



PARLIAMENTARY BUDGET OFFICE

NSW Parliament • Parliament House, Macquarie Street Sydney 2000

Referred by: Coalition **Proposal No:** C1353
Date Referred: 25/1/2022 **Date Published:** 20/3/2023
Proposal Title: Expanding First Home Buyer Choice
Cluster: Whole of Government

General Government Sector Impacts

	2022-23 \$'000	2023-24 \$'000	2024-25 \$'000	2025-26 \$'000	4 year Total \$'000
Expenses (ex. depreciation)					-
Depreciation					-
Less: Offsets					-
Revenue		(62,907)	(97,905)	(141,152)	(301,964)
Net Operating Balance:	-	(62,907)	(97,905)	(141,152)	(301,964)

Capital Expenditure	-	-	-	-	-
Capital Offsets					
Net Capital Expenditure:	-	-	-	-	-

Net Lending/(Borrowing):	-	(62,907)	(97,905)	(141,152)	(301,964)
---------------------------------	---	-----------------	-----------------	------------------	------------------

Total State Sector Impacts

Net Lending/(Borrowing):	-	(62,907)	(97,905)	(141,152)	(301,964)
---------------------------------	---	-----------------	-----------------	------------------	------------------

Notes and costing assumptions:

Under the existing First Home Buyer Choice policy, first home buyers purchasing homes for up to \$1.5 million are able to choose either to pay up-front stamp duty or a smaller annual property tax.

Under the existing First Home Buyer Assistance Scheme, first home buyers purchasing homes for up to \$650,000 are exempt from duty, and first home buyers purchasing homes between \$650,000 and \$800,000 pay concessional rates of duty.

This policy proposes to:

- Expand First Home Buyer Choice, by increasing the \$1.5 million threshold by \$50,000 per year
- Allow people who have opted into paying property tax instead of stamp duty to access the First Home Buyer Choice scheme for subsequent purchases, permitting up to two property tax properties at a time.
- Permit beneficiaries of duty concessions under the First Home Buyer Assistance Scheme (FHBAS) to choose the property tax for subsequent dwelling purchases

Notes and costing assumptions continued:

- Permit victims of domestic violence to choose the property tax instead of stamp duty when buying a home.

The estimated cost of these policies is around \$302 million over the forward estimates, as summarised in the following table:

	2023-24	2024-25	2025-26	Total
Threshold increases (\$)	- 4,264,000	- 11,238,000	- 18,336,000	- 33,838,000
Opt-in on subsequent purchases (\$)	- 4,896,000	- 9,124,000	- 15,117,000	- 29,137,000
FHBAS beneficiaries can opt-in on subsequent purchases (\$)	- 20,747,000	- 44,543,000	- 74,699,000	- 139,989,000
Domestic violence (\$)	- 33,000,000	- 33,000,000	- 33,000,000	- 99,000,000
Total	- 62,907,000	- 97,905,000	- 141,152,000	- 301,964,000

The PBO has assumed that the costs of administering the revised First Home Buyer Choice and First Home Buyer Assistance schemes would be absorbed by the relevant agencies.

Part 1 – Increasing the \$1.5 million threshold by \$50,000 per annum.

Policy proposal

Under the existing First Home Buyer Choice scheme, first home buyers purchasing homes for up to \$1.5 million can choose between paying up-front stamp duty or a smaller annual property tax. Under the proposed policy the price threshold for First Home Buyer Choice would increase by \$50,000 per annum (starting in 2023-24).

Costing

Increased thresholds result in a new cohort of purchasers becoming eligible to opt into the property tax each year. The policy would also result in a small bring forward of transaction volumes toward the end of each financial year. Reflecting the distribution of purchaser holding periods, Treasury assumes that 65% of the relevant purchasers would choose the property tax. For each dwelling opted into the property tax, there is a reduction in stamp duty, partially offset by property tax paid in successive years.

Over the forward estimates, the policy is expected to cause an additional 580 additional dwellings to be opted into the property tax, resulting in the following net reductions in revenue.

	2023-24	2024-25	2025-26
Threshold increases (\$)	- 4,264,000	- 11,238,000	- 18,336,000

Part 2 – Allow successful First Home Buyer Choice applicants continued access to the program for subsequent purchases.

