

## Housing Policy Mechanisms

This appendix aims to encourage ideas and debate as to policy and programs that are consistent with a national housing policy which would facilitate greater innovation and hopefully produce better outcomes than at present. Some are more politically feasible than others, some will require more resources and all require fleshing out in more detail. But we must start somewhere unless we want to remain trapped in a policy vacuum.

The assumption behind the policy recommendations is that there is no 'one size fits all' solution to our housing problems, and a range of institutional changes are required across the financing, planning, organisational and production dimensions of the sector.

### 1 Financing

Attracting investment into lower cost private and public rental and home ownership is difficult, given the financial structures and incentives operating in Australia. As currently configured, they encourage investment at the top end and therefore raise fundamental issues of equity and effectiveness of subsidies. Yet, as various studies show, there are low cost and affordable housing initiatives all across Australia waiting in the wings for the right environment. Listed below are ideas with respect to three dimensions of financing: taxation, government charges and financial instruments.

#### Taxation

We first need to remove the taboo on consideration of taxation as a tool of housing policy. Most advanced industrial countries, including other market liberal societies, use it to achieve specific housing outcomes. There are some old issues that should be revisited. Should the capital gains tax exemption on sale of owner occupied properties be continued or should it be capped in some way for reasons of equity? Can negative gearing be more targeted to stimulate supply of rental housing at the lower cost end of the rental market? What about tax credits for housing consumers, an idea that has been around since the Poverty Inquiry of the 1970s but has never properly developed? There are also some new issues. Can we use tax credits to stimulate the supply of affordable housing by private and non-profit investors? This has been quite successful in the United States (Low Income Housing Tax Credit). Should there be changes to the GST as it affects rental investment? Can we have special tax treatment of investment funds dedicated to affordable housing provision?

### Taxation reform proposals

Program	Mechanism	Principle
Negative gearing (option one)	<p>Quarantine existing negative gearing provisions for residential property to those receiving benefits before a given date, e.g. June 2002.</p> <p>Modify eligibility for properties purchased after July 2000 to those purchased or constructed for less than \$300,000 in capital cities and \$200,000 elsewhere (value to be indexed annually for property investments after that date).</p>	<p>Designed to encourage investment at the lower end and middle of the market, rather than the top end.</p> <p>Quarantining in a way which does not remove benefits from existing investors, thereby minimising any disinvestments.</p> <p>Administratively simple, except requires quarantining residential property from other forms of investment.</p>
Negative gearing (option two)	<p>Quarantine existing negative gearing provisions to those receiving benefits before a given date, e.g. June 2002.</p> <p>Have a sliding scale of benefit depending on property values, i.e. investors could negatively gear 130 per cent of borrowings on properties with value below, say, \$100,000 but with the rate tapering away to a minimum of 50 per cent on properties over some upper value, e.g. \$500,000.</p>	<p>Does not penalise existing investors.</p> <p>Targets assistance to lower priced properties but without eliminating some negative gearing for investors in higher ranges.</p> <p>Could be made revenue neutral, but just changes mix.</p>
Depreciation allowance	<p>Provide 5 per cent depreciation allowance for rental properties purpose built, or renovated, for affordable housing to be managed by housing associations and provided for longer-term lease.</p>	<p>Provides tax incentive for public-private partnerships for affordable housing explicitly managed by social housing agencies.</p> <p>As a highly targeted non-universal tax deduction, will not cause a budget blow-out.</p> <p>Could facilitate matching state initiatives.</p>
Capital gains tax	<p>Remove capital gains tax for investors who invest in new affordable rental properties to be managed by a community housing association.</p> <p>Affordability is to be defined by some unit cost maximum, e.g. where cost is under \$200,000 in Sydney, \$170,000 in Melbourne, Brisbane and Perth, and \$150,000 in other cities and towns.</p> <p>Properties not to be resold for minimum time, e.g. five years.</p>	<p>Provides tax incentive for public-private partnerships for affordable housing explicitly managed.</p> <p>Would only apply to smallish number of properties and thus would not represent much by way of foregone income.</p> <p>Allows for resale of property and therefore would require medium-term security provision rather than life security.</p>

Program	Mechanism	Principle
Capital gains tax	<p>Introduce a capital gains tax on any person or firm who has housing assets (rental, holiday house or own home) over \$500,000.</p> <p>Funds from capital gains tax hypothecated to an affordable housing program.</p>	<p>Affects only top end of the market or those with multiple properties.</p> <p>Acts as a minor anti-inflationary mechanism.</p> <p>Funds affordable housing.</p> <p>Could be introduced as part of a package, with capital gains exemption for low cost properties.</p>
Capital gains tax	<p>Introduce a capital gains tax on properties purchased for more than \$750,000.</p> <p>Funds from capital gains tax hypothecated to an affordable housing program.</p>	<p>Affects only top end of the market.</p> <p>Acts as a minor anti-inflationary mechanism.</p> <p>Funds affordable housing.</p> <p>Could be introduced as part of a package, with capital gains exemption for low cost properties.</p>
Affordable housing tax credit	<p>Provides a fixed number, e.g. 8,000 tax credits of, say, \$5,000 per annum, to investors in return for their providing a property or equity for the development or provision of affordable rental housing.</p> <p>The credits could be an amount per unit, e.g. \$3,000 per annum, or some proportion of the capital value of the development up to a maximum per unit.</p>	<p>Provides a mechanism for public-private ventures in affordable housing.</p> <p>By capping amounts and fixing number, the budget outlays are controllable; in first year would only cost \$30 million, but could leverage investment three or four times that amount.</p> <p>Some of the budget costs would be returned in terms of tax on additional projects that would be created.</p> <p>Also possible to add other conditions, e.g. must be for long-term tenancy.</p>

