



Housing tax reform: What will make a difference?

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Housing tax reform

Worsening housing affordability is really hurting the young and poor

What housing tax reforms would make a difference?

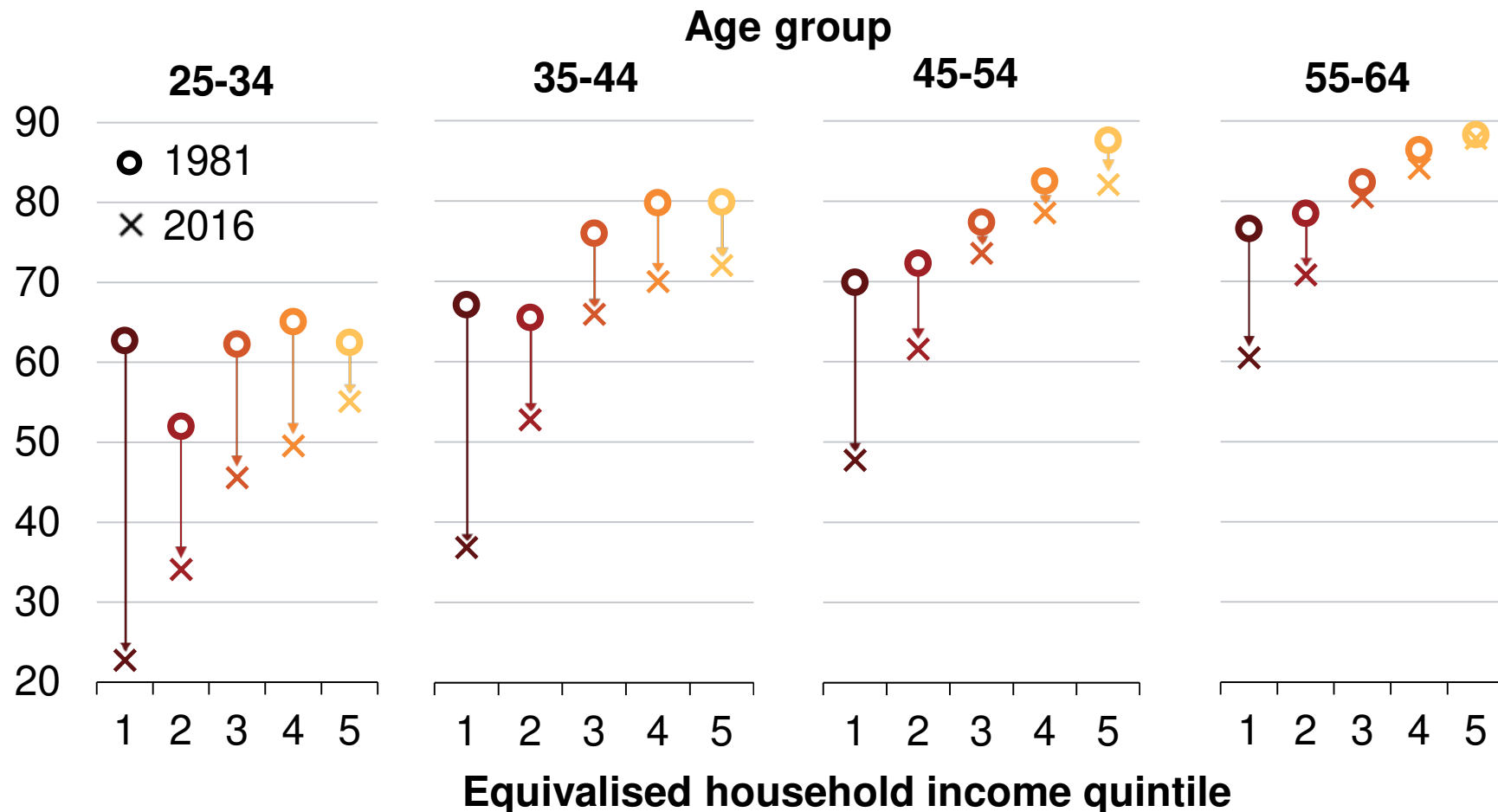
- **Stamp duty reform** does more for economy than housing affordability
- Reforming **progressive land taxes** can improve tenure security
- **Negative gearing and CGT** will help affordability, but don't exaggerate
- Including **home** in **pension assets test mainly** improves the budget
- **Vacant property taxes** sound nice, but won't help much
- **Taxing foreign investors** is good for the budget

Demand is only half the story – need supply reforms as well

- We're not building enough homes in inner and middle ring suburbs
- Sydney is the exception recently

The dream of home ownership is slipping away for the young and poor

Home ownership rates by age and income, 1981 and 2016



Notes: This graph updates Burke et al 2014 using Census data obtained from the ABS. Difficulties in accurately calculating household incomes across time using Census data means that changes in home ownership rates by age and income are indicative and small changes in ownership rates should be ignored. Excludes households with tenancy not stated (for 2016) and incomes not stated. Household age group according to age of household reference person. Income quintiles are equivalised household income quintiles.

Source: ABS Census; Burke et al 2014 'Generational change in home purchase opportunity in Australia'; Grattan Institute

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Housing tax reforms: what difference could they make? And what do we care about?

	Economy	Budget	Inequality	Housing	Consensus
Stamp duty – property tax swap	Big economic benefits (~\$17b / yr)	Budget neutral swap	Small windfall gains & losses	Better use of housing stock	Near unanimous, but transition the issue
Flatten progressive land taxes	Increase incentives to scale	Budget neutral swap	Windfall gains for commercial landowners	More secure tenure for renters	Why not on agenda?
Negative gearing / CGT reform	Reduces over-investment in housing	+\$2b to \$6b	Hits wealthier Australians	Prices ↓ ~2% overall Rents won't rise	Rent impact?
Home in pension means test		+\$1b to \$7b	Hits wealthy seniors; helps inter-gen equity	<i>Modest</i> increase in downsizers, but not main constraint	Only unity ticket among think tanks

Other housing tax reforms

	Economy	Budget	Inequality	Housing	Consensus
CGT for owner occupiers	Reduce over-investment in housing Exacerbates “lock-in”	Up to \$18b But could be negative if mortgage tax deductible	Hits wealthy and middle Australia	House prices ↓ 5-10%, much less (or not a all) if mortgages tax deductible	Strong support among academics Politically “difficult”
Vacant property taxes		Unlikely to collect much revenue	Hits wealthier Australians	Won’t help much: easy to avoid	Unresolved admin issues But nothing to lose
Tax foreign investors more		Raising ~\$1b nationwide		Won’t help much	Impact on supply?

