

High-rent cure: axe the tax

Robert Harley

The NSW Urban Taskforce will today recommend a new solution to the housing affordability crisis: the federal government should cut capital gains tax on new low-income rental housing that is held for long periods.

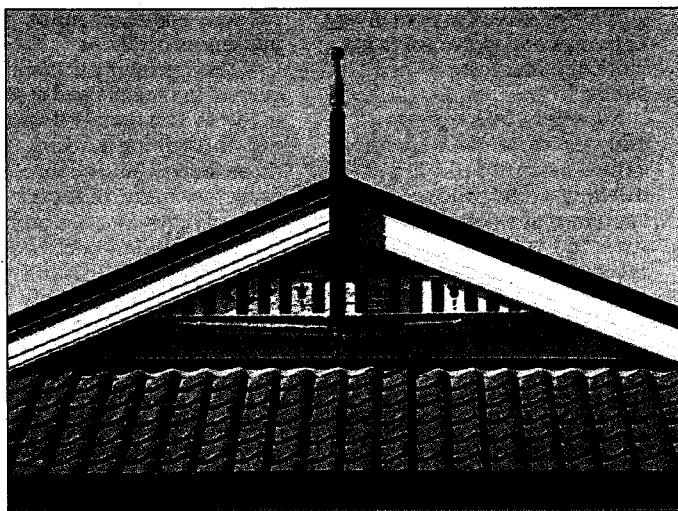
The chief executive of the taskforce, Aaron Gadiel, will tell Labor leader Kevin Rudd's national housing affordability summit that a new class of low-cost investment housing should be established with the same capital gains tax treatment as owner-occupied houses.

"An immediate policy change will see a flood of money going into new residential rental housing and reduce the upward pressure on rents," he said.

But further tax incentives for housing investors would be anathema to many in policy and government.

The investment attractions of negative gearing, coupled with the reduction in capital gains tax in the late 1990s, are widely viewed as key drivers of Australia's house prices and the affordability crisis.

But the Urban Taskforce is not proposing another free kick for Australia's 1 million housing investors. Director David



Cheap housing would become a long-term investment. Photo: MAYU KANAMORI

Tanevski said the proposal would create a completely new product and a very different market.

The taskforce is proposing that new housing, rented at below market rents to low-income tenants, and retained for, say, 25 years, be exempt from capital gains tax.

If the property was sold in that period, leased at market rent or occupied by another class of tenant, the concession would evaporate.

In essence, the measure is aimed at long-term holders of property such as institutional investors.

"As an asset class, housing is less risky than commercial property, but at yields of 2.5 per cent it does not work," Mr Tanevski said.

The eventual upside, when the properties were sold without capital gains tax, would be the incentive to counterbalance the low initial yield.

Most importantly, he stressed

KEY POINTS

- The proposal aims to attract long-term institutional investors in housing.
- Backers of the plan say it will have no inflationary effects.

that the proposal would not have an inflationary effect on the broader housing market because it would apply exclusively to new, affordable housing.

Of course, institutions might then worry about the long-term capital gain.

"At the beginning it will trade at a discount to owner-occupied housing, but in the long term it will be allied to the broader housing market," Mr Tanevski said.

Mr Gadiel said tax was a key problem for investment in housing.

"Housing is priced on an owner-occupied basis, but owner-occupied housing is taxed completely differently to investment housing," he said.

"This proposal will help house the next generation of nurses, teachers and child-care workers where they're needed, in the expensive inner suburbs."