The **NSW** BUDGET *2020 2021*

Consultation Paper
BUYING IN NSW, BUILDING A FUTURE

CREATING JOBS *and* **SECURING OUR FUTURE**

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SECURING OUR FUTURE

NSW Treasury
52 Martin Place, Sydney NSW 2000

www.budget.nsw.gov.au
www.treasury.nsw.gov.au

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BARKINDJI PEOPLE, WILCANNIA
Destination NSW

ACKNOWLEDGEMENT OF COUNTRY

NSW Treasury acknowledges that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and thank them for their custodianship of Country – land, seas and skies. We acknowledge the diversity of First Nations cultures, histories and peoples, recognise their enduring connection to our State, and we pay our deepest respects to Elders past, present and emerging.

Contents

01. Introduction

Owning your own home is a quintessential part of the great Australian dream, but in recent decades an increasing number of people in NSW have felt locked out of that dream.

The Government's vision for NSW is for more people to be able to own their own home, with more freedom to choose the right home for themselves and their family at every stage of life. That vision extends to all – from first home buyers looking to get a foot on the property ladder, to frontline workers moving to service our regional communities, to retirees who are ready to downsize.

To help make this happen, the NSW Government is considering a once in a generation change to our property tax system giving people the choice to avoid the large upfront cost of stamp duty, and instead, to pay a much smaller annual property tax.

The proposed changes could provide a critical economic boost at the time we need it the most. The proposed changes could inject $11 billion over four years into the economy providing much needed stimulus in the current downturn. It could also deliver the most significant economic reform available right now to strengthen our state's economy and increase our prosperity over the long term.

The NSW Government is embarking on a public consultation process to help shape the reform . We want to hear from the people of NSW about how changes to the system could help them achieve the Australian dream of owning their own home.

Purpose of this document

The Government has released this **Consultation Paper** to help inform the public and interested stakeholders during the public consultation period.

The paper sets out the case for the change and a policy framework for changing NSW property taxes that the NSW Government believes would deliver real benefits for the people of NSW.

You can find more information about the proposed changes at: www.treasury.nsw.gov.au/property-tax-proposal.

Have your say by visiting: www.haveyoursay.nsw.gov.au/nsw-property-tax-proposal or submitting a written response to TaxReformTaskforce@treasury.nsw.gov.au by 15 March 2021.

NSW Treasury may publish submissions on its website unless accompanied by a request for confidentiality.

02. Creating a modern tax system

Stamp duty was introduced to NSW in 1865 and has continued for more than 150 years. Stamp duty served a purpose when house prices were lower relative to income and moving around regularly was rare.

However, the way we live, work and move has changed. In the last 40 years alone, Australia has transitioned from an industrial workforce to a professional one[1]. Today, young Australians are likely to navigate 17 job changes across five different careers over their working lives[2]. And the amount of duty homebuyers pay has grown dramatically faster than house prices or incomes.

1 McCrindle Research (2014), 'Australia Then and Now: 30 Years of Change', at https://mccrindle.com.au/insights/blogarchive/australia-then-and-now-30-years-of-change

2 McCrindle Research (2014), 'Job Mobility in Australia', at http://mccrindle.com.au/the-mccrindle-blog/job-mobility-in-australia

Australia has changed and stamp duty is a big tax that is no longer serving the people or economy of NSW. As the next generation of home buyers enter the market, we need a modern system that reflects the world we live in now.

Over the years, numerous experts have called for the abolition of stamp duty. The most recent call for stamp duty reform was made by the NSW Review of Federal Financial Relations (2020), chaired by David Thodey. The FFR Review found that an annual tax on land values would be more productive and would raise the same revenue at a lower economic cost.

The NSW Productivity Green Paper (2020) has also recommended replacing stamp duty with a broad-based land tax on unimproved land values. During consultations, the Productivity Commissioner heard repeatedly that existing property taxes prevent property from being allocated to its most valued uses.

Other expert reports have also reached a similar conclusion, including IPART (2008), the Henry Review (2010), the NSW Financial Audit (2011), the ACT Taxation Review (2012), the McKell Institute (2016), the Commonwealth Productivity Commission's 'Shifting the Dial' report (2017), the Grattan Institute (2018) and the Australia Institute (2020).

Despite all this expert opinion, stamp duty has persisted with very little change over the years.

This Consultation Paper moves the discussion from a theoretical proposition into a genuine proposal. It sets out a high-level design for what the new property tax could look like, and how NSW residents could be empowered to transition to the new scheme at their own pace.

The Consultation Paper proposes a new annual property tax that would ultimately replace both stamp duty and land tax, using a transition that relies on the individual choices of people when they buy property.

03. What are stamp duty and land tax?

Property taxes – consisting of stamp duty and land tax – provides around 36 per cent of NSW tax revenue.