Policy proposal

The existing First Home Buyer Choice scheme is restricted to people buying their first home. In effect, only one property per person could ever be opted into the property tax. Under the proposed policy, people who have opted into the property tax for a first home would be able to choose the property tax on subsequent purchases (subject to the relevant price thresholds). They would not be required to sell their first home. The policy provides that an owner can have a maximum of two properties subject to the property tax at the same time.

Notes and costing assumptions continued:

Costing

Overall, a relatively small number of buyers are expected to have chosen the property tax for their first home since 11 November 2022 (when First Home Buyer Choice began) and then purchased a second dwelling by June 2026. In line with the general population's propensity to transact, Treasury assumes that 6.2% of people who choose the property tax for their first home will choose to purchase another dwelling in each subsequent year of ownership.

Property tax rates are substantially higher for investment properties than for owner-occupied properties. As a result, Treasury estimates that among people who chose the property tax for their first home, only 8.4% would retain the original dwelling as an investment property when they purchase a second dwelling. The retention of property tax on these properties would provide a small uplift in revenue, relative to current policy.

Treasury assumes 56% of buyers who chose the property tax for their first home would choose it for their second dwelling. This is less than the assumed 65% opt-in rate for first home buyers purchasing between \$800,000 and \$1.5 million, because some of this cohort will choose a second dwelling that is priced below \$800,000 or above the upper price threshold (which is assumed to increase by \$50,000 per year, consistent with Part 1 of this costing). Increased numbers of dwellings subject to the property tax result in a net reduction in revenue in the order of \$25,000 per property in the year of purchase. The specification that only two dwellings subject to the property tax can be held at the same time does not materially alter the costing over the forward estimates.

Over the forward estimates, the policy is expected to cost \$29.1 million, with the following profile:

	2023-24	2024-25	2025-26
Opt-in on subsequent purchases (\$)	- 4,896,000	- 9,124,000	- 15,117,000

Part 3 – Recipients of First Home Buyer Assistance since 11 November 2022 can opt into the property tax for any subsequent dwelling purchase

Policy proposal

Under the existing First Home Buyer Assistance Scheme (FHBAS), first home buyers are exempt from duty for purchases of up to \$650,000 and receive duty concessions for purchases between \$650,000 and \$800,000.

Under the proposed policy, first home buyers who have received duty exemptions or concessions under FHBAS since 11 November 2022 would be able to choose the property tax for subsequent purchases, subject to the relevant price thresholds.

Costing

Relevant costing assumptions are the same as in Part 2, including 6.2% of homeowners are assumed to transact in each year of ownership and 56% of relevant homebuyers are expected to choose the property tax on a second purchase.

The main difference between the costings for Parts 2 and 3 is the difference in first home buyer volumes between those choosing the property tax (Part 2) or those benefiting from the FHBAS (Part 3). Absent the proposed policy changes, Treasury expects an average of about 30,000 individuals per year would benefit from FHBAS over the next four years.

Over the forward estimates, the policy is expected to cost \$140 million, with the following profile:

Notes and costing assumptions continued:

	2023-24	2024-25	2025-26
FHBAS beneficiaries can opt in on subsequent purchases (\$)	- 20,747,000	-44,543,000	-74,699,000

Part 4 – Expand First Home Buyer Choice and the First Home Buyer Assistance Scheme to include Domestic and Family Violence Victims

Policy proposal

Under this proposal, domestic and family violence victims would be added to the group of people eligible for First Home Buyer Choice and the group who receive duty exemptions/concessions under the First Home Buyer Assistance Scheme. Requirements include:

- Does not apply to victims who are first home buyers; the previously bought home must have been purchased with the violent partner.
- The former partner must have a domestic violence conviction recorded within the past three years.
- Does not apply where the victim has retained ownership over a property following separation from a violent partner.
- Other eligibility requirements for the applicant include:
 - Must be an Australian citizen or permanent resident
 - Must be at least 18 years old
 - Purchaser must be an individual and not a company or trust
 - If a property is being bought jointly with another person, the partner must never have bought a home in Australia
 - If the property is being purchased as an investment property, investment rates apply.
 - Must move into the property within 12 months of purchase and live there for at least six continuous months

Costing

Around 20,000 people per year are convicted of domestic violence offences in NSW (sources: BOCSAR SR 23-22300; <https://www.judcom.nsw.gov.au/publications/sentrends/st48/>).

