

On Whose Account?

Government Spending on Housing

January 2024



**Centre for
Equitable
Housing**

A Per Capita initiative

percapita
FIGHTING INEQUALITY IN AUSTRALIA

Contents

About Per Capita	3
Executive summary.....	5
Key findings.....	6
Introduction	7
Housing in the Federal Budget	9
Estimating total Federal expenditures on housing.....	14
Estimating the distribution of Federal Government housing expenditure	16
Historical changes to federal housing expenditure.....	19
Expenditures by program over time	19
Distribution of expenditure over time	21
Cause and effect of the changing distribution of housing spending	23
The housing sub-function and strategic intergovernmental spending	23
Commonwealth Rent Assistance	24
Property Investor Tax Breaks: Shadow Housing Policy	27
Conclusion: The Case for a Federal Department of Housing.....	32
Recommendations.....	35
Appendix: data sources and estimation methods.....	36

About Per Capita

Per Capita is an independent public policy think tank. We work to build a new vision for Australia based on fairness, shared prosperity and social justice.

Our office is located on the lands of the Wurundjeri people of the Kulin Nations, which were never ceded. We strongly support the Uluru Statement from the Heart and the call for a First Nations Voice to Parliament.

Per Capita's research and policy prescriptions are rigorous, evidence-based and long-term in outlook. All our publications and activities are intended to deepen political, social and economic democracy, and we are focused on challenges for the next generations rather than the next election cycle.

Our approach to public policy

Per Capita's approach to public policy challenges the dominant narrative that disadvantage arises from personal fault or failure by pointing out the policy choices that have deepened inequality and proposing alternative choices that will lessen it.

Our policy analysis and recommended solutions seek to recognise the challenges, and work within the complex economic, political and social conditions, of our age. In doing so, we strive to incorporate new thinking in social science and economics, innovative ways of working with data, and effective evaluation tools to measure outcomes. We also engage actively with organisations across society, including the union movement, civil society, the community sector, academia, business, government and the public service, and social change movements.

In all our work, we seek to understand and highlight the experiences of those who bear the brunt of the effects of policy choices that exacerbate inequality, including underpaid and exploited workers, people who can't get a decent job, women, First Nations people, members of the LGBTQ+ community, people with disability and their carers, migrants and refugees, and others who are marginalised by our economic and social structures and denied their fair share of power and resources.

We live and work in hope and solidarity

The democracy Per Capita works for is one that shares its knowledge, wealth and power, to ensure all its citizens can live meaningful and fulfilling lives, able to take care of each other and of our shared planet.

About the Centre for Equitable Housing

The Centre for Equitable Housing (CEH) provides research, policy advice and public engagement on housing issues. The Centre was established with funding from V&F Housing Enterprise Foundation.

CEH works toward a future where all Australians have access to affordable, secure, and appropriate housing, regardless of their personal circumstances. Housing meets a fundamental need for shelter, safety, and stability. It is essential to individual and community wellbeing, as well as our shared economic prosperity. Home is a necessary foundation for building a productive and fulfilling life and for raising children.

Housing policies at the national, state, and local level are failing to provide reasonable pathways to housing, contributing to unaffordability, and entrenching inequality. Policy making around housing is often described as a wicked problem because of the deep conflict of interest we have as a society: high property prices represent wealth for homeowners and investors, but unaffordability and insecurity for others. And things are getting worse: many trends show that negative policy outcomes are being borne by an increasingly large proportion of society, while the benefits accrue to a shrinking share of the population.

Per Capita and V&F Housing Enterprise Foundation believe that the time has come for a significant overhaul of housing policy at all levels of government.

About the Authors

Matt Lloyd-Cape, Director of the Centre for Equitable Housing

Matt has worked in policy development and research for over 20 years. His career includes work with the trade union movement, international development NGOs and with universities on issues of economic and social development, and social justice.

Before joining Per Capita Matt worked at the Australian Council of Trade Unions as an international officer. He holds an MSc in International Relations and Development from the School of Oriental and African Studies (SOAS), University of London, and an MPhil in Political Economy from Central European University.

Dr Margaret McKenzie, Senior Research Economist

Prior to joining Per Capita Margaret held the position of Senior Economist at the Australian Council of Trade Unions. She has held academic positions in Australia and the UK, most recently as lecturer in economics at Deakin University, and as an Honorary Research Fellow at Federation University. She has worked in economic policy in the Australian public service, mainly at the Australian Competition and Consumer Commission.

Her research focuses on empirical aspects of macroeconomics, market failure, regulation, labour economics and industrial relations, privatisation and outsourcing, technology, industry and trade policy, development, housing, and applied econometrics. Margaret has a PhD and MSc in economics from Birkbeck College London and a BA (hons) in anthropology from Monash. She is a member of the Executive Committee of the Australian Institute of Employment Rights. She has presented widely in the media, including on regular economic expert panels for The Conversation and The Age / SMH Scope surveys.

Emma Dawson, Executive Director, Per Capita

Emma has worked as a researcher at Monash University and the University of Melbourne; in policy and public affairs for SBS and Telstra; and as a senior policy adviser in the Rudd and Gillard Governments.

Emma is the co-editor, with Professor Janet McCalman, of the collection of essays ***What happens next? Reconstructing Australia after COVID-19***, published by Melbourne University Press in September 2020, and author of several papers and chapters on social policy in Australia. She is a Fellow of the Women's Leadership Institute of Australia and an Adjunct Professor at the UTS Business School.

Executive summary

What does the Federal Government spend on housing every year? Who gets that funding? And what are the objectives of this expenditure?

Given the critical importance of secure housing to people's wellbeing, and the escalating housing affordability crisis across Australia, these seem like reasonable questions.

Every year billions of dollars are dispensed through the Federal Budget on direct support to households and housing service providers, including Commonwealth Rent Assistance (CRA), social (public and community) housing construction and maintenance, homelessness services, help-to-buy schemes such as first home buyers' grants and shared equity programs, Indigenous housing services and defence housing.

On the tax side of the Federal Budget, billions of dollars in revenue are forgone by the provision of tax concessions to property owners. The Tax Expenditures and Insights Statements published by the Department of Treasury and Finance detail various property tax concessions, but the costs and benefits are not evaluated in relation to direct government expenditure on housing programs nationally.

Actually, there is no federal housing policy that properly details all government expenditure on housing, or that seeks to evaluate the impact of tax concessions on the housing market. The federal housing ministry is located within the Department of Social Security and, as such, is part of the welfare function of government – the "transfer" side of the budget ledger. Tax concessions for property purchase are a function of Treasury and operate on the "tax" side of that ledger.

The lack of a Department of Housing, or of a consolidated housing policy and portfolio budget statement, means that there is no way for the public, or even for policy makers, to understand whether our tax and transfer system is operating effectively in the housing system.

Indeed, without an explicit purpose or objective underpinning government intervention in the housing market through the tax and transfer system, it is impossible to even set the parameters to assess whether the billions of dollars governments put into that market every year are being put to good use.

We lack answers to the most basic questions:

- Is the purpose of government spending on housing to make it more affordable for people to buy a home?
- Or is it to ensure that all Australians have access to a secure, safe, comfortable and affordable home, regardless of whether it is owned or rented?
- Is the government actually in the business of helping people build asset wealth through property?
- If so, whom are they trying to help build asset wealth and why?
- And, critically, if this is the purpose of government intervention on the taxation side of the budget, how does it interact with attempts to make housing more affordable for those reliant on the welfare function of the budget – those the market does not want to serve?

This paper attempts to build a coherent picture of Australia's real federal housing budget, and to determine how government intervention in the housing market affects housing affordability and security. It looks at the history of government housing programs and asks whether the tens of billions of dollars the public gives to support the housing needs and choices of Australians is money well spent in the pursuit of a fairer, more inclusive and more sustainable society.

The paper is composed of three parts:

1. Firstly, it provides an account of actual Federal Government expenditure on housing, and posits that the current method for accounting for housing expenditure is opaque and inconsistent;
2. Secondly, it draws together historical data on spending from different federal housing-related programs in order to highlight how federal housing expenditure has changed over time; and
3. Thirdly, assesses how these changes have altered the distribution of the federal housing spending between different income quintiles, providing a lens through which to consider whether the public money injected into the housing market is creating a more or less unequal country.

Key findings

- The housing sub-function of the Federal Budget was \$3.5 billion in 2021/22, but this did not include key housing support measures such as Commonwealth Rent Assistance and property tax concessions. With these included, **actual 2021-2022 federal expenditure on housing is estimated at \$27 billion.**
- The share of federal housing spending going to **the lowest 20% of income earners declined from 44% in 1993 to 23% in 2023**, while the share going to **the top 20% increased from 9% to 43%.**
- In the last decade alone, the share going to the top 20% of earners has increased by over a third.
- The share of total federal housing expenditure going to property investors rose **from 16.5% in 1993-94 to 61.4% in 2021-22.**
- Investor tax concessions have **grown from \$1.5 billion in 2000 to an estimated \$18 billion in 2024**, effectively operating as a shadow housing policy with a significant impact on the market.
- In 2023-2024, **federal investor tax breaks will be worth more than ten times the amount spent by the Federal Government on social housing and homelessness services** through the National Housing and Homelessness Agreement.
- Strategic expenditure on social housing and homelessness services, which are negotiated between the Federal and State/Territory Governments, once made up well over half of total federal housing spending. Now **just 7% of total federal housing expenditure goes toward these programs.**

Given the escalating crisis of housing affordability and security, and the fact [that three-quarters of young people now believe they will never own a home](#), it is imperative that policy makers understand these inequities and account for them to the Australian people.

Introduction

Australia once had federal departments explicitly focussed on housing as an economic good. Whether through John Curtin's Department of Post-War Reconstruction or the Menzies' Government's Department of National Development, through to Whitlam's Department of Housing and Construction, our national leaders recognised that ensuring all residents of the country could afford a secure and comfortable home was a core function of government.

Since the mid-1970s, however, that function has been increasingly and determinedly outsourced to the free market. The federal Ministry of Housing now sits within the Department of Social Security, illustrating the shift that has occurred over the last 50 years to see government's role in the housing market as being simply the provider of a welfare-based safety net for those the market does not wish to serve.

That's not to say that the government no longer intervenes in the housing market; far from it. In fact, Treasury pumps billions of dollars every year into the pockets of people who already have considerable assets to encourage them to acquire more, and to push up the price of land.

The redistributive function of the social democratic state has, in effect, been hijacked to give the greatest value of our land and the rents that can be drawn from it to those at the top of the wealth scale, leaving crumbs for those without adequate income or assets to play in the market.

That this has occurred, how it happened and to what extent it is responsible for the now egregiously unbalanced housing market in Australia is effectively obscured from public understanding.

This paper will show that the shift away from treating housing policy as a core economic function of the government to a residual element of the welfare system, one that is conceptually unmoored from the impact of government intervention in the property market, has created significant inefficiencies in government spending and made housing an unnecessarily complex area of social policy.

Firstly, housing expenditure by the federal government is siloed, with no overarching housing policy guiding spending toward defined objectives. This means that housing programs to support people on low incomes have become more tactical than strategic, and reactive rather than proactive.

For example, the stated objective of Commonwealth Rent Assistance is to "...reduce the proportion of recipient households in 'rental stress' by at least 25 percentage points".¹ However, this objective says nothing about reducing the total proportion of renters in rental stress. It is a policy intended to mitigate market effects rather than change the underlying structure of the rental market to ensure secure and affordable homes for people.

Expenditures through tax concessions, on the other hand, have no explicitly stated strategic objectives that would serve the national interest, and operate without any justification of their effect on the housing market and the availability of secure and affordable homes.

¹ DSS Portfolio Statement, 2023/24, p47

Secondly, the scattering of housing outlays across a range of agencies, and inadequate accounting of revenue forgone through property tax concessions, makes tracking resource allocation enormously difficult for policy makers and the public. The Federal Budget has a sub-function named 'housing', but it is not disaggregated, nor does it include some of the Federal Government's most costly housing programs, including CRA.

Properly assessing the costs and benefits of different types of housing expenditure against each other is thus extremely difficult. This reduces government capacity to identify the most effective resource investment and to understand how different spending measures interact: whether they are complementary or in opposition to one another and, in turn, whether the various interventions in the housing market are effective and efficient when operating together.

