



Housing tax reform: What will make a difference?

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**NSW Affordable Housing Conference 2018, Sydney
28 June 2018**

Housing tax reform

Worsening housing affordability is really hurting the young and poor

What housing tax reforms would make a difference?

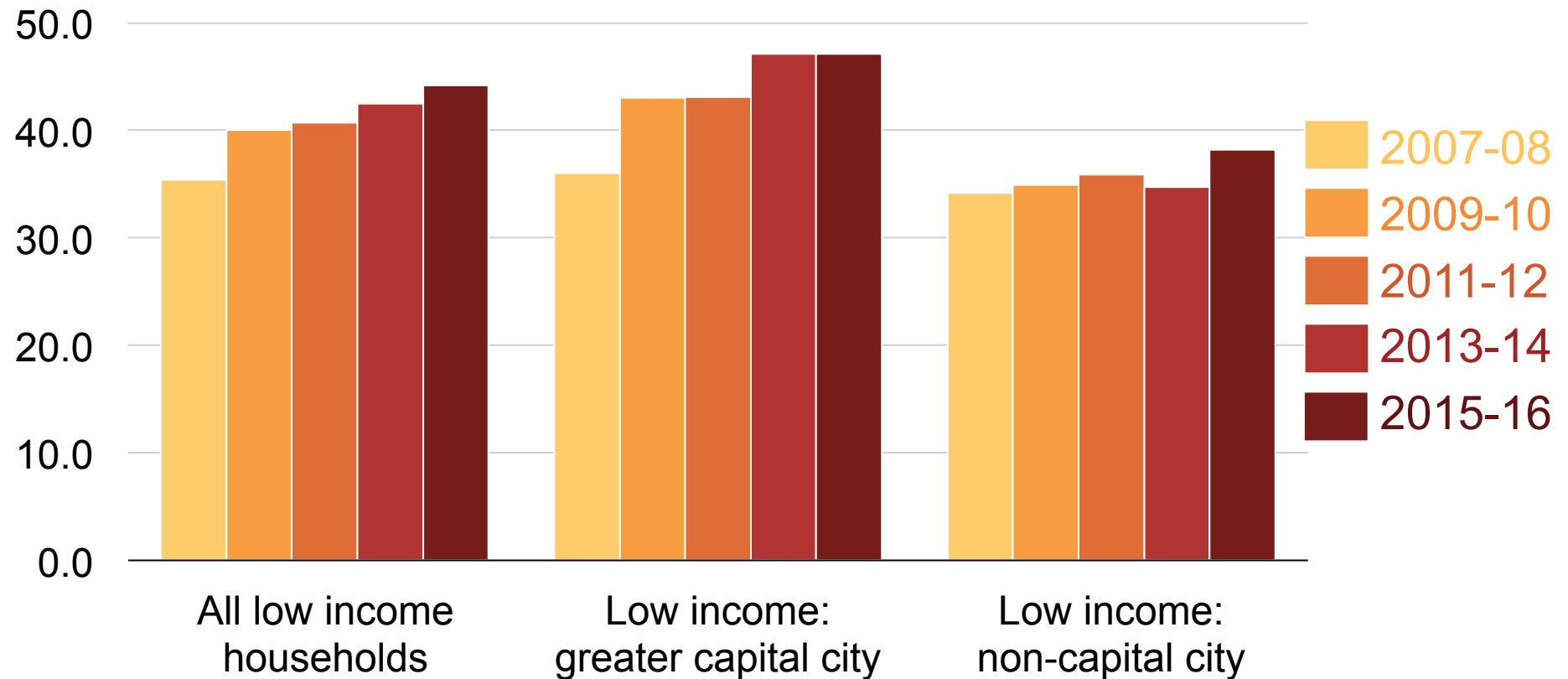
- **Stamp duty reform** does more for economy than housing affordability
- Reforming **progressive land taxes** can improve tenure security
- **Negative gearing and CGT** will help affordability, but don't exaggerate
- Including **home** in **pension assets test mainly** improves the budget
- **Vacant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

- Even current record rates of home building aren't keeping up with population growth

Rental stress among low-income households is increasing in capital cities GRATTAN Institute

Per cent of low-income renters with housing costs more than 30 per cent of gross household income

