



Homelessness Australia

Creating a framework for ending homelessness

Response to 'Re:think; tax discussion paper'

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Introduction

Homelessness Australia is the national peak body for homelessness and domestic violence services. Homelessness Australia provides a conduit between the government and the sector. We provide systemic advocacy for the homelessness sector and people experiencing homelessness in Australia. Homelessness Australia works in collaboration with homelessness assistance services, people experiencing homelessness, state and national homelessness and housing peak bodies, other peak organisations (eg ACOSS), government agencies and the broader community. Homelessness Australia proactively researches, develops and promotes national policy and action to end homelessness and its impact on the diverse range of people it affects.

This submission by Homelessness Australia, provides broad opinions and suggestions regarding the need for a better taxation system in Australia to address homelessness and domestic violence. This involves housing related taxes and general taxation measures needed to adequately fund homelessness and domestic violence services. The submission also addresses the need to consider the interaction of the Reform of the Federation White Paper (particularly on housing and homelessness) with the Tax White Paper

Regarding taxation, Homelessness Australia commends to the review team, the recently released paper by the Australian Council of Social Service titled: 'Fuel on the fire: Negative gearing, capital gains tax & housing affordability'.¹ That paper provides detail on the problems of negative gearing and capital gains tax as they relate to housing affordability. Additionally, it provides some recommendations of how to reduce the negative effects of these policies.

Homelessness Australia also broadly supports the submissions in response to the present discussion paper on tax by Shelter WA, the Community Housing Federation of Australia, and the Australian Council of Social Service.

It is noted that there have been similar detailed tax reviews and measures contained within the resulting reports should be considered by the present White Paper.

Underlying causes of problems with taxation

Addressing homelessness and domestic violence will require adequate government revenue, at all levels of government. Homelessness Australia recognises the vertical fiscal imbalance and associated practical variation in taxation powers between the different levels of government in Australia. This needs addressing in a comprehensive and bold fashion. Governments need to lead change on this in conjunction with the whole of the Australian society.

The differential taxation powers largely relate to income based taxation. Early in the federation, states collected income taxes. This was relinquished to the Federal Government in order to fund Australia's involvement in the second world war.² After the war, the Federal Government retained

¹ Australian Council of Social Service (2015) 'Fuel on the fire: Negative gearing, capital gains tax & housing affordability' (Australian Council of Social Service, Sydney)

http://acoss.org.au/images/uploads/Fuel_on_the_fire_ACOSS.pdf

² *South Australia v The Commonwealth* (First Uniform Tax Case) (1942) 65 CLR 373.

the income taxation through a coercive system of tying direct payments to states with states continuing to forgo their right to tax personal incomes.³

Homelessness, Housing and taxation

The problem of homelessness and housing is clearly outlined in 'An Affordable Housing Reform Agenda' produced by Homelessness Australia, the Australian Council of Social Service, National Shelter, the Community Housing Federation of Australia, and the National Association of Tenancy Organisations in March 2015, pages 10-11:⁴

Australia's home ownership levels are declining. The proportion of households who own outright is now smaller than the proportion who have a mortgage, and is continuing to diminish. This is a significant problem for a country whose retirement income system is based on outright home ownership in retirement.

House prices continue to rise nationally. They are rising faster in our two major cities (Sydney and Melbourne) which, between them, house 40% of the population. Average Australian house prices are approximately 4-5 times the average annual household earnings.⁵

Nationally, four in five private rental households in the lowest 20% of incomes are in unaffordable housing situations (paying more than 30% of income in rent). Additionally, more than 30% of the second lowest quintile is also experiencing housing stress.⁶

Australia has a shortfall of housing supply, estimated by the most recent reputable assessment as over 500,000 rental dwellings which are both affordable and available to the lowest income households.⁷

One result of these pressures is that many Australians become, or remain homeless due to a lack of affordable housing. More than 105,000 people were counted as homeless on census night in 2011, in increase from just over 89,000 in 2006.⁸ This figure probably significantly underestimates the number of people affected by homelessness. The Australian Institute of Health and Welfare reported that 254,000 people sought help from specialist homelessness services during 2013-14,⁹ and an additional 423 requests for support were unable to be met each day. Funding to homelessness services is inadequate to meet the needs of people.

³ *Victoria v Commonwealth* (Second Uniform Tax Case) (1957) 99 CLR 575.

⁴ Homelessness Australia, the Australian Council of Social Service, National Shelter, the Community Housing Federation of Australia, and the National Association of Tenancy Organisations (2015) 'An Affordable Housing Reform Agenda: Goals and Recommendations for Reform' (ACOSS, Sydney) http://housingstressed.org.au/wp-content/uploads/2011/09/Housing-paper-March-2015_final.pdf.

⁵ Ryan Fox and Richard Finlay, 'Dwelling prices and household income', Reserve Bank of Australia Bulletin, December Quarter 2012, available at: <http://www.rba.gov.au/publications/bulletin/2012/dec/pdf/bu-1212-2.pdf>.

⁶ Kath Hulse, Margaret Reynolds and Judith Yates (2014): Changes in the supply of affordable housing in the private rental sector for lower income households, 2006-2011, AHURI

⁷ National Housing Supply Council, State of Supply Report 2012. The actual figure is 539,000. The figure of 539,000 is arrived at as follows: In 2009-10 there were 857,000 renter households in the bottom 40% of the income distribution, and 1,256,000 dwellings rented at an affordable price for these households. However, 937,000 of these dwellings were rented by households in higher income groups, leaving only 319,000 available for rent by low income households – a shortfall of 539,000.

⁸ Australian Bureau of Statistics, *Estimating Homelessness 2011*, p5.

⁹ Australian Institute of Health and Welfare, *Specialist Homelessness Services 2013- 14*, p. vii.

[H]omelessness is the most severe consequence of housing failure, [but] Australia's housing supply shortfall is becoming a serious brake on productivity [generally]. Our policy and tax mix distorts investment decisions, is a barrier to workforce participation and mobility, contributes to house price inflation and exacerbates inequality and social exclusion.

[...]

Australia needs to build significantly more dwellings, particularly at the low cost end of the housing supply spectrum, to meet current and projected needs. With projected growth of 150,000 households per year over the next 20 years, standing still will constrain economic growth and productivity.

[...]

Although it is fundamental to economic participation, affordable housing is not currently considered by governments to be part of the nation's infrastructure agenda. As a result of this broader disconnect, many of the policies pursued by Australian governments in the name of housing affordability¹⁰ serve to increase demand for housing, while failing to tackle the regulatory and cost barriers to housing supply.¹¹ These housing market failures need to be addressed if Australia wishes to increase our national productivity.

While the responsibilities for affordable housing and homelessness are shared between the three levels of government, each level has historically looked to blame the others for the failures of the housing and homelessness system. This has contributed to policy paralysis and undermined efforts to collaborate and coordinate policy. The current review of the federation shines a spotlight on housing and homelessness policy and provides an opportunity to grapple with these complexities at a systemic level.

While lack of housing is not the only cause of homelessness, it is a major limit to dealing with it. 'An Affordable Housing Reform Agenda' outlines this issue on pages 28-29:¹²

A lack of exits from homelessness

The capacity of homelessness and domestic violence services to meet the demand is limited by their ability to secure public housing, community housing, or affordable rental properties in the private rental market. The availability of safe, secure and affordable housing is critical to transitioning clients out of homelessness and preventing future homelessness.

Crisis accommodation specifically tailored to suit the needs of vulnerable people (such as at risk older women, women with children or young people) is critical as a starting point for their journey out of homelessness. Additional capacity will be required in these services to meet current and future levels of demand. Timely access to safe, secure and affordable housing is needed to complete that journey with funding for ongoing support to maintain stable housing.

Without suitable housing options, even the best efforts of SHSs will not be able to achieve the most beneficial outcomes for consumers. The Western Australian Auditor General's

¹⁰ Such as the first home buyers grants and concessions.

¹¹ Kirchner, S. (2014) Eight Housing Affordability Myths, The Centre for Independent Studies.

¹² Homelessness Australia, the Australian Council of Social Service, National Shelter, the Community Housing Federation of Australia, and the National Association of Tenancy Organisations (2015) 'An Affordable Housing Reform Agenda: Goals and Recommendations for Reform' (ACOSS, Sydney).

performance audit of the implementation of the NPAH in Western Australia identified that the 'shortfall in available housing has put achieving long-term accommodation outcomes at risk'.¹³ The same can be said nationally. This robs people of the opportunity to lead happy and productive lives and has detrimental and costly impacts for society as a whole.

Similarly, taxation policy is not the only cause of a lack of affordable housing, but it has a significant impact. Addressing taxation is likely to significantly improve the housing situation and thereby homelessness.