Thirdly, the absence of a comprehensive federal housing budget means that the distributional impacts of funding allocation and changes in spending on different groups in society remain largely unevaluated.

Tax concessions for property investors and homeowners are demand-side based, and therefore can only be estimated year on year. Even by conservative estimates they are by far the costliest to the Federal Government in terms of tax expenditures, with the main residence exemption from capital gains tax costing \$48 billion in 2022-23 according to Treasury estimates. We estimate that a further \$18.7 billion was spent on concessions for property investors in the same year. The main residence exemption is clearly a considered housing policy to encourage home ownership, but the Capital Gains Tax discount and negative gearing, the two most costly concessions for property investors, operate as shadow housing policy, with significant negative outcomes in terms of rental market structure and distributional effects.

The effect of a series of politically expedient, ad hoc and uncoordinated housing policy measures over the past thirty years is that federal housing expenditure has shifted from being primarily strategic in its objectives, and negotiated with states and territories, to being market-reactive and unnegotiated.

Strategic expenditure to construct and maintain social housing has become secondary to the provision of rental subsidies for the private market through Commonwealth Rent Assistance, a reactive form of housing support which does not help structure the supply of housing. CRA is not a measure that is negotiated with the states, meaning that coordinated, intergovernmental control over housing expenditure has declined.

Over the time that CRA has become the largest scheme for low-income household housing support, the share of low-income households in rental stress has risen dramatically. Forty-four percent of CRA recipients are in rental stress (defined as being in the lowest 40% of households by income distribution and paying more than 30% of disposable income on housing costs). For low-income renters the share of income needed to pay rent rose from 26% in 1985 to 33% in 2019 – before the current rental crisis.

The absence of a comprehensive housing policy is in contrast with other critical social policy domains such as health, education and defence, in which coherent, discrete portfolio budgets for policy agendas exist.

This paper makes the case for housing to be treated as a core economic good and, as such, given the policy priority that attaches to federal departments with portfolio budgets.

Housing in the Federal Budget

The 2023/24 Budget contains an explicit objective for “More affordable housing” in the “Budget Priorities” section of Budget Paper no.1 (BP1). This states that:

Addressing the housing challenges Australia is facing remains a key priority for the Government. This Budget provides additional support to low-income renters through increasing Commonwealth Rent Assistance and enables new critical investments in housing supply, while the Government progresses its housing reform agenda to deliver more social and affordable homes. (BP1, p9).

The Government classifies a portion of their housing expenditure under the housing sub-function of the “housing and community amenities” budget line.

Table 6.10 in BP1 shows the total spend on the housing sub-function, but it is not broken down in any of the budget papers. In 2023/24, the housing sub-function was just under \$3.47 billion, or 0.6% of total Government expenditures.

*Table 1
The housing sub-function in the Federal Budget*

Sub-function	Estimates				
	2022–23 \$m	2023–24 \$m	2024–25 \$m	2025–26 \$m	2026–27 \$m
Housing	3,460	3,466	3,474	3,364	3,397
Urban and regional development	1,980	2,104	2,265	2,069	717
Environment protection	1,696	2,369	2,335	2,334	1,750
Total housing and community amenities	7,135	7,940	8,074	7,767	5,864

Source: reproduced from Budget Paper 1, Table 6.10, 2023.

The Department of Finance lists a description of the functions and sub-functions expressed in the budget. The housing sub-function has a rather eclectic set of items included.

For example, it includes “rental subsidies and allowances”, but excludes “rent assistance”, the largest rental subsidy program. It also includes “the provision of housing for the general public and people with special needs” but excludes “construction activity”.

Table 2
The housing sub-function

Function Type	Include	Exclude
Housing	<ul style="list-style-type: none"> • Provision of housing for the general public and people with special needs; • Acquisition of land for dwelling construction; • Conditional financial assistance for the construction of homes; • Rental subsidies and allowances; • Mortgage financing of homes for ex-service personnel and other low cost mortgage financing for home building or purchase; and • General administration, regulation, research and the promotion of standards in the field of housing. 	<ul style="list-style-type: none"> • Construction activity; and • Rent assistance classified to Social Security and Welfare.

Source: Department of Finance, [available here](#).

The 2023-24 Budget states that:

[T]he Government is addressing concerns about rental affordability through the 2023–24 Budget measure Increased Support for Commonwealth Rent Assistance Recipients. This additional support of \$2.7 billion over the five years to 2026–27 is reported in a range of sub-functions in the social security and welfare function.²

That is, the increase to CRA is not reported under the housing sub-function, but as a supplementary payment made to the recipients of a specific range of income support payments and family tax benefit. It is a welfare measure, not an investment in housing.

The Federal Budget Papers do not provide a comprehensive list of which programs are included in the housing sub-function, making it difficult to understand what is included there and what housing expenditure is listed in portfolio statements such as those from Treasury, Infrastructure or Defence.

Because housing policy is not approached as a portfolio responsibility of government, achieving an overview of Federal Government interventions in the housing market is impossible, but some details are available within the Treasury and DSS Portfolio Budget Statements (PBSs).

² Commonwealth Treasury, *Budget 2023-24* (9 May 2023) Budget Paper 1 Statement 6, p.217 Table 6.1 and p.236 Table 6A1 <<https://Budget.gov.au/index.htm>>.

Department of Social Services

Only the DSS has an outcome which is linked to housing which is Outcome 4, being:

Supporting access to safe and secure housing for individuals, including social housing, and providing targeted supports for preventing and addressing homelessness. BP4, Appendix A.

The DSS itemises some of the spending it carries out on housing programmes (Table 3 below). However, not all DSS housing expenditure is included in these budget lines; CRA is not accounted for, despite being the government’s largest single program of housing support for low-income renters.

Table 3

Housing related items in the DSS Portfolio Statement, 2023/24

Outcome 4: Housing	2022/23	2023/24	2024/25	2025/26	2026/27
	Estimated	Budget	Forward	Forward	Forward
	actual		estimate	estimate	estimate
	\$m	\$m	\$m	\$m	\$m
Program 4.1 – Housing and Homelessness					
Administered expenses					
Ordinary annual services	371.4	249.6	311.8	279.7	396.3
(Appropriation Bill No.1)	0.0	0.0	0.0	0.0	0.0
Administered Total	371.4	249.6	311.8	279.7	396.3
Total expenses for Program 4.1	371.4	249.6	311.8	279.7	396.3
Program 4.2 – Affordable Housing					
Administered expenses					
Ordinary annual services	759.3	571.9	317.0	165.1	–
(Appropriation Bill No.1)					
Administered Total	759.3	571.9	317.0	165.1	–
Total expenses for Program 4.2	759.3	571.9	317.0	165.1	–
Outcome 4 Totals by appropriation type					
Administered expenses					
Ordinary annual services	1130.8	821.6	628.8	444.8	396.3
(Appropriation Bill No.1)					
Administered Total	1130.8	821.6	628.8	444.8	396.3
Departmental expenses					
Departmental appropriation	178.6	154.5	149.0	146.2	146.4
s74 External Revenue (a)	14.3	9.4	9.1	9.0	9.0
Expenses not requiring	28.0	27.8	26.6	25.8	25.6
appropriation in the					
Budget year (b)					
Departmental Total	220.9	191.8	184.8	181.0	181.0
Total expenses for Outcome 4	1351.6	1013.3	813.6	625.8	577.3

DSS sees its role as one of providing support for some housing programs that mitigate the effects of the housing market on low-income households, rather than having a role in producing a more favourable and effective housing system.

Treasury

The Treasury does not provide a programmatic outcome linked to housing. Instead, it has a housing sub-indicator of *Program 1.4 - Commonwealth State Financial Relations*. This is to provide “[A]ssistance to the States for Affordable Housing. The Treasury, on behalf of the Government, provides financial support to the States and Territories to be spent in the delivery of affordable housing services.” (Treasury PBS 2023/24, p44).

So, Treasury also sees its role in housing policy not as a market shaping institution that can change the underlying structure of the housing system, but as the provider of financial assistance to state-based housing services that are charged with mitigating the effects of an unregulated housing market on those people who are of no value to it.

Two of the largest Federal Government housing expenditures, negative gearing and the CGT discount, are features of our tax and transfer system and are administered by the Australian Taxation Office, which sits within the Federal Treasury. Yet, by the logic and structure of the federal budget, they are not considered in the context of housing policy objectives at all.

The Treasury PBS contains four housing related expenditures, totalling \$519.3 million in the budget year 2023/24, mainly in payments to the National Housing Finance and Investment Corporation (now known as Housing Australia) an independent national housing authority delivering housing finance and home ownership programs.

*Table 4
Housing related items in the Treasury Portfolio Statement, 2023/24*

Program	Budget 2022-23	Budget 2023-24	Budget 2024-25	Budget 2025-26	Budget 2026-27	
	\$m	\$m	\$m	\$m	\$m	
Budget measures						
National Housing Finance and Investment Corporation	1.1	490.9	396.9	373.6	372.1	376.5
Increasing the Supply of Social and Affordable Housing and Making it Easier to Buy a Home	1.1	0.0	27.3	0.0	0.0	0.0
Increasing the Supply of Social and Affordable Housing and Making it Easier to Buy a Home	1.3	0.0	27.6	0.0	0.0	0.0
National Housing and Homelessness Agreement Transitional Funding Administered payment	1.4	0.0	67.5	0.0	0.0	0.0
Total		490.9	519.3	373.6	372.1	376.5

As should be clear, these departmental totals do not come close to the \$3.466 billion that is listed as the housing sub-function budget to 2023/24. Nor is the cost of CRA included in the forward estimates.

There are many quirks and features which cruel any attempt to truly account for all Federal housing spending. For example, the 2023/24 DSS Portfolio Statement states that “[T]he Department of the Treasury, on behalf of DSS, makes payments to the states in accordance with the National Housing and Homelessness Agreement.” (p69). However, the Treasury Portfolio Statement does not disaggregate the NHHHA from the overall expenditure on “Program 1.4 – Commonwealth-State Financial Relations”, so that determining the actual amount provided to the States by the Commonwealth is not possible.

Measures announced in the MYEFO 2023-24 appear generally to be capital provision; that is, loans to states with some requirement that they be matched by the states for implementation. These include:³

1. The Housing Australia Future Fund, which will allocate a \$10 billion capital market investment, with a \$500 million per year associated expenditure to build 30,000 social and affordable dwellings over five years. The \$10 billion is accounted in the budget as capital expenditure, amounting to conditional loans with anticipated receipts, and is therefore not in current spending.
2. An investment in the Housing Accelerator Fund, worth \$2 billion appears in the 2022-23 budget year in the MYEFO 2023-24 (p.8), providing additional funding capital to State and Territory Governments for the construction of 5,000 social housing dwellings.
3. The National Housing Accord affordable rental housing program, allocating \$1.75 billion in “availability payments” over 25 years, to incentivise the development of 10,000 affordable rental dwellings in the next five years.
4. The New Homes Bonus, allocating up to \$3 billion in performance-based funding to the states and territories if dwelling construction targets are met. This would supply an additional 200,000 houses above an existing target of one million new homes built between 2024 and 2029.
5. The Housing Support Program, providing local governments with \$500 million in infrastructure funding over two years from 2023-24.

With these caveats in mind, what follows is an attempt to estimate the total federal expenditure on housing.

³ See Pawson, H. [forthcoming], (2024), “Housing Policy”, Journal of Australian Political Economy, No.92 for more detail.

Estimating total Federal expenditures on housing

We follow Wang, Wilson and Yates (2004)⁴ by viewing various forms of expenditures as critical for understanding total government support for housing. As Wang, Wilson and Yates state:

The cash, non-cash and tax expenditures of government related to housing assistance comprise an important part of Australia's 'social wage'. Other major components are the provision of health care, education and community services. This assistance replaces or reduces the expenditure of individual household members on housing goods and services. It allows for a greater portion of the household budget to be available for non-housing goods and services, contributing to the level of household wellbeing. (2004, p9)

The social wage is a measure of how much better off people are after social spending and taxes are considered. Obvious examples are transfers of cash from the state to households, such as pension or unemployment payments. Non-cash services such as subsidies for healthcare and childcare are also accounted for, as are various forms of tax concessions. As we shall show, the tax treatment of housing not only serves as a social wage, but also has a significant role in shaping investment in the housing market.

