IPTI Xtracts

Property Tax and Assessment News from Around the World

# AUSTRALIA – November 2020

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### *Axing stamp duty is a great idea, but NSW is going about it the wrong way*

In tax as in many endeavours, it's easy to work out how things should be; harder to work out how to get there.

In NSW, Treasurer Dominic Perrottet wants to replace the one-off stamp duty on real estate transactions with an annual land tax.

In the long run, this one single reform could produce the biggest possible gains of any tax reform, state or federal.

A graph from the federal treasury's 2015 tax discussion paper makes the point.

It says the "marginal excess burden" (damage) done by real estate conveyancing taxes amounts to 70 cents for each dollar raised.

It means people and businesses change addresses less often than they should. Households live further away from their work than they would like to, are reluctant to move to where there is better work, and spend money extending houses instead of moving to better ones.

Businesses resist changing property location and type when changes in markets and costs suggest they should.

In contrast, the treasury found the marginal excess burden of land tax was negative. By that it means every dollar raised actually makes things better off by making land more likely to be used for its best purpose and making land less likely to be not used at all.

Swapping the worst tax the treasury modelled for the best tax it modelled ought to have a huge economic payoff for use of property, for productivity and for living standards.

It’d also be fairer.

The NSW Thodey Review of federal financial relations commissioned by Treasurer Perrottet notes that 26% of owner-occupiers have remained in the same property for at least 20 years.

Most of these long-term same property owners have benefited “not only from the services provided by the state over that time, but also from a once-in-a-generation land price windfall”.

In exchange for these gains, they have contributed very little towards essential services and critical infrastructure via property taxation. Others who have moved more often than the average to find a job, to be closer to schools, or to match housing size to changes in their family situation have picked up the tab.

Thodey also identifies other reasons for making the switch. Land tax revenue is more stable and predictable than revenue that soars and dives at times when people are buying or are not buying properties.

How you get there matters

The Australian Capital Territory is well on the way.

In 2012-13 it began a 20-year transition. Stamp duty and insurance duty are being wound back (for everyone) and replaced by increases to general rates on land.

The transition is roughly revenue-neutral.

NSW is proposing a different approach. It is considering asking new buyers to “opt in” to an annual land tax in return for escaping stamp duty. Once a buyer has opted in, future buyers of that property won’t be able to opt out. They will pay land tax instead of stamp duty.

It’ll mean no property owner, new or old, need be a loser in the first instance.

But it will stretch out the transition and involve very large reductions in revenue for years to come, with smaller but still-substantial losses over decades.

As an illustration, assume that in year one, rather than paying $100 of stamp duty, the buyer chooses to pay a much smaller annual land tax.

NSW is going the long way

On average about 5% of properties change hands each year, meaning on average each is transferred once every 20 years. That means that to be revenue neutral in the long term the annual land tax should be set at 5% of the stamp duty.

If all the buyers in the first year switch over to land tax, the government will lose 95% of the money it would have got from stamp duty in that year.

With the passing of time and a larger share of owners paying land tax the shortfall will get smaller. But even after a decade, it might be as much as 50%.

Some buyers will never opt-in

And the voluntary opt in will give buyers who expect to hold a property for longer than average, for more than 20 years, an incentive to turn down the offer of land tax and pay (the lesser) stamp duty as before; while those who expect a short stay will opt for the (lesser) land tax.

This entirely rational behaviour will further reduce government revenue, aggravate the inequity of the system we've got, lock some owners into the properties they already own in order to avoid paying for government services, and postpone the benefits of moving to a system in which tax doesn't distort the use of land.

It's easy to see why Perrottet has gone for a voluntary switchover.

There are better ways to avoid double taxation

Without some sort of concession, recent buyers would find themselves taxed twice, once through stamp duty and then again through annual land taxes.

The ACT's 20-year transition is one way to get around the problem.

Despite concerns, it has proved popular enough.

Eight years in, the ACT Labor government has just won its sixth consecutive election.

A quicker way of realising the gains from switching while reducing double taxation would be to introduce land tax immediately and give recent buyers a partial credit for the stamp duty they've paid.

As an example, stamp duty paid in the past one, two, three, four and five years could receive a credit of 100%, 80%, 60%, 40% and 20%, respectively.