STAMP DUTY

Stamp duty is triggered by a property transaction and levied on the sale price. Because it increases the up-front costs of home purchase, it is a major barrier to anyone saving for their first home or wanting to upgrade.

Saving for stamp duty alone can take 2.5 years for an average worker, in addition to the time it takes to save for the home deposit itself[3].

Even when saving is less of a barrier, such as when people are seeking to downsize or change address for job or family reasons, stamp duty is still a major obstacle. It increases the cost of a property transaction by almost 400 per cent[4].

That means many people live in a home that doesn't meet their current needs because of the high transaction costs.

WHAT IS STAMP DUTY?

Stamp (transfer) duty is a transaction-based tax paid on the transfer of land, both residential and commercial. The duty is paid by the purchaser of the property, based on the sale price, which comprises the value of land and buildings on the property.

Stamp duty has a progressive tax structure in which the tax rate increases as the purchase price increases.

When stamp duty first appeared in NSW in 1865, the rate was 0.5 per cent of the value of property that was being sold. Since then it has grown to an average rate of 4.0 per cent, and has become a brake on the economy.

3 Time to save for a deposit based on average annual earnings (ordinary time) for a full-time worker in NSW assuming a saving rate of 15% of income.

4 In 2009 NSW stamp duty revenue was 137% of the ABS measure of ownership transfer costs. By 2018, stamp duty was 384% of ownership transfer costs (Nassios et al., 2020).

Numerous studies have concluded that among State taxes, stamp duty inflicts the greatest damage on the economy. The Henry Review of Australia's Future Tax System concluded: 'Stamp duties on conveyances are inconsistent with the needs of a modern tax system.' (Henry et al., 2009).

A review of nine recent studies of the Australian tax system indicates that each additional dollar of residential stamp duty revenue lowers living standards by about 90 cents. For stamp duty on commercial property, the impact is even higher, with an economic cost of $1.00 for every dollar of revenue raised (Malakellis and Warlters, 2020).

LAND TAX

Land tax places a large tax burden on a small number of taxpayers.

In 2020, around $4.7 billion of revenue will be generated from about 180,000 land tax payers, giving an average annual land tax bill of about $26,000 per tax payer.

Focusing on properties, rather than the people who pay land tax, about 260,000 out of 3 million residential properties in NSW (about 8.5 per cent) are subject to land tax. Even among commercial properties only about a quarter are subject to land tax.

The upshot is high rates of tax paid by a small group of taxpayers.

WHAT IS LAND TAX?

Land tax is an annual tax paid on the 'unimproved' value of land.

It has a high tax-free threshold, and many large exemptions, including the principal place of residence and farms.

Land tax is charged at a rate of 1.6 per cent on an entity's aggregate land holdings above $734,000. A premium rate of 2 per cent applies to an entity's land holdings over $4,488,000. Thresholds change each year.

Land tax currently relies on a narrow tax base of commercial land and investor-owned residential landowners.

04. The case for change

The removal of stamp duty could have tangible benefits for everyone in NSW, boosting home ownership, household mobility, the economy and jobs

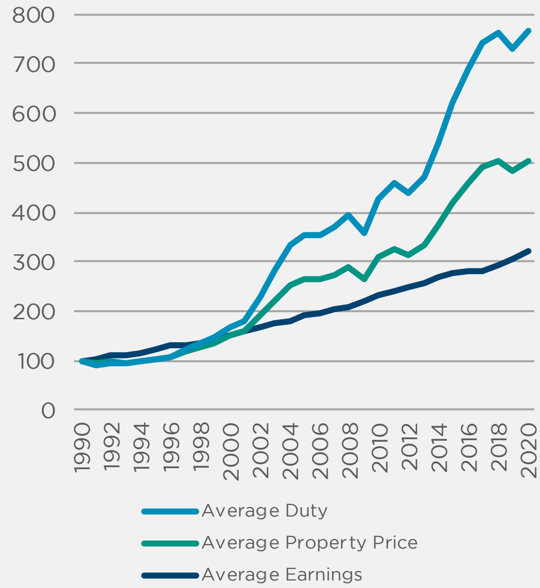
BOOSTING HOME OWNERSHIP

Since 1990, NSW average earnings have trebled, average house prices have increased around five times, and average stamp duty on dwellings has increased more than seven times[5]. Almost inevitably, homeownership has declined, from around 70% in the 1990s to around 64% today[6].

The NSW Government wants to make home ownership more achievable and is considering removing one of the biggest upfront barriers to buying a home, stamp duty.

The proposed changes would also place downward pressure on home prices over the longer term, making housing more affordable for all.