**Government charges proposals**

<b>Charge</b>	<b>Mechanism</b>	<b>Principles/Issues</b>
Stamp duty restructure	Change structure of stamp duty to load top end, e.g. properties over \$500,000. Additional revenue hypothecated for inner urban housing innovation fund, e.g. affordable housing, renewal projects.	A 1 per cent loading would in metropolitan Melbourne produce about \$12 million per annum – small but important in terms of leverage. May also act as an anti-house price inflation measure.
Developer levy	Developer levy on all metropolitan residential property set at 0.05 per cent of value. Funds hypothecated for capital works in housing and urban renewal in Melbourne. Administered by the state government – not a policy at direction of local governments.	Based on 2000 Melbourne residential investment would yield around \$30 million per annum, but again with the capacity to use leverage. Hypothecated to capital works – the money is put back into the building and development industry and would not affect levels of building activity.

**Other financing mechanism proposals**

<b>Fund</b>	<b>Mechanism</b>	<b>Principle</b>
Community building fund	A special purpose fund of the Commonwealth (although there could be a state equivalent) to fund ‘whole of government’ initiatives around renewal of ‘at risk’ or social exclusion areas.	Provides a fund outside the silos of existing departmental or program area funds. Encourages a ‘whole of government’ approach. Specifically focused on areas which on some designated criteria require community renewal.
Finance institution community building fund	A 1 per cent levy on the assets of all authorised deposit taking institutions, payable into a community renewal trust with representation from finance institutions, government and community.	Provides a level playing field that treats all deposit taking institutions equally. Reminds finance institutions of their community obligations. Would provide around \$100 million per annum for community renewal across Australia. United States has a similar system.

## 2 Institutional Structures

New financial regimes will encourage public-private partnerships of a form not very well developed in Australia. To facilitate the most efficient use of resources, the new regimes will require an institutional structure. This will include financial brokers, project development agencies and appropriate planning amendments.

### Institutional structure proposals

Structure	Mechanism	Principle
Housing and community renewal company	Construction, demolition, rehabilitation of land and properties for community renewal or social housing provision is an area where there is little knowledge and skill capacity in Victoria (indeed, Australia). Specific companies therefore should be established to create this infrastructure, with their services available to social housing agencies.	Will provide skills in property acquisition, project management and financial packaging.
Social housing project development company	Funding of social housing project agencies in each state to provide project skills and build capacity for the sector.	The development of new forms of social housing projects requires project skills largely beyond the sector's current capacity. Such companies are needed to provide skills and build capacity. Such an agency could be part of a community renewal agency, but both have related but different roles.
Housing finance brokers	Creation of an agency to broker the most effective use of financial incentives for private-public partnerships.	Provide skills in putting together financial packages.
Inclusionary zoning and density bonuses	Amend state and/or metropolitan plans to allow for inclusionary zoning across the system.	Objective is to remove ambivalent status as to inclusionary zoning and density bonuses at the local level.

**Direct subsidy program proposals**

In addition to changing the regulatory regime, direct subsidy programs to individuals will need to be retained. However, these could be restructured to be made more accountable and be linked with explicit housing outcomes.

Scheme	Mechanism	Principles/Issues
Rent assistance to mortgage assistance	Extend rent assistance to mortgage assistance on same eligibility criteria as rental. Recipients must be home owners of at least two to three years. Sunset clause of a maximum of five years of receipt.	Removes horizontal equity anomaly of a purchaser on same Centrelink status as renter not being able to get assistance, thereby encouraging drop-out from ownership.
Home purchase grant	Home purchase scheme to be extended indefinitely but highly targeted. Payment to be available for new construction or renovation to an established property for first home buyers on a graduated income scale phasing out at, say, a household income of \$70,000. Thus it may offer \$7,000 for those on household incomes up to \$35,000 and for a property purchased for no more than \$100,000, and phase out at, say, \$70,000 household income and/or to maximum house value of \$200,000. For renovations there might be an upper limit of, say, \$30,000.	Targeted at new construction of cheaper properties. Also includes renovations (an upper value of, say, \$30,000 might be specified) to assist in renewal of old properties in low demand areas in the cities and regions. Would provide stimulation to both new construction and renovations and additions.
Rent assistance to explicit housing program	Change rent assistance from income support program to explicit housing program. Have rental or mortgage assistance payable direct to landlord or lending agency. In case of landlord, payments are conditional upon rental dwelling meeting certain standards.	Converts rent assistance into housing program. Links rent assistance with housing quality outcomes, as per United States model. Additional compliance costs, but worth it for greater accountability and performance.
Rent assistance increase	Increase rent assistance (housing assistance) by some amount, e.g. \$10 per week, to improve affordability outcomes.	Current amount still means too many paying more than 30 per cent of income in rent.
State rental assistance	In addition to Commonwealth rent assistance or preferably housing assistance, need state provided rental assistance as a top-up in recognition of different housing markets. State rental assistance for families only.	Adaptation of rent assistance to allow for state variations may mean bulk of funds goes to New South Wales and Victoria. What incentive is there for these states to solve affordability problems if the Commonwealth bails them out?