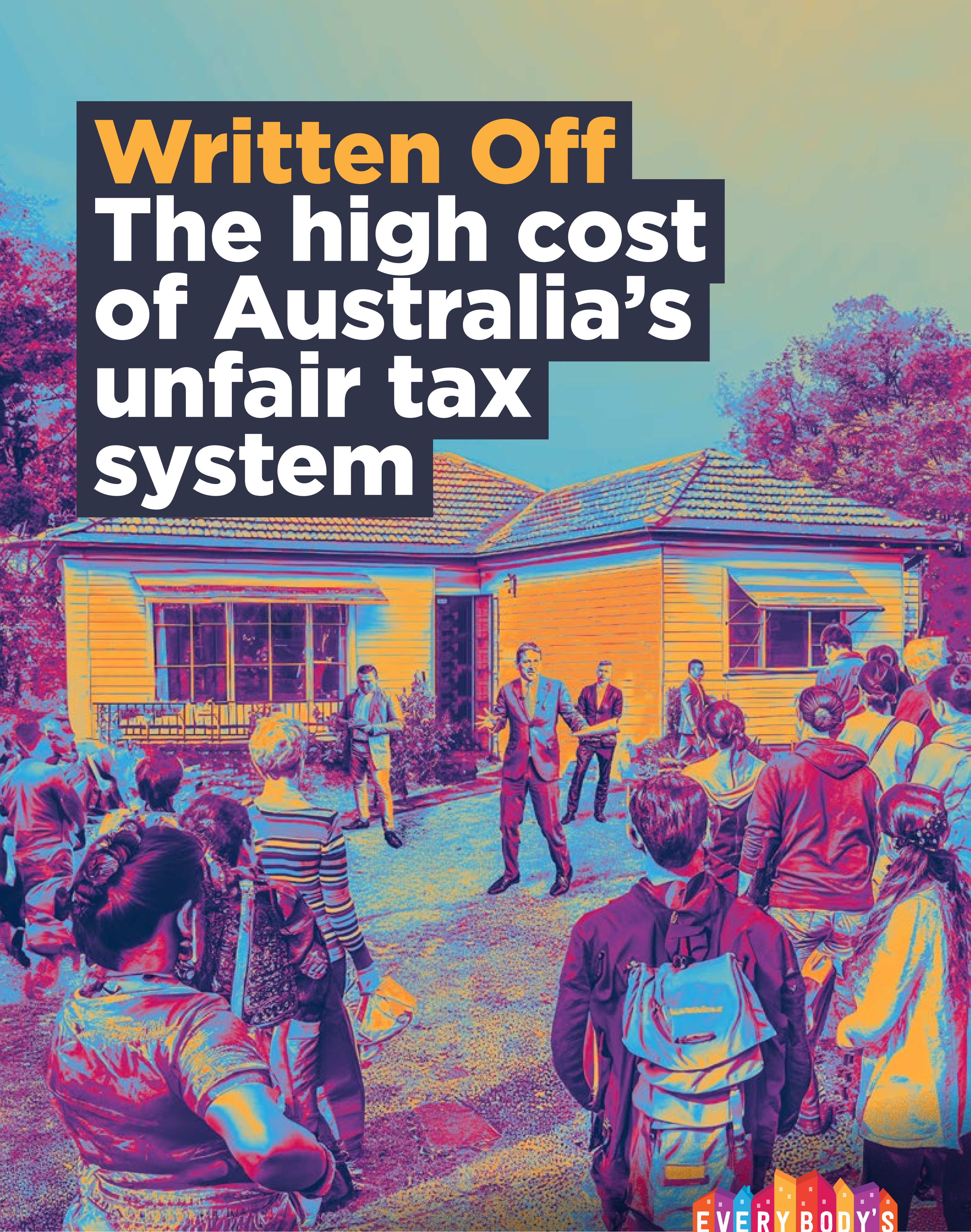
Written Off
The high cost of Australia's unfair tax system



JANUARY 2024

EVERY BODY'S HOME
Housing solutions for all Australians

About

Everybody's Home is the national campaign to fix Australia's housing crisis. It was launched in 2018 by a coalition of housing, homelessness and welfare organisations to achieve the change needed so everybody has a safe, affordable and decent place to live. The campaign is now supported by over 500 organisations and 43,000 individuals across Australia.

The author of this report is Maiy Azize.

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This and previous reports are available at **everybodyshome.com.au**

Acknowledgement

In the spirit of reconciliation, Everybody's Home acknowledges the Traditional Custodians of country throughout Australia and their connections to land, sea, and community.

We pay our respect to their Elders past, present and emerging, and extend that respect to all Aboriginal and Torres Strait Islander peoples today.

Everybody's Home is committed to honouring Australian Aboriginal and Torres Strait Islander peoples' unique cultural and spiritual relationships to the land, waters and seas, and their rich contribution to society.

Everybody's Home is generously supported by the William Buckland Foundation.