It would cost revenue over the transition period, but not as much as the opt in arrangement proposed by the NSW treasurer, and after that short period the switch would be revenue-neutral. Importantly, it would reap the full efficiency benefits from day one, and ensure everyone paid the tax they should.

*John Freebairn*
*Professor, Department of Economics, University of Melbourne*

### *On fifty shades of property tax*

The NSW government wants to do with land tax and stamp duty what it's signalled it's doing with energy and climate policy: something radical, innovative and what advocates have urged for decades.

The tsunami of congratulatory media that followed on Thursday urged Victoria, another jurisdiction with high stamp duty, to follow suit.

You can't blame the governments in both states with the biggest value properties from ogling the rivers of gold that come from property. It's immovable, after all, and lucrative: a massive $423 billion gain in land value in Australia in the 2019-20 year, despite Covid.

But the benefits of this admittedly revolutionary (should we say courageous?) move are nowhere near as clear and uncomplicated as the benefits that would come from stronger climate action.

The downside risks from the latter are mainly the job disruptions from a dying industry – coal and other fossil fuels – and the urgent need to find replacement employment.

When it comes to property, especially our homes, the repercussions are potentially much greater, more widespread, and because we're dealing with tax, more vulnerable to unintended consequences.

Right now, we have a property market on fire. Sale prices last weekend left real estate agents gobsmacked – more than $700,000 over reserve in one inner city sale; in Sydney $1.4 million over reserve. In a hamlet north west of Melbourne an impromptu auction with five or six interested parties netted $417,000 over reserve.

Sure, our immigration has plunged by 85 per cent or so, from about 220,000 a year, but nearly half a million people have also just returned to Australia.

This roaring market, fuelled in large part by record low interest rates, means people not already in the property market and unable to join it soon may well be left further and further behind because it's increasingly obvious that the federal government will support the property industry first and foremost.

So how we tax or don't tax property will have a big impact on the future lives of the people in our society.

There are two taxes in play here; they are not mutually dependent nor exclusive. In fact, we already have land tax in most places for a second property.

What's proposed by NSW is to remove stamp duty and add land tax to the family home. It already exists for investment properties.

The Australian Capital Territory is currently eight years through a transition away from stamp duty to land tax that will take about 20 years to complete and has attracted significant research and observations. Strange thing is, that as far as we can gauge, this radical move has had little impact on the market there.

So why has there been such excitement about removing stamp duty in one of the most expensive property markets?

For decades, property advocates and economists have called for this, saying stamp duty is inefficient and a friction on sales.

But is it?

When you buy a property there are loads of on costs, the agent's fee for a start, then the solicitors, removalists and so on. The tax generally gets lumped into the mortgage.

So says economist and housing researcher Cameron Murray, post doctoral researcher at Henry Halloran Trust, The University of Sydney.

Another researcher, Karl Fitzgerald of Prosper Australia, says the tax is unfair because buyers pay the government but also the banks through the interest in their additional loans. If they buy two or three properties in their lifetimes, that's a lot of interest the banks get.

The economists and property advocates say people need to move around, get closer to jobs. But is it the stamp duty that stops them if they live in the burbs and are sick of the 2.5 hour commute and the road tolls, or is the real disincentive the obscenely expensive houses in the inner city where they might like to move to?

Property is lumpy. A huge asset. Why do we think we should buy it and sell it on a whim, or even as an efficiency gain? It's not a car. It's the most important asset most of us (the lucky ones) will ever have.

It's our home, or should be. We live in a community. We raise children, bond with our neighbours, frequent the local shops, contribute to the planning for our neighbourhood.

As every major council or researcher on climate knows these days, our most resilient preparatory action against violent climate is our community. If we move around like nomads, we lose that, we become even more atomised than our screens are already making us.

Maybe, however, it takes the heat off the government. Everywhere the big call for decades has been for governments to stimulate job creation close to where people live. And provide better transport.

If people can move closer to jobs then suddenly it's their call; their fault if they don't move and get the work on offer elsewhere.

Moving people like a jigsaw pieces is not the same as shifting around your raw material and other inputs to the parts of the country or the globe that are more efficient.

It's a scenario that looks more like the hot desking that was all the rage. And we know how that story ended. If it wasn't for Covid there'd be even more depressed people wondering how they'd get through another day sitting next to strangers, no sense of connection or bonding. Just a widget fitting into the most economically efficient mode of production.

