Budget 2017

Reducing Pressure on Housing Affordability

A Comprehensive Plan to Address Housing Affordability

The Government is providing housing solutions across the entire housing spectrum – from Australians struggling to put a roof over their head to those in affordable housing, private renters and first home buyers.

Access to secure and affordable housing has significant economic and social benefits. It can improve education and health outcomes, increase workforce participation and reduce welfare dependency.

Improving housing affordability right across the housing spectrum must be a key objective for government at all levels. There is no silver bullet. The response must be well targeted and coordinated.

The Government is delivering a comprehensive housing affordability plan designed to improve outcomes across the housing spectrum.

Overview

The Government is improving Australians' access to secure and affordable housing across the housing spectrum.

Unlocking supply

The Government will ease restrictions that are contributing to the supply of housing falling behind population growth and encouraging a more responsive housing market by:

- working with State and Territory governments to set housing supply targets and facilitate planning and zoning reform under a new National Housing and Homelessness Agreement;
- establishing a $1 billion National Housing Infrastructure Facility to address infrastructure chokepoints that are impeding housing development in critical areas of undersupply;
- establishing an online Commonwealth land registry that will provide more detailed information about Commonwealth land to external parties in a mapped format, allowing and encouraging proposals for higher value land use, including housing development proposals;
- releasing suitable surplus Commonwealth land starting with 127 hectares of Defence land in Maribyrnong, which is less than 10 kilometres from the Melbourne CBD and could support up to 6,000 new homes; and
- kick-starting planning and zoning reform across eight local government areas facing above average population growth and affordability pressures in Western Sydney through a new City Deal for Western Sydney.

Creating the right incentives

The Government is taking prudent steps to ensure incentives are better aligned with improving housing outcomes, including:

- assisting first home buyers to build a deposit inside superannuation. Voluntary contributions of up to $15,000 per year and $30,000 in total will attract concessional tax treatment under the First Home Super Saver Scheme. The scheme commences on 1 July 2017, and contributions and deemed earnings, net of tax, can be withdrawn from 1 July 2018;

- allowing older Australians to contribute downsizing proceeds into superannuation. From 1 July 2018, individuals aged 65 and over will be able to make a non-concessional contribution of up to $300,000 in proceeds from the sale of a principal residence, held for at least 10 years, into their superannuation. These new contributions will be in addition to any other voluntary contributions that people are able to make under the existing contribution rules and concessional and non-concessional caps;
- strengthening the capital gains tax (CGT) rules to reduce the risk that foreign investors avoid paying CGT in Australia, including by no longer allowing foreign or temporary tax residents to claim the main residence CGT exemption, and by expanding the scope of the CGT withholding system for foreign residents;
- safeguarding the opportunity for Australian buyers to purchase in new developments by introducing a 50 per cent cap on pre-approved foreign ownership in new developments; and
- encouraging foreign owners of residential real estate to rent their properties out by applying an annual charge of at least $5,000 (reflecting the original application fee) to foreign owners who leave their properties unoccupied or not available for rent for 6 months or more each year.

Improving outcomes for those most in need

The Government will improve outcomes in social housing and homelessness by:

- working with State and Territory governments to reform Commonwealth funding arrangements under a new National Housing and Homelessness Agreement, retaining current funding and indexation arrangements but requiring concrete outcomes;
- providing additional funding of $375 million over three years as part of the new National Housing and Homelessness Agreement to fund front line services to address homelessness;
- encouraging social impact investing to support innovative approaches to reduce homelessness;
- incentivising more private investment in affordable housing through tax incentives; and
- establishing the National Housing Finance and Investment Corporation to operate an affordable housing bond aggregator to provide cheaper and longer-term finance for the community housing sector.

For more information on measures and initiatives in the Government's Reducing Pressure on Housing Affordability plan, see related factsheets:

Fact sheet 1.1: A Comprehensive Plan to Address Housing Affordability

Fact sheet 1.2: National Housing Infrastructure Facility

Fact sheet 1.3: Unlocking Commonwealth land

Fact sheet 1.4: First Home Super Saver Scheme

Fact sheet 1.5: Reducing barriers to downsizing

Fact sheet 1.6: Stronger rules for foreign investors owning Australian housing

Fact sheet 1.7: A new National Housing and Homelessness Agreement

Fact sheet 1.8: Establishing the National Housing Finance and Investment Corporation

Fact sheet 1.9: Encouraging Social Impact Investing

Fact sheet 1.10: Boosting affordable housing for Australians through investment tax incentives

Fact sheet 1.11: Housing package for Western Sydney

A comprehensive housing affordability plan for all Australians

The Government has a comprehensive and targeted plan that will improve outcomes across the housing spectrum.