In order to provide an historical overview of Federal Government expenditure and its distributional effects, we have limited our analysis to the largest key expenditures for which there are historical data. As such, we look below at government spending through the housing sub-function, CRA, and investor tax concessions.

Based on data taken from the Report on Government Services (RoGS), Parliamentary Budget Office and estimates from the Tax Expenditures Insights Statement (TEIS), February 2023, we estimate the following is the true federal housing budget over the forward estimates.

*Table 5
The Federal Housing Budget, author estimates*

	Budget 2022-23	Budget 2023-24	Budget 2024-25	Budget 2025-26	Budget 2026-27
	\$m	\$m	\$m	\$m	\$m
Housing sub-function	3460	3466	3474	3364	3397
<i>of which</i>					
National Housing and Homelessness Agreement	1646.1	1707.3	1692.2	1731.1	1764.1
National Partnership Payments (Affordable housing)	830.5	187.5	1.3	2.3	3.5
<i>of which</i>					
Homebuilder	481.5				
Housing and essential services on Northern Territory Homelands	25.0	75.0			
Remote housing: one-year NT overcrowding partnership	323.7	111.7			

⁴ Wang, Hongyan, David Wilson, and Judith Yates. 2004. Measuring the Distributional Impact of Direct and Indirect Housing Assistance. Canberra: Australian Institute of Health and Welfare.

On Whose Account? Government Spending on Housing

Social Impact investments	323.7	111.7			
<i>of which</i>					
People at risk of homelessness	0.3	0.8	1.3	2.3	3.5
Disrepair of residential housing in the Wreck Bay Village, Jervis Bay		5.8	5.8	5.8	5.8
Defence Housing Australia	752.0	818.0			
NHHA transitional funding		67.5		0.0	0.0
Household Energy Upgrades Fund: Establishment		26.4	75.4	137.5	86.2
Build-to-Rent-Developments: accelerating tax deductions and reducing managed investment trust withholding tax rate.			2.9	-9.1	-19.4
Aboriginal Hostels Limited		10.0	10.0		
Indigenous Boarding Providers		21.6			
ACT Sustainable Household Scheme		7.5			
Workforce accommodation to support the delivery of 30 dialysis units for First Nations		9.6	9.6	9.6	
Defence Housing feasibility review		2.0			
NHIFC liability cap lift					
Help to Buy Scheme		22.9	58.9	106.9	157.0
Emergency Accommodation and safe places in Alice Springs		5.6			
Review emergency accommodation services and their suitability for children and to conduct an independent evaluation of the 1800RESPECT service			1.1	1.1	1.1
Homelessness Support Program		12.7	12.7		
First Home Super Saver Scheme					
Misc. Social and affordable housing measures (Treasury)		5.5			
Commonwealth Rent Assistance	4818.0	5539.0	6299.0	7066.6	7841.8
Property Investor Negative Gearing	7387.8	7570.0	7656.0	8128.0	8570.0
Property Investor CGT Discount	11321.7	4783.40	4921.1	5170.8	5451.6
Total	26987.5	21358.4	22350.1	23729.4	25260.4

As Table 6 below shows, the housing sub-function in the budget accounts for a small fraction of total federal housing expenditure: between 13 per cent and 16 per cent over the forward estimates. The National Housing and Homelessness Agreement, the primary state-federal mechanism for strategic housing investment, is a part of the sub-function, and makes up between 6 and 8 per cent of the total. Taken together, investor tax concessions make up between 56 per cent and 69 per cent of federal government expenditure on housing.

*Table 6
Federal housing expenditures as a share of total expenditures, author estimates, %*

	2022/23	2023/24	2024/25	2025/26	2026/27
Housing sub-function	12.8%	16.2%	15.5%	14.2%	13.4%
<i>Of which</i>					
National Housing and Homelessness Agreement	6.1%	8.0%	7.6%	7.3%	7.0%
Commonwealth Rent Assistance	17.9%	25.9%	28.2%	29.8%	31.0%
Property Investor Negative Gearing	27.4%	35.4%	34.3%	34.3%	33.9%
Property Investor CGT Discount	42.0%	22.4%	22.0%	21.8%	21.6%

Estimating the distribution of Federal Government housing expenditure

It is important to assess the distributional impact of these expenditures. There are few previous estimates of the total costs and distributional impact of housing assistance. Wang, Wilson and Yates provide a rigorous examination of state and federal housing expenditures, and their distribution between various groups of people. Overall, they found that, in 1999, private renters in the lowest income quintile received an average of \$860 per annum, while homeowners without a mortgage received more than ten times as much, an average of \$8,800 (see Table 7).

*Table 7
Average annual benefit in dollars by housing tenure and income quintile, Australia, 1999*

TENURE (B)	INCOME QUINTILE (A)					
	1st	2nd	3rd	4th	5th	All
All recipients (\$ per year)						
Private renters receiving CRA	1,650	1690	1,710	1,340	*980	1,660
Public renters receiving rent subsidy	3,550	3990	3,710	3,325	—	3,700
ALL HOUSEHOLDS (\$ PER YEAR)						
All private renters	860	790	320	90	20	430
All public renters	2,860	3070	2,060	*800	—	2,760
All owners	—	1700	1300	220	4,700	2,800
Home owner with mortgage	—	100	100	500	2,100	900
Home owner without mortgage	—	2100	2500	4600	8,800	4,400

(A) INCOME QUINTILES ARE DERIVED FROM THE AUSTRALIA-WIDE POPULATION.

(B) FHOG HAS BEEN EXCLUDED.

Source: (Wang, Wilson, and Yates 2004)

While Wang, Wilson and Yates incorporate state and federal expenditures, our analysis focusses on federal programs. We also take a different methodological approach in order to produce time series data.

Our estimates of the distribution of federal housing expenditure are based on income quintiles, using the following distributional estimates:

- For the housing sub-function expenditure, we assume that recipients are broadly similar to the distribution of public housing benefits, as recorded in the ABS 2019-20 Household Income and Wealth series. This likely skews the distribution downwards since funding for items such as Defence Housing Australia would not be distributed in this way.
- CRA beneficiary breakdowns are based on the 2015-16 ABS Household Income and Wealth series.
- The property investor negative gearing and CGT distributions are based on the Tax Expenditure and Insights Statement, February 2023 distributions for total negative gearing and investor CGT discounts for individuals and trusts.

Table 8 shows the breakdown of the distribution.

*Table 8
Distribution of Benefits of Federal Housing Expenditure by Income Quintile*

	housing sub-function	CRA	CGT Discount	Negative Gearing
Lowest	72.2%	34.5%	3.3%	7.0%
2nd	19.8%	42.6%	3.0%	9.0%
3rd	5.6%	18.2%	3.3%	12.6%
4th	2.4%	4.0%	6.8%	20.4%
Highest	0.0%	0.6%	81.9%	51.4%

There are limitations to this methodology, particularly that the distribution of benefits from each expenditure will have changed over time. However, these changes are relatively small, and using these distributional ratios for each program provides a means to assess changes over the past 30 years.

Based on these distributional assumptions, it is possible to proceed with an analysis of our selected Federal housing expenditures. Table 9 below shows the distributional effects.

CRA and the housing sub-function expenditures are clearly targeted towards the first two income quintiles, tapering off in the following three wealthier income quintiles.

However, property investor tax breaks, particularly the CGT discount, are severely biased upward to the top 20 (and 10) per cent of income earners. The average person in the highest income quintile received \$1788 in CGT discount in 2022/23, compared to just \$73 for the average person in the lowest quintile.

Given the size of the Federal Government’s investor tax breaks, and because negative gearing and the CGT discount are so biased toward high income individuals, the total share of all federal expenditure going to the top quintile is 43.1%. This is almost twice the share going to the lowest quintile. In dollar terms, this equates to \$2479 per person, compared to \$996 to people in the lowest income quintile.

Table 9

Distribution of 2022/23 Federal Housing Expenditures, per capita, by income quintile (\$2022)

	CGT Discount	Negative gearing	CRA	housing sub-function	total	% total
Lowest	\$73	\$93	\$321	\$482	\$969	19.1%
2nd	\$65	\$120	\$396	\$132	\$713	14.0%
3rd	\$73	\$168	\$169	\$37	\$447	8.8%
4th	\$149	\$272	\$37	\$16	\$474	9.3%
Highest	\$1,788	\$685	\$6	\$-	\$2,479	48.8%

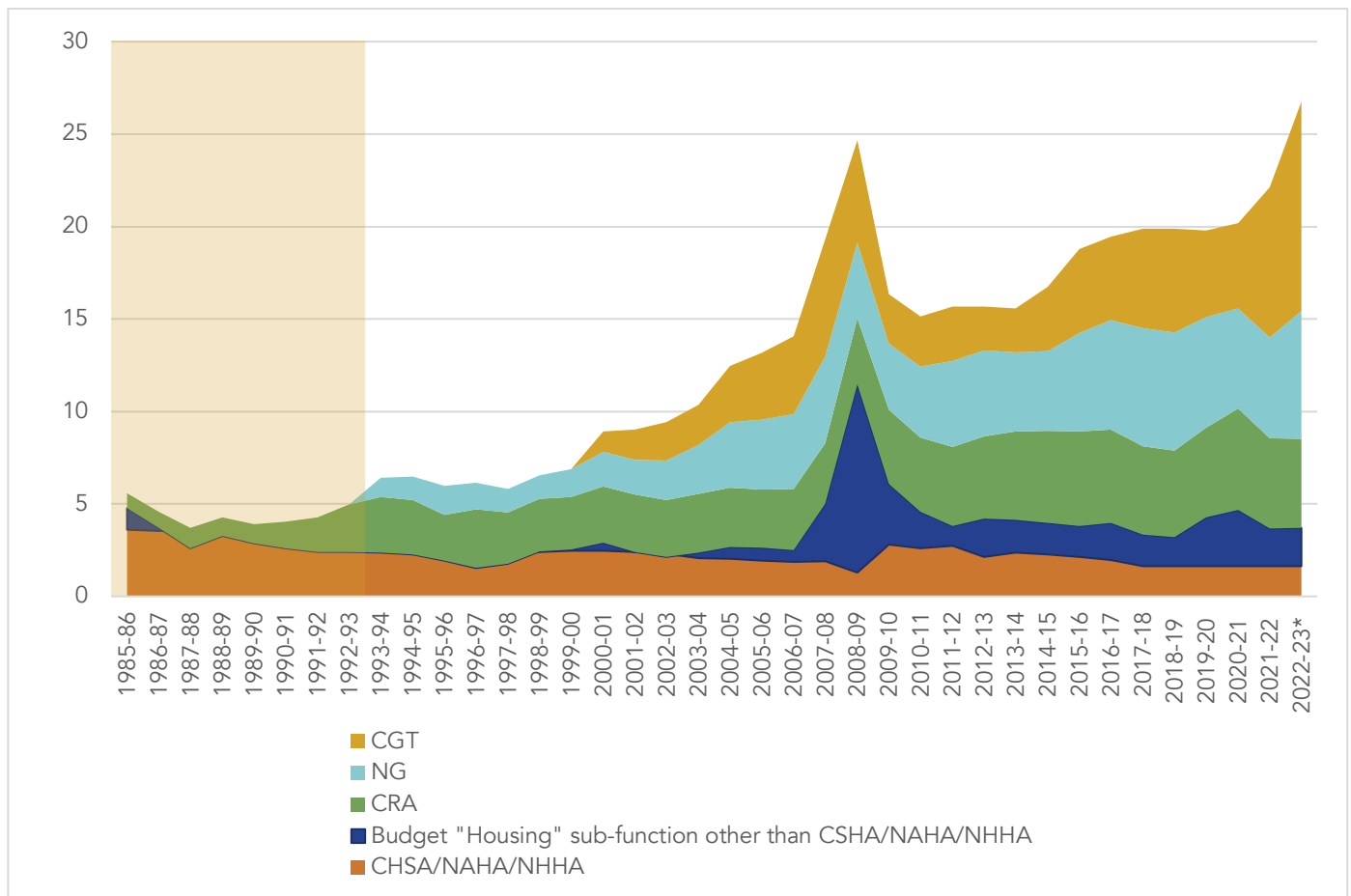
Historical changes to federal housing expenditure

Expenditures by program over time

For each of the main housing expenditures identified above, we have generated time-series data to see how trends in expenditure have shifted over time. All data is presented in real (2022) dollars. We show all the overall trends first, with discussions of individual programmes, and their cause and effects in the subsequent section.