Covid has revealed our human drivers are much stronger than Taylorism would have us believe.

Of course, people aren't forced to move but you can just hear the growing clamour that if you don't move to the other side of the country to pick up a lucrative job then you don't deserve support to stay where you are.

There's an argument that better, higher taxing of land means that we will probably pay less for it. That's an argument, but it's unlikely to be right. In fact, well located property is likely to only get more expensive as planetary and other environmental or social pressures grow.

The argument is that if we are forced to pay tax on land we will make sure it's more productive. We'll improve its amenity, get rid of the rattly big old house and densify the block, or move to a cosy apartment and sell the thing.

Karl Fitzgerald likes the idea.

“We would love to see the Victorian government follow the NSW government’s lead,” he says. And he’s been advocating for this for several years.

The beauty of land tax is it’s the tax you can’t avoid, he says. And it captures foreign investor windfalls.

It’s also fair, he says, because of the record infrastructure spend several governments are making, many of which add to the value of property and is a way for the government to claw back a share of its investment. You only have to look at the price of property around new railway stations.

And there can be provisions for people on low income such as pensioners to defer tax until their death or sale of the property. The ACT has such a provision but interestingly, people tend not to take it up. Probably, we think, a fear of extortionary reverse mortgages.

Fitzgerald also likes the steady nature of the income for the government, which allows it to plan longer term.

Cameron Murray says his work has made him change his mind on this view that he previously shared with Fitzgerald. Steady income is not necessarily, of itself, a good thing for governments.

A stamp duty can have a calming effect on a booming market, for instance.

Murray thinks removal of stamp duty will make investors more likely to sell more frequently – since more, faster transactions is the objective of removing stamp duty. The consequence of that could well be to leave renters more vulnerable than ever to sudden eviction.

Fitzgerald argues that higher land tax will deter investment overall. Is this good? Only if buying instead becomes more affordable.

Curious announcement

Several people have also pointed out a curious element to the NSW government’s announcement.

The treasurer Dominic Perrottet says people will initially be able to choose if they want to pay the stamp duty or land tax, as a phase in strategy.

But why so shy?  The argument is consultation, industry engagement, community feedback and so on.

But as Murray points out, when the government earlier this year halved land tax for build-to-rent housing, it did it overnight. No consultation, no careful tilling of the political landscape beforehand.

One argument is exactly that: the political landscape and the potential to politicise (or weaponise) this proposal. It IS a new tax after all and it’s unavoidable, like the GST. That has got to hurt.

It’s possible crowds such as the Daily Tele, for instance, might say it’s an attack on the rich. Some kind of class envy warfare (from within traditional supporters of the privileged).

The potential is the tax will be the only way to capture the astronomical windfalls from the rising price of mansions that are currently tax free. (And the gains can look exponential when you get into the multi million categories.)

To ward off such potential charges from media loose cannons Perrottet proposes to continue to impose duty for properties at the top 20 per cent of the market. You have to wonder whether land tax would be more beneficial for the state.

And if you can choose to still pay stamp duty but not land tax does this mean there might be no change at all if you don’t want it?

Hal Pawson, associate director, City Futures Research Centre, says the idea of having a choice to pay up front or chose to pay land tax is very strange.

“To me, it suggests a lack of confidence about the principle of it. Because that’s sort of saving we’re leaving open the possibility of keeping open something that looks very much like stamp duty.”

### *Tasmanian property owners prepare for increases in land tax bills*

*Land tax increases ahead for many*

A landlord representative body has warned property owners and tenants to brace themselves for cost increases when the next schedule of land revaluations occurs.

Some property owners were stung by increases of between 20 per cent and 40 per cent on their land tax bills this year due to revaluations.

The government said the increased bills were not due to an increase in the tax rate, rather an increase in property values.

But the Tasmanian Residential Rental Property Owners Association said the increases had come at the worst possible time for rental property owners; many of whom had to forego rent payments due to government legislation related to COVID-19.

Fresh valuations are scheduled for properties in the Central Coast, Devonport, Hobart, Huon Valley, Kentish, Kingsborough, Latrobe, Southern Midlands, West Coast and West Tamar municipalities in 2022.

Association president Louise Elliot said rental property owners would likely pass on increases in land tax bills onto tenants to cover costs.

