

NSW  
30/1/04

The Stamp Duty Committee  
Productivity Commission

Dear Committee members

I have recently read in the press and heard on radio and TV that your committee is recommending the abolition of stamp duty on property sales. You are suggesting a broad based land tax on all property owners to fill the gap left in state coffers as a result of the abolition of stamp duty.

As one of the fewer than 10% (I have seen figures as low as 3%) of property owners in NSW who pays land tax I have more than a passing interest in your suggestions. This small % of property owners are the only people I know whose savings and assets are taxed annually on the capital value of those savings or assets. For example — investors can own billions of dollars worth of shares, boats, trucks, buses, aircraft etc etc even railway lines and pay no tax on the capital value of those assets. Land tax for those few who have to pay it is a discriminatory wealth tax. Why not have a wealth tax on all wealth. The rate could be quite low. Widen the base and lower the rate!

**In spite of what I have written above and assuming that land tax is here to stay, your committee has a golden opportunity to make land tax a much fairer tax than it currently is in NSW.**

**Your suggestion of a broad based land tax on all property could be a step in the right direction.**

The present land tax system in NSW. while itself being a discriminatory wealth tax is also discriminatory – might I say **corrupt** in its application.

For example:- The wealthiest land owner in NSW could be paying not a cent in land tax while the poorest tenant in the most humble cottage could be contributing to the land tax coffers of NSW. Is this fair? Is this corrupt?

I have included here-in a copy of my thoughts on NSW land tax which your committee might find of interest. The first section is on how land tax affects me personally and may be of little interest to you. I have tried to keep this section brief particularly the way my wife and I have mortgaged our working lives to accumulate property to provide for our old age. The second part is about the **hopeless, chaotic way land tax is applied in NSW**. This section should be of interest to you if you don't already know.

You will notice in my submission that I have two suggestions on how to solve this land tax fiasco.

1. Abolish all land tax

or

2. every parcel or block of land in NSW should be subject to land tax — no thresholds, no exemptions, no 'ifs' or 'buts' for those who are powerful enough to influence government policy.

**Exemptions always lead to cheating.** If we are to have a land tax it must be fair — the more land — the more tax.

I made a lengthy submission to the last NSW Parliamentary enquiry into land tax, in retrospect it was a waste of time even though I was quoted in the report.

What I have included here-in will be the basis of any future submission I will make to any future enquiry, should your committee not right the wrongs of N.S.W. land tax in the meantime. That is if I live that long. Should you right the wrongs of NSW land tax I will feel that the scores of letters I have written to M.Ps, both Labor and Liberal, over the last 15 years and having to put up with their **irrelevant illogical replies** will have been worth while. Those replies have taught me a lot about M.Ps and it is very depressing.

**Finally the idea of a land tax on all land is not new** — it was suggested by some one at the last parliamentary enquiry (if not earlier) but was thrown out by the conveners of the enquiry; 3 members of the NSW upper house. I often wonder why? but I am sure I know why! You can draw your own conclusions.

John Paterson (signature)

## Part B

Before you read my thoughts on NSW land tax, let me explain my personal position regarding this tax.

I am a 70 year old self funded retired school teacher. My take home pay never **reached \$400 per week**. My wife is a self funded retired medical receptionist. My wife had no superannuation except the small compulsory super over recent years. Early in my career I could see that my super contributions over almost 40 years in the classroom would not support us in our retirement. How right I was — \$158 000 to see us out! By living a careful, happy, simple lifestyle (frugal by today's standards) we were able to build up a solid portfolio in domestic rental property. I might mention I drove the same car to work every day for 38 of those 40 years. \* We do not trust the share market and insurance companies and we feel history is on our side; and even if we are wrong surely we should have the right to invest for our retirement as we choose without being penalised heavily for that choice. **State land tax is destroying our retirement. About 1/3 of our gross rental income goes in land tax** after which we pay — tax accountants fees, council rates, water rates, insurance, workers' comp., repairs; (see table on page 13) most of which I do myself; but for how much longer? Agents fees on some properties, bad debts then income tax. This reduces our nett income to a **little over the combined income for a couple on the old age pension. We don't receive any of the side** benefits available to pensioners.

