Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

23 – 24 February 2011

Question: AET 157

Topic: Increase in House Prices

Hansard Page: E 46 – E 47

Senator Ludlum asked:

Senator LUDLAM—The long-run increase in house prices is appreciating at about nine per cent a year. The last time a body—I think, apart from the review that you undertook—looked at the combined total of capital gains tax exemptions, land tax exemptions and negative gearing, it was about $50 billion a year. The Commonwealth spends about $1 billion a year on housing affordability initiatives, which virtually did not exist under the previous government. I feel as though there is something very difficult to reconcile. As far as your review is concerned, what is the state of your thinking about how to untangle these split incentives?
Dr Henry—There is quite a lot of material in the review on this topic. Broadly, that is on land tax and the way that land tax operates. There are two principal issues associated with land tax that are relevant to the question that you have raised. The first is that land tax obviously has numerous exemptions. So the own home is exempt from land tax, primary production land is exempt from land tax and so on. But the land that is subject to land tax, putting aside commercial real estate, is rental property. But in respect of rental property, there is a substantial threshold that is available on an individual basis in most jurisdictions—in all jurisdictions, I think—but any owner of rental property has to aggregate all of their land and just has access to one threshold.

An interesting consequence of that is that, internationally, the proportion of rental housing owned by individuals is higher in Australia than anywhere else in the world. It is an obvious consequence of the aggregation of land holdings and the application of a single threshold per individual or per taxable entity. The states are pretty well aware of this, but there is an obvious case there for considering a reform of land tax for that reason.

As far as the other aspects are concerned, in the review we presented a case for having a more equal taxation of various forms of saving. An individual can save, obviously, by putting their money in a bank account. They can save in superannuation, as we discussed earlier. They can also save by buying shares or by investing in rental property, as we have discussed. We argue that there was a case for providing preferential tax treatment for saving, and that case is probably nowhere stronger than in long-term saving, post-retirement saving—that is, superannuation. So that is a clear case, we thought, for having concessional taxation for saving.

With respect to the other categories of saving, the various categories, we thought there was also a case for having preferential tax treatment of saving as against, say, labour income; but there was an equally strong case for flattening out the taxation treatment as between those various forms of saving. So we propose in the review a rule which says that a percentage—less than 100 per cent—of income from saving, whatever the form of saving is, be included in taxable income; that is, there be, essentially, a uniform discount across the various forms.

In respect of income from rental housing, what this would mean, for example—and I think from memory it was a 60 per cent inclusion rule—is that 60 per cent of rental income would be included as taxable income, but on the other hand you would only be allowed 60 per cent of your deductions, and that includes interest deductions. So for those who are engaged in negative gearing—that is where, by definition, the interest deduction exceeds the rental income—instead of getting deduction for the full amount of the excess, they would get a deduction for 60 per cent of the amount of the excess. That would go some way to addressing the

tax distortion that you have referred to.
There are ways of flattening out the tax treatment of saving to address the distortions that you are referring to, or at least partially address the distortions you are referring to but which overall do not reduce the concessionality of the tax treatment of saving. Indeed, it would be possible to construct these things in a way where it was actually revenue negative—that there was an enhanced incentive for saving overall but a more—I hesitate to use the word 'neutral' but this is how we talk about it internally—neutral taxation regime for saving.
Senator LUDLAM—What about tax incentives available for properties that are kept vacant—speculative vacancies?
Dr Henry—I think the two instruments that are available there for governments are capital gains tax and land tax, really. Capital gains tax and land tax are the two obvious instruments that are available.
Senator LUDLAM—I will place my last question on notice. Could you just tell us what specific resources, either FT or work units, within Treasury or the tax office are currently working on housing affordability and where those folk are located?
Dr Henry—Sure. I will take that question on notice.

Answer:

The Treasury has 5.8 FTEs working on housing affordability. These employees are located within the Treasury, in Canberra.

The Treasury employees have been working with the States and Territories through COAG's Housing Supply and Affordability Reform (HSAR) agenda to examine housing supply issues such as zoning and planning approval processes, infrastructure charges, environmental regulations and opportunities to identify currently 'underutilised' land, and government policies and programs that impact the housing market. In addition, the Treasury employees have been working on reforms that improve the efficient functioning of Australian cities, including COAG's Capital Cities Strategic Planning Systems process and the Department of Transport's National Urban Policy.