QCOSS Queensland Council of Social Service

28th September 2018

Committee Secretary
Senate Standing Committee on Environment and Communications
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretary

Queensland Council of Social Service (QCOSS)

The Queensland Council of Social Service (QCOSS) is the state-wide peak body representing the interests of individuals experiencing or at risk of experiencing poverty and disadvantage, and organisations working in the social and community service sector.

For almost 60 years, QCOSS has been a leading force for social change to build social and economic wellbeing for all. With members across the state, QCOSS supports a strong community service sector.

QCOSS welcomes the opportunity to comment on the *Treasury Laws Amendment (Improving the Energy Efficiency of Rental Properties) Bill 2018*.

Key messages

- QCOSS supports the intent of the *Treasury Laws Amendment (Improving the Energy Efficiency of Rental Properties) Bill 2018* to address the split incentive between landlords and tenants and to improve the energy efficiency of rental properties.
- QCOSS agrees with the ACOSS view that this issue would be better addressed through mandatory minimum energy efficiency standards for all rental properties. We are concerned that the proposed measure could result in rent increases, undermining the intent of the bill which is in part to improve energy affordability for tenants.
- If the measure was to go ahead, QCOSS recommends that changes be made to improve its effectiveness such as removing the $300 rental limit.

We have expanded on each of these points in the paragraphs below.

Renters missing out

The Bill is seeking to amend the *Income Tax Assessment Act 1997* to allow landlords to claim a tax offset of up to $2000 per year during a three-year trial period for energy efficiency upgrades to rental properties leased at $300 per week or less. The intent of the Bill is to address the disconnect between low income renters and landlords by incentivising landlords to upgrade the energy efficiency of rental properties.

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In comparison to owner occupiers, renters miss out on energy efficiency and its health, safety and energy efficiency benefits. For example, QCOSS' *Choice and Control Report* (2017) further indicated that around 80% of Queensland owner occupiers have insulation, while only around 40% of renters do. Similarly, around 40% of owner occupiers have solar power, while only 4% of renters do.

Renters are currently limited in their ability to improve the efficiency and livability of their homes. Landlords often don't implement reasonable requests from tenants, even if it's of no cost to themselves, with agents often not even passing on reasonable requests to owners (QCOSS 2017[1]). The same report found that around 36% of Queenslanders now rent. That means that around a third of Queensland households do not have the capacity to ensure their home is affordable, safe or healthy. Even if they could, the average tenancy in Queensland is only around 13 months, without the security of tenure to justify paying for most upgrades.

Property owners and landlords are currently able to claim the cost of repairs made to their rental properties, but not for energy efficiency upgrades that would give significant relief to those finding energy bills unaffordable. At the same time, our tax code offers the perverse incentive for landlords to retain energy inefficient rental properties.

Considering this, we agree that something needs to be done to address the current split incentives and poor outcomes for renters.

Mandatory minimum energy efficiency standards

We welcome to objective of this Bill to improve energy efficiency in rental properties, especially for low income people who are more vulnerable to energy poverty. This is of significant concern given the lack of choice for tenants to access the benefits of both comfort and financial savings of energy efficiency. We also agree that the tax code can probably be improved towards this objective.

However, we do not believe that an incentive for landlords goes far enough towards ensuring access to energy efficiency for tenants. Even with a tax offset incentive, landlords may still decide not to participate, or they may choose to increase rents further despite the incentive.

Instead we suggest that regulated mandatory minimum rental property standards, (that include energy efficiency) are the best way to improve comfort and affordability for tenants, while ensuring that landlords are not prevented from getting fair tax treatment for their expenditure. These are already being implemented in the rental tenancies laws in a number of states around Australia, including Queensland.

These energy efficiency standards may include individual elements, (such as insulation, LED lighting, shades, blinds, draught sealing, rooftop solar, or security screens), or they may be based on an overall ratings system. In either case they require an inspection and enforcement regulatory regime that

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[1] Queensland Council of Social Service (QCOSS) 2017, "*Choice and Control? The experiences of renters in the energy market*", https://www.qcoss.org.au/choice-and-control-experiences-renters-energy-market

ensures compliance that could not effectively be achieved through the tax system. Also, this measure would not incentivse investment in improving energy efficiency of social and community housing effectively excluding some of the most vulnerable renters from the benefits.

This mandatory approach will ensure that all tenants have equal access to the benefits of energy efficiency and ensures that landlords know what minimum property standards are expected of them, including in relation to social and community housing.

Recommended changes to improve effectiveness of the Bill

If the Bill does go ahead, we recommend the following changes to improve the effectiveness of the measure.

Current	Proposed	QCOSS' suggested change
Capital improvements to a rental property generally can be deducted as they decline in value over the effective life of the asset	381-5(1) You are entitled to a [refundable] *tax offset for the 2018-19, 2019-20 or 2021-22 income year if: (a) at all times during the income year, you rent, or offer to rent, a *dwelling to one or more individuals for $300 per week or less; and (b) one or more *energy efficiency measures are taken in relation to the dwelling in the income year; and (c) each of the energy efficiency measures satisfies the conditions specified in section 381-15.	Delete the following words in paragraph 381-5(1)(a) – "for $300 per week or less" to **increase** the number of dwellings and tenants that may benefit from the measure. We can assume that people on low incomes are more likely to rent dwellings that need energy efficient upgrades and that price is not an appropriate proxy for this. Any attempt to limit the offset based on arbitrary assumptions would in our view be unnecessarily complex. Also – it skips a year – please clarify the years that the offset will be available.
No equivalent	381-15 prescribes the type of energy efficiency measures that would be eligible.	We recommend that this level of prescription is instead included in a schedule, which is developed in consultation with energy efficiency experts and other stakeholders.
Other - Clarification	What happens to the excess?	Recommend that a provision be inserted to clarify what happens to the amount of your expenditure on energy efficient upgrades that cannot be claimed as a tax offset.
Other – Education and awareness	What is the implementation plan? Will funding be provided to the ATO for the development of advice and guidance products and promotion?	Recommend that funding be provided for the development of advice and guidance and promotion.

