# Background paper 2 Housing assistance and financial incentives to work

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| Key points |
| * Analysis of budget constraints and effective marginal tax rates (EMTRs) is used to shed light on the effect of housing assistance (Commonwealth Rent Assistance (CRA) and social housing) on recipients’ financial incentives to work. A number of caveats apply to analysis of this type. It: * typically does not account for the costs of working (for example, childcare and transport costs) * ignores non‑financial factors that influence employment decisions (for example, health issues) * cannot reveal whether a person works — that is an empirical question. * Housing assistance affects recipients’ budget constraints and EMTRs. * Withdrawal of income support payments (ISPs) with increases in market income contributes more to EMTRs than withdrawal of housing assistance. * Although CRA is withdrawn at the same rate as an income support payment (ISP) (for recipients whose eligibility rests on receipt of an ISP rather than Family Tax Benefit Part A), this affects recipients’ EMTRs over a relatively small income range and at higher levels of income than withdrawal of the ISP. * A majority of ISP recipients would have a higher disposable income post rent if they lived in social housing than if renting privately and receiving CRA. * Differences in public housing rent setting arrangements around the country make for small differences in the contribution of these arrangements to EMTRs. |
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This background paper considers how the two main Australian housing assistance policies, Commonwealth Rent Assistance (CRA) and rent subsidies associated with social housing, alter financial incentives to work.

Estimates of the financial incentives created by housing assistance are presented for ‘typical’ individuals — identified by family structure, income support payment (ISP) and type of housing assistance. An example is a single, childless Disability Support Pensioner living in public housing.

A person’s financial incentive to work depends on the relationship between their market income and their disposable income — that is, how much their disposable income changes as a result of work. Market income includes wages and salaries, income from business ownership, dividends, interest, superannuation pensions and compensation for lost income (for example, payments from an income protection insurance policy or workers’ compensation scheme). For many, market income consists largely of labour income. In the context of this paper, changes in market income are assumed to come from changes in labour supply. Gross income is market income plus direct government transfers (for example, the Age Pension and Family Tax Benefit Part A). Disposable income refers to gross income after direct taxes (for example, income tax).

The relationship between market and disposable income mainly depends on income taxes, and rules relating to the level and withdrawal of transfer payments — that is, the tax and transfer system.[[1]](#footnote-2) Financial incentives to work decrease as a person retains less of their market income.

Housing assistance is part of the transfer system, and its effects on incentives vary greatly according to how it interacts with other parts of the tax and transfer system. The Commission built a model of the Australian tax and transfer system (annex A) to estimate the effects of housing assistance on financial incentives to work. The model and supporting documentation will be available from the Commission’s website. The model is referred to in the paper as PCTT 2014.[[2]](#footnote-3)

While this paper identifies the effects of policies on the financial incentives faced by typical individuals, the impact of those incentives on employment outcomes is not considered. Analysis of that question is presented in background paper 5.

The next section defines the measures of financial incentives to work used in the paper, and describes how they are derived. The two housing assistance policies are summarised to demonstrate how assistance changes as market income increases (section 2). Financial incentives to work for typical housing assistance recipients are then analysed (section 3) and incentives for social housing residents and CRA recipients are compared (section 4).

## 1 What are financial incentives to work?

A policy can affect an individual’s financial incentive to work in two ways:

* First, a housing subsidy in effect increases a person’s income level. Throughout the paper, this is termed an income effect. Receipt of housing assistance increases a person’s disposable income in a way that is independent of the price effect on their work effort. The income effect means they can buy more goods and services, including leisure time.[[3]](#footnote-4)
* The income effect is measured as the dollar value of housing assistance received, or the size of the subsidy.
* Second, when the subsidy is related to income levels, it can change how much disposable income a person takes home from *any increase* in market income (or income earned from employment).[[4]](#footnote-5) Throughout the paper, this is termed a price effect. The withdrawal of housing assistance as market income rises means that disposable income increases by less than market income (the ‘price’ of work).[[5]](#footnote-6)
* The price effect acts as a tax on work. The increase in disposable income per dollar of market income is less than one, and can be thought of as *(1 – tax)*. More generally, *tax* can be thought of as an ‘effective tax rate’ that accounts for the net effect of all aspects of the tax and transfer system, including income tax payments and any withdrawal of benefits in addition to the withdrawal of housing assistance.

