QUESTION 1

(Transcript page 7)

Mr HUSIC: Mr Cox, your comment that negative gearing applies to a range of asset classes obviously applies to the Australian context. How many overseas jurisdictions would have similar arrangements on negative gearing for property investment? I take on board your point about the capital gains arrangements as well.

Mr Cox: There would be a number, but I do not have the information with me. I could take it on notice.

ANSWER

New Zealand has similar arrangements on negative gearing for property investment. A number of other jurisdictions allow the deductibility of expenses incurred in generating rental income with various restrictions.

QUESTION 2

(Transcript page 9)

Mr HUSIC: … In relation to supply, the federal Treasurer, in meeting with his state and territory colleagues, established a process by which there would be an examination of housing supply. The Victorian Treasurer has been asked to lead the work examining housing supply in Australia and, no doubt, its impact on some of the issues you touched upon here vis-a-vis affordability. Are you able to give us an update on what has occurred so far? Have the jurisdictions met yet to progress this work?

Ms Wilkinson: I can provide you with a general update, but I might need to take some questions on notice because this is really managed by our Commonwealth State Relations Division. There was an announcement of the working group which was that they had had a series of discussions about housing in Australia. The Victorian Treasurer certainly agreed to lead the working party to look at the state. My understanding is that they will be coming back to provide a road map to help build the supply of housing in Australia. I do not have a specific date for when they will be coming back, so I will have to take that on notice.

ANSWER

The Housing Supply Working Group is discussed on page 18 of Treasury's submission to the Inquiry into Home Ownership.

QUESTION 3

(Transcript page 9)

Mr HUSIC: Has Treasury undertaken any work on the feasibility or the suitability of obtaining early access to superannuation for a home deposit? Has any advice been requested and/or provided to the government on this matter?

Ms Wilkinson: I am not aware of any work being requested along those lines, but I will have to take that on notice because it would not have come through my group.

ANSWER

Treasury has not done any work on a model of obtaining early access to superannuation for a home deposit in Australia.

QUESTION 4

(Transcript page 9)

Mr HUSIC: Mr Cox made reference to the very hefty, nearly 500-page, report by the Senate Economic References Committee that was tabled last month. It is called *Out of reach? The Australian housing affordability challenge*. Has the government made a response to the 40 recommendations in that report yet?

Mr Cox: Not that I am aware of.

Mr HUSIC: Do you have any sense of when this might be done?

Mr Cox: I can take it on notice for you.

Mr HUSIC: Thank you. Which section, division or unit within Treasury has the lead responsibility for preparing the Treasury response to this report?

Mr Cox: I would have to you find out for you. I would presume that the Revenue Group would be involved in it, but I will have to find out.

ANSWER

The Government is currently considering its response to the Senate Economic References Committee report on housing affordability. Any Government response to the Inquiry's Report would be led by the Department of Social Services, in consultation with the relevant departments, including Treasury. Social Policy Division would coordinate Treasury's involvement in any Government response.

QUESTION 5

(Transcript page 10)

Dr HENDY: Can I go through a few of the slides from your presentation. I have a few requests for information. On page 2 and the proportion of homeowners, would it be possible for Treasury to provide data to this committee on international comparisons? You made some brief references to that in your opening presentation. Could you do that?

Ms Wilkinson: Yes, we can certainly do that.

ANSWER

International comparisons of home ownership can be found on page 3 of Treasury's submission to the Inquiry into Home Ownership.

QUESTION 6

(Transcript page 10)

