assessment that is undertaken on how much they can pay each year and that this would be factored into that?

**MICHAEL BUCKLAND:** Yes, that's possible.

**The Hon. SCOTT FARLOW:** So that would actually be a downward pressure in terms of any inflationary pressure that would exist in the market.

**MICHAEL BUCKLAND:** What we look at, though, is the difference from the status quo, and so people would pick, as my colleagues have said here, whatever is going to maximise their purchasing power, hence the upward pressure on prices.

**The Hon. SCOTT FARLOW:** But you're going to see more people who are able to actually buy a home in the market. Is that correct?

**MICHAEL BUCKLAND:** You're going to see—

**The Hon. SCOTT FARLOW:** From this proposal, you would see more people who would be happy to buy a home by being able to take the choice. As you were talking about before, in terms of people who were actually in that position of not being able to save for the deposit at this stage, that they would be able to elect to take this proposal at that stage and be able to get into the first home market sooner.

**MICHAEL BUCKLAND:** Yes. So there'll be a cohort that bring forward their purchase and then after that it will go back to a nil effect.

**The Hon. SCOTT FARLOW:** Okay.

**MICHAEL BUCKLAND:** So there will be people who bring it forward, yes—absolutely.

**The Hon. SCOTT FARLOW:** In terms of that as well, those people who bring their property forward—and to Mr Latham's point about the history of the Sydney property market—regardless of what may be happening this financial year or what may have happened in 2019, on average property prices have tended to increase each and every year.

**MICHAEL BUCKLAND:** That's right.

**The Hon. SCOTT FARLOW:** On that basis, their purchasing power would be eroded if they had to wait another two years to save for their deposit.

**MICHAEL BUCKLAND:** Yes, depending on—

**The Hon. SCOTT FARLOW:** On the current information.

**MICHAEL BUCKLAND:** —their income, yes.

**The Hon. SCOTT FARLOW:** And that's partly why the McKell Institute has advocated for a broad-based land tax scheme in the past.

**MICHAEL BUCKLAND:** Yes, absolutely.

**The Hon. SCOTT FARLOW:** Just to pick up in terms of your characterisation of this proposal and the like, and your advocacy I note in past reports for a move to a broad-based land tax scheme, would you characterise this proposal in front of us as a tax on every single home forever, like Chris Minns has?

**MICHAEL BUCKLAND:** It would be a tax on some homes forever if you stayed into it. But, no, that's probably not how I'd describe it.

**The Hon. SCOTT FARLOW:** Mr Buckland, in terms of individuals and their first step on the property ladder, would you see the people who would be opting into this program would be people who would likely probably transition out of that property for another property in the medium term at least?

**MICHAEL BUCKLAND:** I couldn't tell. It goes to first home buyers, however long they would stay in their homes.

**The Hon. SCOTT FARLOW:** But seeing that there is a choice available for those who were, for instance, buying their forever home, they would be more likely to choose to pay stamp duty and to pay that up-front cost now who were able to pay it, and those who potentially were looking at transitioning out would, say, for instance, buying a one-bedroom apartment and then looking at their home for the future would be more likely to come into this scheme and then come out of this scheme within, let's say, five to 10 years.

**MICHAEL BUCKLAND:** Yes. They may choose to do that, yes.

**The Hon. CHRIS RATH:** Just to Mr Farlow's point, I think when we were talking about first home buyers before you said that we know that most people are going to move out in the first few years. So if we play out the figures, a first home buyer buying an apartment for \$830,000 pays stamp duty of around \$32,000 in the current system. They would have an annual amount of, let's say, about \$1,200 if they opted for the land tax scenario. You're looking at, sort of, well over 20 years before that break-even point, so surely the vast majority of first home owners in that scenario would be better off opting for the land tax because they're going to sell the property well before the 20-year or 25-year break-even point.

**MICHAEL BUCKLAND:** If you are planning on selling it sooner, then, yes, you would opt for that option. Of course you would.

**The Hon. CHRIS RATH:** But we are talking about first home owners. We are talking about a large cohort of people where the first home that they buy isn't the home, for the vast majority of people, that they are going to live in forever. They buy a one- or two-bedroom apartment to start with and they buy their four-bedroom or five-bedroom house later. To the vast majority, it would be beneficial.

**MICHAEL BUCKLAND:** If you are going to stay in it less—and I'm not sure of the number of years at which point it breaks even—you are going to offset some of that through an increase in price, but not all of it, very likely. So, yes, it depends. People who are going to live in it for a shorter period of time will be better off. People who live in their home for a longer period of time will be worse off. That's the equation.

**The Hon. CHRIS RATH:** But they have the choice. If you know that you are buying a four- or five-bedroom house and you are going to live in it as your forever home and you are going to be there for 20 or 30 years, you could choose to pay the stamp duty. No-one is going to force you to pay the land tax; you can pay the stamp duty. But if you are buying a one-bedroom or two-bedroom apartment and you know you are only going to live in it for a couple of years and then you are going to upsize later on when you have a family, you are far better off opting for the land tax scenario. You are better off in that situation. Isn't that the benefit of the proposed reform?

**MICHAEL BUCKLAND:** Yes, the choice makes it a benefit for them. But I want to make the point that I think Brendan made earlier that when you consider this as a first home buyer initiative, it's very different to a broad-based proposal. Getting rid of the current concessions for stamp duty or transfer duty also have those same kinds of effects. Who doesn't have a choice are people who aren't first home buyers, who will still see their house prices go up but who won't have the same choice—hence the preference from our point of view to give everyone the choice but then to lock it in, rather than to have it done as a single cohort for just this small group of people.

**The Hon. CHRIS RATH:** But given Labor have indicated that they want to see first home buyers paying no stamp duty, wouldn't you say that that would also have an inflationary impact on house prices?

**MICHAEL BUCKLAND:** Yes.

**The Hon. TAYLOR MARTIN:** Mr Buckland, you mentioned earlier in response to one of Mr Mookhey's questions that you expect prices to rise. What size rise were you talking about in that response and does the McKell Institute have access to modelling?

**MICHAEL BUCKLAND:** We have done modelling over the years but not on this proposal in time for this hearing, so I don't want to give you a specific number. All I would say is that it's going to entirely depend on the uptake. If no-one takes up the proposal, then it's going to have a very small impact on prices. If lots of people take up the proposal, then it's going to have a large impact on prices.

**The Hon. TAYLOR MARTIN:** It depends on what choices are made, I guess. I will ask Treasury later on in the afternoon. They've done modelling on this specific policy and they say it will have a marginal impact. I will come to them later.

**MICHAEL BUCKLAND:** We would expect a marginal impact in the short term, yes. I would say that probably sounds about reasonable—I'm not saying 10 per cent.

**The CHAIR:** Thank you, everybody. That concludes this session. We appreciate your attendance. Thank you to those of you online. The Committee will now break and we will return at 2.15 p.m.

**(The witnesses withdrew.)**

**(Luncheon adjournment)**

**Professor NICOLE GURRAN**, School of Architecture, Design and Planning, The University of Sydney, affirmed and examined

**The CHAIR:** Welcome back, everybody, to this afternoon's session for the inquiry. Professor, you are welcome to make a brief opening statement, if you wish.

**NICOLE GURRAN:** Thanks very much for the invitation to be here this afternoon. As I said, I'm a professor of urban and regional planning. My research expertise is on housing and housing affordability, and the intersections between housing affordability and the planning system. I have worked on a series of projects for research organisations, such as the Australian Urban and Housing Research Institute. I and colleagues have done a wealth of research over a 20-year period of time. Although I haven't focused specifically on researching the ins and outs of stamp duty versus land tax reform, I have certainly kept a keen, interested eye on the way that different international jurisdictions, for instance, approach issues around housing affordability and, indeed, the different tax regimes, and I have followed the Australian research, limited though it may be.

I apologise, I haven't had the time to prepare a written statement. I understand my appearance here is more for Q and A purposes, if there is anything that a member of the research community can offer to assist the Committee, but I thought I might, drawing on my research and the work of my colleagues, just very briefly cover a couple of key points. The first is this is quite a small scheme in relation to concerns about housing affordability. That said, as a housing affordability measure, even as a measure that aims to increase home ownership and first home ownership, I would say it's likely to have limited impact. It may benefit first home buyers who are purchasing properties that are costing more than \$800,000 per year and, therefore, are ineligible for full stamp duty relief available in New South Wales. That will be a small subset of people. I'm not sure if modelling has been made available to the Committee, but I imagine that is a fairly small subset per year.

We would put that against, for instance, the 335,000 households in New South Wales who, according to last year's census data, are paying more than 30 per cent of their income on rent and, therefore, are in rental stress. It's unlikely that the first home buyers who might potentially benefit from this scheme are actually in rental stress. That said, it does address an important component of first home ownership and that is the deposit gap. For that subset of potential first home buyers, their home purchase may be brought forward. The research evidence shows that demand-side measures—so anything that makes it easier to get into the property market for first home buyers—is more likely to bring forward a purchase rather than be the difference between them entering home ownership at all. That brings us to some of the potential risks associated with the scheme, as I understand it right now.