"For some people, there will be a 10 per cent increase in two years," she said

"For others, it could be up to 70 per cent."

Ms Elliot said the government's argument that increased valuations should be celebrated by property owners was off the mark.

"A higher valuation is poles apart from cash in the bank to pay for a land tax bill," she said.

The government is on track to earn $32.3 million less in land tax revenue in 2020-21 due to land tax exemptions for commercial land owners.

The recent state budget estimates that the state will receive $116.7 million in revenue over the year.

This figure is estimated to jump to $150.8 million in 2021-22, $156.5 million in 2022-23, and $162.4 million in 2023-24.

The Office of the Valuer-General says the valuation cycle had been impacted due to COVID-19.

Property owners can object to revaluation figures.

## *Abolishing stamp duty would help Victoria's recovery*

The NSW Treasurer this week announced a major reform of that state's tax system: the replacement of stamp duties on property transfers with a new land tax. While feedback from community consultation may change details, the proposed opt-in system ticks many boxes.

First, a highly distortionary tax that is responsible for more than a quarter of NSW tax revenue is replaced with an efficient, stable long-term revenue stream. Second, the proposal addresses the concerns of asset-rich but income-poor home owners, who will only begin to pay the new land tax when they purchase a new or existing property, and only if they choose not to pay the property transfer duty.

There are compelling reasons to believe a similar proposal would sit comfortably alongside other economic stimulus measures to be announced by the Andrews government as part of next week's Victorian budget.

The choice to purchase a property also sets in motion a chain of other economic transactions: we contract legal experts to navigate the transfer process, real estate agents to manage the sale of the property, and property inspectors to check for structural defects. All this makes moving house off-putting to a degree.

The current tax system compounds matters by adding property transfer duties to the true cost of moving house. In Victoria, transfer duty almost triples the average cost of moving house, while in NSW stamp duty accounts for almost 80 per cent of total moving costs.

Because economic agents such as households are sensitive to price signals, stamp duty significantly reduces our propensity to relocate to a more suitable house when faced with changes in personal or professional circumstance. The tax system therefore incentivises households to wear the cost of congestion and a long commute (and impose those costs on others). The cost of this tax is therefore significant, and so too then is the dividend from transfer duty reform.

Can these kinds of effects be quantified? To answer this, economists at Victoria University's Centre of Policy Studies analysed the economic impacts of the ACT Tax Reform Package.

This package began in 2012, and a key element of it involved the phasing out of property transfer duty in the ACT over a 20-year time horizon, with the revenue replaced by an increase in ACT general rates. This system in the ACT acts in a similar way to local council rates in NSW.

Each year, the general rates revenue target is achieved by calculating the value of land parcels in the territory. Households then pay a share of the annual target, which is proportional to the value of their residential land plot relative to the value of the total land stock in the ACT.

Land taxes of this kind are attractive because taxation of foreign landowners means that each dollar of land tax raised costs the economy less than $1. That is, land taxes carry an economic benefit.

Our study of the ACT reforms from 2012 to 2018 showed that, while the benefit due to the removal of stamp duty accounted for around 80 per cent of the increase in economic activity, imposition of a land tax also carried economic benefits. Property transaction volumes also rose as a consequence. By studying transaction data from the ACT, we showed that a 10 per cent reduction in the stamp duty liable on any transaction could be associated with a 6 per cent rise in property transaction volumes.

Based on what we've seen from the ACT's experience, the economic dividend of replacing transfer duty with a land tax is compelling.

Rather than damping the enthusiasm for generational change in the way state governments finance their economic activity, COVID-19 has reinforced the political appetite for reform, as the NSW proposal demonstrates. The policy package put forward by NSW appears to strike a balance between efficiency and feasibility, but this comes at a cost: for each transaction opting into the new system, tax revenue from that transaction will fall because the land tax paid in the year a property is transacted will be much less than the stamp duty that would otherwise have been raised.

With interest rates at historic lows, the servicing costs on the resulting public deficits are expected to remain low for many years to come. Getting Victorians moving house could play an important role in getting the state's economy moving once again.

*Jason Nassios is a senior research fellow at the Centre of Policy Studies, Victoria University*

### *Bipartisan support for Perrottet's stamp duty tax reform*

NSW Treasurer Dominic Perrottet's push to phase out stamp duty will have bipartisan support from Labor, paving the way for ambitious tax reform to pass Parliament.

