Tax concessions on housing investment and young Australians

Gen Y's, when are you going to rise up and scream that your generation has been shafted? My bet is when you find yourself with an eviction notice, cradling a newborn and wrangling a toddler in a one-bedroom flat. And by then, you'll be too knackered to do anything about it.

Danielle Teutsch, *Sydney Morning Herald* [1]

Housing: increasingly out of reach

Secure, affordable housing is a basic need. By their 30s a lot of people are starting to think about settling down. And in Australia until recently, the dream has been buying a place of your own. But rising house prices means this dream is increasingly out of reach, especially for young Australians.

Many factors contribute to high house prices. One factor is Federal tax concessions that encourage speculative investment in the housing market. This increases demand and inflates prices.[2] Negative gearing allows investors to deduct the cost of an investment property against other income, thus lowering their tax bill. The capital gains tax discount means investors only pay tax on half the increased price when a property is sold.

Most nations don't allow these concessions. They are unfair to young Australians in two ways:

- Increasingly, they lock young people out of the housing market
- Younger Australians only get a tiny proportion of the benefit.

Young people locked out of the housing market

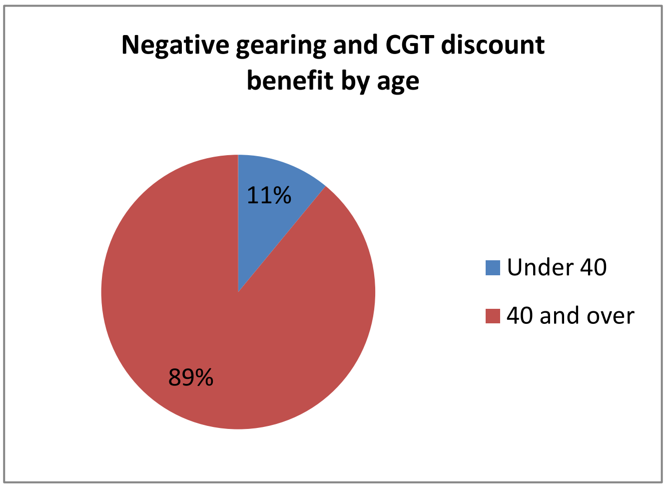
Rising house prices have led to falling rates of home ownership. While the biggest declines are among 50-59 year olds, young people are also adversely affected.

Home ownership rates among 25-34 year olds have gone from 46% in 2002 to 34% in 2011.[3] A BIS Shrapnel report estimates that by 2019 just 23.7% of 20-34 year olds in Sydney will own or be purchasing their own home.[1]

It's not just about high house prices. An inflated housing market also pushes up rents. In both cases it is those on middle and lower incomes who are most affected. It is they who are less likely to be able to own, more likely to be forced to rent and for longer periods.

Young people receive hardly any benefit

The capital gains tax discount and negative gearing encourage a flow of resources from the poorer and younger to the older and wealthier. The under 30s enjoy less than 2% of the benefit of these tax benefits which are worth a massive $7.7b a year. Even those under 40 only gain 11% of the benefit.



Source: The Australia Institute. Briefing Note: Tax concessions by age. Canberra: Australia Institute; 2016

The majority of the benefit from these tax concessions goes to a relatively older and wealthier segment of the population. For example, Australians over 60 receive 56% of the benefit of the CGT discount.[4] The National Centre for Social and Economic Modelling (NATSEM) has calculated that 34% of the benefit of negative gearing goes to the top 10% of income earners and a staggering 73% of the benefit of the Capital Gains Tax discount goes to the top 10% of income earners.[2]

What do these trends mean?

More young people will be locked out of housing market- missing out on the stability, security and wealth creation that home ownership provides.

A greater proportion of young people will be renting for longer, possibly for life. And our society will become more divided as the wealth and opportunity gap between those who own their own homes and those forced to rent, increases.

What can be done?

Sydney Morning Herald Economic Editor, Ross Gittins, writes that the government could easily fix this 'distortion', but neither side of politics has been prepared to do so. Why not, he asks?

> *Because the pollies are much more afraid of the anger they'd arouse among oldies benefitting from the tax lurk- and all the business people who see themselves as getting a cut of the proceeds-than they are of all the young people who don't quite understand how they're being worked over by their elders.*[5]

But more people are recognising that these tax concessions are unfair, (favouring the already well off) and ineffective, (doing little to increase the supply of new housing). Many commentators, including the Business Council of Australia, think they should be reviewed and made less generous. Others believe they should be severely restricted, if not dismantled altogether. This would release billions in funds that could be directed to purposes that benefit the whole community, including young people.

Our response

Whatever our conclusions may be, this issue calls for a thoughtful response to the question posed by the ex-Governor of the Reserve Bank of Australia, Bernie Fraser. He asks us:

> *What kind of society do we aspire to nurture in Australia, and how might tax reform best contribute to establishing such a society?* [6]

In a democracy we have the right and opportunity to play our small part in shaping what our community is like. We can be aware of our own interests but also the interests of others - the common good. You can act by:

- Letting your Federal member know if you think these tax breaks are unfair and ineffective. Find your electorate and local member here: www.openaustralia.org.au/
- Asking all candidates in the upcoming Federal election what their policies are, and what they are doing to make affordable housing more attainable for all, including young people

References

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[2] Grudnoff M. Top gears: How negative gearing and the capital gains tax discount benefit the top 10 per cent and drive up house prices. Canberra: The Australia Institute; 2015.

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[5] Gittins R. Politicians betray young while pandering to older home owners. *Sydney Morning Herald.* June 16, 2015.

[6] Khadem N. How a 10-year-old and Bernie Fraser are leading fight against super tax breaks for the rich. *Sydney Morning Herald.* April 28, 2015.