Figure 1 shows the growth of different federal housing expenditures over the 1985-86 to 2021-22 period, including estimated tax forgone through CGT deductions and negative gearing. Our time series data for negative gearing begins in 1993/94, although the program had been in existence prior to that date.

Figure 1
Total Federal Housing Expenditure by Program, \$ billions, 2022 dollars



What is immediately obvious is the significant growth in total federal government spending on housing, from \$6.4 billion in 1994 to \$26.7 billion in 2023. As a percentage of GDP, this represents a notable increase: from around 0.58% of GDP in the mid-1990s to 0.89% by the early 2020s.

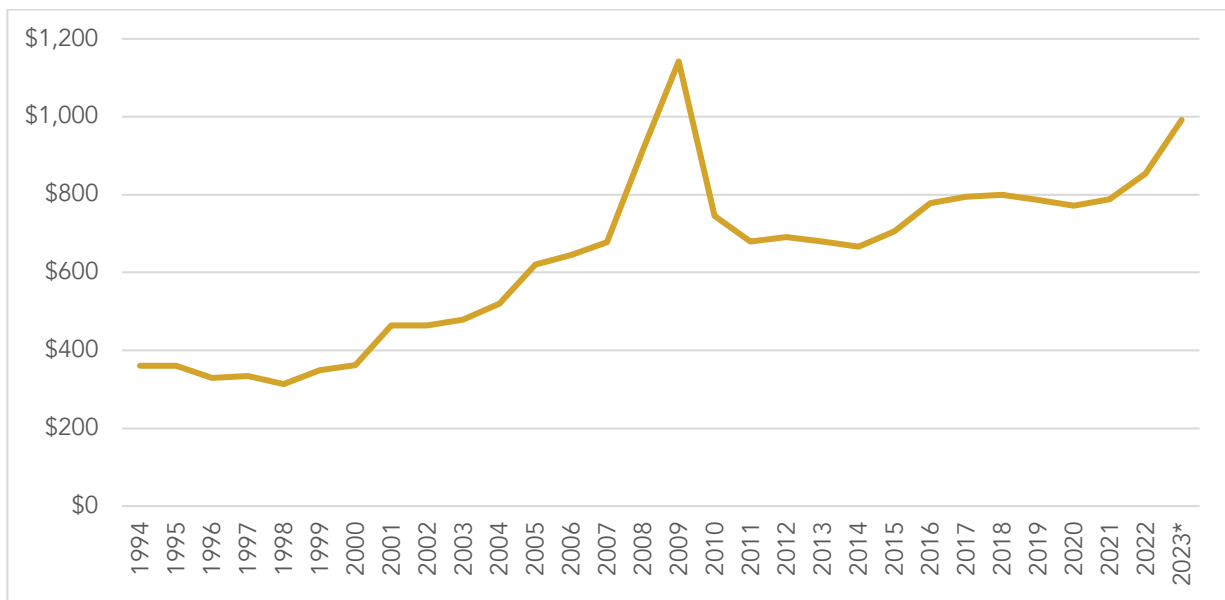
As this aggregate growth in expenditure has occurred, its distribution has shifted enormously. Following WWII, the Federal Government drove national housing policy through the Commonwealth-State Housing Agreements (CSHAs), and subsequently the National Affordable Housing Agreement (NAHA) and the National Housing and Homelessness Agreement (NHHA). These intergovernmental agreements provided funding to States and Territories for the construction and management of social housing⁵, and once accounted for the lion’s share of federal spending.

CRA was originally a secondary policy to social housing, but during the 1990s, expenditure on CRA grew significantly, and by 1996 spending on CRA had outpaced spending on the CSHA.

Post-GFC spending on the housing sub-function fell away from the peak but remained slightly higher than the pre-GFC trend. Post-GFC, we have seen more spending under the housing sub-function allocated outside of the intergovernmental housing agreements (at the time, the National Affordable Housing Agreement (NAHA), and then the National Housing and Homelessness Agreement (NHHA)).

Between 1993-94 and 1999-2000, negative gearing expenditures were relatively stable at around \$1.3 billion per year. However, after the introduction of the CGT discount in 1999, the cost of negative gearing exploded, as investors utilised the CGT discount/negative gearing combination to supercharge their returns from property investment. The amount spent on the CGT discount is forecast by the Parliamentary Budget Office to jump significantly in 2022 and 2023, which pushes up the total share going to investment property owners, rather than to low-income households.

Figure 2
Per capita federal spending on housing, 2022 dollars



⁵ Commonwealth-State Housing Agreements were in place from 1945 to 2008. Since 2008, federal funding to states and territories for housing provision has taken place through the National Affordable Housing Agreement (NAHA) and National Housing and Homelessness Agreement (NHHA).

In per capita terms (Figure 2), federal spending on housing has grown at a pace broadly in line with general welfare spending, from \$361 per person in 1994 to \$992 in 2022. The jump in spending during the GFC stands out as the highest ever spend per capita at \$1142 in 2009, reflecting the Rudd Government’s stimulus investment in housing and the National Rental Affordability Scheme (NRAS).

There appears to be another uplift in total spending per capita following the onset of COVID19. However, as is shown in Figure 1, this spike is not due to another countercyclical spend on social housing, but a large increase in tax relief for property investors.

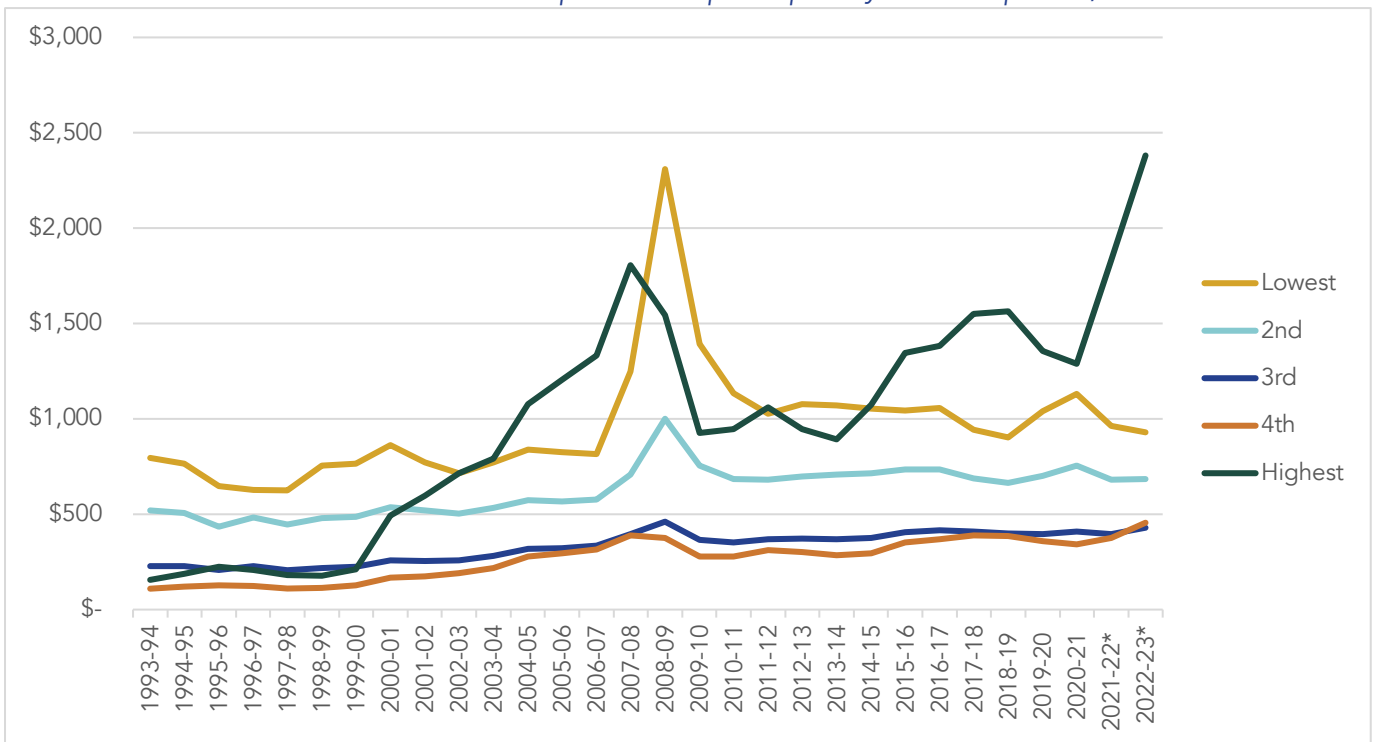
Distribution of expenditure over time

Using the same distributional estimates for each program that are outlined in Table 8, we examine the time series data from a distributional perspective.

Figure 3 shows the average amount spent on individuals in each income quintile. In the 1990s, expenditure was progressive, with the average person in the lowest income quintile receiving \$860 per year, compared to \$210 for the average person in the highest quintile.

Policy changes around the turn of the millennium quickly altered this arrangement. Following the introduction of the CGT discount in 1999-2000, the share accruing to people in the top income quintile accelerated rapidly and overtook spending on other groups until the GFC. By 2007/08 people in the highest income quintile were given \$1800 compared to \$1250 for people in the lowest income bracket.

Figure 3
Distribution of Federal house expenditures per capita by income quintile, 2022 dollars



While the post-GFC era did see a higher level of spending on quintiles 1-4, in 2015 the amount being spent on high income individuals accelerated and is anticipated to grow enormously in 2022 and 2023, with a very high volume of house sales leading to very high CGT exemption claims. According to our estimates, the average individual in the highest income quintile will receive \$2380 in federal housing spending this financial year, compared to just \$930 for those in the lowest income quintile.

This way of viewing the data shows clearly the shift from federal housing spending being progressive and aimed at shaping the market in favour of low-income households, to assisting high income, asset-owning households to accrue more wealth. As with regressive changes to income and wealth taxes over the past four decades, the ideologically driven belief in rewarding “wealth creators” is mirrored in the housing market, with a patently incorrect assumption that tax support to high income households (or “house creators”) will lead to the construction of more homes.

Figure 4
Distribution of Federal Housing Expenditure by Income Quintile, 1993/94 – 2021/22