Mr Perrottet revealed his plan to overhaul the century's-old system as he handed down his fourth budget for the Berejiklian government, which forecast a historic $16 billion deficit.

The reform would give home buyers the option of paying a large lump sum upfront or an annual property tax.

NSW Opposition Leader Jodi McKay said she would support sweeping tax reform, so long as concerns about "fairness" and "hardship" were addressed.

"We need to know two things. One, if this will actually encourage more people to be able to buy a house or change property if they want to. And then the second thing is, is it fair?" she said.

"Is it fair for someone in Bringelly or The Ponds to pay the same rate... as someone in Hunters Hill or in Bellevue Hill? I'm not convinced that it is."

Under the proposal, the tax for owner-occupied residential properties would be $500 plus 0.3 per cent of the unimproved land value, as occurs with council rates.

Once a property is subject to the tax it will apply for the life of the property, so subsequent owners must also pay.

The Treasurer said it was incorrect to say people would pay the same amount of a proposed tax based on unimproved land value, because property values differed so greatly across NSW.

Tax reform key to resurrecting post-pandemic NSW budget

“The NSW government [will] embark on public consultation on proposed changes to the state’s property tax system," Mr Perrottet said.

"This is an opportunity to hear from the people of NSW about how changes to the system could help them and are keen to hear feedback from everyone including the opposition leader.”

NSW Treasury estimates the average land value for residential property is $437,500, meaning an average property would attract an annual tax of $1812.

In metropolitan NSW the average unimproved land value is around $630,400, amounting to an average annual tax of $2391.

Mr Perrottet on Tuesday said it could take around 20 years for half of all houses in NSW to fall under the new system.

Stamp duty adds $34,000 to the upfront cost of buying the average home in NSW. It takes on average 2½ years to save to pay stamp duty compared with one year in 1990.

Under the proposal, owner-occupied homes would be liable for lower rates than investment properties. However, protections would also be put in place so that the property tax would not result in rent increases without a tenant's agreement.

First home buyers, who have stamp duty concessions for properties of up to $800,000, would be given a grant of up to $25,000 to go towards the tax or home refurbishing.

Ms McKay on Wednesday said she was "disappointed" the Treasurer had not accepted her offers to discuss tax reform ahead of Tuesday's budget delivery.

"If you're going to look at major reform, which we are supportive of, then you should be engaging with the opposition, you should be having a discussion, knowing the significance of this and the structural implications of this for the budget," she said.

"We know that taxation reform has to happen. We believe that payroll tax reform has to happen, and we believe that stamp duty reform has to happen."

### *A duty to reform: NSW takes 'path of least resistance' with tax switch*

State governments are not known for sweeping tax reforms. In NSW they've done little more than tinker with tax policies for decades.

But that changed on Tuesday when Treasurer Dominic Perrottet used the state budget to take "the first firm step" to replacing stamp duty, a tax levied on property purchases in NSW since 1865.

The proposal, he claimed, was "a realistic pathway to achieving the most important state economic reform of the last half century".

Perrottet was immediately praised by business leaders and economists. Even the Reserve Bank governor, Philip Lowe, spoke positively about the move.

"We are seeing in a number of areas increased reform," he said on Wednesday. "A good example of this is the NSW government's decision to consult on the switch of stamp duty to a general property tax. That's the type of reform people have been calling out for for years. It's been slow in coming, it's politically difficult but we've seen the NSW government decide to move in that direction."

But it is one thing to announce a big tax reform, now the challenge is to implement it.

Why replace stamp duty?

Most taxes result in some loss of economic efficiency but many studies have found that stamp duty – a large lump-sum payment when a property is purchased – is especially bad.

Economists say it discourages people from shifting house when their personal circumstances change, such as an older person who has become less mobile.

"Stamp duty is preventing people from moving to a home that better suits their needs," says Grattan Institute economist Brendan Coates.

It is also blamed for encouraging families to renovate when moving might a better option. These "distortions" can mean land is not being allocated to its most valuable use.

Stamp duty has also been labelled inequitable because those who move house more often – either voluntarily or by necessity – pay far more tax than those who stay put.

Stamp duty is a volatile source of revenue for governments because it is exposed to the ups and downs of the property market. That makes budgeting more difficult and can affect the delivery of state-funded public services.

