

15 March 2021

NSW Treasury  
52 Martin Place  
Sydney NSW 2000



***Re: Buying in NSW, Building a Future***

Thank you for this opportunity to submit to the *Buying in NSW, Building a Future consultation paper*.

The NSW Council of Social Service (ncoss) works with and for people experiencing poverty and disadvantage to see positive change in our communities. As the peak body for health and community services in NSW, we support the sector to deliver innovative services that grow and develop as needs and circumstances evolve.

ncoss has historically supported the implementation of a broad-based and equitable system of land tax in NSW.<sup>1</sup> However the proposal outlined in the consultation paper, for an additional alternative option to the payment of stamp duty is unlikely to result in such a system.

While the introduction of an annual property tax as an alternative to payment of stamp duty may reduce the upfront costs of home ownership for first home buyers, there is limited evidence provided to support the proposition that a voluntary opt-in system will improve housing affordability.

The elimination of transaction costs in the form of stamp duty, in conjunction with historically low interest rates, could well facilitate increased demand for housing in NSW. Moreover, the proposed changes may facilitate increased speculation in housing markets by removing one of the last barriers to property investment. In the absence of increases in housing supply, the increased demand for housing may see rapid increases in housing prices and undermine any potential savings to first home buyers from the proposed reform.

Under the proposed transitional arrangements, the burden of taxation will fall on prospective purchasers rather than on all land owners as would be the case under a broad based land tax. The creation of a system of recurrent taxation on purchased properties may result in widening intergenerational inequality as an increasing proportion of the tax burden falls on younger generations. This is concerning given the significant and growing intergenerational inequality, which has seen the wealth of older households (65-74 year olds) grow at four times the rate of that of younger households (25-34 year olds).<sup>2</sup>

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<sup>1</sup> KPMG, 2016, *Taking on Tax: Reforming NSW Property Taxes*,  
<<http://www.nswbusinesschamber.com.au/NSWBC/media/Policy/Thinking%20Business%20Reports/FINAL-NSWBC-NCOSS-Taking-on-Tax-Report.pdf>>

<sup>2</sup> Actuaries Institute, 2020, *Mind the gap – the Australian Actuaries Intergenerational Equity Index*, Green Paper  
<<https://actuaries.asn.au/Library/Opinion/2020/AAIEIIGreenPaper170820.pdf>>

The proposed changes may also result in the widening of inequality in NSW as the burden of taxation under the policy proposal may disproportionately fall on those least placed to bear it. Prospective purchasers with access to sound financial advice, substantial capital and access to finance on reasonable terms will be in a position to minimise their effective tax contribution under the proposal. In contrast, prospective purchasers with limited financial literacy and limited access to finance will not be in a position to make sound decisions about which form of tax to pay.

The creation of an optional system of property tax may result in disproportionate benefits for wealthier and better-informed prospective purchasers who will be in a position to assess which option represents the best value for them and to take advantage of this option. In contrast, prospective purchasers who lack the funds to pay stamp duty or have access to limited financial advice may disproportionately opt to pay an annual property tax and face a disproportionate tax burden.

While an important lever for supporting the delivery of affordable housing, tax reform is unlikely to be sufficient to deliver for the vulnerable and those with complex needs. Increasing housing supply for these groups through substantial and sustained investments in social housing should be made to ensure that people on the lowest incomes and most at risk of homelessness have equitable access to housing that meets their needs.

#### *Exemptions for community housing providers and other NGOs should continue*

The consultation paper does not address the potential impacts of changes to the NSW property tax system on existing exemptions for community housing providers from land tax. However, the continuation of existing exemptions is critical to ensuring the financial viability of community housing providers and facilitating the provision of affordable housing for vulnerable people across NSW.

Community housing providers should continue to be exempt from having to pay stamp duties when acquiring properties for the provision of community housing. In the event that the proposed reform progresses community housing providers should receive equivalent treatment under the new system and retain their exemptions from stamp duty or an annual property tax.

Similarly, other non government organisations who currently benefit from exemptions on stamp duty should continue to enjoy such exemptions, recognising that many face financial constraints that will not accommodate additional expenses of this nature.