At this particular point in time, a point in the market cycle when house prices are cooling already and are expected to cool further and mortgage costs—the costs of housing affordability associated with home purchase—are anticipated to rise. So we would ask if there is any urgency associated with bringing forward first home buyer purchases at this particular point in the cycle. There are risks, of course, as with any demand-side measure and particularly demand-side measures that target first home buyers. There are risks that that additional money is capitalised into house prices. We know already that there is still intense competition at the bottom, if we can call a \$1 million property the bottom of the housing market, but we know that there is already high competition at that level. So there is a risk that the scheme may bolster prices at that point.

Of course, there is that risk that I mentioned associated with shifting the affordability burden from up-front to the home purchase period of time, so your annual repayments. That is actually, over the next cycle, where the housing affordability pressures are most likely to bite in Australia. Those are around mortgage repayment stress. When we add to that an annual land tax bill that would at least be the equivalent to an additional month's mortgage repayment, there are certainly risks.

**The CHAIR:** I am going to open it up to questions shortly.

**NICOLE GURRAN:** Yes, let's open it up. My other remarks, if you want to question me on them, would be about, more generally, the potential positives of moving to land tax as opposed to stamp duty collection more widely—positives and risks—and, of course, what we should be doing if we were really concerned about both home purchase affordability for first home buyers, particularly those who actually aren't likely to get into the market without some specific assistance as well as, more broadly, what we might do for those 335,000 rental householders in stress.

**The Hon. DANIEL MOOKHEY:** Thank you, Professor, for your appearance today. I have very much enjoyed reading a lot of your writing as well—I just wanted to place on the record our appreciation for that—which is where I get a lot of my questions from. How many first home buyers do purchase a property of \$1.5 million?

**NICOLE GURRAN:** That's a question I would ask the Committee. I'm just wondering whether you've been presented that type of modelling. I'm not able to access that level of fine-grained detail. The ABS data is giving us a number last month of about 2,000 first home buyers in New South Wales, but I'm not able to tell you what purchase price their property was.

**The Hon. DANIEL MOOKHEY:** For a first home buyer to buy a \$1.5 million property—good luck to them, but it's not common, is it?

**NICOLE GURRAN:** As I said, you'd need to actually ask for the modelling on that. There may be more detailed data.

**The Hon. CHRIS RATH:** The median price is \$1 million, isn't it?

**NICOLE GURRAN:** But they're certainly not the group that we would target for housing assistance, from a policy perspective.

**The Hon. DANIEL MOOKHEY:** Yes, fair enough. That's sort of the point. You've written about and your expertise is in the interaction of the planning systems and housing affordability. Basically, we need a form of inclusionary zoning, don't we?

**NICOLE GURRAN:** We do if we want to shift from demand-side measures to supply-side measures. We hear a lot about housing supply as being the solution to housing affordability. Actually it is, but it is a very specific type of housing supply. It's not the supply that we've achieved over the past five years and the million-odd homes that have been produced by the market, although that's very, very important. It's making sure that a significant proportion of those new homes are affordable to people who are missing out: teachers, nurses, et cetera. When we talk about inclusionary zoning—which is just a requirement that as part of all new development we make sure that some of the homes are affordable for moderate-income earners—it doesn't mean the developers pay for it. It's just making sure that they're coming in at a pricepoint that's affordable.

**The Hon. DANIEL MOOKHEY:** These are the policies that exist in London, at 40 per cent. In New York they've been introduced at, I think, 30 per cent of new developments. Is that correct?

**NICOLE GURRAN:** It'll depend on jurisdiction by jurisdiction and sometimes site by site. But your point, which is that a broad-based inclusionary zoning approach is standard internationally and particularly when we talk about large housing releases, that's absolutely sound. In South Australia, it's 15 per cent.

**The Hon. DANIEL MOOKHEY:** Yes. I want to cover two other issues. You did make the point around housing supply being a part of the solution. But actually, as you persuasively argued, you can increase supply but it doesn't necessarily result in an increase in affordability. You have written that other States have increased supply faster than New South Wales has—I think you said from the period 2005 to 2015. Is that correct?

**NICOLE GURRAN:** That sounds right, yes.

**The Hon. DANIEL MOOKHEY:** But since 2015 the rate of new supply growth in New South Wales has dropped pretty dramatically.

**NICOLE GURRAN:** No.

**The Hon. DANIEL MOOKHEY:** In Greater Sydney, sorry.

**NICOLE GURRAN:** It increased dramatically, that's right.

**The Hon. DANIEL MOOKHEY:** In Greater Sydney, to be fair, the data that's published by the planning department—I just want to be clear about what the data is—shows that the completions from 2017 are 42,000 down to 24,000. I accept that's COVID as well; we're not putting all-out blame. It's a very complicated environment over the past five years. The rate of completions—we're falling back towards a decade low as well in New South Wales, or at least in Greater Sydney, according to what DPIE has published. We need an all-of-above solution, don't we, effectively?

**NICOLE GURRAN:** Sure, and I'd have to have a look at the data that you're referring to.

**The Hon. DANIEL MOOKHEY:** It's something you did in the UDP dashboard.

**NICOLE GURRAN:** Yes, there are definitely issues, and I'd have to look very closely. Completion is a really, really good indicator, but the really critical indicator when it comes to supply pipelines and also supply constraints is actually approvals. If we look at where approvals have been tracking up until COVID, certainly there were historically high levels of approvals, indicating no real constraints.

**The Hon. DANIEL MOOKHEY:** Or from a planning perspective.



**NICOLE GURRAN:** From a planning perspective. Other constraints associated with financing and affordability affect completions, which is probably your point.

**The Hon. DANIEL MOOKHEY:** Yes, that is my point.

**NICOLE GURRAN:** So, yes, we do need a holistic solution. We, particularly in my view, need a solution to smooth out the peaks and troughs of the housing market where we get a ramp-up in housing supply, which we saw in the lead up to 2006 and then it fell off in New South Wales because house prices moderated and started to fall so we actually didn't get that demand side stimulus to increase new housing production. We're heading back into that period, and the only way to smooth that out is to actually look across the housing system at how we can support more affordable housing development that will continue despite peaks and troughs in the property market.

**Ms ABIGAIL BOYD:** Thank you, Professor, for coming in today. I too have enjoyed your articles. One of your articles was talking about the obvious fact that supply and demand in the housing market is clearly not the same as—and I think you said—supply and demand for bananas. As an essential item or an essential good, housing or the housing market doesn't necessarily follow the same rules and it's not as simple as just supply versus demand. What else is getting in the way do you think from a market's perspective of housing affordability?

**NICOLE GURRAN:** Maybe we should just address the bananas analogy, and that is that the housing market is different to the market for fruit and vegetables, and the biggest difference is that houses are a financial asset in a way that bananas are not. You eat bananas. When there are too many of them, they can be composted away. Houses actually are very large. They're costly to produce but people can invest money in them, and their investment value is equal or greater than their actual use value. That's why, not only in Australia but throughout the world, housing systems have become so unequal, because the value of that asset has grown so exponentially relative to the use value and relative to people's wages, and that's been fuelled mostly by cheap money, which we've seen. The cheaper it is to invest in that asset with the lowest interest rates, the more people are able to do so. To change things, we need to look more at how we at least make sure that our housing system is providing enough homes for people to live in as well as the people who might want to invest.

**Ms ABIGAIL BOYD:** Before you get to people investing and using it as a commodity.

**NICOLE GURRAN:** Yes, that's right, and the way to do that is just to make sure we've got more social and affordable housing providers in the system as well as different products that can cater to people on different income levels.

**Ms ABIGAIL BOYD:** The bill before us, and the limited proposal before us—I don't know if you were watching earlier, but I think there are a lot of people, myself included, saying, "This is not a tax reform really. This is not a stamp duty to land tax transition. This is another form of helping first home buyers to buy their first home." I guess there has been some discussion about, "Is it a housing affordability measure?" In your view, does this bill make housing affordability better in this State in any material way?

**NICOLE GURRAN:** No. As I said at the outset, I think—this is not to damn the proposal. I think it's a modest proposal, and I actually do think it is very valid to look at barriers to first home purchase. I just don't think it's very well targeted, and I don't think it's an overall housing affordability measure.

**Ms ABIGAIL BOYD:** If we look at the \$1.6 billion forecast expense of this over the next 10 years, on the assumption that this is a standalone program and no further programs come into place—who knows what the next government will do—if you had \$1.6 billion over 10 years to address housing affordability in New South Wales, what would you spend it on that would actually have evidence behind it as improving housing affordability?

**NICOLE GURRAN:** The evidence is that investing in social and affordable housing is the best way to alleviate the affordability pressures faced by those who are most in housing need. I would be looking at models that support new construction because we need new construction of social and affordable housing. There are a variety of ways that can be done. When we think about the continuum of housing need and the continuum of people who are missing out at the moment, with first home buyers on moderate incomes and some higher income first home buyers also unable to get into the market unassisted, through to people at the bottom end of the scale, I do think first home buyers warrant some specific policy intervention. But it might not need to be costed. It might not need to have a big government subsidy behind it.

It might be some policy reform linking an affordable first home purchase, for instance, to an inclusionary zoning measure that simply says, "Some of these homes in this development need to come in at a modest price of 800,000." You're not going to lose money on building a new home at \$800,000. That needs to be earmarked for a first home buyer, for instance. You could even have a shared equity scheme around that. Again, that's not spending

your \$1.6 billion but actually using your policy powers. Your \$1.6 billion goes towards making sure we're getting new supply that we might not have otherwise had in the system and targeting that.