Dr HENDY: Thank you. Graph 10 shows the ratio of medium dwelling price to household disposal income. You briefly made reference to this in your opening statement, but could you go through again for me what actually happened between 1998 and 2003 that produced this quantum change. You made references to inflation changes in the economy; were you referring to inflation changes in the housing market? In Australia, general inflation issues were basically brought under control in the early nineties as opposed to the late nineties, so I do not understand what you are referring to.
Ms Wilkinson: What I was referring to was indeed the step reduction in the aggregate inflation rate that occurred, and you are right that that occurred in the first half of the nineties. That then flowed through into a lower level of nominal interest rates. Lower nominal interest rates mean that individuals can take out larger mortgages, and there was quite a lot of work that was done at the Reserve Bank at that time which was looking at the impact that the combination of the shift to low inflation—and, therefore, the availability or the accessibility of larger mortgages to people—and the deregulation of the financial system had on the housing market.
Dr HENDY: Why did it take so long, though? The inflation problem was basically defeated in 1991, and we are talking about 10 to 12 years later. Is it just a fact that it took that long to flow through to the housing market and interest rates? I do not think it did, so I am asking the question.
Ms Wilkinson: I do not have it in front of me. I cannot recall exactly the path of the reduction in inflation. You are right that it occurred in the first half of the nineties. What was striking was that it took some time for inflation expectations and things like long-term bond yields to actually respond, because it took some time before people were confident that we had really moved to a low-inflation era. It then takes some time for people to respond to the changes this signals are available to them. So, I am just suggesting that this increase between the mid-nineties and the early 2000s was at least in part driven by that shift that occurred—the implications of the shift to a low-inflation environment. That is all I was suggesting.
Dr HENDY: I am just saying that this graph is about housing affordability, and that is a very structural change we are seeing there, if that is an accurate graph, so understanding the difference between 1998 and 2003 helps to explain the patterns that have been occurring in the Australian housing sector. It requires a bit more concentration on what exactly we think we are seeing there. Could I put that question to you?
Ms Wilkinson: Absolutely.
Dr HENDY: And some analysis so the Treasury submission, when we get it, could actually give us a bit of a sense of what you think that is. If you do not know—well, I do not know—it is an area for examination.

ANSWER

Discussion of the increase in dwelling prices in the late 1990s and early 2000s can be found on page 10 of Treasury's submission to the Inquiry into Home Ownership.

QUESTION 7

(Transcript page 10)

Dr HENDY: … Graph 12 shows population growth. Can you give us a breakdown of population growth—I think the deputy chair raised this—by states and capital cities? This shows the total for Australia.

Ms Wilkinson: We are using census data, so it is not as frequent as this. We can give you an indication for the states, but I am not sure that we can do capital cities. But we can do that.

Dr HENDY: Okay. Whatever you can do would be helpful.

ANSWER

Discussion of interstate migration can be found on page 14 of the Treasury submission to the Inquiry into Home Ownership. Table 1 provides a breakdown of population growth using the most recent 20 years of data, consistent with the period covered by the chart of national population growth provided to the committee.

Table 1: Annualised population growth (per cent) - December 1994 to December 2014

	Natural Increase	Net Overseas Migration	Net Interstate Migration	**Population Growth**
NSW	0.7	0.8	-0.3	**1.1**
VIC	0.7	0.8	0.0	**1.4**
QLD	0.9	0.9	0.6	**2.0**
SA	0.4	0.5	-0.2	**0.7**
WA	0.9	1.3	0.2	**2.1**
TAS	0.4	0.2	-0.2	**0.4**
NT	1.4	0.7	-0.5	**1.6**
ACT	0.9	0.4	-0.1	**1.2**

Note: Total growth may not match the sum of the components due to intercensal adjustments made by the ABS. For further information, see paragraph 6 of the explanatory notes in ABS cat. no. 3101.0 and paragraphs 2.53-2.64 of ABS cat. no. 3228.0.55.001.
Source: ABS cat. no. 3101.0

QUESTION 8

(Transcript page 11)

Dr HENDY: Graph 8, dwelling price growth: when you look at that graph, loosely speaking you see a trend down of dwelling price growth over 15 years from 2001 but there is a particular drop in 2001 to 2005. What, in an historical context, happened in that period which saw that significant dwelling price growth reduction in growth? It is a relative term, is it not? What happened in that period? It is half a decade.

Mr Wilkinson: We do not have a particular explanation for what happened in that period. My only observation is you can see that price growth was quite elevated for a number of years from May 2001 through to about May 2004. So if you have three years of very strong growth, it is really not surprising that you then have a period in which prices plateau for a while. I do not have a general explanation other than that is not unusual, certainly in the housing market, to have periods of strong growth and then periods in which there is—

Dr HENDY: I really asked that question because, if we do not really understand why there is a peak in the three previous years leading to a peak and then a trough, it is hard to predict what is going to happen in the future, too.