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Executive Summary

This report examines how over the last forty years, Commonwealth Government housing policy has been geared towards subsidising the private market, rather than directly supplying social housing. The report examines the impact of those policy settings by analysing the cost to the Federal Budget and looking at forgone revenues from capital gains tax and negative gearing tax concessions. It also explores the impact on housing affordability by tracing rates of housing stress to changes in policy and finds these shifts have led to the decline of affordability of homes to rent and to buy.

Our findings show that government actions have not only failed to solve Australia's supply and affordability problem, they have created and worsened them. By turning away from social housing and prioritising the tax treatment of investors, governments have pushed up the cost of housing. In doing so they have created a housing system that has driven inequality between those who can afford to buy and invest in housing and those who cannot.

This report offers proposals to turn that approach around. We call for major reform of Australia's tax and policy settings including abolishing negative gearing and the capital gains tax discount to reduce speculative investment. The revenue savings from these changes should be invested in measures that directly improve rental affordability, particularly investment in social housing.

This report also proposes a program to begin building social housing to reach a goal of one million homes over the next two decades. Over the longer-term, Australia should aim for a target of at least 10 percent of all housing stock to be social housing.

The major recommendations outlined in this report - namely tax reform and long-term investment in social housing - will take time to yield results. In the meantime, Commonwealth Rent Assistance can play a role in reducing rental stress. To achieve that goal, major reform of the payment is needed to ensure it alleviates rental stress for those who receive it, and to expand access to those who are currently ineligible.

Recommendations

1. Abolish negative gearing and the capital gains tax discount to reduce speculative investment.
2. Build one million social housing properties over the next two decades to meet current and future need.
3. Increase and expand Commonwealth Rent Assistance so that it relieves financial stress for people on low incomes.

Introduction

Everyone needs a home. A home where they can feel safe, a home that's secure, and a home they can afford. Yet Australia's housing market has never been less affordable. As Australians are spending record amounts on housing, hundreds of thousands of households are in severe rental stress, and the supply of social housing is depleting as waiting lists balloon.

Everybody's Home hears from Australians who are on the frontlines of the crisis. We have heard about pensioners competing for rooms in sharehouses, people in full-time work on the brink of homelessness, and young people with disabilities stuck in aged care because they can't find a home. The agencies who support our campaign tell us about families living in tents and cars, and of their own workers struggling to find homes for themselves and their families. Many ask us why, when this crisis has engulfed so many people, haven't we seen real action?

This report shows that there has been action – the wrong kind.

The past four decades have marked a shift in how the Federal Government tackles housing. It used to fund public housing as its answer to housing affordability. It ensured homes for working people on low and middle incomes, driving affordability across the board. This changed in the 1980s and 1990s, when the government made the policy choice to subsidise the private market. It offered tax breaks for investors instead of providing affordable homes itself.

Our analysis shows that the cost of this approach is ballooning. Australia is now spending record amounts of public money, yet housing has never been less affordable. Worse still, these policy decisions have increased wealth inequality.

This report offers proposals to turn that approach around. We call for major reform of Australia's tax and policy settings to make housing more affordable and more fair. We also outline strategies to end the undersupply of social housing, which has dwindled as governments have prioritised support for the private market.

With affordability worsening every single year, there is no time to waste to enact the real solutions. Our hope is that finally, governments will pursue the right kind of action to end the housing crisis.

Findings

METHODOLOGY

This report explores how Australian Government policy settings have been geared towards supporting the private market, rather than directly supplying social housing. The report examines the impact of those settings by analysing the cost to the Federal Budget and looking at forgone revenues from capital gains tax and negative gearing tax concessions. It also explores the impact on housing affordability by tracing rates of housing stress to changes in policy.

Using budget papers dating back forty years, the Report on Government Services, data from the Treasury, and analysis from the Parliamentary Budget Office, this paper tracks how support for the private market has grown at the same time as the direct provision of social housing has declined. We model this as spending made on housing through Commonwealth-State Housing Agreements (CSHA) and its successor National Housing and Homelessness Agreements (NHHA), as well as spending made on the Commonwealth Rent Assistance (CRA) payment.

Our analysis shows that over the past four decades, these shifts have led to the decline of affordability of homes to rent and to buy.

RESULTS: POLICY CHANGES AND THEIR IMPACTS

The past four decades have seen a major shift in how the Federal Government approaches housing. The Commonwealth used to directly supply homes as its main policy response for housing affordability. Between the 1940s and the 1970s, Australian governments built around 30,000 homes per year, building up to 22 percent of all new homes at their peak.[I] Public housing was a major focus of these building programs, providing secure homes for working people on low and middle incomes and freeing up affordable rentals for people on middle incomes.

