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Removing The Hurdle Of Stamp Duty – A Property Tax In New South Wales

Stamp Duty is a substantial financial barrier for those attempting to enter or remain in the already competitive New South Wales (NSW) property market. In recognition of this, the state government has released a consultation paper which aims to replace the current stamp duty structure in NSW with a proposed new 'property tax'. Whilst these proposed reforms are not yet a reality, the latest state budget has indicated a positive intention towards a 'phased transition' away from the current property tax structures in NSW in an attempt to combat the current barriers to home ownership within the booming property market.

Current Structure

Since 1865, buyers have been subject to the payment of stamp duty in all property acquisitions. Stamp duty is currently paid on a progressive scale determined on the higher of the consideration paid or value of the property being purchased. Based on this figure, the current rates of stamp duty are as follows:

Property value	Stamp Duty Rate	Property value
$83,000 to $310,000	$1,340 plus $3.50 for every $100 over $83,000	$83,000 to $310,000
$310,000 to $1,033,000	$9,285 plus $4.50 for every $100 over $310,000	$310,000 to $1,033,000
Over $1,033,000	$41,820 plus $5.50 for every $100 over $1,033,000	Over $1,033,000
Over $3,101,000	$155,560 plus $7.00 for every $100 over $3,101,000	Over $3,101,000

^*Source: New South Wales Government*

With Sydney's median house price soaring over $1.3million, it is no surprise that the NSW Government has identified reforming stamp duty as a major catalyst in making the property market more accessible to a wider range of investors.

Proposed Reforms

Stamp Duty v Property Tax

Under the proposed reforms, at the time of a purchase, a purchaser will be required to make the following election:

- payment of the traditional stamp duty assessed on the property in accordance with the above rates; or
- payment of an annual property tax.

The proposed structure of the property tax will consist of a fixed annual amount plus a rate applied to the unimproved land value of an individual property, and not the aggregate of all of an individual's landholdings. Calculation of this amount is similar to how a local council levies annual rates to a property.

In an attempt to minimise volatility and keep total payments in line with average income growth, the government has confirmed that legislation would set out a formula by which property tax rates are adjusted to each year. In June 2021, the state government indicated that the rate structure for the new tax would see residential owner-occupiers pay an estimated annual fee of $400.00 per property plus a 0.3% tax on every dollar that the property is worth over $755,000.00. For all other investment properties (i.e. not owner occupier), the annual fee is increased to an estimated $1,500.00 per property but otherwise operates identically.

Set out below is the NSW Government's projected figures released in the 2021 state budget:

Type of property	Annual fixed fee per property	Annual ad valorem rate (based on unimproved land value)
Residential owner-occupied	$400	0.3%
Residential investor-owned	$1500	1.1%
Farmland	$0	0.3%
Commercial	$0	2.6%

^*Source: New South Wales Government*

It is important to note that one feature of the reform is that should a purchaser opt to pay the property tax for a property, each subsequent owner of said property must also pay the property tax without the option to pay stamp duty. This decision therefore becomes crucial as to whether to elect to pay stamp duty or the yearly property tax. For those buyers who frequently move or intend to sell the property in the short term, the new property tax can be advantageous, however for those owner-occupiers looking to settle down in their dream home, a one off payment of stamp duty may save money in the long term rather than an annual tax that will accumulate.

Should a purchaser pay stamp duty on the property in a traditional manner, they will not be liable for the annual property tax. Further to this, for those who have already paid stamp duty on their property in the past, they will also not be required to pay the tax.

Hardship and Vulnerability

The consultation paper has also sought to address those financially vulnerable under the proposed tax. The NSW Government has proposed to introduce 'hardship provisions' to ensure that no one would be required to sell their land because they could not afford to pay the property tax. One of these provisions include the ability to defer the payment of the property tax until the property is sold and funds are available.

Foreign Investors

One of the biggest losers in the new reforms would be foreign investors. Foreign investors would still need to pay surcharge stamp duty and land tax, in addition to any introduced property tax that may be levied on a property. A foreign person could acquire a property that is already paying property tax and would then be required to pay the annual property tax in addition to any foreign investor surcharges.