My best property is let for \$420 per week and the land tax is \$160 per week. My least expensive property is a ½ share in a small '2 bedroom' weekender on the NSW central coast. The rent is **\$140** per week

---

\* I still use this car which is now 43 years old. I have always done all the mechanical work on our cars as it is tax free income.

which is the going rate for the area and the land tax is — would you believe – **about \$120 per week** (see pages 11, 12, 13).

We think we have a social conscience and we don't charge excessive rents. Our tenants over the years have been bank officers, police officers, sales reps, teachers, trades men, pensioners and low income singles or couples. Most stay long term — up to 9 years. Our social conscience is probably due to our pre-retirement occupations and the influence of my late socialist parents.

We save the Federal Government between \$20,000 and \$30,000 per year by being self-funded in retirement. **Land tax is the reward we receive for our foresightedness.** No one minds a fair tax which is applied fairly — unfortunately land tax is neither — particularly **in NSW.**

Why don't we sell up and put the proceeds of the sale into fixed deposit or into one of the investment products offered by insurance companies?

I saw my parents' retirement savings (saved during 2 world wars and the great depression) destroyed by inflation in the thirty years between my Father's retirement and my Mother's death.

How do we know Australia or the World will not suffer a financial collapse in the next twenty years. Nothing is safe when one reads the small print. It took 30 years for the 1929 stock market to recover from that crash. I don't have 30 years.

We simply feel that real estate, while **not perfect, is our best 'bet'.**

My brother, a 64 year old self funded retired school teacher drives a Sydney taxi every Saturday night to help him pay his land tax!  
As I also did for many years and also went back casual teaching for 7 years. Land tax is now paid out of our savings.

All my figures are based on the 2003 land tax figures. A quick look at my 2004 valuations would indicate an increase of at least 10% (more like 12 ½% after receiving my first land tax account) in land tax for 2004. Should I increase the rents? Could the tenants afford it?

### **Part C**

Land tax was introduced by the Andrew Fisher Labor Government (Federal) in 1912. It was introduced in an attempt to break up the huge rural holdings of the 'squatocracy'. The owners of these land holdings opposed the tax at the time.

**The owners of similar holdings today do not complain about the tax — their land is land tax exempt** (see press cuttings enclosed). This would be as a result of the pressure applied by wealthy lobby groups over the years and the M.Ps who represent them. The right to levy land tax was transferred to the states in the 1950's if my memory serves me correctly.

The land tax burden is now carried by **middle to working class landlords and their middle to working class tenants. Andrew Fisher would turn in his grave.** Many of these landlords are self funded retirees who have saved for their retirement and are dependent on rents for their livelihood.

The way land tax is administered today causes all sorts of anomalies in the rental market and is a land tax avoiders paradise legally and illegally.

The present system could allow the wealthiest land owner in NSW to live in a water-front property at Palm Beach, provided its taxable value was less than 1.6 million and not pay a cent in land tax.

Under the same legislation, the poorest tenant in the most humble cottage in NSW could be contributing to the land tax coffers of NSW as a part if not all of his/her rent.

The best solution to the problem offered by the NSW opposition is to promise to abolish the tax on the owner occupied homes subject to the premium land tax i.e. with a taxable value in excess of \$1.6 million. This would allow the wealthiest land owner in NSW to live in the most expensive house in NSW, at present worth about \$28 million, and pay no land tax. The poorest tenant in the most humble cottage would still be contributing to the land tax coffers of NSW as a part if not all of the rent. **To me this is not a reform, it is a band-aid solution which makes the present inequalities in the system worse.**

I have read of rice properties changing hands for \$40 million, and other rural properties selling for tens of millions of dollars.

We have multi million dollar race horse breeding properties with their own airstrips. A trip to the upper Hunter Valley gives some indication of the extravagances of these properties. It is obvious that some are foreign owned.

Apart from the rural properties we have the private hospitals, and nursing homes all run for profit by big business.

**All the above properties are land tax exempt**, and in the case of the rural properties are not owned by struggling farmers but by some of

Australia's wealthiest businessmen and might I add overseas businessmen at that.

**The Sydney Airport Corporation runs its business on tax free land.** The wealthy churches use much of their residential property on tax free land.

Some of Sydney's wealthiest personalities live on land in Manly which is leasehold from the church and is land tax free. Need I say more?