This changed in the 1980s and 1990s, when the Federal Government began relying on the private market to deliver homes and the focus of social housing shifted. Instead of providing homes to people on low and middle incomes, the focus of social housing changed to people in dire or special circumstances.[II]

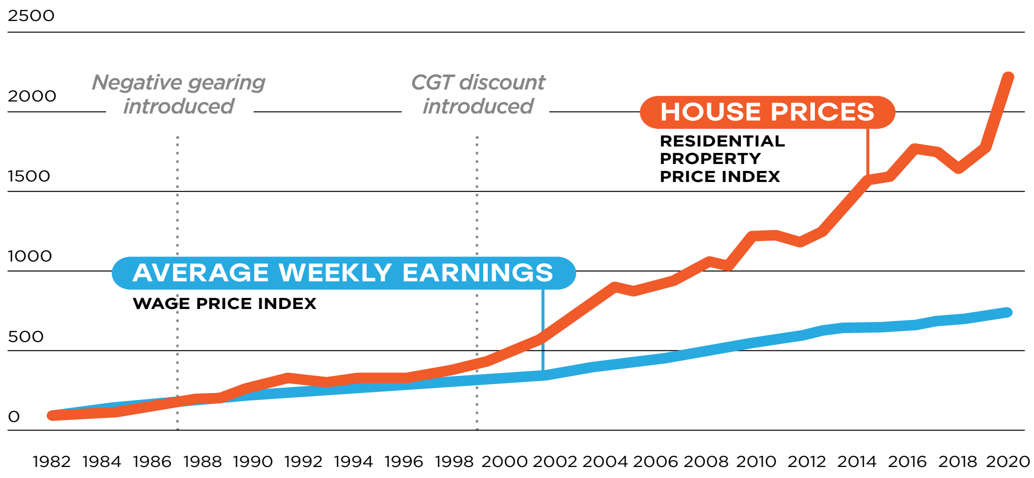
Rather than supplying housing, the Federal Government began offering 'demand-side' assistance to people in the private market. These include first-home buyer grants for those looking to buy a home, Commonwealth Rent Assistance to ease the financial stress of renting for those on low incomes, and tax concessions for investors who earn incomes as landlords.

The most well-known of these tax concessions relate to negative gearing. Negative gearing describes a situation where expenses associated with an investment property, including interest expenses, are greater than the income earned from the property. These losses can be deducted from other income, such as salary and wages. Negative gearing tax deductions were formalised in Australia in 1987.

Capital gains tax exemptions have also promoted speculative investment in housing. When an investor sells their investment property for more than they paid for it, the investor has experienced a capital gain. Capital gains are subject to capital gains tax. Since 1999, Australia has allowed a 50 percent discount on capital gains tax if the asset was held for more than twelve months. This means that if a $100,000 capital gain was recorded, only $50,000 is subject to tax.

I Australian Bureau of Statistics (2023) Building Activity, Australia. See Table 38.
II O'Flynn, L. (2011) Social Housing. NSW Parliamentary Library Research Service.

FIGURE 1. Changes in house prices and wages[III]



Not only have they failed to make housing more affordable, as shown in Figure 1, the cost of tax exemptions from forgone revenue have ballooned in recent decades. In 1993-94 the cost of negative gearing was $850 million, fluctuating around the $1 billion mark over the next several years. From 1998-99 onwards, the cost rapidly escalated coinciding with changes to capital gains tax exemptions, and reached an estimated high of $4.16 billion in 2017-18. The cost of revenue forgone from capital gains tax exemptions is estimated to be more than $38 billion since 2010 according to an analysis by the Parliamentary Budget Office, as shown at Table 1.

TABLE 1. Cost of tax concessions, 2010-22
(Source: Parliamentary Budget Office)

Year	Negative gearing deductions ($m)	CGT exemptions ($m)
2010-11	$3,040.00	$1,740.00
2011-12	$3,250.00	$1,580.00
2012-13	$3,670.00	$1,680.00
2013-14	$3,680.00	$2,380.00
2014-15	$3,730.00	$3,070.00
2015-16	$3,840.00	$3,280.00
2016-17	$3,870.00	$3,660.00
2017-18	$4,160.00	$4,250.00
2018-19	$3,810.00	$2,970.00
2019-20	$3,580.00	$3,400.00
2020-21	$2,830.00	$5,390.00
2021-22	$3,790.00	$4,710.00
Total to 2021-22	**$43,250.00**	**$38,110.00**

III Manual calculation by Per Capita (2022) Housing Affordability in Australia: Tackling a wicked problem.

While the collective cost of tax concessions rapidly rises, the benefits are skewed heavily toward high income earners. Analysis by Anglicare Australia found negative gearing and capital gains tax concessions overwhelmingly benefit people on the highest incomes:

> *…Half of the foregone revenue from negative gearing goes to the top 20 percent, while just 6.2 percent goes to the bottom quintile. Similarly, more than 80 percent of the savings from the capital gains tax concession go to the wealthiest quintile, and just two percent to the bottom 20 percent."* [IV]

Findings from the Centre for Equitable Housing similarly found a distinct generational divide. Negative gearing effectively acts 'as an intergenerational transfer of wealth from young to old', with those over 40 taking 71 percent of the benefits and those under 30 just 29 percent.[V]

Together these policies have a dual perverse effect of both reducing housing affordability and increasing wealth inequality.

