



National Shelter response to the Tax Discussion paper

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prepared by National Shelter

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Introduction

Access to safe, secure, affordable housing underpins the economic and social well-being of Australian households and their communities. Housing provides physical shelter as well as stability and security, from which people can participate in education and employment and actively engage in civic and economic life. The high cost of housing in recent years has led to significant levels of housing stress among low and moderate income households, and a significant rise in the numbers of people seeking assistance from homelessness service providers due to financial hardship.

National Shelter welcomes the opportunity to provide this submission to the Re-Think Tax Discussion paper. Our submission is based upon National Shelter's role as Australia's peak housing advocacy organisation, our Policy Platform, [Meeting Australia's Housing Challenges](#), developed over a number of years in consultation with our members across the country, as well as more recent consultations National Shelter conducted around the National Affordable Housing Agreement and participation in numerous tax reform discussions including with the private business sector, community sector and cross sectoral roundtables and workshops. National Shelter was also represented at the Gillard Government Tax Forum in 2011.

National Shelter has worked closely with Australian Council of Social Services (ACOSS), Homelessness Australia, the National Association for Tenants' Organisations (NATO), and the Community Housing Federation of Australia (CHFA) to develop [An Affordable Housing Reform Agenda](#), which provides extensive goals and recommendations to reform our housing system including on tax reform. The Reform Agenda, published in March 2015, recommended adopting clear targets to increase the supply of affordable housing and reduce homelessness:

- Halve homelessness by 2020 (to 50,000 people experiencing homelessness on any given night and 125,000 persons requiring specialist homelessness services each year);
- Halve the shortfall in housing supply available and affordable to the bottom 40% of household incomes by 2025; and
- Meet the shortfall in housing supply available and affordable to the bottom 40% of households by 2035, thereby ending homelessness caused by lack of housing.

Principles for tax reform

National Shelter supports the principles outlined in the ACOSS paper ["Are we paying our fair share?"](#)

National Shelter believes there are currently a range of tax settings which distort the behaviour of home owners and investors in the Australian system which need to be addressed.

These distortions encourage over-investment in large, more expensive properties for owner occupiers and to the upper end of the market for investors in rental properties. They create inflationary pressure as investors and owner occupiers compete for the same properties. These policies appear to conflict with Australia's principal housing policy of the past 50 years, to encourage home ownership.

National Shelter supports policies which balance the goal of home ownership for most with settings to encourage investment in long term, secure, affordable, accessible and well located

rental housing. As a principle, if the Australian tax system is to support investment in rental housing it could be better targeted to meet the shortfall in the supply of affordable housing available to lower income earners, which would deliver a social good in exchange for a tax benefit.

This would best be achieved by redirecting tax expenditures towards scale investment in affordable rental housing and shifting investment from small (one or two property investors) to institutional investment in residential property and particularly affordable rental housing. We believe the growing community housing sector is well placed to advance this objective.

At present our tax system does not support the kind of investment required to address the long term decline in affordable housing supply and the current settings have exacerbated rather than addressed the problem.

Tax Mix and Progressivity

National Shelter supports the mix of tax in Australia, based on the principle of progressivity where individuals pay according to their ability and that tax payment is shared between corporations, individuals and via a range of national, state and territory taxes.

National Shelter is concerned that states raise a very small proportion of revenue required to maintain their responsibilities and service systems which include supplying affordable and social housing where markets fail to provide supply, or community need demands government intervention to provide appropriate housing for households unable to secure housing otherwise.

This includes not just to low income, high needs households, but to households with disabilities, households experiencing discrimination in the market, housing for households experiencing homelessness and for specific housing types for employees of government in communities where housing markets are unable to meet housing requirements.

While population growth, the redeployment of construction to service the mining boom, ageing, household formation rates and other factors have contributed to the situation, our current tax settings have not mitigated these factors to produce the level of supply required and not at an affordable price.

Australia currently taxes different assets differently and the Re-Think discussion paper identifies this as an issue to address. Within housing, principal residences are capital gains tax (CGT) exempt, imputed rents are not taxed and investment properties have a 50% CGT discount.

National Shelter believes that taxing land is preferable to taxing property transactions through stamp duties and is attracted to a number of possible changes which might address this including an Annual Wealth Tax¹ as outlined by the Australia Institute as a means of addressing a number of issues and potentially re-balancing current distortions..

