



Request for budget analysis

Implied budget cost of supporting rentals through investors' tax breaks	
Person/party requesting the analysis:	Mr Adam Bandt MP, Australian Greens
Date analysis completed:	6 June 2023
Expiry date of the analysis:	Release of the next economic and fiscal outlook report.
Status at time of request:	Submitted outside the caretaker period
	<input checked="" type="checkbox"/> Confidential – Authorised for public release on 3 August 2023 <input type="checkbox"/> Not confidential
<p>Summary of request:</p> <p>The request sought the following figures over the forward estimates and medium term:</p> <ul style="list-style-type: none"> Component 1: The revenue forgone from property tax deductions and the Capital Gains Tax (CGT) discount (compared to inflation adjusted indexation of the cost base) on property, both in total and the average per property against which these benefits are claimed. Component 2: The ratio between the revenue forgone from property tax deductions and the CGT discount (compared to inflation adjusted indexation of the cost base) and the average housing construction cost based on ABS data. 	

Overview

The revenue forgone due to property tax deductions is estimated to be \$37.5 billion in 2023-24, while the revenue forgone due to the CGT discount (compared to inflation adjusted indexation of the cost base) is estimated to be \$1.5 billion in 2023-24. This is around \$13,800 per property claiming deductions, and around \$10,200 per property claiming the CGT discount in the same year. Although inflation has recently been high, properties are typically held for a number of years, such that the CGT discount is larger than inflation-adjusted indexation. The ratio between the total revenue forgone and the average housing construction cost is estimated to be 102,500 in 2023-24. The full results are presented for the period to 2033-34 in Attachment A.

This budget analysis presented does not show the cost implications of a proposed change to policy settings. For instance, calculations of tax revenue forgone do not account for any direct changes in behaviour that might arise, such as changes in investor portfolios, nor any departmental expenses that may arise from administering a policy. Neither do the calculations account for any economic changes that may occur, including reductions to house prices or increases in rent.

Average housing construction costs do not factor in land costs, availability of land for the construction of new dwellings, nor any changes to demand and supply in the construction industry and their

impacts on the construction supply chain for materials or labour that may arise from an increase in construction.

For these reasons, the ratio between calculations of revenue forgone and average housing construction costs is therefore likely to overstate how many houses could be built from removing the CGT discount and property tax deductions.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in this budget analysis:

- The total number of properties claiming tax deductions is equal to the number of households which are renting a property from a private landlord, based on data from the Australian Institute of Health and Welfare (AIHW).
- Individuals reporting a CGT event on property sell an average of 1.1 properties in a given year.
 - Such an assumption is necessary because tax return data only indicates whether a property CGT event has occurred in a given year, but not how many events occurred.
 - Given that more than two-thirds of property investors own only one property, we expect the average number of CGT events to be only slightly greater than one.
- The average cost of new dwellings would grow in line with nominal GDP per capita from 2021-22.

Methodology

Component 1

The total revenue forgone from property tax deductions was estimated each year from 2023-24 to 2033-34 based on projections from the 2023-24 Budget multiplied by a calculated average marginal tax rate. These projections incorporate deductions from properties held through partnerships and trusts.

The cost of property tax deductions per property was calculated by dividing the total cost of property tax deductions by the total number of properties rented by households.

The total revenue forgone for the Capital Gains Tax (CGT) discount from property was estimated for each year from 2023-24 to 2033-34 based on CGT discount data from the Australian Taxation Office (ATO), projections from the 2023-24 Budget and a calculated average marginal tax rate. This was adjusted for indexation of the cost base, based on historical estimates of house price growth and the consumer price index.

The total number of properties claiming a CGT discount was estimated each year from 2023-24 to 2033-34 based on the number of individuals who report capital gains on property situated in Australia, inflated slightly to account for individuals who may sell multiple properties in a given year.

The cost of CGT discount per property was calculated by dividing the total cost of CGT discount by the total number of individuals who have capital gains on real estate.

Component 2

The average cost of new dwellings was estimated by taking a weighted average of different types of dwellings based on the proportion of dwellings under construction as of the December 2022 quarter. This estimate only included the constructions costs, not the land costs. This was projected over the

period to 2033-34 using GDP per capita growth and is used to produce a ratio between the total revenue forgone and average construction costs of new dwellings.

All budget estimates are reported on an untimed basis.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.¹

Data sources

Australian Institute of Health and Welfare (2023), Home ownership and housing tenure, AIHW, Australian Government, accessed 05 June 2023.

Australian Taxation Office, 2022, Taxation Statistics 2020-21, Canberra: Australian Taxation Office.

Australian Bureau of Statistics (December 2022), Building Activity, Australia, ABS Website, accessed 31 May 2023.

The Treasury provided economic parameters, capital gains tax and rental income forecasts as at the 2023-24 Budget.

¹ https://www.apb.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Attachment A – Implied budget cost of supporting rentals through investors' tax breaks – financial implications

Table A1: Implied budget cost of supporting rentals through investors' tax breaks – total revenue forgone (\$m)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Tax revenue forgone											
Administered tax											
<i>Revenue forgone from property tax deductions</i>	37,500	38,100	39,500	41,200	43,000	45,000	47,100	49,200	51,600	54,000	56,600
<i>Revenue forgone from CGT discount (compared to inflation adjusted cost base)</i>	1,460	1,470	1,550	1,650	1,760	1,880	2,000	2,130	2,260	2,400	2,540
Total (excluding PDI)	38,960	39,570	41,050	42,850	44,760	46,880	49,100	51,330	53,860	56,400	59,140

Table A2: Implied budget cost of supporting rentals through investors' tax breaks – revenue forgone per property

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Revenue forgone per property											
<i>Total properties claiming property tax deductions</i>	2,715,600	2,759,000	2,799,600	2,840,100	2,880,100	2,919,400	2,958,000	2,995,900	3,033,100	3,069,800	3,106,400
<i>Revenue forgone from property tax deductions per property (\$)</i>	13,810	13,810	14,110	14,510	14,930	15,410	15,920	16,420	17,010	17,590	18,220
<i>Total properties claiming CGT discounts</i>	143,100	145,300	147,400	149,500	151,600	153,600	155,600	157,600	159,500	161,400	163,300
<i>Revenue forgone from CGT discount (compared to inflation adjusted cost base) per property (\$)</i>	10,200	10,120	10,520	11,040	11,610	12,240	12,850	13,520	14,170	14,870	15,550

Table A3: Implied budget cost of supporting rentals through investors' tax breaks – ratio of revenue forgone to average cost of new builds

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Ratio of revenue forgone to average cost of new builds											
<i>Total tax revenue forgone from property tax deductions and CGT discount (\$m)</i>	38,960	39,570	41,050	42,850	44,760	46,880	49,100	51,330	53,860	56,400	59,140
<i>Average cost of build for new dwellings – excluding land costs (\$)</i>	380,200	383,400	397,300	412,000	428,300	445,200	462,600	480,700	499,400	518,700	538,500
<i>Ratio of revenue forgone to average cost of new builds</i>	102,500	103,200	103,300	104,000	104,500	105,300	106,100	106,800	107,800	108,700	109,800