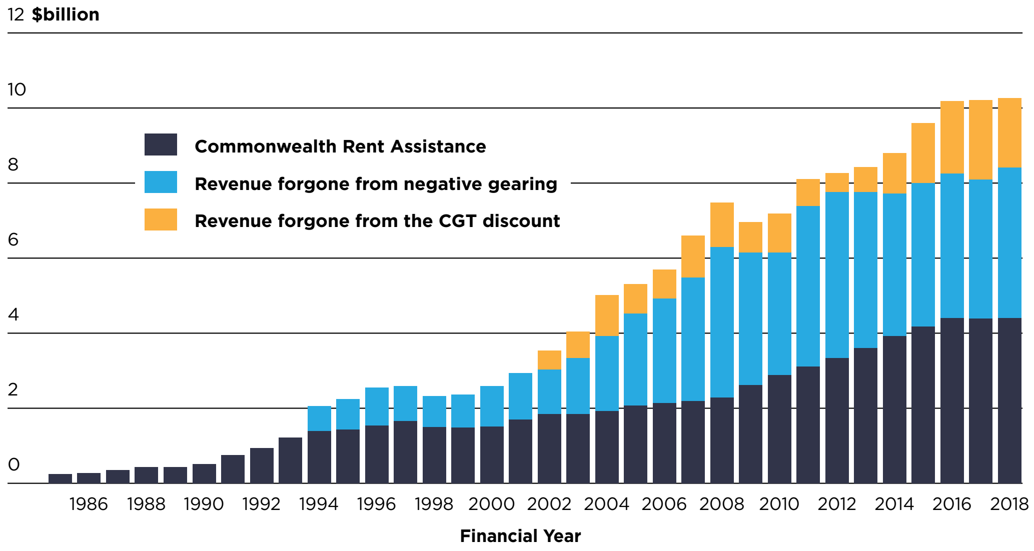
In policy terms, Australia is also a global outlier. Most OECD countries apply 'loss quarantining' rules to prevent losses made on investment properties from being offset against income generated elsewhere. Where negative gearing is allowed, it is generally with far stricter loss quarantine rules. Australia's overly generous tax treatment effectively serves to subsidise investment in housing as an asset class at the expense of owner-occupiers.[VI]

Government support for the private rental market also includes Commonwealth Rent Assistance payments. These are available to people receiving income support payments, including Family Tax Benefits, who are renting in the private rental market or are in community housing. It is calculated as 75 percent of a person's rent above a minimum threshold up to a maximum threshold. It is available to private and community housing tenants, but not public housing tenants. The overwhelming majority of recipients are in the private rental market.

In 2021-22, the Federal Government spent $4.9 billion on rent assistance payments.[VII] Expenditure on the payment has almost quadrupled since it was introduced, up from $1.4 billion in 1993-94.[VIII] The enormous expansion of the payment is important, because part of the justification for moving to demand-side assistance was to reduce the cost to government in delivering housing. Yet Federal Government funding for Commonwealth Rent Assistance now far outstrips the combined funding it provides for both social housing and homelessness services, which in 2021-22 was at $1.6 billion.[IX] This makes Commonwealth Rent Assistance, an investment largely targeted at the private rental market, the government's biggest housing program for people on low incomes.

IV Anglicare Australia (2023) A Costly Choice: Tax cuts, concessions, and widening inequality.
V Op cit: Per Capita.
VI Ibid.
VII Australian Institute of Health and Welfare (2023) Housing Assistance in Australia.
VIII Productivity Commission (1995) Report on Government Services.
IX Australian Institute of Health and Welfare (2022) Specialist Homelessness Services Annual Report 2021–22.

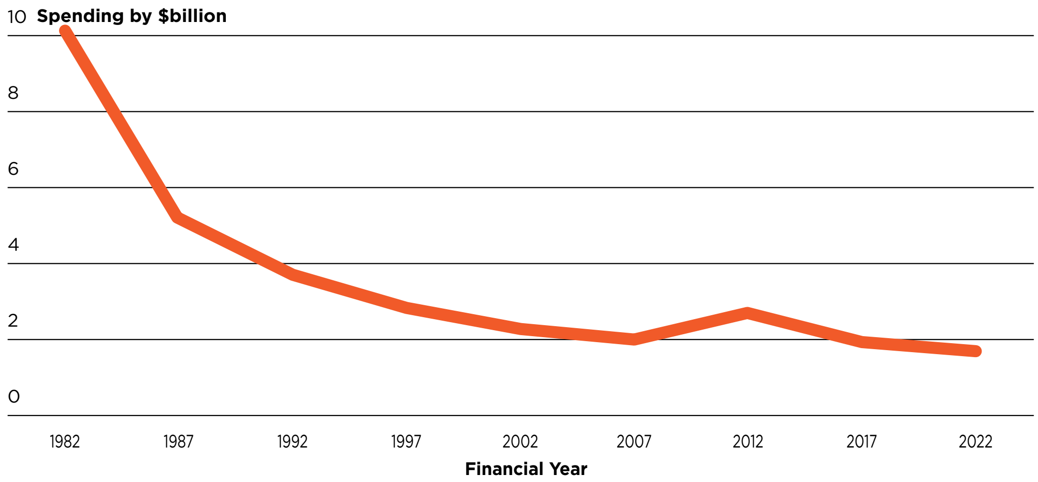
FIGURE 2. Cost of support for the private rental market[X]



The growing support for the private housing market and investors is in stark contrast to the provision of social housing. The amount that the Federal Government spends on public and community housing through agreements with the states over the last four decades has gone backwards from $2.5 billion in 1982, compared with $1.6 billion in 2022.