Mr Goldsworthy: One way of thinking about this is that supply responds to demand with a lag. So when you see that increase in demand for housing, that is where it is going to show up—in the form of higher prices. Supply will respond over time and, as I think Ms Wilkinson might have said in the opening remarks, we see the increase in supply as—

Dr HENDY: Yes, but what was happening in the Australian economy in that period? We moved to a new tax system around 2000. Did that have an implication for this and it did it have an implication for the trend down? I am just asking Treasury, as the bastion of economic expertise in the country, whether they have an observation about a significant change in dwelling price growth in the last 15 years, which is apparent in that graph.

Ms Wilkinson: We do not have any particular observations about that.

Dr HENDY: Could I raise that question with you and see whether, on notice, you could give any more specific answers to that?

ANSWER

The housing market is subject to cyclical fluctuations. The cyclicality of house prices and dwelling investment was discussed in the Productivity Commission Inquiry into First Home Ownership in 2004. The Productivity Commission noted that demand is responsive to changes in monetary policy and there can be mismatches created by the time taken for supply to respond to changes in demand.

Both these factors likely had some impact when considering the dwelling price cycle of the first half of the 2000s. The acceleration in dwelling prices between March 2001 and May 2002 followed a period of below-average construction and monetary policy easing, while the subsequent fall in dwelling price growth between May 2002 and November 2004 followed a pick-up in construction and interest rates.

Dwelling completions reached a four year low in the June quarter of 2001, after which they rose steadily to a five year high in September 2005.

The official cash rate was cut from 6.25 per cent to 4.25 per cent over 2001 before rising by 0.5 percentage points over May and June 2002, a further 0.5 percentage points over November and December 2004 and 0.25 percentage points in March 2005.

QUESTION 9

(Transcript page 12-13)

Mr CONROY: Ms Wilkinson, you were talking earlier about the investor share of total housing, and you gave us your view of where it was over the past 10 years. I want to go back slightly further. You might need to confirm this, but the statistics I have seen have investor share of housing finance increasing from 16 per cent in 1991 to 40 per cent now. Does that sound broadly accurate to you—that over the last, say, 25 years there has been a very significant jump in the investor housing share?

Ms Wilkinson: I do not have the specific numbers in front of me, but that looks broadly accurate. From looking at the data I have in front of me it looks to me like most of that increase occurred between 1990 and the early 2000s. And, as I said, it has been reasonably stable over the period since the early 2000s.

Mr CONROY: So we have a stepped change in investor housing share of total housing investment. My second question goes to ABS housing finance statistics, which show that in 1992 the share of investment loans going to new housing stock was 18 per cent and is now around six per cent. Is that consistent with your data?

Ms Wilkinson: When we look at the share of investor housing for new dwellings it is more variable over time but broadly around a fairly constant mean. If I look over the history from about 1985—and I do not have the aggregate for Australia; I have it split between Sydney, Melbourne and the rest of Australia—it varies. I think for Victoria the low is about five per cent of the share in the early 1990s. The peaks you get are in New South Wales—some in the early 1990s and some in the early 2000s. So it is much harder to actually make a statement about the investor share of lending for new dwellings. That looks to me to have actually varied over time, cyclically, but around a broadly similar mean.

Mr CONROY: Perhaps you could take it on notice or include it in your submission, because I think it is really important to understand, firstly, increased growth of the investor share of housing investment and, secondly, whether that is becoming more concentrated in existing dwelling stock versus new housing stock. So perhaps you could make some commentary on that in your submission or in a question on notice. I think that would inform the debate, so I would appreciate that.

Ms Wilkinson: I would be happy to.

Mr BUCHHOLZ: And perhaps you could include in that the amount of money we capture in the superannuation—whether or not that growth—to link that as well—

Mr CONROY: Yes, absolutely.

Ms Wilkinson: Perhaps you could repeat the specific suggestion.