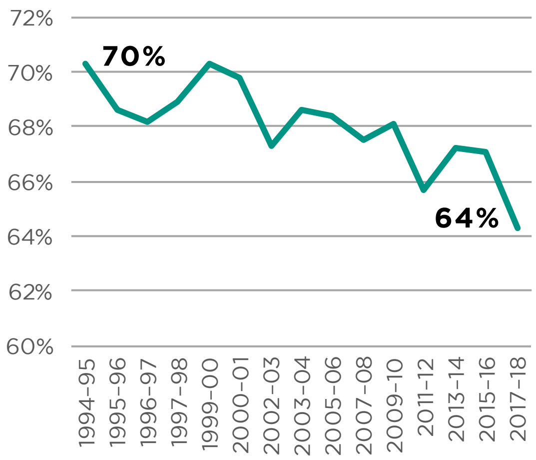
STAMP DUTY, PROPERTY PRICES AND EARNINGS OVER TIME



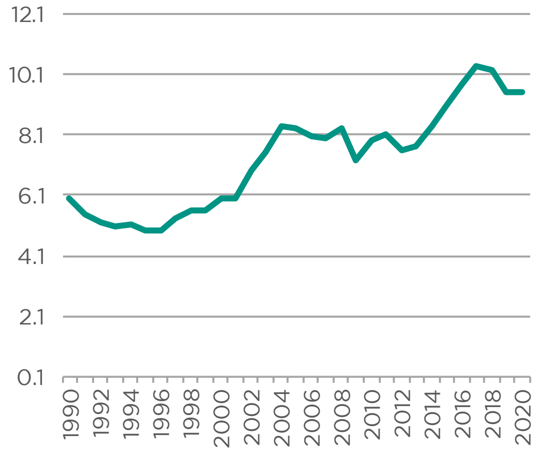
5 Based on average annual earnings (ordinary time) for a full-time worker in NSW, CoreLogic Mean NSW Sales Price, and application of historical stamp duty schedules to mean sales price.

6 Based on ABS 4130.0 Table 13.3.

OWNER-OCCUPIED SHARE OF NSW HOMES



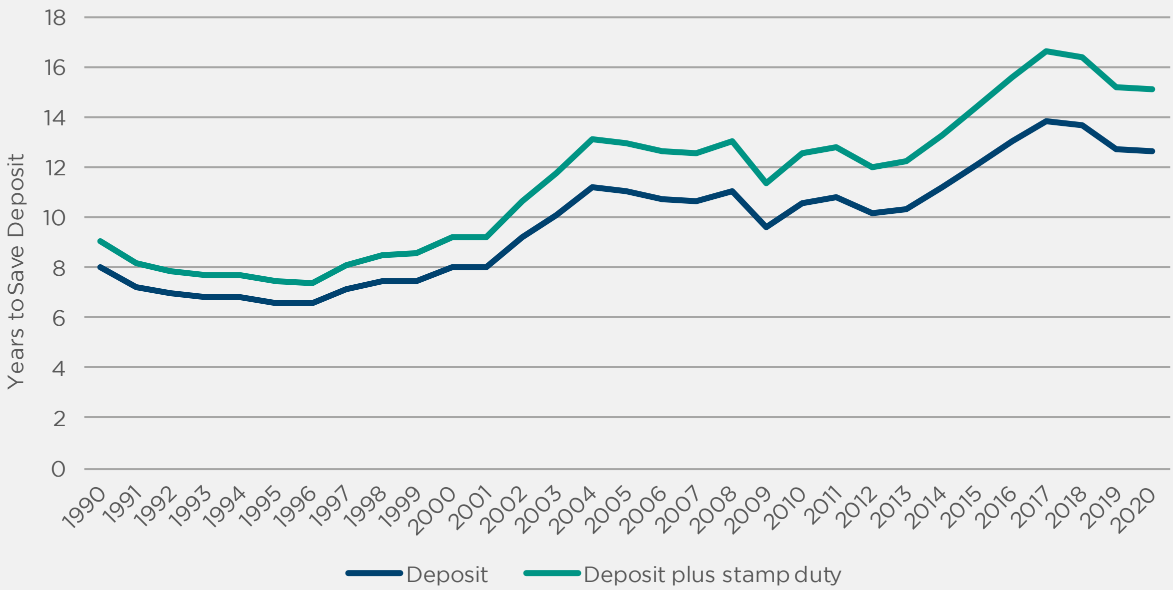
NSW AVERAGE PROPERTY PRICE AS A MULTIPLE OF NSW AVERAGE ANNUAL EARNINGS



The average sales price has grown from six times average annual earnings in 1990 to 9.5 times average annual earnings in 2020.

For a full-time worker who earns the NSW average annual earnings and saves 15% of their income, Stamp duty adds 2.5 years to the time required to save a deposit of 20% of the average NSW property.

