The Impact of the GST on the Private Rental Market — How Long is That Piece of String?

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Under the GST legislation, rents in the private rental market will not attract a GST directly. Rather, rents will be input taxed, meaning that whilst landlords will not have to charge GST, neither will they be able to claim credits for those costs that incur GST such as maintenance, real estate fees etc. The additional costs to the landlord of investing in their rental property will presumably be passed on to tenants. The Commonwealth Government has predicted that this will result in private rental increases of approximately 2.3%.

This figure is significantly lower than predictions made by community housing and industry groups. The HIA estimate the cost of a new home will rise as much as 8% and predict a rise of 4% in the cost of purchasing new stock. They predict that this increase will flow on to most rents. Modelling done by the New South Wales Federation of Housing Associations suggests that increases will be significantly higher. Their modelling looks at the GST impact on a 2 bedroom Sydney house priced at 90% of the median purchase price and 90% of the median rental price and estimates an increase of approximately $22.00 per week. In addition, the National Association of Tenants Organisations (NATO) argue it would be highly unusual for a landlord to increase rents by an uneven amount. As such if the real cost to the landlord was $3.30 per week, the increase to the tenant is more likely to be $5.00 per week.

The situation of private rooming and caravan park sector is even more worrying. This sector is clearly important to people on very low incomes, including the homeless population, many of whom do not receive statutory incomes and therefore can not be compensated for increased accommodation costs through the benefit system. In addition, the complexity of the new regime for these operators and the discretion available to them in how they pay GST, makes the impact of the GST on this sector particularly difficult to calculate.

*A business is classified as providing predominantly long-term accommodation if at least 70 per cent of its stays stay at least 28 days or more. Businesses that provide predominantly long-term accommodation can choose to pay GST on 50 per cent of the price for the guest’s entire stay (ie 28 days or more), or they can treat the supply as being input taxed. Treating a supply as input taxed means that you do not include GST in the price you charge, but you will not be entitled to input tax credits for the GST included in the price of the business acquisitions you make for long-term accommodation.” (NATO, 22 November 1998, p 27).

If a business does not provide predominantly long-term accommodation then it must charge the full rate of GST for all stays less than 28 days. For stays over 28 days the full rate is charged for the first 27 days and at half the rate for subsequent days.

The significant variation in the predicted impact of the GST on private rents underlines the difficulties associated with gauging this impact. As NATO write in their submission, "estimates vary depending on the modelling undertaken, the location of the stock, its management, its management cost, strata management costs, the age of the stock, maintenance costs and investor motivation… Given the number of variables it is difficult to determine the precise implications for rent levels."

It is a concern that the difficulties in:• determining the impact of a GST on the landlord’s costs,• the likely implications of the GST for tenants• specific impact on low income rental housing (including rooming houses and caravan parks) makes it impossible to determine an appropriate level of compensation for tenants. Nevertheless, government has used its questionable set of predictions as the basis for determining an appropriate compensation package for tenants via rental assistance payments.

Negotiations with the Democrats resulted in an increase from 4 to 7% in rent assistance payments. However, if predictions by housing groups are accurate, this will still fall well short of effectively compensating tenants for the introduction of a GST.

This is a source of significant concern. Large numbers of tenants in the private rental market are already suffering housing related poverty. 36% of Australian households in the private rental market pay more than 30% of their incomes in rent. A report by National Shelter indicates that certain groups are disproportionately disadvantaged namely, single older people, particularly women over 60 who pay on average 35.8% of their income on rent; sole parents paying on average 35.3% of their incomes on rent and young single people paying on average nearly 35% of their incomes on rent.

It is clear that any further, uncompensated, increase in rents will be unsustainable for some tenants. For others, the capacity to continue paying the rent will come at the expense of other essentials such as food and clothing.

Whilst the impact of the GST on rent levels is an immediate concern, a longer term issue is the impact of the GST on returns to landlords, particularly landlords of low income housing (including private rooming houses and caravan parks). If the impact of the GST lessens the rate of return relative to other investments (eg stocks and shares) then it is likely effect future levels of supply.

Given this, the need to properly monitor the impact of the GST on rents in the private rental market to ensure that low income tenants are adequately compensated is critical. Increasing dependence on the private rental market as the principle tenure for low income tenants further underlines this need.