Mr BUCHHOLZ: In addition to Mr Conroy's request, could you also draw a parallel between the amount of self-managed super funds or the amount of money that is available in that investor market as a result of superannuation contributions. I think there would be a direct linkage if you were to put the two graphs there together.

Ms Wilkinson: Do you mean the investment of self-managed super funds in housing—is that what you are looking at?

Mr BUCHHOLZ: That is part A. Part B would be the overall superannuation funds growth.

Ms Wilkinson: Okay, yes.

ANSWER

Investor share of housing finance

Discussion of the investor share of housing finance can be found on pages 11-12 of Treasury's submission to the Inquiry into Home Ownership.

Importance of superannuation fund investment in residential real estate

Superannuation investment in residential real estate is undertaken largely by self-managed superannuation funds (SMSFs). At June 2013, SMSFs held around $20.5 billion in residential property (ATO 2012 13 SMSF Statistical Overview). This represented just 0.4 per cent of the $4,694 billion value of Australia's dwelling stock in June 2013 reported by the ABS.

QUESTION 10

(Transcript page 13)

Mr CONROY: We have increased investor share of total housing investment and there are some differences about whether they are concentrating more and more on existing housing stock. If I can turn to—and this is a question for revenue, probably more than anyone else—I have a graph before me that looks at net rental loss over time, so the cost to the Commonwealth of rental losses from investing in housing. It shows that in 1999-2000 there was net rental income of $219 million—so there was $219 million of rental income that was taxed—and now we are down to $7.9 billion of net rental income losses. Is that a broadly accurate trend? Can you confirm that that is correct?

Mr Cox: I can probably confirm it for you on notice.

Mr CONROY: Take it on notice,

ANSWER

According to the 2012-13 ATO statistics, the revised figures for net rental income in the 1999-00 and 2011-12 income years were $156 million and -$8.25 billion respectively. More recently net rental income for the 2012-13 income year was -$5.39 billion.

QUESTION 11

(Transcript page 13)

Mr CONROY: … but is that a trend that you think is accurate—that 15 years ago we had property investors paying tax because they were making rental returns and now they are writing off around $8 billion because they are losing money on their rents?

Mr Cox: The tax discussion paper has a graph in it which shows that over time, say from 1997 through to 2011-12, there was an trend upward of the expenses claimed, so those two things would generally tend to go together.

Mr CONROY: Yes, a net revenue loss to the Commonwealth because over time property investors are not making money on their investment. They are losing money on their rental yields.

Mr Cox: Without having that data in front of me, the thing that I am confirming is that expenses certainly have climbed over time.

Mr CONROY: If you can confirm that, that would be good.

ANSWER

Expenses claimed for investment properties, as a percentage of gross rental income have increased from 98.74 per cent in 1999-00 to 123.34 per cent in 2011-12.

QUESTION 12

(Transcript page 13-14)

Mr CONROY: Ms Wilkinson, could you, in your submission or as a question on notice, provide data comparing rental yields—so basically chart 7—versus the average yields, for example, in the share market? If they do not follow the same trend and I am a property investor and I am choosing to invest in an asset class where yields have dropped and shares have not dropped, the only way I could justify that is by thinking that we have had a halving of capital gains tax and I am expecting that I will make a lot more money on capital gains when I sell the property. Do you accept that, if rental yields have diverged from yields in other asset classes, a rational property investor would only invest in property investment, to the extent they are, if they had an expectation of higher capital gains further down the track partly driven by the halving in the capital gains tax? From a rational economic actor's point of view, is that a reasonable proposition?

Mr Cox: The CGT discount applies across all asset classes.

Mr CONROY: Yes, I understand that. But it is fair to say, with property prices in the last 15 years, capital gains have outstripped share gains. So, I am asking a theoretical question. We need to confirm whether rental yields have moved differently from share yields. If they have, then a rational economic actor would only be pumping money into the property market when they are suffering reduced rental yields if they had an expectation that the capital gains would be much higher to compensate for reduced yields. Is that a reasonable proposition, with the assumptions that I prefaced the question with?