**Ms ABIGAIL BOYD:** The first home buyer measures, we have had a form of those in place for many years—when we introduced the stamp duty exemptions in the first place. Do we have data on what that did at the time for housing affordability overall?

**NICOLE GURRAN:** I'm not aware of data on that. All we know is that when there are time-limited demand-side measures that help first home buyers, it's tending to bring forward their purchases. Then we see when those measures are ending, so we can see the sudden drop now in first home buyer activity. If we look at the latest ABS data, we can see that drops off. When we look over time and we ask are there more first home buyers or are there more people in home ownership than would have been, the evidence implies that they haven't made the difference of getting people into the market versus not.

**The Hon. DANIEL MOOKHEY:** The only other question I had, Professor, was you made the point around the timing of the introduction, at a time when there's an expectation of additional mortgage stress as interest rates climb. You're aware that we had reports on the weekend that interest rate rises are likely to cost the average first home buyer in New South Wales \$2,100 extra by February of next year?

**NICOLE GURRAN:** I have read the newspaper reports, yes.

**The Hon. DANIEL MOOKHEY:** That's assuming that the cash rate doesn't go beyond 3.35 per cent, which is itself difficult right now for anyone to have any certainty around. In essence, what this system is doing is inviting a person to make a choice and to effectively have to take a bet about whether or not they think in the future they can pay the interest rates and land tax, and their wages will grow in time for them to cover it should there be any shock in respect to those first two. In effect, we're transferring risk onto a person to have to make these choices, if we were to implement a system that had these variables. Is that fair?

**NICOLE GURRAN:** I wouldn't make a comment on that. It's not something that I do active research on, the level of householder risk. I'm more interested in the question of can a particular policy measure be targeted and is it making a difference overall? That's where I'd be able to say there's evidence.

**The Hon. DANIEL MOOKHEY:** Most people do not earn an income from their home. So as a result of us introducing a tax on a non-income earning asset, we require them to use their income to subsidise and pay that tax; is that fair?

**NICOLE GURRAN:** I'm not going to disagree with you. We're moving into an area where I haven't personally done research. I could undertake to look at the research evidence on it, but I wouldn't disagree with what you're saying.

**The Hon. TAYLOR MARTIN:** Professor, the intention of the Government's policy is obviously to make it easier for first home buyers to get into the market, to get that all-important first step on the ladder. In your opinion, does this policy and this framework achieve those outcomes that we've set out to achieve?

**NICOLE GURRAN:** Well, for the very limited cohort of people who aren't currently eligible, making a purchase that would make them eligible for the existing discount and who are in a position to purchase an expensive home at this point in the market, then yes, it may enable them to bring forward that purchase by some years, potentially.

**The Hon. TAYLOR MARTIN:** And do you see it as an issue, if they were to make this choice—should this bill be enacted into law—if a first home buyer were to then potentially in five, seven, eight years' time trade up and then exchange and possibly pay less in that annual land tax versus—

**NICOLE GURRAN:** No, I actually don't. I'm quite neutral. The framework that I would use to analyse government intervention in the housing system focuses on how much subsidy we're providing and whether we're targeting that subsidy and whether we're making a difference. For people who are in a position to exercise choice in the housing market and who aren't currently stressed—paying too much on their rent et cetera—I see that as a lower priority for government intervention or financial assistance. I think the potential for particular households to spend less money overall on housing taxes—maybe that is a benefit for that particular household. I wouldn't disagree with that.

**The Hon. TAYLOR MARTIN:** And so would you agree that it would get either a couple or a single person into a home much sooner than otherwise if they were having to save up for stamp duty plus potentially see a market—

**NICOLE GURRAN:** It could bring forward a home purchase decision for people who are looking at a sector of the market that is probably out of reach for your average single person and couple.

**The Hon. TAYLOR MARTIN:** Are you across the shared equity scheme that we're also proposing?

**NICOLE GURRAN:** I've had a look at it, yes.

**The Hon. TAYLOR MARTIN:** What are your thoughts on that?

**NICOLE GURRAN:** Look, actually I think shared equity can be a really good scheme. My reservations, both at the Commonwealth level and, as I understand, the State level—although there may be more details to be released—are that shared equity schemes work best, in my view, when they are targeted to new supply and new and affordable housing supply, because that way we are linking up our policy capacity to make sure that we include affordable homes as part of the new development—which should be happening anyway, but doesn't—and we can link that up with a shared equity model that may, in that way, end up costing much, much less for government. And we can target that shared equity model as well to reach people on lower levels of the income scale as well and get them into ownership.

**The Hon. CHRIS RATH:** What's the median house price in Sydney? I think it's around \$1 million, is it?

**NICOLE GURRAN:** Maybe it's less now. We'd have to ask one of the real estate agent reporters.

**The Hon. CHRIS RATH:** But around that? It is 950, Mr Mookhey says.

**NICOLE GURRAN:** It was hovering at 950 but the pundits might be slicing, I don't know, five per cent off that every day.

**The Hon. CHRIS RATH:** I think the median is around \$1 million, but anyway.

**NICOLE GURRAN:** It's a lot of money.

**The Hon. CHRIS RATH:** You wouldn't say, though, that someone who is buying a property at \$1.5 million in Sydney, they're hardly super rich—

**The Hon. DANIEL MOOKHEY:** For a first home?

**Ms ABIGAIL BOYD:** What planet do you live on?

**The Hon. CHRIS RATH:** Just to point to Mr Mookhey's line of questioning from before about—

**Ms ABIGAIL BOYD:** For a first home, what world do you live in that \$1.5 million isn't expensive?

**The CHAIR:** Continue with the question.

**The Hon. CHRIS RATH:** It's hardly a huge amount of money by Sydney standards, \$1.5 million, is what I'm getting at.

**NICOLE GURRAN:** Look, I'd just go back to the earlier point that I made, which is about a framework of understanding housing assistance, the priorities for housing assistance and the research evidence about which types of housing assistance makes the difference between whether people can move into owner occupation or not, or whether people remain living in rental stress or not, or whether we overall distort markets.

Within that framework, we'd just be saying that people who aren't currently living in rental affordability stress—and who are likely to be able to independently move into owner occupation—would be a lower priority for financial subsidy. That doesn't mean that we wouldn't look at ways to make their housing journey easier through policy intervention. But I wouldn't make a comment on whether they're wealthy or not. I'd simply be saying our priorities for costly interventions would be focusing on people in the most need, as well as interventions that are likely to make the biggest difference in the long term. That may often include interventions to support home ownership.

**The CHAIR:** Thank you, Professor. We appreciate your time this afternoon. That concludes this session, and we will get set up for the next one.

**NICOLE GURRAN:** Thanks everyone for the robust questions and discussion.

**(The witness withdrew.)**

**Mr CHRIS TYLER**, Chief Executive Officer, Australian Institute of Conveyancers (NSW Division), sworn and examined

**Mr DALE TURNER**, Policy adviser, Australian Institute of Conveyancers, sworn and examined

**Ms NERIDA CONISBEE**, Chief Economist, Ray White, affirmed and examined

**The CHAIR:** I welcome our next group of witnesses. Thank you for joining us this afternoon. Both organisations are welcome to make a brief opening statement if they wish. Does one of the conveyancers want to do that?

**CHRIS TYLER:** Yes, I will take that over. Thank you, Madam Chair and Committee members, for the opportunity of providing our members with views on this legislation. The Australian Institute of Conveyancers, New South Wales division, is the industry body for licensed conveyancers. There are approximately 1,600 licensed conveyancers in New South Wales. We represent 900 of those, of which 550 are actively operating small conveyancing businesses—or large conveyancing businesses, as well. These businesses undertake a significant proportion of conveyancing transactions on behalf of New South Wales citizens.

AICNSW welcomes and supports any initiatives to support first home buyers and to facilitate more affordable housing. We also support well-considered, well-consulted, well-designed and well-executed government policy. However, we believe the policy has been rushed and may lead to issues in the execution and delivery of the policy. We have outlined in our submission several examples of adverse outcomes due to rushed implementation or a lack of stakeholder consultation, such as the surcharge purchaser duty and the information notice. Thank you.

**NERIDA CONISBEE:** I don't really have much to say, but we are Australasia's biggest real estate group. In various markets we have up to a 25 per cent market share. Obviously first home buyers are a key buyer group for us. We don't do any modelling around land tax, but we're certainly well across the data and do have access to a lot of information, both data and also anecdotal evidence from a lot of first home buyers.

**The Hon. DANIEL MOOKHEY:** Thank you for your appearance, to both organisations. I appreciate it very much. I might just take this opportunity that Ray White has provided to provide us with some data, because it is scarce. Do you know how many first home buyers purchase properties that are above \$800,000?

**NERIDA CONISBEE:** I think you asked that question previously. No, we don't know. We certainly could look at it using our loan market data, but we don't have a 100 per cent market share on that one.

**The Hon. DANIEL MOOKHEY:** No. It seems no-one does.

**NERIDA CONISBEE:** No, I don't think they do.

**The Hon. DANIEL MOOKHEY:** I can presume you haven't got data on how many people buy between 800 to one million, one million to 1.2, 1.2 to 1.5?

**NERIDA CONISBEE:** No, that doesn't exist.

**The Hon. DANIEL MOOKHEY:** Thank you. That's really helpful. Can I just go to the conveyancers? I'll come back. I just thought I'd get that out. Can you just explain to me what is your concern about surcharge purchaser duty?