In that time, Australia's population has increased from 15.2 million people in 1982 to 26.1 million. This means that in 1982, the government spent about $164 per person on public and community housing. In 2022, that number shrunk to $61. Adjusted for inflation, the drop is even more stark as shown at Figure 3.

FIGURE 3. Support for social housing, adjusted for inflation[XI]



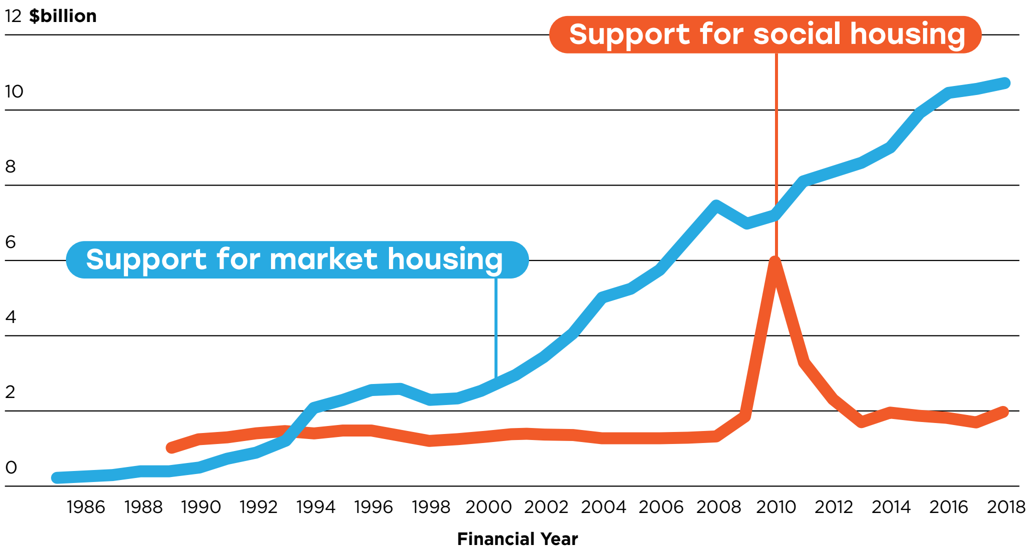
X Davies, L. (2021) From Provision to Subsidisation: Tracking Changes in Commonwealth Rental Housing Policy.

XI Figure based on Commonwealth-State Housing Agreements and its successor National Housing and Homelessness Agreements. Funding has been adjusted for inflation in 2023.

Even in response to the Global Financial Crisis (GFC), where social housing investments were made as a form of stimulus, support for the private market has far outstripped support for social housing in recent decades. It is also important to note that this was a short-term measure rather than ongoing funding, as was the case with the recent $1 and $2 billion injections into the Social Housing Accelerator and National Housing Infrastructure Facility respectively.[XII XIII]

The one-off $3 billion package was announced in 2023 amidst negotiations around the government's Housing Australia Future Fund, and was the largest boost to funding since the GFC stimulus. While funding boosts to social housing have been ad hoc, reactive, and temporary, the cost of tax concessions is firmly and permanently locked into the Federal Budget. As shown at Figure 4, private rental housing now receives five times more support from the Federal Government than social housing.

FIGURE 4. **Cost of support for the private rental market compared to social housing**[XIV]



This change in approach has coincided with a major increase in the cost of renting. Data from the Australian Bureau of Statistics shows a 62 percent increase in average weekly housing costs for renters in the decades coinciding with the tax changes.[XV]

Although increases have been far higher for private renters, housing costs have increased across the board with a 42 percent increase for owners with a mortgage.

XII Commonwealth of Australia (2023) Mid-Year Economic and Fiscal Outlook 2023–24. See p295.

XIII Joint Ministerial Statement (2023) Delivering on the $10 billion Housing Australia Future Fund.

XIV Op cit: Davies.

XV Australian Bureau of Statistics (2015) Housing Occupancy and Costs.

Finally, it is important to note that the cost of these arrangements are expected to grow exponentially over the coming decade. The Parliamentary Budget Office has projected that the cost of capital gains tax exemptions for investors will rise to over $7.6 billion per year by 2032-33, at a total cost of $60 billion over the decade (2023-33). Negative gearing deductions are set to grow to $11.3 billion per year, costing the Federal Budget $86.3 billion in the same period. These projections are outlined at Table 2.[XVI] The estimates are conservative, assuming an interest rate of 2.85 percent.

TABLE 2. Projected cost of tax concessions, 2023-33
(Source: Parliamentary Budget Office)

Year	Negative gearing deductions ($m)	CGT exemptions ($m)
2023-24	$6,638.00	$4,783.40
2024-25	$6,817.00	$4,921.10
2025-26	$7,253.00	$5,170.80
2026-27	$7,671.00	$5,451.60
2027-28	$8,141.00	$5,751.10
2028-29	$8,681.00	$6,084.40
2029-30	$9,292.00	$6,446.90
2030-31	$9,919.00	$6,837.50
2031-32	$10,584.00	$7,233.70
2032-33	$11,327.00	$7,660.10
Total to 2032-33	**$86,323.00**	**$60,340.60**

This forgone revenue could deliver an enormous amount of social housing over the next decade. Using Treasury figures on the average cost of building a social housing dwelling,[XVII] Table 3 estimates that revenue forgone from tax concessions could fund more than half a million homes over the next decade. These are approximate estimates - although the cost of construction has been rising, it is also important to note that savings and economies of scale can be achieved when building many homes at once.