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Proposals to swap stamp duty for a broad based property tax have always fallen down in the transition

Any transition from stamp duties to property taxes must overcome three key *political* hurdles:

Revenue stability

- Stamp duties account for ~27% of states' own source tax revenues (\$11bn a year in NSW alone)
- Grandfathering “politically sensitive” households has big costs
 - Any shortfall can be borrowed, but must be repaid
 - There will always be a *permanent* revenue cost

Asset-rich, income-poor households

- A relatively small number of older asset-rich, income poor households own a lot of property, but lack the income to pay the recurrent property tax each year

Recent property purchasers

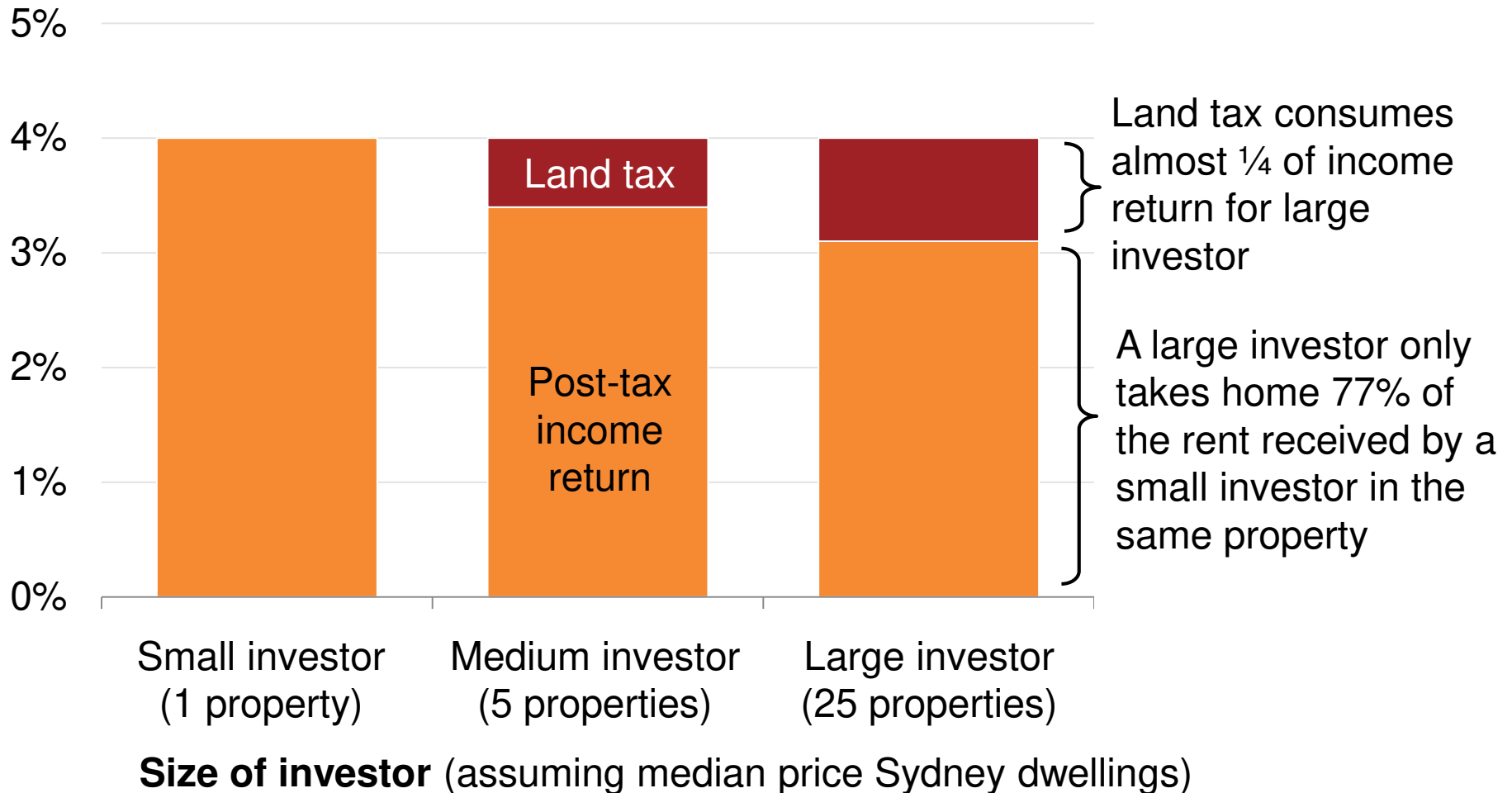
- Risk of “double taxation” for those that recently paid stamp duty when purchasing a home

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Generous tax-free thresholds and progressive rates discourage large residential investors

Land tax paid and post-tax income return, % of asset value



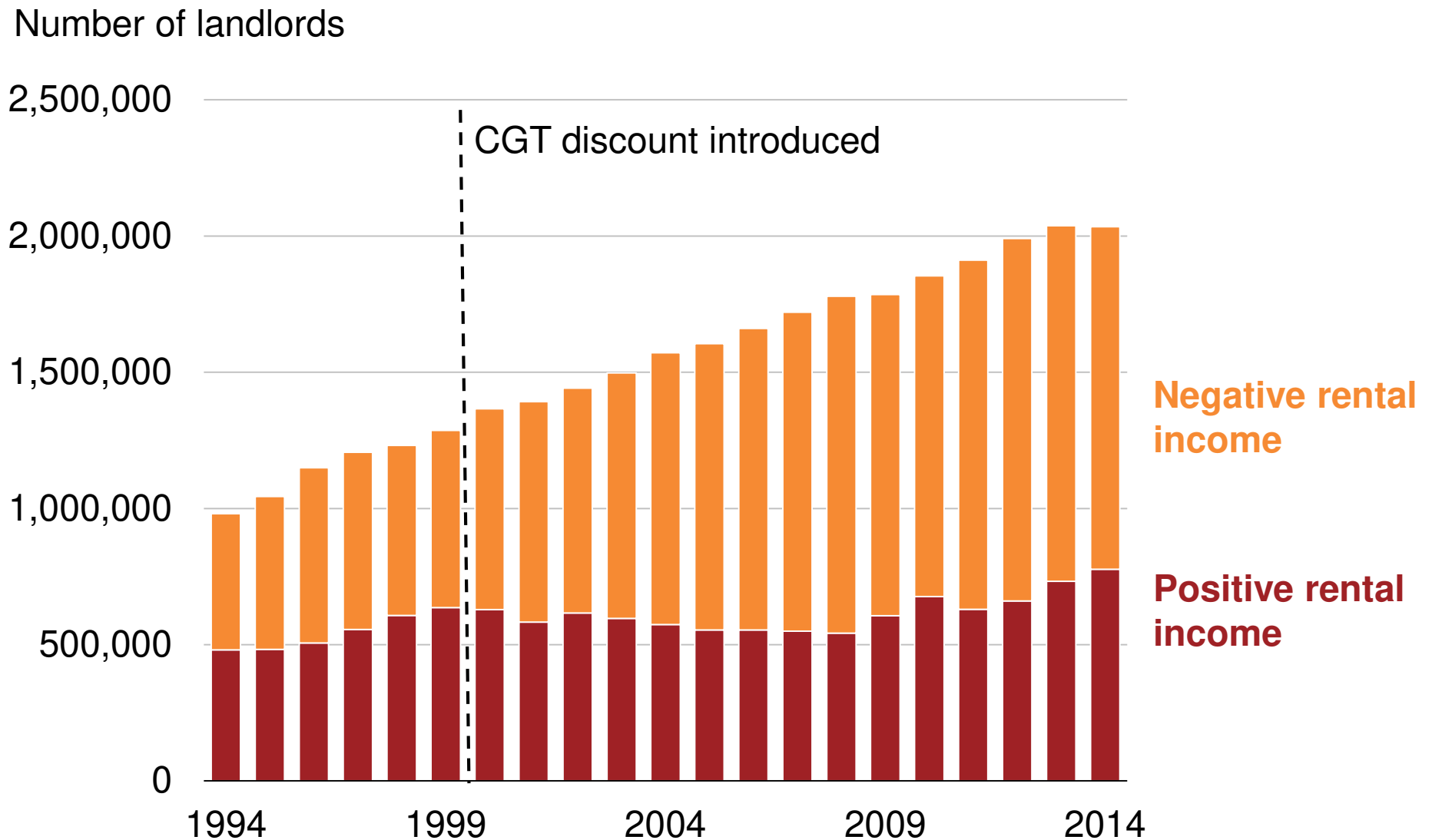
Notes: Based on \$880,000 median-priced Sydney dwelling and a 4 per cent gross rental return. The land value is assumed to be half the value of the property. Applies 2017 NSW land tax regime. Ignores deductibility of land tax costs against income in personal and corporate income tax returns.

