Dissenting Report – ALP members of the committee

1. Introduction

The hearings for this inquiry were held between June and September 2015- more than a year ago. In this time the composition of the committee has changed extensively. None of the Labor Members of the committee were present for any of these hearings. With this in mind additional hearing dates to take fresh evidence were sought by the Labor members. This was refused by the chair and voted down.

The Government members report is a remarkable document in that it offers no recommendations to Government. It should be entitled The Claytons Report- the Report you have when you are not having a report.

What a complete waste of taxpayers' money! An inquiry and 55 page report that offers no recommendations to Government at all regarding home ownership and housing affordability. It reflects the Turnbull Government's economic policy- full of rhetoric and lacking substance.

2. Context of the inquiry

In October of 2013 the Grattan Institute released their Renovating Housing Policy. The report comments heavily on the ever increasing gap between real average weekly earnings and real house prices over the past three decades. The report also noted that:

> The combination of capital gains tax rule changes in 1999 and negative gearing has strongly increased the demand for investment properties. Investors compete directly with potential homebuyers, particularly for established houses. This makes it harder for first home buyers to secure a property.[1]

The difficulty for first home buyers to enter the market is a prime concern to the Labor members of the committee. As Labor has publicly stated time and time again, ownership rates have fallen from 60% to 48% for young people aged 25-34. Young people are being forced to take on levels of debt unimaginable just a few decades ago.

The former Chair of this committee, Mr John Alexander summed up the problem and the need for this inquiry perfectly when he was quoted saying:

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1 Kelly, Jane, October 2013, Grattan Institute – Renovating Housing Policy

> Too often we see the young couple getting beaten out at the auction and then renting out the very place that they were trying to buy…First home buyers have really been unable to compete.[2]

This committee and the parliament must take action to level the playing field between investors and people trying to buy their first home.

3. Negative Gearing

While the House of Representatives Economics Committee held this inquiry into home ownership the Senate Standing Committee on Economics also held an enquiry into Affordable Housing. Mr Saul Eslake gave evidence to both inquiries relating to various aspects of the property market and provided an extensive written submission to the Senate inquiry.

The chair makes note of Mr Eslakes assessment that negative gearing has increased the number of investors and levels of investment in housing and as such this has meant housing is more expensive than it otherwise would be.

Mr Eslake goes far further than this in his submission to the Senate inquiry:

> Another long-standing policy which I have long argued has not only failed to deliver on its oft-stated rationale of boosting the supply of housing – in this case for rent – but has actually exacerbated the mismatch between the demand for and the supply of housing, as well as having distorted the allocation of capital, and undermined the equity and integrity of the income tax system, is so-called 'negative gearing'.[3]

The negative gearing rationale of boosting the supply of housing is also an issue worth investigating. In his submission Mr Eslake notes that 92% of all borrowing by residential property investors over the past decade has been for the purchase of established dwellings, as against about 72% of all borrowing by owner-occupiers.

The Australia Institute put the figure a little higher:

> It is claimed that encouraging investment in residential property brings new housing stock to the market… this argument is weak because there is little property investment in new housing, with just six per cent of investment finance going to new housing. The other 94 per cent is spent on existing stock. If the objective of negative gearing is to encourage new housing then this could be

2 https://www.theguardian.com/australia-news/2016/may/02/labor-seizes-on-liberal-mp-john-alexanders-comments-on-negative-gearing

3 Eslake, Saul, Submission to the Senate Economics References Committee, 21st December 2013, p 9

> achieved by restricting negative gearing to apply only to new housing.[4]

4. Capital Gains Tax (CGT)

One of the most startling revelations of Mr Eslake's Senate submission is that:

> In 1998-99, when capital gains were last taxed at the same rate as other types of income (less an allowance for inflation), Australia had 1.3 million tax-paying landlords who in total made a taxable profit of almost $700m. By 2010-11, the latest year for which statistics are presently available, the number of tax-paying landlords had risen to over 1.8m (or 14% of the total number of individual taxpayers), but they collectively lost more than $7.8b Capital Gains Tax.[5]

The Chair's report correctly notes that the Australia Institute also commented that negative gearing and the CGT discount have driven record numbers of investors into the property market:

The interaction of these two tax treatments is driving people to invest in residential property in record numbers. Loans for rental properties have been rapidly increasing. They have grown from 16 per cent of loans to 40 per cent of loans in the last 23 years, and the influx of investors into the market has increased the demand for and put upward pressure on house prices.