APPROX. YEARS TO SAVE A 20% DEPOSIT ON AVERAGE NSW PROPERTY



LIVING WHERE YOU WANT, WHEN YOU WANT

The proposed reforms will help more people in NSW move more easily to suit every stage of life.

Stamp duty has a direct impact on the ability for people to live where they want, when they want.

Many people often stay in homes that don't suit their family or their lifestyle because of the large upfront transaction costs of buying a property, including stamp duty.

By offering the choice to not pay stamp duty and pay a much smaller property tax instead, the people of NSW will have more freedom to choose the right home for themselves and their family at every stage of life.

Whether you need a bigger home for a growing family closer to schools, or simply want to move closer to your work to avoid the long commute every day, or you want to downsize after the kids have left, removing stamp duty from the equation will help make home ownership more achievable in NSW.

STIMULATE ECONOMIC RECOVERY

Stamp duty is an inefficient and volatile tax that puts a break on economic growth.

Based on the current model, the proposed reforms could inject $11 billion back into the economy over the first four years, putting money back into the pockets of the people of NSW and stimulating our economy when we need it most as we recover from the COVID-19 economic downturn.

One of the expected effects of the proposed changes would be an increase in the number of housing transactions.

A more flexible housing market means more people living in homes that better suit their lifestyles. This increases the 'satisfaction' people derive from housing. Homebuyers expecting a growing family, or a higher future income, would be more likely to save money on their current purchases, knowing they could sell and move later without paying duty. The freed-up resources would generate economic growth through increased consumption and alternative investments with higher returns.

The Commonwealth Productivity Commission noted in 2014 that 25 per cent of households stated that they were unlikely to move soon as they could not afford the costs associated with moving. This locks homeowners into properties that no longer suit the needs of their families and increases urban congestion with families living far from their place of employment.

Stamp duty strongly discourages property transactions. Reform would enable more mobility. Australian and international evidence suggests the number of property transactions would increase by about 50 per cent in the long run (Malakellis and Warlters, 2020)

The Reserve Bank has noted housing turnover is positively related with household retail spending, particularly on durable goods such as furniture, home appliances and electrical or electronic devices, and renovation activity as new owners might choose to modify homes to suit their needs or existing owners add value before listing (Leal et al., 2017).

The proposed reforms could inject around $11 billion into the NSW economy in the first four years, increasing Gross State Product (GSP) by around 0.3 per cent in the near term.

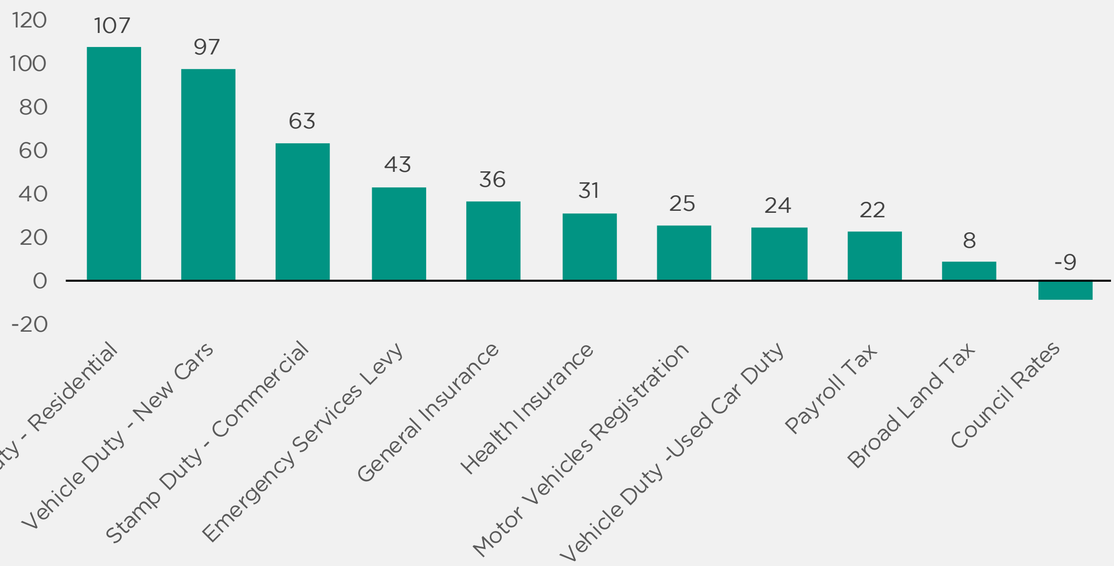
In the long run, property tax reform is expected to lift GSP by 1.7 per cent and increase employment by 1.4 per cent (Nassios et al., 2020). This is worth an extra $3,300 of income per household and 75,000 additional jobs in NSW.

Each additional dollar of stamp duty revenue collected lowers household living standards by about one dollar, over and above the direct impact of paying the tax (Malakellis and Warlters, 2020)

In contrast, a broad-based land tax - similar to council rates -could generate the same revenue without the adverse impacts on mobility, investment and living standards.