Source: NSW Office of State Revenue; Corelogic; Grattan analysis.

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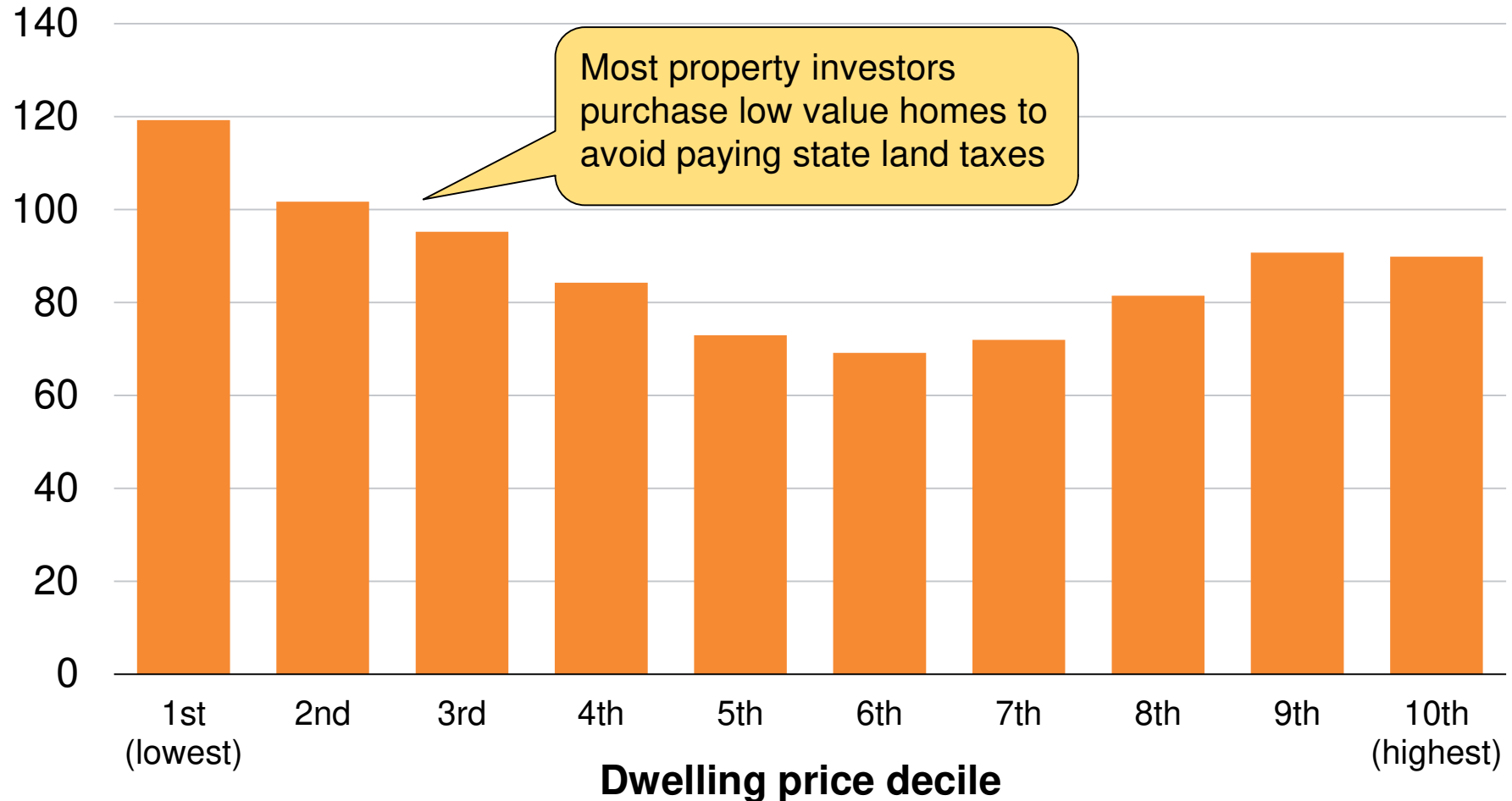
Since 2000, most additional investment property owners are negatively geared



Notes: Total net rent is the sum of net rental losses and profits across all landlords as marked on their tax returns.
Source: Daley et al. (2016a); ATO, Tax stats 2013-14

Investor tax concessions have pushed up the prices of cheaper homes the most over the past decade

Per cent change in dwelling prices between 2003-04 and 2015-16, by dwelling price decile in each year



Notes: average dwelling price in each decile.
Source: ABS Survey of Income and Housing

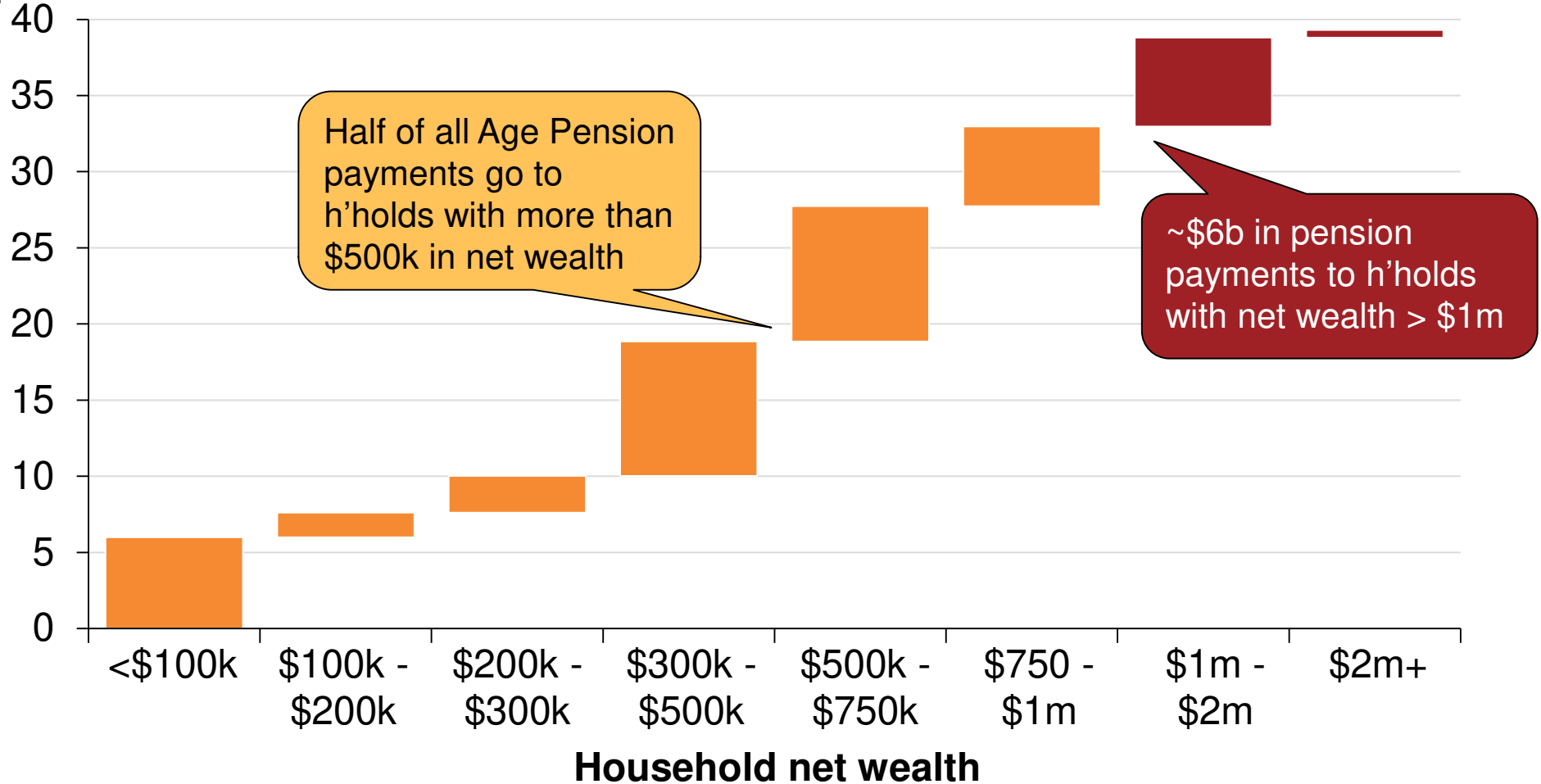
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Our retirement incomes system assumes most retirees will own their homes outright

