



TAX FORUM

4-5 October 2011

STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

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ORGANISATION

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STATEMENT OF PRIORITIES

AHURI's mission is to deliver high quality, policy-relevant evidence for better housing and urban outcomes. To this end AHURI has undertaken a number of projects that consider the impact of tax settings on housing and urban outcomes.

Yates (2009) finds that tax expenditures (2005-06) for housing provide an average annual subsidy in excess of \$53 billion; \$45 billion to owner occupiers, nearly \$3 billion to renters, and over \$5 billion to landlords. These tax expenditures are equivalent to a subsidy to owner-occupiers of more than \$8,000 per household per year; investors (most of whom are also owner-occupiers) of more than \$4,000 per household per year; and to renters of just over \$1,000 per year. Yates also shows that the average annual benefits of tax expenditures are regressive as they benefit older, higher-income (outright) owners rather than younger, lower-income purchasers or renters. Benefits for rental investors were found to be pro-cyclical and add to upward pressure on housing prices.

Yates argues that a number of policy reforms could address the inequitable impact of these subsidies and ameliorate their adverse effects, including: combining introduction of taxation of imputed rent and capital gains with mortgage interest deductibility; removing owner-occupied housing from land tax exemptions; taxing capital gains over a given limit; re-introducing death duties; and/or ring fencing losses on income earned from rental property.

Ong and Wood (2011) model the impacts of the housing related recommendations from the Henry Tax Review, including the introduction of a Savings Income Discount (SID) of 40 per cent for net rental income (including capital gains) from residential property assets (meaning 60 per cent of rental income is assessable rather than 100 per cent), and the removal of stamp duty on property conveyancing and its replacement with a broad-based land tax.

The modelling estimates that negatively geared investors would be adversely affected by the SID reforms with their average after-tax economic cost rising by 50 *basis points* from 8.0 to 8.5 per cent. However, positive net rents accrue to equity investors (i.e. those not negatively geared) and the SID therefore results in a lower tax burden on rents because 60 per cent of their rent income is assessable, rather than 100 per cent. Despite more heavily taxed capital gains, the average after-tax economic cost of these equity investors falls by 50 *basis points* to 7.5 per cent. If these reduced economic costs are passed through in the long run into rents, average annual rent would fall by just



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over \$300, though most of the benefit goes to those in the more expensive part of the rental market. The modelling estimates that equity investors are more inclined to retain investments under the SID reforms while negatively geared investors would be more likely to sell their investments. As these supply responses would offset each other, a 'flight of investors' from private rental housing is unlikely.

Wood (2011) estimates that replacing stamp duties on residential property conveyancing with a broad based land tax would mean that the average plot of land in Melbourne with a value of \$335,000 (at 2006 prices) would decline by \$21,000 (or approximately 6%). The price reduction will be greatest in those suburbs in and around the CBD. These capitalisation effects will then depress the real property prices of established home owners. But the reductions in land and property prices will give first home buyer accessibility a boost and will also mean that future investors can acquire rental properties at a lower capital outlay than would otherwise be the case under present arrangements.

LIST OF ATTACHMENTS

AHURI Research Reports are available at www.ahuri.edu.au:

Judy Yates (2009) *Tax expenditures and housing*, AHURI and the Brotherhood of St Laurence, Melbourne http://www.ahuri.edu.au/publications/download/judith_yates_research_paper

Rachel Ong and Gavin Wood (2011) *The impacts of the Henry Review recommendations on the private rental market: savings income discount and rent assistance*

<http://www.ahuri.edu.au/publications/projects/p80647>

Gavin Wood (2011) *The Henry Review recommendations: stamp duty and land tax*, AHURI and Joseph Rowntree Foundation conference, Sydney, 15 September 2011

http://www.ahuri.edu.au/events/event_downloads/