May 10 2018 at 2:07 PM
Updated May 10 2018 at 2:07 PM

Falling home ownership should prompt tax rethink: AHURI

by **Michael Bleby**

Retirees are relying less on the family home as a store of wealth in retirement, strengthening the argument to end tax rules that favour home ownership over other assets, a new report by think tank AHURI says.

The share of owner-occupied housing in a retired household's asset portfolio fell from 46 per cent in 2002 to 39 per cent in 2014, Australian Housing and Urban Research Institute analysis of HILDA data showed.

Over the same time, property other than the family home grew to become the third-largest component of pre-retirement portfolios in 2014 from the fifth-most valuable in 2002.

Second home ownership of retirees rose to 30 per cent in 2014 from 25 per cent, due to incentives such as negative gearing and capital gains tax deductions, according to the report *Asset portfolio retirement decisions: the role of the tax and transfer system*.

The removal of family homes from the age pension assets means test would be a big political hurdle. But the evidence that it was diminishing in importance within retiree portfolios and would continue to do so as home ownership fell further, means the tax system could be tweaked to make the age pension more neutral about home tenure type, said report author and University of Sydney associate professor Stephen Whelan.

"There's a question whether treats [the family home] too generously and what can practically be done," professor Whelan said.

"Something we could do is marginal change around asset thresholds in aged pension system that rebalance how housing is treated in that area."

Home ownership fell over the five years to 2016, even as lower interest rates cut borrowing costs, census data shows. The rising proportion of retirees who will rent their dwelling added to the need for tax treatment that did not prioritise the family home other forms of wealth, Professor Whelan said.

"Changes to the aged pension taper rate and thresholds for home owners and non-home owners present opportunities to more accurately reflect the value associated with owner occupation," the AHURI report says.

"Changes in the taper rate and thresholds have the potential to alter the financial advantage associated with home ownership, potentially mitigating the distortionary effects associated with the concessional treatment of housing more generally and addressing the need to develop a fiscally sustainable tax and transfer system."

Separately on Thursday, lobby group Housing for the Aged Action Group said this week's $1.6 billion budget package to encourage people to age in place ignored the growing cohort of renters who would enter old age not owning their own home.

"With lower rates of home ownership there are rapidly increasing numbers of older people retiring as private renters who do not have secure or affordable housing in order to receive aged care," HAAG executive officer Fiona York said.

"If you are renting from a private landlord, paying 70 per cent of your age pension in rent, in a home that is not adaptable for ageing, where you can be given 60-day notice to vacate, then access to an aged care package may be futile."