

GOVERNMENT RESPONSE TO THE PRODUCTIVITY COMMISSION INQUIRY REPORT ON FIRST HOME OWNERSHIP

Recommendation 5.1: The coverage of the review to be held by 2005 under the 1999 *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* should be extended to include consideration of how best to reduce stamp duties on property conveyancing. In particular, the review should examine the scope to replace stamp duty revenue with more efficient forms of taxation or sources of revenue.

Recommendation 5.2: If the 2005 intergovernmental review (or another mechanism) does not lead to reduced stamp duties on property transactions, a further forum should assess the potential gains from addressing property-related 'tax on tax' and 'multiple tax collection' issues.

Response: The Government agrees with the Productivity Commission findings that stamp duties are a relatively inefficient form of taxation and impose an obstacle to first home ownership, and that State and Territory governments need to consider how best to reduce their reliance on stamp duties. The Government also welcomes recent actions undertaken by States and Territories in providing stamp duty relief for first home buyers and urges continued reform of stamp duty.

Reform of State taxes and stamp duties is an important part of the planned 2005 review of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), with numerous business related stamp duties currently on the agenda for review. The Government is therefore not considering any interruption to the much needed reform of business related stamp duties and will not be seeking in anyway to divert the 2005 review.

The Treasurer will ask the Heads of Treasuries to consider the issues raised in the Commission's report given the reliance on stamp duties by the States and report back to the Ministerial Council for Commonwealth State Financial Relations.

Recommendation 5.3: The Australian Government should, as soon as practicable, establish a review of those aspects of the personal income tax regime that may have recently contributed to excessive investment in rental housing. The focus of the review should be on the Capital Gains Tax provisions. However, it should also assess 'second best' options for addressing distortions in incentives to invest in housing and other asset markets, including: restrictions on negative gearing and changes to the capital works deduction provisions for buildings. Pending such a review, it would not be appropriate to make housing-specific changes to negative gearing rules or to capital gains tax arrangements.

Response: The Government will not be conducting a review of the personal income tax system focussing on the Capital Gains Tax provisions. The taxation treatment of investments, including housing, was recently reviewed as part of *The New Tax System* and the *Review of Business Tax*. The Government is currently implementing and embedding tax reforms from the previous reviews.

The Government understands the importance of providing Australians with continued certainty for their investment decisions. As previously announced, the Government considers that it would be inappropriate to change existing arrangements relating to

capital gains or negative gearing. The Productivity Commission's report notes that the tax treatment of rental properties and other investments such as shares are already broadly similar. The Government considers the current tax arrangements provide the appropriate set of incentives in relation to investment, whether it is in housing or shares.

There is no conclusive evidence that the tax system has had a significant impact on house prices. Housing price booms have occurred recently in a series of Western economies despite very different tax systems. Also, notwithstanding similar tax treatment, Australian share prices have moved in a very different pattern than house prices, indicating that other factors are of greater significance in asset price cycles than the tax system.

As noted in the Commission's Report, the Government has committed to reviewing the appropriate tax treatment of capital works deductions for buildings. The Government has indicated that if any changes in capital works deduction arrangements are proceeded with, they will not commence until at least 1 July 2005. The Government has identified that this measure raises a number of extremely difficult issues, including separating land value from that of buildings and structures. There is also a risk that any change could create uncertainty in the current market. Any changes in capital works arrangements will only proceed if these issues can be satisfactorily resolved.

The Government will therefore not be considering specific changes to the tax system which may disadvantage home buyers or those renting.

Recommendation 6.1: All state and territory governments should have long-term land release strategies that are based on extensive public scrutiny of projections and key assumptions. The trade offs between greenfield development and urban consolidation should be a particular focus of such processes.

Recommendation 6.2: State and local governments need to give priority to the scope to:

- **achieve greater separation of policy making and administration;**
- **streamline permit approval processes to enable minor or uncontentious developments to by-pass unnecessary informational or consultative requirements;**
- **improve or expand "as of right" development provisions, without detracting unduly from the property rights of existing residents; and**
- **reduce delays in appeals while maintaining the protections of due process.**

Response: The Government supports these recommendations.

The Commission found that constraints on the supply of land at the urban fringe have contributed to housing price pressures in some areas. There was broad agreement that to avoid speculative pressures and to promote efficient production, it is desirable that sufficient undeveloped land be designated for future residential use to meet around 15 years' projected demand. Such planning should involve public scrutiny of key assumptions and tradeoffs. In addition, the Commission found that there is an

overwhelming view that development approval processes are deficient and have become increasingly so. The Government encourages all levels of government to work cooperatively to resolve many of the impediments and inefficiencies identified by the Commission, and will facilitate dialogue through the Local Government and Planning Ministers Council.

Recommendation 7.1: Developer charges (and charging for infrastructure generally) should be:

- **necessary – with the need for the services concerned clearly demonstrated;**
- **efficient – justified on a whole-of-life cost basis and consistent with maintaining financial disciplines on service providers by precluding over-recovery of costs; and**
- **equitable – with a clear nexus between benefits and costs, and only implemented after industry and public input.**

Recommendation 7.2: Investments in items of social or economic infrastructure that provide benefits in common across the wider community should desirably be funded out of borrowings and serviced through rates, taxes or usage charges.

Recommendation 7.3: Authorities and utilities imposing developer contributions and charges should:

- **follow guidelines based on the principles set out in recommendations 7.1 and 7.2 and be subject to independent regulatory scrutiny;**
- **provide for ‘out of sequence’ development if developers are prepared to meet the cost consequences;**
- **be open to proposals for alternative infrastructure arrangements that meet the needs of the households concerned;**
- **allow appeals on the amount charged, or their coverage; and**
- **be accountable for how money raised from charges is spent.**

Response: The Government supports these recommendations and encourages State and local governments to accept these recommendations. Compliance with some general charging principles will help promote more efficient and equitable outcomes.

Recommendation 10.1: A national public inquiry should be established to examine the housing needs of low income households across Australia, including in Indigenous communities, and the nature and extent of assistance to help meet those needs.

Response: The Government does not support this recommendation. Work is already being undertaken under the auspices of the Housing Ministers’ Conference, looking at ways to enhance the affordability of housing for low income households. The Australian Government already provides significant resources to address the housing needs of low income households.

In recognition of the affordability challenges of housing needs for some families, the Australian Government provides targeted assistance to low income households

through the \$4.75 billion *Commonwealth State Housing Agreement* (CSHA) and \$1.9 billion annually for Rent Assistance to help nearly one million private renters.

Most of the CSHA funding is for the provision of public housing, which is managed by, and is the responsibility of, individual State and Territory Governments, with the Australian Government providing funds and negotiating the strategic directions for housing assistance. Housing Ministers also agreed to promote a national, strategic, integrated and long-term vision for affordable housing in Australia through a comprehensive approach by all levels of government.

Recommendation 10.2: If the First Home Owner Scheme continues:

- **assistance should be targeted to the housing needs of lower income households by restricting eligibility to homes below (regionally differentiated) price ceilings; and**
- **there should be a commensurate increase in the average size of the grant.**

Response: The Government does not support this recommendation. The Government will continue to support the First Home Owners Scheme and will not restrict or means test the current grant.

The First Home Owners Scheme was introduced to offset the impact of the GST and tax reform on the price of new homes (excluding land), that is, to compensate all first home buyers for the increased construction costs of new homes and any associated price increase in the established housing market. Indeed, the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* states that in relation to the First Home Owners Scheme, that “assistance will not be means tested” (Principle D1(viii)).