First Home Buyers

The state government has also proposed to replace the current First Home Buyer Assistance stamp duty scheme with a one off $25,000.00 grant for all first home property purchases up to an amount of $1million or $650,000.00 for vacant land. A figure of such will be incredibly appealing for any first home buyer deciding whether now is the time to enter the property market. The qualifying criteria for such a grant are yet to be finalised.

Too good to be true?
Whilst NSW treasurer Dominic Perrottet estimated that as a result of reform, “more than 300,000 NSW residents could achieve their dream of home ownership and gross state product would increase by 1.7 per cent”, some feedback to the consultation paper has identified concern that there the market may be flooded in such a capacity where supply cannot meet demand. Further to this, buyers now face the prospect of inheriting a property tax which runs in perpetuity with the property that they are purchasing, rather than having the option of paying a one off tax.
Perhaps most importantly, no matter the perceived short term or long term benefits, the property tax remains as its name suggests, a tax. Should the property tax come into fruition, it is crucial that each purchaser therefore assesses the pros and cons of each option in their own circumstances.

COVID-19 rates freeze over as Northern Tasmanian councils set for rate rises

It is that time of year again when budget estimates come to the fore of council meetings and rates provoke debate.

Last year, in the midst of the coronavirus pandemic, all councils in Northern Tasmania opted to freeze their rates to help out ratepayers but this year many will adopt rate increases.

The most notable of those increases is Dorset Council which is set to consider a 4.9 per cent increase of the general rate.

"Even though our increase is one of the higher ones within the nine councils, we would still be the cheapest place in the north to own a house from a rates point of view," Dorset mayor Greg Howard said.

The need to recoup some funds after the financial impediment of COVID-19 last financial year is being felt at City of Launceston Council.

Recently, Launceston voted to adopt a 3.75 per cent increase generally and cited the rate freeze last year as a reason for the rise.

Launceston are not alone in that reasoning, which has also been cited by Flinders Island and West Tamar who adopted a 5 per cent and 3.65 per cent increase respectively.

Break O'Day will consider a 3 per cent increase on the general rate for residential, commercial and primary production properties.

On June 28, Northern Midlands will consider a 3.95 per cent while Break O'Day will consider a 3 per cent increase.

George Town Council will have a rate increase on the rarely used AAR systemn which George Town mayor Greg Kieser said the system suited the area.

"From our point of view the disruption of moving to a new system, given our financial systems at this point in time, doesn't stack up," he said.

Glamorgan Spring Bay Council's new rate system will see 1404 properties get a rate decrease, 1088 properties would see a 0-$200 increase and 1580 would see a $200+ increase in their rates.

NSW doubles down on land tax plans, even as stamp duty windfalls prop up the budget

Dominic Perrottet has a lot to smile about.

In the space of just a few months, the budget deficit estimate for the current year has halved and many of the indicators point to an economy seriously on the mend.

And then there's real estate. If Sydney is the most property obsessed city in the country, it is little wonder the NSW Treasurer is positively glowing, if not gloating.

He didn't mention it in his budget delivery, but a quick forage through the accounts reveals a set of books overflowing with the proceeds of one of craziest property booms in history.

Last financial year, NSW raked in almost $7 billion in stamp duty on property transfers in a COVID-ravaged economy. This year, it leapt to a staggering $9.4 billion. And next year? Next financial year it is estimated the state will reap an $11.4 billion windfall from clipping the ticket on housing sales.

The higher prices shoot and the more transactions take place, the more the state coffers bulge. And it is not just Sydney. Regional real estate prices are on a tear, growing even faster than the city.

Which makes it all the more baffling as to why Mr Perrottet is so determined to overhaul the system, to replace stamp duty with an annual land tax.

From an efficiency and economics viewpoint, it makes perfect sense.

Stamp duty has long been the bane of first home buyers, but could the writing finally be on the wall for the archaic, inefficient and onerous tax?

In fact, it is one of the few real tax reforms batted up by a state government in years.