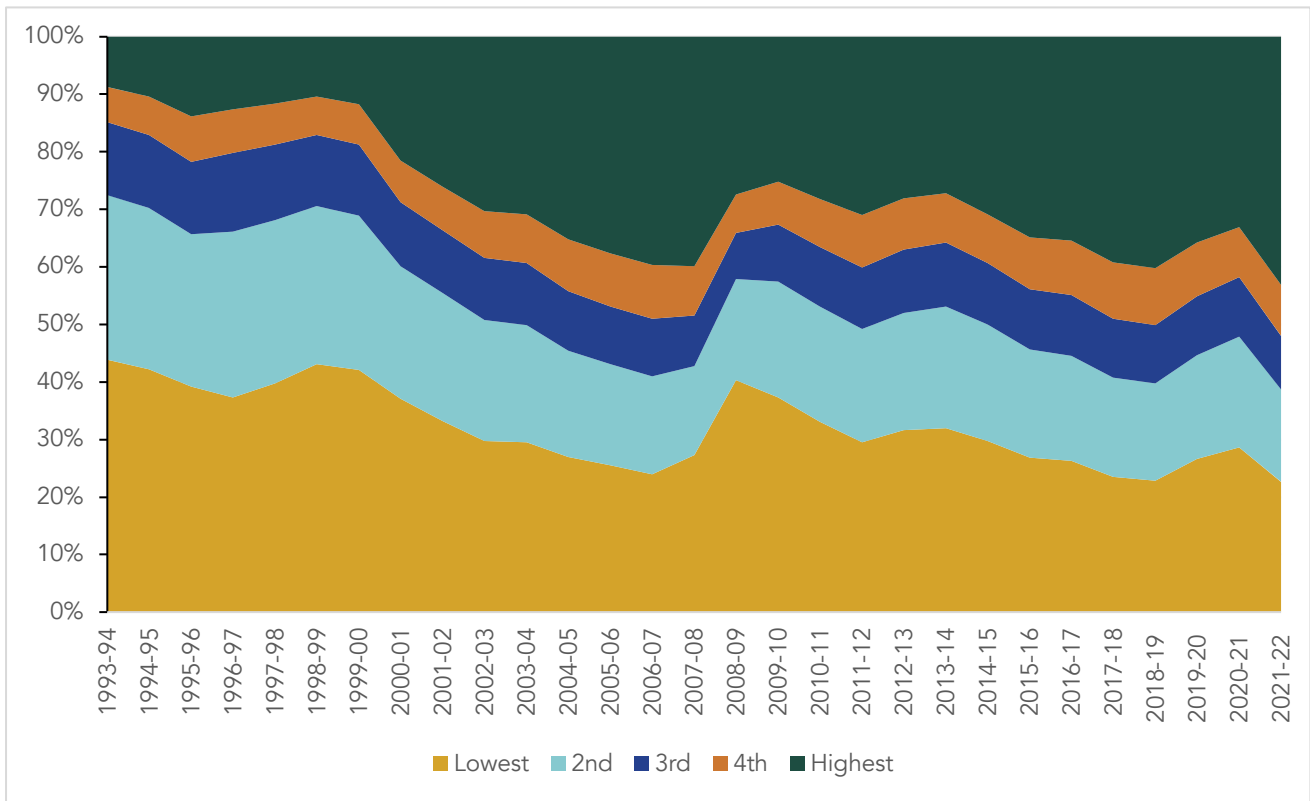


Figure 4 shows the same data as a proportion of total spending. In 1993-94 the lowest quintile took 47% of total spending, while the top quintile took 9%. By 2021-22, the distributional shares were at their most extreme in terms of upward distribution. The lowest quintile now receives 23% of federal expenditures, the second quintile 16%, the third and fourth quintiles receive 9% each and the top quintile now receives 44% of the total. The most recent distribution of housing spending in the budget is the most unequal yet.

Table 10 below shows this trend in decadal changes.

*Table 10
Changing distribution of federal housing expenditure over 3 decades*

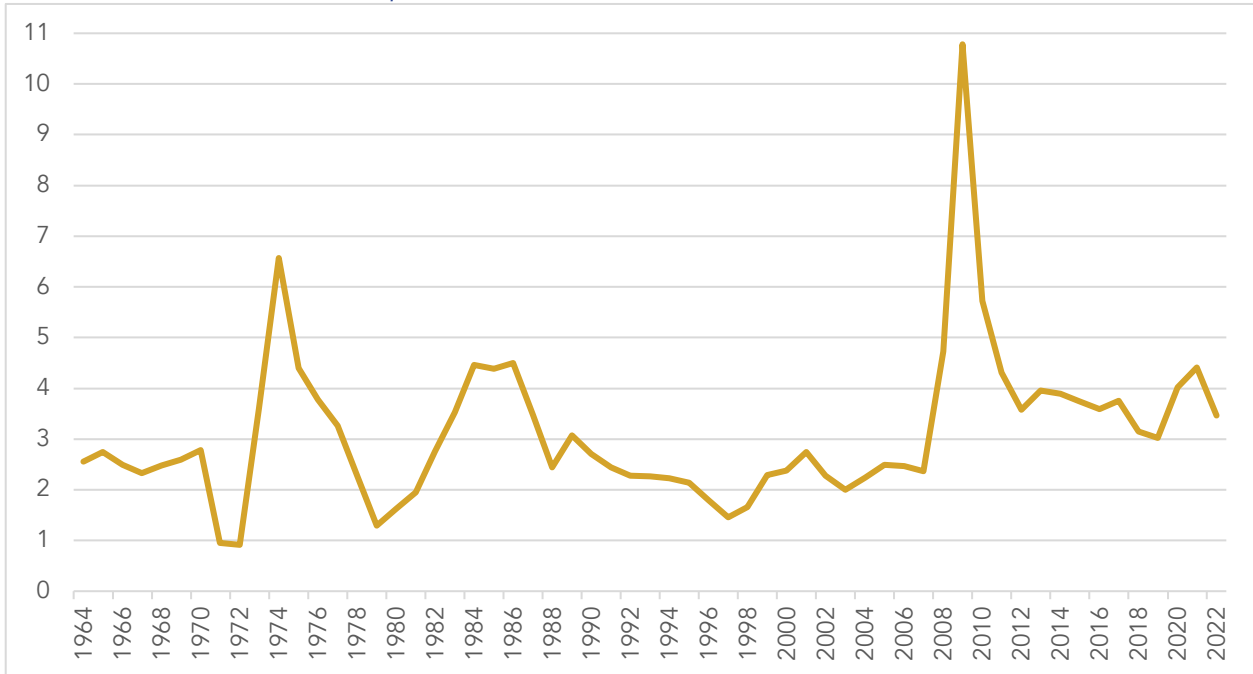
	Lowest	2nd	3rd	4th	Highest
1993-94	44%	29%	13%	6%	9%
2001-02	33%	22%	11%	7%	26%
2011-12	30%	20%	11%	9%	31%
2021-22	23%	16%	9%	9%	43%

Cause and effect of the changing distribution of housing spending

The housing sub-function and strategic intergovernmental spending

Figure 5 below shows Federal Government expenditure on housing under the housing sub-function in annual budget papers. As the chart shows, total real expenditure has increased by 25% over the past 60 years. Peaks in expenditure on housing have coincided with expansionary fiscal policy in response to stagnation after oil crises in the 1970s and 1980s and the Global Financial Crisis (GFC) of 2007 onwards. However, this type of countercyclical investment was not conducted by the Federal Government during the COVID19 pandemic.

*Figure 5
Federal Budget expenditure, housing sub-function, \$ billions, 2022 dollars*

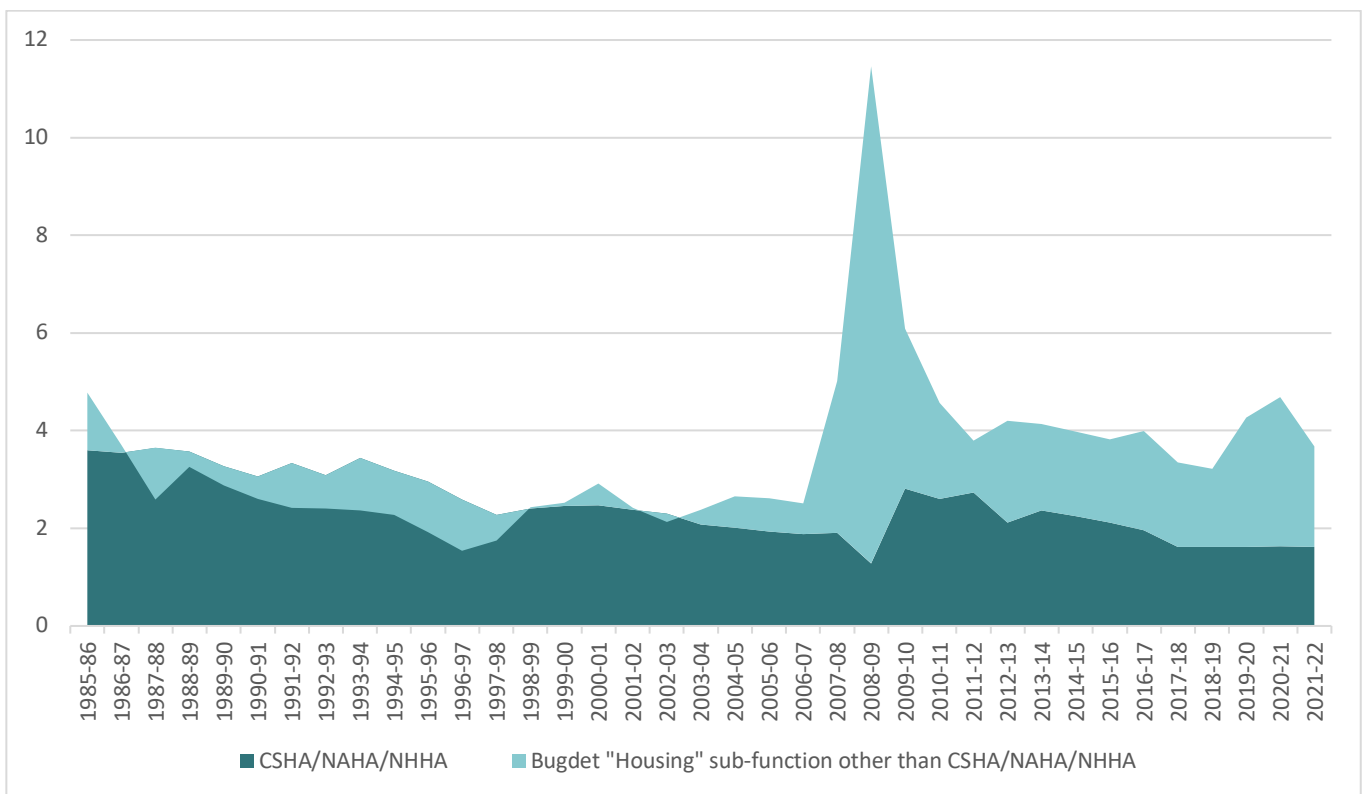


Sources: Parliamentary Budget Office, 2023 , ABS 6401

Figure 6 shows the same data, but with the share going to the intergovernmental housing agreements disaggregated. Strategic funding, negotiated between the states and federal government based on long-term objectives, once dominated federal expenditure. However, as housing policy has shifted from ambitious, nation-building policy to shape the market to a market-reactive welfare approach, federal expenditure is increasingly made independent of the established intergovernmental processes.

Figure 6

Federal Budget expenditure, housing sub-function, strategic funding disaggregated, \$ billions, 2022 dollars



Sources: Parliamentary Budget Office, 2023 , ABS 6401, RoGS multiple years

Commonwealth Rent Assistance

Currently Commonwealth Rent Assistance is the largest single direct federal housing support for renters, costing \$4.82 billion in 2022-23, and forecast to rise to \$5.54 in the 2023-24 year. Currently, 1.3 million income units (households, or individuals within households) receive CRA.

Commonwealth Rent Assistance is reported “in a range of sub-functions in the social security and welfare function.”⁶ This reporting of CRA across a range of subfunctions is because only those in receipt of specific income support payments are eligible for Commonwealth Rental Assistance, meaning that many low-income working households who are in rental stress do not qualify for CRA.

⁶ Portfolio Budget Statements Budget 2023-24 May - Social Services

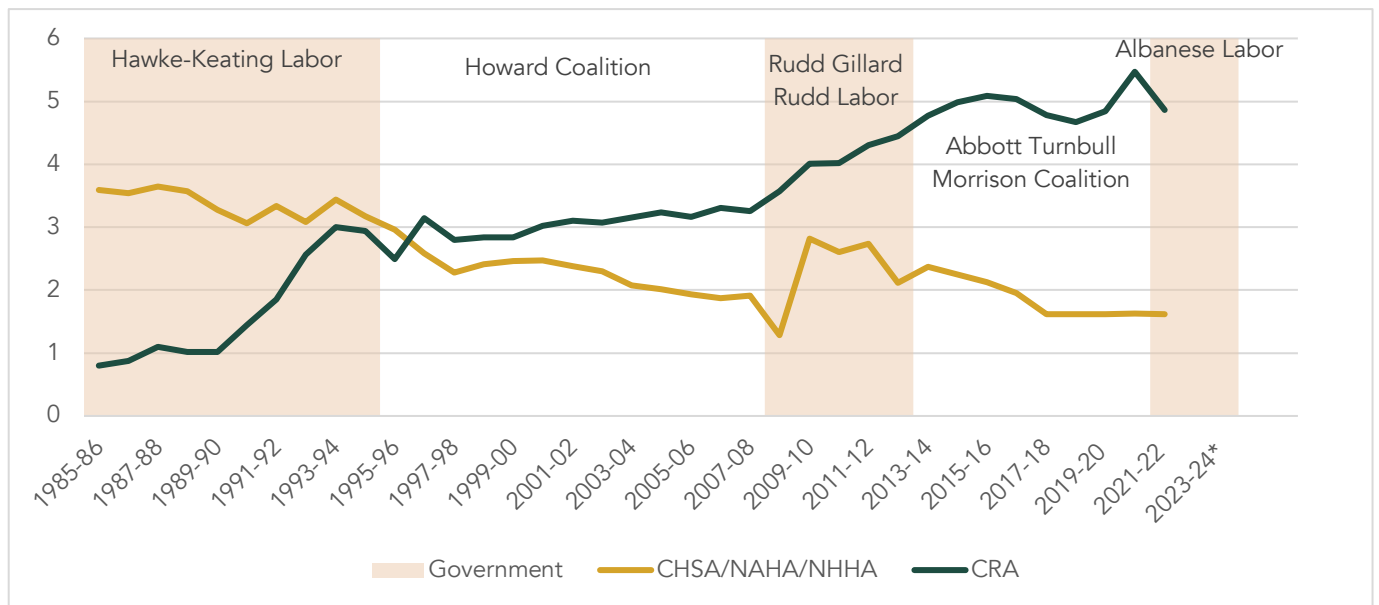
The 2023-24 Budget Paper No.1 shows an additional \$2.7 billion over five years to increase the maximum rates of CRA allowed by 15 per cent. Budget Paper No.2 indicated that only a \$5.9 million increase in CRA was budgeted in 2022-23, with the \$2.7 billion spread out over the next four years.⁷

Figure 7 shows the extent to which CRA has grown over the past three decades, compared to the decline in spending on social housing and homelessness services through the NHHA and its predecessors.