Given this is politically unlikely to be taken up and that tax change is often a slow and long process a number of more immediate issues need to be addressed.

¹ <http://www.tai.org.au/content/tax-need-change>

Capital Gains Tax (CGT)

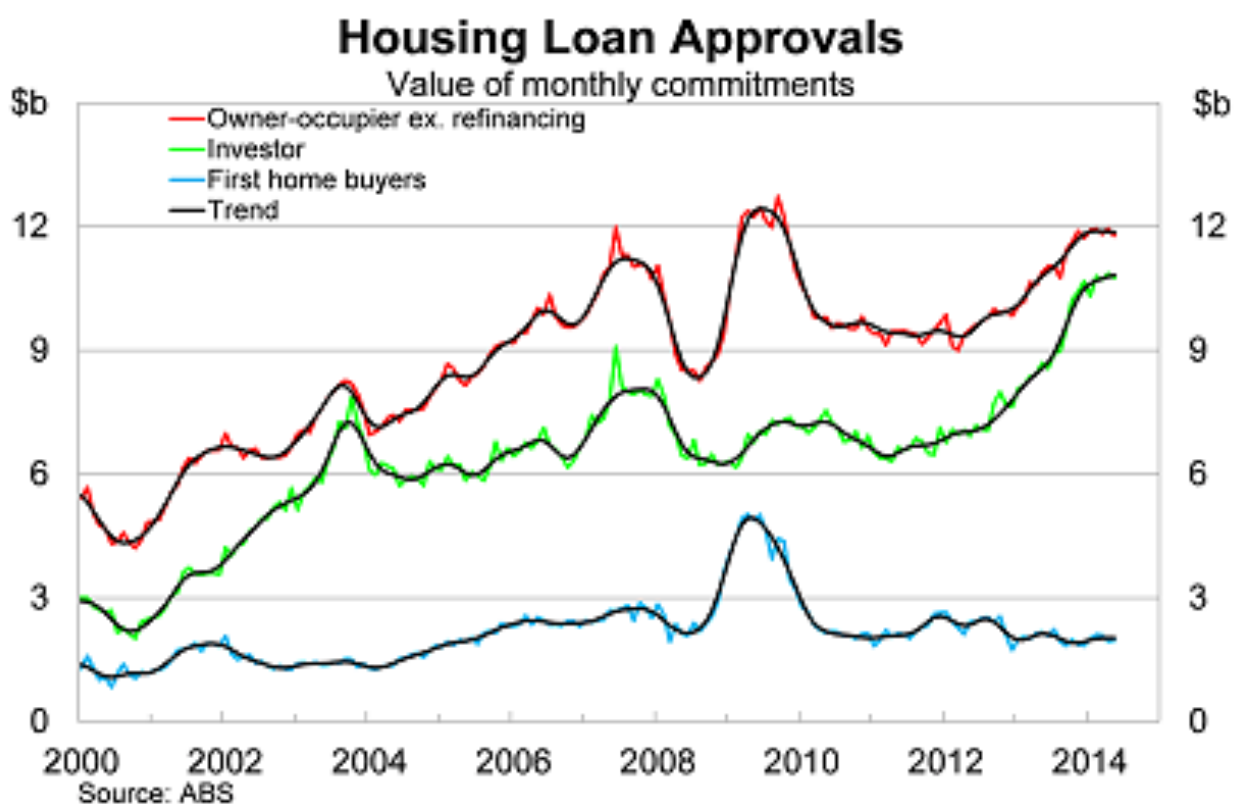
Capital gain (along with the deductibility regime currently available) appears to be a major reason for the increase of investment in housing by small investors, claiming large deductions and costing the revenue base significant foregone revenue.

Since the 50% CGT exemption was introduced in 1999 home ownership rates have fallen, rates of outright ownership declined even more significantly, rents have risen at greater rates than CPI and the supply of housing available and affordable to low income households has declined.

In an ideal world National Shelter believes in levying a capital gains tax against housing. We would set a high value threshold to protect principal residences but believe that housing has become commodified and without a CGT on housing it has become a shelter for investment in high cost housing and added inflationary pressure to the entire system.

If a high value threshold was set for principal residences, indexed to movements in house price in capital cities e.g., it would signal to purchasers that housing was considered mainly as a utility rather than a commodity or investment vehicle. It would not raise significant revenue but would signal an intent to deter over investment in a tax free good.