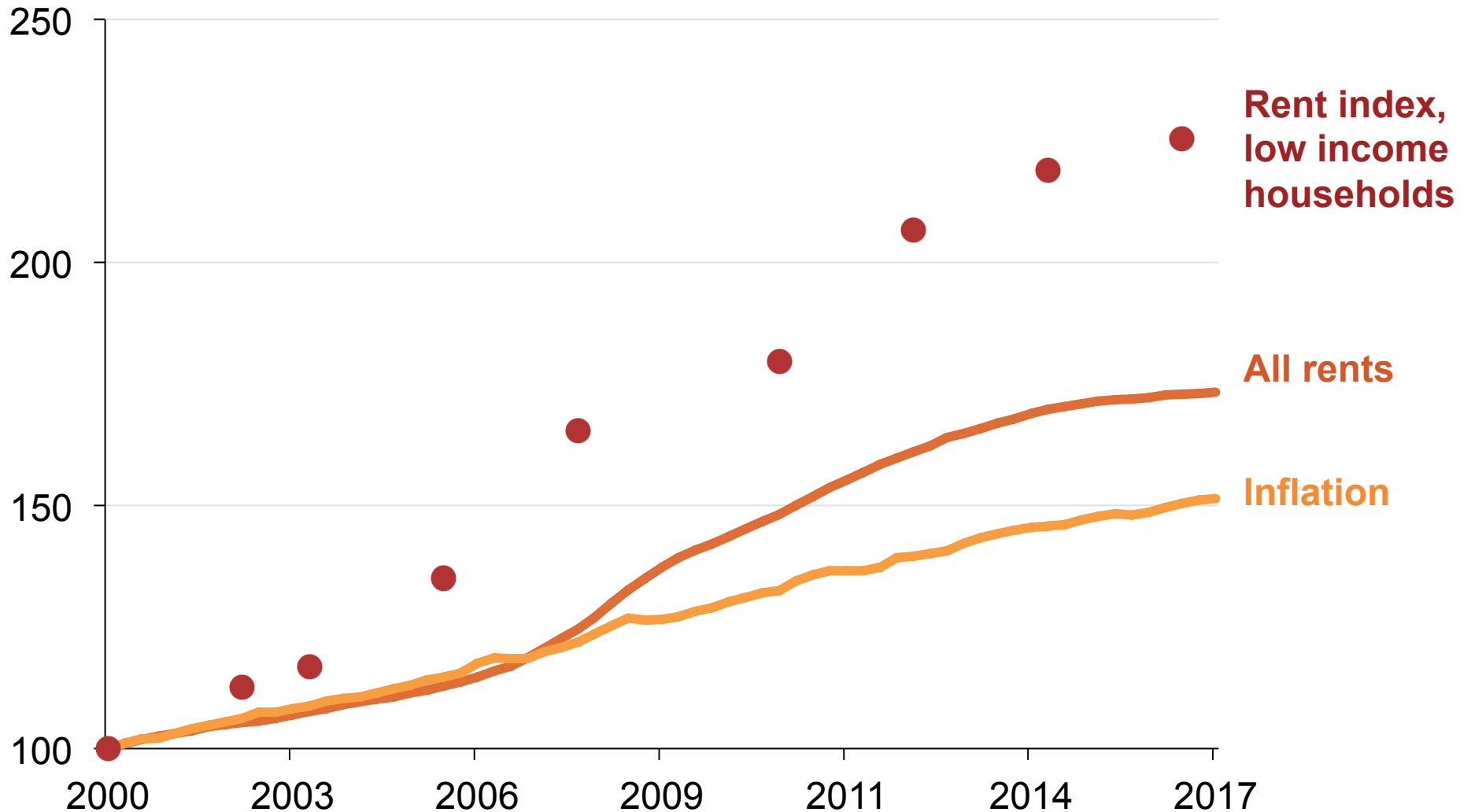


Notes: Low income households are defined as the 40 per cent of households with equivalised disposable household income (excluding Commonwealth Rent Assistance) at or below the 40th percentile.

Source: ABS 4130.0 - Housing Occupancy and Costs

Rents have risen fastest for low-income households, well above inflation

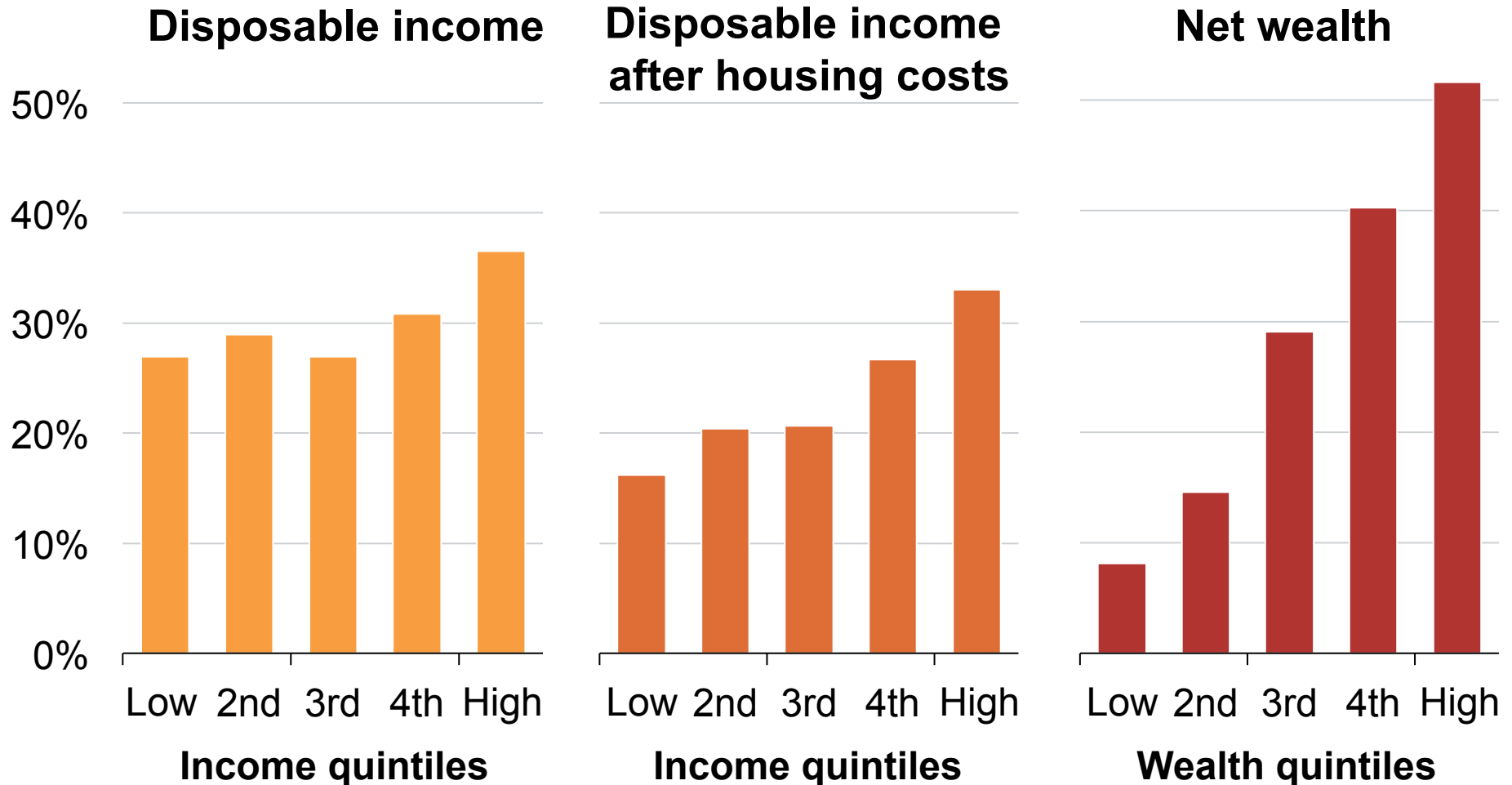
Rent prices and CPI, indexed to December 2000



Source: Productivity Commission (2018), *Reforms to Human Services: Social Housing in Australia*, Figure 6.1

Incomes have risen across the board; but less so after housing costs

Real growth from 2003-04 to 2015-16 per equivalised household



Notes: Income estimates for 2003-04 onwards are not perfectly comparable with estimates for 2015-16 due to improvements in measuring income introduced in the 2007-08 cycle.