Unlocking supply

- A new National Housing and Homelessness Agreement linked to outcomes including aggregate housing supply targets
- Encouraging planning and zoning reforms
- Establishing the $1 billion National Housing Infrastructure Facility
- Investing in cities through City Deals, including in Western Sydney
- Releasing suitable Commonwealth land, starting with 127 hectares of surplus Defence land in Melbourne
- Developing a public and online Commonwealth land registry

Crisis — In 2015-16, over a quarter of a million people were assisted by specialist homelessness agencies

Social — As at 30 June 2016, there were almost 200,000 households on social housing waiting lists

Affordable Rental — The most recent figures show that there is a shortage of 271,000 affordable and available homes for low income households

Private Rental — The number of low income households experiencing rental stress has increased from 43 to 54 per cent in Greater Sydney and 37 to 45 per cent in Greater Melbourne, between 2007-08 and 2013-14

Assisted Home Ownership

Home Ownership — The average number of years to save for a deposit on a house has increased from 5 to 8 years in Sydney, and from 4 to 6 years in Melbourne over the last decade.

Improving outcomes for those most in need

A new $4.6 billion National Housing and Homelessness Agreement including $375 million of new funding for homelessness

Funding Social Impact Investing

- Establishing the National Housing Finance and Investment Corporation
- Increasing the capital gains tax discount to 60 per cent for individual investors in affordable housing
- Encouraging investment in affordable housing by Managed Investment Trusts
- Strengthening the regulation of community housing providers nationally
- Supporting The Big Issue's Homes for Homes Initiative

Creating the right incentives

- Developing standard long-term leases
- Introducing an annual tax on foreign owners of vacant residential properties

Promoting rent-to-buy and shared equity schemes

- Allowing first home buyers to build deposits within superannuation through voluntary contributions
- Reducing barriers to downsizing to free up larger homes for families
- Improving the integrity of capital gains tax rules for foreign investors
- Limiting foreign investment approvals in new developments
- Encouraging new housing that is offered exclusively to first home buyers

Budget 2017

Reducing Pressure on Housing Affordability

National Housing Infrastructure Facility

The Government is establishing a $1 billion National Housing Infrastructure Facility (NHIF) that will finance the critical infrastructure needed to speed up the supply of new housing.

The issue

The high costs of building critical infrastructure such as roads and water networks, faced by local governments, can delay the commencement of developments and slow the supply of new homes. Early investment is critical to speeding up the supply of new housing.

The details

The NHIF will provide $1 billion over 5 years to support local governments through a range of options to finance critical infrastructure such as:

- transport links;
- power and water infrastructure; and
- site remediation works.

The NHIF will help local governments address infrastructure bottlenecks that impede development and build the infrastructure needed to speed up the supply of new housing.

Assistance provided to local governments

The $1 billion NHIF will provide local governments the opportunity to access up to:

- $600 million in concessional loans;
- $225 million in equity investments; and
- $175 million in grants.

Payments will be made to local governments through State and Territory governments.

Structure and governance

The NHIF will be administered by the National Housing Finance and Investment Corporation (NHFIC). The NHFIC will also operate an affordable housing bond aggregator to encourage greater private and institutional investment and provide cheaper and longer-term finance to registered providers of affordable housing (see fact sheet 1.8).

The Government will be able to direct the NHIF to invest in particular projects where this addresses a significant housing supply issue.

Timeframe for local government applications

From 1 July 2018 the NHIF will assess applications for financial assistance from local governments.

Applications will be assessed by the independent Board of the National Housing Finance and Investment Corporation.

Further details on the eligibility criteria for financial assistance and other requirements will be informed through consultations.

Budget 2017

Reducing Pressure on Housing Affordability

Unlocking Commonwealth Land

The Government is committed to making housing more affordable and increasing the supply of new housing. That is why the Commonwealth is making sure its surplus land holdings are put to better use, including for the development of residential housing.

The issue

The Government is actively contributing to the supply of housing by disposing of land that is suitable for residential housing and no longer required by the Commonwealth, beginning with surplus Defence land at Maribyrnong in Melbourne.

The Government is developing a public, online registry of its land holdings. This will allow other levels of government, private businesses and community groups to bring forward proposals to put the land to better use, including for housing development. The Government is looking to State, Territory and local governments to do the same.

The details

Using surplus land for housing

The Government is committed to making under-utilised and surplus Commonwealth land available for housing and city shaping outcomes.

The Government will divest 127 hectares of surplus Defence land in Maribyrnong – less than 10 kilometres from the Melbourne CBD. This land, once remediated, is large enough to develop up to 6,000 new homes.

The Government is committed to working with the Victorian Government and the Maribyrnong City Council to ensure the development includes an appropriate share of social and affordable housing and that it is properly serviced by supporting infrastructure.

The Government recognises that the Maribyrnong site has cultural and social heritage value and that a range of Defence activities were conducted on the site over several decades.

A Heritage Plan has been prepared and a number of its historical features will be integrated into the new development.

Remediation of the site including repair or removal of deteriorating buildings and contaminants needs to undertaken before the site can be developed. As such, it may be some years before the construction of new homes commences.

A Commonwealth land registry

The Government recognises that openness and transparency can support better decision making and ensure that Commonwealth land is put to its most effective use.

From 1 December 2017, the Government will publish a registry of the Commonwealth's land holdings online, including mapping their locations.