Modelling by the NSW Treasury shows the proposed reforms could inject $11 billion into the state economy over the first four years.

"Over time it could generate 75,000 new jobs and add an extra $3300 of income for every household in NSW," Perrottet claimed in his budget speech.

As with most big tax reforms, not everyone agrees.

Sydney University housing economist Cameron Murray says official reviews have overblown the economic benefits from replacing stamp duty. He also warns moving away from stamp duty will encourage more property market speculation and churn in the housing market. That could be an added disruption for renters, who now occupy one in three dwellings.

Murray says making the switch from stamp duty to a property tax isn’t worth the "huge political cost" and disruption.

Major shake-up to stamp duty in NSW on the cards

Stamp duty could be scrapped for thousands of prospective home buyers in NSW under a new model proposed by the state’s treasurer in the 2020-21 budget.

What is the government proposing?

Under Perrottet’s plan NSW home buyers would have a choice between paying stamp duty up front – normally a little under 4 per cent of the purchase value – or opting for a smaller annual property tax. Once a property has been traded under the new scheme it would remain annually taxed for subsequent owners. Existing home owners will not be affected until they choose to purchase another property.

A consultation paper released with Tuesday's budget suggests that for owner-occupiers the new property tax consists of a fixed annual rate of $500 plus 0.3 per cent of the unimproved land value. This approach is broadly in line with council rates.

Analysis of that proposal by the Grattan Institute's Coates shows an owner-occupier purchasing a home at Sydney's current median price of $1.15 million would pay stamp duty of $48,500. But if that buyer opted for the new property tax instead, they would pay about $2230 annually. That amount would then rise slowly over time due to indexation.

The consultation paper says owner-occupiers and farmers would pay a lower annual property tax rate than housing investors, who in turn would pay a lower rate than commercial property owners.

The new property tax would also replace the existing NSW land tax (separate to stamp duty) which is levied on residential properties other than the principal place of residence valued above a certain threshold, including investment properties and holiday homes.

The NSW government says protections would be put in place to ensure the introduction of the annual property tax does not result in rent increases without a tenant's agreement. A hardship scheme will also be introduced to assist homeowners liable for the new property tax who suffer a financial shock such as unemployment.

For first home buyers, the state government has flagged replacing existing stamp duty concessions with a grant of up to $25,000.

Perrottet estimates that up to 50 per cent of NSW properties will be paying the annual levy within about 20 years and that stamp duty on property purchases will be completely phased out by around 2050.

How will it affect state finances?

The plan to move away from stamp duty was announced the day the NSW budget papers revealed the state's finances have plunged deep into the red.

There will be a record $16 billion deficit this financial year and NSW's debt is forecast to rise rapidly in coming years as the state recovers from the recession triggered by COVID-19.

Stamp duty on properties is a major contributor to state coffers. The NSW government expects to collect $8 billion in transfer duty (mostly residential stamp duty) this financial year and that will reach $10.5 billion by 2023-24. It is the second largest source of tax revenue directly collected by the state.

The state government says switching to the new property tax system will be "revenue neutral" in the long-term, meaning it will raise a similar share of revenue to what stamp duty does now.

But the switch to the new model will blow a short-term hole in the budget. That's because when a buyer opts-in to the new property tax system the government will forego the big lump sum that would have come from stamp duty. It will instead receive the smaller annual charge over time.

Economists say super-low global interest rates make this a good time to begin the transition to a new property tax system because the cost of borrowing to make up for revenue shortfalls is very low.

Even so, Coates warns the short-term hit to the budget is one of the major downsides to the reform model Perrottet has opted for.

"Until we know what the budgetary impacts are you can't really weigh up how effective this model will actually be," he says.

To protect the budget, price thresholds could be used initially to restrict the number of very expensive properties that can opt-in to the property tax. Only properties with a market value beneath the threshold would be eligible for the new annual property tax. Over time, the threshold could be raised to extend the reform to more properties. The government says about 80 per cent of residential properties will be eligible to opt-in from day one.

Some economists have queried the very slow transition to the new property tax regime because it means the economic benefits from the reform won't be fully realised for decades.

Isn't tax reform always a challenge?

The difficult history of tax reform in Australia suggests Perrottet's stamp duty overhaul will be politically contentious.