5. Land Supply

Embarrassingly this report should have been delivered by the Committee's former Chair Mr John Alexander. Mr Alexander's public comments on the uneven playing field between investors and first home buyers have seen him moved on from the role as Chair. Mr Alexander who also chaired a committee into value capture for large infrastructure projects was quoted as saying:

> "We have been told time and time again that supply is the answer," he said. "But it's no good creating cities in the southern highlands and outside of Goulburn and outside of Shepparton if the same game is played … where the investor will have an enormous advantage over the homebuyer and then dominate that market"…
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> "I feel owner-occupiers ought to be put in front of investors, but at the moment there is no restraint on how many [properties]

4 The Australia Institute, Submission to the Inquiry

5 Eslake, Saul, Submission to the Senate Economics References Committee, 21st December 2013, p 9

> investors can buy, which means they are dominating the market"…[6]

Clearly Mr Alexander is at odds with Treasurer, the Hon Scott Morrison MP who is suggesting that the answer to housing affordability largely rests with the states. The final report still contains more than enough proof that the Treasurer is out of touch.

In October 2016 Mr Morrison gave a key-note speech to the Urban Development Institute of Australia. In his speech he put the blame squarely on the states:

> The Government will therefore also be discussing with the states the potential to remove residential land use planning regulations that unnecessarily impede housing supply and are not in the broader public interest. This will be the strong focus of my discussions at the next Council on Federal Financial Relations that I will convene in early December.[7]

Clearly this is not just a State Government issue to be dealt with by increasing land release. There are strong and reasonable levers available to the Federal Government that are not being utilised.

6. Homelessness

Much the same as the Chair's report the Treasurer's speech to the Urban Development Institute made no mention of homelessness.

Homelessness still remains unacceptably high, according to the 2011 Census, 105,000 people, or 1 in 200 Australians, are experiencing homelessness on any given night.

ABS data reports that there are 657,000 low income households across Australia living in rental stress and 318,000 low income households in mortgage stress in 2013-2014.

It is a disgrace how little attention is given to an issue as important as this.

The Turnbull Government has only recently extended the funding for the National Partnership Agreement on Homelessness (NPAH) by one year to June 2018. NPAH provides up to 30 per cent of the budget of homelessness service providers across the nation.

Add to this there are around 185,000 households remain on waiting lists for public or community housing across the country.

Since 2013 the Government has:

- abolished the National Housing Supply Council

6 http://www.macrobusiness.com.au/2016/10/john-alexander-shames-coalition-housing/
7 http://sjm.ministers.treasury.gov.au/speech/020-2016/

- abolished the National Rental Affordability Scheme and cancelled round five of that scheme
- cut funding to Homelessness Australia, National Shelter and Community Housing Federation of Australia
- cut $132 million from homelessness funding
- axed the Housing Help for Seniors program
- disbanded the COAG select Council on Housing and Homelessness.

The Turnbull Government's lack of policies to alleviate homelessness are further evidence of their incompetence.

7. Labor's Approach to Housing Policy Affordability and Home Ownership

Labor has developed and announced a positive plan to help housing affordability. This inquiry operated before the announcement of that policy. The Government have no policy in relation to this matter and the Government's members report offers no recommendations.

As Labor's policy document notes for young families in Australia, the dream of purchasing and owning their own home is almost completely out of reach.

Our plan will ensure first home buyers are not forced to compete with property speculators who may be buying their 7th or 8th investment property to negatively gear it.

The Labor members recommend reforming negative gearing and the capital gains tax discount to ensure that our tax system is fair, sustainable and targets jobs and growth.

The Government should limit negative gearing to new housing from 1 July 2017. All investments made before this date will not be affected by this change and will be fully grandfathered.

This will mean that taxpayers will continue to be able to deduct net rental losses against their wage income, providing the losses come from newly constructed housing.

From 1 July 2017 losses from new investments in shares and existing properties can still be used to offset investment income tax liabilities. These losses can also continue to be carried forward to offset the final capital gain on the investment.

The Government should also halve the capital gains discount for all assets purchased after 1 July 2017. This will reduce the capital gains tax discount for assets that are held longer than 12 months from the current 50 per cent to 25 per cent.

All investments made before this date will not be affected by this change and will be fully grandfathered.

This policy change will also not affect investments made by superannuation funds. The CGT discount will not change for small business assets. This will ensure that no small businesses are worse off under these changes.

This policy will see a boost in new housing and will provide young families with the chance to find a home, and will take pressure off inner city housing markets that are predominantly made up of existing dwellings.

This will also lead to new jobs for construction industry, with independent analysis from the McKell Institute estimating that these policy settings would result in an additional 25,000 jobs.

The independent Parliamentary Budget Office (PBO) has indicated Labor's policy will also raise an additional $565 million over the forward estimates, and $32.1 billion over the decade.

8. Labor Members Recommendations

To improve home ownership and housing affordability in Australia the Labor members of the committee recommend:

Recommendation 1.

The Government limit negative gearing to new housing from 1 July 2017. All investments made before this date will not be affected by this change and will be fully grandfathered.

Recommendation 2.

The Government halve the capital gains discount for all assets purchased after 1 July 2017. This will reduce the capital gains tax discount for assets that are held longer than 12 months from the current 50 per cent to 25 per cent. All investments made before this date will not be affected by this change and will be fully grandfathered.

Hon Matt Thistlethwaite MP
Deputy Chair

Ms Madeleine King MP

Mr Matt Keogh MP