Total Age Pension payments by net wealth of household, 2013-14

\$ billions



Notes: Annual Age Pension payments reported in survey are grossed up to by 10 per cent to reflect aggregate Age Pension payments for the 2013-14 financial year. Excludes impact of Age Pension asset test changes that took effect from 1 January 2017.

Source: Grattan analysis of ABS Survey of Income and Housing 2013-14; 2013-14 Commonwealth DSS Portfolio Budget Statement.

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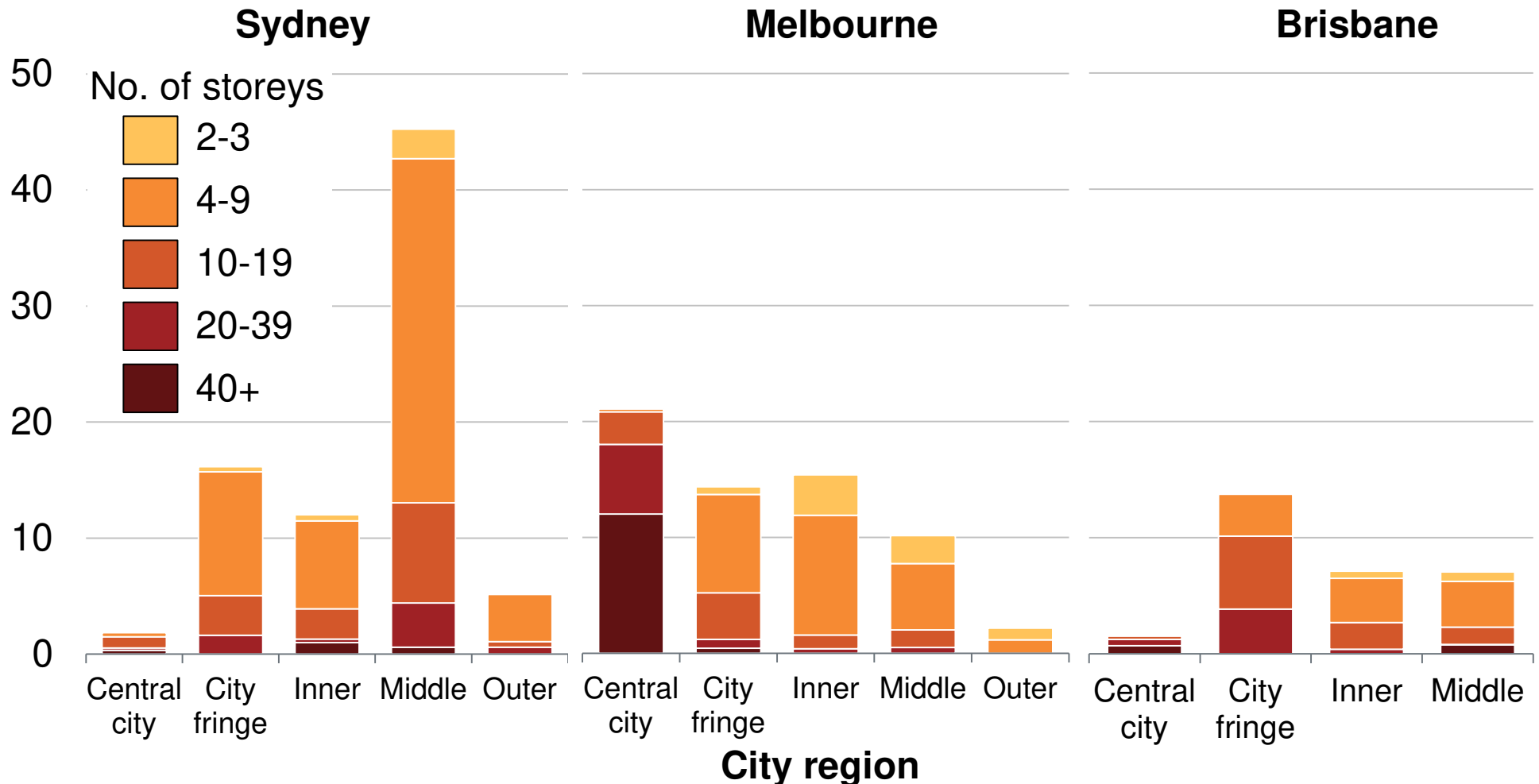
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Many mid-rise apartments are being built in the middle ring suburbs of Sydney

