



First Home Buyer Mortgage Tax Deductibility Scheme	
Party:	The Coalition
<p>Summary of proposal:</p> <p>The proposal would allow first home buyers, who purchase a newly built home, the ability to deduct the interest paid on up to \$650,000 of their mortgage from their assessable income. There is no cap on the size of a mortgage captured under this policy.</p> <p>The measure will be available to individuals earning up to \$175,000 and joint applicants earning up to \$250,000. Once found eligible, participants will retain access to the deduction even if their income rises.</p> <p>The deduction can be claimed for up to 5 years, if the home is the principal place of residence.</p> <p>The proposal would be ongoing and start on 1 July 2025.</p>	

## Costing overview

The proposal would be expected to decrease the fiscal and underlying cash balances by around \$1.8 billion over the 2025-26 Budget forward estimates period (see Table 1). This impact reflects a decrease in personal income tax revenue and an increase in departmental expenses.

Reduced personal income tax collections are driven by first home buyers taking up the proposed policy and deducting large mortgage interest payments against their personal income tax liability. Departmental expenses for the ATO reflect the costs to implement the scheme, such as developing processes and infrastructure to support the implementation of this policy, as well as ongoing costs to ensure compliance.

The proposal would be expected to have an impact beyond the 2025-26 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2035-36 is provided at Attachment A.

**Table 1: First Home Buyer Mortgage Tax Deductibility Scheme – Financial implications (\$m)<sup>(a)(b)</sup>**

	2025-26	2026-27	2027-28	2028-29	Total to 2028-29
Fiscal balance	-7.3	-195.9	-595.4	-973.2	-1,771.8
Underlying cash balance	-7.3	-195.9	-595.4	-973.2	-1,771.8

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) PDI impacts are not included in the totals.

## Uncertainties

The financial implications of this proposal are highly uncertain and are sensitive to a number of factors.

Fluctuations in mortgage interest rates would affect the fiscal impact of this policy.

The proposal encourages first home buyers to shift their dwelling preferences towards newly constructed dwellings. However, such behavioural responses would likely be reduced by supply constraints. While Parliamentary Budget Office (PBO) estimates capture some of the behavioural responses, their true magnitude may turn out to be quite different, adding further uncertainties to the estimated financial implications.

The PBO has not taken a view on whether the increase in uptake of new housing stock as a result of this policy will be met from within the existing pipeline of new dwelling construction (that is, the baseline projection), or if the proposal would increase the volume of new dwelling construction being undertaken.

It is also unclear whether mortgage providers would consider this policy when assessing loan applications.

The proposal is also sensitive to assumptions on the taxable income and income growth of first home buyers. Due to an income cap being in place, there may be strong incentives for first home buyers to rearrange their affairs in the first year of qualification to remain below the income cap. The PBO has incorporated a response to this behaviour, however uncertainty remains on the extent to this response.

## Key assumptions

The PBO has made the following assumptions in costing this proposal.

- 84% of the first home buyer population will be eligible for this policy.
  - We assume that the entire eligible population will take up this policy.
  - The population of first home buyers would increase in line with population projections.
- The behavioural response to this policy would result in a 20% increase in first home buyers entering the market.
- 10% of the ineligible population will reduce their taxable income to qualify for this proposal.
- The salaries and wages of first home buyers would increase in line with average weekly ordinary time earnings.
- Australian house prices for the new home market segment would grow in line with nominal GDP for the duration of the forward estimates and medium term.
- 37% of homes are owner-occupied with a mortgage (ABS 2022a).
- Roughly one third of properties that are sold are new builds. These sales are evenly distributed across all homeowners, leading to one third of first home buyers selecting new builds (ABS, 2024; Corelogic, 2024).
  - The first 2 years of this proposal will see an increased uptake of new builds for first home buyers, before gradually reducing down to a new steady state level for the remaining periods.
- Around 95% of deductions would be realised in the income year after they are accrued, with the remaining 5% paid in the following year.

## Methodology

The PBO used data from the Australian Bureau of Statistics' (ABS) Survey of Income and Housing (SIH) to estimate the value of eligible mortgages in the year of the SIH. These values were then uprated to present year values with the ABS (2025) first home buyer lending indicator series.

