



REINSW

for members
since 1910

REAL ESTATE INSTITUTE OF NEW SOUTH WALES

REAL TAX POLICY

The need for taxation

The Real Estate Institute of New South Wales (REINSW) accepts that the government is only able to function, provide and expand the various services that the community depends upon, and to improve infrastructure, if it is adequately funded. The majority of funding for this purpose comes from taxation.

The need for revenue and the use of taxation to acquire it, comes with the obligation to cause the least amount of disruption to the various markets it affects. The tax, must also be equitable and efficient. Unfortunately many of the state taxation regimes fail these tests. Taxation should not be a consideration of a transaction, it is a consequence and if it crosses that line and becomes a transactional decision, it is bad tax.

"The art of taxation consists in plucking the goose so as to obtain the largest possible amount of feathers with the smallest possible amount of hissing."

Jean Baptiste Colbert, Minister of Finance under King Louis XIV of France 1619 - 1683.

Bracket creep

The ultimate goal must be to abolish stamp duty, it is an unjust, inefficient and market distorting tax. However it is not possible in the short-term as it requires a coordinated national response utilising non-market distorting taxation processes and positively discriminating toward broad based taxes as the funding alternative. Nonetheless there are things we can do, and must do now.

The current stamp duty tax regime has not been appropriately reviewed or positively amended for over 30 years. This inactivity has generated revenue for the state government well beyond what was intended or contemplated, and has rewarded the government unfairly, unjustly and unconscionably.

The government argues that reducing stamp duty will drive house prices up as consumers will have more money to spend. This argument is flawed and a convenient one to be made by the solitary beneficiary of the inactivity.

To add insult to injury, REINSW has empirical evidence that shows a reduction in stamp duty will create more market activity and generate additional revenue for government, although at lower rates of tax. The vendor duty did not drive prices down, it only succeeded in freezing market activity, and costing the government nearly a billion dollars in lost revenue. When the vendor duty was removed, the market re-ignited and taxation revenue flowed to government. Removing this tax made the government money and a reduction in the current stamp duty rates will similarly increase transactions and generate additional taxation revenue.

A review of the current tax brackets and an adjustment to reflect the current cost of housing is not only the morally appropriate course of action, it is also the most financially astute, particularly given the health of the current market.

Based on Domain Group's March 2016 house price data, stamp duty of \$31,827.50 would be payable on a property at the median Sydney house price of \$807,500.

On a house price of \$1 million or more, the stamp duty payable is \$40,490. The tax rate then increases to 5.5% for properties over \$1 million and 7% for properties over \$3 million.

This means that after the stamp duty is paid, a man or woman on an average wage (of currently around \$75,000 to \$77,000) would have to work for five to six months in order to just pay the stamp duty.

This barrier to entry has become unjust and disproportionate over time. It is too much and is distorting social fortunes and creating a range of social challenges and consequences for young, middle aged and elderly people.

First home buyers

"Home ownership matters."

National Association of Realtors USA.

Buying a property for first home buyers is now the subject of dreams, with their reality struggling to pay the rent.

A place to call home is not a luxury, it's a necessity of life and should not be beyond anyone who works hard and earns a reasonable living. It has however become beyond the reach of an increasing number of would be first home buyers in NSW.

In its simplest description, state governments have two primary functions. The first is to create, protect and enhance an environment where markets can thrive and hard work and ingenuity is rewarded. The second and equally important function is to assist those in our society requiring help. Health, education and infrastructure come under one or both of these broad government functions.

Our first home buyers are a class of property consumers who need assistance. Bridging the deposit gap is a challenge at any time, however doing so while paying rent is next to impossible. Home ownership is not only something that individuals should aspire to, it is also something that the government should foster and encourage as a means of building wealth and providing for a person's care post-employment.

There are a variety of tools available to government that can support first home buyers. By no means an exhaustive list, they include:

- (1) Providing first home buyers with a 50% reduction in the stamp duty on a purchase of a residential property under \$1 million.
- (2) Offering the ability to pay the stamp duty over time. Government revenue is not at risk as the debt runs with the land in the same way as council rates and land tax.

Not supporting first home buyers is short sighted and creates the risk that our best and brightest will be enticed to other states where the dream of home ownership can be a reality.

The existing first home buyers incentives are focused on new dwellings. This strategy aims to correct the supply problem, but it has two major shortcomings. Firstly, for most first home buyers' new dwellings are financially beyond their reach. Secondly, increasing demand will not solve the supply problem.

The inhibitors to supply are a time consuming, convoluted and expensive planning system, and property taxes imposed by every level of government artificially inflating the end purchasers cost.

We refer to ourselves as the Premier State, if there is truth behind the words then providing a pathway for our first home buyers into their own home, is a clear way to demonstrate that the words have substance.

Property consumers over 65 years of age

Taxation should not be a consideration of a transaction, it should be a consequence.

Unfortunately for many of our retirees, the prospect of selling their home and relocating to a property that better responds to their current requirements is subordinated to the cost of the stamp duty involved with relocating. Stamp duty is seen as money thrown away in the transaction, and for a retiree with minimal income, this becomes an important consideration.

The decision not to sell has an adverse effect not only on the retiree, but also on other property consumers who could make better use of the retirees' property. This supply blockage distorts construction strategies and puts unnecessary pressure on infrastructure.

The REINSW is of the view that the government has a number of options to create a positive response from retirees, which will increase stock, favourably affect affordability and drive construction of high quality, higher density and more efficient dwellings.

The tools available to government include:

(1) A 50% reduction in stamp duty of a residential property purchased to replace an existing residential property. This exemption would be limited to a property of equal or lesser value of the property being sold and to a maximum value of \$1 million; and/or

(2) Providing genuine and compelling incentives for retirees to relocate to regional areas.

In isolation, point (1) will drive an increase in transactions. The revenue government loses from the retirees purchase is more than compensated for, from the revenue earned by the purchase of the retirees property which would not have occurred without the incentive.

Encouraging retirees to relocate, point (2), to regional areas takes pressure off an already strained greater metropolitan infrastructure system.

It also boosts activity, services and employment for regional NSW which addresses an issue that has been challenging our state for many years.

This would be timely given the reduction of mining activity in some regional areas.

Land tax

The land tax regime is in urgent need of review and amendment. There are many unfair outcomes, including to elderly people entering a nursing home only to find that they have inadvertently triggered the land tax provisions.

The REINSW believes that some pegging mechanism needs to be considered during the current market. With property values rising, many property owners and tenants have been presented with land tax assessments that make their business ventures unviable.

The REINSW would also suggest that people who purchase property for land banking purposes should pay additional land tax as a penalty for not providing the property for the benefit of the community.

Conclusion

The REINSW believes that with some simple amendments made to the existing taxation regime, it will be possible to promote equality and social improvements.

These positive actions will not reduce the overall tax revenue, they will however encourage people to transact property that best suits their needs at each stage in life which will drive government revenue.

"We contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle."

– Sir Winston Churchill, former British Prime Minister.