Apartment completions, 2014-2017, by region and number of storeys, thousands

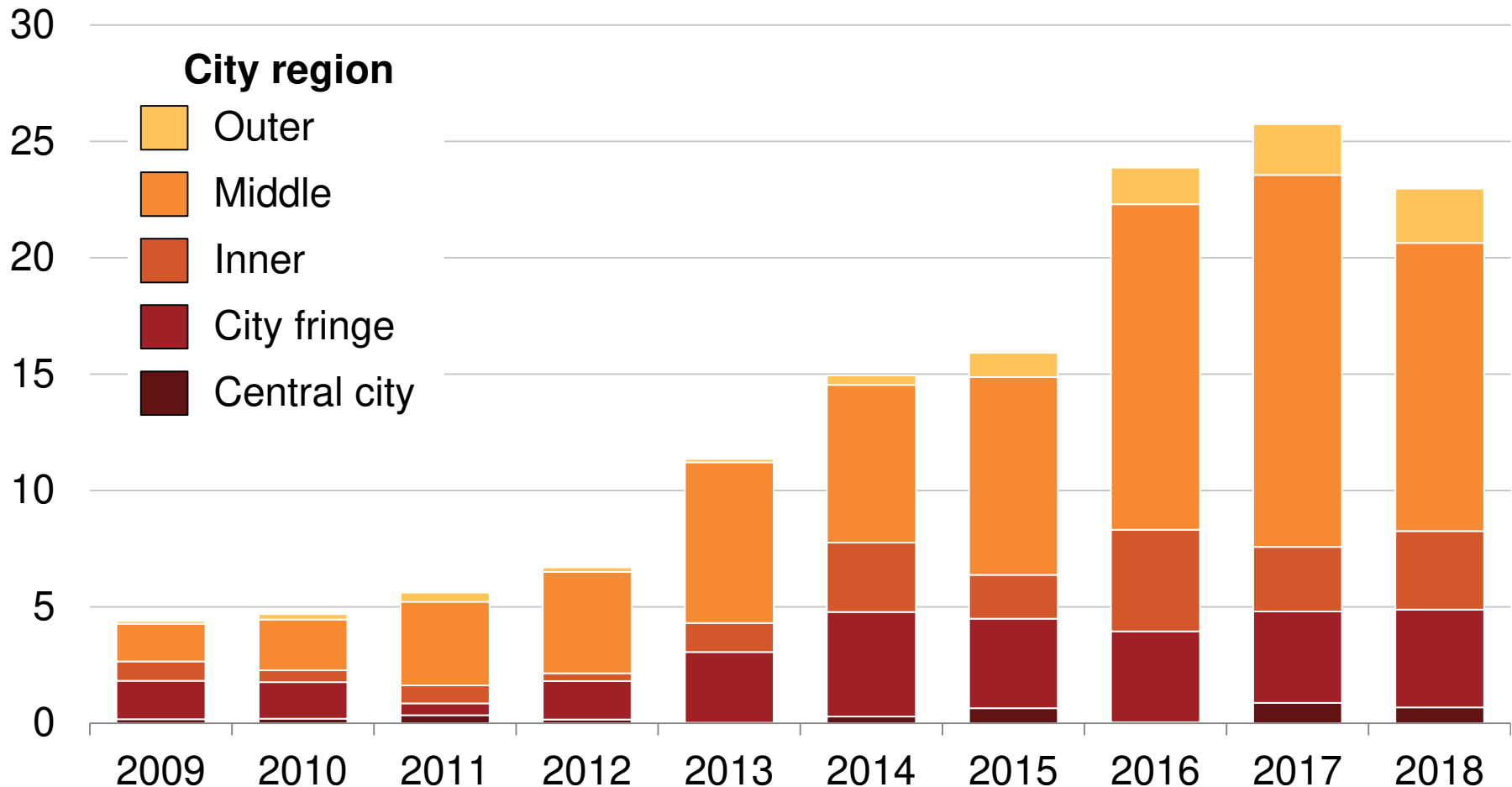


Notes: The Central city region = CBD and approximately 0-2 km from the CBD. City fringe region = approximately 2-5km from the CBD. Inner region = approximately 5-10km from each CBD. Middle region = approximately 10-35km from each CBD. Outer region = approximately 35km+ from the CBD. Middle Brisbane is work in progress, Outer Brisbane is not tracked.

Source: Charter Keck Cramer

Apartment building in Sydney's middle-ring suburbs has taken off in recent years

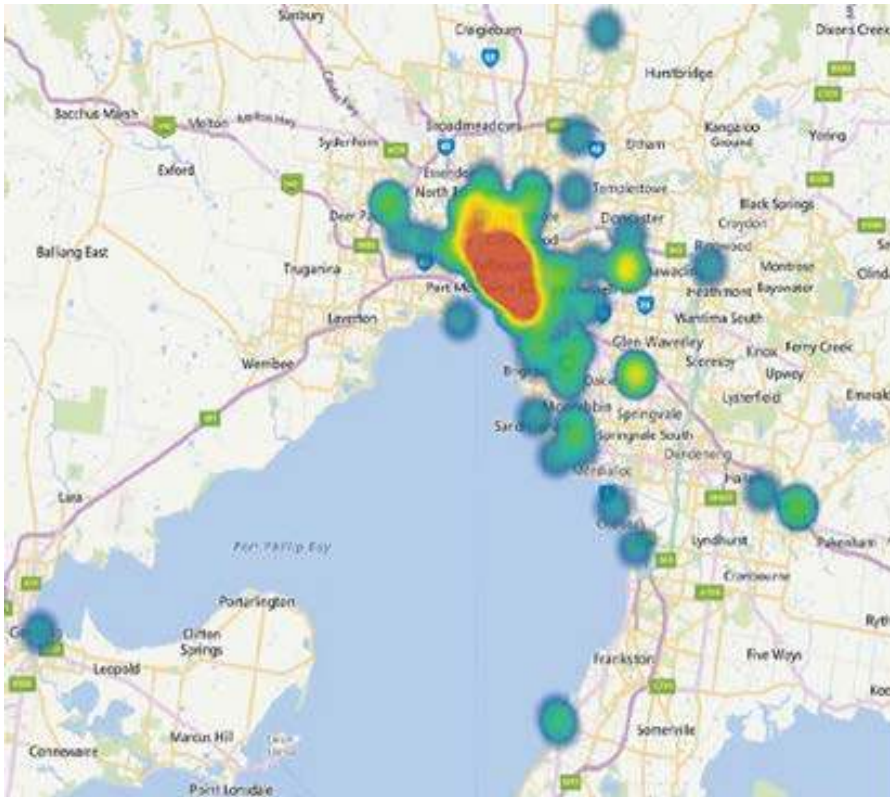
Apartment completions and expected completions in Sydney, thousands



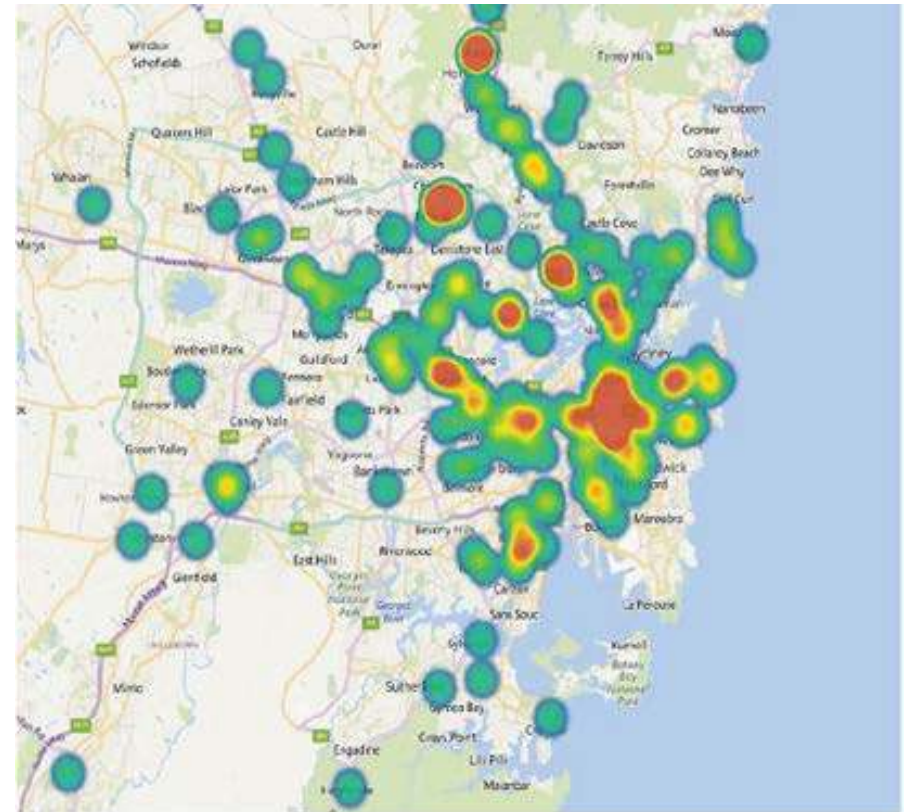
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Melbourne's higher density development is much more concentrated than Sydney