Source: Source: for income, ABS SIH 2003-04 and SIH 2015-16; for wealth, ABS 6523.0 Household Income and Wealth

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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	Coming onto the 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 \$2b	Hits wealthy seniors; helps inter-gen equity	Modest increase in downsizers, but not main constraint	Only unity ticket among think tanks

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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:

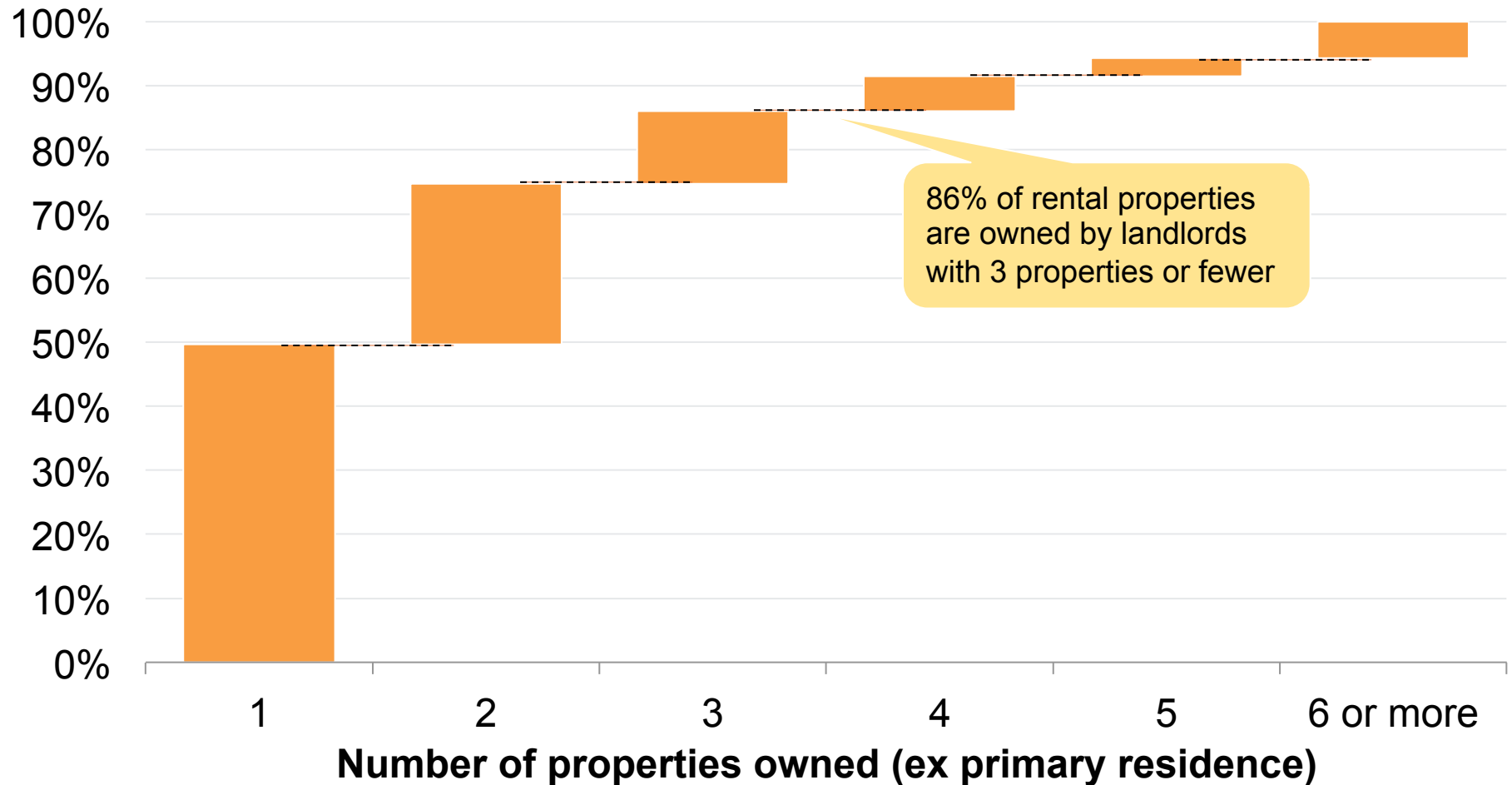
Revenue stability	<ul style="list-style-type: none">• Stamp duties account for ~27% of states' own source tax revenues (\$11bn a year in NSW alone)• Grandfathering “politically sensitive” households has big costs<ul style="list-style-type: none">○ Any shortfall can be borrowed, but must be repaid○ There will always be a <i>permanent</i> revenue cost
Asset-rich, income-poor households	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• Risk of “double taxation” for those that recently paid stamp duty when purchasing a home

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Most investment properties are owned by small landlords

Share of total investment properties by number of properties owned by investor 2014-15

