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National Secretary
Bill Shorten

The Australian Workers' Union

Supplementary Submission

Productivity Commission

Inquiry on First Home Ownership

February 2004

Productivity Commission

Inquiry on First Home Ownership



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A. General Comments

The AWU agrees with a significant proportion of the Commission's Draft Report on its Inquiry on First Home Ownership. However, the AWU is disappointed that, rather than focusing on solutions to the Australian housing affordability crisis in its draft report, the Productivity Commission has focused on restating the problem.

While the AWU agrees with the general proposition that a market correction would enhance affordability for prospective home buyers¹, the AWU remains of the view that certain features of the housing market – and in particular the concessional capital gains tax regime and the current structure of negative gearing – will increase the 'average' house price over future price cycles, and are issues that need to be addressed quickly.

The AWU acknowledges the Commission's arguments that it would be inappropriate for it to make recommendations to alter the general tax regime without considering the broader impact such changes would have (the scope of which is outside its current terms of reference). The AWU would agree with this analysis if housing were merely another asset class. However, housing is more than a mere asset class – it is, first and foremost, a social good. While many households also use housing as a store of wealth, this does not change the 'social' characteristic of housing. The AWU argues that it is irrational to apply the same taxation regime to social goods as applies to ordinary investment classes.

Should the Commission consider it inappropriate for it to recommend changes to the general tax regime to address home affordability issues, the AWU supports an immediate independent inquiry into these issues.

B. Should more money be spent on other forms of social welfare

The AWU notes comments by a number of social welfare organisations that money currently spent on subsidising home ownership would be better spent on other community projects, and in particular used to ensure an adequate supply of quality public housing.

¹ Productivity Commission 2003, *First Home Ownership*, Productivity Commission Discussion Draft, Melbourne, December at page XX

The AWU agrees with these organisations that it should be a priority of government to ensure adequate spending on public housing. However, the AWU believes that such spending should be in addition to targeted assistance to first home buyers.

C. Altering the FHOS to Operate More Equitably

The AWU supports any recommendation to alter the existing FHOS that will see government assistance distributed on a more equitable basis. The AWU agrees with the Commission’s sentiments in its Draft Report:

(I) If governments wished to continue to provide direct assistance to first home buyers, the current FHOS — which was conceived as compensation for the GST — provides a good basis for delivering the bulk of such assistance. A deficiency in the present arrangements, however, is their lack of targeting. Because the FHOS is not means tested, the bulk of assistance goes to people who might otherwise have purchased a house before too long, even without assistance. Thus, in the Commission’s view, if the scheme is to continue for any length of time, some form of targeting would be appropriate.²

In this respect, the AWU would suggest that a targeted scheme:

- be subject to an income test. In this respect the AWU believes that any FHOS grant should only be available for households with incomes up to \$80,000; and
- be available with respect to the purchase of homes valued below a certain threshold. The AWU would propose a threshold of \$500,000 as being appropriate when coupled with the above income test.

The AWU advocates that the amount of any grant be variable according to the income of the buyer. We would advocate a maximum payment under the scheme of \$15,000, and a minimum payment of \$5,000. In order to simplify such a system, the AWU would advocate payments to first home buyers being tiered based on household income as follows:

Household Income	Amount of Grant
Less than \$30,000	\$15,000
\$30,000 to \$40,000	\$13,000
\$40,000 to \$50,000	\$11,000
\$50,000 to \$60,000	\$9,000
\$60,000 to \$70,000	\$7,000
\$70,000 to \$80,000	\$5,000
Above \$80,000	Nil

Such an alternation to the FHOS would ensure that lower income earners receive the bulk of any government assistance, while also providing average income earners with a meaningful level of assistance. Further, given that low income households are likely to spend relatively less on housing than higher income households, the benefits accruing to low income households will be further magnified.

² Productivity Commission 2003, *First Home Ownership*, Productivity Commission Discussion Draft, Melbourne, December at page XXV

D. Savings Vehicles

The AWU notes the Commission's consideration of possible savings vehicles that could be adopted to benefit first home buyers. The AWU continues to advocate the introduction of a savings scheme modelled on the Individual Savings Accounts operating in the United Kingdom.

E. Shared Equity Arrangements

The AWU notes the Commission's concerns about the potential introduction of shared equity arrangements in the housing sector.³ The AWU shares these concerns.

The AWU believes that shared equity arrangements would further fuel price rises in the housing market, resulting in further reductions in home affordability. In addition, given many proposals for shared equity arrangements involve the equity provider sharing a disproportionately high share of any capital gains, and a disproportionately low share of capital losses (if any), such schemes will at best erode the value of the home as a store of household wealth, and at worst in a declining market increase the likelihood of home owners holding significant negative equity in their home.

F. Conclusion

As previously stated, the AWU believes that the assistance currently given to first home buyers in relation to housing accessibility is positive, but that it should be enhanced and be better targeted. In this context, a reworking of the existing FHOS would be a positive step to distributing government assistance more effectively.

That said, nothing in the Commission's Draft Report goes to addressing the more fundamental issue that investors have a competitive advantage given to them through the tax system that allows them to displace owner-occupiers from the market. To this end, whether it is considered as part of this inquiry, or in a new inquiry focused specifically on these issues, the AWU would advocate reducing the focus of investors on the immediate tax advantages they can receive through the ownership of investment property, and instead focusing their attention on the reasonableness of the prices they pay for property investments.

Should you require any additional information, please do not hesitate to contact myself or Trent Gillam on (03) 8327 0888.

Bill Shorten
National Secretary

³ Productivity Commission 2003, *First Home Ownership*, Productivity Commission Discussion Draft, Melbourne, December at Page XXVI.