#### *Pass through of property tax to tenants*

The consultation paper acknowledges the potential negative impacts of the proposed changes, such as increases in rent due to the pass-through of property tax to tenants and changes in personal circumstances and outlines potential protections for tenants and homeowners. NCOSS supports the development of comprehensive safeguards so that vulnerable tenants and homeowners are protected from adverse effects if the proposed changes are progressed.

To protect tenants, safeguards should include legislative restrictions on the pass-through of property tax in the form of higher rents. The legislative restrictions should be sufficiently broad to prohibit the

pass-through of property tax through rental increases both within existing tenancies and during the renewal of tenancies.

The prohibition of the pass-through of property tax to tenants should be supported by independent monitoring of rents. Independent monitoring, supported by compliance and enforcement actions by government is necessary to provide protection to tenants and ensure an equitable outcomes in the event that the policy is pursued.

In pursuing reform, the opportunity to strengthen existing rental protections should be taken up. The removal of no-grounds evictions should be pursued in order to provide protection to low income tenants and provide security of tenure.

#### *Financial hardship arrangements*

The consultation paper recognises that changes to personal or financial circumstances may result in financial hardship for homeowners who have opted-in to the annual property tax system.

A broad approach to financial hardship is supported, with the availability of financial hardship relief based on whether a homeowner faced hardship rather than based on pre-defined categories (e.g. age pensioners). A broad approach would provide protections to those experiencing financial hardship and provide protections to all homeowners.

Financial hardship arrangements should be enshrined in legislation and provide comprehensive relief for those experiencing hardship. Financial hardship processes should allow for the deferral of property tax obligations in the short term, the creation of payment plans, the partial or full waiver of property tax, and the deferral of property tax before the subsequent sale of the property.

However, while supportive of the creation of deferral arrangements, further consideration of the appropriate rate of interest on outstanding debts is required. Deferral arrangements should not entail the application of a commercial interest rate to outstanding debts owed by homeowners facing hardship. The application of a commercial interest rate to outstanding debts will likely overstate the true cost of foregone revenue for the government and as a consequence result in over-recovery on the initial tax debt. Instead, the interest rate payable on an outstanding debt should be determined by reference to the effective cost to the government and tied to government borrowing costs.

The consultation paper notes that some prospective purchasers may seek to obtain a financial advantage by buying an expensive property and then seeking financial hardship relief, to indirectly access finance at a lower interest rate. While there may be an incentive for purchasers to over-leverage with the intent of seeking financial advantage as set out in the consultation paper, financial hardship processes can be developed to address this potential eventuality. The incentive to engage in such behaviour is likely to be weak, noting the notionally small annual cost of property tax, costs of seeking relief, and the uncertainty of obtaining hardship relief.

Financial hardship arrangements should provide for the waiver of part or all of a property tax obligation. A partial or full waiver will be necessary and appropriate in circumstances where undue

hardship would arise from failing to waive property tax obligations. The extension of debt waivers and write-offs would also provide for the consistent treatment of property tax debts and other debts owed to the government.

The proposal by NSW Treasury that property tax obligations be deferred until the sale of the property is noted and supported. This proposal would prevent a homeowner facing financial hardship from having to sell their home to meet property tax obligations.

Property tax reform should be fair, provide incentives for the efficient use of land, allow people to move between house types that best reflect their needs and provide protection for homeowners and tenants. The changes outlined in the discussion paper are unlikely to accomplish this. NCOSS would welcome community consultation on a comprehensive proposal that emphasises affordable, secure homes for all people in NSW.

We would very much welcome the opportunity to discuss this submission with you in greater depth. Should you have any questions in relation to this submission, please contact either myself at [joanna@ncoss.org.au](mailto:joanna@ncoss.org.au) or Anna Bacik, Director of Policy and Research, at [anna@ncoss.org.au](mailto:anna@ncoss.org.au).

Yours sincerely

A handwritten signature in cursive script that reads "Joanna Quilty". The signature is written in a dark grey or black ink and is positioned centrally below the text "Yours sincerely".

Joanna Quilty  
Chief Executive Officer  
NSW Council of Social Service