Concentration of construction cranes



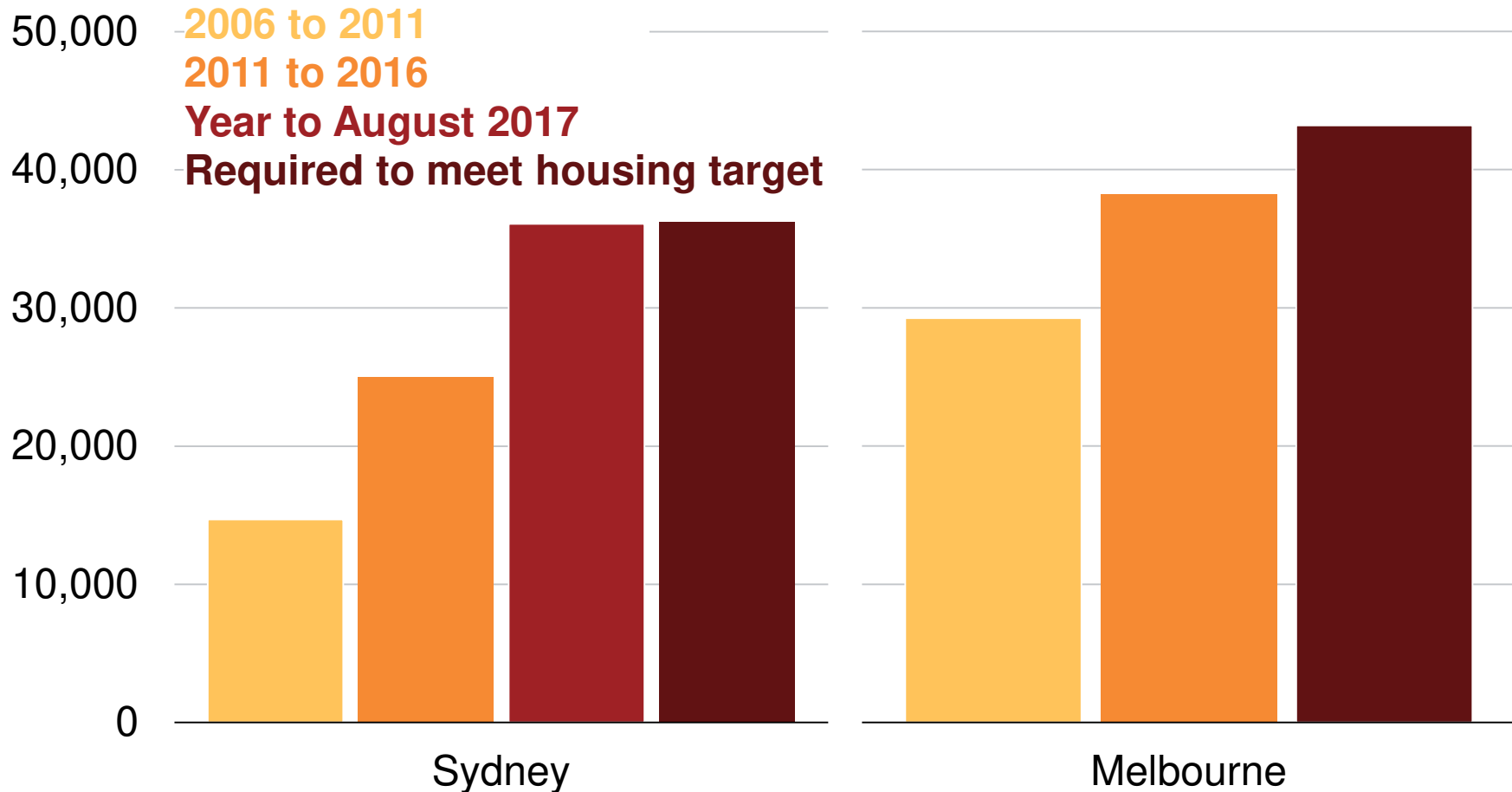
Melbourne – 151 cranes



Sydney – 350 cranes

Record rates of housing construction in Sydney must be sustained to meet state housing targets

