



Submission to The Treasury

Exposure Draft – Treasury Laws Amendment (Reducing Pressure on Housing Affordability) Bill 2017 – Downsizing Provisions

**Prepared by
COTA Australia**

4 August 2017

COTA Australia

COTA Australia is the national consumer peak body for older Australians. Its members are the State and Territory COTAs (Councils on the Ageing) in each of the eight States and Territories of Australia. The State and Territory COTAs have around 30,000 individual members and more than 1,000 seniors' organisation members, which jointly represent over 500,000 older Australians.

COTA Australia's focus is on national policy issues from the perspective of older people as citizens and consumers and we seek to promote, improve and protect the circumstances and wellbeing of older people in Australia. Information about, and the views of, our constituents and members are gathered through a wide variety of consultative and engagement mechanisms and processes.

Authorised by:

Ian Yates AM
Chief Executive
iyates@cota.org.au
02 61549740

Prepared by:

Susan McGrath
National Policy Manager
smcgrath@cota.org.au
02 61549740

COTA Australia

Suite 9, 16 National Circuit
Barton ACT 2600
02 61549740
www.cota.org.au

Introduction

Thank you for the opportunity to provide a brief comment on the *Exposure Draft – Treasury Laws Amendment (Reducing Pressure on Housing Affordability) Bill 2017*.

COTA will address only the provisions relating to the downsizing measure.

Background

Firstly, we wish set the context for our brief comments on the Exposure Draft by outlining our overall view of the measure. COTA believes it may be positive for some older people wishing to downsize, but it is likely only to have a discernible impact on housing supply over the longer term (if at all). There are many other more important drivers involved in older people deciding whether to downsize or not than accessing the capital in a home in a tax effective way. The measure will need to be monitored carefully to assess its impact and particularly to ensure that it does not have unintended consequences for older Australians or on housing prices.

A key response from our members and the older general public to the proposed scheme has been a concern that taking up the option might compromise their Age Pension eligibility by resulting in them exceeding the limits of the Pension income or asset tests.

Therefore, we consider that those most likely to take up and benefit from the measure will be wealthier downsizers who would not qualify for the Age Pension in any case, especially given that the downsizing contribution will not count towards the superannuation non-concessional cap. Some commentators also make the argument that the measure is likely only to be taken up by those who would already have downsized without it. That leads us to question whether a negligible increase in the availability of family homes will be worth the forgone tax revenue that could have been directed towards investment in other initiatives to alleviate the housing affordability crisis.

However, although we have no evidence to support it, there is also a possibility that the measure may be valuable to those at the other end of the socio-economic scale; low-income, low-wealth, older homeowners. This group of people may find that downsizing becomes more attractive with the measure in place. Given that most of the proceeds of the sale of their home will likely go to purchasing another, it is possible (depending on the details of individual situations) that the remaining sum could be modest and (contributed into superannuation under advantageous terms) may not result in loss or reduction of the Pension. We will be interested to see post-implementation evaluation of the measure, especially regarding the type of households taking up the option.

Comments on the Exposure Draft

The provisions in the Exposure Draft are consistent with our expectations and we have few comments to make.

The major point we wish to raise relates to the provision that:

“the contribution must be made within 90 days of the disposal of the dwelling, or such longer

time as allowed by the Commissioner¹ “

It is quite possible that a downsizer may not know how much they wish to contribute to superannuation within that timeframe. They may have sold their home, be searching for another and are not certain of the sum that will be remaining after purchase of a new home.

The Explanatory Memorandum states that individuals can request a longer period and there are appeals mechanisms for adverse decisions by the Commissioner on these requests. These arrangements may be adequate if they are streamlined, fast and user-friendly, but the 90-day provision introduces a sense of rushing a downsizer that may act as a disincentive.

This provision in particular seems insensitive to the fact that the triggering event for participation in the scheme is people transitioning homes. This can be a demanding and difficult (if not traumatic) experience for people who may be leaving a home they have lived in for decades. Benchmarking, as you do, the downsizing contribution to the timing rule for contributions from the proceeds of structured settlements² would seem inappropriate. The circumstances of the release of funds enabling contributions to superannuation from these two sources are quite different.

The approach taken in the draft Bill is in contrast to the treatment of the sale of the family home in regard to the Age Pension. The proceeds from the sale of the principal home that will be used to buy another home within 12 months are exempt from the Pension asset test (although the exempted amount is deemed and included in the income test). This recognises that it often takes people a while to find a new home.

While we do not have an alternative timing rule to offer, and accept that there may be extenuating circumstances that are not obvious to us for your choice of 90 days, we encourage Treasury to give more thought to this provision.

COTA would be pleased to discuss other aspects of the Exposure Draft if Treasury has specific questions of us.

Additional Comment on Fact Sheet

We make one additional comment which relates to the *Downsizers Fact Sheet* in the Exposure Draft package of materials. We believe you may already be aware that the inclusion of a particular phrase in the Fact Sheet has understandably caused controversy. In the list of possible types of new living situations for downsizers you include “...homes not close to schools or away from major employment centres...”.

COTA is deeply concerned by the strange image of the lives of older people that you have portrayed in that statement, and your connection of the idea of downsizing with older people banishing themselves to the edges of communities or beyond. This message is what older Australians fear they are being expected to do and it will not recommend the new downsizing scheme to them.

¹ The Treasury, *Explanatory Memorandum. Exposure Draft: Treasury Laws Amendment (reducing pressure on housing affordability) Bill 2017: First Home Super Saver Scheme & Contributing the Proceeds of Downsizing to Superannuation* (Canberra, 2017) Cl 2.42, p44

² The Treasury, Cl 2.77, p50

Further, ABS figures on formal and informal childcare showed that in 2014 around one fifth of all children (22%) were usually cared for by their grandparents, while 14% usually attended long day care, and 7.8% attended before and after school care. Family day care was usually attended by 2.5%.³ Clearly this shows that grandparents are a larger source of childcare than all the other sources combined – that is, the main source of childcare in this country. That suggests that older people living near schools and childcare centres, which are often co-located or nearby schools, is entirely rational. The productivity implications for Australia if grandparents stopped their role in childcare would be stark.

The suggestion that older people may also want to move away from major employment centres demonstrates a lack of knowledge of both the realities and aspirations of senior Australians (who increasingly work on later in life for economic reasons and by choice) and Australian Government policies regarding mature age workforce participation. The 2015 Intergenerational Report (produced by your own Department) placed older Australians alongside women as the two population groups holding the key to productivity growth and lower public expenditures for Australia, if only they would spend more time in the workforce.

COTA hopes you will revise the Downsizers Factsheet to remove the offending phrase.

End

³ Australian Bureau of Statistics, *4402.0 - Childhood Education and Care, Australia, June 2014*