**CHRIS TYLER:** Surcharge purchaser duty was introduced back in 2016 by Revenue NSW. It was a new revenue measure to, basically, put a surcharge on transfer duty for foreign residents purchasing property. At the time there was very little stakeholder consultation. It was rushed out in a couple of weeks. There was no education of the practitioners in terms of the actual delivery of the surcharge and, basically, the interpretation of the legislation and the applicable requirements—

**The Hon. DANIEL MOOKHEY:** You weren't consulted.

**CHRIS TYLER:** No, that's right.

**The Hon. DANIEL MOOKHEY:** You have the same concerns this time?

**CHRIS TYLER:** Correct.

**The Hon. DANIEL MOOKHEY:** To be clear here, when did you see this bill?

**CHRIS TYLER:** When it was tabled.

**DALE TURNER:** Yes.

**The Hon. DANIEL MOOKHEY:** You weren't consulted prior to that?

**CHRIS TYLER:** No.

**DALE TURNER:** No.

**The Hon. DANIEL MOOKHEY:** You've made the point that you think that the Parliament should defer consideration of this until after the election. Is that right?

**CHRIS TYLER:** Yes.

**DALE TURNER:** Yes.

**The Hon. DANIEL MOOKHEY:** Your preference would be for the Parliament not to enact the law but rather to wait until the election?

**CHRIS TYLER:** And also finalise some of the issues in terms of implementation.

**The Hon. DANIEL MOOKHEY:** That you flagged in your submission?

**CHRIS TYLER:** Correct.

**The Hon. DANIEL MOOKHEY:** We were asking the Law Society earlier today about the issue around the amendment to the contract for sale that would be required as a result. They made the point that there would be a requirement to change the contract for sale. They're worried, effectively. Do you have that same concern?

**CHRIS TYLER:** I did see that, yes.

**The Hon. DANIEL MOOKHEY:** Have you got the same concern?

**CHRIS TYLER:** Yes.

**DALE TURNER:** Yes. The 2022 contracts have only just issued. The new contracts would have to be drafted to include these provisions within that contract. It's not just a question of that; it's a question of educating practitioners.

**The Hon. DANIEL MOOKHEY:** Of course, because most first home buyers use conveyancers, not solicitors, correct?

**DALE TURNER:** I beg your pardon?

**The Hon. DANIEL MOOKHEY:** A lot of people who do transactions, especially the first property, will use a conveyancer, not a solicitor?

**DALE TURNER:** Yes. There's no difference between conveyancers and solicitors. They both practice conveyancing law.

**The Hon. DANIEL MOOKHEY:** Yes. But, in terms of market use, a lot of people use conveyancers because solicitors more are expensive.

**DALE TURNER:** Yes.

**The Hon. DANIEL MOOKHEY:** So they'll be turning to your members for advice.

**CHRIS TYLER:** Absolutely.

**DALE TURNER:** Yes.

**The Hon. DANIEL MOOKHEY:** Do you think your members are in a position to explain to them how the system works?

**CHRIS TYLER:** No.

**DALE TURNER:** No.

**CHRIS TYLER:** They don't know anything about it.

**The Hon. DANIEL MOOKHEY:** Do you think they should know something about this?

**CHRIS TYLER:** Absolutely.

**DALE TURNER:** Yes.

**The Hon. DANIEL MOOKHEY:** Over Christmas, are all conveyancers likely to be starting this property tax reform, in your view?

**CHRIS TYLER:** I hope not.

**DALE TURNER:** Most of them will be on holidays.

**The Hon. DANIEL MOOKHEY:** Thank you. That's very helpful. With respect to Ray White, do you support this reform?

**NERIDA CONISBEE:** I support measures to improve housing affordability. We obviously have a problem with affordability, particularly in Sydney. Affordability is a very complex issue to solve. Fundamentally, supply does sort it out.

**The Hon. DANIEL MOOKHEY:** I was about to ask you that. Supply—growth is what's required fundamentally. We need more homes for people to buy, correct?

**NERIDA CONISBEE:** Yes, correct. In markets where we do see very high levels of supply, we don't see incredibly strong price growth or rental growth. Some good examples in recent years have been in places like Parramatta, North Ryde, Melbourne, where we have seen pretty flat pricing and we've seen rents pull back, and they have remained very affordable. Compare that to eastern suburbs of Sydney, where we don't have good supply of housing and we do have a lot of people wanting to live there, prices have really increased significantly for prices and rents.

**The Hon. DANIEL MOOKHEY:** That's because, for the last decade, the target for property growth in a place like Mosman has been 300, whereas in Blacktown it's been 30,000. We're not distributing the obligation to increase supply evenly across the city, which is why certain pockets of the city are vastly unaffordable, correct?

**NERIDA CONISBEE:** Yes. Again, there are a lot of complexities in trying to get housing development up and running. Planning is obviously a key issue—ensuring easy planning. Infrastructure is often problematic in trying to ensure adequate infrastructure into areas that already have higher density. Then, of course, people not wanting higher densities in their suburbs is also a factor. We potentially could build a lot of apartments in Mosman, but there would be significant complaints from the residents.

**The Hon. DANIEL MOOKHEY:** I imagine there would be a backlash.

**NERIDA CONISBEE:** Definitely.

**The Hon. DANIEL MOOKHEY:** The thing is in places like Mosman—and, to be fair, Woollahra, Ku-ring-gai and others like that—they had a housing target growth of 300 over the last decade with a housing target growth of 300 over the next decade, which means 600 additional housing in 20 years in those LGAs. That's part of the reason we're having acute affordability issues closer to the Sydney CBD, correct?

**NERIDA CONISBEE:** Correct.

**The Hon. DANIEL MOOKHEY:** Equally, it is the case that completions in the Greater Sydney area have been slowing for about five years now. That's correct?

**NERIDA CONISBEE:** Yes, that's correct.

**The Hon. DANIEL MOOKHEY:** We basically need to get more supply in. That's basically where I started, which is where we're ending. That's far more likely to make an impact on housing affordability than this particular measure, wouldn't you agree?

**NERIDA CONISBEE:** Yes, absolutely.

**The Hon. DANIEL MOOKHEY:** I will go back to the conveyancers in the time I have left. What type of education do you think your members need? How much time do you think they need?

**CHRIS TYLER:** They need face-to-face education in terms of the actual revenue measure, the eligibility criteria—basically, the whole policy and how it's delivered and implemented. That support comes generally from Revenue NSW. Generally, we do face-to-face education events. But between now and January there are no more face-to-face education events available, so they will probably be via webinar. This is complicated information that they're trying to digest and understand how to convey to their clients. So that's the extent of the education.

**The Hon. DANIEL MOOKHEY:** Do you know whether or not, for example, the PEXA system can actually adapt to operate this choice and allow completions and settlements?

**DALE TURNER:** It's not so much the PEXA system itself; it's the adjustments that will have to be calculated within that. That's a little bit outside of the PEXA system, but it is still a part fundamentally.

**The Hon. DANIEL MOOKHEY:** But that's a key issue for conveyancers.

**CHRIS TYLER:** Correct.

**DALE TURNER:** It is one of the key issues, yes.

**The Hon. DANIEL MOOKHEY:** You do the adjustments.

**DALE TURNER:** Yes, exactly. Because we operate now in the electronic conveyancing system under the EDR—the Electronic Duties Returns system—it's the conveyancer who is the adjointer, if you like, between the client and State Revenue. So it's the conveyancer who is actually doing the assessment now. This is what happened with the surplus duties, where errors were made because it was rushed and education wasn't in place. As a result of that, the Office of State Revenue did not do an audit until about four years later. Those mistakes were picked up, the various conveyancers were sued and there's been an increase in the conveyancers policy of, I think, some 25 per cent this year. I understand that Lawcover has experienced similar.

**Ms ABIGAIL BOYD:** I thank all of you for attending this afternoon and for being so kind as to answer our questions about what does appear to be quite a rushed and hastily drafted bill. I will start with the conveyancers. In your submission and in your opening statement you talk about what happens when reforms are rushed. Can you set out for us exactly what the impact is, not just on yourselves but on the consumer, when it comes to the impact of having to scramble to understand new legislation?

**CHRIS TYLER:** As Dale said, the final impact of the rush of the Surcharge Purchaser Duty was an increase in their professional indemnity fees by 25 per cent on their renewal this year. In an ideal world, as businesses they should pass that on to their clients. Arguably, that would then be an increase in conveyancing fees. There was another reform last year, which was called the information notice. That was a reform around electronic conveyancing. That was basically well consulted but our feedback wasn't taken on board. Despite all the stakeholder engagement over 12 months, certificates of title were eliminated on 11 October last year and information notices were issued in lieu of certificates of title. From that date forward, a sound and prudent practitioner would do a post-settlement search. So do the financial institutions. Because, despite the feedback from industry that they needed to have on that information notice the information that appears on a certificate of title, i.e. the registered proprietor's name, it doesn't appear. And that is 12 months after the event. Since 11 October last year, most practitioners and some selected financial institutions are doing a post-settlement search. It doesn't sound like a lot of money—\$10, \$15—but you multiply that by hundreds of thousands and it becomes a significant amount.

**Ms ABIGAIL BOYD:** There's an increase in fees that are expected from an increase in professional indemnity insurance, which is caused by the increased risk of basically getting the advice wrong?