The problem with the land tax system is:

1. **the threshold;** (which distorts the rental market)
2. **the exemptions,** and
3. **the 31<sup>st</sup> December determination date.**

The Sydney Morning Herald showed recently how landlords living in Hong Kong (i.e. absentee land lord) returned to their Sydney rental property every Xmas and New Year thus claiming the Sydney property as their principal place of residence on the 31<sup>st</sup> December and therefore land tax free.

The retired judge and his wife, Senator Coonan were simply playing the system, using the Judge's Clareville house. This story made headlines in the daily press and a big song and dance was made of the issue in Federal Parliament.

Let me show how the threshold system causes all sorts of irregularities in the rental market.

Take three rental properties A, B, C each with a taxable value of \$500,000 they could be in the same street and of similar rental value.



House A is let long term by a landlord who owns no other property subject to land tax. The land tax would be calculated: Yearly land tax =  $(\$500,000 - \$261,000) \times 1.7\% = \$4063$ .

House B is let long term by a landlord who already owns other rental property whose taxable value is over the \$261,000 threshold. The land tax will be calculated: Yearly Tax  $\$500,000 \times 1.7\% = \$8,500$ .

House C is let short term after 31<sup>st</sup> December, or is owned by a landlord who like our Hong Kong landlord, claims the house to be his/her principal place of residence on 31st December. The land tax would be NIL.

House A – land tax  $\$4,063 = \$78/ \text{week}$

House B – land tax  $\$8,500 = \$163/ \text{week}$

House C – land tax NIL = \$Nil / week

(See pages 11, 12, 13)

Where is the level playing field? One might argue that the owner of house B should share his one and only \$261,000 threshold with his other properties. I reason this way, quite logically in my view: If the owner of House B were to sell house B he would save \$8 500 in land tax.

The principal place of residence exemption is the greatest source of illegal tax evasion and must be costing the Government hundreds of thousands of dollars.

This is because the Dept. of State Revenue does not know who lives where!

When we see how many traffic fines are never collected this statement is surely confirmed.

When the Dept. of state revenue places ads in the daily press headed:-  
Are you liable for land tax? with the add being quite ambiguous — we must assume that the Dept. does not know who is liable for land tax.

The local council does not put ads in the press:-

‘Are you liable for council rates’? The council knows who owns the land and bills the owner. It does not matter who lives in the house or where the owner lives – the rates have to be paid.

There are very few exemptions (which I personally disagree with) but the collection of council rates is so efficient as to put land tax collection back in the last century. If land tax collection was efficient there would be an outcry – **but tax avoiders don’t complain. They do often boast!**

The NSW Parliament does not even know the principal place of residence for its members. **How long did it take to track down members who were rorting the living away from home allowance?** If parliament house is unable to keep track of 200 or so members what chance does the Office of State Revenue have? I think I read in the press that they depend on neighbours reporting owners or disgruntled relatives reporting owners – not a very good system. In fact a hopeless system.

We are told that land tax is needed to fund schools, hospitals, police and other essential services. As land tax is paid (heavily) by about 3% of land owners (if you do not like my use of 3%, use 10%) it means that 97% of land owners pay not a cent to keep these essential services

running yet this 97% are able to take advantage of these services. This would have to make land tax, as it is administered, **the most unfair tax we have. Can you name a worse tax?**

Ross Gittens the financial writer for the SMH in an article on state taxes (SMH 5-6 July 2003) stated that land tax is a very good tax but the way it is levied makes it a very unfair tax. **The base of the tax must be broadened and the rate lowered.**

Imagine the state of local councils if 3% of owners paid council rates. Imagine the state of the Commonwealth Government if less than 3% of the population paid income tax or the GST. No wonder our schools, hospitals and police and other essential services are in such a poor financial state.

Our politicians like to hold their hands up in mock horror at the high rents being charged when they themselves are the main problem. Most properties — some very basic properties have a \$100 plus-per week land tax component in the rent. How can rents be competitive when land tax is by far our greatest cost?

When our central coast property was let for \$120 per week and the land tax at that time was \$100 per week **the agent handling the property asked us if we could possibly lower the rent.** How could we when the property's costs are already greater than the rent due to land tax?

In my view there are two very simple solutions to the land tax debacle.

