

THE HOUSING AFFORDABILITY TAX CHALLENGE

Lock-in effect of tax preferences is pervasive

– *Governments*

- **State** fiscal dependence on property based taxes
- **Commonwealth**
 - Incentives for owner-occupiers and investment properties;
 - reliance on the housing sector for domestic economic growth
 - » construction activity high multiplier effects
 - » domestic consumption funded from appreciating assets
- **Local** governments reliance is absolute

– *Households*

- *most household wealth held in dwelling assets*
(39% in 1970, 57% in 2008)
- *property tax concessions capitalised ...and spent.*

– *Economy: macroeconomic strength linked to housing strength*

WHAT TAX STRATEGY?

'Level playing field' investment model: YES or NO?

- *Is **No** an option? and if so what about public housing....*
- *If **Yes**, the upside is*
 - *a more efficient outcome and improved affordability*
- *...but the downside is:*
 - *Transitional impact on:*
 - *all property value*
 - *financial institutions*
 - *the residential construction sector*
 - *consumer confidence, household wealth and the macro economy;*
 - *State government budgets*
 - *Commonwealth macroeconomic management*
 - *Long term impact ⇒ Knock-on effect to other government policies.*

Keys to the way ahead on tax issues

- Intergovernmental co-operation
- Holistic policy response
- Structural tax reforms
- Role research.