**CHRIS TYLER:** Correct.

**DALE TURNER:** That's correct.

**Ms ABIGAIL BOYD:** Plus an increase in the kind of incidental fees for measures that you then put in place to manage that risk or reduce that risk, like doing extra searches and things like that?

**DALE TURNER:** Yes. Obtaining a land tax section 47 clearance certificate, with an information broker's fee, I think is about \$47. I would imagine that a similar kind of cost for a clearance certificate from the property tax would also apply.

**Ms ABIGAIL BOYD:** This would apply not just to people who are the first home buyers who are actually purchasing the property but would also flow on to those people who are purchasing a property that might have been subject to this scheme. Is that right?

**CHRIS TYLER:** Correct.

**DALE TURNER:** Correct—any residential property, yes.

**Ms ABIGAIL BOYD:** For every property, you would then need to do this search to make sure what the status was of that property?

**CHRIS TYLER:** Correct.

**DALE TURNER:** Yes. I understand that it is the first debt on the property, so it is a statutory debt.

**Ms ABIGAIL BOYD:** Right. That is an entire market cost?

**DALE TURNER:** Yes.

**Ms ABIGAIL BOYD:** From this very targeted—

**DALE TURNER:** Yes.

**Ms ABIGAIL BOYD:** Thank you. I might turn to you, Ms Conisbee. In terms of the impact—I will be asking the Government about this, or Treasury about this, in the next session, but there is an assumption that we are going to get approximately 6,200 first home owners who would want to take this up every year. Do you think that is realistic? How many do we have at the moment? It has been estimated at 38,000, I think, per year. How many do you think would take it up? I don't know where they got this percentage from. I am very curious.

**NERIDA CONISBEE:** I don't know. It will definitely benefit some first home buyers. In areas where housing supply is good and the market is less competitive for houses, having extra money, or not having to spend extra money on stamp duty, will be very beneficial for these buyers. That again comes back to areas—often western Sydney. We know that they are well supplied for housing and they are not too expensive. Go to somewhere like Bondi and you look at someone who has a bit of extra money because they not paying stamp duty, they will just spend it on the house because it is very competitive, so it will give them a competitive edge.

I do think for some areas, and for some first home buyers, it will be very beneficial. We certainly know, looking historically at first home buyer activity, that if the aim is to get more first home buyers into the market, absolutely, providing money in some form or some stamp duty reduction—HomeBuilder, you know, those sorts of incentives—first home buyers love them. Last, in 2020, we saw almost record levels of first home buyers come into the market as a result of those incentives. And we see that everywhere. Everywhere where there is generous first home buyer incentives, we do see very high levels of activity. I don't know exactly. I mean, Treasury would have done modelling to work it out. But I do think, for some first home buyers, it would be seen as a good thing.

**Ms ABIGAIL BOYD:** They are also talking about having this additional amount of people who wouldn't have been able to afford it, necessarily, before, coming in and becoming first home owners when they wouldn't have otherwise. Presumably, then, the assumption is that that amount—that the 38,000 that we have now—would increase by a certain amount. But, yes, I will ask them how they then get that amount all up. You said earlier that this is not—and don't let me verbal you, please, correct me if I'm wrong—a housing affordability measure in itself, necessarily.

**NERIDA CONISBEE:** I think for some areas it is. There is no one magic bullet to solve housing affordability. Housing supply is the best, but within that there are a lot of measures—shared equity schemes, you can give them cash, you can build them houses. You can do a Singapore model and just build them houses. There are certainly lots of ways you can do it; this is one measure. But, I mean, going onto land tax—there have been a lot of studies to show that land tax is a better tax than stamp duty, so I feel that this is a first step and that the real benefits of switching to a land tax system—

**Ms ABIGAIL BOYD:** It's broader.

**NERIDA CONISBEE:** It's broader. So some first home buyers will benefit, some won't benefit. But downsizers—you know, we have a real problem with older people sitting in very big family homes and not having to pay land tax and not having their pensions adjusted because their big family home isn't taxed in the tax system. There is no incentive to downsize. So there are a few financial incentives to try to get them to downsize but that's probably a bigger issue—that there are a lot of family homes.

**Ms ABIGAIL BOYD:** Yes. It's a first step, but probably not the first step to take.

**NERIDA CONISBEE:** I suppose the other thing is around the idea of we know that not having stamp duty does allow people to move around more. We also know that it does allow for a higher turnover of stock. So that is better for the economy. There are more benefits of having a higher turnover of stock, as well. So there are a lot—I mean, you've probably heard a tonne of submissions around the benefits. But, yes, I see this more as a first step to help some first home buyers buy their first home. But then ultimately we'll ideally roll into a more—it'll be across, more broadly.

**The Hon. SCOTT FARLOW:** Ms Conisbee, heading back to that point of this being there to help "some" first home buyers. So this is a proposal that will have some benefit for first home buyers across New South Wales?

**NERIDA CONISBEE:** Yes, and I think it will be those that are—not I think, but it is likely to be those that are buying at lower price points and also buying in far cheaper areas than, say, the inner suburbs of Sydney.

**The Hon. SCOTT FARLOW:** You were talking previously about this providing, potentially, a benefit for first home buyers over other buyers in the market as well, because they will have this advantage. Do you see that playing out at all?

**NERIDA CONISBEE:** Well, yes, potentially. In terms of, say, upgraders or people—

**The Hon. SCOTT FARLOW:** Yes—or investors, for instance?



**NERIDA CONISBEE:** Yes, definitely for investors. So I guess that then comes to a bigger issue around housing stress and that we do have a bigger problem at the moment for renters than we do for home owners. So, fundamentally, that's right now. I think the market changes and switches. But first home buyers are fundamentally important because we know that people, if they buy their first home, once they hit retirement they're less likely to be in poverty. They also aren't subject to the market so much. When we look at someone—as a really simple example—10 years ago buying in Newtown, and if you're a renter you'd be paying probably 10 grand a year more on your rent. But even with the increase in interest rates, you're not only probably paying what you were paying 10 years ago but you've built up equity in your home. So that's problematic, that renters are really under this market strain over a prolonged time period. But, for now, if the aim is to get more first home buyers into the market then this will certainly help many of them.

**The Hon. SCOTT FARLOW:** And that rental strain is further exacerbated by not just having to save for the deposit but also saving for the stamp duty on top of that, and the additional period renting a property while trying to save for the stamp duty, which is estimated to be around two years, isn't it?

**NERIDA CONISBEE:** Yes, absolutely. Yes, the less people have to save up the quicker they can get into the market, and over a prolonged period of their lifetime it does put them in a vastly different situation to someone that's renting long term.

**The Hon. SCOTT FARLOW:** Ms Conisbee, in terms of looking at the average time that a first home buyer holds a property for, do you have or does Ray White keep any information on that?

**NERIDA CONISBEE:** No. I'm sure there is data on it but, no, I'm not aware—I don't know off the top of my head.

**The Hon. SCOTT FARLOW:** Do you have any general observations in terms of that behaviour? Is it typical for a first home buyer, for instance, to stay in a property for the rest of their life?

**NERIDA CONISBEE:** No.

**The Hon. SCOTT FARLOW:** Or is it something that they will—it's called a property ladder for a reason. People take the first step on that property ladder, for instance.

**NERIDA CONISBEE:** Yes, absolutely. I don't even know the average hold period. It's probably five to seven years. It has gone up. We know people are holding property for longer. But first home buyers don't buy and sell within a one- to two-year time period in general. They tend to hold for a bit longer and then they upgrade and move on to the next property.

**The Hon. SCOTT FARLOW:** So, for instance, a first home buyer under this scheme has the choice, effectively, of paying, let's say, \$30,000 up-front in stamp duty, or they have the choice of paying, let's say, \$1,000 to \$1,200 per annum for that five to seven years and would get a significant saving on what they'd be paying for their property tax?

**NERIDA CONISBEE:** Yes. And I think this is one of the challenges with giving people an option: It becomes quite confusing. First home buyers tend to be very nervous buyers. They transact more in slower markets because they don't have to make decisions quickly. When I present to first home buyers, they dig deep into what the market is doing and how they feel about the market. They're very, very nervous. I feel like it would be better just to say, "This is what we're doing," as opposed to giving them a choice. Because they then come under this problem where they think, "Hang on a second. I'm going to be holding it for five years, or maybe I'm not. Maybe I'm holding it for two years." They become—not stressed, but it becomes a hard decision for them. I feel like it would be better just to say, "No, this is it," and we move into this new phase. But I'm sure there are reasons as to why there's this choice being given.

**The Hon. SCOTT FARLOW:** To turn to the conveyancers, have you had any consultation when it comes to this legislation or, indeed, this package with Treasury or Revenue NSW at all?

**CHRIS TYLER:** We had consultations last year in January 2021 in terms of the actual property tax as it was promulgated then. We then had some follow-ups during the year in relation to our thoughts around that. But that was the broader model. In terms of this pared back offering, no, we haven't.

**The Hon. SCOTT FARLOW:** You have had none at all from either Treasury or Revenue NSW since this policy was announced? Because I'm advised that—

**CHRIS TYLER:** Since the policy was announced, we've talked to Revenue NSW, yes. But that has all been around their communication strategy to get our practitioners aware of the measure. But in terms of design, no.

