Friday, 14 March, 2008

Personal and Retirement Income Division
The Treasury
Langton Crescent
PARKES ACT 2600

First Home Saver Accounts

The Property Council welcomes the opportunity to make a submission on the National First Home Saver Accounts consultation paper, *First Home Saver Accounts – Outline of Proposed Arrangements*, and has provided a number of comments and suggestions concerning the proposed arrangements.

Purpose

The Property Council strongly supports measures being undertaken by the Rudd Government to address housing affordability.

Home ownership is an important milestone in the lives of Australians. However, it has become out of reach for the current generation of home buyers due to systemic issues including increases in upfront taxes and charges, a lack of land supply, and delays and inefficiencies in planning and development assessment.

The Property Council of Australia believes that the introduction of First Home Saver Accounts (FHSA) will augment the current first homeowners scheme (FHOS) and provide additional assistance to young families.

Combined with the government announced initiatives which seek to improve the supply of affordable housing, such as:

- the National Rental Affordability Scheme;
- the Housing Affordability Fund;
- the creation of a National Housing Supply Research Council; and
- the expedition of planning processes to ensure land release,

the First Home Saver Accounts should help to make housing significantly more affordable.

RECOMMENDATIONS

1. Treasury should:
   a. ensure that the home savers accounts operate in the same manner as a superannuation contributions;
b. collaborate with the relevant government agencies, employer groups, and the financial services sector to develop an approach to implementation, which results in salary sacrificing as an option; and

c. actively work with industry groups to develop a comprehensive education programme to assist eligible candidates to make use of the accounts.

2. Treasury should not exclude self managed superannuation funds as a vehicle for First Home Saver Accounts.

3. Treasury should:
   a. revise the eligibility requirements of the First Home Savers Account scheme and align it more closely to that used by the First Home Owners Scheme; and
   b. review its forecasting of cost to government if eligibility criteria remain in their current form.

4. Treasury should consider expanding the contribution rules to allow family members to top up account contributions.

5. Treasury should ensure that the government contribution ensures equity and provides the same or greater level of assistance to low- and middle-income earners.

1. **Delivery Mechanism**

The Property Council supports the proposal for a mechanism which operates in the same manner as a superannuation contribution.

This could be delivered through salary sacrifices, which would allow deposits to be made at a concessional tax rate.

Such contributions are already well understood by the general public, as a result of the operation of compulsory superannuation over the last decade.

If salary sacrifice is not provided as an option, it is likely to significantly affect the level of participation in the scheme.

The Government should also consider undertaking a public education and awareness program, linked to financial counselling and training for participants.

However, we recognise that this will add to the compliance costs that will already need to be borne by the Government, employers, and the financial sector.

However, we do not believe that the salary sacrifice arrangements for FHSA would represent an unreasonable administrative impost for most employers.

The Property Council believes that the FHSA needs to be operational from the first stage and as such should not set artificial limitations on the vehicles for savings.

**Recommendation:**

Treasury should:

a. ensure that the home savers accounts operate in the same manner as a superannuation contributions;
b. collaborate with the relevant government agencies, employer groups, and the financial services sector to develop an approach to implementation, which results in salary sacrificing as an option; and
c. actively work with industry groups to develop a comprehensive education programme to assist eligible candidates to make use of the accounts.

2. Account Providers

The Property Council generally has no concerns with the use of Public-Offer Licensees, banks, building societies, and credit unions providing First Home Saver Accounts.

These entities are subject to high levels of prudential regulation by APRA, including in particular minimum capital or approved guarantee requirements, which will protect consumers.

However, we do not support the exclusion of self-managed superannuation funds from the list of providers which are operate as a regulated form of savings for many Australians and should not be an excluded option.

In order to develop a culture of savings, Treasury should provide as many possible pathways as possible to ensure uptake of the FHSAs.

Recommendation:

Treasury should not exclude self managed superannuation funds as a vehicle for First Home Saver Accounts.

3. Eligibility Rules

The Property Council generally agrees with the eligibility criteria, which are based largely on the First Home Owners Scheme.

However, there are some significant differences between the two schemes, which could undermine the effectiveness of First Home Savers Accounts.

Firstly, the eligibility requirement of “being a resident for income tax purposes” is significantly broader than the FHOS.

Under this definition, any individual who has a tax file number and participates in the Australian workforce would be eligible.

Under the FHOS, the eligibility is limited to “An applicant who must be a permanent resident or Australian citizen at the time of settlement or completion of construction of the home”.

