MEDIA RELEASE

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A politically viable strategy for housing tax reform that won't hurt 'mum and dad' investors

Despite widespread agreement that housing tax reform would lead to better housing outcomes and improved economic efficiency, the politics and ideology around housing tax policy remain a deterrent for change.

A new report by the Australian Housing and Urban Research Institute (AHURI) uses innovative economic modelling to reveal a practical way to overcome these hurdles, and lays out a comprehensive pathway to housing tax reform which will deliver long-term dividends while minimising short-term impacts on budgets, households and housing markets.

The key findings include:

- gradually reducing the generosity of capital gains tax discounts (from 50% to 30%) and negative gearing provisions over a decade would have little impact on average 'mum and dad' investors
- a cap on housing-related tax deductions should be phased in over a 10-year period, with an initial $20,000 cap to be reduced by approximately $1,500 per annum (the precise amount would depend on market conditions) until it reached $5,000
- if supported by appropriate administrative reforms, it is possible to gradually phase out stamp duties and replace them with more efficient and equitable annual property value taxes (i.e. land tax)
- over time, the value of the family home should be more accurately reflected in the pension asset test
- a nationally coordinated approach to housing tax reform including federal, state and local government would deliver better housing outcomes and significant economic dividends.

The research, undertaken by researchers from University of Tasmania, The University of New South Wales, The University of Sydney and Curtin University, is the final report of the AHURI Inquiry into '**Pathways to housing tax reform in Australia'**. It features innovative economic modelling and implementation timeframes to steer tax settings that progress the efficiency, equity and sustainability of housing tax policy, and also presents viable political pathways to achieving these outcomes.

Lead author of the research, Professor Richard Eccleston, from the University of Tasmania, said 'One of our key findings is that gradually reducing the generosity of capital gains tax and negative gearing provisions over a decade long timeframe would result in only a modest impact on the after-tax return from housing investments for most 'mum and dad' investors, with the exact figures depending on wage income, interest rates and capital growth.'[1]

[1] 'Mum and Dad investors' are defined in the research Inquiry as individual investors with lower to moderate incomes and property values—in the bottom 75 per cent of income and property values distributions—and usually only having one investment property.

Through modelling, the research found that imposing a cap on housing-related tax deductions should be phased in over a 10-year period, with an initial $20,000 cap being reduced by approximately $1,500 per annum (the precise amount would depend on market conditions) until it reached $5,000.

The modelling suggests that in the first year, with a $20,000 cap only 6.3 per cent of all property investors (1.1% of all taxpayers) would be affected. Even after a decade only 28.5 per cent of high income property investors would pay more tax, while most ‘mum and dad’ investors would pay no more tax than they do currently.

Such reform would save Government more than $1.7 billion from the annual $3.04 billion cost of negative gearing deductions each year - a 57.3 per cent saving.

In addition, the capital gains tax discount applying to residential property investments should be reduced incrementally over a 10-year period, with the rate being cut by approximately two percentage points each year until it reaches 30 per cent.

In the long-term, establishing a broad-based property tax is more efficient and fairer than state governments continuing to rely on stamp duty. To bring in such changes, the research proposes a multi-stage process whereby a short-term simplification of stamp duty evolves through a medium term (3–5 years) increase in stamp duties for investors in higher value properties to a long-term (5–20 years) shift to a broad-based property tax.

It is also fairer that the pension asset test reflect the value of the family home, although any policy changes should be complemented by a comprehensive deferral scheme to allow ‘asset rich, income poor’ pensioners to be able to access the age pension and to age in place at home.

The report emphasised that all proposed reforms should be preceded by an appropriate period of community consultation and engagement highlighting the broader benefits of reform.

The report can be downloaded from the AHURI website at
http://www.ahuri.edu.au/research/final-reports/301

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