More housing transactions would also spill over into increased spending on home furnishings and renovations, and increase income and employment in sectors such as real estate services and other professional services like solicitors and conveyancers, finance professionals, engineers and surveyors.

MARGINAL EXCESS BURDEN OF MAJOR NSW TAXES



Source: Nassios et al. (2019)

05. Possible reform framework

The Government is seeking feedback from the public on the following possible policy framework.

THE PROPERTY TAX WILL BE AN ANNUAL TAX ON LAND VALUE

The property tax would consist of a fixed amount plus a rate applied to the unimproved land value of an individual property, and not aggregate landholdings. This is the same approach as council rates.

BUYERS WILL BE GIVEN THE CHOICE OF WHICH TAX TO PAY

Buyers could choose to pay the property tax at the time of purchase. It would replace stamp duty and (where applicable) land tax. Once a property is subject to the property tax, subsequent owners must pay the property tax.

IF YOU ARE NOT BUYING A PROPERTY, THERE IS NO CHANGE

There will be no double taxation. If you have already paid stamp duty on your property then you will not have to pay the property tax.

BALANCED RATES

Residential owner-occupied and primary production properties would pay lower rates than residential investment properties, which in turn would pay lower rates than commercial properties.

PRICE THRESHOLDS WILL HELP MAINTAIN FISCAL RESPONSIBILITY

Price thresholds would limit the number of properties initially eligible for transition to keep revenue and debt impacts within reasonable levels, while ensuring over 80 per cent of residential properties are eligible to opt-in from day one.

PROTECTIONS

Protections would apply so that the property tax does not result in rent increases without a tenant’s agreement. A hardship scheme would recognise that taxpayers’ financial situations can change over time and ensure that no one facing hardship needs to sell their home to meet property tax liabilities.

REVENUE NEUTRALITY

In the short term, the proposed model will reduce the NSW Government’s revenue. Over the longer term, the property tax would be revenue neutral, collecting the same amount of revenue as stamp duty and land tax.

FIRST HOME BUYERS

Existing stamp duty concessions for first home buyers could be replaced with a grant of up to $25,000.

AN ANNUAL TAX ON LAND VALUE

It is proposed that the annual property tax would be based on unimproved land values, which is how council rates are determined.

The property tax would apply to each individual property, unlike land tax which is based on an owner's aggregate value of landholdings.

In principle, the property tax could be based on market values of properties, which would include the value of land, buildings, and other structures. Assessing tax in this way could, however, discourage property owners from undertaking renovations or adding value to their property. This would result in less investment and lower economic growth compared to a property tax on unimproved land values.

The economic benefit of the reform would be approximately halved if the property tax were based on market values instead of unimproved land values. The long run boost to State output would drop from 1.7 per cent to 0.9 per cent (Nassios et al., 2020).

UNIMPROVED LAND VALUE VS MARKET VALUE

The Valuer-General determines the unimproved land value of almost all land in the State every year.

Unimproved values reflect the value of land alone, excluding the value of buildings and other improvements.

Market values are the amounts that people pay when they purchase property, and include the total value of land, buildings and other improvements.

Stamp duty is assessed using market values, while council rates and land tax are assessed using unimproved land values.

QUESTIONS FOR CONSULTATION:

1. *Do you agree that stamp duty is out of date and is a handbrake on the economy? Is there merit in replacing it with a broad-based annual property tax?*
2. *The annual property tax would be based on unimproved land value, much like the way council rates are currently calculated – what do you think of this approach?*

BUYERS WILL BE GIVEN THE CHOICE OF WHICH TAX TO PAY

Reforming property tax is challenging. Everybody's financial situation is different and every property is unique, so it is difficult to change the tax system in a way that makes everyone better off. The NSW Government believes the best way to manage this challenge is to give individual taxpayers a choice when they buy a property.

People who are about to buy a property could choose between paying stamp duty upfront, or paying a smaller annual property tax. And if the property being purchased is a residential investment property or a commercial property, the property tax would replace any applicable land tax as well as stamp duty.

This approach to tax reform means the people of NSW would be in charge of the transition. Taxpayers would be able to work out which form of tax would best suit their own circumstances. If people plan to move home frequently, they might choose the property tax. If they plan to buy their 'forever home', which they intend to live in for decades, they might choose to pay stamp duty. The NSW Government would ensure buyers have all the information they need to make the choice to pay stamp duty or the property tax.

Once a property has been opted-in, the property would remain subject to the property tax for all subsequent future buyers of that property. Over time, more and more properties would become subject to the property tax, which is important for realising the full economic benefits of reform and for achieving fiscal sustainability. But even after twenty years the option to pay stamp duty would remain for more than half of all properties.