**The Hon. SCOTT FARLOW:** In terms of that communication strategy, what sort of initiatives are you, in anticipation, undertaking to communicate to conveyancers, if this is to be passed through the Parliament?

**CHRIS TYLER:** If this was passed through the Parliament, we'd be facilitating webinars. We'd be facilitating other face-to-face opportunities to discuss it with Revenue NSW to basically get their team in front of our practitioners. But given the fact that we're talking about across New South Wales, webinars are the most effective means.

**The Hon. SCOTT FARLOW:** I imagine since COVID everyone is pretty used to webinars these days.

**CHRIS TYLER:** Correct. But in terms of the consultation, it has very much been around the communication strategy rather than the design or the particular circumstances of the measure.

**The Hon. SCOTT FARLOW:** How to get it out there, yes. I'll pass to my colleagues, if they've got any further questions.

**The Hon. CHRIS RATH:** So you would say that these issues have been incredibly well ventilated, then, throughout 2020 and 2021. There was the announcement of this particular reform in the budget back in June, and it sounds like there has been quite a lot of consultation.

**CHRIS TYLER:** No, I wouldn't say they were ventilated. Not in 2020. In 2021, we first saw them in January.

**The Hon. CHRIS RATH:** This is a fairly routine process from government, though. I don't know how many reform processes you've been involved in but often the Government will float a potential reform, there will be consultation, it will hear from a wide range of stakeholders, there will be a proposal and then, based on advice and feedback from stakeholders, the policy can change. Every government listens to stakeholders, and this process I wouldn't say is particularly new. You would have known that for the last two years something was coming in terms of moving towards a land tax or at least giving people the option of a land tax. It wasn't like it was sprung up on you overnight.

**DALE TURNER:** That is true to say that. But we've given examples of our experience and the outcomes of that experience, and we would anticipate a similar kind of result.

**The CHAIR:** Thank you to all of you for your time this afternoon. We really do appreciate it. We've finished with this session and we'll set up for the final session of the day.

**(The witnesses withdrew.)**

**Dr MICHAEL WARLTERS**, Executive Director, Tax Reform Taskforce, NSW Treasury, affirmed and examined

**Mr BEN FITZGERALD**, Director, Tax Reform Taskforce, Tax Reform Taskforce, NSW Treasury, affirmed and examined

**The CHAIR:** Thank you for joining us this afternoon. We do appreciate it. Did you want to make a brief opening statement?

**MICHAEL WARLTERS:** I welcome the opportunity to answer the Committee's questions about the Property Tax (First Home Buyers Choice) Bill 2022. The bill is the outcome of a two-year consultation process following the release of a consultation paper in November 2020 and progress paper in June 2021. The Government has been informed by extensive feedback from across the community. First Home Buyer Choice builds on the ideas developed in the consultation process, such as the idea of a choice between an annual property tax and stamp duty, different property tax rates for owner-occupied and investment properties, indexation in line with average incomes and a deferral scheme for households unable to meet property tax payments.

The Government has ultimately chosen to focus the property tax on first home buyers, including First Home Buyer Choice, as part of a broader housing package that addresses both housing affordability and home ownership. That package also includes a shared equity scheme and supply-side measures totalling more than \$1 billion over the forward estimates. First Home Buyer Choice has been designed and is expected to increase home ownership—that is, the owner-occupied share of the housing stock. It will lower the up-front costs facing first home buyers and it will alter relative prices in favour of owner-occupiers versus investors. As a guide to the magnitude of the property tax, if all properties priced between \$600,000 and \$1.5 million were subject to property tax rates, the average owner-occupier payment would be about \$1,700. This compares with stamp duty of \$31,000 for an \$800,000 home and \$66,700 for a \$1.5 million home.

A typical New South Wales house has a land-to-market value ratio of around 60 per cent. Units and town houses usually have lower ratios. For all such properties costing between \$800,000 and \$1.5 million, using reasonable assumptions about indexation and discount rates, the present value of property tax paid over 20 years will be less than the relevant stamp duty. About two-thirds of owner-occupiers sell their properties within 20 years and we expect that first home buyers will typically hold their properties for a shorter period than that. For this reason, we expect that about two-thirds of first home buyers purchasing between \$800,000 and \$1.5 million will choose the property tax. I would be very pleased to answer questions on these or any other aspects of the bill.

**The Hon. DANIEL MOOKHEY:** Thank you, Dr Warlters, and thank you, Mr Fitzgerald. I place on record that we do appreciate the work that the Treasury has done and does on these types of proposals. I put that very clearly. Equally—and I have said this before as well at estimates hearings—I also appreciate the fact that I have been asking questions to Treasury officials about this since 2019, so I appreciate that information that the Treasury has provided.

**The Hon. CHRIS RATH:** Long consultation process.

**The Hon. DANIEL MOOKHEY:** Can I ask a couple of questions to elucidate some data? You anticipate 6,200 people will choose to pay this property tax next year?

**MICHAEL WARLTERS:** In the initial years, yes—per year.

**The Hon. DANIEL MOOKHEY:** And next year you intend to raise \$18 million from the property tax, according to the budget. That's correct?

**MICHAEL WARLTERS:** Of that order, yes.

**The Hon. DANIEL MOOKHEY:** I just did the maths and it works out that the average is \$2,900 per taxpayer of the 6,200. That is just a pure arithmetic calculation of revenue received, divided by the number of people expected, which means that the average is more likely to be \$2,900.

**MICHAEL WARLTERS:** As I said, the 6,200 is an average over four years, so it depends on the volumes in the relevant years.

**The Hon. DANIEL MOOKHEY:** I accept that, but arithmetically it is not \$1,700 as you said. It is just the budget figures make it clear it is about \$2,900.

**MICHAEL WARLTERS:** Arithmetically it is \$1,700.

**BEN FITZGERALD:** Year one we are expected to collect \$9 million in property tax.

**The Hon. DANIEL MOOKHEY:** Yes, that is right, but that is not for the full year because that has only been applying for five months. And then the second year, which is the first year that it is fully applied in the budget, it is \$18 million. Correct?

**BEN FITZGERALD:** Yes, which is roughly \$9 million from new people who opt in that year and \$9 million from people the year before.

**The Hon. DANIEL MOOKHEY:** Thank you for clarifying that. Can I ask you some other points of data as well? How many first home buyers are there in New South Wales per month?

**MICHAEL WARLTERS:** I can give you per year. In a typical year—so there are problems with the data. At the moment all of the data sources collect data from people who are getting duty concessions. That's the reason you say you're a first home buyer—because you're going to get a duty concession.

**The Hon. DANIEL MOOKHEY:** Yes.

**MICHAEL WARLTERS:** If you're not getting a duty concession, nobody declares. So you have to do some modelling to figure out what's the likely number of first home buyers.

**The Hon. DANIEL MOOKHEY:** Yes, sure—accepted.

**MICHAEL WARLTERS:** We believe that there are about 57,000 per year in a normal year.

**The Hon. DANIEL MOOKHEY:** Sure.

**MICHAEL WARLTERS:** Of those, about 46,000 per year, in a normal year, would get existing concessions, and about 11,000 up to \$1.5 million would get—

**The Hon. DANIEL MOOKHEY:** Can you just repeat that? Was it 46 per cent?

**MICHAEL WARLTERS:** There's about 46,000 who currently receive concessions of some form up to \$800,000.

**The Hon. DANIEL MOOKHEY:** Yes.

**MICHAEL WARLTERS:** There's another 11,000 in a normal year between \$800,000 and \$1.5 million. We believe that covers about 97 per cent of all first home buyers

**The Hon. DANIEL MOOKHEY:** I appreciate that. Treasury has said that before.

**MICHAEL WARLTERS:** So there could be an expat that comes in with \$10 million to buy and this scheme doesn't cover that.

**The Hon. DANIEL MOOKHEY:** Dr Warlters, I really appreciate that and to be fair that accords with data that Revenue NSW has provided to the Parliament and that Treasury has provided to us previously as well.

**MICHAEL WARLTERS:** Sorry, I would just make another point. That's a normal year. We're going into our property market downturn, so the volumes in the coming years are a bit lower than that normal year sort of number.

**The Hon. DANIEL MOOKHEY:** Of course. I appreciate that. But of that 11,000, how many of them are purchasing from \$800,000 to, say, \$1 million? Do you know?

**MICHAEL WARLTERS:** I don't have that detailed breakdown.

**The Hon. DANIEL MOOKHEY:** Does Treasury have that officially at all?

**MICHAEL WARLTERS:** No. I mean, it's not—you have to make some assumptions around the distribution. There will be higher volumes—

**The Hon. DANIEL MOOKHEY:** And have you?

**MICHAEL WARLTERS:** Yes, we've made some assumptions around the distribution. We could model that number but we haven't modelled. I don't have that number off the top of my head.

**The Hon. DANIEL MOOKHEY:** Sure. I appreciate that. I'm not suggesting that.

**MICHAEL WARLTERS:** The bulk of—there'll be more numbers in the lower prices than in the higher price range among the first home buyers.