Victims of domestic violence (DV) who are first home buyers are already eligible for First Home Buyer Choice (FHBC) and First Home Buyer Assistance Scheme (FHBAS), so can be excluded from the costing. As a proxy for first home buyers, 53.5% of adult DV victims are aged up to 34 (source: Australian Institute of Health and Welfare, data on family and domestic violence crisis payments).

Around 40% of DV victims retain the same residence, with the offender leaving the residence (Summers, 2022, *The Choice of Violence or Poverty*, page 47). The PBO assumes this group will not apply to buy a home within three years of a conviction being recorded.

The requirement that a conviction be recorded within the three years prior to the home buyer's application will reduce the relevant number of applications. However, by the time a conviction is recorded it is potentially a longer period since the victim began seeking to alter their domestic relationship. This suggests a typical window of around 4 years from end of relationship to home buying.

Around 68% of people who are ex home owners return to owning a home within 4 years: Wood et al. (2013), *The edges of home ownership*. Within this group the rate of return to home ownership is

Notes and costing assumptions continued:

lower among ex home owners who are divorced or separated – around 54%. The PBO has no data on the rate of return to home ownership among ex home owners who are separated as a result of domestic violence, but it is likely to be lower reflecting both the circumstances of separation and other socioeconomic factors. The PBO has assumed the rate of return to home ownership among this group would be around 40%.

Finally, the eligibility criteria require that the original home was bought with the violent partner, and that if there is a new partner that person has not previously been a home buyer in Australia. The PBO assumes this requirement excludes 10% of otherwise eligible applicants.

The estimated number of eligible annual applicants is thus $20,000 \times 0.465 \times 0.6 \times 0.4 \times 0.9 \approx 2,000$.

The PBO expects that typical DV victims will have financial resources similar to first home buyers. The PBO assumes these 2000 people would be distributed across price bands between First Home Buyer Assistance Scheme (FHBAS) and First Home Buyer Choice (FHBC), as set out in the following table. This reflects the existing pattern of first home buyers across price bands, and Treasury’s expected property tax opt-in rates. From among the 2,000 eligible people per year, around 150 are expected to purchase for prices greater than the thresholds for FHBAS and FHBC, leaving an estimated 1,850 annual applicants.

purchase price	FHBAS (%)	FHBC (%)	FHBAS (#)	FHBC (#)
\$0 to \$650,000	64.9%	0%	1298	0
\$650,000 to \$800,000	14%	4%	284	80
\$800,000 to \$1million	0%	5%	0	109
\$1m to \$1.5million	0%	4%	0	81
Above \$1.5 million	0%	0%	0	0
Total	79.1%	13.5%	1,581	269

Domestic violence offences have been growing at around 7% per year in recent years, but in future years the PBO assumes the volumes will grow in line with population: 1% in 2022-23 and 1.2% in subsequent years.

For each dwelling opted into the property tax, the PBO assumes forgone duty revenue in the transaction year equal to around \$27,000, and an ongoing property tax revenue stream of around \$1,700 per year. For each dwelling benefiting from FHBAS concessions, the PBO assumes forgone duty revenue of \$16,300 (based on Revenue NSW data).

The resulting annual flows of purchases and revenue are set out in the following table. The annual costs diminish slightly as the stock of property tax properties grows.

	2023-24	2024-25	2025-26
FHBAS purchases #	1,597	1,616	1,636
FHBC purchases #	272	275	279
FHBC stock (#)	272	547	826
Duty revenue forgone (\$)	33,381,995	33,782,579	34,187,970
Property tax revenue (\$)	462,474	930,498	1,404,138
Net revenue forgone (\$)	32,919,521	32,852,080	32,783,831

There is considerable uncertainty around the number of eligible domestic violence victims and the rate at which those victims purchase homes. Given this uncertainty, the PBO has not attempted to adjust the domestic violence costing for background movements in housing market volumes or prices. The estimates in the table above should be treated as indicative only, and the revenue costs have been rounded to the nearest \$million in the initial summary table of this costing.

Notes and costing assumptions continued: