Australian Government

A tax plan for our future
Stronger • Fairer • Simpler

TAX FORUM 4-5 October 2011

STATEMENT OF REFORM PRIORITIES

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STATEMENT OF PRIORITIES

The priorities outlined here focus on the aspects of the tax: transfer system that relate to housing affordability. However, a number of priorities that bear on the overall fairness of the system are also included.

Access to affordable housing has a major impact on both the ability of households to achieve a decent standard of living, the fairness and inclusiveness of our society, and on the economic efficiency of our cities and regions. However Australia today has major challenges in achieving housing affordability. If we only consider rental housing, the National Housing Supply Council has estimated that we have a shortfall of 500,000 rental dwellings that are affordable and available for low and moderate income households.

Our housing affordability problems have serious consequences, including:.

- Individuals households experience housing stress or poverty with inadequate after housing income
- Households live in insecure or unstable housing, resulting in difficulties maintaining social engagement or schooling, or ultimately, homelessness
- Individual households are forced to locate to areas where the lowest cost housing is available resulting in exclusion from employment or other opportunities and/ or very high transport costs and time
- Inequality is increased in terms of spatial segregation, housing wealth, intergenerational housing opportunities
- The supply of workers that are essential to or community or economy are unavailable because they cannot afford to live where they are needed

Housing affordability is a major national problem and should be a priority for public policy.

Tax reform to improve the housing system overall

The report on Australia's Future Tax System (AFTS) recommended removing distortions created by the use of inefficient conveyance stamp duty in favour of broad based Land Tax.

CHFA strongly favours this measure. Stamp duties not only add to the house price inflation, but they also distort decisions to relocate and fall inequitably on those who are required to relocate. However, we recognise that it will take considerable community discussion and a long transitional period to move from the currently narrowly based State land tax arrangements to a broad based Land Tax.

While the current, narrowly based land tax unfairly distinguishes between rental properties and owner occupied properties, thereby creating disincentives to invest in rental housing, we appreciate that this cannot be overcome in the short term. However, land tax is currently levied on the total holding which means that any investment in rental housing at scale is likely to exceed existing ceilings for exemptions. This is a serious disincentive to larger scale investment in rental properties. An immediate reform should be to apply these ceilings to the value of each dwelling in the portfolio.

Encouraging investment in low cost rental housing

The major incentive currently available for investment in rental housing is the use of negative gearing, combined with the concessional treatment of capital gains on such investments. However, this combined incentive skews investment to higher value and high cost housing, since returns are increased by maximising the capital gain, while offsetting some of the costs of borrowing. It has been argued that this is one of the drivers of the excessive house prices.

CHFA accepts that changes to moderate the impact of this regime are not on the agenda, although we support the AFTS recommendations to tax capital gains, interests and rents at a 40% discount from personal tax rates and also apply this discount to deductions for investment expenses and losses.

However, the objective of providing an effective incentive for investment in low cost rental housing remains crucial. The National Rental Affordability Scheme (NRAS), which provides a refundable tax credit and direct expenditures if the investment is provided by charities, was designed to provide such an incentive. Ensuring that NRAS is effective, becomes a long-term part of a future tax system and is expanded to provide a significant volume of new investment should be a priority.

Supporting the ability to deliver and manage low cost housing

The ability to deliver and manage low cost housing will depend in large part on the presence of not-for-profit housing providers to take the lead in filling what is currently a serious gap at the bottom end of the housing market. Such providers are generally charities that receive tax concessions to enable them to deliver a product that is generally below market.

However, the current heads of charity have been so narrowly interpreted that the range of activities needed to effectively provide affordable (sub-market) housing frequently threatens to undermine their charitable tax status – and hence their viability. AFTS recommended that the definition of charities should be modernised and codified – together with streamlining NFP tax concessions. CHFA believes that this is a priority and that, to the extent that the concept of 'heads of charity' is retained, the provision of affordable housing by NFPs should be explicitly included.

Similarly, the recent budget decision to control the use of 'unrelated commercial activities' has the potential to undermine the viability of charities engaged in the delivery of affordable housing – both due to the need to make expenditures over long period of time in developing and managing housing, and because of a potential to too narrowly interpret a range of affordable housing activities as 'unrelated commercial activities'.

AFTS also recommended that the current Fringe Benefit Tax concessions available to charities to assist them to provide competitive wages should be replaced by direct government funding. While CHFA acknowledges the complexity and potential inequities associated with the current arrangements, we are concerned that the effective support for appropriate and competitive wages is not undermined in the transition, and that the implications for NFPs that are not generally grant funded are considered. Community housing providers generally fall outside of any grant regime hence may have greater reliance on the tax system to support viability.

More effective housing assistance/ removing workforce disincentives

Social housing in Australia – both public and NFP – sets rents on the basis of income to provide affordability to low income tenants. This is an unsustainable model that both drives down income streams to unsustainable levels if supply is constrained, and which creates serious workforce disincentives (effective marginal tax rates).

AFTS recommended that income related rents should be phased out for social housing. CHFA supports this general arrangement – subject to the design of a rental subsidy payment through the income support system that is adequate. ATFS does recommend that the maximum rate of Rent Assistance should be increased and indexed to movements in national rents. This would go some way to meeting the above condition as well as improving the adequacy of rent assistance for private renters.

CHFA also supports the recommendation that a high need housing payment should be introduced – paid to housing providers - to support the higher cost and lower capacity to pay of such households. Finally, CHFA also supports the recommendation that eligibility for rent assistance should be based on need, rather than being linked to the receipt of another payment.

Wider directions for reform

Reform of the tax: transfer system should aim to reduce poverty and strengthen workforce participation. This will mean strengthening the personal income tax system and taking a more consistent approach to all forms of income.

It remains a priority to increase the rate for single allowance recipients to reduce poverty and improve equity.

The other overall aim of the tax system must be to strengthen the revenue available to provide necessary public investment and services. This is particularly true of ensuring there is the revenue available to support ongoing government investment in affordable housing, which can be leveraged to provide more affordable housing, using effective tax incentives.

The creation of a Growth Fund (National Shelter has recommended that such a fund should be at least $1.5 billion) is a national priority to complement a more effective future tax system.

LIST OF ATTACHMENTS