Figure 1²



² <http://www.rba.gov.au/chart-pack/household-sector.html>

Figure 2³

The current 50% CGT discount, introduced in 1999, has produced a massive increase in investment in housing without a commensurate increase in supply. Over 92% of investment in housing goes to existing rather than new housing⁴, creating inflationary pressure and helping to reduce the proportion of owner occupation, especially for first time buyers. The proportion of investors to first time buyers has risen steadily since the introduction of the 50% CGT exemption in 1999.

ACOSS recommends in [“Fuel on the Fire”](#) to “Increase tax rates on capital gains and reduce them on other investment incomes including interest bearing deposits and rents, to improve equity and reduce distortion of investment decisions by the tax system.

Consistent with reforms advocated in the ‘Australia’s Future Tax System’ Report, a common personal income tax discount should be introduced to replace the current tax treatment for capital gains, housing rents, interest bearing deposits, shares and similar investments (excluding

³ <http://www.businessspectator.com.au/article/2014/7/11/australian-news/how-investors-burned-hole-housing-market>

⁴ <https://www.prosper.org.au/2012/10/04/written-off-negative-gearing-report/>

superannuation and owner occupied housing). This should be substantially less than the current 50% discount for capital gains.”⁵

The general 40% savings income discount would limit the capital gains discount modestly, by taxing 60% rather than 50% - slightly reducing the incentive to speculate. It would also affect negative gearing modestly again, by allowing 40% of the negative income (losses) to be used to reduce tax liability, rather than the current 100%. But its big benefit is that, rather than the tax benefits going only those who invest speculatively (making a loss on regular income from the investment, while chasing a capital gain later), those who invest productively simply to make a regular positive income from their investment will share in the tax incentive.

National Shelter agrees with this direction and supports the views of Australia’s Future Tax Review in dealing with taxation of savings income in general, which recommended the introduction of a general savings income deduction.

Recommendations:

1. *that the Australia’s Future Tax System Review form the starting point for further discussion of tax reform around housing and land dealings*
2. *that COAG work towards implementation over time of the following recommended changes:*
 1. *a broad 40% savings income deduction as a replacement for the various current tax arrangements related to rental income, capital gains and interest*

Deductibility of losses against any income source (Negative Gearing)

Negative Gearing has a long history in Australia beginning in 1936⁶ with the introduction of a uniform tax system. In the 1980s the Hawke Government “quarantined” it to losses against income from the same source, following the U.S. and other countries that have had similar arrangements. It was reintroduced in its current form in 1987.

Its reintroduction was prompted by property industry lobbying and a campaign arguing its removal was driving investors away and causing rents to rise. The evidence from the period demonstrates that only in Sydney and Perth were rents actually rising and the changes both ways had little impact on rent price⁷. In most capitals during the quarantine, rents actually fell or were stable.

Negative gearing is often justified on the basis that it draws investors into rental housing who otherwise would not invest, adds to the supply of rental housing and also keeps a lid on rent prices. The main drivers of rental price are vacancy rates, demand and supply. Negative gearing does not demonstrably affect supply because the majority of investors purchase existing property.

⁵ http://acoss.org.au/images/uploads/Fuel_on_the_fire.pdf

⁶ <https://www.prosper.org.au/2012/10/04/written-off-negative-gearing-report/>

⁷ <https://www.prosper.org.au/2012/10/04/written-off-negative-gearing-report/>

Figure 3⁸

When we look at rent prices between 2006 and 2011, we find that rents actually rose by over 50% and at twice to three times the rate of CPI.⁹

Negative gearing has not kept a lid on rent price rises. As the supply shortfall has grown and demand risen through population growth and household formation rate increases, rents have also risen. The median weekly rent for private rental was \$350 for Australia in 2011/12, up from \$190 in 2006.¹⁰ The highest median weekly rent in 2011/12 was in the ACT at \$430, and the lowest median weekly rent was in Tasmania at \$278.¹¹

Between 2002 and 2012, the average nominal rent increased by 75.8% for houses and 91.8% for other dwellings (mostly flats/apartments), while average earnings rose by 57% and house prices rose by 69%.¹² So rent rises outstripped both income and house price rises.

⁸ RBA (2012a). Data reflects new housing finance commitments for investment property on a monthly basis. - See more at: <https://www.prosper.org.au/2012/10/04/written-off-negative-gearing-report/#sthash.YPsKTWuS.dpuf>

⁹ <http://www.allianz.com.au/home-insurance/news/a-snapshot-of-the-nations-homes-2011-census-data>

¹⁰ Australian Bureau of Statistics, 'Housing and occupancy costs, 2011–12', p. 45.