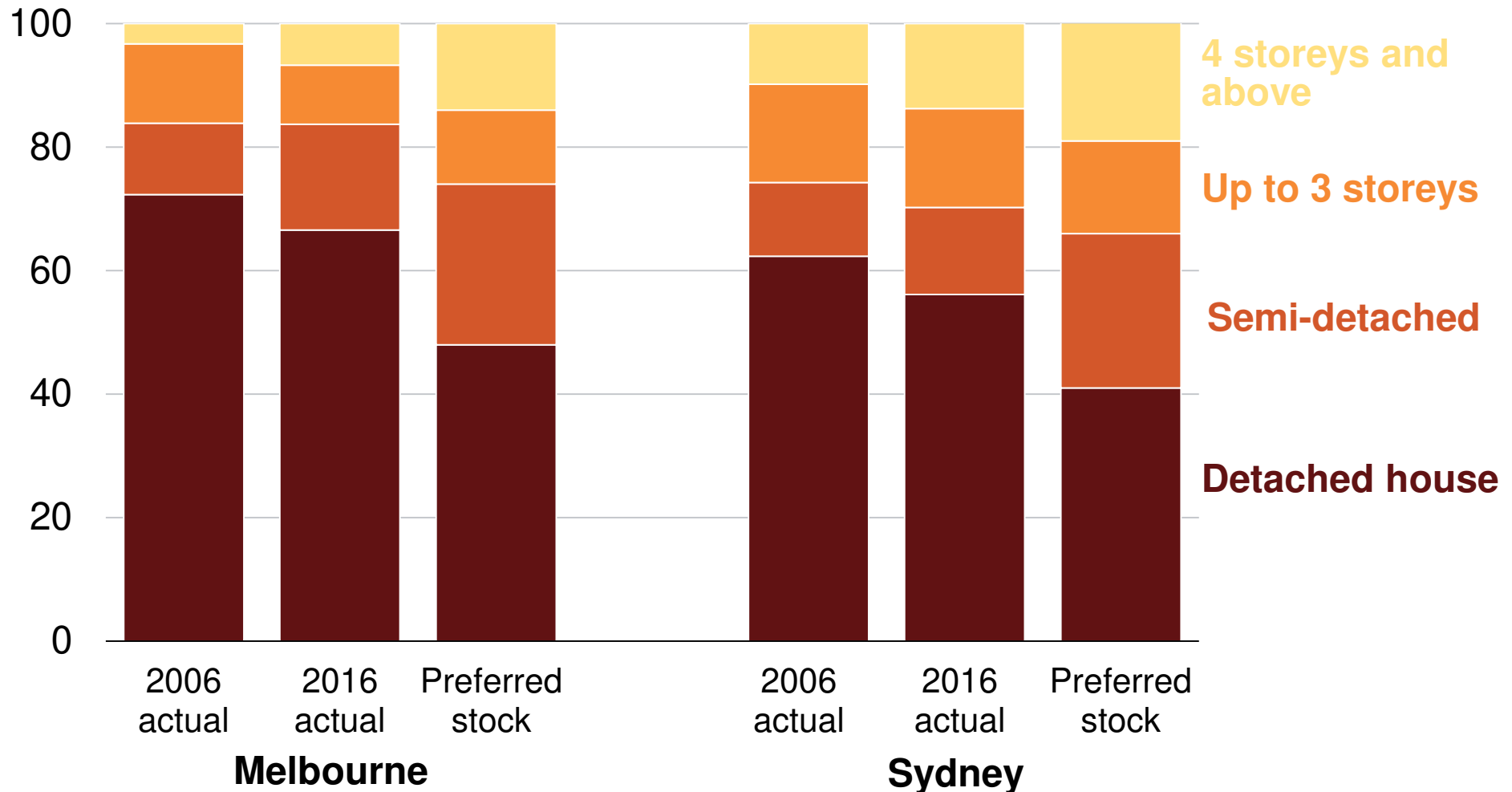
Average annual net housing construction



Notes: Towards Our Greater Sydney 2056: 725,000 additional dwellings over 2016-2036 (excludes the Central Coast). Plan Melbourne 2017: 1,550,000 additional dwellings over 2015-2051 (based on Victoria in Future projections). For 2006 to 2016 data, growth in dwelling stock is calculated using 2006 Statistical Division boundaries for the capital cities. Projections use Greater Capital City Statistical regions. Source: Greater Sydney Commission (2016); Victorian Government (2017); NSW Department of Planning and Environment

The housing stock is shifting in our capital cities, but there is still a way to go

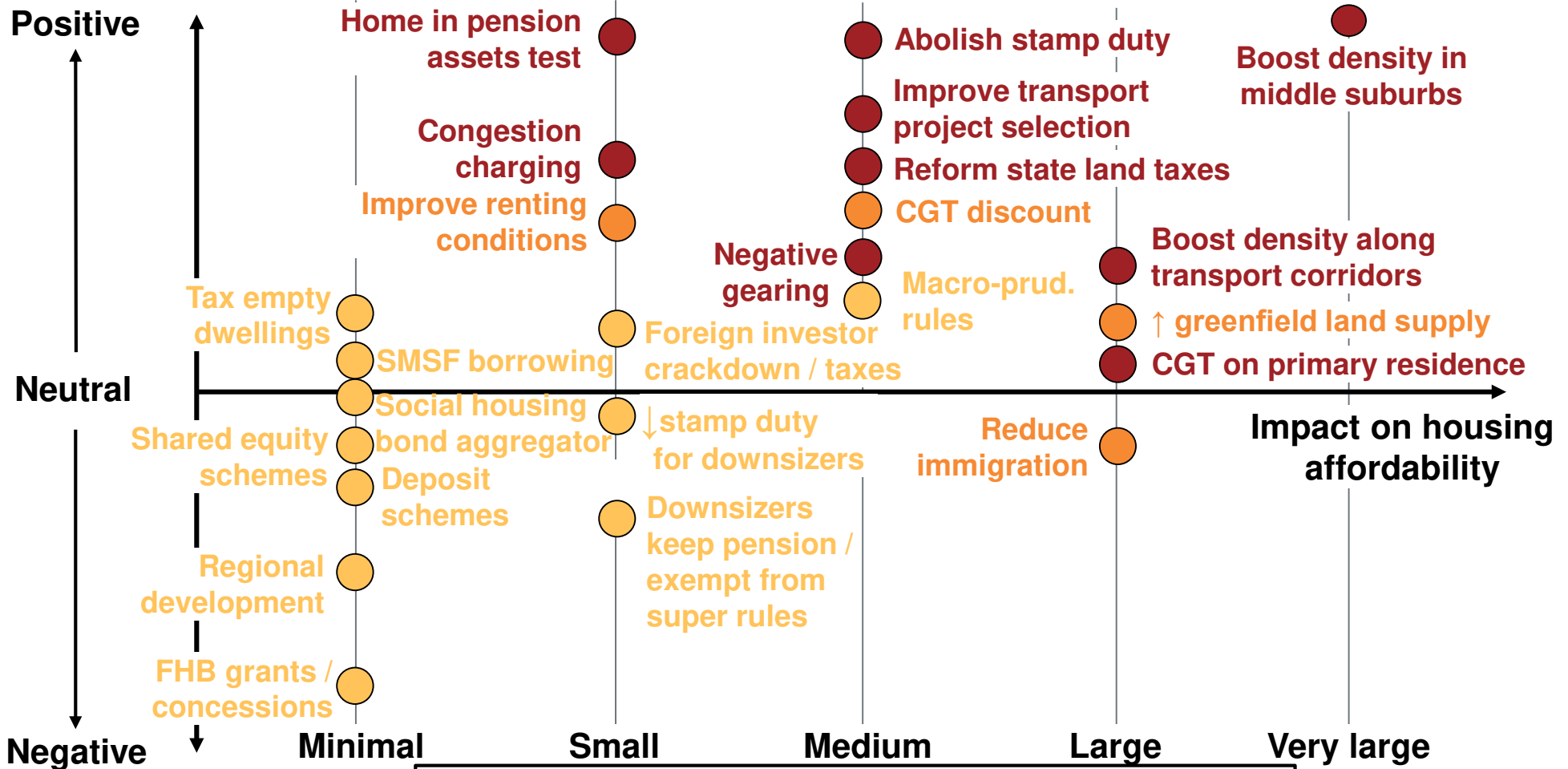
Per cent of housing stock, actual and preferred



Notes: 'Preferred stock' is from the survey of 700 residents about housing preferences from Grattan's 2011 report, *The housing we'd choose*. Data may not sum to 100 due to rounding. Excludes dwellings listed as 'Not stated' and 'Other dwellings', such as caravans. Source: Census; *Housing we'd choose*; Grattan analysis

Tax-transfer system reforms will help housing affordability, but need to boost supply too