TABLE 3. Revenue forgone redirected into social housing construction, 2023-33

Year	Number of dwellings
2023-24	42,777
2024-25	43,963
2025-26	46,531
2026-27	49,148
2027-28	52,030
2028-29	55,301
2029-30	58,947
2030-31	62,758
2031-32	66,733
2032-33	71,113
Total to 2032-33	**549,301**

XVI These figures are based on a conservative cash rate assumption from the 2022-23 Federal Budget.

XVII Commonwealth of Australia (2021) Statutory Review of the Operation of the National Housing Finance and Investment Corporation Act. See p99.

Policy Implications

Our findings show that government actions have not only failed to solve Australia's supply and affordability problem, they have created and worsened them. By turning away from social housing and prioritising the tax treatment of investors, governments have pushed up the cost of housing. In doing so they have created a housing system that has driven inequality between those who can afford to buy and invest in housing and those who cannot.

It has taken governments decades to create the housing affordability crisis. Ending it will take time, and a willingness to put the interests of Australians ahead of all other interests. Band-aid solutions and easy options, such as first-home buyer grants and demand-side payments, will not tackle the problem.

The recommendations set out in this report show how the Federal Government can end this unfair approach, restore fairness to the tax and housing systems, and make homes affordable for everyone.

FUNDING FOR HOMES, NOT INVESTMENTS

Australia's systems, policies, and incentives are geared towards the interests of investors, and not towards providing stable and affordable homes. It is now well known that these tax and policy settings have locked many Australians out of the housing market, and driven up rents across the country. What is less well understood is that the cost to the budget is largely spent on measures that make affordability worse, as this report has shown. At the same time, many billions of dollars in revenue have been starved from directly supplying social and affordable housing.

The Federal Government needs to reset housing taxation to deliver fairer outcomes by abolishing negative gearing and capital gains tax exemptions, and use the revenue raised to encourage investment in social and affordable rental housing.

The problem

House prices in Australia have been rising much faster than incomes for decades. This is largely fuelled by tax concessions for property ownership that encourage speculative investment, and disadvantage first-home buyers.

Negative gearing allows investors to deduct the costs of investing in property, such as interest rates and maintenance, from their wage income offsetting rental losses. This strategy is particularly attractive for high-income earners.

Changes to capital gains tax in 1999 further incentivised investors to buy property, increasing investor demand for housing and pushing some first-home buyers out of the market. This meant that tax was levied on only 50 percent of the capital gain on an asset held for more than one year.

The discount, together with negative gearing, turbocharged speculative investment in housing and led to dramatic price increases over the coming decades. With capital gains taxed less than income, investors have preferred investments with strong capital returns.

The relatively light taxation of capital gains increased the incentives for investors to negatively gear property. Investors can borrow to invest and deduct the interest costs against other income at their marginal rate. The capital gains are then only taxed at half their marginal rate. Our analysis shows that negative gearing costs the Australian Government as much as $4.16 billion per year in forgone revenue.

These tax concessions create a focus on profit from sales rather than income from renting. This encourages speculative investment and creates a market incentive that undermines security of tenure. As a result, both purchasers and renters are affected. This is worsened by the fact that negative gearing and capital gains benefits are overwhelmingly skewed to wealthier households.[XVIII]

Tax incentives encouraging housing investors may also explain why the prices of low-value homes have increased faster than other homes. Increased investor demand for housing has likely been channelled into low-value homes that are lightly taxed under states' progressive land taxes and tax-free thresholds.

In addition to squeezing first-home buyers out of the market, our analysis shows that these tax concessions have cost more than $81 billion since 2010. In 2021-22, tax breaks for investors outstripped federal spending on social housing by five times. The cost of tax breaks are projected to blow out to almost $150 billion over the next decade. These resources would be much better spent directly delivering more affordable rental housing.

XVIII Anglicare Australia (2023) A Costly Choice: Tax cuts, concessions, and widening inequality; and Per Capita for Anglicare Australia (2018) The Cost of Privilege.

The solution

It is clear investor tax breaks have incentivised property speculation by design, and driven the financialisation of the housing market. This has led to perverse and unfair outcomes for the majority of Australians. Unwinding these policy settings will take time, but reform is urgent.

This report proposes that the capital gains tax discount and negative gearing tax deductions be abolished. One option for abolishing these deductions is to phase them out over a period of ten years, to mitigate negative price impacts on housing markets.

A 2017 analysis found that eliminating negative gearing deductions would lead to an overall welfare gain of 1.5 percent for the Australian economy in which 76 percent of households become better off.[XIX] This policy reform will overwhelmingly benefit the majority of Australians.

The revenue savings from these changes should be invested in measures that directly improve rental affordability, particularly investment in social housing.

