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## **State tax grab cause of enough problems**

*Entice investors back through land-tax and stamp-duty exemptions writes **Greg Piper**.*

The NSW Government is considering a draft report by the Independent Pricing and Regulatory Tribunal (IPART) recommending changes to the NSW taxation system. Tax payable by landowners is being flagged as a source of increased revenue for a cash-strapped treasury, but it must be very careful that it doesn't start another property slump before this one is over.

Before looking at the detail in IPART's recommendations, which broadly advocate lowering the state's stamp duty on property by increasing land tax, we should examine the Government's massive and generally overlooked tax grab over recent years. The Government enjoyed an \$800 million windfall in land tax between 2003 and 2007 owing to its deliberate decision not to decrease the rate in the dollar to compensate for increased property values.

This 69 per cent increase contrasts starkly with local government's 17.6 per cent capped rate increase over the same period. Notwithstanding this massive increase followed by its miserable 0.1 per cent decrease in the 2008 land tax rate, the Government is now entertaining further expansion of the tax system.

IPART's options include taxing owner-occupied residential houses and farms for the first time. It also advocates an increase in the current flat land tax rate and abolishment of the current threshold (already tried with disastrous results in 2005).

Presumably, to take any heat of the Government if these increases are adopted, the report canvasses a system whereby councils would be required to collect the new tax with their annual rates.

Any of the above options have the potential to further cripple investment in the housing industry at this time of acute shortage. Probably the most inconceivable conclusion in IPART's report, is its proposition that all the extra revenue gained from land tax increases will go to lowering stamp duty and that "on average, taxpayers would outlay the same amount over time".

This statement totally overlooks the homeowner, or small investor who may pay the reduced stamp duty only once or twice in their lifetime and yet will be slugged with some hundreds, and in many cases, thousands of dollars in land tax every year.

In any event the report's suggested adjustment to stamp duty advocates a reduction of some \$500 per transaction below the \$80,000 level. It is the steep rise in stamp duty above this level that has been distorted by subsequent governments failure to index the rate thresholds since 1987 that is really hurting people.

The recommendation in the report that tax be assessed on individuals and not partnership entities as in the current system, where administrative nightmares are created for both the taxpayer and the department certainly has merit.

The omission of the IPART report to propose any innovative recalibration of the stamp duty and land tax schedules for the benefit of the state's ailing housing stock and subsequent tight rental market is a lost opportunity to make real impact on housing stock numbers.

Although the market is currently beset by a global credit squeeze and high interest rates, it was this Government's absurd vendor tax and its failed abolishment of the land tax threshold that provided a catalyst for the present property malaise in NSW.

So how can this Government make amends and deal with the pain presently being inflicted on investors and tenants statewide? The answer is to entice investors, both big and small, back into the market through the use of land-tax and stamp-duty exemptions. To achieve this without exploitation of the land tax system the following exemption could be offered.

Any new residential development including freehold, strata or community title housing built and offered exclusively for long-term tenancy with leases of at least one year, would be made exempt from stamp duty and land tax. This could apply if the asset was held and offered for rental as above for a period of at least five years, or was sold to purchasers who gave a formal undertaking to comply for the balance of the five-year period. Use of the premises for anything other than long-term rental would result in an assessment being issued for backdated stamp duty and land tax with no penalties.

Funding of these concessions could be achieved by a modest, once-only adjustment to the land tax threshold or more realistically, by using the Government's previous land-tax windfall. Surely it can't have misplaced the whole \$800 million.

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