Expenditure on federal rent assistance increased dramatically, from \$800 million in the mid-1980s to over \$3 billion at the turn of the millennium. This was largely due to the Hawke Government’s anti-poverty initiative, including the extension of CRA eligibility to recipients of the Family Allowance Supplement, removing the waiting period for families with children, the abolition of separate incomes and savings tests, and the twice-yearly indexing of CRA to the CPI.⁸

Figure 7

Federal Expenditures on Rent Assistance and Social Housing/Homelessness 1985/86 – 2021/22, \$ billions, 2022 dollars



Source: TES and TEIS, multiple years. Years designated * = Forecast

This large expansion to the program initially supplemented supply-side expenditure on public housing and led to a significant overall increase in total federal housing funding to low-income households. The total federal spend on housing programs and rent assistance increased by almost a third in less than a decade, from \$4.4 billion in 1984/85 to \$6.5 billion in 1993/94.

While social housing investment was already in decline by the early 1990s, the Federal Government was still building social housing through the Commonwealth State Housing Agreements (CSHAs). By 1991 the share of renters in social housing was 22.2%, and was far higher in Hobart, Canberra and Darwin, where around 40% of renters had the state or territory government as their landlord.

⁷ Commonwealth of Australia, *Budget 2023-24: Budget Measures* (No Budget Paper No.2, 9 May 2023) <https://Budget.gov.au/content/bp2/download/bp2_2023-24.pdf>.BudgetBudgetp.119

⁸ Productivity Commission 2015, *Housing Assistance and Employment in Australia*, Research Paper Volume 2: Background Papers, p43

Table 11
Social Housing Renters as a % of All Renters, 1991

Location	%	Location	%
Sydney	21.3	Hobart	37.2
Melbourne	15.3	Darwin	42
Brisbane	18.1	Canberra	36.9
Adelaide	41.1	Aus	22.2
Perth	21.4		

Source: ABS 4102.0 - Australian Social Trends, 1994

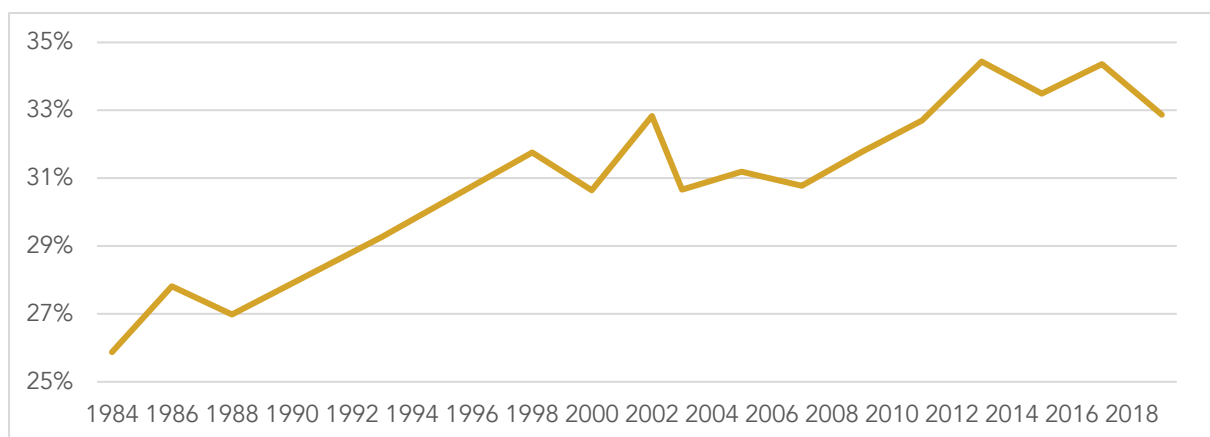
However, under the Howard Government from 1996, investment in social housing collapsed. Between 1996 and 2009, federal expenditure on social housing fell from \$3 billion to \$1.3 billion, a 60% reduction in gross terms, but a much greater loss per capita as population over the same period grew strongly.

From this time, CRA began to supplant, rather than supplement, social housing spending by the federal government. This represented a significant, though largely unheralded, shift away from seeing the role of government as that of a legitimate non-market housing provider to a mentality that ostensibly disdained intervention in the market in favour of providing welfare payments to subsidise market rents. As we shall show, this occurred at the same time as middle-income households were actively encouraged, through tax incentives, to become landlords.

CRA is now the main source of housing support to low-income households. In 2020/21, expenditure on social housing and homelessness services were equivalent to just 0.08% of GDP, down from 0.48% 1985/86, despite the share of low-income renters in housing stress increasing significantly over this period.

Figure 8 shows what this shift in policy has done to rental costs, with 44% of CRA recipients classified as being in rental stress.⁹ The average low-income renter household now spends 33% of income on rent.

Figure 8
Proportion of income spent on rent by low-income households



Source: Interim Economic Inclusion Advisory Committee, 2023–24 Report to the Australian Government. Canberra

⁹ [https://www.aihw.gov.au/reports/housing-assistance/housing-assistance-in-australia/contents/financial-assistance#Private%20Rent%20Assistance%20\(PRA\)](https://www.aihw.gov.au/reports/housing-assistance/housing-assistance-in-australia/contents/financial-assistance#Private%20Rent%20Assistance%20(PRA))

Property Investor Tax Breaks: Shadow Housing Policy

CRA is the costliest of the Federal Governments direct housing expenditures but still costs far less than tax concessions for property investors. Negative gearing and CGT discounting are two of the most contentious components of the federal housing expenditure framework. While not strictly housing policy, they nonetheless exhibit enormous effects on the structure of investment into the rental housing market, and account for billions in revenues forgone.

Under the CGT discount, only half of a positive difference between the purchase price and the sale price (profit) of an eligible good is treated as taxable. While CGT exemptions are available for the family home, we are focussed here on CGT discounts for investment properties.

Negative gearing arises from the net expense loss due to the costs of maintaining rental properties and the interest costs of borrowing exceeding rental income. Unlike in other international jurisdictions that operate a negative gearing regime, the costs arising from owning a rental property in Australia are deductible from the income of the property owner from other sources, for tax purposes.

As well as reducing the landlord's income for tax purposes, their income may be lowered enough to enter a lower income tax bracket. Put simply, the negative gearing and CGT discount regime allow investors to convert taxable income into untaxed capital. This tax minimisation framework has been a major contributor to the explosion in rental property investment.

Both CGT and negative gearing expense estimates are dependent on a variety of factors and are subject to volatility. CGT income is dependent on investment property sales volume, the period between purchase and sale and how much the property price has increased over time. Negative gearing is dependent on rental volumes, the rate of rent increase and interest rate changes. The amount of tax forgone from negative gearing is affected by the uncertainty around rental income due to changes to rents charged and volume of tenants, the impact of inflation on maintenance costs, changes to interest rates and changes to other income and to income tax rates.

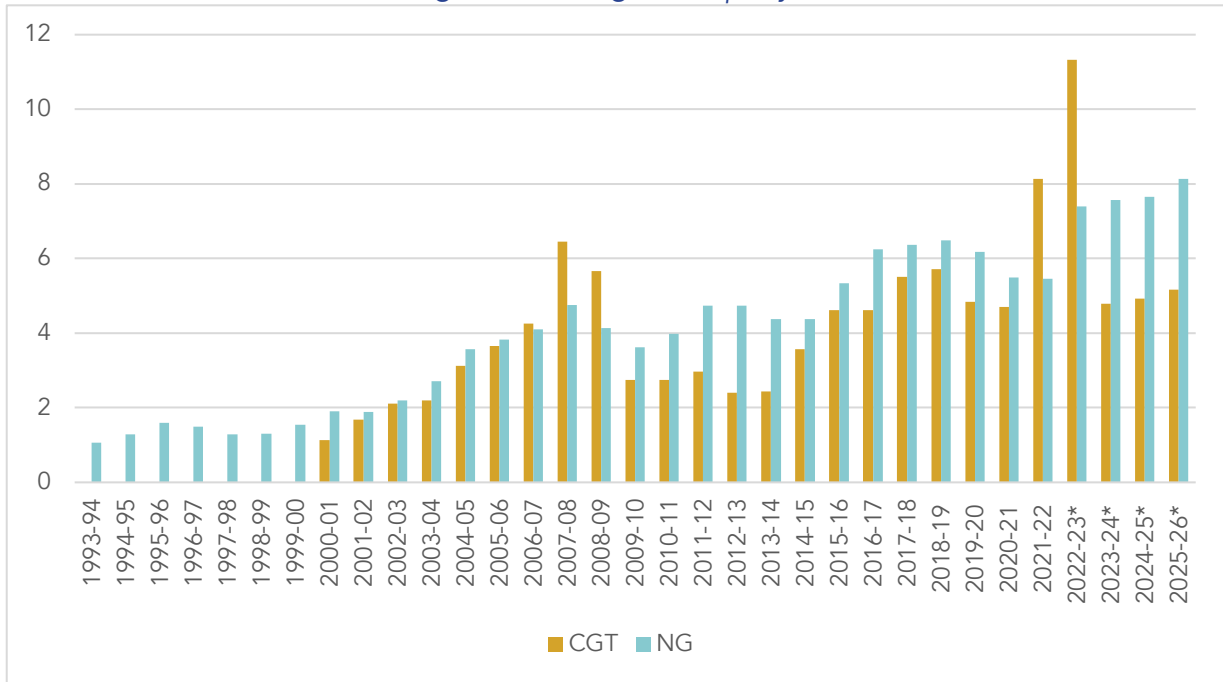
We estimate the cost of the property investor CGT discount based on data from the Tax Expenditure Statements and Tax Expenditure and Insights Statements for various years.

The negative gearing estimates are harder to produce in a uniform way since estimates of the costs of negative gearing for property investors are not included as standard with documents such as the Tax Expenditure Statements and Tax Expenditure and Insights Statements. Our estimates are based on a range of sources including work by Philip Soos (2012),¹⁰ PBO Forecasts, and Tax Expenditure and Insights Statement, February 2023. The method for estimation means that figures for individual years are made with a moderate degree of confidence, but the long-term trend is a reliable indicator.

¹⁰ Soos, Philip. 2012. Written Off: Negative Gearing. Prosper Australia.

Figure 9

Estimated CGT Discount and Negative Gearing for Property Investors, \$ billions, 2022 dollars



Source: CGT: Authors estimates based on TEIS, TES multiple years. NG: authors estimates based on Soos 2012, TEIS 2023, PBO forecasts, various. *=forecast

Figure 9 shows the growth in the use of tax concessions by property investors over the past 30 years. Forgone revenue was relatively stable between 1993-94 and 1999-2000, at between \$1 billion and \$1.5 billion per annum. However, in 2000-01 this figure more than doubled to over \$3 billion.