This registry will create opportunities for stakeholders and the public to propose better use of Commonwealth land — whether this might be to deliver more houses, community amenities, key services or employment hubs.

Defence Site Maribyrnong, Melbourne

Questions and answers

Isn't Defence site Maribyrnong contaminated?

- Yes. This is why the Government is committed to further investigating and cleaning up the contaminants and hazards on the site.
- This is important not only for future residents but for people who will work on the site during development and also for local businesses and people who work or live in the area. Removal of the highest risk hazards will be led by the Department of Defence.

When will the Maribyrnong defence site be sold?

- The Department of Defence will commence a process of market testing later in 2017 to invite potential options for sale, remediation and future development.

How long will it take to develop the site?

- Remediation of the site could take several years. Development could commence following the removal of the most hazardous materials from the site.

Budget 2017

Reducing Pressure on Housing Affordability

First Home Super Saver Scheme

The Government will help Australians boost their savings for their first home by allowing them to build a deposit inside superannuation.

The issue

Australians are entering the housing market later in life than previous generations. With house prices high, difficulty saving a deposit is a key barrier to getting into the market.

The details

From 1 July 2017, individuals can make voluntary contributions of up to $15,000 per year and $30,000 in total, to their superannuation account to purchase a first home. These contributions, which are taxed at 15 per cent, along with deemed earnings, can be withdrawn for a deposit. Withdrawals will be taxed at marginal tax rates less a 30 per cent offset and allowed from 1 July 2018.

For most people, the First Home Super Saver Scheme could boost the savings they can put towards a deposit by at least 30 per cent compared with saving through a standard deposit account. This is due to the concessional tax treatment and the higher rate of earnings often realised within superannuation.

Many employees will be able to take advantage of salary sacrifice arrangements to make pre-tax contributions.

Individuals who are self-employed or whose employers do not offer salary sacrifice can claim a tax deduction on personal contributions, meaning savings effectively come out of pre-tax income.

Voluntary contributions under this scheme must be made within existing superannuation caps. The total concessional contributions an individual can make, from both compulsory employer contributions and voluntary contributions, including those made under the scheme cannot exceed $25,000 in 2017-18.

The amount of earnings that can be released will be calculated using a deemed rate of return based on the 90 day Bank Bill rate plus three percentage points (as per the Shortfall Interest Charge).

The First Home Super Saver Scheme will be administered by the ATO, which will determine the amount of contributions that can be released and instruct superannuation funds to make these payments accordingly.

Impact

This measure will assist first home buyers to save a deposit for their home faster.

Budget impact

This measure is estimated to have a cost to revenue of $250 million over the forward estimates.

Boosting Michelle and Nick's first home deposit

Michelle earns $60,000 a year and wants to buy her first home. Using salary sacrifice, she annually directs $10,000 of pre-tax income into her superannuation account, increasing her balance by $8,500 after the contributions tax has been paid by her fund. After three years, she is able to withdraw $27,380 of contributions and deemed earnings on those contributions. Her withdrawal is taxed at her marginal rate (including Medicare levy) less a 30 per cent offset. After paying $1,620 of withdrawal tax she has $25,760 that she can use for her deposit. Michelle has saved around $6,240 more for a deposit than if she had saved in a standard deposit account.

Michelle's partner Nick has the same income and also salary sacrifices $10,000 annually to superannuation over the same period. Together they have $51,520 that they can put towards a deposit, $12,480 more than if they had saved in a standard deposit account.

Questions and answers

How can people understand what benefit they could receive from using this measure?

- The Government is providing an online estimator to help people understand the advantages of saving for a home deposit through superannuation. To access the estimator go to **www.budget.gov.au/estimator.**

How will this scheme be administered?

- The ATO has the primary responsibility for administering the scheme. The ATO will be responsible for determining the eligibility of the person seeking a release and for calculating the release amounts based on information provided by the applicant and superannuation funds. The main responsibility of superannuation funds will be responding to a release request authorised by the ATO.
- The ATO will also be responsible for administering compliance mechanisms to ensure that people purchase their first home after they withdraw from superannuation for their deposit. The Treasury will develop appropriate mechanisms with the ATO, which the Government will consult on before legislating, to deliver integrity while minimising compliance impacts.

Will a release from superannuation for housing that is taxed on withdrawal also trigger a reduction in social security entitlements?

- No. Whilst the concessional part of a release amount will be included in a person's taxable income it will not flow through to other income tests used for other purposes, such as for calculation of HECS/HELP repayments, family tax benefit or child care benefit. This reflects that these withdrawals represent a return of capital.

Can non-concessional contributions (post-tax) be made under the scheme?

- Yes. Non-concessional contributions can also be made within the scheme. While these contributions will not benefit from a tax concession, earnings on these contributions will benefit from the concessional rate of tax in superannuation and the higher returns often realised inside superannuation. When non-concessional amounts are withdrawn, they will not be taxed.

Budget 2017

Reducing Pressure on Housing Affordability

Reducing barriers to downsizing

The Government will encourage some older people to downsize from homes that no longer meet their needs and free up housing stock for young families starting out. Older Australians will be provided with greater flexibility to contribute the proceeds of the sale of their home into superannuation, reducing a current disincentive to downsizing.