Mortgage values were grown in line with nominal GDP to the end of the medium term. The average mortgage value for each eligible cohort, in each year of the policy, was then used to generate an average interest repayment profile using the RBA Lenders' Interest Rates series.

The average interest repayment was deducted from each of the eligible households represented in the SIH to calculate the average tax rate applied to the deduction. This average tax rate was estimated in each of the years of the proposal to account for the effects of bracket creep on the incomes of participants in the policy.

An eligible population was determined by generating a projection of newly constructed residential dwellings, then apportioning these dwellings to first home buyers as per *Key assumptions*.

Interest repayment deduction profiles were multiplied by the eligible population and the average tax rate to calculate the revenue cost of the proposal.

Departmental expenses for the ATO were estimated based on previous budget measures of similar scope and complexity.

Financial implications were rounded consistent with the PBO's rounding rules.<sup>1</sup>

## Data sources

ABS (Australian Bureau of Statistics) (2022a) [Housing Occupancy and Costs](#), 2019-20, ABS website, accessed 14 May 2025.

ABS (Australian Bureau of Statistics) (2022b) Income and Housing, 2019-2020 basic microdata, ABS MicrodataDownload, accessed 14 May 2025.

ABS (Australian Bureau of Statistics) (2024) *Building Activity, Australia*, December 2024, ABS website, accessed 28 May 2025).

ABS (Australian Bureau of Statistics) (2025) [Lending Indicators](#), March Quarter 2025, ABS website, accessed 14 May 2025.

Commonwealth of Australia (2025) *Pre-election Economic and Fiscal Outlook 2025*, Commonwealth of Australia.

Corelogic (2024), [When were Australian homes last purchased?](#), accessed 28 May 2025.

Reserve Bank of Australia (RBA) (2025), [Lenders' Interest Rates](#), accessed 28 May 2025.

---

<sup>1</sup> <https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules>

## Attachment A – First Home Buyer Mortgage Tax Deductibility Scheme – Financial implications

**Table A1: First Home Buyer Mortgage Tax Deductibility Scheme – Fiscal and underlying cash balances (\$m)<sup>(a)</sup>**

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
<b>Revenue</b>													
<i>Personal Income Tax</i>	-	-190.0	-590.0	-970.0	-1,210.0	-1,430.0	-1,630.0	-1,720.0	-1,810.0	-1,890.0	-1,930.0	-1,750.0	-13,370.0
<b>Total – revenue</b>	-	-190.0	-590.0	-970.0	-1,210.0	-1,430.0	-1,630.0	-1,720.0	-1,810.0	-1,890.0	-1,930.0	-1,750.0	-13,370.0
<b>Expenses</b>													
<i>Departmental</i>													
<i>Australian Taxation Office</i>	-7.3	-5.9	-5.4	-3.2	-3.3	-3.3	-3.3	-3.4	-3.4	-3.5	-3.5	-21.8	-45.5
<b>Total – expenses</b>	-7.3	-5.9	-5.4	-3.2	-3.3	-3.3	-3.3	-3.4	-3.4	-3.5	-3.5	-21.8	-45.5
<b>Total (excluding PDI)</b>	-7.3	-195.9	-595.4	-973.2	-1,213.3	-1,433.3	-1,633.3	-1,723.4	-1,813.4	-1,893.5	-1,933.5	-1,771.8	-13,415.5

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

- Indicates nil.

**Table A2: First Home Buyer Mortgage Tax Deductibility Scheme – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances (\$m)<sup>(a)(b)</sup>**

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
<b><i>Fiscal balance</i></b>	..	-5.0	-22.0	-58.0	-109.0	-173.0	-249.0	-336.0	-432.0	-535.0	-647.0	<b>-85.0</b>	<b>-2,566.0</b>
<b><i>Underlying cash balance</i></b>	..	-4.0	-18.0	-49.0	-96.0	-157.0	-230.0	-315.0	-408.0	-510.0	-619.0	<b>-71.0</b>	<b>-2,406.0</b>

- (a) As this table is presented as a memorandum item, these figures are not reflected in the totals above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary<sup>2</sup>.
- (b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.
- .. Not zero but rounded to zero.

<sup>2</sup> [Online budget glossary – Parliamentary Budget Office \(pbo.gov.au\)](https://pbo.gov.au/online-budget-glossary)