¹¹ Australian Bureau of Statistics, 'Housing and occupancy costs, 2011–12', p. 45.

¹² National Housing Supply Council, 'Housing supply and affordability issues, 2012–13', 2013, p. 7.

Compared to assistance provided directly to tenants (Commonwealth Rent Assistance CRA) negative gearing has failed to either improve affordability or induce new supply. CRA has not kept pace with increases in rents as it is indexed to CPI rises which have been lower than rent rises but at least it has improved affordability for recipients.

“As at June 2014, 67% of CRA recipients would have paid more than 30% of their income (a commonly used threshold for measuring financial stress among low-income households) on rent if CRA were not provided. However, with CRA provided, this proportion was reduced to 40% of CRA recipients.”¹³

In considering options available to government, National Shelter can see a strong case for removing negative gearing which may see properties returning to owner occupation as investors would be selling to owner occupiers.

However National Shelter can also see an argument for redirecting this tax expenditure to help address the shortage of supply or specifically to add supply available to low income households. It might form a package with the National Rental Affordability Scheme to redirect the \$3-4b of tax expenditure currently used for negative gearing on property to new supply of affordable housing and to increasing tenant assistance by boosting CRA.

Recommendations based on the following options:

3. *That Negative Gearing be reviewed and redirected to one, all or a mixture of the following:*
 1. *New housing*
 2. *The National Rental Affordability Scheme*
 3. *Commonwealth Rent Assistance*

OR

4. *Restrict tax deductions for ‘negatively geared’ property investments” Income tax deductions for expenses relating to ‘passive’ investment in rental housing and other assets such as shares and agricultural schemes should only be offset against income received from those investments (including capital gains) and not against other income (including wages). This should apply to all new investments of this type entered into from 1 January 2016, but not to investments which commenced before that date.*¹⁴

Land Tax and Stamp Duty

Stamp duty on property transactions is part of the mix of current state tax regimes in most jurisdictions in Australia.

¹³<http://www.aihw.gov.au/housing-assistance/haa/2015/financial-assistance/>

¹⁴ Endorsing the position in ACOSS paper “Fuel on the fire” http://acoss.org.au/images/uploads/Fuel_on_the_fire.pdf

We believe there is scope to change this mix at the state level via a change from stamp duty to a broader based land tax. We note the discussion paper points to the large cost or “marginal excess burden” of stamp duty and the low cost of land tax.

We believe stamp duty on property is a barrier to labour mobility and downsizing for older households, is volatile and inflationary. Land tax by contrast is anti-inflationary¹⁵ and far more predictable and reliable as a source of revenue than stamp duty on property.

The ACT provides an example of how a territory or state can transfer from a stamp duty to a land tax base which we believe provides a model for others to consider. The Henry Review also supported this long term direction of replacing stamp duties with land tax.

There are issues with the way a land tax is levied which have been addressed by Wood, Ong and Winter¹⁶ in their submission to the tax forum.

National Shelter also recognises the difficulties created by Australia’s federation and the vertical and horizontal fiscal imbalances between the commonwealth and states and between states. We believe Land Tax represents a long term viable tax base for state and territory governments and needs to be broader but levied in ways which do not inhibit the productive capacity of land.

National Shelter is not opposed to using tax deductions, exemptions, credits or other forms of tax expenditure to encourage investment in housing. We question the effectiveness of the current settings as producing perverse outcomes.

Since the reintroduction of “negative gearing” in 1985 and the introduction of capital gains tax exemptions in 1999, the supply of rental housing available and affordable for low income households has declined, house prices and rents have risen rapidly, housing stress has exceeded 1m households and Australia has a deteriorating housing affordability crisis. The interaction of these measures distorts the housing market inhibiting the growth of affordable housing supply.

If stamp duty is to be replaced by a broad based land, tax states will need to be encouraged to make the change. To do this requires Commonwealth leadership and the provision of incentive. The tax reform process is therefore strongly linked to the reform of the federation process. To achieve the range of tax reform options which will make a difference will require the Commonwealth’s involvement over a long time as tax reform is often a long term project.