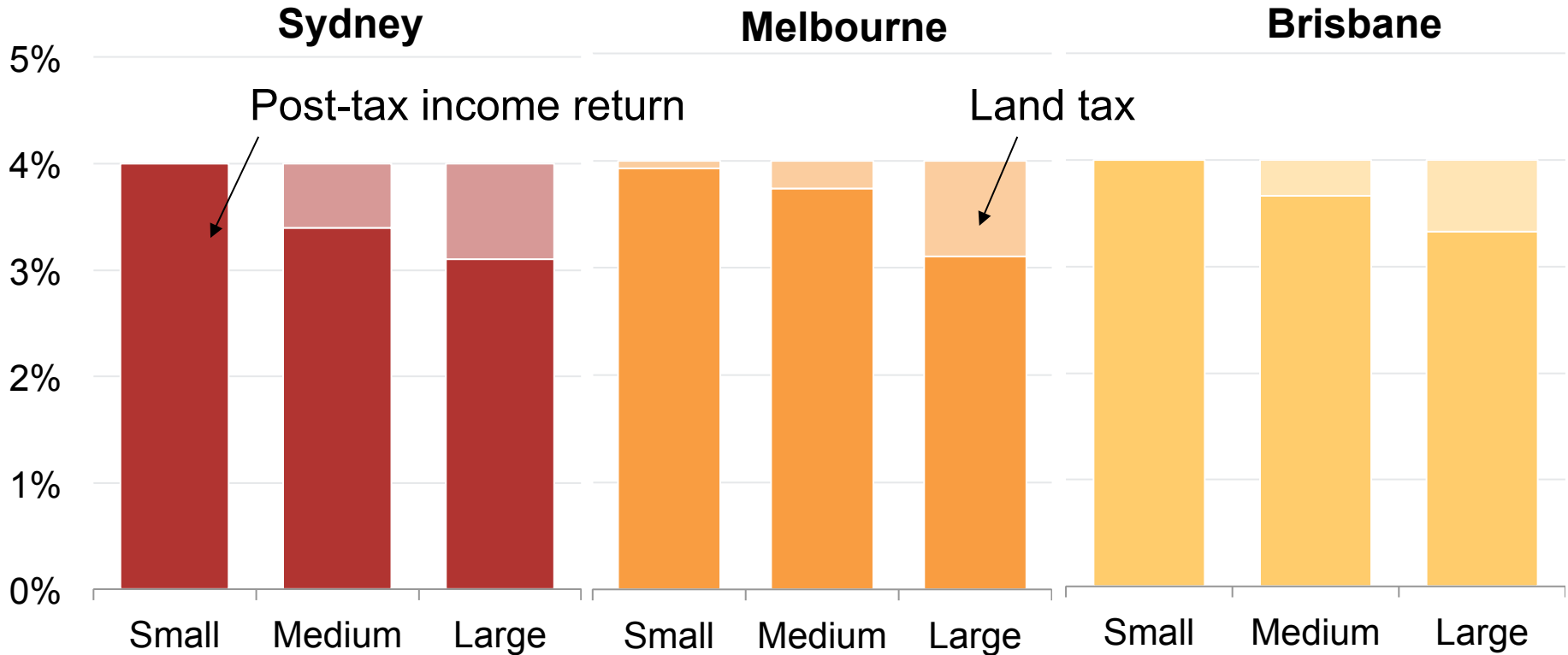


Notes: excludes those that own no residential property other than their primary residence.

Source: ATO Taxation Statistics 2014-15.

Land taxes discourage large residential investors

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



Size of investor (assuming median price dwellings)

Notes: Assumes a small investor owns one property, a medium investor owns five properties and a large investor owns 25 properties. Sydney example based on \$880,000 median-priced dwelling. Melbourne example based on \$720,000 median priced Melbourne dwelling. Brisbane example based on \$490,000 median-priced Brisbane dwelling and 'large investor' is subject to land tax regime for resident individuals. For all three cities, assumes 4 per cent gross rental return and land value is assumed to be half the value of the property. Ignores deductibility of land tax costs against income in personal and corporate income tax returns.

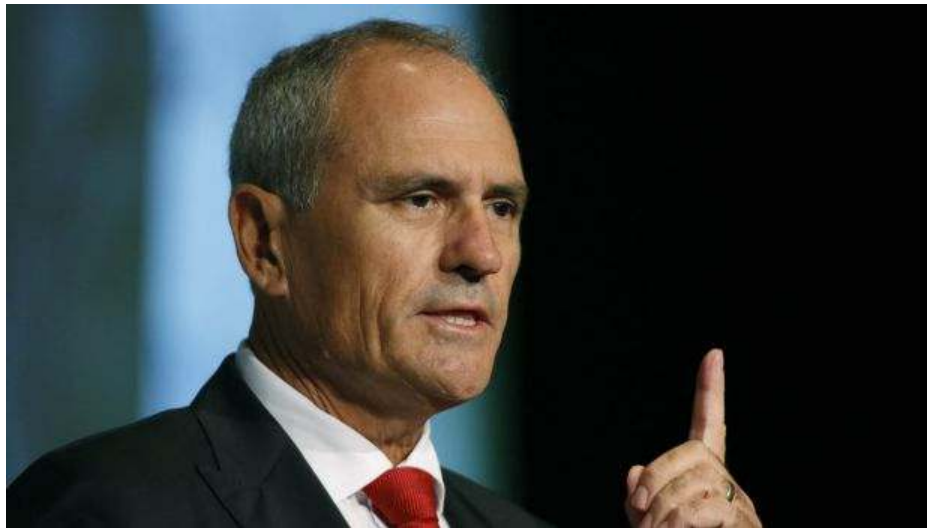
Sources: NSW Office of State Revenue (2018), State Revenue Office Victoria (2017a), Queensland Office of State Revenue (2018), and ABS (2017c); Grattan analysis.

The original rationale for a progressive land tax is no longer relevant

When the Australian colonies introduced land taxes in the late nineteenth century, higher tax rates on aggregate holdings were introduced **to encourage large rural landholders to subdivide their land and sell it to settlers** (Smith 2004).

As rural land is no longer in the base, this rationale for higher rates on larger aggregate holdings is no longer applicable.

Henry Tax Review, 2010, p.261.



