

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

2017 - 2018

Division/Agency: Individuals and Indirect Tax Division

Question No: 223

Topic: Budget Measure 17/18 - Increasing capital gains tax discount for investors in affordable housing

Reference: Written

Senator: Cameron, Doug

Question:

1. Does this measure indicate recognition by the government that capital gains tax discounts are a major driver behind decisions to invest in housing?
2. The cost of this measure is estimated at \$15 million over the forward estimates. How has that cost been calculated?
3. How many new affordable rental dwellings will be created by this measure?
4. Has any assessment been made or modelling done of the likely tax incentive per new dwelling that will be generated by the increase in the capital gains tax discount under this measure? If so, what is the likely tax incentive per dwelling?
5. If the tax incentive is based on likely or possible capital gain on the investment property, is the value of the tax incentive entirely dependent on market conditions over the period the property is held by the investor?
6. The National Rental Affordability Scheme requires that a property for which a tax incentive is received must be held for a minimum of ten years. Why is the minimum holding period under this measure just three years?
7. How is this measure, which is premised on investor expectations of short-term capital gain consistent with a policy objective of long-term growth in the stock of affordable rental housing?
8. According to the fact sheet on this measure, "The additional discount will be pro-rated for periods where the property is where the property is not used for affordable housing purposes." Does that mean that the property can fall out of use for affordable housing purposes and then at some later time be used again for affordable housing purposes?
9. Presumably there will be rules or guidelines applying to this measure. What work has been done on them? Who will be consulted on them? When will they be available?
10. What consultation has taken place with community housing providers in relation to their role in managing the affordable rental dwellings under this measure?

Answer:

1. Under this measure, capital gains from qualifying affordable housing will be discounted by 60 per cent. This measure is expected to encourage investment in the stock of affordable rental housing.
2. The \$15 million cost to revenue over the forward estimates is due to the reduction in rental income associated with investment properties that are currently rented at market rates being converted to affordable housing. The revenue impact of providing a higher 60 per cent CGT discount for investments in affordable housing will occur beyond the forward estimates as a qualifying condition is that a property is rented as affordable housing for at least three years.

3. Investments in both new and existing residential properties will be eligible for the additional CGT discount where housing is rented at below-market rates and meets other qualifying conditions.
4. Resident individuals who elect to invest in qualifying affordable housing will receive an additional 10 percentage point discount on the associated capital gain of the dwelling. The value of this benefit will depend on individual circumstances, including the nominal capital gain on their investment and their marginal tax rate.
5. The value of the benefit will depend on individual circumstances, including the nominal capital gain on the investment and the marginal tax rate of investors.
6. The three year minimum holding period is designed to encourage longer term investment in the stock of affordable rental housing.
7. This measure is expected to encourage long term investment in the stock of affordable rental housing including by requiring investors to hold their investments for a minimum period of three years before qualifying for the additional capital gains tax discount.
8. Yes.
9. The Government will consult further on the implementation of this measure.
10. The Government has consulted with community housing providers and will consult further on this measure.