Reforms should be balanced to ease the burden for first time home purchasers, without prejudicing small scale investors. This may include 'grandfathering' and designing scalable deductions that truly reflect the financial standing of investors.

With the Federal Government currently investing just $1.7 billion per year in public and community housing through the National Housing and Homelessness Agreement, and $500 million per year through the newly established Housing Australia Future Fund, these reforms would provide billions of dollars in new funds for homes for people on low incomes who are struggling to survive in the private rental market or are homeless.

Adopting this approach can reduce house price inflation, encourage investment in new buildings to add to housing supply, and reduce price pressure in the rental market.

Recommended actions

This report proposes a regime of tax reform.

As part of these reforms, the capital gains tax discount and negative gearing tax deductions could be phased out over a ten year period. Abolishing these deductions will bring down the cost of housing over time, and the incremental approach would guard against concerns about the impact of the reform on housing markets.

These tax reforms should be accompanied by a reset of policy settings which provide inequitable benefits to those with existing wealth and assets. There are several options for review and reform which could raise revenue and promote equality. For example incentives to downsize, introduced in the 2017 Federal Budget, could be abolished. In practice these simply deliver a tax break for high income earners with high marginal tax rates earning income from property sales.[XX]

The revenue savings from these reforms would be used for investment to supply housing that is affordable.

XIX Cho, Y., Li, S., and Uren, L. (2017) Negative Gearing and Welfare: A Quantitative Study for the Australian Housing Market.

XX Coates, B. and Daley, J. (2017). Another lost opportunity for housing affordability. Inside Story.

EXPANDING SOCIAL HOUSING

Competition for affordable rental homes is so fierce that thousands of Australians are missing out every week. This scarcity is driving homelessness, rental bidding, and overcrowding. Governments can relieve this pressure with a program to deliver more social housing. More low-cost properties would mean more choices for all renters, making it cheaper and easier to find a home. This approach has a track record of success – the availability of social housing to low and middle earners was the key to the affordability of Australia's housing market between the 1950s and the 1980s.

The problem

Social housing is for people on very low incomes who need a home. This could include people who have recently experienced homelessness, family violence, have a disability, or simply can't get a home in the private rental market. Sometimes it's public housing that's managed by government, and sometimes it's managed by community organisations.

Across Australia hundreds of thousands of Australians are on waiting lists for social housing, with an average waiting time of more than ten years for some groups.[XXI] Around half of those on waiting lists are already homeless.[XXII] Right now, Australia has a shortfall of 640,000 social housing dwellings. That shortage is projected to grow to nearly one million by 2041.[XXIII]

Governments in Australia used to strongly invest in social housing to meet the need. It was valued as a public asset for reducing poverty and inequality. Yet in recent years governments have withdrawn from this responsibility. Social housing stock has simply not kept pace with the growth in population,[XXIV] with demand now far outweighing supply.

Governments have also been transferring housing stock to community organisation management, with 23 percent of social housing now managed by mainstream or Indigenous community housing.[XXV] However this does not improve the lack of supply. It simply outsources the issues onto non-government organisations as the overall shortfall continues to grow.

This undersupply is placing pressure on the rental market, with rents rising as home ownership rates fall. This has increased competition for rental properties, especially those at the more affordable end. Australian households are spending a growing proportion of their incomes on rent. Lower and middle income households are struggling to find housing they can afford.

In walking away from social housing, governments have assumed the private rental market would provide enough affordable housing for those who need it. That has been shown to be false. Analysis by the Australian Housing and Urban Research Institute shows that governments' greater reliance on 'demand-side assistance,' such as rent assistance, has not made renting more affordable. Instead, the shortage of affordable rentals for low-income households grew between 1996 and 2011, contradicting the theory that housing would 'filter' into low-rent accommodation over time.[XXVI]

XXI Australian Institute of Health and Welfare (2023) Housing assistance in Australia 2021.

XXII Ibid.

XXIII UNSW City Futures Research Centre (2022) Quantifying Australia's unmet housing need: A national snapshot.

XXIV Australian Institute of Health and Welfare (2018) Housing Assistance in Australia 2018.

XXV Ibid.

XXVI Australian Housing and Urban Research Institute (2015) Supply shortages and affordability outcomes in the private rental sector: short and longer term trends.

The solution

Given the abject failure of the private market to provide affordable housing, it is past time for governments to significantly invest in the development of social housing. This is the only way that every Australian can have a safe and secure place to call home.

An ongoing investment program is needed to end the social housing shortfall. Governments must again take up their responsibility to ensure affordable homes for every Australian, including essential workers whose roles are vital to our communities.

The design of this new social housing must reflect changing population needs and demographics. It is vital to work with future tenants to develop modern public and community housing that reflects the needs of those who will live there. Governments must embrace their responsibility for the design of public infrastructure that supports healthy communities. This includes the development of a diverse social housing stock within access to services.[XXVII]

Recommended actions

This report proposes a program to begin building social housing to reach a goal of one million homes over the next two decades. Over the longer-term, Australia should aim for a target of at least ten percent of all housing stock to be social housing. This would mean that around one in three renters would be in social housing, giving government more reach into the wider housing market.