Land tax reform options

Keep progressive rate and tax-free threshold, abolish aggregation

- Progressive tax rate on each land site owned
- Fairly efficient: *Somewhat* discourages large land holdings
- Very large commercial landholders would win

Replace with flat rate land tax, no tax-free threshold

- A uniform flat rate per dollar of property value
- Most efficient: no effect on land use choices
- Politically unpopular: large commercial landholders win; mum and dad investors lose

Separate (flat) residential land tax schedule

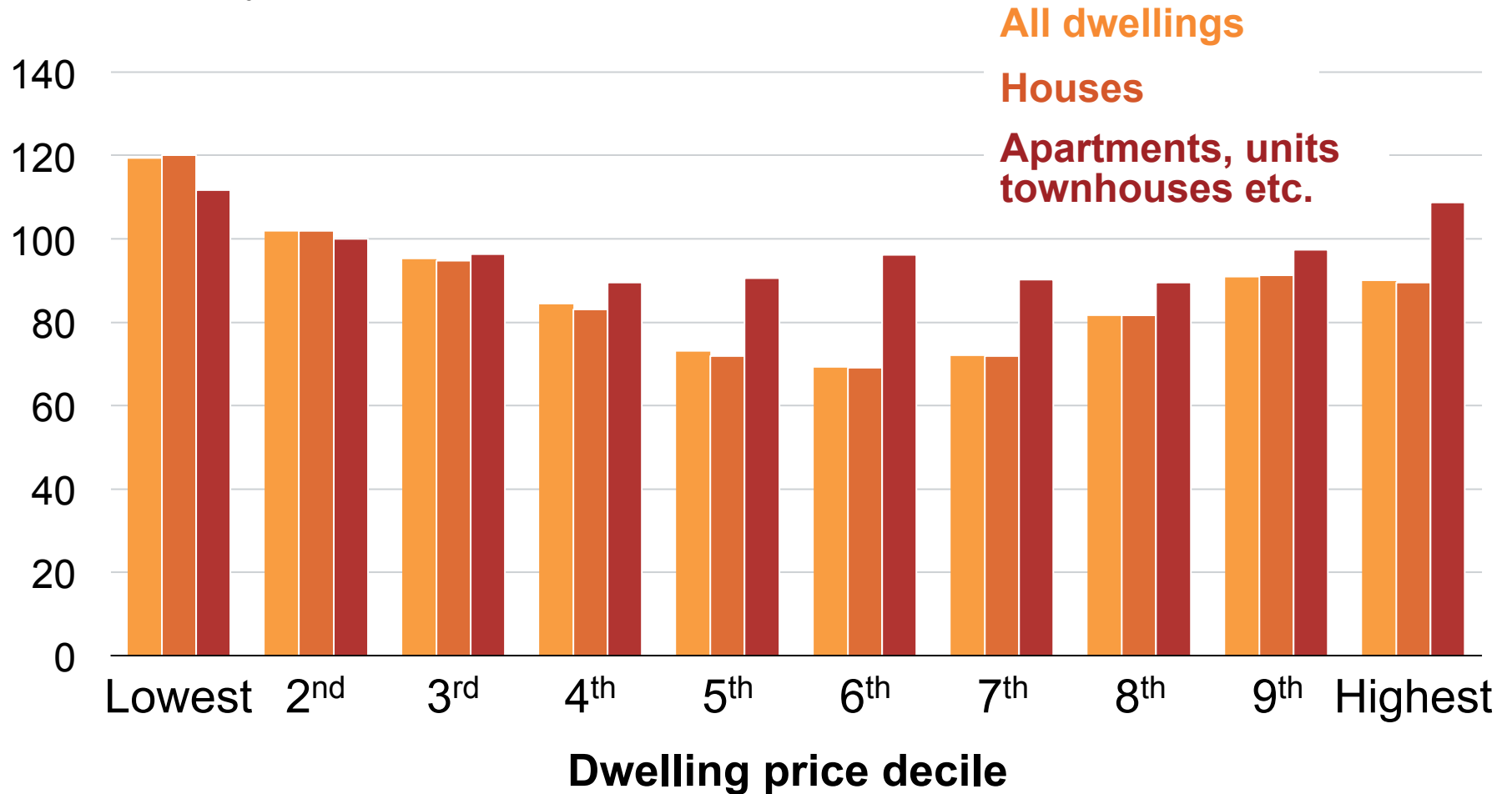
- A low flat tax rate on residential land and a progressive rate on commercial land could be budget neutral
- Some commercial landholders might pay less / more
- Most mum and dad investors probably wouldn't pay more land tax than they do currently

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Cheaper dwellings increased in price by more than expensive dwellings

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. 'Apartment, units, townhouses etc.' includes semi-detached houses, row or terrace houses townhouses, flats, units and apartments.

Source: ABS Survey of Income and Housing

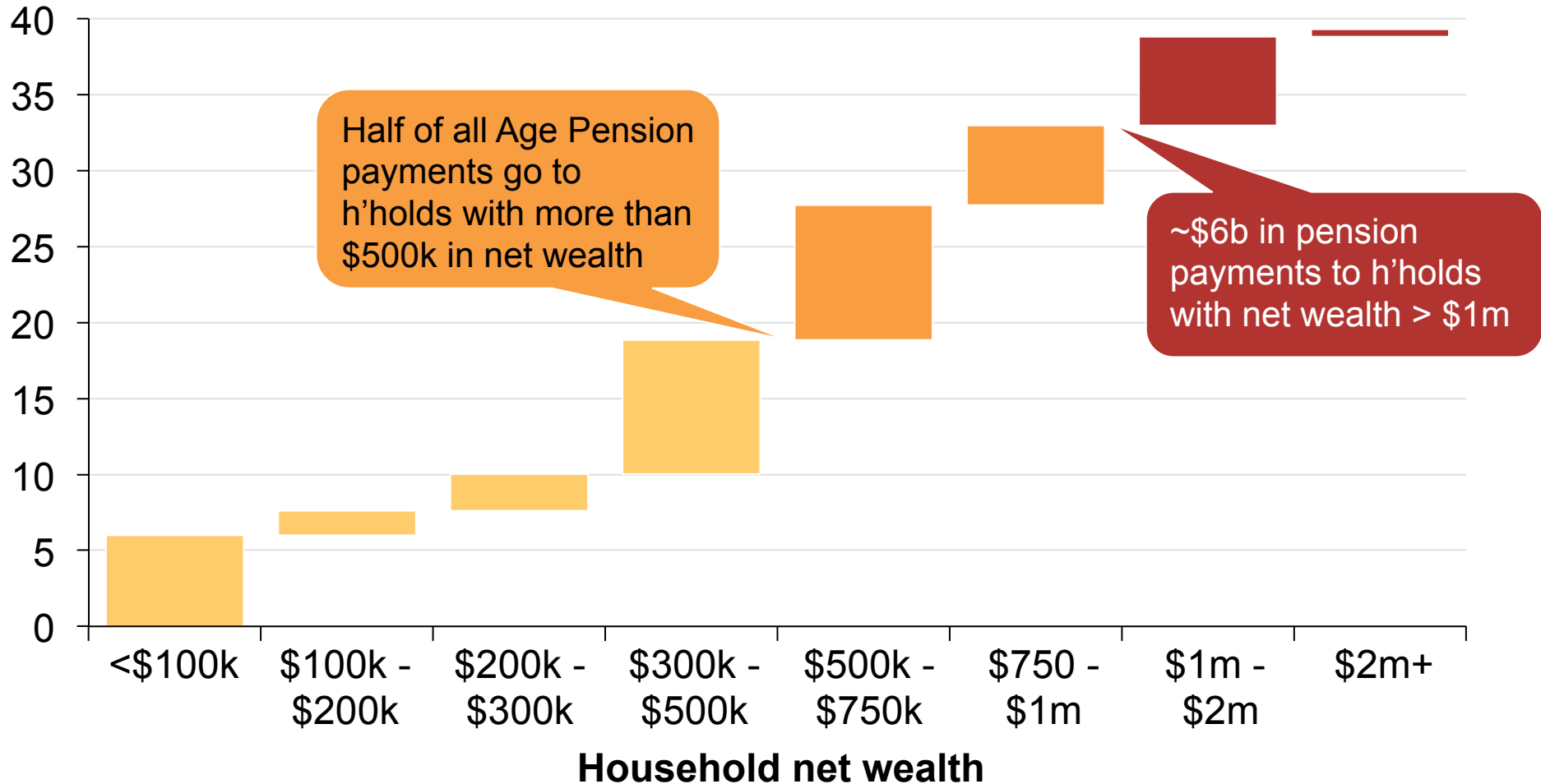
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Our retirement incomes system assumes most retirees will own their homes outright