Ms Wilkinson: Let us have a look at what we can do for you both in terms of providing data and the analysis that has been done or what could be reasonably done.

ANSWER

A comparison between rental yields and yields from other asset classes can be found on pages 6-7 of Treasury’s submission to the Inquiry into Home Ownership.

QUESTION 13

(Transcript page 14-15)

Mr CONROY: This is April 2015 work undertaken by NATSEM, who an unnamed politician said was the premier private modelling organisation in this country—sorry, couldn't resist! In their modelling they argue that the capital gains tax concession costs the Commonwealth $4 billion per year, and that just under 75 per cent of that concession flows to the top 10 per cent of Australian income earners, 82 per cent to the top 20 per cent, and only seven per cent to the bottom half of income earners in this country. Could you take on notice whether you have similar modelling or whether similar work can be done to confirm that those statistics are correct?

They also go to negative gearing—or income loss on property investment, to use the correct term. They found that costs taxpayers $3.7 billion a year and that 50 per cent of that tax concession went to the top 20 per cent of income earners and only 20 per cent went to the bottom 50 per cent. I would be interested in Treasury's view about whether NATSEM has got that right.

Linked to that is that we often hear an argument pushed by the Housing Industry Association that three-quarters of households that are using negative gearing are on an income of $80,000 or less. I have also seen RBA analysis using HILDA surveys, which are obviously the most comprehensive surveys we have in this country, outside of a census, showing that 60 per cent of investment housing debt is held by the top 20 per cent of income earners, which would seem to argue against who is negatively gearing. Can I get Treasury's view on that. If you have a view now that would be great. But in your submission could you indicate on who exactly is benefitting from negatively gearing property investment.

Mr Cox: I could not comment on the latter part, but, referring back to the tax discussion paper, there is coverage in that paper about the proportion of tax filers with negatively geared investment properties. It broadly shows in a distributional analysis that the distribution follows the tax system. So the vast majority of tax filers are in that lower proportion, and that is where the number of people invested in negative gearing are. But that is a separate question to the beneficiary element, which I think is the second element of what you are getting to. I would have to take that on notice.

Mr CONROY: Yes. If you look at the Housing Industry Association data, it seems to argue that the 74,000 people they claim are negatively gearing and who are earning under the $80,000 actually have total income of less than zero. So, clearly, something is going on there—whether they are participating in tax avoidance or whether they have a partner who is very wealthy and they can live on that income. But, to me, that is a really significant issue. If the statistics that are driving this claim that it is middle-income and low-income Australians who are negatively gearing, but a big chunk of them have a taxable income that is less than zero, that would seem to argue that those statistics are not really explaining who is doing this. If you could take that on notice that would be great.

ANSWER

See answers to Question 24 and Question 25.

QUESTION 14

(Transcript page 15)

Mr CONROY: … There is a lot of debate around what happened in the Australian property market when negative gearing was changed in the mid-1980s. There was a proposition put up that when negative gearing was abolished we saw a massive increase in rents around the country. It has been put to me—and analysis I have seen confirms this—that, yes, there was a small increase in rents in Sydney and Perth, perhaps driven by other things going on at the time, but for the rest of the country rent either was flat or went down at that exact moment. Does Treasury have a view about what happened in the mid-1980s?
Mr Cox: All we would say is that it is a reasonably contentious issue as to whether or not that occurred right across the economy. The other thing you have to think about in a contextual setting is whether you could now use the same arguments that were used then.
Mr CONROY: I understand that. Perhaps in your submission, or for a question on notice, you could put in a chart, drawing from ABS statistics, showing the percentage change in rents by capital city in that period, because a graph I have in front of me from a Grattan Institute paper shows that once negative gearing was abolished rents fell in Adelaide, Melbourne and Brisbane, while they went up in Sydney and Perth. I would be interested in the Treasury's submission casting some light on what happened in the 1980s. I think that people who are opposed to looking at negative gearing are relying on this episode as their sole defence. I think it could be characterised as a misunderstanding of what happened.
Ms Wilkinson: I am not aware of any analysis that Treasury has done of that episode. I am very happy to take it on notice. We will have a look and see what analysis may have been done.