But the only way for the Treasurer to get this across the line would be to have the federal government stump up the difference for the revenue shortfall during the transition period, as home owners gradually make the switch.

Unless the other states are on board and everyone agrees to the switch, that's never going to fly, leaving Mr Perrottet's pet project forever out on a limb.

Stamp duty v land tax: the pros and cons explained

Housing affordability continues to be a hot topic and the often-raised suggestion of replacing stamp duty on the sale of a property with a universal land tax is back on the table again.

The idea has been around for more than a decade after former Treasury secretary Ken Henry claimed that stamp duty not only is a disincentive for people to move, but also gives state governments erratic income – their coffers overflow when the property market is booming but withers away when the market slumps.

The NSW government is dusting off the idea again by commissioning a consultation paper and inviting interested parties to provide their views until July 30.

The proposal envisages that a homebuyer could either opt to pay stamp duty on a property purchase price, or an annual land tax that would be based on a property land value that would then be attached to it forever. In other words, once a purchaser opted for the annual land tax option in lieu of stamp duty, there would be no going back.

In the event of the scheme proving popular, the paper envisages a price threshold based on the value of the property. If that was the case, a buyer of a $5 million property could still be liable for stamp duty on its purchase and could not opt to pay land tax instead.

State governments receive more than $20 billion a year from stamp duty, so any introduction of a new scheme would need to be phased in.

The proposal floats the possibility of the amount of stamp duty forgone being capped at, say, $2 billion a year in the early years, with the cap changing over time as the number of people opting out of stamp duty increases.

Proponents of the scheme claim that the property market would boom because buyers could use the extra money now required for stamp duty to increase their home deposits and qualify for bigger mortgages. However, this begs the question, do we really want to encourage homebuyers to take out even bigger loans? After all, interest rates are at rock bottom and must rise in the future.

If you think mortgage stress is bad now, imagine what a 2 percentage point rise in mortgage interest rates would do.

The biggest problem with a tax based on land values is that, in many states, it is common practice to leave the rate of land tax unindexed, which means that each time a property increases in value, the land tax bill increases, too.

A homeowner who chose the land tax option would most likely be faced with an increasing land tax burden as the years passed. This could be particularly hard on retirees, who could see their home costs increase while their capital decreases.

Another major flaw in the proposal is that it would likely provide a “free kick” for property speculators. It is generally accepted that speculators competing with regular homebuyers has been a major reason for property prices soaring to record highs.

In NSW, a person who buys a property today for $800,000 would pay stamp duty of $31,335, irrespective of whether or not it is their primary residence. This large upfront cost is a major disincentive for speculators who want to buy property now and quickly flip it.

However, speculators may have a field day if they could choose an annual land tax bill instead of stamp duty. If they held the property for only a short time, there may be no land tax at all payable.

There is a further complication with the land tax proposal.

Investors already pay land tax on rental properties and this cost is usually passed on to their tenants.

It would be manifestly unfair if stamp duty – which is a capital cost, not a deduction – was waived on property purchases for investors, while continuing to allow them to claim a tax deduction for the land tax, which had already indirectly been passed on to tenants.

The land tax proposal is merely in the consultation stage. Let’s hope there are further deep discussions of all the pros and cons to avoid any potential property market disasters.

NSW to offer $25,000 grant for first home buyers in stamp duty overhaul

First home buyers would get a $25,000 grant to help them enter the market as the NSW government moves to overhaul property tax at the same time as home ownership for people under 40 plummets.

A grant would replace existing stamp duty concessions for first home buyers under the property tax reforms, which would initially allow buyers to choose paying stamp duty or an annual levy.

NSW Treasurer Dominic Perrottet announced his plan to scrap stamp duty and move to a land tax in last year’s state budget, although it will not feature in next week’s budget as consultation continues.

Instead, the government has released a progress paper, which says the proposed reforms could see home ownership rise 6 per cent, allowing 300,000 more NSW residents to buy a home.

It coincides with the government's intergenerational report, which shows 60 per cent of people born between 1942 and 1951, so-called early baby boomers, owned homes by the ages of 25 to 34.