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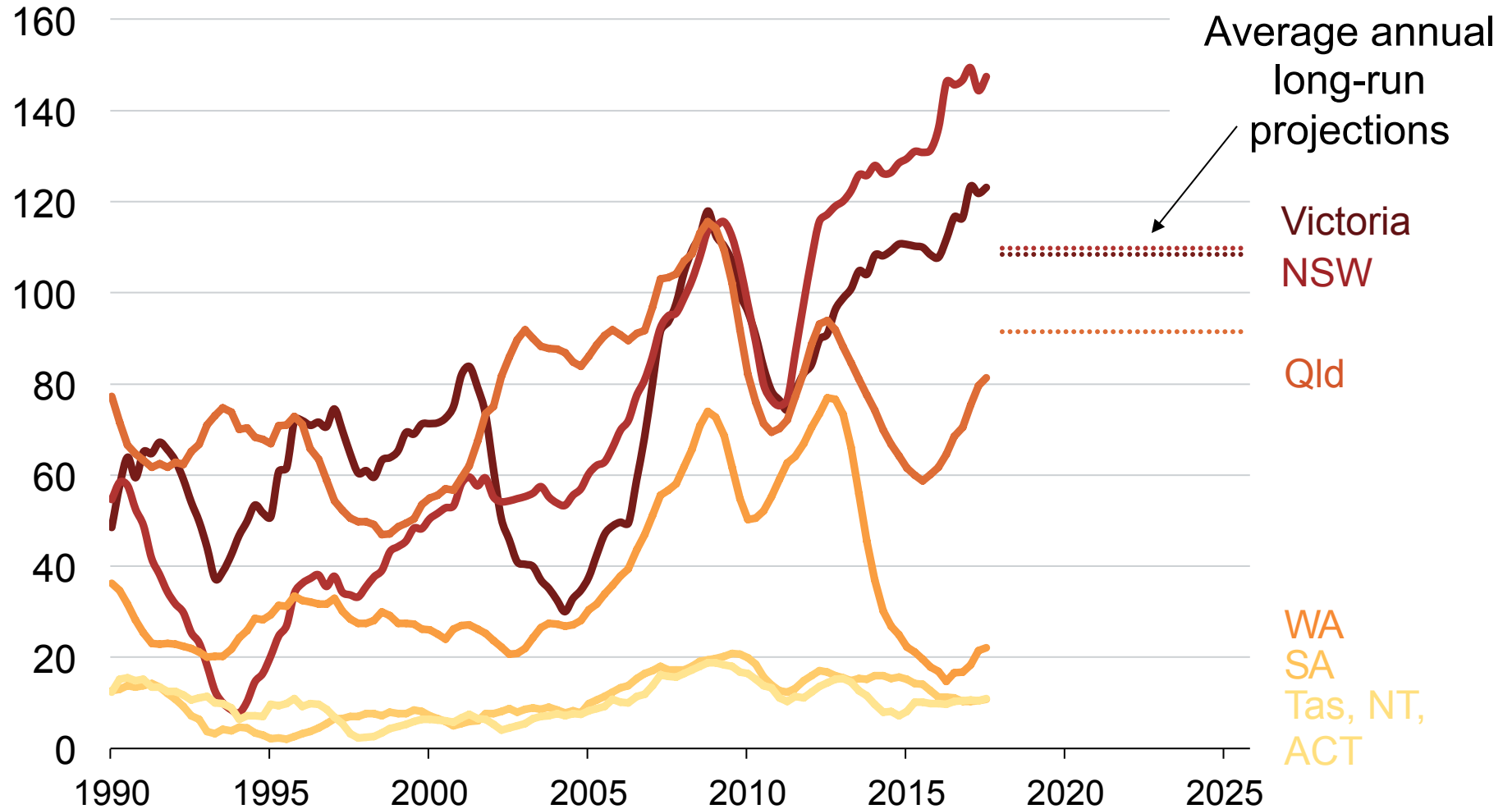
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Demand is only half the story – need supply reforms as well

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Victoria and NSW populations are growing much faster than in the past or projections ...