1. **Every land owner pays land tax the more land the more tax**  
or
2. **No land owner pays land tax** and the public services funded by land tax could be funded by some other broad based tax.

Wasn't the GST introduced to abolish unfair state taxes?

Lets look at the first proposition: Land tax would be like council rates, no exemptions, no thresholds. There would be no illegal cheating no legal rorting — very efficient. The rate could be quite low:- it has been calculated at 0.27% to be no cost to the government ie revenue neutral.

Lets look at the second proposition. Abolishing all land tax would be no big deal; only 3 % of land owners pay land tax at present, but they pay heavily, while 97% of land owners pay none.

The now retired NSW **Auditor General Tony Harris** was quite critical of NSW land tax on ABC Radio on 4/6/2002. He said in part that land tax was a misnomer; very few land owners pay land tax except those few who pay the premium land tax (UCV over \$1.6 mill) but most tenants do pay land tax and they don't own any land.

The whole land tax system needs a complete overhaul – band aid, politically motivated solutions such as raising the threshold are a waste of time and really make the system worse when subject to careful analysis.

The NSW Treasurer **Mr Michael Egan** stated that the justification for the premium land tax on owner occupied properties with a taxable value over \$1.6 million was that the government could recoup some of the costs of public works provided at public expense which had in part resulted in the increased value of these properties.

**This same reasoning can be applied to every block or parcel of land in NSW.** Surely every block or parcel of land in NSW has had

it's value enhanced by public works provided at public expense since white settlement and **should be subject to land tax?** Hasn't he heard of CGT (Capital Gains Tax).

No other form of savings is taxed every year on its capital value. Land tax is a very discriminatory wealth tax and is discriminatory in its application with only 3% of land owners paying tax.

Unfortunately landlords particularly self funded retiree landlords do not belong to a very powerful lobby group. Those land owners who are the main winners in the land tax exemptions are a strong voting lobby or are **influential themselves or belong to groups who are influential in politics.**

Land tax is a good example of wedge politics:- Pick on a small fairly powerless minority and hit them fairly hard. Such a move won't cost many votes and those who are not penalised will take the side of the government. They don't want to pay but they think the minority should be taxed, while they are free to enjoy the benefits.

One point which I should have mentioned earlier is the effect land tax has on low income housing. Take for example our small 'two bedroom' cottage on the central coast with a rent of \$140 per week and a land tax of \$120 per week. If we knocked down the cottage and built a new larger house there, perhaps we could get \$300 per week but this would be out of reach of the low income tenants we now have. If we are forced to sell because of land tax the property will probably be redeveloped and if rented will be out of range for low income tenants.

Another point worth mentioning is the way the Government likes to give the impression that only properties with a UCV above the

threshold are subject to land tax. **This is untrue:** – if the owner owns other property which is rented and over the threshold then the most humble cottage is subject to land tax calculated on it's full value. **An owner is allowed only one threshold.**

In writing this I have found that my mind is not quite as sharp as it used to be and I apologise if I have repeated myself. But how about this reply from a Cabinet Minister's Office:– Quote: **'It is the unfairness in the land tax legislation which makes it fair?'**

If you don't agree with my method of expressing the land tax on each property as the tax I would save if I sold that property i.e. the marginal tax. **The following method may be acceptable.**

I have worked out how much the land tax on each property would be if I discounted it allowing for the one and only \$261,000 threshold. I divided up the threshold of \$261,000 in proportion to the taxable value of that property compared to the total taxable value of all my properties.

This lowered the tax by about 20% (In all calculations I have neglected the \$100 basic tax. It would add 60 cents (to my figures) eg

1. A tax of \$124 per week becomes a tax of \$98 per week
2. A tax of \$161 per week becomes a tax of \$127 per week.

**These are still significant taxes and do not alter my argument!**

Another way of looking at my method as expressed on page 5 is:-

If a person in my position was considering buying another property he/she would have to consider the total land tax on that property excluding the threshold when taking into account the financial costs of owning that property over and above his/her present costs.