This should be accompanied by a plan to sustainably fund and maintain social housing once it has been built. Additionally, Commonwealth funding to State and Territory Governments should ensure a focus on asset maintenance and new capital investment.

State, Territory and Local Governments should also introduce incentives and requirements for new developments to include affordable and low-cost housing. Levers such as concessions and rate caps can also be leveraged to promote the supply of affordable and low-cost housing.

XXVII Australian Housing and Urban Research Institute (2017) Public housing renewal and social mix: Policy brief.

REFORMING RENT ASSISTANCE

Commonwealth Rent Assistance purports to help ease financial stress of renting for people on low incomes and reduce spending on housing. As this paper has shown, it is failing in the latter goal. The cost of Commonwealth Rent Assistance now far outstrips spending on social housing. Yet in many cases, it also fails to alleviate rental stress.

The problem

Record expenditure on rent assistance is doing little to address housing affordability or stress. Only one in four people on working age payments, such as JobSeeker and the Disability Support Pension, are eligible for help.[XXVIII] The payment is also poorly structured for people on low payments, such as Youth Allowance, and those who are share-housing or in informal housing arrangements. This helps explain why almost half of those who do receive the benefit continue to be in rental stress.[XXIX]

The payment is also inequitably structured, further disadvantaging recipients on the lowest incomes. A single person on Youth Allowance, for example, must spend a third of their income on rent before they can receive assistance; pushing them into rental stress before they receive a payment. A single person on the Age Pension, by comparison, becomes eligible for assistance once they have spent 13 percent of their total income on rent.[XXX]

These inequities particularly affect single people, couples on low incomes that don't have children, and those on the lowest payments. They are the most likely to remain in rental stress after receiving the payment, and the payment is structured in a way that means that they receive the least support.

The solution

The major recommendations outlined in this report - namely tax reform and long-term investment in social housing - will take time to yield results. In the meantime, Commonwealth Rent Assistance can play a role in reducing rental stress. To achieve that goal, major reform of the payment is needed to ensure it alleviates rental stress for those who get it, and to expand access to those who are currently ineligible.

It is important that these changes be accompanied by increases to working age payments, as Everybody's Home has previously advocated for, as the recipients of these payments are the renters on the very lowest incomes.

Recommended actions

There are several options for reform that could expand access to Commonwealth Rent Assistance and yield better outcomes for the amount spent. For example, removing the cut-in rate for the payment would mean that households on the lowest incomes can spend a smaller proportion of their budget on rent before getting support. Removing the cut-in rate is a simple change that would expand access to young people in particular and renters on very low incomes.

There must also be reform of the cut-out rates to make the payment equitable across income types. In addition, payment rates should be based on the amount of rent paid, not household makeup, including for a couple. This would mean that the payment partially levels the inequalities facing single people, instead of worsening them.

XXVIII Department of Social Services (2023) DSS Demographics, October 2023.

XXIX Productivity Commission (2023) Report on Government Services.

XXX Anglicare Australia (2022) Homes for All: A Roadmap to Affordable Housing.

Prepayments should be permitted. People should be able to access a payment to help them secure a property and moving costs. Being able to demonstrate additional income from Commonwealth Rent Assistance would also make it easier for people on low incomes to secure a lease. This could be capped if needed, and could form part of a statutory declaration that a person is seeking a rental within a certain budget and requires a pre-payment. The lack of pre-payment has previously been identified by the homelessness sector as a major barrier to tackling couchsurfing and other forms of homelessness.

Finally, it is clear that the payment has not kept pace with soaring rents. The maximum rate of the payment must be lifted, and it must be reformed to keep pace with rent increases. Several major reviews have recommended that the payment should be indexed to rental prices, rather than general inflation. The Harmer Review found that bi-annual increases to the payment had not kept pace with rental inflation in the private rental market, and recommended that Commonwealth Rent Assistance be indexed to a new measure based on the actual rents paid by income support recipients.[XXXI] The Henry Tax Review also recommended that the maximum rent threshold be indexed in line with national rents.[XXXII]

XXXI Commonwealth of Australia (2009) The Pension Review Report.

XXXII Commonwealth of Australia (2010) Australia's Future Tax System.

Conclusion

In raw figures, Australia spends more now on housing than it did four decades ago. We are spending more per person today on rent assistance than we were on public housing forty years ago, and the cost of tax exemptions to investors has been skyrocketing for years.

In spite of this record spending, housing affordability is the worst it has ever been. In walking away from social housing and prioritising the profitability of investors, the Australian Government is now spending record amounts on measures that make affordability worse instead of better.

This reliance on the private rental market continues to fail Australians. The market is geared towards producing profits, not providing homes. It is time to redefine how governments think about the provision of housing through greater investment in social and affordable housing.

Tackling this crisis will take time, and a willingness to put Australians who need a home ahead of all other interests. It will also require a concerted and enduring commitment from the government. However, failing to act is also a political choice.

This work must begin immediately. We can and we must invest in affordable rentals for everyone, especially people who need them the most, and ensure that everyone has a place to call home.

#FairHousingFuture #BuildSocialHousing

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