However, for people born between 1982 and 1991, this has dropped to just 45 per cent.

Mr Perrottet said the intergenerational report contained a "very stark statistic".

"The message which comes through very clear again and again is the huge challenge of achieving home ownership for our younger generations," Mr Perrottet said.

House prices in Sydney rose 3.5 per cent last month, one of the biggest monthly gains since the late 1980s, CoreLogic figures show, putting renewed pressure on the state and federal government to address housing affordability. Sydney's median house price now exceeds $1.1 million.

The progress paper says there were "mixed views regarding how the property tax could impact the ongoing affordability of property in NSW" and whether abolishing stamp duty would "cause upward pressure on prices due to an increase in spending power".

In its submission, progressive think tank the McKell Institute said: "The introduction of the property tax may place upward pressure on house prices in the short term but the reduction in stamp duty costs will still result in a net positive effect on housing affordability."

The progress report says "lower up-front costs are expected to particularly benefit first homeowners who have typically had less time than other purchasers to save for a deposit".

Stamp duty raised $8.3 billion for the state's coffers last year, with about 75 per cent of that from residential sales. After payroll tax, stamp duty is the biggest source of taxation revenue for NSW.

The government says the reforms would reduce its revenue but "over the longer-term, the property tax would be revenue neutral, collecting the same amount of revenue as stamp duty and land tax".

Under the proposal, the government would legislate to ensure nobody would be required to sell their home if they could not afford the property tax.

To ensure residential rents would not be affected by the reform, the government would request the Independent Pricing and Regulatory Tribunal (IPART) provide quarterly monitoring reports.

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

Former federal Treasury secretary Ken Henry said the property tax proposal was "just the sort of innovative policy change needed to improve both economic dynamism and fairness".

Dr Henry chaired Australia's Future Tax System Review, known as the Henry Review, which was released in 2010 and recommended replacing stamp duty with land tax.

"It will improve housing affordability, especially for first home owners, contribute to labour mobility and reduce the volatility of the state budget over time," Dr Henry said.

"I hope that the leadership being shown by NSW might ignite a broader interest in tax reform that is very much overdue."

However, the NSW Opposition's Treasury spokesman, Daniel Mookhey, said the government had not yet proposed any formal model, and it was clearly not going to be included in next week's budget.

House prices jump in May, CoreLogic says, as borrowers urged to refinance loans before interest rates rise

Australia's COVID-19 property boom has continued apace, with housing prices up more than 2 per cent in May and more than 10 per cent since the pandemic hit.

Key points:

- The national average dwelling price rose 2.2 per cent in May
- Capital city prices increased slightly faster than regional prices last month
- Hobart and Sydney had the strongest price growth in May

A 2.2 per cent rise in prices last month marked a re-acceleration in the rate of property price growth, after a slight dip in April when prices increased 1.8 per cent.

Sydney continued to drive the national average price growth, with a 3 per cent increase last month and 9.3 per cent surge over the past three months.

Hobart had an even steeper price increase last month at 3.2 per cent, with the three smallest capitals leading growth over the past year: Darwin (20.3 per cent), Hobart (16.5 per cent) and Canberra (15.6 per cent).

Regional areas posted slower price increases than the capitals last month (2 per cent versus 2.3 per cent), but their prices increased more over the past year (15.2 per cent versus 9.4 per cent).

CoreLogic's head of Australian research Eliza Owen said 97 per cent of local government areas around the nation had seen prices rise over the past three months.

"It's quite extraordinary to see such a broad-based increase in dwelling values," she told ABC News.

"Most of the home owners in Australia would be benefiting from dwelling value increases at the moment."

One reason housing values are rising so quickly is a lack of properties for sale relative to buyers.

Ms Owen said there were a great deal fewer properties being put up for sale over the past three months than there were purchases taking place.

"CoreLogic estimates that there were about 160,000 sales that took place across the country. At the same time, there would have been, at most, about 120,000 new listings coming onto the market," she said.

However, analysis from Capital Economics suggests that the gap between sales and new listings has peaked, and the market will return to a better balance between buyers and sellers over coming months.

