

## **Annual property tax - 2022-23 NSW State budget**

by Lawrence Dujmovic in Pitcher Partners newsletter 22 June 2022

<https://www.pitcher.com.au/nsw-budget-a-focus-on-first-home-buyers-foreign-landowners-and-betting-taxes/>

### **The NSW Government released its 2022-2023 State Budget today.**

The budget included the following revenue measures:

- Annual property tax option for first home buyers
- Increase in annual land tax for foreign owners
- Increase to the point of consumption tax and other betting taxes

### **What is the new tax? (Annual Property Tax Option)**

For Eligible First Home Buyers, when they purchase their first home, they will have the *choice* (option) to either pay Transfer Duty (formerly called Stamp Duty) or an Annual Property Tax.

On the face of it, this choice will provide Eligible First Home Buyers a considerable cash saving on the cost of their first family home and presumably make it a little easier to acquire their first family home, but in the longer term it may cost the First Home Buyer more by choosing this new Annual Property Tax.

The main features of the new Annual Property Tax option available only to Eligible First Home Buyers are:

- Eligible First Home Buyers purchasing a property up to the value of \$1.5m will be given the option to pay the existing up front Transfer Duty or pay the new Annual Property Tax.
- The Annual Property Tax will be calculated on the ‘unimproved land value’ rather than the amount paid for the property. This unimproved land value is the same land value used by Municipal Councils to determine their land rate charges.
- If the First Home Buyer lives in their home (Owner-Occupied), the Annual Property Tax will be \$400 + 0.3% of the unimproved land value in 2022-2023, determined 1 July 2022.
- If the First Home Buyer decides to move out of their home, this will change the status of their home to ‘Residential Investment Property’ and cause the Annual Property Tax to be calculated as \$1,500 + 1.1% of the unimproved land value in 2022-2023, determined 1 July 2022.
- If the First Home Buyer moves back into their home; they can reclaim the lower Owner-Occupied Annual Property Rate
- The Annual Property Tax will be indexed over-time and so will not remain the same each year, but any change will not be based on the unimproved land value. Instead, the indexation will be based on the increase in Gross State Product per person in NSW. This is to ensure the Annual Property Tax remains “affordable”.
- Properties will not be ‘locked into’ the Annual Property Tax for subsequent purchasers. Existing Transfer Duty will apply if the same property is subsequently purchased by a non-First Home Buyer. If the subsequent purchaser is an Eligible First Home Buyer, they will have the option to pay Transfer Duty or the Annual Property

Tax.

The legislation to implement the new First Home Buyers Annual Property Tax Option has not been introduced into State parliament and therefore further details will emerge in due course.

### **When does it start?**

- From 16 January 2023 Eligible First Home Buyers will have the option to pay Transfer Duty or the Annual Property Tax. The Annual Property Tax will apply from the date of settlement of the contract.
- For contracts exchanged between the enactment of legislation (date to be determined) and 15 January 2023, Eligible First Home Buyers can opt into the Annual Property Tax and then apply for a refund of Transfer Duty already paid.

### **Existing First Home Buyer Assistance Scheme (FHBAS)**

For First Home Buyers opting to pay Transfer Duty rather than the Annual Property Tax, the existing FHBAS remains in place and therefore a Transfer Duty exemption is still available for properties purchased up to \$650,000 and concessional rates between \$650,000 to \$800,000.

### **What to consider if you're a First Home Buyer**

For a First Home Buyer, if the property you're considering purchasing costs:

- less than \$650,000 – the existing FHBAS will exempt you from Transfer Duty and therefore there is no advantage to opt into the Annual Property Tax regime which if you did, would cause you to pay Annual Property Tax forever.
- \$650,000+ – you'll need to do comparative calculations between paying Transfer Duty upfront or Annual Property Tax for as long as you own the property.