We estimate that forgone revenue has risen to \$18.7 billion in 2022-23 due to the extremely high level of transactions in the property market in 2021 and 2022. In 2021 and 2022, the aggregate value of residential dwelling sale settlements was over \$675 billion, more than 55% higher than in 2020.¹¹

The effects of the CGT discount and negative gearing on the housing market are often understated by some commentators who take a strictly price-based assessment of impact. However, this blinkered view ignores how these tax breaks distort and restructure investment, and lead to enormous distributional effects.

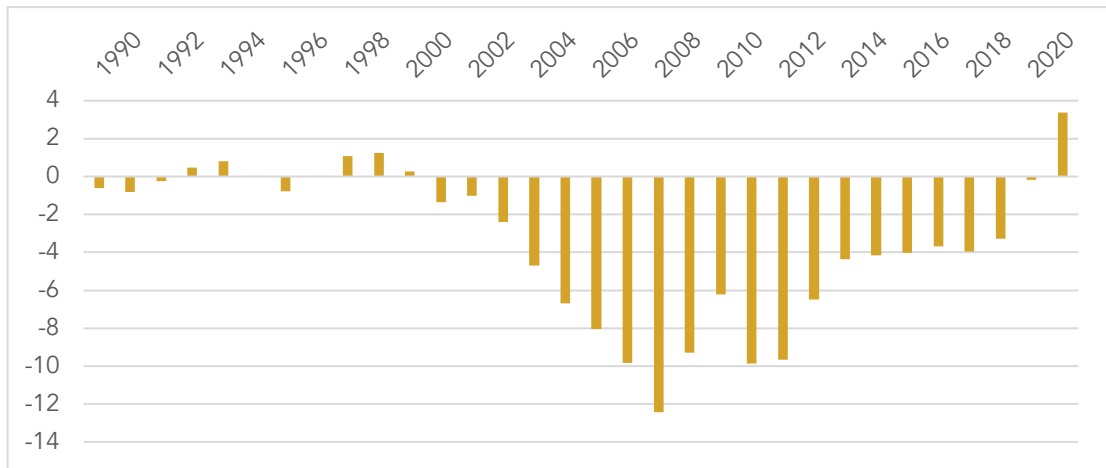
Due to their focus on the capital gain of often very briefly held properties, investors have increasingly ignored rental yield viability when purchasing properties. Figure 10 shows the aggregate rental yield of all landlords between 1990 and 2021. Between 1990 and 2000, landlords made an average annual profit of \$135 million. However, following the introduction of the CGT discount, investors have engaged in rampant speculation, utilising negative gearing to offset temporary income losses while they await capital

¹¹ <https://www.pexa.com.au/content-hub/aggregate-value-of-australian-properties-sold-almost-doubles-within-four-years/>

growth. Consequently, landlords have recorded an average annual rental loss of \$5.1 billion per year over the last two decades.

Since the introduction of the CGT discount, only in 2000 and 2021 have landlord reported aggregate net rental profits. The 2021 data is likely an anomaly as it was based on very cheap mortgage products available following the RBA decision to slash the cash target rate to a historically low rate of 0.1%.

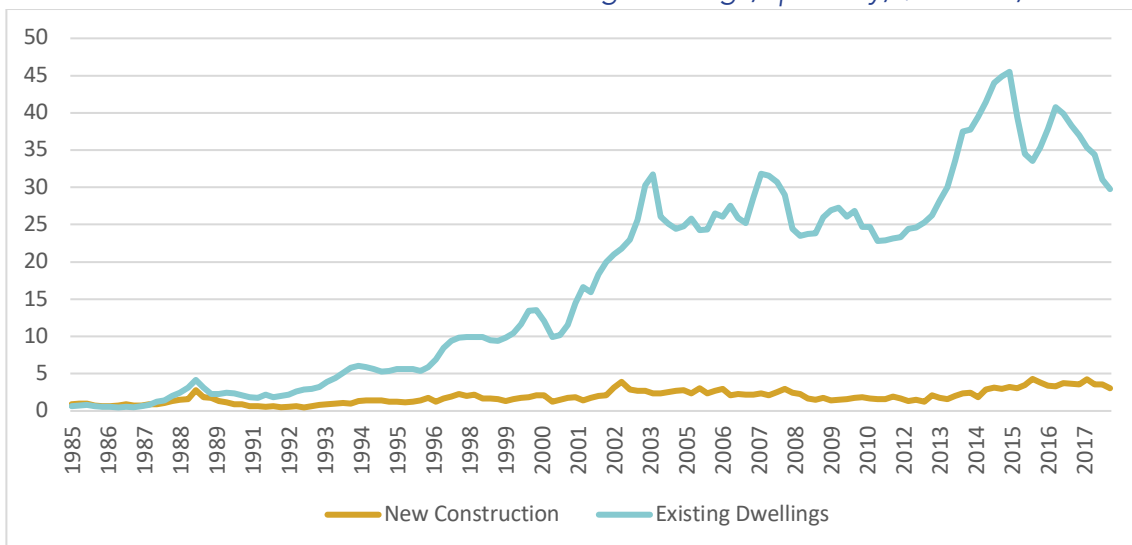
Figure 10
Aggregate Rental Income, \$ billions, 2022 dollars



Source: Authors calculations based on ATO, Taxation Statistics, multiple years

Another factor has been the rerouting of investment away from new construction. The introduction of the CGT discount prompted an enormous upswing in the purchase of existing dwellings by investors rather than a building boom (see Figure 11). This is because the discount can be realised after owning an asset for just 12 months, which encourages short term and even flipping behaviour of property investors, rather than steady investment in new construction.

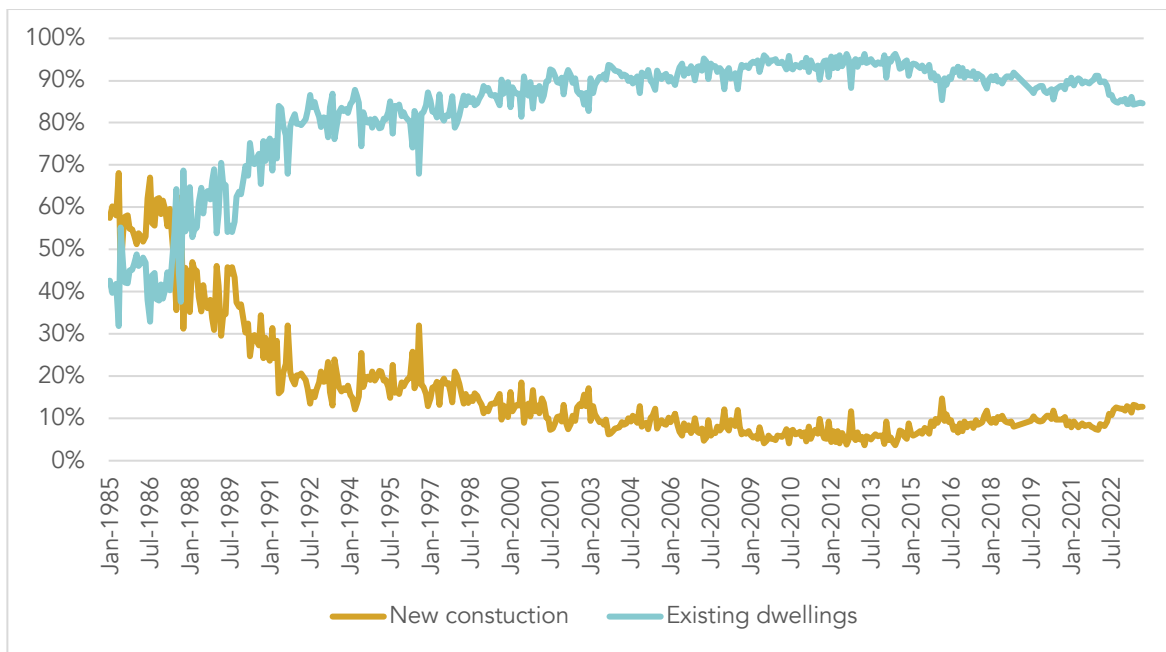
Figure 11
Investment loans for new construction and existing dwellings, quarterly, \$ billions, 2022 dollars



Source: Authors calculations, ABS 5609.0 Table 11, 5601 Table 13

Figure 12 shows the share of investor loans for new construction and for existing dwellings. In 1985, construction loans accounted for over 60% of all investor loans. However, investment in existing dwellings accelerated much faster than construction loans during the financial deregulation period of the 1990s, and then exploded in the 2000s after the introduction of the CGT discount. Investment in new construction is now just 13% of total investment in housing, with the remainder spent on existing dwellings.

Figure 12
Investment in construction and existing dwellings



Source: Authors calculations, ABS 5609.0 Table 11, 5601 Table 13

There can be little doubt that the introduction of the CGT discount turbo-charged housing investor uptake of negatively geared properties as a means to convert income into capital gains when they sold the property, enjoying a 10% tax rate (or a 0% tax rate if they passed their house down to their children) instead of their income being taxed at the marginal tax rate.

Worryingly, this trend is set to become far worse in coming years. Forecasts from the Tax Expenditures and Insights Statement, Feb 2023 and the Parliamentary Budget Office suggest that the costs of negative gearing and the CGT discount through lost revenue will rise sharply. Indeed, estimates from the Parliamentary Budget Office in 2022 suggest that revenues forgone from negative gearing and the CGT discount will grow to cost the Treasury more than \$20 billion per year within the decade (Table 12).

If these forecasts prove accurate, the cost of investor tax breaks for the five years 2023/24 – 2028/29 will cost more in real terms than they did in the entire first two decades of the 21st century.

Table 12
Forecasts of Property Investor Revenues Forgone

Tax revenue forgone, projected 2023-24 to 2032-33 (\$ million) - assuming 2.85% cash rate

	2023- 24	2024- 25	2025- 26	2026- 27	2027- 28	2028- 29	2029- 30	2030- 31	2031- 32	2032- 33	10 year total
Negative gearing deductions	7570	7656	8128	8570	9099	9720	10392	11103	11850	12674	96762
Capital gain tax discount	4783	4921	5171	5452	5751	6084	6447	6838	7234	7660	60341
Total	12353	12577	13299	14022	14850	15804	16839	17941	19084	20334	157103

Source: Parliamentary Budget Office, [available here](#)

Given these effects, and the vast amounts of potential government revenue at stake, any true assessment of the Federal Government housing budget must include the cost of forgone revenue due to the CGT discount and negative gearing tax concessions.

Conclusion: The Case for a Federal Department of Housing

The Centre for Equitable Housing's Australian Housing Monitor surveyed public attitudes towards, and experiences of, housing. It was conducted in December 2022 in partnership with Essential Media and found that:

- While 85% of non-homeowners still hope to buy a home at some point, **fewer than one in four (24%) expect to be able to do so.**
- Almost two-thirds of non-homeowners say that **the only way they will ever be able to buy a home is if they receive a large inheritance.**
- Housing stress is a rapidly growing problem across the country. 1 in 4 households report experiencing housing stress in the survey, up from 1 in 5 in 2017. This suggests that **1.25 million Australian adults have begun experiencing housing stress in the last five years.**
- Almost two-thirds of people (62%) agree that **the continued increase in house prices is bad for the economy and** is exacerbating wealth inequality.¹²

Since this survey was taken over a year ago, the housing crisis in Australia has gone from bad to worse. Asking prices for new rental properties have sky-rocketed, and the cost of land is on the rise again, despite widespread predictions that rapidly rising interest rates would see house prices fall. For the average new mortgagee, with a 30 year loan of \$600,000, the annual cost of keeping that roof over their head has risen by more than \$15,000 annually.

The lack of affordable, appropriate and secure housing is arguably the greatest social policy challenge facing our nation, so the lack of a Federal Department for Housing, or at least a comprehensive review of federal housing expenditure and how it is reported in the national accounts, is at odds with the centrality of housing policy to our national prosperity and wellbeing.

Against such a backdrop, it is critical that the Federal Government present the Australian people with as complete a picture as possible of housing expenditures, their distribution, and their impact on housing availability and affordability.

The laissez-faire approach to housing policy contrasts with the budgetary reporting of other key social policy functions of government, such as health and education, that produce through their dedicated federal departments annual Portfolio Budget Statements containing detailed expenditure and analysis of program effectiveness in relation to strategic policy objectives.