The position taken by NSW Labor will be crucial to its prospects – sustained and strident criticism from the opposition would make the tax switch much more difficult to achieve.

So far the political backlash has been fairly muted.

Opposition Leader Jodi McKay has signalled cautious support although she has flagged some concerns about "fairness" and hardship provisions. Labor's Shadow Treasurer, Jim Chalmers, says he has "an open mind" to the changes, subject to seeing more detail.

Coates says the reform strategy has been crafted to reduce political hostility.

"The NSW government has taken the path of least resistance," he said.

"They are not forcing anyone to pay land tax unless they choose too and that takes a lot of the heat out."

It is unclear when the new tax scheme might come into force but Perrottet said in a statement released on Tuesday "the reform could be set in motion in the second half of 2021 after seeking community feedback over the coming months".

## *First home buyers up $54,000 but empty nesters worse off*

*Here's what the NSW government plan to abolish stamp duty and create an 'opt in' property tax means for you*

- Stamp duty is tax buyers must pay when purchasing a new home in NSW
- Treasurer Dominic Perrottet wants to replace it with a lower property tax

- Measure is expected to stimulate the economy by $11billion over four years
- First-home buyers could save $54,000 at the time of purchasing property
- Someone buying 'forever home' would be better off keeping stamp duty

The NSW government's ambitious plan to make stamp duty optional is a huge win for first home buyers but may not benefit a family looking for their 'forever home'.

Under the proposal, which was raised during the state budget announcement on Tuesday, home buyers would have the option to pay stamp duty or an annual 'property tax'.

Stamp duty is a lump sum paid on purchase but the annual property tax would involve paying a small percentage of the land's value each year.

The ambitious plan - which will go to public consultation in March and could be introduced in the second half of next year - has been welcomed by economists, real estate experts and the state opposition.

HOW THE CHANGES WILL AFFECT YOU:

Under the plan buyers would have the option to pay stamp duty or an annual 'property tax'.

Stamp duty is a lump sum paid on purchase but the annual property tax would involve paying a small percentage of the land's value each year.

First-home buyer: Could be $54,000 at the time of purchase compared with second-time buyer paying stamp duty

If unimproved land was worth $500,000 they would pay $2,000 a year in property tax

Long-term buyers: Could face a bigger bill if they choose a property tax, which will be $1,812 per year on average and paid until the property is sold

A couple buying their 'forever home' for $700,000 could be up for $27,500 more over 20 years.

First-home buyers stand to benefit the most from choosing the property tax because the government is planning to offer grants of $25,000 to replace existing concessions from stamp duty.

They could then choose not to pay stamp duty - which is $29,000 on a $750,000 home - and instead pay the annual tax, which would be $1,812 per year on average.

This would mean they are $54,000 better off at the time of purchase than a second-home buyer who chooses to pay stamp duty.

Buyers with a growing family needing to upgrade would also benefit from the changes depending on how often they choose to buy.

However, not everyone would be better off choosing the property tax.

A couple buying their 'forever home' for $700,000 could be up for $27,500 more over 20 years. Therefore, they would be better off opting for stamp duty over the land tax.

Buyers of luxury properties over a certain price threshold will likely be excluded from the property tax, left with no option but to shell out stamp duty in a bid to limit the initial hit to revenue.

Stamp duty is a major cash cow for the state government, raising an estimated $8.3billion in the 2019-20 financial year - and scrapping it may require financial help from the federal government in the short term.

The duty tax can discourage people from moving house and replacing it with an annual land tax would increase the number of sales and let people keep more of their money to spend in the economy, the Treasurer said.

*The average annual tax for an NSW home would be $1,812*

The proposal could also generate $11 billion of economic benefits in the first four years.

'Stamp duty is a relic of a bygone era when you picked one career, started a family, bought a home and basically settled in for life,' Mr Perrottet said.

Chief executive of Infrastructure Partnerships Australia, Adrian Dwyer hailed it as an 'enduring legacy of positive tax reform'.

'Sensible land tax reform has finally been pulled out of the too-hard basket and placed on the table for reasoned public debate,' he said.

What are stamp duty and land tax?

Stamp duty - or transfer duty - is a tax that buyers must pay when they purchase a new home. The amount due depends on the value of the property. For a $750,000 property, the duty is $29,085.