THE PROPOSED REFORM WOULD TRANSITION ALL PROPERTIES AWAY FROM STAMP DUTY

The more buyers who avoid paying stamp duty the higher the economic benefits of the proposed reform.

But this switch would be costly for the Government – $11 billion of lost revenue in just the first four years. While losing large amounts of stamp duty revenue on each new transaction, the proposed transition would recover the lost revenue over time by gradually expanding the number of property tax properties to cover the whole State.

As the Government considers tax reform options, some potential buyers might consider delaying their purchases because they would like to opt-in to the property tax. To address this potential disruption to the property market, the Government could provide a limited window for retrospective opt-in to the property tax.

People who purchase in the months leading up to the new property tax legislation could be permitted to opt-in to the property tax and obtain a refund of the stamp duty they had previously paid. Making this option available for a limited period could ensure there are 'no regrets' for people who proceed with a property purchase in the months before the legislation commences.

? QUESTIONS FOR CONSULTATION:

3. *Do you agree that it would be attractive to be able to choose an annual property tax rather than paying a large lump-sum stamp duty on a purchase and, for investors, the current annual land tax?*

4. *Is an opt-in and gradual approach the best way of ensuring a fair transition to the property tax?*

5. *Would you delay a home purchase if it meant you could opt-in to the property tax? Should there be a limited window for retrospective opt-in to the property tax, after it commences?*

IF YOU ARE NOT BUYING A PROPERTY, THERE IS NO CHANGE

For people who have already bought a property and paid stamp duty, there would be no change. There would be no double taxation.

If the Government proceeds with this reform, it will legislate a clearly defined formula for calculating the amount of tax payable now and in the future.

This will ensure that future Governments seeking to modify the rates would need to enact new legislation.

BALANCED RATES

Revenue neutrality would underpin the property tax rates. The overarching goal is neither to increase nor decrease the amount of tax collected from broad groups of property owners. Instead, the reform would change the manner and time in which that tax revenue is collected.

For residential property the total revenue could be preserved, while at the same time offering lower rates for owner-occupiers than for investors. These rates would recognise the income tax deductibility of property tax, and the fact that investment properties are currently subject to land tax while owner-occupied properties are not.

Under the proposal, residential owner occupiers and farmers would pay lower rates than residential investors, who would pay lower rates than commercial property owners.

Similarly, farmland currently generates a significant amount of stamp duty, and property tax rates could be designed to preserve this revenue.

Finally, property tax rates for commercial properties could be designed to generate the same amount of revenue, over time, that the sector already pays through stamp duty and land tax.

The following table outlines indicative property tax rates that could be used. The rates could include a fixed charge and a rate calculated on the unimproved land value of a property. These rates are not final and could be refined as feedback is received from the public.

Property Type	Currently liable to stamp duty?	Currently liable to land tax?	Potential property tax rate
Owner-occupied residential property	Yes	No	$500 + 0.3% of unimproved land value
Investment residential property	Yes	Yes	$1,500 + 1.0% of unimproved land value
Primary production land (farmland)	Yes	No	$0 + 0.3% of unimproved land value
Commercial property	Yes	Yes	$0 + 2.6% of unimproved land value

In 2020, the average unimproved land value for residential property across all of NSW is around $437,500. Using the indicative property tax rates, the average residential property in NSW would be subject to an owner-occupied property tax of $1,812. For metropolitan NSW the average residential land value is around $630,400, and the corresponding owner-occupied property tax would be $2,391. Price thresholds that exclude the most valuable properties would reduce the average payment of eligible owner-occupiers to around $1,600.

Of course, individual properties vary around these averages. Combining 2020 land values, the indicative rates, and price thresholds that would exclude the most expensive properties, 95% of owner-occupied residential properties in NSW would be subject to property tax of less than $3,000.

QUESTIONS FOR CONSULTATION:

6. *Should there be different property tax rates for residential owner-occupied properties, residential investment properties, farmland, and commercial properties?*

PRICE THRESHOLDS TO PROTECT THE GOVERNMENT'S BUDGET

In the initial years of the reform, the proposed model would likely lower the Government's revenue. When a property buyer opts-in to the property tax, the Government would lose a large lump sum tax payment of stamp duty, which would be recovered over time by smaller annual charges (the property tax).

Price thresholds could be used to restrict the number of properties that could opt-in to the property tax. Only properties with a market value beneath the threshold would be eligible to opt-in to the property tax. Over time, the threshold could be raised to extend the reform to more properties.

The price thresholds could be set to immediately allow over 80 per cent of residential properties and over 95 per cent of commercial properties to opt-in to the property tax on transaction (noting that not all would opt-in).

This approach would allow the least expensive properties to transition to the property tax from the outset. Lower priced transactions attract lower amounts of stamp duty, so for a given revenue cost this approach would maximise the number of people who could opt-in.