¹² Lloyd-Cape, Matt. 2023. The Australian Housing Monitor: Housing Affordability Experiences, Attitudes and Appetite for Change. The Centre for Equitable Housing.

Portfolio Budget Statements are designed to:

...inform Members of Parliament and the public of the proposed allocation of resources to government outcomes. They also assist the Senate Standing Committees with their examination of the Government's Budget."¹³

They make it possible to identify whether the policy objectives of the government are being achieved, and to evaluate the impact of new policy and funding measures on those objectives.

They are also used to assess program performance against the Commonwealth Performance Framework, and to inform the corporate plans of government entities that are engaged in work under the portfolio. These are then both used to inform the Annual Performance Statement of each entity carrying out Federal Government activities under the portfolio.

As an example, the Education Portfolio Statement reports on the strategy, performance objectives, resources, expenditure, and outcomes and performance across the *Federal Department of Education*, the *Australian Curriculum, Assessment and Reporting Authority*, the *Australian Institute for Teaching and School Leadership*, the *Australian Research Council*, and the *Tertiary Education Quality and Standards Authority*. As such it is possible to understand portfolio-wide strategy, and to view the various educational agencies as part of a whole education system.

The impacts of budgetary announcements across various areas of government are also detailed for each year, giving a clear breakdown of government priorities for the portfolio area across the forward estimates, allowing for a side-by-side assessment of expenditure on different programs.

The establishment of a Government Department is primary tool by which Governments identify, and allocate resources to, the issues of highest importance to the country. For example, the Department of Health was expanded to become the Department of Health and Aged Care in 2001, recognising the critical importance that aged care policy plays in our aging society.

While housing has always been central to our national economic, social and cultural objectives, housing is now treated by the Federal Government as a welfare issue. The Housing Minister operates out of the Department of Social Services (DSS), which has a relatively narrow focus on "*[S]upporting access to safe and secure housing for individuals, including social housing, and providing targeted supports for preventing and addressing homelessness*". (Agency Outcomes Statement, 2023/24, p 191.

The tentative language used here is in stark contrast to other agency objectives. Defence Housing Australia for example has the following unequivocal objective: "*To contribute to the Defence outcome by providing **total housing services** that meet Defence operational and client needs through a strong customer and business focus*" (ibid, emphasis added).

The lack of ambition in federal housing policy is both a cause and an effect of the absence of clearly articulated policy objectives for the housing functions of the budget, and of the absence of rigorous

¹³ <https://finance.gov.au/government/managing-commonwealth-resources/managing-money-property/managing-money/annual-appropriations/portfolio-budget-statements#:~:text=The%20PB%20Statements%20contain%20details,for%20which%20they%20are%20responsible.>

evaluation of the costs and benefits of various interacting, but separately managed, government programs that affect the operation of the housing market.

No one agency has objectives which aim for strategic improvements in the housing system, and currently no cross-departmental body has the remit to consider these disparate housing programs as part of a cohesive Federal Government Housing Strategy. There are no efficiency criteria by which housing policy is evaluated in the context of other programs or the overall economy.

While the Reports on Government Services provide some very useful analysis, there are no clearly identifiable records that allow for easy comparisons between all housing programs funded by the Federal Government, and comparison between years is extremely difficult. The lack of a comprehensive federal housing budget is indefensible, given the tens of billions spent every year, and the urgency with which the public believe that housing affordability should be addressed.

When all housing programs are brought together as we have attempted to do here, there are clear trends that should cause anyone concerned with fairness, social mobility and economic security to be extremely worried about the state of our housing system and the manner in which government intervenes in it.

The decline in funding that is negotiated between the Federal Government and the states and territories speaks to the retreat of the Federal Government as a strategic market shaper. Instead, housing expenditure has become reactionary and laissez faire, with governments hoping that, with billions of annual subsidies, the private rental market will do the work of housing all Australians appropriately and affordably. This has clearly been a failed experiment. Instead we simply see a redistribution of wealth to those least in need, while low income households experience rising housing stress and insecurity.

The rapid decline in affordable and available housing options for low- and middle-income households shows that there is an urgent need to for government to reclaim an interventionist role in the market as the provider of housing options for those people the market does not find it profitable to serve.

The explosion of federal taxation expenditures on investor tax concessions now eclipses expenditure on any other housing program. As a shadow housing policy, the CGT discount and negative gearing have worked to increase perverse incentives for investors. With investors able to flip properties and gain the 50% CGT discount after just one year, investors have flocked away from investment in construction.

Moreover, investment in other productive sectors of the economy, which Australians were promised by the then-Treasurer would result from the CGT discount, has apparently been crowded out by the rush to pile ever more cash into residential land.

As of January 2024, the federal Minister for Housing is developing a ten-year housing plan: the National Housing and Homelessness Plan (NHHP). An Issues Paper seeking feedback for the Plan's development released in August 2023 suggests that this plan will remain restricted to seeing housing policy as a

function of the welfare portfolio, with no clear objective to ensure everyone in Australia has access to a secure, safe, comfortable and affordable home.¹⁴

As a consequence, the next ten year intergovernmental housing agreement risks further limiting the role of the federal government to one of mitigating some of the inevitable effects of a wilfully distorted housing market on those least able to participate in it due to income barriers.

The persistence of an approach that sees a home as a consumer good, and the role of the government to provide a welfare-based safety net to those not able to buy one, rather than as a fundamental economic right enabling full participation in society and security from harm, will never achieve the fundamental housing system reform so desperately needed.

Housing in Australia is at crisis point. The issue demands a determined, interventionist policy suite coordinated by a discrete federal department under the responsibility of a federal cabinet minister.

Recommendations

Recommendation 1: The Federal Government should undertake a comprehensive review of all federal housing expenditure, whether they are cash (such as CRA), non-cash (such as public housing) or tax (such as negative gearing).

Recommendation 2: The Federal Government must establish clear housing policy objectives, such as ensuring that all residents of Australia have access to a secure, safe, comfortable and affordable home.

Recommendation 3: The Federal Government should place housing into its own, or a related economic, department of government, acknowledging that a secure home is an economic right rather than a matter of welfare.

Recommendation 4: Subsequent to Recommendation 3, the Federal Government should report total housing related spending through a portfolio budget statement in the federal budget, demonstrating its distributional effects and outcomes against agreed policy objectives.

Recommendation 5: The Federal Government should establish a broader remit for the National Housing and Homelessness Plan that considers non-welfare-based housing issues, such as the impact of monetary interest rate setting and fiscal tax policies on housing affordability for both buyers and tenants.

Recommendation 6: The Federal Government should review the operation of the Capital Gains Tax Discount and Negative Gearing tax concessions, to reduce the amount of rent seeking behaviour through investment property ownership and to encourage capital to be mobilised out of housing wealth and into productive areas of the economy.

¹⁴ For the CEH's full position on the NHHP Issues Paper, see The Centre for Equitable Housing 2023. The National Housing and Homelessness Plan: A historic opportunity not to be missed.

Appendix: data sources and estimation methods

The time series data presented in this paper have been generated through a variety of historical sources. All nominal dollar values have been adjusted to 2022 dollars using the CPI ABS 6401 time series.

- Figures for the **housing subfunction** from the budget comes from the Parliamentary Budget Office's [Historical Fiscal Dataset](#).
- Figures for **Commonwealth Rent Assistance** have been taken from the Productivity Commissions' [Report on Government Services](#), compiled from multiple years.
- Figures for **Commonwealth-State Housing Agreements**, the **National Affordable Housing Agreement** and the **National Housing and Homelessness Agreement** were also taken from the Productivity Commissions' Report on Government Services, compiled from multiple years.

For negative gearing and the CGT discount for property investors, no official figures are produced. Data for **negative gearing** come from the following sources:

- For 1993/94-2009/10 we have used data produced by Philip Soos (Soos, Philip. 2012. Written Off: Negative Gearing. Prosper Australia.)
- For 2010/11-2016/17, we use data from:
 - Molly Johnson and David Baker, March 2014, Submission to the Senate inquiry into affordable housing, the Australia Institute
 - Robert Carling, April 2015, Right or Rort? Dissecting Australia's Tax Concessions, Centre for Independent Studies
 - Matt Grudnoff, April 2015, Top Gears: How negative gearing and the capital gains tax discount benefit drive up house prices, The Australia Institute.
- For 2018/19-2022/23 we developed a ratio of negative gearing to total rental deductions by comparing the [Treasury Tax Expenditures and Insights Statement \(TEIS\), February 2023](#) with estimates for negative gearing produced by the Parliamentary Budget Office.

Specifically, on page 41 of the Tax Expenditures and Insights Statement, February 2023 the following table shows the total amount of tax deductions made by property investors over the 2018/19-2025/26 period.

2.18 Rental deductions

Rental property investors can claim deductions for expenses associated with maintaining and financing property interests. These include interest, capital works and other deductions required to maintain their rental property.

Table 2.31 Estimates of aggregate tax reduction (\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
19,400	18,600	17,000	18,000	24,400	26,600	24,800	25,800

It is estimated that around 2.4 million people claimed \$51.3 billion of rental deductions in 2019-20. This would result in a total tax reduction of \$18.6 billion.¹¹ Of the total number of people with rental deductions, almost half (1.3 million) had a rental loss, known as negative gearing, which added up to total rental losses of \$10.2 billion. These rental losses provided a tax benefit of around \$3.6 billion in 2019-20.

This data was used in conjunction with negative gearing forecast data [released by the Greens Party](#), produced by the Parliamentary Budget Office (PBO).

Tax revenue foregone, projected 2023-24 to 2032-33 (\$ million) - assuming 2.85% cash rate

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	10 yr total
Negative gearing deductions	7570.0	7656.0	8128.0	8570.0	9099.0	9720.0	10392.0	11103.0	11850.0	12674.0	96762.0
Capital gain tax discount	4783.4	4921.1	5170.8	5451.6	5751.1	6084.4	6446.9	6837.5	7233.7	7660.1	60340.6
Total	12353.4	12577.1	13298.8	14021.6	14850.1	15804.4	16838.9	17940.5	19083.7	20334.1	157102.6

These two data sources offer three years of overlap for which we have the total aggregate rental deductions of which negative gearing is a component, and reliable estimates for negative gearing: 2022/23, 2023/24 and 2025/26. Using these three years a ratio was generated of negative gearing as a share of total rental deductions. This ratio of 0.30 was then applied to the total rental deductions figures from the TEIS for the years 2018/19 – 2023/23.

Year	Total rental deductions	PBO negative gearing estimates	Ratio
2023-24	26,600	7570	0.28
2024-25	24,800	7656	0.31
2025-26	25,800	8128	0.32
Average			0.30

A similar method was used to estimate the revenue foregone from the CGT discount for property investors.

- The Tax Expenditures and Insights Statement provides estimates and forecasts of the total amount of CGT discount revenue foregone, but does not disaggregate the CGT discount which applies only to property investors.

2.2 Capital gains tax discount for individuals and trusts

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. Under this tax expenditure (E15), a capital gains tax exemption applies to 50 per cent of any nominal capital gain made by a resident individual or trust where the asset has been owned for at least 12 months.

Table 2.1 Estimates of aggregate revenue forgone (\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
10,820	9,240	9,240	17,020	23,690	10,510	10,390	10,240

In 2019-20, around 610,000 people benefited from this tax expenditure. Revenue forgone is elevated in 2021-22 and 2022-23 due to higher capital gains realisations for individuals.

However, using the total CGT discount figures from the Tax Expenditures and Insights Statement, Feb 2023, and comparing them to the PBO estimates above, there are three years of overlap from which to generate a ratio; in this case 0.48, or 48% of the total.

<i>Year</i>	<i>Total CGT discount estimate</i>	<i>Property investor CGT estimate</i>	<i>Ratio</i>
2023-24	10510	4783	0.46
2024-25	10390	4921	0.47
2025-26	10240	5171	0.50
Average			0.48

This ratio was then applied to the CGT discount revenue foregone figures reported in the Tax Expenditures and Insights Statements and Tax Expenditure Statements dating back to 2000.

Contact

Matt Lloyd-Cape

Director, Centre for Equitable Housing

0468 321 799

m.lloyd-cape@percapita.org.au

equitablehousing.org.au

**Centre for
Equitable
Housing**

A Per Capita initiative

percapita
FIGHTING INEQUALITY IN AUSTRALIA