

Attachment D: Macroeconomic modelling of housing tax reforms

Treasury has modelled the preferred housing tax policy options

- Treasury has undertaken preliminary modelling of the economic impacts of the preferred housing tax policy options in Attachment A:

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- Modelling has been undertaken using Treasury's macroeconometric model of Australia (EMMA), which is an economy-wide model that was developed to support macroeconomic forecasts and generate counterfactual policy and scenario analysis (Bullen et al. 2021).

The policies reduce after-tax returns for investors, placing downward pressure on house prices

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- The reduction in investor demand for housing is expected to lead to a modest and temporary slowing in housing price growth. Most of the impact is expected to occur soon after the announcement.

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The improvement in housing affordability increases home ownership

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- This partly reverses the decline in the home ownership shares s 47C, S 47E(d)

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The design of the policies moderates the impact on housing supply and rents

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- The modest impact of the reforms on housing supply can be offset by other efforts of the Government to boost supply, including through land use and regulatory reforms (refer Attachment E).
- Modestly lower housing supply and higher costs for investors are estimated to place **modest upward pressure on rents**. Rents are expected to be ¼ per cent higher and increase soon after the negative gearing policy commences.

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- The rent increase reflects limited direct pass-through of higher costs from landlords to renters, consistent with previous RBA research (Twohig et al. 2025).
- While housing supply is lower under the policy changes, this impact is small and occurs over an extended period (around 10 years). This contributes to the impact of housing supply on rental prices being modest.

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Modelling is subject to significant uncertainty

- The Australian literature on the economic impact of similar reforms shows a wide range of estimated effects, in part due to different policy specifications and modelling choices across studies (including the calibration of shocks).
- Treasury's preliminary modelling produces broadly similar impacts on dwelling prices to other studies. Impacts on the dwelling stock and rental prices are at the lower end of comparable studies, partly reflecting that the policy changes have been designed to limit the impact on housing supply.
- The modelling reflects average impacts across the economy based on owner-occupier and investor households investing in a single type of dwelling asset. It does not separately identify distributional impacts across households, between different types of dwellings, or between different geographical areas.
- The modelling assumes that reductions in household income associated with increased revenue are returned to households. If revenue is returned to the Budget, this would have other macroeconomic impacts.

5. How has Treasury estimated that the Fund could support up to 65,000 homes?

- a. The estimates were developed based on the following parameters:
 - i. Extracting previous housing estimates from the 28 projects that received funding under the Housing Support Program – Community Enabling Infrastructure (HSP-CEI) stream for similar types of infrastructure projects.

- ii. These projects received \$391 million and are expected to support 19,379 dwellings by 2039. This is 15 years after the HSP-CEI funding was paid.
- iii. Under the HSP-CEI, the average funding contribution per dwelling supported is \$20,177.28
- iv. Treasury considered a scenario in which the delivery time aligned for HSP-CEI projects and evidence from UDIA regarding the housing delivery times of infrastructure;
- v. The average funding envelope was adjusted to reflect construction cost inflation, and was calculated as \$22,021 per dwelling;
- vi. Applying this cost per dwelling to the larger \$2 billion funding envelope, the number of homes which could be supported under the Local Infrastructure Fund arrives at 90,821 homes over 15 years.
- vii. The estimate of 65,000 homes over ten years takes into account the expected average funding per dwelling, the expected time to deliver infrastructure (at least 24 months) and the time to deliver a dwelling.

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