My method of expressing the land tax as the tax I would save if I sold the property or the tax I would save if I went to live in the property instead of renting it **is similar to a person considering taking a promotion or a second job.** If his/her marginal tax from his/her present job is 48<sup>c</sup> in every dollar this person has to consider:- is the promotion or second job worthwhile if 48c in every dollar goes in tax? Similarly I have to say **is it worth keeping a particular property if** the tax saving would be so and so dollars ie the tax without taking the one and only \$261,000 threshold into account.

NSW Land tax for 2003:-

I have neglected the \$100 charge which applies to all land tax accounts. 1.7% on land over the threshold of \$261,000. The land owner only has one threshold so if he/she owns taxable property over the threshold and then buys another property below the threshold the second property is taxed on its total value.

The premium land tax applies to those properties which are owner occupied and have a taxable value in excess of \$1.6 million.

**Break down  
of gross rents and land tax for year 2003**

Property	% owned by me	<b>My share of Rent (Gross)</b> Out of this I pay Land tax,* Tax Accountants Fees, Council Rates, Water Rates, Insurance, Workers Comp. Repairs Agents Fees Bad Debts Income Tax	My land Tax i.e. the tax I would save if I sold the property	<b>My land tax</b> i.e. the tax applicable if the threshold is shared proportionally to land value
A	50%	\$70 per week	\$62 per week	\$49 per week (Actual tax paid)
B	50%	\$150 per week	\$62 per week	\$49 per week (Actual tax paid)
C	100%	\$420 per week	\$106 per week	\$83 per week (Actual tax paid)
D	100%	\$420 per week	\$161 per week	\$127 per week (Actual tax paid)
<b>Total</b>	-	<b>\$1060</b> per week	Not applicable	<b>\$308 *</b> per week (Actual tax paid)



Another example of how land tax works is as follows.

About 2 years ago I had to evict a long term tenant of over 8 years. The tenants were locking two large dogs in the house while the tenants were at work. Out of boredom the dogs were slowly eating their way out of the house including the polished timber staircase. The house had become unlettable. I have never evicted a tenant before or since. I put them out in March and the house was empty for 8 months while I personally refurbished the whole house and yard. During that 8 months the land tax kept rolling in at \$80 per week. I relet the house in November. In retrospect what I should have done was:- put the tenants out in early December of the previous year, lived in the house as my principal place of residence for the next 16 months while I did the repairs. I could have saved 2 years land tax (about \$8,000) and been well in front financially. Unfortunately I did not know about the tenants damage in time and had a family desperate to move in at the end. In that 8 months I had no rent coming in but had to pay heavy land tax. I understand in the ACT no income — no land tax is the rule.

**Unfortunately such exemptions lead to cheating. If every block or parcel of land was subject to land tax with no exemptions cheating would be eliminated.**

Two other aspects of the land tax legislation which are of interest to me are:

1. A landlord buys his/her first investment property which has a taxable value just under the threshold of \$261,000. He/she then buys a second house of the same value. The first house is land tax free the second house is liable for a land tax of \$261,000 x 1.7/100 or \$4,437 per year.

This is like a taxi owner getting his first cab free of registration costs but a substantial charge for his second cab. The second cab would not be able to compete with the first cab. There would be an out cry with such a system.

Would QANTAS be happy if the Airport Authority charged it more in landing fees than it charged Virgin to land a similar aircraft simply because Virgin had fewer planes. Would the Government allow such a practice.

2. A Sydney school teacher who owns and lives in a house in Sydney with a taxable value well over the threshold takes a promotion to the country. He rents out his Sydney home and rents a house in the country town to live in. The rent he receives for his Sydney home is subject to income tax at a fairly high marginal rate. The rent he pays for his country home is not tax deductible. Then he finds his 'investment' home in Sydney is subject to land tax. He could now find that he is out of pocket on the deal. So much for the disruption to his family, the extra responsibilities in his new job and the wear and tear on his Sydney house. Land tax could be the last straw.

I have included a selection of cuttings from the daily press to add strength to my arguments. I apologise for any bad spelling but I would not swap being a good speller for the lack of logical argument from M.Ps. One Labor Government Minister told me it was my fault for investing in property. The Government did not force me to invest in property! When I asked 'was this the same response they, the Government, gave to powerful lobby groups or generous donors to party funds', I was told – no comment – privacy legislation prevented my receiving an answer.

I would welcome any comments,

Yours sincerely

(signature)

John Paterson