**The Hon. DANIEL MOOKHEY:** Of course. That's just logical.

**MICHAEL WARLTERS:** There's a hump shape to the distribution.

**The Hon. DANIEL MOOKHEY:** It's a bell curve, yes. I appreciate that, Dr Warlters. I'm not expecting you to have the figures, but what I am asking and seeking an understanding of is do you have any estimate, or can you—I know you can't take questions on notice, but it would least assist if we could at least get some sense of the distribution curve from the \$800,000 to \$1.5 million, which is basic distributional analysis of a tax reform proposal as well. But I appreciate you may not have the numbers. But if you—

**MICHAEL WARLTERS:** We do have the numbers. I don't have them in my head right now and you're not taking questions on notice, so—

**The Hon. DANIEL MOOKHEY:** Okay. Thank you. I appreciate that. Look, I just want to turn to some other considerations that have been raised by other people, especially the one consideration which, in preparing for today, I just realised we need to ask. The Australian Banking Association, in response to a 2021 consultation, said:

... ABA members will need to seek confirmation from ASIC and APRA regarding their expectations around the treatment of the tax scheme under the lending regulations. This discussion will need to clarify:

- what assessment is required for customers who pay stamp duty upfront but intend to transition ... and
- whether the customer-stated estimate of annual land tax is suitable for serviceability assessment—

that they are all subject to. Obviously prudential standards apply to banks who lend to first home buyers. Has the Treasury engaged ASIC and APRA to clarify what impact this actually does have on serviceability rules?

**MICHAEL WARLTERS:** We have not engaged ASIC and APRA on that particular topic. We actually did engage with ASIC—sorry, that's not correct. We did engage with ASIC on that topic about 18 months ago.

**The Hon. DANIEL MOOKHEY:** But since this proposal has been introduced to the Parliament—

**MICHAEL WARLTERS:** The specific issue here is what is the nature of the choice that somebody's making.

**The Hon. DANIEL MOOKHEY:** I'm across what the issue is.

**MICHAEL WARLTERS:** There are questions. We've had questions from the Banking Association about is this financial advice. Our legal advice is that a simple calculation of what is the expected present value of future property tax is not a question of financial advice. It's a question of arithmetic and it's something that a range of professional advisers would be able to comment on.

**The Hon. DANIEL MOOKHEY:** Dr Warlters, my time is limited. I appreciate that, but that wasn't the question I asked. I know what the ABA's concerns are. That includes one of their concerns about whether they are providing financial advice. Dr Warlters, their actual concern that they are raising here—and, to be fair, that they have raised with us too—is that they don't know how this would align with ASIC's requirements around what is a responsible lender. It's not about financial advice; it's whether or not they need to adjust the way in which they assess a borrower, given that they are going to be having to now factor in an ongoing annual tax for as long as they require it. I'm asking whether or not there has been specific engagement with APRA on that specific point since this proposal—not last year's proposal—has come out.

**MICHAEL WARLTERS:** Not with APRA since this proposal has come out. We would expect banks would take this expense as they take all other expenses into account in assessing borrowing capacity.

**The Hon. DANIEL MOOKHEY:** Thank you. I do appreciate that. Dr Warlters, the ABA also says in last year's proposal:

To ensure that banks are well prepared to assist NSW residents in accessing the scheme, banks will require more detail on its design and operation six months in advance of its commencement. The data points that ABA members will require are:

- confirmation of when the customer will be required to nominate their preferred tax model
- the process by which a customer chooses the tax treatment for their property and the subsequent process by which lenders get line of sight into this information

They also go on to talk about API and system specific requirements to enable data feeds from NSW Treasury to banks. They also make the point that they need to know about the treatment of misused properties and they also need to know about the frequency of reassessment base. I accept that a lot of those are surmountable issues. I am not suggesting that any of those issues are insurmountable. But the ABA has said quite clearly that they needed six months to this, and they are not getting six months to do this. Apparently, if we pass the law in two weeks' time, it's operating on 13 January. Have we actually addressed those concerns, given that, fundamentally, a person's ability to enter into the property market turns on their ability to access finance as well? Have those concerns even been put in place or not?

**MICHAEL WARLTERS:** We have consulted with the ABA. They have been aware of this proposal for some time. Your questions would probably be best directed to the ABA. That is part of the—

**The Hon. DANIEL MOOKHEY:** No, my questions are to you.

**MICHAEL WARLTERS:** There is a program of industry consultation and advising—

**The Hon. DANIEL MOOKHEY:** Dr Warlters, my time has run out. I am going to press for a specific answer. It's not a question to the ABA because it is about the Treasury.

**MICHAEL WARLTERS:** I am trying to answer the question, if I may.

**The Hon. DANIEL MOOKHEY:** I am asking you whether or not the Treasury has put in place these systems that the ABA says that they need.

**MICHAEL WARLTERS:** Revenue NSW is running the implementation. Revenue is consulting with all of the affected industries for the information that needs to be provided. There is a program of providing the necessary information to the affected industries. The banking association is one of those industries.

**The CHAIR:** I am going to call on Ms Boyd but just before I do that I am going to leave and hand over to the Deputy Chair, the Hon. Scott Farlow.

**Ms ABIGAIL BOYD:** Good afternoon to you both. Thank you for coming along and answering our questions. Dr Warlters, in your opening statement you repeated the line that we have heard from the Premier on this that this is the result of two years of consultation. It is true, though, isn't it, that this particular version is very different to the broadscale transition package that was being proposed previously?

**MICHAEL WARLTERS:** This is a package that is limited to first home buyers for the duration that they hold their first home. That is a major difference. Otherwise, there are a number of features that have been carried over from the consultation model that was being considered. Ultimately, the Government has decided, having listened to the community, to have a narrower focus for this particular policy proposal.

**Ms ABIGAIL BOYD:** When you ran that consultation process on these two completely different—sorry, there were similarities between proposals throughout the two years. But during that consultation process, which stakeholders suggested that this should be limited to first home owners?

**MICHAEL WARLTERS:** I'm not aware of that as a specific proposal from particular industries.

**Ms ABIGAIL BOYD:** So the consultation process that then led to the Government deciding to only do this in relation to first home owners was not really a process from the consultation. When we look at this bill, it really is just something completely separate, isn't it? It's tangentially related because it's talking about giving an exception from stamp duty and putting in this land tax idea instead, but it bears no resemblance to this consultation that was very clearly directed at how we, as a State, transition that revenue stream from stamp duty to land tax.

**MICHAEL WARLTERS:** Look, it differs in key features, and it is similar in key features. I've referred to that in my opening statement. There are the same tax rates, there's the same indexation, and there's the same deferral scheme. All of these things were products of that consultation process.

**Ms ABIGAIL BOYD:** Sure, but multiple proposals have been put around Australia that include some of those very standard features of how you might basically replace stamp duty in a circumstance with land tax. Can I ask you about the numbers, then? I understand—well, I hope I understand, so please correct me if I got the numbers wrong—that between this 800 and \$1.5 million value, we're looking at approximately 11,000 people in a normal year who would be first home owners. Is that correct?

**MICHAEL WARLTERS:** Yes.

**Ms ABIGAIL BOYD:** When we're talking about the 6,200 on which the modelling is based, how much of the 6,200 comes from that existing what you'd expect to be 11,000, and how much of it comes from an anticipated increase in the number of first home owners?

**MICHAEL WARLTERS:** Broadly, the group between 800 and 1.5 million, we're expecting about two-thirds to be opting in. Within the price bracket 650 to 800 where there are existing concessions, obviously in that bracket property tax is often less attractive, but we're still expecting about 20 per cent of that group to opt in. You can still pay substantial stamp duty within that price bracket. Sorry, I'm not sure that that quite answered your question.

**Ms ABIGAIL BOYD:** No. In the modelling, was there an assumption that there would be an increase in numbers of first home owners to begin with?

**MICHAEL WARLTERS:** Substantially, what goes on with first home buyers is you pull forward their transactions. Effectively, you lower the average rate at which people buy a property. If everybody currently buys properties at 34 and as a result of this reform it becomes 33 that you buy it, then in the initial year you kind of massively increase the number of first home buyers; you've kind of got two years of first home buyer numbers. Thereafter, you're back to one year of first home buyer numbers.

**Ms ABIGAIL BOYD:** What's that increase—

**MICHAEL WARLTERS:** That's to help explain the idea. What's happening is not that you change—in the long run, you don't change the number of first home buyers by any significant amount, but you permanently bring forward a cohort of first home buyers.

**Ms ABIGAIL BOYD:** Understood.

**MICHAEL WARLTERS:** That results in an increase in home ownership overall, the number of owner-occupiers, as a share of the stock.

**Ms ABIGAIL BOYD:** But in that first year, then—

**MICHAEL WARLTERS:** It will spread out over a couple of years. I made it a simplified version, but that's essentially what's going on. We're bringing forward a cohort of people, and it will increase home ownership.

**Ms ABIGAIL BOYD:** What you're saying is that in your modelling, then, that 6,200 is taken out of what you would expect in a normal year. It doesn't take into account a little bump that you might get in the first year, for instance.

**MICHAEL WARLTERS:** That modelling takes account of some of that pull forward, but it's also just what you would expect. I mean, it's a mix of things. It also takes into account the existing transfer duty market—the expectations of lower-than-average volumes at the moment.