ANSWER

Over the period of the policy (1985 to 1987), the price of rent in Australia grew slightly faster than general prices (by one percentage point). Having said that, the price of rent continued to increase faster than general prices for two years after the policy was repealed. Further to this, the increase was observed mainly in two cities — Sydney and Perth — and most other capital cities experienced rent growth at a slower pace than the increase in general prices (see table 2). There is no reason to think that restricting negative gearing itself would have a differential impact across cities, so it is probably more useful to look at the national average.

Given the relatively small differential between the change in rents and the change in the general price level over the period negative gearing was restricted, and noting that other factors were also at play, it is difficult to say one way or the other whether negative gearing had a significant impact on rents.

Table 1: Nominal change in rents around period of changes to negative gearing

Annualised nominal change	Sydney	Melbourne	Brisbane	Perth	Darwin	Adelaide	Hobart	Canberra	**Australia**
June-83 to June-85	6.4	9.5	5.0	5.5	3.1	9.9	6.1	13.5	**7.5**
Sept-85 to June-87	11.5	9.1	4.6	15.8	0.1	6.9	8.6	8.0	**9.9**
Sept-87 to Sept-89	13.1	7.9	9.7	9.0	3.5	7.3	3.1	4.9	**10.2**

Source: ABS cat. no. 6401.0

Table 2: Real change in rents around period of changes to negative gearing

Annualised real change	Sydney	Melbourne	Brisbane	Perth	Darwin	Adelaide	Hobart	Canberra	**Australia**
June-83 to June-85	1.7	3.6	-0.6	0.0	-1.3	4.2	0.5	7.4	**2.1**
Sept-85 to June-87	2.3	0.1	-3.3	6.0	-7.4	-1.5	-0.5	-0.2	**1.0**
Sept-87 to Sept-89	4.6	0.4	2.0	1.3	-1.9	-0.2	-3.3	-1.9	**2.4**

Source: ABS cat. no. 6401.0

QUESTION 15

(Transcript page 15)

Mr CONROY: This is a really quick one, and I hesitate to say it is a yes/no because that is always dangerous, but since Treasury secretary Fraser made the comment at estimates last month about the housing bubble, have there been any significant developments in the housing market? Has anything changed significantly since secretary Fraser made that statement on 1 June? There has been no dramatic increase in yield, drop in yields, drop in increase or increase in prices?

Ms Wilkinson: No, I am not aware of any particular change in prices that have occurred or other elements.

Mr CONROY: Thank you for confirming that there have been no dramatic changes. Could you take on notice and confirm if there has been anything that you are not aware of?

Ms Wilkinson: Sure.

ANSWER

Indicators of conditions in the dwelling sector pertaining to the period since the Secretary of the Treasury's appearance at Senate Estimates on 1 June 2015 show that:

- Dwelling values rose 2.1 per cent in June 2015 (Corelogic RP Data); and
- Auction clearance rates have fallen to 75.4 per cent in the week ending 19 July 2015, from 78.5 per cent in the week ending 31 May 2015 (Corelogic RP Data).

QUESTION 16

(Transcript page 15-16)

Mr CRAIG KELLY: Other than the census data, is there any way that we can get some numbers between when that census was taken back in 2011 and today?

Mr Fischer: There is slightly more contemporaneous data. The latest vintage is 2011-12, and there will be a subsequent release in the second half of this year from the Bureau of Statistics, so it is not much better.

Mr CRAIG KELLY: So in the second half of the year from the ABS, you are saying. What time period will that cover?

Mr Fischer: I believe it will be 2013-14. It could be the year before. I will get back to you.

ANSWER

The next release of ABS cat. no. 4130.0 – Housing Occupancy and Costs is expected on 29 September 2015 and will pertain to 2013-14.

QUESTION 17

(Transcript page 16)

Mr CRAIG KELLY: Looking at a couple of other break-ups of that graph, I have seen a couple of other graphs where there are different break-ups of different age groups for homeownership. Does Treasury have any information on that at all? For example, we have homeownership among those over 65, homeownership among the 55- to 64-year-old age group and homeownership among those aged 25 to 34. Do you have any break-ups of those in your data?