Net population growth, four-quarter rolling sum, thousands



Recent construction barely meets housing targets, let alone actual population growth

Average annual net housing construction

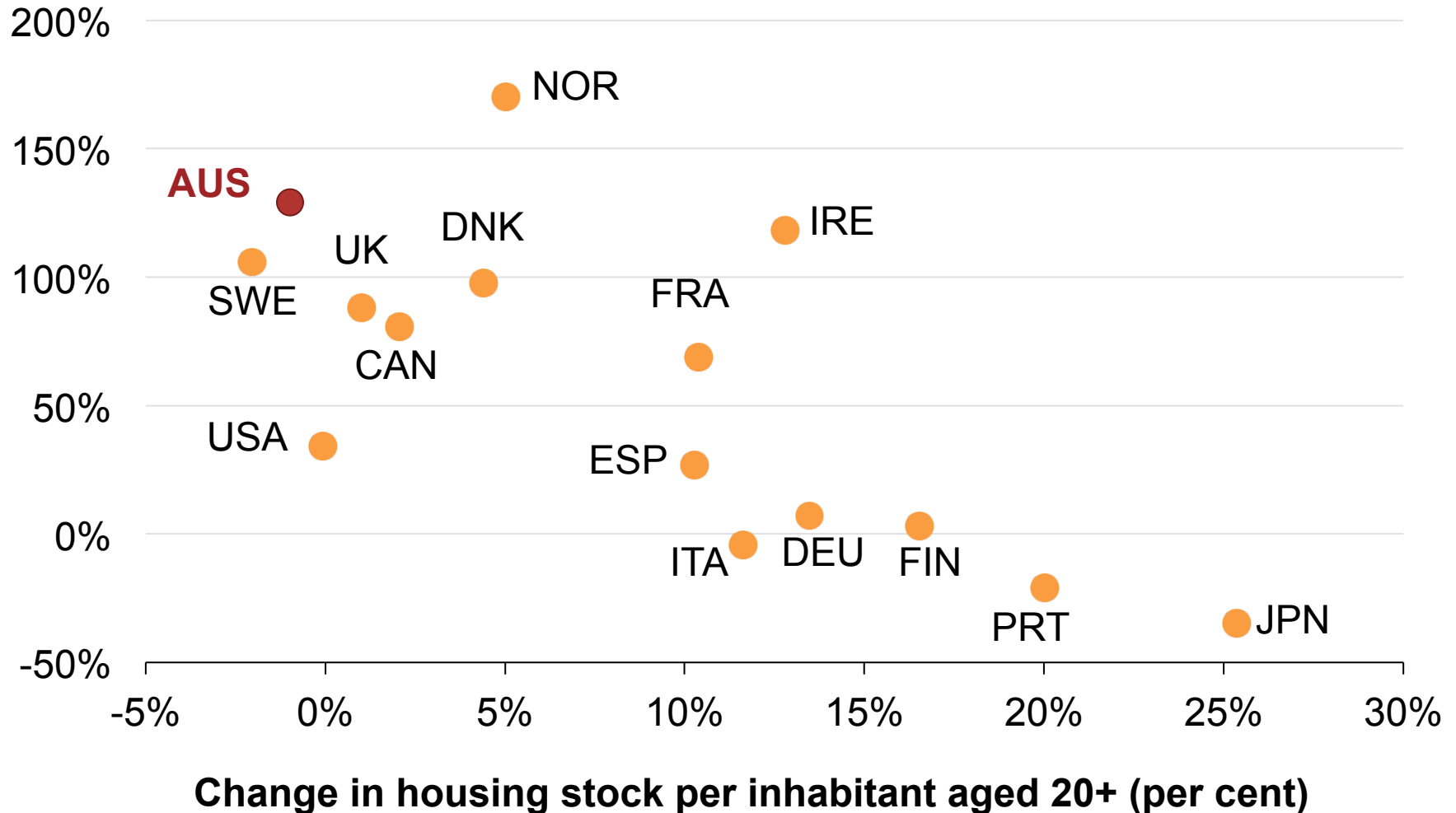


No 2017 data for Melbourne and Brisbane

Notes: Draft Greater Sydney Region Plan: 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 2016 Greater Capital City Statistical Areas. Data for 2017 dwelling completions in Sydney from NSW Department of Planning and Environment (2018). No 2017 completions data available for Melbourne
Sources: Greater Sydney Commission (2016); Victorian Government (2017); NSW DPE; Queensland Government (2017).

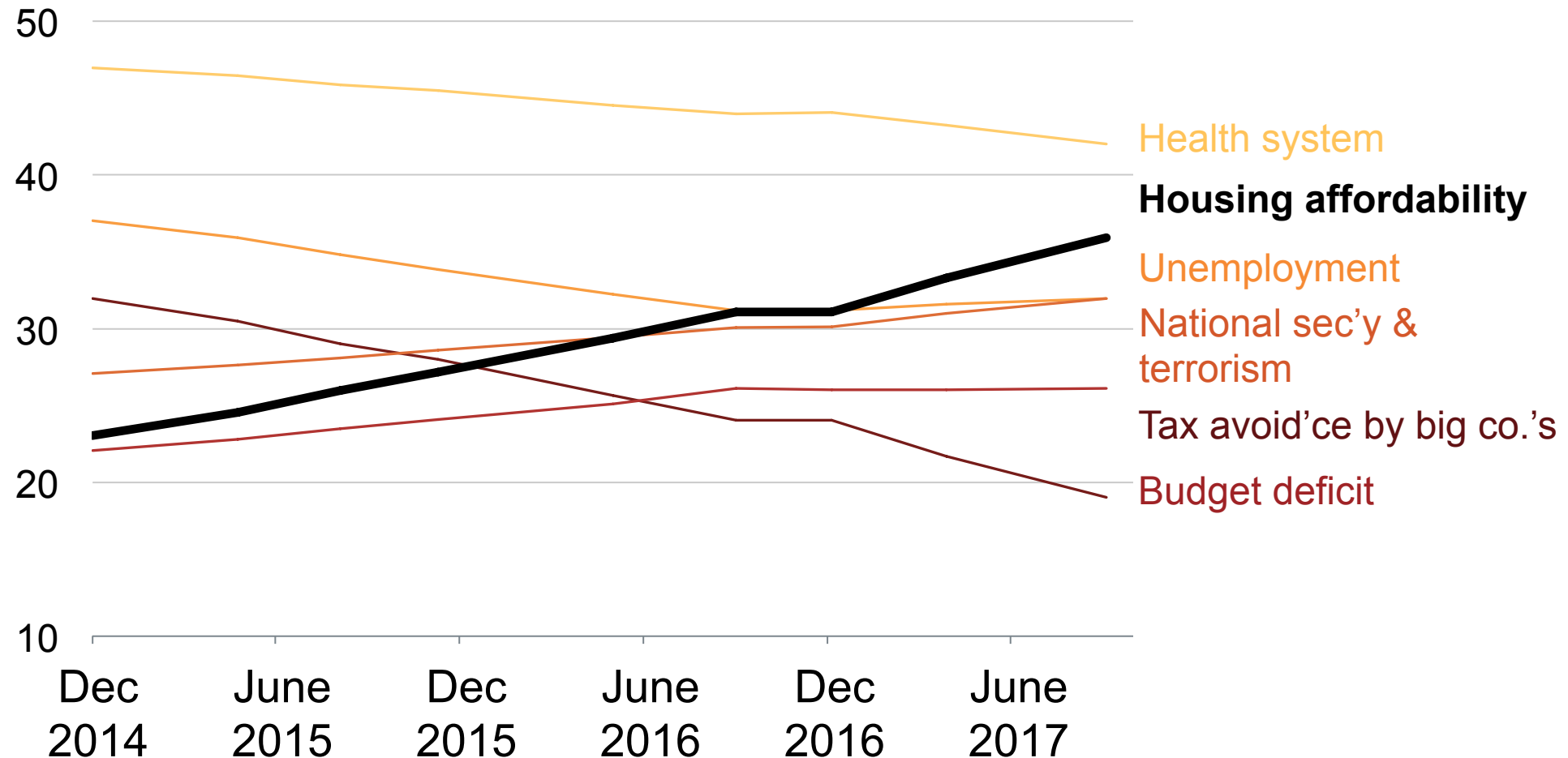
In countries with more housing, prices grew more slowly