It is often the most vulnerable members of our community who live in the houses that are the cheapest to rent, but are more inefficient, both in terms of the building fabric itself and appliances, and therefore more expensive to run. These "cheaper" rents include houses well in excess of the $300 per week maximum targeted in the current Bill, especially inner urban rentals. For example, at the time of writing, the minimum rent available for a 3-bedroom house in the 4101 postcode (i.e. in the below example) was $400/week. Many vulnerable households will be excluded by this artificial barrier. Larger and therefore more expensive rental properties could be homes for larger families or shared households, for example. Furthermore, many Australians are renting for longer as home ownership becomes increasingly inaccessible, leading to more Australians with less control over their homes and vulnerable to housing stress, and increased costs of living due to inefficient and poor quality housing. Removing the administrative complexity required to limit eligibility (to rents of $300 a week or less) will reduce the compliance costs and increase the number of low-income households who would eventually benefit. As such QCOSS recommends no limit be set based on rental prices.

It is not just the cost of running the property that is impacted through poor rental housing quality. Poor thermal performance has been shown to worsen the negative health impacts of extreme temperatures, and lead to increased health costs for both individuals and the health system as a whole.

Example

Luke has an investment property in Brisbane that he rents out to Rose, a single mother and her three children for $400 per week (this is the cheapest 3-bedroom rental available in her children's school catchment area). The property is a 90-year-old 3-bedroom Queenslander in West End, inner Brisbane. Many of the floor boards have been replaced due to white ants, with more needing replacing in the near future. There are several gaps and cracks in the building fabric. Many of the windows don't close properly. The original deck has been enclosed with large north facing aluminium-framed windows without awnings or other shading.

Rose's quarterly energy bills are around $1,200. The main contributors to this are that there is no insulation, so the house is very uncomfortable in extreme weather conditions, and the only form of cooling they have is a very old and inefficient air conditioner. Other factors include poor quality window coverings, draughts from gaps and cracks around the home and an old hot water system.

Rose works part time and receives some income support. She has often had trouble paying her energy bills. She currently is on a payment plan and has a small accumulated energy debt.

Luke is interested in improving the livability (and affordability) of the house for Rose and her children but is concerned about the cost and is aware that the tax implications mean that he only gets a small proportion of the expenditure back, and even then, it is spread out over a number of years.

The below table looks at the likely outcomes if Luke was considering investing in:

- insulation in the 2018-19 year ($1200);
- a new air conditioner in the 2019-20 year ($4200); and
- rooftop solar in the 2020-21 year ($6000).

under three different scenarios, current, proposed and with QCOSS preferred approach/recommended changes.

Landlords	2018-19 year	2019-20 year	2020-21 year
Current	Unlikely to invest under current tax treatment	Unlikely to invest under current tax treatment	Unlikely to invest under current tax treatment
Proposed	Luke is not eligible for the tax offset as the rent is too high. Unlikely to invest.	Luke is not eligible for the tax offset as the rent is too high. Unlikely to invest.	Luke is not eligible for the tax offset as the rent is too high. Unlikely to invest.
QCOSS	Preferred: Luke must improve the energy efficiency of the rental property to a certain	Preferred: Luke must improve the energy efficiency of the rental property to a certain	Preferred: Luke must improve the energy efficiency of the rental property to a certain

	standard and would be allowed a tax deduction/depreciation over the life of the asset under ordinary tax rules Alternative: Luke will get a tax offset for the full value of his investment ($1,200)	standard and would be allowed a tax deduction/depreciation over the life of the asset under ordinary tax rules Alternative: Luke will get a tax offset for $2000 (out of a total cost of $4200) and can claim the remainder over the life of the asset as a deduction. As he gets almost half of the upfront costs back, he decides to invest.	standard and would be allowed a tax deduction/depreciation over the life of the asset under ordinary tax rules Alternative: Even though Luke will get the full tax offset of $2000 he cannot see the benefit in making this level of investment to improve energy affordability for his tenant.

Renters	2018-19 year	2019-20 year	2020-21 year
Current	Bill remains at $1,200 per quarter	Bill remains at $1,200 per quarter	Bill remains at $1,200 per quarter
Proposed	Bill remains at $1,200 per quarter	Bill remains at $1,200 per quarter	Bill remains at $1,200 per quarter
QCOSS	Roof insulation is estimated to reduce energy use from heating and cooling by up to 40% and there is significant improvement in comfort	A more energy efficient air conditioner will enable Rose to cut her heating and cooling costs by more than half	Solar will provide free electricity for the component generated on the roof, significantly reducing Rose's bill

In addition, as a result of the advice and guidance and increased promotion about energy efficiency, Rose also talks to Luke and is sealing the gaps and cracks around the home. Rose works out she can do the entire house for less than $100. The Australian Government *Your Energy Savings* website estimates draught proofing your home can lower both heating and cooling bills by 25%.

If you have any questions in relation to this submission, please contact Megan Butcher on or email .

Yours sincerely

Mark Henley

Chief Executive Officer