Shelter WA

Promoting Affordable Housing for all Western Australians

Housing and taxation

Governments influence housing prices in a number of ways including direct funding, subsidies and tax incentives. Tax policies can be effective tools to promote the supply of suitable housing and encourage investment in affordable housing. On the other hand, tax policies can favour and protect existing asset holders, creating barriers to new entrants seeking to buy housing, restricting new supply and stimulating demand. This leads to higher housing prices due to scarcity.

Stats and issues:

- Accumulated personal wealth in housing is taxed at lower rates in Australia than most other OECD countries.[i]
- Tax concessions include the exemption of owner-occupied housing from capital gains tax and land tax, discounts on capital gains tax for investment properties and negative gearing (the ability to offset the costs of owning investment properties against other income).[ii]
- Many of these tax concessions are counter-productive. They encourage people to build larger houses than what they need to tie up their savings in ‘tax-free’ residential home-ownership that is non-productive and environmentally wasteful, restricting diversity in smaller types of built form and contributing to inflated prices and rents.[iii]
- According to the International Monetary Fund, housing prices in Australia are over-priced by at least 40%.[iv]
- Negative gearing has fuelled inflated housing prices. Julian Disney, Director of the Social Justice Project at UNSW recommends that, like most other OECD countries, taxation policy should be modified so that interest and other housing investment expenses to the owner are deductible only against income from the property investment, and not from other sources such as an executive salary or stocks and shares.[v]
- Brody and McNess (2009) found that people in the top income quintile are able to access up to around $15,000 every year in tax concessions related to housing. This is up to nine times the tax concessions accessed by people in the lowest income quintile.[vi]
- The Henry Tax Review proposed changes in tax policy including to remove stamp duty, levy land tax on all land based on its value, change the taxation of investment properties by increasing the rate of taxation on capital gains to match the rate on other investment income and restricting negative gearing. In its response to the review, the Rudd government announced that it would not implement any of these recommendations.

Resources and links:

- Tax Watch provides analysis of Australia's tax system, including tax policy related to housing and land. The website also includes an international comparison of the Australian tax system with other countries. www.taxwatch.org.au

- Commonwealth proposed tax reform http://www.futuretax.gov.au/pages/default.aspx

- Henry Tax Review http://taxreview.treasury.gov.au/Content/Content.aspx?doc=html/home.htm

- Australian Taxation Office www.ato.gov.au

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[i] TaxWatch.org, *Land and Housing Notes*, http://taxwatch.org.au/ssl'CMS/files_cms/Land%20and%20Housing.pdf [Accessed 28 July 2010].

[ii] Brody, G. and McNess, E. 2009, *Assets for all? A review of the Australian Government's $77 billion support for asset building*, Fitzroy, Victoria: Brotherhood of St. Laurence, http://www.taxwatch.org.au/ssl/CMS/files_cms/Brody%20and%20McNess%20-%20Brotherhood%20of%20St%20Laurence%20-%20Assets%20for%20All%20-%2014.12.09.pdf [Accessed 28 July 2010].

[iii] TaxWatch.org, *Land and Housing Notes*

[iv] TaxWatch.org, *Land and Housing Notes*

[v] Disney, J 2009, Address to Annual Congress, Australian Council of Social Service, Sydney, 3 April 2009, http://www.taxwatch.org.au/ssl/CMS/files_cms/Disney%20-%20ACOSS%20Conference%20-%2003.04.2009.pdf

[vi] Brody, G. and McNess, E. 2009, p.2