The issue

Being unable to invest the proceeds of selling their home into superannuation discourages some older people from downsizing. This means many larger family homes sit occupied by only singles or couples. Encouraging downsizing should enable more effective use of the housing stock by freeing up larger homes for younger, growing families.

The details

From 1 July 2018, people aged 65 and over will be able to make a non-concessional (post-tax) contribution into their superannuation of up to $300,000 from the proceeds of selling their home.

The existing voluntary contribution rules for people aged 65 and older (work test for 65-74 year olds, no contributions for those aged 75 and over) and restrictions on non-concessional contributions for people with balances above $1.6 million will not apply to contributions made under this new special downsizing cap.

This measure will apply to a principal place of residence held for a minimum of 10 years. Both members of a couple will be able to take advantage of this measure for the same home, meaning $600,000 per couple can be contributed to superannuation through the downsizing cap.

These new contributions will be in addition to any other voluntary contributions that people are able to make under the existing contribution rules and concessional and non-concessional caps.

Impact

This measure will encourage some people to downsize into housing that is more suitable to their needs, freeing up larger family homes.

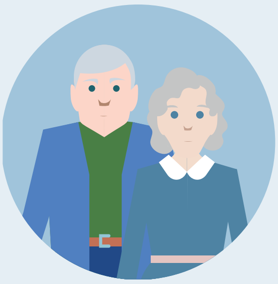
It will assist people aged 65 and over who are currently unable to contribute all or any proceeds of the sale of their home into superannuation because of the existing restrictions and caps.

Budget impact

This measure is estimated to have a cost to revenue of $30 million over the forward estimates.

Helping George and Jane downsize

George and Jane, both retired and aged 76 and 69, sell their home to move into more appropriate accommodation. The sale proceeds are $1.2 million. They can both make a non-concessional contribution into superannuation of $300,000 ($600,000 in total), even though Jane no longer satisfies the standard contribution work test and George is over 75. They can make these special contributions regardless of how much they already have in their accounts.



Helping John and Sarah downsize

John and Sarah, who are still working part-time at age 65, decide to sell the large family home after all the children move out. The sale proceeds are $1.4 million. They are both able to make a non-concessional contribution of $300,000 ($600,000 in total) into superannuation. This is regardless of how much they have in their accounts already. They may also be able to make additional contributions to their superannuation using the sale proceeds under standard contribution arrangements.

Questions and answers

Will sale proceeds contributed to superannuation under this measure count toward the Age Pension assets test?

- Yes. Any change in the person's superannuation balance as a result of this measure will count towards the Age Pension assets test.

Will contributions made under this measure be exempt from the $1.6 million transfer balance cap?

- No. Only people who have remaining transfer balance cap space will be able to convert their contributions into a pension phase account where earnings are tax-free.

Will the $1.6 million balance threshold for making non-concessional contributions also apply to the special downsizing cap?

- No. Restrictions on non-concessional contributions for people with balances above $1.6 million will not apply to contributions made under this new special downsizing cap

Budget 2017

Reducing Pressure on Housing Affordability

Stronger rules for foreign investors owning Australian housing

The Government is ensuring that Australian homes are available for Australians. The Government will place a limit on foreign ownership in new developments; introduce an annual charge on foreign owners who buy residential property and leave it vacant; and tighten the foreign investor tax integrity rules to reduce avoidance of capital gains tax on Australian property.

Limiting foreign ownership in new developments

The Government will ensure that dwellings in new developments in Australia are kept available for Australians by introducing a 50 per cent cap on foreign ownership in new developments. This will be applied through conditions imposed on New Dwelling Exemption Certificates.

New Dwelling Exemption Certificates are granted to property developers and act as pre-approval allowing the sale of new dwellings in a specified development to foreign persons without each foreign purchaser seeking their own foreign investment approval. The current Certificates do not limit the proportion of dwellings that may be sold to foreign investors.

This will strengthen the existing rules that apply to Certificates, where the Government considers whether developers market or advertise the development in Australia.

The new 50 per cent cap builds on the existing rules to ensure Australian buyers have access to a greater pool of homes to buy in these new developments.

Developments have to be multi-storey and have at least 50 dwellings.

Impact

From Budget night, developers who are granted a New Dwelling Exemption Certificate will be subject to a condition which limits the sale to foreign investors of new dwellings in that development to 50 per cent.

Budget impact

This measure is estimated to have no revenue impact over the forward estimates.

Charging foreign owners who leave their residential properties vacant

To discourage foreign investors from buying residential properties and leaving these vacant, the Government will now charge foreign owners of residential properties an annual charge if the property is not occupied or available to rent for at least six months in each year.

This is expected to increase the number of homes available to Australians wishing to rent. The annual vacancy charge will apply to foreign persons who make a foreign investment application for residential property from 7.30pm on Budget night 2017.