Homelessness Australia is particularly concerned about the current model of capital gains tax exemptions and negative gearing, as they appear to negatively distort the housing market and consequently prevent people from accessing affordable housing to meet their needs.

Homelessness Australia is generally supportive of the move to replace stamp duty with a broad based land tax in order to encourage investment in at scale affordable housing. This has the added benefit of reducing financial barriers to purchase of a new house. Land taxes provide a steady and predictable revenue stream for states and territories, which helps to prevent financial crises for governments when there are fluctuations in the number of houses bought.

In the Forward to the 'Tax Discussion Paper' it states that the review will be 'a comprehensive and inclusive process' and that there will be a 'broad conversation about the current tax system and the issues confronting it'.¹⁴ The Government has stated that 'everything is on the table' and '[w]e are facilitating a wide-ranging discussion on *all* elements of the tax system'.¹⁵ Homelessness Australia welcomes this wide ranging and important review.

Particularly given the effect of housing taxes on affordable housing, it is important that the review consider the need to revise or remove unfair taxes related to housing. Where necessary the review should encourage the government to make the appropriate changes, even if members of the Government have stated that they currently prefer the status quo to remain.¹⁶

Capital Gains Tax Discount

Since 1999 the Federal Government has provided a 50% discount on Capital Gains Tax. When the value of an asset is realised at sale, the vendor only has to pay 50% of the tax they would otherwise pay on the level of income they receive from the increased value of the property compared with its

¹³ Western Australian Auditor General (2012) 'Western Australian Auditor General's Report: Implementation of the National Partnership Agreement on Homelessness in Western Australia (Western Australian Government, Perth); A similar sentiment is made in a nationally framed paper where it says 'The Australian Government [needs to] [d]evelop an overarching affordable housing strategy with short, medium and long term targets to increase the supply of safe, secure, affordable housing that meets people's needs' in Homelessness Australia (2012) Making the grade? Homelessness Australia's report card on the Australian Government's White Paper on Homelessness (Homelessness Australia, Canberra), p68

http://www.homelessnessaustralia.org.au/images/publications/policy/Making_the_Grade_final.pdf .

¹⁴ Australian Government (2015) 'Re:think Tax Discussion Paper' (Australian Government, Canberra), p. lii.

¹⁵ Emma Alberici (presenter) quoting 'the Treasurer' and Joe Hockey in Tom Inggulden (reporter) (2015) 'Up for discussion: Australia's tax system' *Lateline* (30 March 2015)

<http://www.abc.net.au/lateline/content/2015/s4207810.htm>.

¹⁶ Nassim Khadem (2015) 'Prime Minister Tony Abbott rules out changes to negative gearing' *Sydney Morning Herald* (17 April 2015) <http://www.smh.com.au/business/prime-minister-tony-abbott-rules-out-changes-to-negative-gearing-20150416-1mmibf.html>.

value when they originally bought it.¹⁷ This discount disproportionately favours persons on higher income levels, because they would otherwise pay a higher rate of tax on the amounts they earn in the higher tax brackets. High income earners thereby receive a higher benefit than others through this discount. Importantly, this discount favours relatively small-scale investors who have variable taxable income compared with institutional investors who have a flat tax rate and do not receive this discount.¹⁸ Homelessness Australia would like to see a taxation mechanism that is fair, equitable, and creates sufficient affordable housing.

Negative gearing

Negative gearing allows investors to claim deductions against any income sources for costs of their investments. In the case of property investment, investors can claim things such as maintenance and interest on their loans. Negative gearing means that the investment is costing them more than they earn from it in rent. This means that investors become reliant on the long-term increase in capital on their investment. They are not investing for the steady return on investment through rent. Many negatively geared investors are happy to 'lock up and leave' properties untenanted. This adds to the shortage of available housing.

As Homelessness Australia and others noted elsewhere, negative gearing means investors 'can wear larger losses, push their gearing harder, and spend more',¹⁹ thereby driving up the demand related price of housing.

In theory, negative gearing is said to increase the supply of housing. In practice it appears to not be providing this, given that 90% of negatively geared properties are pre-existing dwellings.²⁰

Like the capital gains tax discount, negative gearing perpetuates small-scale non-professional investors. Instead, to meet the housing needs of Australians we require at scale long-term investment in well-located construction for long-term secure rent and affordable purchase.

