Comments on the NSW Federal Financial Relations Review – Combined Pensioners and Superannuants Association

CPSA is a non-profit, non-party-political membership association founded in 1931 which serves pensioners of all ages, superannuants and low-income retirees. CPSA's aim is to improve the standard of living and well-being of its members and constituents.

CPSA would like to comment on the draft report of the NSW Federal Financial Relations Review, specifically on the draft recommendations relating to land tax.

Land tax is an emotive issue for many of our members as it is levied on wealth which they as owner-occupiers are generally unable to access. They would generally be unable to pay a land tax from their retirement income. CPSA is pleased that the draft report of the NSW Federal Financial Relations Review acknowledges this issue but concerned by the proposed method of its resolution, viz that an "option for a tax deferral may be required for low income households".

When the form of such a tax deferral is worked out, it usually if not always involves encumbering owner-occupied residential property with debt.

The NSW Federal Financial Relations Review is not the first review or inquiry to come up with this idea. The most notable attempt to access the wealth locked into owner-occupied housing was by the Productivity Commission as part of its 2011 Caring for Older Australians inquiry.

CPSA was critical of the Productivity Commission's proposal on the grounds that it would compromise the housing security of older Australians on low incomes. A home, once it becomes security for an equity release loan of up to the maximum of 25 per cent of the home's value, traps the owner-occupier in that home. Compound interest very quickly eats away at the 75 per cent of home equity reserved to pay that interest. As a result, the owner-occupier generally speaking does not have sufficient equity to sell up and buy elsewhere if this becomes necessary, if, for example, mobility impairment turns a house with just a few steps into an unliveable environment for an older person. Land tax, rather than making it easier to downsize, as the NSW Federal Financial Relations Review suggests, would make it impossible for low-income households.

The Productivity's Commission proposal was eventually not adopted. No reason was given. However, it is very likely that the financial risk associated with home equity release was what prompted the Government to reject this proposal, which envisaged a home equity release scheme guaranteed by the Government. This risk appears to have also played on the minds of those financial services industry players who marketed equity release products: they did not seize the opportunity to lobby for their involvement in an equity release scheme for the funding of aged care.

A tax deferral option for land tax is likely to run into a similar problem and also the problem of funding these tax deferral debts. Equity release providers are extremely cautious and selective, and the NSW Government funding these debts defeats the purpose of the land tax.

Local Government Authorities do sometimes offer tax deferral of the council rate and charges, a broad-based land tax already in place in NSW, secured against owner-occupied housing. However, they do so incidentally and generally not for a period of twenty years.

The council rate and charges come with a rebate for eligible low-income households. This rebate was set as a fixed amount in 1993, representing a discount of around 50 per cent on average, but its real value has eroded over time. Among Age Pensioners the issue of the council rate rebate continues to be contentious.

This points to an expectation on the part of pensioners, and low-income households generally, that they will not be taxed beyond their means. As a general principle of income taxation, that part of a person's income that is considered to be the minimum required to pay for essentials is not taxed – the tax-free threshold. The introduction of a consumption tax in Australia in 2000 was accompanied by compensation in the form of a social security supplement for low-income households. As mentioned, land tax in the form of council rates and charges comes with a rebate in NSW and every other state and territory.

It is therefore surprising that the NSW Federal Financial Relations Review has not considered the issue of compensation or exemption as part of its land tax proposals.