Impact

Where a foreign-owned residential property is left vacant for more than six months in a year, a charge will be levied on the foreign owner equivalent to the foreign investment application fee which was paid at the time of application.

The new charge builds on the Government's existing foreign investment regime which seeks to increase the number of houses available for Australians to live in. The charge provides a financial incentive for the foreign owner to make their property available on the rental market if they do not intend to reside there.

This will be administered by the ATO.

Budget impact

This measure is estimated to have a gain to revenue of $20 million over the forward estimates.

Improving the integrity of capital gains tax rules for foreign investors

The Government is introducing reforms to reduce the avoidance of capital gains tax in Australia by foreign investors.

This will send a clear message to foreign investors that if they wish to acquire Australian residential property, they will have to comply with our stringent capital gains tax rules.

The Government will stop foreign and temporary tax residents from claiming the main residence capital gains tax exemption when they sell property in Australia from Budget night. Foreign and temporary tax residents who hold property on Budget night can continue to claim the exemption until 30 June 2019.

The Government will also bolster the foreign resident capital gains tax withholding regime by increasing the withholding rate from 10 per cent to 12.5 per cent, as well as increasing the number of foreign residents caught by the regime by reducing the threshold from $2 million to $750,000. These changes will apply from 1 July 2017 and will reduce the risk that foreign residents avoid paying a capital gains tax liability they owe in Australia.

Budget impact

These changes to improve the integrity of capital gains tax rules for foreign investors are estimated to have a gain to revenue of $600 million over the forward estimates.

Budget 2017

Reducing Pressure on Housing Affordability

A new National Housing and Homelessness Agreement

The Government is introducing a new National Housing and Homelessness Agreement with State and Territory governments to increase the supply of new homes and improve outcomes for all Australians across the housing spectrum, particularly those most in need.

The issue

The 2016 COAG Report on Performance confirmed that three out of four benchmarks set by the National Affordable Housing Agreement had not been achieved, despite the Government providing the States with over $9 billion since 2009. From 2009 to 2016, growth in the size of the social housing stock has stagnated and numbers on waiting lists have increased.

The Government will establish a new national agreement, with the requirement for concrete outcomes to build more homes and ensure improved housing outcomes across the housing spectrum. It will include specific funding for homelessness and provide greater certainty to providers of front line homelessness services.

The details

The Government will work with State and Territory governments through a new National Housing and Homelessness Agreement (NHHA) to deliver more affordable housing and build more homes.

Only one out of four benchmarks met*

- **10 per cent reduction in the proportion of low-income renter households experiencing rental stress**: no evidence that progress has been made. Instead, this increased from 35.4 per cent in 2007-08 to 42.5 per cent in 2013-14 (up 7.1 per cent);
- **7 per cent reduction in number of homeless from 2006 to 2013**: increase from just under 90,000 in 2006 to over 105,000 in 2011, a 17.3 per cent increase;
- **10 per cent increase in proportion of Indigenous Australians who own their own home from 2008 to 2017-18**: no evidence of any increase since 2008;
- **20 per cent reduction in proportion of Indigenous households living in overcrowded conditions**: 16 per cent decrease in the proportion between 2008 and 2012-13 (only benchmark on track to be met).

Funding maintained and ongoing

- The NHHA will maintain the Commonwealth's current funding of over $1.3 billion a year provided under the National Affordable Housing Specific Purpose Payment.

*2016 COAG Report on Performance

- The new agreement will provide $375 million over three years from 2018-19: maintaining the current $115 million of annual homelessness funding provided under the National Partnership Agreement on Homelessness (NPAH). This funding will be ongoing and indexed, to maintain and provide certainty to front line services that help Australians who are homeless or at risk of becoming homeless.

Ensuring better outcomes

Under the NHHA, funding to State and Territory governments will be linked to outcomes in priority areas including:

- aggregate supply targets, including targets for social and affordable housing;
- residential land planning and zoning reforms;
- inclusionary zoning arrangements (land use planning intervention requiring or incentivising affordable housing including dedicated first home buyer stock);
- renewal of public housing stock and transfer of public housing to community housing providers; and
- homelessness services.

Bilateral schedules with clear targets will help ensure that each State and Territory is accountable for better outcomes that recognise the different housing markets in each State. These agreements will be underpinned by improved transparency and reporting and will be negotiated between the Commonwealth and each State and Territory.

Prioritising homelessness funding

To ensure that funding for front line homelessness services is preserved, the NHHA will separately identify the indexed funding, to be matched by the States, that relates to the NPAH. This funding will continue to prioritise support for people affected by domestic violence and vulnerable young Australians.

Budget impact

This measure will have a cost of $381.8 million over three years from 2018-19.

This includes $375.3 million for ongoing funding for homelessness and $6.5 million for the National Competition Council (NCC) to assist with the implementation and ongoing assessment of State and Territory performance.