The indicative tax rates proposed combined with the price thresholds could limit the revenue forgone to a maximum of $2 billion in any year. NSW government debt could initially increase. But as more properties opt-in to the property tax, revenue could increase. If property tax revenue is viewed in isolation, the government debt resulting from this reform could be paid off in around 50 years. The actual time for repayment would depend on the sum of all the Government's fiscal decisions.

Balanced against an increase in debt are the important economic and welfare benefits that could flow to the people of New South Wales from these proposed reforms. The current low interest rate environment is an ideal time for the Government to sustainably invest in the future of NSW.

If the Government proceeds with the reform, it would discuss the debt implications with the international credit rating agencies. The Government's policy is to maintain New South Wales' Triple-A credit rating.

QUESTIONS FOR CONSULTATION:

7. *Given this tax reform is an investment into our future, do you think it is worth the cost?*

8. *Should price thresholds be used to exclude people buying the most expensive properties from being able to choose the property tax?*

PROTECTIONS

Legislation would provide protections for tenants and people facing financial hardship.

Tenants could have concerns about the effect of the property tax on rental prices. In the near term, landlords who opt-in to the property tax would usually do so because it would lower their tax. Moreover, the property tax would be deductible for income tax purposes. In the long term, removing stamp duty could lead to a more efficient allocation of housing, increasing effective housing supply and lowering rents.

While the reform could result in lower rents, the Government could take measures to protect tenants from any short-run changes arising from the property tax. This could include proactive monitoring of the rental market, or legislation governing the pass-through of the property tax to residential or commercial tenants.

The Government recognises that the financial circumstances of landowners can change over time, which may affect their ability to pay tax.

If the Government decides to proceed with the proposed reforms, a hardship scheme would provide protection for customers who cannot meet their property tax liabilities, either temporarily or on an ongoing basis.

No landowner facing financial hardship would be required to sell their principal place of residence to meet property tax liabilities. Instead, landowners in hardship could defer their liabilities until their financial circumstances improve or until they eventually sell or transfer ownership of the property.

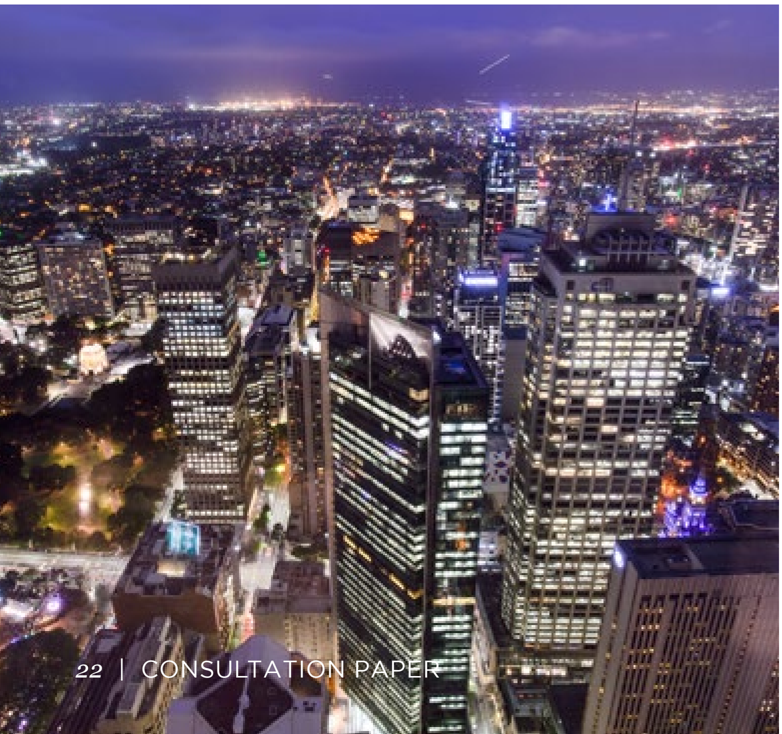
A commercial rate of interest could be applied to deferred liabilities to discourage people from buying houses they cannot afford and using the hardship scheme as a cheap source of finance. Any outstanding tax liability that has been deferred would generally be payable as a condition of transfer of ownership.

The hardship scheme could be based on a property owners' financial circumstances and not linked to specific groups or taxpayers in the community. For example, there need not be a separate scheme specifically for pensioners, but rather one broad scheme available to any taxpayer in financial hardship. This would avoid difficulties in defining group eligibility and it would discourage excessive financial commitments by those who might least afford it.

QUESTIONS FOR CONSULTATION:

9. *What arrangements should be made for residential and commercial tenants if their landlord chooses to pay the property tax?*

10. *What should happen for people who have chosen the property tax, but then can't afford it?*



REVENUE NEUTRALITY

Over the long term, the reform would generate the same amount of revenue as stamp duty and land tax. This principle is key to balancing fiscal responsibility with the tax burden for individual property owners.