Stamp duty and Land tax

Stamp duty is charged to the purchaser of a house. It is a percentage of the sale price of the property. It is charged at the same rate regardless of the purchaser's income or means. The rate is based on the value of the property. Land tax is charged at a yearly rate on the unimproved value of the land. There is a need for a broad based land tax at the state and territory level to replace stamp duty.²¹ This should encourage large-scale investment and professional tenancy management. Large-scale investment for rent, encourages longer term tenancies, which are likely to provide the stability that people who have experienced homelessness require.

¹⁷ Australian Tax Office (2014) 'Capital gains tax' Online, Available at: <https://www.ato.gov.au/General/Capital-gains-tax/> Last modified 11 Jun 2014, Accessed 4 June 2015.

¹⁸ Australian Council of Social Service (2015) 'Fuel on the fire: Negative gearing, capital gains tax & housing affordability' (Australian Council of Social Service, Sydney), pp. 12-13.

¹⁹ Homelessness Australia, the Australian Council of Social Service, National Shelter, the Community Housing Federation of Australia, and the National Association of Tenancy Organisations (2015) 'An Affordable Housing Reform Agenda: Goals and Recommendations for Reform' (ACOSS, Sydney), p. 13.

²⁰ Saul Eslake (c2014) cited in Australian Council of Social Service (2015) 'Fuel on the fire: Negative gearing, capital gains tax & housing affordability' (Australian Council of Social Service, Sydney), p. 17.

²¹ Australian Council of Social Service (2015) 'Fuel on the fire: Negative gearing, capital gains tax & housing affordability' (Australian Council of Social Service, Sydney), p. 6.

‘An Affordable Housing Reform Agenda’ provides a common position for homelessness and housing related peak bodies. On pages 14-15 it provides some detail on the topic:²²

In all jurisdictions except the Northern Territory, land taxes are currently levied according to use and the size of holdings. In most cases land tax is not levied on the primary place of residence. Crucially, land taxes are generally charged based on the value of an investor’s entire portfolio, rather than the sum of the land tax that would apply to each individual property within a portfolio.²³ This increases the total land tax payable for large portfolios and discourages institutional investment.

In all jurisdictions except the ACT which is phasing them out, stamp duties are levied on home purchasers, regardless of whether they are investors or intend to occupy the dwelling themselves.²⁴

Land tax has many potential advantages, it discourages speculation in land and housing, encourages productive development, is simple to administer and difficult to avoid, and cannot be passed onto tenants. Australia’s present system does not realise all these advantages, because considerable land is excluded from the tax base (in particular, land used for primary place of residence and primary industry), and the rates structure discourages large-scale institutional ownership. Land tax should be reformed to have a broader base, and land tax rates be restructured so as to be applied progressively, according to value per square metre.

Stamp duties cause a number of undesirable distortions in the housing market, including:

- increasing the deposit gaps for first home owners;
- increasing the cost of moving house which can result in the reduction of the effective supply of housing;²⁵ and
- creating a disincentive to labour mobility.

The logic of replacing stamp duties with an extended land tax is explained in by Wood, Ong and Winter (2012) which lists the benefits of such reform. It would lead to:

- downward pressure on house prices;
- faster development of old industrial sites;
- easier entry to home ownership for first home buyers;
- increased supply of private rental accommodation;
- a reduction in the number of taxes (by one); and
- removal of a barrier to labour mobility.²⁶

²² Homelessness Australia, the Australian Council of Social Service, National Shelter, the Community Housing Federation of Australia, and the National Association of Tenancy Organisations (2015) ‘An Affordable Housing Reform Agenda: Goals and Recommendations for Reform’ (ACOSS, Sydney).

²³ Gavin Wood, Rachel Ong and Ian Winter, ‘Stamp duties, land tax and housing affordability: the case for reform’, (2012) 27 Australian Tax Forum at 344.

²⁴ Stamp duty is currently charged in the ACT, however it is being phased out over a 20 year period and will be replaced by a broad-based land tax.

²⁵ This can affect people at varying stages of their housing career. For people with a growing family or changing needs it can incentivise undertaking a house extension over moving to a more suitable dwelling, and for people with spare rooms or living in less accessible housing it can discourage moving to a smaller or more appropriate dwelling.

They also proposed a strategy for managing the reform transition, to avoid current home owners from having to pay land tax on properties for which they had already paid stamp duty. It would be necessary to ensure that the land tax base more than offsets the lost revenue from the abolition of stamp duty, to ensure a sustainable revenue stream for state and territory government.