Currently the reform of the federation process, informed by the Commission of Audit and the McClure welfare reform, propose a commonwealth withdrawal from direct housing funding to states, preferring to continue to provide CRA and extend CRA to public tenants. This is accompanied by a condition that tenants of state housing authorities are charged market rent.

If adopted this would impoverish current tenants of state housing authorities as paying market rent but receiving CRA would be a much higher cost than the current income based rents. It would remove the incentive for transferring housing supply to community organisations and remove the leveraging power of the commonwealth in dealing with states. It also ignores the call for CRA to be increased plus a high needs payment for providers housing people with special or

¹⁵ <http://www.propertyobserver.com.au/finding/residential-investment/13531-scrap-stamp-duty-to-improve-affordability-says-housing-and-urban-research-institute.html>

¹⁶ Stamp duties, land tax and housing affordability: the case for reform, Gavin Wood, Rachel Ong and Ian Winter, 2012 AHURI

high needs recommended by Australia's Future Taxation System.¹⁷ Recommendation 104 also called for a de-linking to income based rents but not to raise rents to full market.

The commonwealth should retain a funding role with an additional growth fund and utilise that to negotiate reform of affordable housing programs including social housing. The market has failed to produce new supply of affordable rental housing for low income tenants even with very generous tax support and National Shelter believes the nation requires a commonwealth led national housing strategy allied to urban and regional development which requires long term commitment to improving rather than abandoning the National Affordable Housing Agreement and 70 years of commonwealth funding.

Recommendation:

5. *That the commonwealth negotiate with states to transition over 20 years to replace stamp duties on property transactions with a broader-based land tax regime, with rates calculated based on the value of the land per m2 rather than the current cumulative value, and integrated with local government rates.*
6. *That the commonwealth maintain capital and operational funding support for a National Affordable Housing Agreement and utilise it to negotiate reforms to affordable housing, programs including tax reform, with the states and territories.*

Not for Profits (NfP) & Deductible Gift Recipient (DGR) status

A major concern about current tax treatment of not for profit (NfP) organisations in Australia is the inability of advocacy organisations, with some exceptions (ACOSS e.g.), to gain and hold PBI and DGR status because their principal activity is advocacy.

National Shelter is an advocacy and policy focussed organisation which nonetheless is entirely dedicated to the relief of poverty among low income households and in advising means which housing systems at all levels might devise funding, asset use, planning, tenancy law, disability support, ageing in place etc policies and programs which achieve that end. However we are currently not eligible for either PBI or DGR status which restricts our ability to fundraise for our core activity.

This makes us reliant on unreliable government funding in most jurisdictions and without the ability to raise sufficient funds to have capacity to undertake a full range of projects and reports we believe are required.

Recommendation:

7. *That the ATO review arrangements for DGR and PBI status with the ACNC to determine ways organisations who primarily work in advocacy and policy development but with the principal object of working towards the benevolent relief of poverty, distress or disadvantage suffered by individuals or families in Australia, may be considered for eligibility for PBI and DGR status.*

¹⁷ Rec 105 http://taxreview.treasury.gov.au/content/finalreport.aspx?doc=html/publications/papers/final_report_part_1/chapter_12.htm

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About National Shelter

National Shelter is the peak non-government organisation representing the interests of low-income housing consumers, and has been in operation since 1976. It comprises representatives of Shelter bodies in all States and Territories, and also includes national bodies Homelessness Australia, the Community Housing Federation of Australia, Jobs Australia, National Council of the St Vincent de Paul Society, and the National Association of Tenant Organisations. National Shelter cooperates closely with other national organisations such as the Australian Council of Social Service, and was a member of the National Affordable Housing Summit Group, the Community Organisations Housing Alliance and the campaign group Australians for Affordable Housing.

National Shelter advocates for the development of a national housing policy based around the following principles:

- Housing is affordable. People on low and moderate incomes should not have to pay more than 30% of their income on housing costs.
- Housing is adequate. Everybody is entitled to housing that meets acceptable community standards of decency and their own needs.
- Housing is secure. People should not live under threat of loss of home and shelter. A secure base enables people to form constructive relationships, grow families and seek employment and community engagement.
- Housing is accessible. People should be informed about available housing options and access to these should be free from discrimination. Most housing should be built to Universal Design principles.
- Housing is in the right place. It should be located close to services and support networks, to job opportunities, to transport networks and to social and leisure activities.
- Housing meets people's life-cycle needs. People have different housing needs at different stages of their lives, and housing should be available to match these changing needs.