EMBARGOED FOR REPORT ON MONDAY 16 APRIL 2018

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MEDIA RELEASE

15 April 2018

States and Renters in Capital Gains Tax Firing Line

"According to research released today, an increase in Capital Gains Tax would result in a $1bn reduction in revenue to state Governments, increase the cost of renting and exacerbate the housing affordability challenge," stated Tim Reardon, HIA's Principal Economist.

HIA commissioned the Centre for International Economics (CIE) to investigate the economic implications of changes to the rate of Capital Gains Tax (CGT) on the economy. The Report models the impact on the economy of four different changes to CGT discount rate.

"The analysis shows that increasing CGT would generate a revenue gain for the Federal Government of $0.5bn a year which would be dwarfed by stamp duty tax losses to the states in excess of $1bn per year.

"The CIE also concludes that increasing the tax on investment homes may initially benefit 'first home buyers' but over time this gain will be lost as rental costs rise leading to higher home prices, that will once again force first home buyers out of the market," added Mr Reardon.

"The RBA, Productivity Commission, Federal and State Treasurers have all identified the constraints on the supply of housing as an underlying cause of housing affordability challenge.

"Increasing the tax on housing will result in less investment in housing, fewer houses being built and inevitably a worsening of the affordability challenge.

"We cannot tax our way out of the housing affordability problem.

"Addressing affordability requires coordinated effort by all tiers of government to allow the industry to respond with the type and location of housing required to satisfy the pent-up demand.

"The report also finds that grandfathering existing investment properties out of the CGT changes will magnify these problems. Grandfathering reduces revenue from Stamp Duty to the States by reducing the number of homes built, and delays the inflow of additional CGT revenue to the Federal Government for decades," Mr Reardon concluded.

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