**Ms ABIGAIL BOYD:** Sure. How did you come up with the two-thirds, then?

**MICHAEL WARLTERS:** When you look at the present value of property tax under reasonable assumptions, you end up with break-even periods of 20 years or over for pretty much everything except for the most extreme land-to-market value ratios. We know that two-thirds of all owner-occupiers sell their property within 20 years. We've got a research paper that we've put out on that. Half of all owner-occupiers sell their property within 10.5 years. There are some people who hold for longer. If they plan to hold for a very long time, they may want to prefer to pay duty, but—

**Ms ABIGAIL BOYD:** You're making the assumption, then, that a normal or average buyer would then be looking—at the time of sale, they'd be making this incredibly disciplined, informed decision about exactly how much they are likely to pay over the period of time in which they think they're going to hold the house versus stamp duty. You're expecting a very rational assessment of that at that point.

**MICHAEL WARLTERS:** It's quite interesting to look at the way markets behave. People don't make all of those calculations that economists would do to work these things out.

**Ms ABIGAIL BOYD:** No, they don't.

**MICHAEL WARLTERS:** And yet they behave as though they did. That's a pretty common feature.

**Ms ABIGAIL BOYD:** Even in housing? Even in limited housing, where you're trying to put a roof over your head?

**MICHAEL WARLTERS:** Yes. If you want a simple rule of thumb, you can simply multiply expected number of years times the first year of property tax and you'll get a pretty good approximation of the present value of the property tax.

**Ms ABIGAIL BOYD:** If you were wrong and the two-thirds is not correct and it's actually closer to 90 per cent, say, have you done any analysis of what the hole in the budget would then be? If we're looking at \$1.6 billion over 10 years?

**MICHAEL WARLTERS:** If instead of two-thirds you had 90 per cent, then you'd multiply by the relevant factor. It's a pretty simple sort of adjustment.

**Ms ABIGAIL BOYD:** Yes, right. But it's very relevant, isn't it, because if we ended up with \$2.5 billion then it becomes an even more relevant consideration as to whether this is the best use of money?

**MICHAEL WARLTERS:** The housing market is highly volatile. All estimates in this area are subject to considerable uncertainty. There's probably much greater uncertainty around the totality of transfer duty revenue

than there is any fluctuations arising from this policy. You see transfer duty revenue can go up or down by plus or minus 20 from year to year.

**Ms ABIGAIL BOYD:** We heard earlier from those responsible for implementing this within Revenue—and we've heard from others—that there seems to be a number of uncertainties or a number of issues that have not necessarily been worked out yet. For example, regarding the mixed use properties, there was some uncertainty over the terms of the legislation. Have you listened to what was being said? In your mind, are there aspects now of the bill that you think perhaps we need to tighten up?

**MICHAEL WARLTERS:** I'll pick up on the point on mixed use property. I think there was a bit of confusion this morning. Mixed use is an existing category that applies in land tax. The typical mixed use property, it's a single title. The typical example is along Parramatta Road there's a bunch of properties—old terrace-type buildings. The ground floor is a building. Above that, there's an apartment. It's all on a single title. The revenue commissioner comes along and says, "I'm going to hit you with land tax," and the owner says, "But hang on, you can't hit me with tax on my owner-occupied flat above. It's a single title." At that point an apportionment factor comes, if you can divide the land between the use that's owner-occupied and the use that's business. That's the sort of thing that gives rise to the category of mixed use.

You can't opt in those properties into mixed use because it's got a business in it. If you look at section 14 of the bill, if there's a business in a property you can't opt it in. So it's purely for properties where 100 per cent of it is a dwelling. So the questions this morning about strata-title buildings being mixed use—each individual unit has its own use, which is residential or business. The question of mixed use doesn't arise in those settings. They've each got their own use. The question of mixed use arises in the context of those sorts of old properties that have got, as I said, a mixed use and you can divide it but it's all a single title. That's when it becomes relevant.

**The Hon. SCOTT FARLOW:** I will just pick up on that point and then hand over to my colleagues. Effectively, what would be colloquially known as a mixed use development—for instance, a new five-storey apartment building that has on the bottom a range of shops and then has four storeys of residential development—would not be mixed use for the purposes of this?

**MICHAEL WARLTERS:** The individual apartments there are not mixed use. They're apartments, they're dwellings, and they can be opted in.

**The Hon. SCOTT FARLOW:** Yes, so there's no dispute. The discussions we've had earlier today about apportionment disputes and the like are just a furphy, really.

**MICHAEL WARLTERS:** No, that's a question when they're setting up unit entitlements. Once you've got a strata scheme and you've got some strata used for residential and some units are used for business purposes—each of those has their own unit entitlement—there's no dispute about who owns what proportion of the land. Mixed use, for purposes of land tax and for property tax, is a different sort of concept from what some of the people were talking about this morning.

**The Hon. SCOTT FARLOW:** Thank you for clearing that up. I will hand over to my colleagues Mr Rath and Mr Martin.

**The Hon. CHRIS RATH:** Has Treasury been asked to do any modelling or costings on other cohorts outside of first home buyers for this reform, like pensioners, for instance?

**MICHAEL WARLTERS:** For this proposal, no.

**The Hon. CHRIS RATH:** Have they ever been asked as part of this process?

**MICHAEL WARLTERS:** We spent the past two years consulting on a broad measure. That was something that envisaged a transition to 100 per cent coverage of property tax, but in terms of this proposal, we haven't been asked to do any modelling on changing the scope of this particular proposal.

**The Hon. CHRIS RATH:** Okay, because I think this is important just to rule out this sort of scare campaign that it's going to be used as a precursor to other groups. You're saying that the Government does not have any plans to extend the policy to other cohorts.

**MICHAEL WARLTERS:** That's correct.

**The Hon. CHRIS RATH:** I was wondering if you could also run through the indexation in terms of why GSP is a better measure for indexation than, say, property or land values.

**MICHAEL WARLTERS:** We looked at a range of measures. You could have something that would be very simple to understand, which would be \$400 plus 0.3 per cent of land value forever. Land values can go up or down. They can go up by 20 per cent from one year to the next. That level of volatility is very uncertain for



people who are wanting to know what their future property tax bills might be and also may not be particularly affordable from one year to the next. At the cost of increased complexity, we looked to a scheme that would result in a more stable movement of property tax payments over time and which would move in line with ability to pay. GSP per capita provides a very stable measure by comparison with any other relevant index, and it provides a broad measure of income that feeds into the ability of people to pay.

In addition, as an added protection for households, there is the 4 per cent cap that provides that property tax payments can't rise by more than 4 per cent from one year to the next. But the average property that is opted in to the property tax would, under this proposal, grow at GSP per capita, which over the past 15 years has grown at 3.2 per cent. Under normal times, we'd expect that that would be a good guide to how much average property tax payments will grow in future. For any individual property, you'd be best assuming that your property is going to grow in line with the average property in the absence of detailed knowledge of what's going to drive your variation from the average.

**The Hon. CHRIS RATH:** So fairer and more certain indexation for first home buyers over that period but also probably a more reliable stream of revenue to the Government, I would assume, than the radical fluctuations in land value that sometimes happen year on year.

**MICHAEL WARLTERS:** That's correct. In the initial years this revenue stream will be driven—the changes or growths, and my colleague Mr Fitzgerald referred to the growth over time as more properties enter the scheme. Eventually you get to a stable point where entries in equal exits from, and at that point the overall revenue pool will grow at a rate that's equal to GSP. That is to say, it will stay a constant share of the total economy, and that's a very attractive feature from a government point of view. The indexation scheme here provides the protection for households and it provides certainty for government in the long run around the growth of the revenue stream.

**The Hon. CHRIS RATH:** How do you think house prices will be impacted from this proposal?

**MICHAEL WARLTERS:** We expect no noticeable effect from this one on house prices. When you look at the net revenue being given up, which is effectively the injection into the housing market, it represents about 0.1 per cent of total consideration paid for house prices in New South Wales or about 0.2 per cent of the house prices in the \$650,000 to \$1.5 million price range. That's probably a pretty good guide to any sort of change in house prices, and it's in the context where dwelling prices are currently falling by about 1.5 per cent per month. So we really don't expect that this is going to have any sort of noticeable effect on house prices.

**The Hon. CHRIS RATH:** One thing that hasn't come up today, but I think it's important—this is probably the final question; I assume we're almost there—is the issue of if a government in the future, probably a Labor government in many years to come, decided that it wanted to push up the tax rates, I assume that there are protections in the legislation to make that a more difficult process? Would you be able to run through that with us?

**MICHAEL WARLTERS:** Yes, that's right. Section 55 sets out a process that the bill asks future governments to abide by if it considers changing the tax rates. A bill must not be introduced into the House without notice of the proposed bill of at least 30 sitting days before the bill is introduced. The Minister proposing the bill must ensure reasonable steps are taken to notify members of the public and relevant organisations about the proposed increase in property tax. There must be a reasonable opportunity for submissions. The Minister proposing the bill has to ensure that a summary of the opinions expressed in the submissions is tabled in the Parliament. There's a substantial procedural obstacle in front of any future government that might want to change the tax rates.

**The Hon. CHRIS RATH:** Far greater protection than, say, increasing stamp duty or payroll tax now, for instance, which could be announced in the budget without any consultation?

**MICHAEL WARLTERS:** That's right.

**The Hon. SCOTT FARLOW:** We have 10 seconds remaining, so if Mr Rath is eased there, we might conclude the hearing. Thank you very much for your attendance today. As you have no doubt already referenced, there's no ability for questions on notice today because of the short time frame. We thank you very much for your submission to the inquiry and for your assistance today. That concludes our hearing for today.

**(The witnesses withdrew.)**

**The Committee adjourned at 15:46.**