2017 Budget: Housing Affordability

Housing affordability measures – overview

The 2017-18 Budget contained many measures designed to improve Australians' access to secure and affordable housing across the housing spectrum. These measures include:

strengthening the CGT rules to reduce the risk that foreign investors avoid paying CGT in Australia;

introducing a 50% cap on pre-approved foreign ownership in new developments;

- applying an annual charge to foreign owners who leave residential property unoccupied or not available for rent for 6 months or more each year;
- easing restrictions that are contributing to the supply of housing falling behind population growth and encouraging a more responsive housing market;
- improving outcomes in social housing and homelessness;
- assisting first home buyers to build a deposit inside superannuation; and
- allowing older Australians to contribute downsizing proceeds into superannuation.

Annual charge on foreign owners of underutilised residential property

The Government will introduce a charge on foreign owners of residential property where the property is not occupied or genuinely available on the rental market for at least 6 months per year. The charge will be levied annually and will be equivalent to the relevant foreign investment application fee imposed on the property at the time it was acquired by the foreign investor.

The Government said that this measure is intended to encourage foreign owners of residential property to make their properties available for rent where they are not used as a residence and so increase the number of dwellings available for Australians to live in. This measure, which will be administered by the ATO, is estimated to have a gain to budget of $16.3m over the forward estimates period.

Restriction on depreciation deductions

From 1 July 2017, the Government will limit "plant and equipment" depreciation deductions to outlays incurred by investors in residential real estate properties.

The Budget Papers state that plant and equipment items are usually mechanical fixtures or those which can be "easily" removed from a property such as dishwashers and ceiling fans.

This is an integrity measure to address concerns that some "plant and equipment" items are being depreciated by successive investors more than their actual value.

Acquisitions of existing plant and equipment items will be reflected in the cost base for CGT purposes for subsequent investors. Investors who purchase plant and equipment for their residential investment property after 9 May 2017 will be able to claim a deduction over the effective life of the asset. However, subsequent owners of a property will be unable to claim deductions for plant and equipment purchased by a previous owner of that property. This measure is estimated to have a gain to revenue of $260.0m over the forward estimates period.

Existing investments grandfathered

These changes will apply on a prospective basis, with existing investments grandfathered. Plant and equipment forming part of residential investment properties as of 9 May 2017 (including contracts already entered at 7:30 pm (AEST) on 9 May 2017) will continue to give rise to deductions for depreciation until either the investor no longer owns the asset, or the asset reaches the end of its effective life.

Housing affordability – unlocking supply

The Government will ease restrictions that are contributing to the supply of housing falling behind population growth and encouraging a more responsive housing market by:

- working with to set housing supply targets and facilitate planning and zoning reform under a new National Housing and Homelessness Agreement;
- establishing a $1bn National Housing Infrastructure Facility to address infrastructure chokepoints in critical areas of undersupply;
- establishing an online Commonwealth land registry that will provide more detailed information about Commonwealth land to external parties in a mapped format, allowing and encouraging proposals for higher value land use, including housing development proposals;
- releasing suitable surplus Commonwealth land; and kick-starting planning and zoning reform across 8 local government areas facing above average population growth and affordability pressures in Western Sydney through a new City Deal for Western Sydney.

No deduction for residential rental property travel expenses

Travel expenses related to inspecting, maintaining or collecting rent for a residential rental property will be disallowed from 1 July 2017.

The Government said that this is an integrity measure designed to address concerns that many taxpayers have been claiming travel deductions without correctly apportioning costs, or have claimed travel costs that were for private travel purposes.

The Government hopes that this measure will provide confidence in the tax system by ensuring tax concessions are better targeted.

This measure will not prevent investors from engaging third parties such as real estate agents for property management services. These expenses will continue to be deductible.

Improving outcomes for social housing

The Government aims to improve outcomes in social housing and homelessness by:

- working with State and Territory governments to reform Commonwealth funding arrangements under a new National Housing and Homelessness Agreement, retaining current funding and indexation arrangements but requiring concrete outcomes;
- providing additional funding of $375m over the next 4 years as part of the new National Housing and Homelessness Agreement to fund front line services to address homelessness;
- encouraging social impact investing to support innovative approaches to reduce homelessness;
- incentivising more private investment in affordable housing through tax incentives.

- establishing the National Housing Finance and Investment Corporation to operate an affordable housing bond aggregator to provide cheaper and longer-term finance for the community housing sector.

Increased CGT discount for investments in affordable housing

From 1 January 2018, the CGT discount for individuals will be increased from 50% to 60% for gains relating to investments in qualifying affordable housing. To qualify for the higher discount, housing must be provided to low to moderate income tenants, with rent charged at a discount to the private rental market rate. Tenant eligibility will be based on household income thresholds and household composition. The affordable housing must be managed through a registered community housing provider and the investment held for a minimum period of 3 years. Any period before the time a property was purchased when it was used for affordable housing purposes will count towards the buyer's qualifying investment period (provided the previous owner did not claim the additional discount). The additional discount will be pro-rated for periods where the property is not used for affordable housing purposes. The higher discount will flow through to resident individuals investing in qualifying affordable housing through a managed investment trusts (as reported in this Bulletin). The increased discount is not limited to investments in new affordable housing. This means that investors who elect to supply their existing properties for affordable housing will qualify for the additional discount provided the investment meets the eligibility requirements. The Government will consult further on the implementation of this policy, including on the precise definition of affordable housing and tenant eligibility, and what qualifies as rent charged below the market rate.

MIT investment in affordable housing

To encourage investment into affordable housing, the Government will legislate to enable managed investment trusts (MITs) to invest in affordable housing. Under the current law, the ATO has generally taken the view that investment in residential property is active, with a primary purpose of delivering capital gains from increased property values. This has meant that income from such investments is taxed at 30% as it is not eligible for the MIT tax concessions which apply to passive investments only.

CGT changes for foreign investors

Australia's foreign resident capital gains tax regime will be extended by:

- denying foreign and temporary tax residents access to the CGT main residence exemption from 7:30 pm (AEST) on 9 May 2017 (with existing holdings being grandfathered until 30 June 2019);
- increasing the CGT withholding rate for foreign tax residents from 10% to 12.5% from 1 July 2017; and
- reducing the CGT withholding threshold for foreign tax residents from $2m to $750,000 from 1 July 2017.

In addition, the integrity of the foreign resident CGT regime will be improved. Foreign ownership in new developments limited to 50% A cap of 50% will be applied to foreign ownership in new developments.