Labor should take on capital gains tax reform to boost housing supply: McKell Institute

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A new McKell Institute paper, co-authored by Professor Richard Holden and McKell CEO Edward Cavanough, is calling for a major shake up of capital gains tax via a 'circuit breaker' proposal to the stalled national housing debate.

Instead of simply increasing or decreasing the CGT discount, the paper takes a more nuanced approach:

1. Increase the CGT discount on new attached builds to 70 per cent, from 50 per cent
2. Decrease the CGT discount on existing detached dwellings to 35 per cent, from 50 per cent
3. Leave the CGT discount on new detached dwellings unchanged at 50 per cent

The proposal grandfathers all existing investments.

The Institute estimates this proposal would generate a 1.2 per cent 'uplift' on supply, helping Australia get back on track to its target of 1.2 million homes by 2030. It could see up to 130,000 additional homes built by 2030.

The paper will be submitted to the productivity roundtable.

"Labor has resisted change to the CGT for too long,” said Mr Cavanough

“It needs to creatively reform this poorly targeted tax concession so it works both in the interests of aspirational Australians and society more broadly.”

"We have to stop seeing capital gains tax as some kind of grand moral question. That approach has caused a stalemate in this country that has stalled the progress we need on fixing the housing crisis.

"The CGT tax is neither good nor evil. But it should be better calibrated to actually achieve our social aims. Instead of encouraging property investors to bid up the price of existing housing stock we should be encouraging them to contribute to the construction of new dwellings. Our modelling shows that with a couple of simple tweaks the government could stimulate supply without affecting the budget bottom line."

Professor Holden said the “hard reality is Australia just isn't going to hit its objective of 1.2 million additional homes by 2030 if we retain existing settings.”

"A key problem with our existing tax settings on property is they orient too much investment toward established dwellings, at the cost of new supply," he said.

"There is nothing wrong with the commonly held desire of everyday investors to secure their future by investing in the housing market. But this desire should be harnessed to achieve our national objectives on housing supply."

SUPPLY ESTIMATES BY STATE

The report predicts the reform could deliver up to 130,000 addition housing units by 2030.

	Additional Dwellings by 2030	
	Lower bound uplift	**Upper bound uplift**
NSW	23,463	40,227
Vic	19,600	33,604
Qld	15,310	26,249
SA	5,637	9,664
WA	8,022	13,754
Tas	1,808	3,100
NT	673	1,154
ACT	1,305	2,237
Total	**75,833**	**130,016**

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