Land tax is an ongoing annual fee that already applies to vacant land, holiday homes, investment properties and commercial properties.

Under current rules, the owner must pay 1.6 per cent of the value of their land above $755,000 to the government each year. For land worth $1,000,000 this figure amounts to $4,020.

First home buyers are currently exempt from stamp duty if their home is worth less than $650,000 and receive concessional rates up to $800,000.

Land tax already applies to vacant land, holiday homes, investment properties and commercial properties over $755,000 but could be expanded to primary homes under the proposal.

Under current rules, the owner must pay 1.6 per cent of the value of their land above $755,000 to the government each year. For land worth $1,000,000 this figure amounts to $4,020.

What is Treasurer Dominic Perrottet's stamp duty proposal?

The consultation process will kickstart with a proposed model that would:

· Give people purchasing a property the choice between paying stamp duty upfront or opting for the smaller annual property tax;

· Enable people who opt-in to the system to also eliminate any land tax liability;

· Ensure that the current property owners who are not buying or selling are not affected;

· Replace the current stamp duty concessions provided to first home buyers with a new grant; and

· The proposed model includes a property tax rate that would support and incentivise home ownership with a lower rate for owner-occupiers and higher rates for investors and commercial properties.

Treasurer Dominic Perrottet said the current stamp duty system was centuries old and in need of an overhaul to give NSW residents a modern tax system.

'This is the single most important economic reform we can tackle to turn the Australian dream into NSW's reality,' Mr Perrottet said.

'This is a reform proposal for NSW where more people can own their home and have more freedom to choose the right property for their family at every stage of life.

'This is a vision for every person and family in NSW – from first home buyers trying to get a foot on the property ladder, to frontline workers moving to service our regional communities, and retirees who are ready to downsize.

'The NSW Government will work with people and communities to shape any reform over the coming months to ensure it is tailor-made for the current and future needs of our State.'

The reform could be set in motion in the second half of 2021 after seeking community feedback over the coming months.

### *NSW budget leads the way on tax reform*

At a time when most governments are simply relying on borrowing heavily from the future, the NSW government deserves credit for committing to structural tax reform to support a strong business and investment-led recovery in the state.

While the Morrison government shies away from federation tax and financial reform, the NSW state budget commits to phasing out economically distorting state property transaction taxes and reducing payroll taxes. That sets up state-based competition to lead the national economy out of the COVID-19 recession. The Business Council of Australia says this should be the model for other states to follow.

NSW Treasurer Dominic Perrottet has led the national debate about reform of Australia's inefficient taxation system. The NSW government has now acted to go it alone by shifting away from stamp duty on home purchases. The plan is to lure home buyers away from paying a large amount of stamp duty upfront based on the purchase price by offering the choice of paying an annual property tax based on the land value. This would also lock in all future buyers.

This is a creative solution to make the transition to a less distorting property tax system, because it avoids the problem of double taxation of homeowners who have already paid stamp duty.

Just as it did to the federal budget, the pandemic has smashed the public finances of the nation’s largest state, turning an expected surplus into a $16 billion deficit. NSW's debt is forecast to soar to $105 billion by 2023-24, because of record borrowing to fund a $30 billion shovel-ready infrastructure splurge to drive the recovery and job growth, and reduce a state unemployment rate that could hit 7.5 per cent by Christmas.

Mr Perrottet says it will be a five-year path back to surplus – a declaration of support for budget repair that contrasts with the situation in Queensland, where Annastacia Palaszczuk ran successfully for re-election on a platform that ruled out any plan to return the budget to surplus, and any privatisations to pay down a state debt set to grow to $102 billion.

In NSW, the asset recycling program will also continue – the budget has signalled the sale of the government's minority stake in the WestConnex toll road and the possible privatisation of NSW Lotteries.

The $500 million cash-splash stimulus to hand all of the state's 6 million adults four $25 dining and entertainment vouchers is basically a political gimmick. But at least it is in keeping with NSW’s world-leading management of the virus, and commitment to keeping the economy both COVID-safe and open for business until a vaccine hopefully arrives sometime in 2021.

In the meantime, NSW also wants to turn its successful virus management into an even bigger economic advantage. Hence the budget offers a tax incentive – an exemption from payroll taxes for businesses that create 30 jobs in the state – to make relocating to open and COVID-safe NSW even more attractive to interstate companies.