Housing is for homes, not tax avoidance

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Many renters are seeking help after struggling to find an affordable home in an overheated market where tenant protection is often limited. Picture by Graham Tidy

IT'S an old joke that two economists in a room are likely to come up with three opinions.

That may be testament to their flexibility, but in the current debate about the economy there is an emerging consensus that something must be done about Australia's taxation structure.

Despite varying opinion on personal and company taxes, family trusts and the rate of the GST, there is a firming view that tax concessions for investing in rental property are not only bleeding the nation's coffers - Treasury forecasts the lost revenue will hit $27.1 billion this year, up 62 per cent from 2020-21 - but are helping price large numbers of mostly younger people out of both the rental and home owner markets.

Attend a for-rent viewing and you'll see the fierce competition to get a lease.

At an auction you're likely to see prices driven up by bidders who are attending the event by phone and have no intention of ever living in the property that's going under the hammer.

If a bid jumps $100,0000 over the estimate, no worries, negative gearing will in time recompense the new owner, along with a high rent that many tenants will struggle to afford.

When it comes time for them to sell, the capital gains tax bill will barely eat into the profit.

Tax minimisation may have a gentler ring than tax avoidance, but the term is apt, as property costs (such as mortgage and property management fees, rates, insurance etc) can be negatively offset against one's ordinary income, with which it should have no real connection, while the capital gains tax upon selling is heavily discounted.

In either scenario, when you do manage to bag a home you're likely to be committing to paying too much to keep the roof over your head.

People relying on government support, many of them living below the actual poverty line, are impacted by the part of the housing market that some 2.4 million property investors and landlords derive great benefit from.

Enter housing stress, which occurs when more than 30 per cent of the household disposable income goes on repaying a mortgage or rent.

Roy Morgan Research says 1.6 million mortgage holders are considered at risk, this being defined as borrowers who allocate between 25 per cent and 45 per cent of their after-tax income to repayments.

In the 45 per cent plus bracket, almost one million, or one-in-five borrowers, are considered to be at extreme risk.

St Vincent de Paul Society is seeing a significant increase in requests for assistance, up to 30 per cent in some places, with a good number being mortgagees who hold jobs and have never approached a charity before.

An even greater number of those seeking help are renters, struggling to find an affordable home in an overheated market where tenant protection is often limited and cost-saving, energy-efficient measures such as proper insulation and solar energy are rarely available.

Families on low incomes, especially those relying on inadequate government assistance and unable to secure social housing because of massive waiting lists, are especially challenged.

We constantly hear stories about people being unable to cover food, power bills, medical costs and more.

The yearly report by SGS Economics & Planning makes a clear connection between the rental and ownership markets: "Rental affordability concerns are growing and already a large proportion of Australians as households increasingly face constraints in purchasing their first house".

In the recent online forum "Let's Talk Tax" arranged by Wentworth MP Allegra Spender, former Treasury secretary Dr Ken Henry noted that Australia has the highest rate of governmental support for individual rental property in the world.

This record has not occurred by accident. As PerCapita noted, the rental property tax structure is "effectively operating as a shadow housing policy with a significant impact on the market".

The reasons for ever costlier properties and higher rents are both understood and supported by the major parties. Indeed, a good many MPs are significant beneficiaries of these policies, judging by the Parliament's register of members' interests.

Not surprisingly, mutterings about conflict of interest are now being heard in various quarters.

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In his talk, Dr Henry made this clear: "You can't argue this has nothing to with prices, especially when overlaying high population growth [due to migration] on top of concessions."

St Vincent de Paul Society believes a comprehensive review of the broad tax system is long overdue.

This might best be done through a widely supported summit to examine all of the 110 taxes that operate across the country and to hear from all relevant stakeholders.

These should include charities such as ours, which are well placed to speak up for Australians impacted adversely by key aspects of the tax system.

Mark Gaetani is the national president of St Vincent de Paul Society.