Current (figures for 2016-17)

2018-19 and beyond

National Affordable Housing Agreement (NAHA)

Affordable Housing funding

National Affordable Housing Specific Purpose Payment (NAHSPP)

- Over $1.3 billion per year
- Ongoing funding
- Indexed annually

Homelessness funding

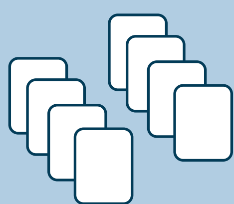
National Partnership Agreement on Homelessness (NPAH)

- $115 million per year
- Terminating 30 June 2018
- Not indexed
- Matching funding by States and Territories

National Housing and Homelessness Agreement (NHHA)

- $4.6 billion over 3 years including $375 million of new homelessness funding
- Combines funding for NAHSPP and NPAH
- Ongoing funding linked to outcomes in priority areas including aggregate supply and planning and zoning reforms
- Indexed annually
- Dedicated homelessness funding, to be matched by States and Territories, with a continued focus on people affected by domestic violence and vulnerable young people who are homeless or at risk of homelessness.

Bilateral schedules with States



Questions and answers

Is funding being cut?

- No. Funding will be increased under the new NHHA, with funding for housing and homelessness being made permanent and indexed annually. This will provide greater certainty to important frontline services which are dealing with homelessness issues.

Why is the Government moving to bilateral schedules?

- Housing market conditions vary considerably across and within States and Territories and between metropolitan and regional areas.
- These agreements will be negotiated between the Commonwealth and each State and Territory to reflect these differences.
- Bilateral schedules will ensure that each State and Territory is held to account to deliver better outcomes in order to receive payments.

Could the Commonwealth withhold payments to the States?

- The Government and individual States and Territories will agree on targets backed by specific, measurable actions aimed at unlocking supply and other initiatives designed to address issues specific to their jurisdiction.
- This is a fair and accountable process to deliver better outcomes.

Will States and Territories still match funding on homelessness?

- The Commonwealth is providing indexed homelessness funding and expects States to match this commitment.

Does the funding under the NHHA take account of the Social and Community Services (SACS) Equal Remuneration Order (ERO)?

- Yes. The $4.6 billion funding for the NHHA includes funding for the SACS ERO.

Budget 2017

Reducing Pressure on Housing Affordability

Establishing the National Housing Finance and Investment Corporation

The Government will establish the National Housing Finance and Investment Corporation (NHFIC) to operate an affordable housing bond aggregator to encourage greater private and institutional investment and provide cheaper and longer-term finance to registered providers of affordable housing.

The issue

The Government recognises that greater private and institutional investment is needed to expand the community housing sector and provide more Australians with access to affordable rental housing.

The NHFIC will operate an affordable housing bond aggregator to provide cheaper and longer term finance for community housing providers by aggregating their borrowing requirements and issuing bonds into the wholesale market at a lower cost and longer-term than traditional bank finance.

The benefits of accessing finance more efficiently will allow community housing providers to reinvest into expanding the supply of affordable housing.

This will help to improve outcomes for social housing and homelessness.

The NHFIC will also administer the $1 billion National Housing Infrastructure Facility (NHIF) (see fact sheet 1.2).

The details

The Government will provide an initial $9.6 million in 2017-18 to establish the NHFIC, which will commence operations from 1 July 2018.

The Government will settle the final details of the NHFIC following advice from the Affordable Housing Implementation Taskforce, due by mid 2017.

Stakeholders from the finance, community housing, developer and government sectors have shown strong support for a bond aggregator.

The bond aggregator model has been successfully implemented in the United Kingdom through The Housing Finance Corporation (THFC) which administers £5 billion in loans to housing associations.

The NHFIC will also administer the NHIF, a five-year $1 billion facility that will provide local governments with concessional loans, grants and equity to finance critical infrastructure required to deliver more housing supply sooner.

Budget 2017

Reducing Pressure on Housing Affordability

Encouraging Social Impact Investing

The Government will partner with the States and Territories and other stakeholders to trial Social Impact Investing to determine the effectiveness of outcomes-focussed investing in improving housing and welfare for young people.

The issue

The Government will invest in social impact projects to support innovative approaches to reducing youth homelessness – a complex challenge.

Social Impact Investing (SII) is an emerging, outcomes-focussed approach that brings together governments, service providers, investors and communities to tackle a range of complex policy, social and environmental issues. SII provides governments with an alternative and innovative mechanism to address social and environmental issues while also leveraging government and private sector capital, building a stronger culture of robust evaluation and evidence-based decision making, and creating a heightened focus on outcomes, to the ultimate benefit of the users of services.

The Government will also release a set of principles to guide its involvement in SII.

The details

From 2017-18, the Government will invest $10.2 million over 10 years to trial the use of Social Impact Investments aimed at improving housing and welfare outcomes for young people at risk of homelessness.

The trials will be undertaken in partnership with States and Territories and target priority groups, including those supported by specialist homelessness services exiting the out-of-home care system or institutions such as juvenile detention.

It is anticipated that the first investment for youth homelessness would be ready for implementation in 2018-19.

The Government will consult with States and Territories to design a process to identify partner governments.

This project complements broader SII funding where the Government is providing $20.2 million over 10 years (from 2017-18) to encourage the continued development of the SII market in areas other than homelessness.

