

2009 Australia's Future Tax and Transfer
System

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**Aspects of the taxation of savings and wealth;
housing and pensions**

Discussant Comments

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Taxation, Housing and Pensions

- Does the tax treatment of owner occupied housing and its treatment under pension asset tests help shape?
 - Savings strategies and the asset composition of wealth portfolios
 - Financing decisions with respect to owner occupied housing
- Who receives what from housing tax and transfer subsidies?
- Are their housing policy implications of these incentives to invest in owner occupied housing?



Owner Occupied Housing remains an important component of wealth portfolios

Table 1: Mean Wealth of Rental Investors & Housing Consumers, 2006

Wealth component	Rental investors		Housing consumers	
	Mean (\$'000)	% of gross wealth	Mean (\$'000)	% of gross wealth
Primary home	531.7	33.3%	316.6	51.8%
Other property	328.3	20.6%	7.7	1.3%
Equity investments	124.0	7.8%	53.0	8.7%
Cash investments	4.7	0.3%	2.9	0.5%
Trust funds	47.5	3.0%	9.5	1.6%
Bank accounts	57.8	3.6%	27.7	4.5%
Life insurance	12.1	0.8%	7.8	1.3%
Superannuation	287.5	18.0%	116.8	19.1%
Business	160.6	10.1%	45.8	7.5%
Vehicle	34.9	2.2%	20.8	3.4%
Collectibles	8.0	0.5%	3.1	0.5%
Total wealth	1597.4	100.0%	611.6	100.0%

Source: Authors' calculations, confidentialised unit record data from the 2006 HILDA Survey

Loan-to-Value Ratios, Australia & United States

Table 3: Loan-to-Value Ratios by Age and Gross Income Quintile of All Home Owners, Australia & United States, Per Cent¹

Age (years)	Gross income (Y) quintile (\$'000)					All
	Y<=22	22<Y<=39	39<Y<=65	65<Y<=99	Y>99	
	Australia					
25-34	33.2	42.2	55.8	59.4	56.9	55.3
35-49	25.1	27.0	36.5	36.3	37.1	35.1
50-65	7.8	8.8	17.5	18.5	21.2	15.7
>65	1.2	0.6	3.4	2.1	1.3	1.3
All	5.5	9.9	26.7	31.6	32.3	22.0
	United States					
25-34	60.5	72.8	71.2	67.3	57.7	68.9
35-49	51.2	60.0	55.3	53.2	36.7	55.0
50-65	29.3	29.6	37.3	34.8	29.5	32.5
>65	9.8	13.5	18.4	12.7	7.2	11.6
All	25.9	44.9	47.4	42.6	29.4	38.6

Source:

Australian LVRs - Authors' calculations, confidentialised unit record data from the 2006 wave 6 HILDA Survey;

US LVRs – Poterba & Sinai *American Economic Review: Papers & Proceedings*, 2008

Note: 1. Australian LVRs are for 2006; US LVRs are for 2004

Who receives what from recurrent housing tax-transfer arrangements?

Table 2: Mean Recurrent Housing Tax and Transfer Assistance by Age and Equivalised Disposable Income Quintile, 2006¹

Age (years)	Equivalised disposable income (Y) quintile (\$'000)					All
	Y≤37	37<Y≤58	58<Y≤81	81<Y≤114	Y>114	
	<i>Dollar value (\$)</i>					
25-34	1898.6	974.2	-473.5	-1025.5	-1575.1	-365.4
35-49	2224.6	1116.9	234.4	-372.7	-223.8	422.5
50-65	3094.7	3578.2	2128.0	2172.3	1860.4	2477.3
>65	3828.5	6420.6	5202.4	7743.0	6336.8	5304.8
All	3085.9	3409.6	1246.1	949.3	746.8	1894.5
	<i>Per cent of income (%)</i>					
25-34	8.7	2.0	-0.7	-1.1	-1.0	-0.4
35-49	8.7	2.3	0.3	-0.4	-0.1	0.5
50-65	14.1	7.5	3.0	2.2	1.0	2.7
>65	11.7	14.0	7.7	8.2	3.4	9.2
All	11.3	7.2	1.8	1.0	0.4	2.3

Source: Authors' calculations, confidentialised unit record data from the 2006 HILDA Survey

Note: 1. Excludes one-off transfers, that is, FHOG and stamp duty concessions and capital gains tax exemption.

Are there housing policy implications of these incentives to invest in owner occupied housing?

- Poor utilisation of the housing stock – stamp duties on conveyance are relevant here
- Homeowners exposed to price risk/market volatility – yet financial markets do not offer instruments that allow home owners to hedge price risk
- Lifelong renters and those who fall off the homeownership ladder do not benefit to the same extent

