

REINSW: THE UNINTENDED CONSEQUENCES OF THE NSW GOVERNMENT'S PROPERTY TAX REFORM

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With the dust settling on yesterday's announcement that stamp duty would be phased out and replaced with another tax, the Real Estate Institute of NSW (REINSW) has shone a light on some of the unidentified - or unconsidered - impacts of the proposal.

Not least that the announcement could adversely affect the market until an outcome of the proposed reform is known, said REINSW CEO Tim McKibbin.

"It is clear that the way property is taxed is in need of reform, because the burden it places on home buyers is extreme. Stamp duty has always been a major culprit, but a switch to a 'land' or 'property' tax which doesn't ever go away is hardly a more palatable option for many people already finding it hard to afford a property," Mr McKibbin said.

"Trading one punitive property tax for another is not tax reform as suggested. The REINSW fully supports a meaningful dialogue in relation to tax reform but yesterday's announcement that stamp duty is to be replaced by land tax at some point in the future does not represent consultation.

"The community has not been given any details upon which to make decisions for the largest investment most of us will ever make," he said.

There have been many solutions put forward in the past to combat the adverse impact of stamp duty. One solution advocated for purchasers to have the opportunity to pay stamp duty over time, rather than in full at the time of acquisition. Under this proposal, Government still collects stamp duty revenue while purchasers avoid the ongoing burden of a land tax.

"While removing a tax is always welcomed, can the community be confident that once land tax is established and part of our accepted taxation environment, that Government will not reintroduce stamp duty?" Mr McKibbin said.

"Industry pleas for a reduction in stamp duty in the past have been met with determined resistance from Government, which has always maintained that reducing stamp duty will simply push house prices up, because purchasers will have additional money.

"Hypothetically, if Government's assumption is correct, the impact on prices will be interesting to monitor, because house prices are determined not by vendors but by purchasers in competition. These purchasers will have finance available, which otherwise would have been put towards stamp duty, but which instead can be used to compete on acquisition price. So, if the hypothesis is correct, the purchaser will not save any money, but will be burdened with land tax for life.

"There are other concerns with the proposal which could skew Government's intentions for reform, which we understand to be about improving housing affordability for people while maintaining Government's revenue stream from property.

"Housing affordability is not magically improved by the exchange of one property tax for another. As it stands, around 40% of the cost the consumer pays for new property is taxes and charges levied by all three levels of Government.

"Affordability is all about supply. Instead of switching between property taxes, Government has the opportunity to focus on the impediments to supply if genuine improvements in affordability are to be unlocked," Mr McKibbin said.

Mr McKibbin said there's a very real risk that people who had been actively looking to buy property may put those plans on hold until they get clarification of the specific details of what the reform will look like in reality.

"Optimistically, this won't occur until mid-next year at the earliest. Until then, we run the risk of buyers maintaining a wait-and-see approach," Mr McKibbin said.

"In the past 24 hours, REINSW members have cited numerous examples of purchasers who, as a result of the announcement, now plan to abandon their search for a property in the immediate term.

"Real estate has experienced a delicately poised rebound in recent times. The importance of this in an economic sense can't be understated. Measures that put the brakes on transactional activity could have a devastating impact on the economy, given the disproportionate contribution property consumers make to the state's finances.

"On the other side of the transaction are people who already own their home who, on the basis of this announcement, may simply decide to stay where they are and avoid a different new tax altogether.

"The industry remains steadfastly against stamp duty but is the option of a land tax really the lesser of two evils? At least with stamp duty you pay it once, albeit a large amount. Land tax is an ongoing burden.

"True reform would result in people not incurring a tax burden for the simple necessity of maintaining a roof over their heads," McKibbin said.

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About REINSW

The Real Estate Institute of New South Wales (REINSW) is the peak industry body for real estate agents and property professionals in NSW. It represents more than 2000 agencies across residential sales, property management, commercial, strata management, buyers' agency, agency services and auctioneering. Established in 1910, REINSW works to improve the standards, professionalism and expertise of its members to continually evolve and innovate the industry. It lobbies the government and industry on behalf of members, develops new products and services to benefit agencies and professionals, and offers training and ongoing professional development. For more information, visit reinsw.com.au.