Ms Wilkinson: I am sure we could get access to those data. I have not looked at those data. I have not looked at that breakdown, but I am sure we could get access to that data, because that is available through the census.

Mr Fischer: Yes.

ANSWER

Discussion of home ownership by age cohort can be found on pages 8-9 of Treasury's submission to the Inquiry into Home Ownership.

QUESTION 18

(Transcript page 16)

Mr CRAIG KELLY: I am just looking at some of the charts that have been put together by some other groups, and they are showing a significant decline in homeownership rates for, basically, every age group except for the over-65s, which is a little bit different to the graph that you were showing here. Maybe that is something you could take on notice when you have a look at some of the data.

Ms Wilkinson: We are happy to.

ANSWER

Discussion of home ownership by age cohort can be found on pages 8-9 of Treasury's submission to the Inquiry into Home Ownership.

QUESTION 19

(Transcript page 16)

Mr CRAIG KELLY: The other question—I think Dr Hendy mentioned this as well—is whether there is any variation in the proportion of homeowners in different states and different capitals. Can that data be taken out of the census information that is currently there?

Ms Wilkinson: I am sure we can show the proportion of homeowners by state. I do not think that we can split it down into capitals. We will have to have a look.

ANSWER

Discussion of home ownership by state can be found on pages 2-3 of Treasury's submission to the Inquiry into Home Ownership.

QUESTION 20

(Transcript page 16)

Mr CRAIG KELLY: Okay. The other question is: for housing purchases over the last 12 months, do we have any data on what is actually purchased by a homeowner as compared to what is purchased by an investor and how that would perhaps compare with some of the historical data?

Mr Fischer: There is loan size, and we would take that on notice, but beyond that I do not think there is any finer disaggregation.

ANSWER

We are not aware of any data containing a disaggregation of the types of dwellings purchased by owner-occupiers and investors over the past 12 months. There are data that distinguish between the value of housing finance commitments by owner-occupiers and investors, discussion of which can be found on pages 11-12 of Treasury's submission to the Inquiry into Home Ownership.

QUESTION 21

(Transcript page 20)

Mr BUCHHOLZ: What, in your opinion, would be the effect on the rental market if capital gains were not a tool that an investor had as a consideration in making a decision to purchase into the market? If capital gains is gone, how does that affect the rental market? For those that are most vulnerable in our community, do their rents go up or do they go down? Could you take it on notice. It is not a question I wanted to come at you from a crosswind on, but I did have trouble getting it. Could you take that on notice.

Ms Wilkinson: We are happy to.

ANSWER

In answering this question it is assumed Mr Buchholz was referring to the removal of the 50 per cent capital gains tax discount. The removal of the capital gains tax discount would decrease the after tax return for property investors.

Demand for investment housing would be expected to decrease, as housing becomes less attractive relative to other investments (for example, shares or owner-occupied housing) putting some downward pressure on house prices in the short term. The effect on rents, however, is ambiguous. The reduced supply of investment properties (rental accommodation) as a result of fewer investors would put some upward pressure on rents. But to the extent there was switching from rental accommodation to owner-occupied housing there would be some downward pressure on rents.

In reality, there are many other factors that contribute to the demand and supply of housing such as interest rates, state and local government planning and land use policies and broader economic conditions.

QUESTION 22

(Transcript page 20)

Mr GILES: I will try not to harangue you too much longer. I just wanted to clarify a couple of aspects of your evidence, Ms Wilkinson. Following on from Mr Buchholz's last comment, I wonder if, touching on the impact of changes to the CGT arrangements on rental affordability, your submission could actually look more broadly at the current taxation arrangements and rental affordability issues, which I think was a matter that Mr Husic put to you. If that is a matter you could take on notice more broadly than as it was expressed by Mr Buchholz—

ANSWER

See answer to Question 21 and pages 19-21 of Treasury's submission to the Inquiry into Home Ownership.

