

Affordable housing means a land tax and no stamp duty

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The real estate market has been swift to deliver its verdict on the Reserve Bank's latest 25 basis point rate cut. Auction clearance rates in Sydney jumped to their highest level in over a year, with similar strength recorded in Melbourne.

When looked at in price terms, the market is clearly buoyant. However, from an affordability perspective, the picture appears much less rosy.

The release of the Senate Economics References Committee's Inquiry into Affordable Housing in May 2015 slipped under the radar of political and public awareness. This is unfortunate, as a decline in housing affordability undermines the sense of personal wellbeing and financial security associated with home ownership. This is having a particular impact among prospective first-home buyers battling to get into the market. Highlighting their challenge is the fact that, since the early 1980s, the ratio of dwelling prices to income in our capital cities has more than doubled. A continuation of this trend could have drastic social consequences.

Admittedly, home affordability rates in Australia remain comparable with OECD averages. However, country-wide measures of affordability mask the extent of the problem in Sydney and Melbourne (where two-fifths of Australia's total population lives). CoreLogic data shows that dwelling values are on track to maintain their run of exceptional annual growth. Particularly in Sydney, the annual rate of price growth appears poised to exceed 10 per cent for a fourth successive year. And given the attractiveness of Sydney as a place to reside, the problem is exacerbated given that former Prime Minister Paul Keating once remarked, "If you're not living in Sydney, you're camping out".

Moreover, home affordability is a largely unavoidable problem as the post-mining boom job market becomes increasingly concentrated within the east coast capital cities.

The market mechanism may eventually create equilibrium in the housing sector, but this could be supplemented with 'clever country' lateral thinking in policy development. Replacing stamp duty with a land tax would be an ideal start. Stamp duty represents an insurmountable up-front hurdle to many prospective home buyers, because it must be paid up front in after-tax cash savings and cannot be included within a mortgage. Instead, a land tax could be applied at a lower rate and a broader base, and be payable over the entire period of the owner's tenure. The government would be no worse off, but the revenue collection process would be more manageable for more people within a progressive taxation policy framework.

A variation of this arrangement could prove particularly beneficial to home owners who are asset-rich but cash-poor. Such individuals may be given the option of using a HECS-style mechanism that enables accrued duty obligations to be deducted and paid when the property is eventually sold.

In the case of new housing developments, the associated necessary infrastructure, such as roads, electricity, water and sewage services, are all passed on by state governments to developers, who in turn pass them on to home buyers. This seems unfair, in that governments in effect use developers to collect 'housing taxes' on their behalf.

The broader issue of building cost inflation appears to be a significant factor in keeping many prospective home owners out of the market. Several regulatory bodies have highlighted this issue, so the federal government could use its renewed electoral mandate to review the situation (subject to the Senate cross benchers).

Other aspects of fiscal policy that warrant review are the first-home owners' grant (FHOG) and the capital gains tax (CGT) exemption. The benefits of the FHOG have never fully reached those for whom they were intended. Instead, they have largely provided a windfall gain for vendors exploiting inexperienced new entrants to the property market. Similarly, the notion of the family home being exempt from CGT is noble in its intent, however it is exclusionary in that those who cannot get into the market have no way of accessing this benefit.

It's important that government remain mindful of the key role that home ownership plays, in reinforcing the importance of regular and scheduled saving, securing individuals' financial positions over the course of their adult lives, and in retirement. This importance will only increase over time, in line with the steadily decreasing ability of the public purse to fund a society safety net.

Broadly, there are four main phases in people's lives. These are: the education and skills training phase in preparing for work; securing home ownership; saving for retirement; and retirement. In three of these four phases, the family home plays a major role. Accordingly, when framing policy with regard to home ownership, government needs to recognise the holistic aspects of these life phases.

Moreover, to have a sustained long-term impact, policy initiatives in these areas need to be well thought out and consistently applied across a number of years, rather than being subject to constant annual adjustment. Borrowing an analogy from the field of medicine, it's better to deal promptly with a problem that requires a plaster than wait until it requires major surgery.

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