Recommendation

A consistent approach to the taxation of land and housing should be taken across states and territories with stamp duty progressively replaced with a broader land tax base levied according to value per square metre, with provision for the deferral of payment until sale or death and other provisions for income hardship.

Non-housing related taxes and revenue

Raising sufficient revenue to end homelessness and domestic violence, and provide sufficient housing and support services will likely involve the use of non-housing related revenue sources. Governments (Federal and state/territory) are in a good position to leverage capital and facilitate investment in affordable housing and early intervention in a coordinated fashion. They will need to raise the capital to do so.

Sufficient revenue to address homelessness and domestic violence may be said to involved an 'increase in taxes'. However, properly addressing homelessness and domestic violence will dramatically reduce government expenditure on health and other associated costs for people who experience homelessness and/or domestic violence. In the longer term this investment will allow for a decrease in government expenditure on these topics, and therefore required revenue through taxation.

Sufficient affordable housing and support services may reduce actual government financial outlay to achieve the same ends. As outlined in 'An Affordable Housing Reform Agenda' on page 31:²⁷

Costs of homelessness

On the individual level, it costs the Commonwealth twice as much (\$30,000) to deliver the same services to the average person experiencing homelessness, compared with the average person not experiencing homelessness (\$15,000).²⁸ It costs an additional \$14,507 per year to provide health care to a person experiencing homelessness, as compared with a person who is not.²⁹ Providing justice to people experiencing homelessness costs an additional \$5906 compared with providing the same

²⁶ Gavin Wood, Rachel Ong and Ian Winter, 'Stamp duties, land tax and housing affordability: the case for reform', (2012) 27 *Australian Tax Forum* at 344.

²⁷ Homelessness Australia, the Australian Council of Social Service, National Shelter, the Community Housing Federation of Australia, and the National Association of Tenancy Organisations (2015) 'An Affordable Housing Reform Agenda: Goals and Recommendations for Reform' (ACOSS, Sydney).

²⁸ Kaylene Zaretsky and Paul Flatau (2013) *The cost of homelessness and the net benefit of homelessness programs: a national study* (Final Report No. 218, Australian Housing and Urban Research Institute, Melbourne), p3; Homelessness Australia (2014) *Homelessness: We can't afford to ignore it* (Homelessness Australia, Canberra), p2.

²⁹ Kaylene Zaretsky and Paul Flatau (2013) *The cost of homelessness and the net benefit of homelessness programs: a national study* (Final Report No. 218, Australian Housing and Urban Research Institute, Melbourne), p5; Homelessness Australia (2014) *Homelessness: We can't afford to ignore it* (Homelessness Australia, Canberra), p3.

services to those not experiencing homelessness.³⁰ Forgone taxation is modeled to be between \$6620 and \$15,923 per person who is unemployed.³¹ This is significant because people experiencing homelessness are far more likely to be unemployed.

This demonstrates the value of changing revenue raising methods (including taxation) and adequately investing in methods to end homelessness and supply sufficient affordable housing over the long-term.

Relationship to the Reform of the Federation White Paper

Taxation and revenue raising power is one of the key reasons that the federal government needs to remain involved in responses to homelessness and domestic violence. The Commonwealth has a much higher ability to tax people, and raise revenue, compared with the states. As discussed above, it is Commonwealth taxes such as negative gearing and capital gains tax which are contributing to the cost of housing and preventing people from having a house. It is important that the review of taxation works closely with the review of federation on the common topics of Federal and state/territory relative taxation and spending powers. If responsibilities and roles are reconfigured through the reform of federation and associated measures to put responsibility on to states and territories for housing and homelessness, the ability of states and territories to raise revenue must be increased to meet the cost of meeting these responsibilities.

Conclusion

Homelessness Australia looks forward to further engagement with this review of taxation as the white paper process continues. We would be more than happy to answer any questions you have about the material in this submission or associated topics regarding homelessness, domestic violence and housing.

³⁰ Homelessness Australia (2014) Homelessness: We can't afford to ignore it (Homelessness Australia, Canberra), p3.

³¹ Kaylene Zaretsky and Paul Flatau (2013) The cost of homelessness and the net benefit of homelessness programs: a national study (Final Report No. 218, Australian Housing and Urban Research Institute, Melbourne), p5; Homelessness Australia (2014) Homelessness: We can't afford to ignore it (Homelessness Australia, Canberra), p3.