QUESTION 23

(Transcript page 20)

Mr GILES: … Ms Wilkinson. In terms of the chart on page 9 of your presentation, 'Dwelling price growth across capital cities', am I right in understanding your evidence as being that, as I think you said, price growth was reasonably broadly distributed within cities? I am just a bit confused by that as a Melburnian, in light of Mr Fraser's comments and, I guess, my intuitive understanding of what is going on between inner suburban and outer suburban price growth.

Ms Wilkinson: We have been looking at this and trying to look at what the distribution of price growth is across some of the subregions. We do not have particularly detailed data, and it is quite tricky looking at these data, because you have to take into account differences in quality. That is one of the things the ABS does very well, and serious analysis of house prices is controlled for differences in quality. My understanding is that, from a preliminary look at this data, there is dispersion across Sydney and Melbourne, but there is certainly evidence of reasonably strong price growth—over this period of the pick-up, there was evidence of reasonably strong price growth across lots of the subregions in Melbourne and Sydney.

Mr GILES: Again, I think it would be very helpful if whatever data is available is set out in your submission to us, certainly in that regard.

Ms Wilkinson: We will see what we can do.

ANSWER

Discussion of the growth in dwelling values across subregions of Sydney and Melbourne can be found on page 8 of Treasury's submission to the Inquiry into Home Ownership.

QUESTION 24
(Transcript page 21)
Mr HUSIC: Terrific. I am going to ask these questions to be answered on notice but I just want to get these questions on the *Hansard*. Australian Taxation Office statistics have been used by the Property Council of Australia and others to demonstrate that a significant number of Australians who negative gear are on middle or low incomes. With reference to document A, can I just ask: how is it that 64,315 people or about 35.6 per cent of people on total incomes of zero or less are able to afford investment properties? I would be interested in Treasury's assessment of that.

ANSWER

ATO statistics are based on taxable income. Taxable income measures an individual’s income after they have claimed deductions, including for eligible expenses associated with property investments. Superannuation benefits are also not included in taxable income.

QUESTION 25

(Transcript page 21)

Mr HUSIC: … Following from that, some have argued, using this ATO data, that people on incomes as low as zero or $20,000 are big beneficiaries of negative gearing arrangements, so I am interested to have explained to the inquiry why this may or may not be an accurate reflection of investor wealth. The Property Council of Australia has claimed that 62,000 clerical staff, 54,000 teachers, 47,000 salespeople, 36,000 nurses and tens of thousands of hospitality workers are included in this. Are they likely to all be sole income earners, and is it possible that these individuals are part of households that have significantly higher income?

ANSWER

As taxes are levied on individuals as opposed to households in the Australian system, it is not possible to tell from the tax data whether these individuals are part of households that have significantly higher income.

QUESTION 26

(Transcript page 21)

Mr HUSIC: … I refer to the data used by the RBA on negative gearing, rather than ATO data. The RBA uses the highly regarded Melbourne Institute Household, Income and Labour Dynamics in Australia, or HILDA, dataset. Does Treasury have a view on whether HILDA data is more accurate as a dataset when considering the distributional impacts of negative gearing when compared to the ATO data?

ANSWER

The suitability of ATO versus HILDA data depends on the type of analysis. ATO data is a record of actual tax lodgements and is therefore more useful in analysing individuals. HILDA data is a record of family interviews and questionnaires and is therefore more useful when analysing households.

QUESTION 27

(Transcript page 22)

CHAIR: I have a question on the cost of negative gearing to Treasury. There have been various estimates put forward of $6 billion. Knowing a lot of investors, and given a portfolio that might include some historic investments and current investments, and given the lower cost of money, they are all bragging that they are actually not negatively geared; they are positively geared now, which would indicate there is no drain on Treasury. Is there any very current data on that trend?

Mr Cox: I would have to look at the tax statistics. Off the top of my head, I do not think there would be any other data source that would be more contemporaneous. But I am happy to have a look at it.

ANSWER

The most recent Taxation statistics indicate around 55,000 fewer tax payers made a net rental loss in the income year 2012-13 than 2011-12. Rental interest deductions for the income year 2012-13 are also around $2.71 billion lower than they were in 2011-12.