"While annual price growth will continue to rise strongly in the near term thanks to the favourable base, we think monthly price gains will ease in the months ahead," economist Ben Udy said.

"What's more, as affordability constraints bite, and housing supply expands thanks to surging construction activity, we think prices may decline a little next year."

UBS economist George Tharenou expects the boom to last several more months, until regulators intervene.

"We expect the boom to continue until there is a policy response, which we still think is most likely to be macroprudential tightening, rather than RBA rate hikes or federal government policy/tax changes (in contrast to NZ)," he wrote.

Rising house prices push out first home buyers

The rapid rise in housing values over the past six months or so is starting to have an effect on the type of buyers in the market.

"Looking at the ABS (Australian Bureau of Statistics) finance data, first-home-buyer lending has fallen 5 per cent in the past two months," Ms Owen said.

"But my guess is that, with house prices rising as quickly as they are, first home buyers aren't going to be able to keep up in this market unless they've got significant help from parents or maybe access to a low-deposit home loan.

"Ultimately, I think the rest of this year we'll see first-home-buyer participation continue to decline."

Investors return to the property market

Investors make a come-back as house prices go through the roof. Banks are fuelling the frenzy by cutting investor rates.

As first home buyers drop out, the same lending figures show property investors are starting to get interested in buying again.

"At least in the past couple of months, we've seen this increasing growth in the investor segment as first-home-buyer demand has fallen away," Ms Owen observed.

"Investors are likely attracted to the market at the moment because rents have risen very strongly and, of course, [there] is very strong capital growth, not to mention very low interest rates both for owner-occupiers and investors."

Ultra-low fixed mortgage rates disappearing

While variable and short-term fixed mortgage rates remain at or near record lows, longer term fixed rates are rising.

RateCity said the last sub-2 per cent four-year fixed mortgage rate had now disappeared from the market, with BankVic lifting from 1.95 to 2.29 per cent.

New Zealand is in an even bigger housing boom than Australia right now, but authorities have moved to stop it. Will Australia follow the Kiwis' lead?

That follows moves over the past couple of months from major banks CBA, Westpac and NAB to lift their four-year rates above 2 per cent.

The lowest four-year fixed rate is now 2.04 per cent, with the cheapest five-year rate at 2.24 per cent.

However, there are still plenty of one, two and three-year fixed mortgages being offered below 2 per cent.

"We expect more fixed rates will rise after the RBA's term funding facility wraps up at the end of this month and we edge closer to the next cash rate hike," explained RateCity's research director Sally Tindall.

"That said, there is still plenty of competition in the market. There are 189 home loan rates under 2 per cent on our database, the highest in our records."

The lowest three-year rate is 1.79 per cent, while a one-year fixed mortgage 'honeymoon' rate can be found as low as 1.67 per cent.

The lowest variable rate on RateCity's database is 1.77 per cent.

To fix or not to fix?

Fixed home loans have never been cheaper, which raises the question of whether now is the time to think about locking in.

Financial research firm Canstar said, despite a wide range of very low rates, relatively few Australians had taken the opportunity to refinance their loans.

Its analysis of the ABS lending data shows only a quarter of a million loans have been refinanced so far this financial year, or just over 10 per cent of people with an owner-occupier mortgage.

The average variable mortgage rate on Canstar's database is 3.22 per cent, so refinancing to a sub-2 per cent rate could save most home owners thousands of dollars a year in repayments.

Collectively, Canstar estimated Australian home owners could slash their annual interest bills by more than $15 billion if they all refinanced.

"The dilemma for mortgage holders is not so much trying to secure a cheap rate but more so paying off as much as they can now to secure themselves a buffer before rates do go up," added Canstar money expert Effie Zahos.

"Focus on knocking off your home loan debt before 2024, when the Reserve Bank has said it's likely to increase the cash rate for the first time in 11 and a half years."

Possible reform framework

As part of the recent consultation phase, the government sought feedback from the public on a possible policy framework.

The NSW Government wants to thank all who contributed to shaping the future of the NSW property tax system.

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 broadly in line with the approach to 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 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% 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. Finally, 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.