Change in real house prices, 1990-2015,



People are increasingly concerned about housing affordability

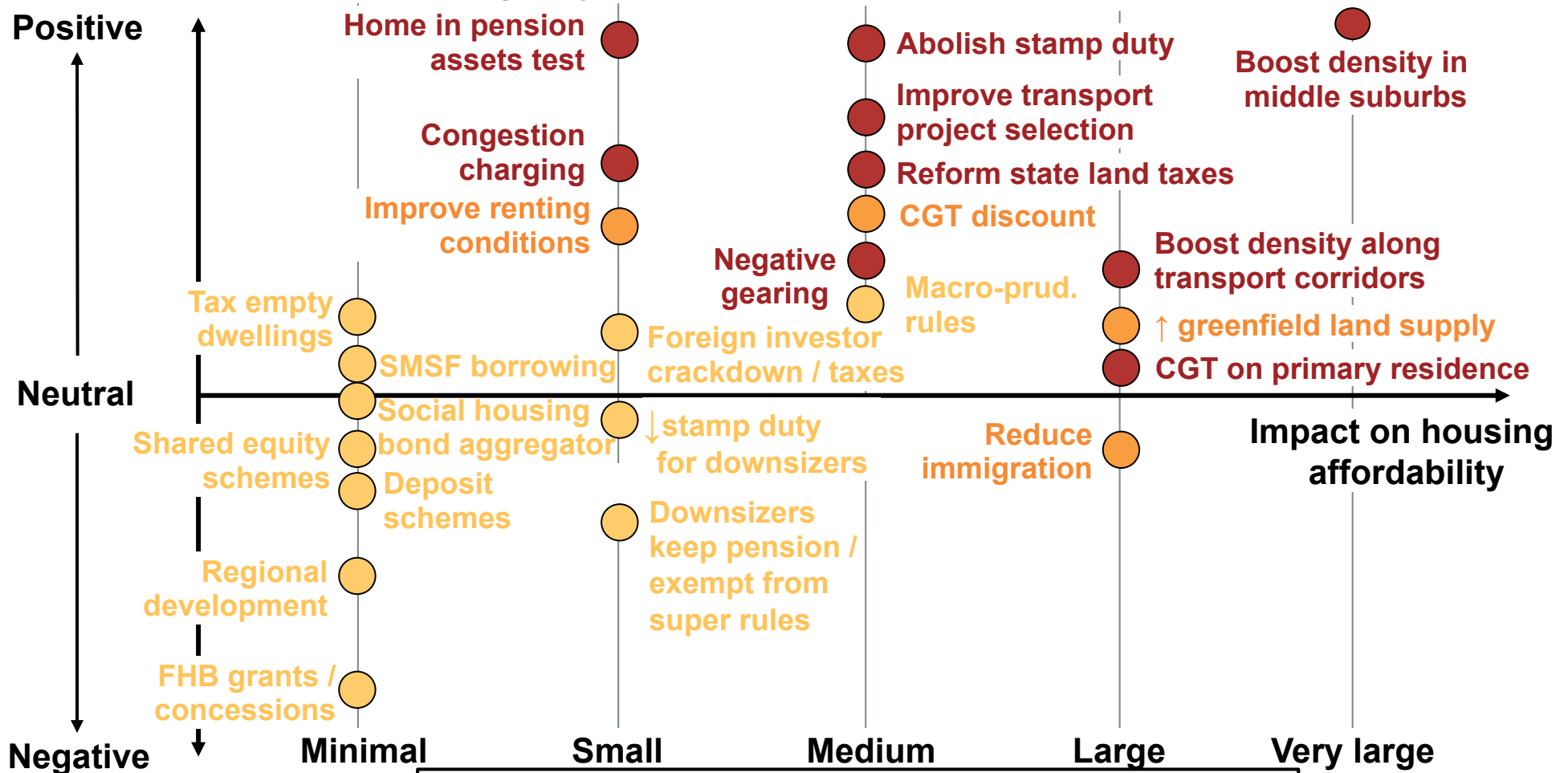
Per cent of responses to question, “What are the three most important issues for government?”



Notes: Top six concerns in 2017 shown. Some questions change slightly across surveys.
Sources: AHURI (2017) and Essential (2017).

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

Social, economic and budgetary impacts



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.

For more ...

March 2018



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