The shift from up-front payments of stamp duty to smaller annual property tax payments means that the Government would lose revenue in the initial years. This revenue would be made up over time as more and more properties enter the property tax base.

Currently, there are about 200,000 property transactions each year paying stamp duty. A long-run transition to a system where around 3.5 million properties pay an annual property tax would allow the Government to recover the revenue lost in the early years.

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

One possible way of doing this could be to grow the annual property tax revenue target in line with household income, resetting the rates each year to ensure total revenue is equal to this target. This would be similar to how council rates are set each year, within a total revenue cap.

In principle, several growth factors could be used to grow the annual revenue target. For example, New South Wales' nominal Gross State Product (GSP) has historically grown at a similar rate to household income and exhibited less volatility. However, household income growth may better represent a household's capacity to pay than nominal GSP. Conversely, household income may not be the appropriate index for determining the annual revenue collected from non-residential properties.

QUESTIONS FOR CONSULTATION:

11. *What is the best way of ensuring that the property tax remains affordable for taxpayers, while generating the same amount of long-run revenue as stamp duty and land tax?*

FIRST HOME BUYERS

At the moment, the majority of first home buyers pay no stamp duty, or receive stamp duty concessions, to help reduce the up-front barrier to home ownership. But these concessions are not available to about a quarter of all first home buyers, who purchase above the price threshold. Another quarter of first home buyers turn their properties over to rental use within a year, instead of owner-occupied use.

Arguably, these concessions would not be needed once an optional annual property tax is introduced, because stamp duty would no longer be a compulsory up-front barrier to home ownership.

A potential policy option is to abolish first home buyer stamp duty exemptions and concessions, but provide short-term financial support via a cash grant. This would boost homeownership and support the economic recovery from COVID-19. First home buyers would have a strong incentive to opt into the reform and gain both the benefit of the cash grant and the savings from avoided stamp duty.

For example, such an option could:

- Offer cash grants of $25,000 to people buying their first homes at values of up to $1 million (or up to $650,000 for vacant land), for a period of, say, three years from the start of reform; and;
- Give First Home Buyers the choice to pay either stamp duty or property tax.

Under this model, a first home buyer of an $800,000 property could receive a $25,000 grant andopt-in to the property tax to avoid $31,000 in stamp duty. Compared to a non-first home buyer who chooses to pay stamp duty, a first home buyer who chooses the property tax would save $56,000 at the time of purchase.

No changes are being considered to the existing $10,000 grants under the First Home Owner Grant (New Home) scheme. First home buyers who purchase a newly built home for less than $600,000 would be able to combine both grants for a total of $35,000 support during the transitional period.

06. Questions for Consultation

This Consultation Paper sets out a possible approach to replacing stamp duty and land tax in NSW with an alternative annual property tax.

You can find more information about the proposed changes at: www.treasury.nsw.gov.au/property-tax-proposal.

You can give us your views by visiting: www.haveyoursay.nsw.gov.au/nsw-property-tax-proposal or submitting a written response to TaxReformTaskforce@treasury.nsw.gov.au by 15 March 2021. NSW Treasury may publish submissions on its website unless accompanied by a request for confidentiality.

The Government is interested in your views on all aspects of the possible reform. At this stage, however, the main emphasis is seeking feedback on the broad design of the reform.

The following are just some of the topics on which public comment is sought:

1. Do you agree that stamp duty is out of date and is a handbrake on the economy? Is there merit in replacing it with a broad-based annual property tax?
2. The annual property tax would be based on unimproved land value, much like the way council rates are currently calculated – what do you think of this approach?
3. Do you agree that it would be attractive to be able to choose an annual property tax rather than paying a large lump-sum stamp duty on a purchase and, for investors, the current annual land tax?
4. Is an opt-in and gradual approach the best way of ensuring a fair transition to the property tax?
5. Would you delay a home purchase if it meant you could opt-in to the property tax? Should there be a limited window for retrospective opt-in to the property tax, after it commences?
6. Should there be different property tax rates for residential owner-occupied properties, residential investment properties, farmland, and commercial properties?
7. Given this tax reform is an investment into our future, do you think it is worth the cost?
8. Should price thresholds be used to exclude people buying the most expensive properties from being able to choose the property tax?
9. What arrangements should be made for residential and commercial tenants if their landlord chooses to pay the property tax?
10. What should happen for people who have chosen the property tax, but then can't afford it?
11. What is the best way of ensuring that the property tax remains affordable for taxpayers, while generating the same amount of long-run revenue as stamp duty and land tax?
12. Is there a specific aspect of our proposed reform you would change to help make the proposal better?

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