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Labor's Housing Plan: The Monster Is In The Detail

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In 2010, the then Rudd government introduced a 40 per cent tax on mining companies. The tax took the form of a virtual co-investment that saw the Commonwealth attempting to finance risky assets at the long-term government bond rate. It was economically illiterate and no doubt contributed to the demise of Rudd's prime ministership.

It seems there is a bit of an economic reunion. The ALP have announced a 40 per cent capital gains tax on first-time home buyers purchasing a brand-new home (and 30 per cent if buying an established home). To be fair, it looks like the policy involves putting actual (borrowed) money into the mix. But still … there are serious questions to be asked about this scheme.

Of course, this 40 per cent capital gains tax isn't being sold as a tax; it is being sold as a 'housing affordability scheme'. First-time owners will effectively borrow 40 per cent of the price of a new house (subject to a geographic price cap) from the government, then have to pay a 2 per cent deposit, stamp duty, and what-have-you, and then borrow the remaining 60 per cent from a commercial lender. Then they too can share in the great Australian dream of owning their home.

There aren't just devils in the detail. There are monsters in the detail.

First, of course, is the 40 per cent capital gains tax that gets paid when the house is sold. Think about it; nobody else pays capital gains tax on the sale of their primary residence, let alone at 40 per cent. Why should low and medium income earners pay capital gains tax and nobody else? How long will it be before the 'fairness industry' prevails upon Canberra to tax everyone's primary residence? After all, it would only be fair to tax the 'rich' in a similar manner to the 'vulnerable'.

Then there is the 40 per cent rate itself. That is far, far in excess of what a reasonable interest rate would be. It's not that hard to calculate an implied interest payment and recover an appropriate percentage of the subsequent sale price. But no – the ALP are going for the high level of taxation.

Then we should consider lock-in effects. Many people flip houses as their careers evolve and family situations change. A young couple might buy something small and trade up over time, using the equity in their home to buy bigger and better homes. But with a 40 per cent bite out of their first home, many couples are going to be stuck in their first home. The need for a bigger savings effort is simply postponed, it isn't avoided.

Heaven forbid, that a home-owner under this scheme gets paid an overtime shift, or gets promoted, or moves to a better job. If people breach the income test on the scheme two years in a row, they have to pay the government back. This scheme both reduces geographic mobility and discourages income mobility. This is going to be very tough on some people, especially as inflation ramps up but income thresholds do not.

Think about the problem of the government being a joint owner of your house. Will you need permission to knock a hole in the wall? Will you be required to maintain it to a particular standard? Will federal inspectors turn up to ensure that the Commonwealth's investment is being well cared for? If not, why not? What happens if housing prices fall?

How will the geographic and region parity conditions be maintained and updated? Frankly, how were they even chosen: Is a $550,000 house in the Northern Territory really equivalent to a $950,000 house in Sydney?

This is policy by thought bubble. Housing affordability is a problem. Young people struggle to pay their HECS debts, compulsory super, save for a deposit, health insurance, and so on. A 40 per cent tax on their single largest investment – their first investment too – might sound like a good idea, but it simply kicks the can down the road.

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