This additional funding includes $8 million over four years to establish an SII Readiness Fund that will help organisations to build their skills and capabilities to develop projects and business plans for SII opportunities.

It also includes $12.2 million in funding for additional trials of investments in partnership with the States and Territories, and to facilitate data sharing and improved outcomes measurement with the States and Territories.

Impact

Beneficiaries of these investments would include young people aged under 25 and experiencing one or more risk factors around homelessness. These would include State and Territory government priority groups such as young people exiting the out-of-home care system or institutions such as juvenile detention.

Budget impact

The cost of the measure for the Social Impact Investments trial Housing Affordability Strategy is $10.2 million over 10 years (or $2.1 million over four years).

Budget 2017

Reducing Pressure on Housing Affordability

Boosting affordable housing for Australians through investment tax incentives

The Government's comprehensive and targeted plan will create the right incentives to encourage investment in affordable rental housing.

The issue

The Government recognises the importance of investing in affordable housing to meet the housing needs of Australians now and into the future. This is why the Government is introducing tax incentives to boost investment in affordable housing.

Increasing the capital gains tax (CGT) discount for investors in affordable housing

From 1 January 2018, the Government will provide an additional 10 per cent CGT discount to resident individuals investing in qualifying affordable housing. This means investors in qualifying affordable housing will be entitled to a 60 per cent discount on capital gains tax.

To qualify for the additional discount, housing must be provided at below market rent and made available for eligible tenants on low to moderate incomes. Tenant eligibility will be based on household income thresholds and household composition.

The affordable housing must also be managed through a registered community housing provider and the investment held as affordable housing for a minimum period of three years.

The additional discount will be pro-rated for periods where the property is not used for affordable housing purposes.

Impact

Resident individuals investing in qualifying affordable housing will be eligible to receive the additional CGT discount. Non-residents will continue to be ineligible for the CGT discount.

The additional discount will also flow through to resident individuals investing in qualifying affordable housing through Managed Investment Trusts (MITs) where the property has been held for a minimum of three years (see next section).

Consistent with current rules, non-residents investing in eligible affordable housing through a MIT will not receive the additional CGT discount. However, they will generally be subject to a 15 per cent final withholding tax rate on capital gains after a qualifying investment period of 10 years.

Budget impact

This measure is estimated to have a cost to revenue of $15.0 million over the forward estimates period.

Encouraging Managed Investment Trusts (MITs) to invest in affordable housing

For income years starting on or after 1 July 2017, the Government will introduce new rules that enable MITs to acquire, construct or redevelop property to hold for affordable housing. Under the current law, the ATO has generally taken the view that investment in residential property is active, with a primary purpose of delivering capital gains from increased property values, and therefore taxed on income at a 30 per cent rate as it is not eligible for the MIT tax concessions which apply to passive investments only.

Consistent with current MIT withholding tax rules, non-resident investors who invest in these MITs from countries with which Australia has a recognised exchange of information arrangement, will generally be subject to a concessional 15 per cent final withholding tax rate on investment returns, including income from capital gains.

Resident investors in these MITs will continue to be taxed on investment returns at their marginal tax rates. Income from capital gains will be eligible for the increased CGT discount of 60 per cent, where applicable.

MITs must hold, and make available for rent, affordable housing assets for at least 10 years.

Should these assets be held for a period of less than 10 years, non-resident investors can still receive the concessional 15 per cent final withholding tax rate on investment returns, but will be subject to a 30 per cent final withholding rate on the proceeds of any capital gains.

Further, MITs must ensure that at least 80 per cent of their income is derived from affordable housing in an income year. Failing that, non-resident investors will be subject to a 30 per cent final withholding rate on all investment returns for any year this requirement is not met.

Impact

Foreign institutions and non-resident investors will now be able to invest in affordable housing through concessionally taxed MITs.

Resident individual investors will be able to pool their money with others to invest in qualifying affordable housing and receive the CGT discount, including the additional discount.

These changes create the right incentives to make more affordable housing available for Australians.

Budget Impact

This measure is estimated to have an unquantifiable cost to revenue over the forward estimates period.

Questions and Answers

How will affordable housing be defined and who will be eligible?

- A property will qualify as 'affordable' housing if rent is charged at below market rate and it is made available for eligible tenants on low to moderate incomes.
- Tenant eligibility will be based on household income thresholds and household composition.
- The Government will consult further on the implementation of this policy, including on the precise definition of affordable housing and tenant eligibility, and what qualifies as rent charged below the market rate.

What role will Community Housing Providers (CHPs) have in managing affordable housing investments?

- To qualify for the additional 10 per cent CGT discount, the affordable housing must be managed through a registered CHP.
- CHPs will match eligible tenants with properties. Requiring individuals to have their property managed through a CHP will ensure the additional discount is provided for recognised affordable housing assets.

What is a registered CHP?

- Currently most CHPs are regulated under the National Regulatory System for Community Housing, which is monitored and enforced by state based community housing registrars.
- As part of the package to reduce pressure on housing affordability the Government will work with State and Territory governments to strengthen the national regulation of community housing providers.