Social, economic and budgetary impacts



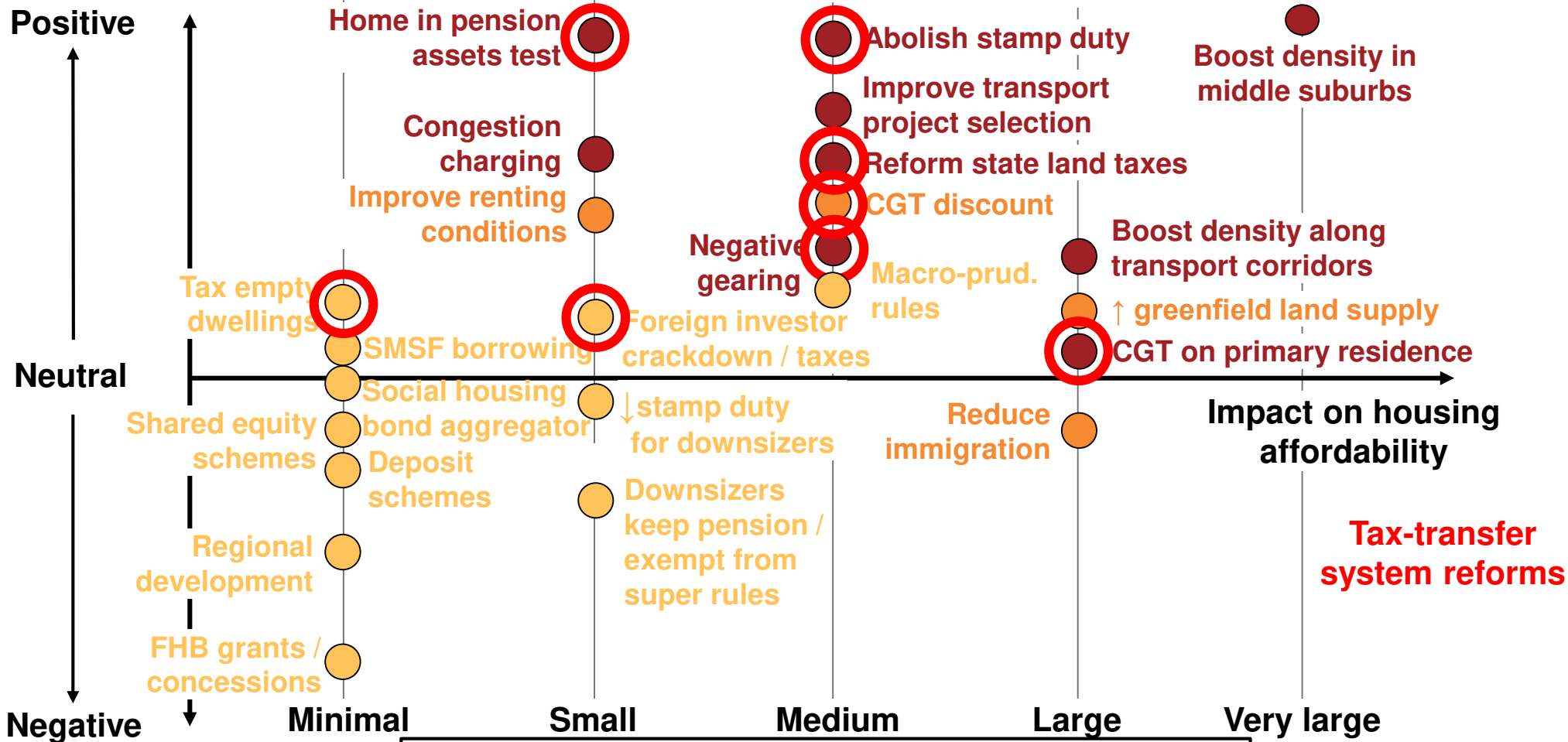
Political difficulty: Easy (Yellow dot) Medium (Orange dot) Difficult (Red dot)

Source: Grattan analysis.

Notes: Prospective policies are evaluated on whether they would improve access to more affordable housing for the community overall, assuming no other policy changes. Assessment of measures that boost households' purchasing power includes impact on overall house prices. Our estimates of the economic, budgetary or social impacts should not be treated with spurious precision. For many of these effects there is no common metric, and their relative importance depends on the weighting of different political values. Consequently our assessments are generally directional and aim to produce an informed discussion.

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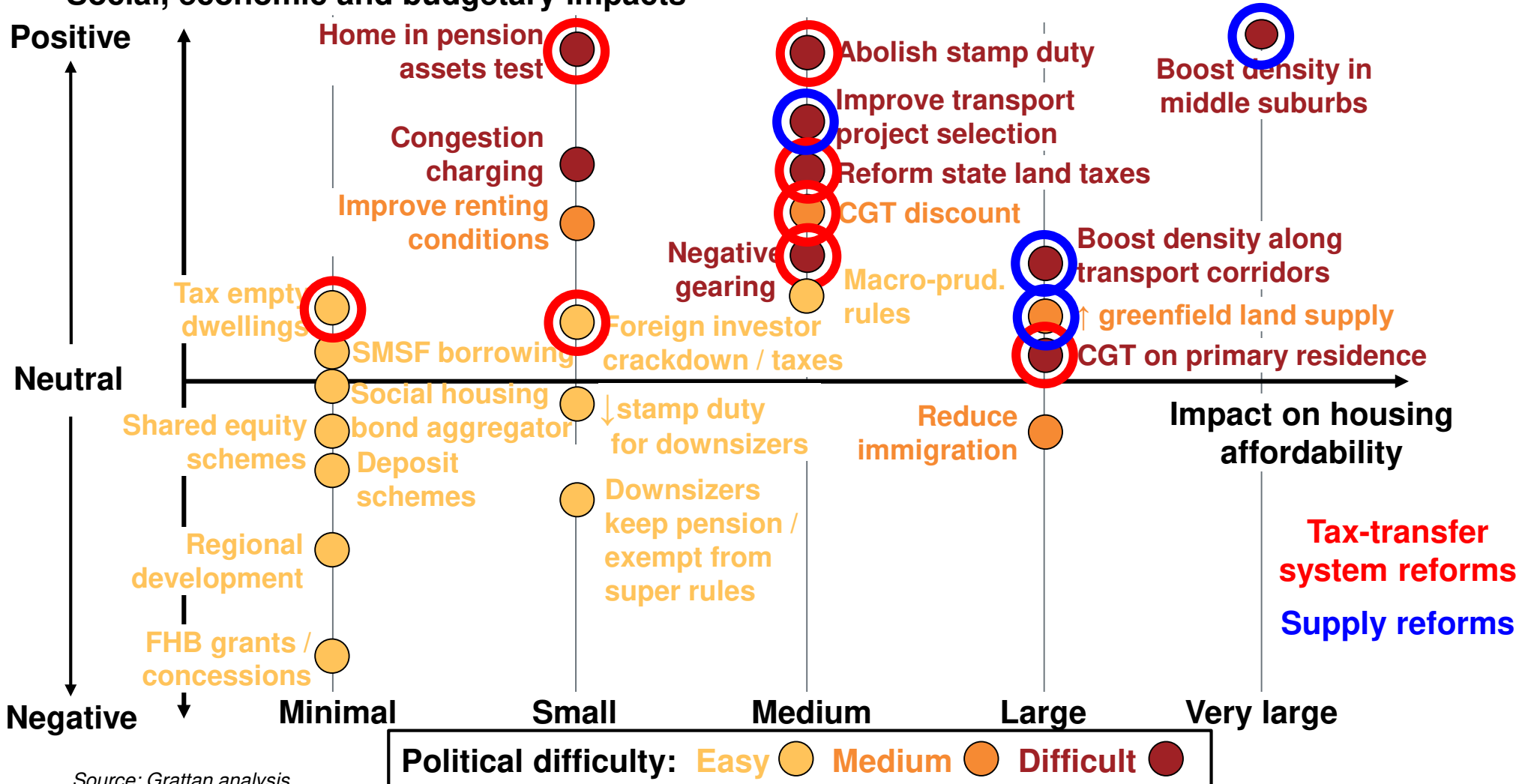


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