

An aspect of the housing shortage in Australia that could be dealt with (at least in part) through the taxation system.

The problem:

- Many houses are being underused or unused. I don't know how to account the number, but I bet it's approaching the one million mark.

The basic cause:

- Older Australians remaining in houses larger than they need, after children have left ("empty nesters").

The effects:

- Housing shortage
- Large amounts of capital effectively quarantined from the economy

Some of the reasons:

- Sentimental reasons.
- Older Australians holding onto houses because to sell them would convert the capital held in their homes into an asset that would affect their pension entitlement. This also includes hundreds of thousands of people living in nursing homes and aged hostels, whose homes are often left completely empty.
- An interest in maximising the return to heirs and avoid 'taxation' (since to sell and buy would incur stamp duties of approximately 5% of the value of the smaller home, plus other relocation expenses).
- A socio-cultural expectation (that you keep 'the home' to pass it on to the kids).

What might be done:

- anything that's done on the finance/taxation side of things would need to be supported (or lead) with an effective public communications exercise.
- If they downsize, exempt empty-nesters from stamp duty on their new home. At first glance, this suggests a loss in revenue to the state, but when you consider that if they held on to the original home and bequeathed it, there would be no income through stamp duty to the state, whereas if they sell it the purchaser will have to pay stamp duty, it's actually an increase in revenue to the state.
- If after they downsize, there is capital left over, allow the holders of that capital to distribute it as they wish, and exempt any recipients from having to declare it as income from a gift. This again initially seems like a cost to the state, but again if you consider that if this amount was received by heirs after death, they would automatically be exempt from declaring it as income anyway.
- If (existing) pensioners downsize (or more simply just sell their homes), exempt them from declaring capital raised this way as an asset for means testing for their pension.

The benefits (of the above):

- large amounts of housing released (potentially) for more efficient use
- large amounts of capital directed towards building/providing smaller residences
- large amounts of capital released into the economy now, rather than later as older Australians (slowly) die.

- Older Australians being able to direct a substantial part of their wealth at no cost to their heirs while still alive, being able to enjoy seeing them, for example, using that wealth to buy or build their own homes.

Simplifying and extending the idea:

- why stop at 'empty-nesters' – let anyone who's prepared to move to a smaller/cheaper home enjoy the benefits described above. Since the idea doesn't cost the state anything, and adds to the economy, and encourages the more efficient allocation of housing, and encourages the building of more (smaller) housing, why not?

Thank you.

Ric Curnow