

IMPACT OF TAX ON HOUSING

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Perspective

- **How can we make our housing system stronger and fairer?**
- After jobs key political issue
- Public sector housing useful but not main game
- Private sector housing dominates supply
- Design of taxes dominates cost, supply and distribution of private housing

Core Tax problem

- Tax concessions hidden & perverse
- Tax often THE problem not the solution
- Housing has become massive tax shelter
- Capitalized in housing prices
- Appropriated to middle class welfare
- Resulting price bubble excludes poor & working poor from affordable housing

Anatomy of tax problem

- Most significant problems not obvious
- Return on owner occupier home tax free
(tax *base* inc 5% capital value land 1915-23)
- Owner occupier home free of CGT
- Rental housing CGT deferred
- Gear out rent and claim instant deductions
- Negative gearing
- Large subsidies to investment and bubble
- Concessions badly targeted

Concessions Favour

- Home owners over renters
- Current home owners over those saving for home
- Those who inherit home over those saving for home
- Investors in rental property against first home buyers
- Wealthy over the poor and working poor

Land taxes thumbnail

Annual targeted wealth tax

- State land tax
- Local body rates

On transfer

- Capital gains Tax
- State Stamp duties on conveyances
- GST on new building but not on subsequent sales of land with buildings

State & Local Land Tax

- Date back to 1850s in Australia
- Henry George philosophy
- State land taxes from 1884
- Commonwealth land tax 1910 – 1952
- Local body rates from 1890
- Round 5% of total Australia tax

State Land Tax

- Land tax imposed by all states
- Generally levied on owner of land
- Principal residence exempt
- Tax base unimproved value of land
- NSW land tax threshold \$368,000
- Rate 1.6 % of land value above threshold
- 2009 new premium land tax NSW at 2% on *total* taxable land >\$2.25 million
- NO principal residence exception

Local Body Rates

- Most significant taxes on land
- Date C16th UK & 1890 Australia
- All states except Tasmania
- Unimproved Value
NSW, Queensland
- Mix of Unimproved & Net value
South Australia, Victoria

Stamp Duty (aka Transfer Duty)

- Tax on transfer of land: Duties Act 1997 (NSW)
- Include agreement, electronic etc
- Abolished on Mortgages & Leases not land
- Economically bad because inhibits flexibility
- Better to abolish and load on land tax
- NSW rates progressive
from 1.25% at 0 to 5.5% at \$1M
7% premium rate on residential at \$3M
- Queensland much lower

Capital Gains Tax

- Capital gains tax on profit from sale of land
- Exception for principal residence
- Deferred till realization
- Only half income tax rates
- Impact of grandfathering and no realization at death

Negative gearing

- CGT defers tax till realization of land
- Interest on borrowing deducted up front
- Interest can be set against other income (eg Doctor income from practice)
- Strong shelter for renting of property
- But increases prices of lower end properties for buyers
- Tax shelter increases financial instability

GST

- GST taxes any value added as measured by sale of goods or services
- But does *not* tax subsequent dealing
- Therefore tends to build in tax advantage for trades of *existing* housing
- Key design feature of GST
- To fiddle dilutes simplicity advantages GST

Strategic reform

- Political constraints dominate and must inform reform at every stage
- Middle class jealously guard tax concessions however wrong in principle or unjust in application
- Strategy must be step by step and disciplined with careful regard to principles
- Often only political option is dilution or substitution of concessions for less damaging

Reform principles

1. Concessions should always be tightly targeted and short term (sunset clause)
2. Concessions should target new housing and not subsidize acquisitions existing houses (except in WEC)
3. Object to remove most objectionable concessions and replace with measures satisfying 1 and 2
4. Where possible prefer periodic land taxes to those on transfer or sale on land
5. Object to remove overall housing tax shelter (move burden within total tax on policy basis)

Ideal land tax reform

1. Abolish CGT on housing, stamp duty & other land taxes;
2. Replace with single, integrated annual tax on the improved cost value of land
(revaluation every 10 years & adjustment on sale)
3. One collection point for 3 levels government
4. Paid annually or charge on property which, accrues interest & paid on sale of the property
5. Raise same revenue as ALL existing taxes on land
6. Adjust in future years so land tax neutral against basket of other investments

Surprising Application

- NSW Housing Construction Acceleration Plan 2009
- NSW transfer duty rate reduction 50%
- For new property only
- For 6 months
- Couple with earlier raising of land tax on premium property over \$2.25 M