I currently invest in affordable housing through the National Rental Affordability Scheme (NRAS). Will my NRAS investment be entitled to the 60 per cent CGT discount from 1 January 2018?

- NRAS investments will not be eligible for the additional discount until they cease to be covered by NRAS. This is because NRAS providers already receive an annual financial incentive to supply affordable housing.

Can I claim the additional 10 per cent CGT discount for periods where the property was used for affordable housing before I purchased it?

- Any period prior to purchase where the property has been used for affordable housing purposes will count towards the buyer's qualifying investment period, if the previous owner has not claimed the additional
discount, and the property is used for affordable housing for an aggregate period of at least three years from 1 January 2018.

Why is there a minimum period for the property to be used for affordable housing?

- To qualify for the 60 per cent CGT discount, an investment property must be supplied for affordable housing for a period in aggregate of at least three years from 1 January 2018. The additional discount will be pro-rated for periods where the property is not used for affordable housing purposes.
- Requiring a minimum holding period is intended to encourage longer term investment in the supply of affordable housing, supporting the Government's aim of providing affordable housing for low income Australians.
- In relation to MITs, the minimum holding period will also reinforce that the investment by the MIT is primarily passive, and therefore consistent with current MIT rules.

What if I'm not a resident from a country with which Australia has a recognised exchange of information agreement?

- Foreign residents of non-Exchange of Information countries will be subject to a final withholding tax rate on fund payments of 30 per cent. This is consistent with the treatment of investors in existing MITs.

Will the additional 10 per cent CGT discount apply only to investments in new affordable housing?

- The additional 10 per cent CGT discount will apply to investments in both new and existing affordable housing.
- This means that, investors who elect to supply their existing properties for affordable housing will qualify for the additional 10 per cent discount from 1 January 2018, provided the investment meets the eligibility requirements.

Will superannuation funds be eligible to claim the additional 10 per cent CGT discount?

- No. Superannuation funds already benefit from a lower tax rate of 15 per cent on earnings and a generous 33⅓ per cent discount on income subject to CGT.

The Government is introducing tax incentives to encourage investment in affordable housing. These incentives will benefit both resident and non-resident investors:

Residents

From 1 January 2018, the Government will provide an additional 10 per cent CGT discount to resident individuals investing in qualifying affordable housing.

From 1 July 2017, resident investors, including superannuation funds, will have access to long-term investments in affordable housing through Managed Investment Trusts (MITs). Income from capital gains will be eligible for the increased CGT discount of 60 per cent, where applicable.

Non-residents

From 1 July 2017, the Government will encourage long-term foreign investment in affordable housing by enabling MITs to acquire, construct or redevelop property to hold for affordable housing. Foreign investors will generally be subject to a 15 per cent final witholding tax rate on investment returns (including from rent and capital gains). The proceeds of any capital gains where the property has been held, and available for rent, for less than 10 years will be subject to a 30 per cent final withholding tax rate.

Budget 2017

Reducing Pressure on Housing Affordability

Housing package for Western Sydney

The Western Sydney community faces significant housing affordability pressures. Under the Western Sydney City Deal, the Government will incentivise local and state government reforms to accelerate housing supply.

The issue

Sydney's population will increase by around a third, or 1.3 million people, over the next 20 years. Much of this growth will occur in those areas of Western Sydney covered by the Government's Western Sydney City Deal. The City Deal area, comprising eight local governments, will see population growth of almost 500,000 over the next twenty years.

To house the growing Sydney population, the NSW Government estimates an additional 570,000 dwellings will be required. Approximately a third of these dwellings will need to be built in the Western Sydney City Deal area.

Ambitious reforms to planning and zoning can make a significant difference to housing supply at the local level and help the people of Western Sydney access the right homes in the right locations.

The details

The Government is working in partnership with the NSW and local governments on a Western Sydney City Deal to realise the potential of Sydney's outer west. The Western Sydney City Deal is the most ambitious to date. The City Deal will focus on local job opportunities, connectivity and liveability. The City Deal will catalyse development in the area surrounding the new Western Sydney Airport and stimulate local job growth and improved transport options with the rest of Sydney.

The Western Sydney City Deal provides a unique opportunity to kick-start planning and zoning reform across eight local government areas facing strong population growth and housing affordability pressures, including through incentives for planning and zoning reform. Funding will assist in the delivery of planning reform – shaped at the local level – and ultimately the delivery of housing targets for Western Sydney.

As a starting point, each local government area will develop housing strategies that identify how they will reach agreed housing supply targets. This might include rezoning land for higher density housing around railway stations or employment centres, reforms that reduce development approval timeframes and other changes needed to unlock supply.

The housing package will be finalised in negotiation with our City Deal partners at the state and local level. The Western Sydney City Deal is expected to be finalised in late 2017.

Impact

The Government will reward planning reforms that aim to deliver the tens of thousands of new homes required every year to keep up with growth and take the pressure off house prices across the region.

Budget impact

The amount of funding provided will depend on the reform ambitions of the NSW and local governments.