The expansion of this definition would allow access by a much wider pool of individuals and could have extensive impacts on the forecast figures provided by Treasury.

The second concern relates to the eligibility to open an account.

Unlike FHOS, a person’s eligibility is not affected by the situation of their partner.
The consultation paper indicates that an individual can be eligible regardless of whether their current or former partner has owned a home as long as their name is not listed on the mortgage.

Further, an individual would still be eligible for an account even if they have previously purchased an investment property or a block of land.

The Property Council believes that this is a significant step beyond the current FHOS eligibility criteria.

Under that scheme, eligibility is strictly limited to one “bite of the cherry”.

Currently, a couple can only apply for one grant for a home and are no longer eligible if their partner has already purchased a home.

Expanding the eligibility beyond this will have significant impacts on the financial forecasting, viability, and fairness of the fund.

**Recommendation:**

Treasury should:

- revise the eligibility requirements of the First Home Savers Account scheme and align it more closely to that used by the First Home Owners Scheme; and
- review its forecasting of cost to government if eligibility criteria remain in their current form.

4. **Contribution Rules**

The Property Council broadly supports the contribution rules and caps that have been set out in the consultation paper.

However, the Government should consider expanding the types of individuals who can contribute to a Home Savers Account.

Many first home buyers are not financially capable of taking full advantage of the capped amounts provided by government.

To help individuals save for their first home, family members should be able to make additional contributions to an account as an agreed percentage contribution to the account.

This would capture much of the financial support currently being provided by families in similar projects, such as shared equity schemes for home purchase.

**Recommendation:**

Treasury should consider expanding the contribution rules to allow family members to top up accounts.

5. **Withdrawals**

The Property Council broadly supports the withdraw mechanisms outlined in the paper. In our view, the transfer of unused funds to superannuation ensures the
integrity of the scheme and supports the values of financial responsibility and a culture of sharing that this program is intended to instill.

6. Government Contributions and Taxation Treatment

The current approach to government contributions is to achieve equity by extending additional Government benefits to low- and middle-income earners. The scaling of contributions from 15 to 30 per cent of contributions is appropriately linked to the account holder’s marginal income tax rate and represents the potential for a balanced and equitable approach to the home savers account scheme. However, we believe the proposed co-contribution rates are clearly based upon the premise that the scheme is a tax-advantaged savings scheme.

Despite the relatively larger ‘tax concessions’ for lower income persons, the current co-contribution mechanism (if salary-sacrifice arrangements are not established from its commencement) will result in an inequitable policy. Under the current recommendation at maximum contribution levels, a low income person would receive a Government co-contribution of $750 per annum, while the highest income earners would receive $1,500.

In our view the FHSA scheme should be delivering either the same level of assistance or a greater level of assistance to lower income earners in terms of “actual monetary assistance” for the same contribution level.

Recommendation:
Treasury should ensure that the government contribution ensures equity and provides the same or greater level of assistance to low- and middle-income earners.

Conclusion

The Property Council has provided a summary of its views which reflect the discussions we have had with our members.

Home Savers Accounts represent one part of a suite of policies which have the capacity to substantially impact the issue of home affordability. However, on its own it will not provide a sufficient solution.

We support the Government’s policy of coupling these accounts with supply side policies to reduce taxes and charges on the industry, streamline the regulatory system, significantly improve the development assessment process, and remove the constraints which limit urban growth including availability of land supply.

These Government policies include:

- the creation of a National Housing Supply Research Council;
- the establishment of the Government’s Housing Affordability Fund based on a competition policy model;
- the establishment of the Government’s National Rental Affordability scheme in direct consultation with industry to ensure successful implementation;
• the adoption of the DAF Leading Practice Model for Development Assessment by state and territory governments, supported with Federal incentives;
• the commitment to help fund the rollout of the eDA project across the states and territories;
• the increase in financial support for DAF and its work through the provision of funding for project staff; and
• the increase of available housing stock through increases in both greenfield and infill development sites including the proposed release of Commonwealth lands.

The Property Council is keen to work with the Government on both the Home Savers Account project and also on the above mentioned programs.

If the Secretariat has any questions arising from the information contained in the submission, please contact me on 0407-463-842 or Caryn Kakas, Executive Director of the Residential Development Council, on 0404-257-540.

Yours sincerely

[Signature]

Peter Verwer
Chief Executive Officer
Property Council of Australia