Economists often use shifts in budget constraints and changes in effective marginal tax rates (EMTRs), respectively, to represent these two effects of subsidies on financial incentives to work.[[6]](#footnote-7) Financial incentives to work are described in more detail in box 1.[[7]](#footnote-8)

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| Box 1 Financial incentives to work |
| The amount of disposable income that a person has at any given level of market income can be represented as a budget constraint. A comparison of budget constraints ‘with’ and ‘without’ a policy reveals the income effect of that policy.  In the figure below, the 45 degree line represents a budget constraint without taxes or transfers — disposable income equals market income. This line is identified as ‘without policy’.  Imagine an illustrative policy that provides a subsidy to renters. Disposable income at zero market income increases by the amount of this subsidy, $A — an income effect. The subsidy is unchanged as market income increases to $X, and is then withdrawn as market income increases beyond $X, reducing the income effect and imposing a price effect (explained below). At higher levels of labour supply (beyond $Y market income), the subsidy goes to zero, and the budget constraints with and without the policy coincide. The budget constraint with the policy in place is represented by the solid line up to market income $Y and the 45 degree line thereafter.  The distance between the two budget constraints at any level of market income represents the size of the housing assistance (subsidy) at that income level.  The price effect of a policy at any level of market income is captured by comparing the effective marginal tax rates (EMTRs) faced by a person with and without the policy.  This chart illustrates the effects of rent subsidies on disposable income. Disposable income at zero market income increases by the amount of the subsidy (income effect). The subsidy is unchanged as market income increases to $X, and is then withdrawn as market income increases beyond $X, reducing the income effect and imposing a price effect. At higher levels of labour supply (beyond $Y market income), the subsidy goes to zero, and the budget constraints with and without the policy coincide. |
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| Box 1 (continued) |
| EMTRs are derived from the slope of the budget constraints. The slope equals the proportion of an additional unit of market income (the ‘marginal’ market income) that is retained as disposable income. For example, a slope of 0.8 indicates that a person retains 80 per cent of their marginal market income. The effective marginal tax rate is calculated as 1 minus the slope of the budget constraint — in this example, it would be 0.2, or 20 per cent (effective marginal tax rates are often expressed in percentage form). All else equal, the *lower* (flatter) the slope of the budget constraint, the *higher* the effective marginal tax rate.  In the figure, the slope of the budget constraint with the policy in place is equal to 1 both up to $X and beyond $Y. In this range, the contribution of the policy to the EMTR is zero. The person retains all of each additional dollar of income.  Between $X and $Y, the slope of the budget constraint with the policy in place is less than 1 — the EMTR is greater than zero. In comparison, the slope of the no‑policy budget constraint remains equal to 1 over this income range, and the EMTR, therefore, is zero. The difference in EMTRs derived from the budget constraints with and without the policy in place represents the price effect of the policy.  The income and price effects of multiple policies are established by comparing the budget constraints associated with each policy. For example, a person may receive both housing assistance and a welfare payment. In this case (re‑interpreting the figure to include the effect of both policies), comparing the ‘with policies’ and ‘without policies’ budget constraints identifies the incentives due to the combination of policies. Similarly, the effect of housing assistance could be isolated by comparing the ‘with all policies’ budget constraint to a ‘welfare payment only’ budget constraint (not illustrated). |
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In this paper, the effects of housing assistance policies on budget constraints and EMTRs are used to identify the impacts of Commonwealth Rent Assistance (CRA) and social housing rent setting on financial incentives to work. In adopting this focus, the analysis abstracts from many other factors that might affect a person’s employment decisions including, for example, costs associated with working (childcare, transport and the like), health problems and cultural attitudes towards work (box 2). Despite these abstractions, the approach provides insights into the effects of the housing assistance policies under study on the financial incentives faced by different recipients.

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| Box 2 Limitations of measures of financial incentives to work |
| Measures of financial incentives to work, and particularly changes in EMTRs, are widely used to investigate the likely effect of a policy on employment (Lovering 2014; National Commission of Audit 2014; Treasury 2010). However, for a number of reasons, analysis of income and price effects supports only limited conclusions about the employment effects of a policy.  First, a policy is likely to affect other, non‑financial incentives to work that influence the labour–leisure decision (Dockery et al. 2008). For example, a housing policy may allow a recipient to move closer to locations of employment, decreasing the time (and other costs) required to commute. The effective marginal tax rate (EMTR) estimates do not usually include the effect of a policy on costs associated with working, nor on disposable income after these costs have been deducted.  Second, the estimation of the EMTR is only a first step in estimating employment effects — what matters is the behavioural response of affected people. The price effect is ambiguous (footnote 4). On the one hand, a rise in the EMTR has a substitution effect as the return to working declines (which lowers the price of leisure). On the other hand, the decline in income associated with the higher EMTR may see a person increase their work to maintain their disposable income. Then there is the separate income effect of the subsidy. The recipient may work less, since the subsidy allows them to achieve the same level of income at fewer hours worked.  Ultimately, empirical analysis is required to determine individuals’ responses to different financial incentives to work, and that analysis should ideally take into account all financial and non‑financial factors affected by the policy.  More generally, EMTRs must be interpreted with care:   * The same EMTR can be associated with very different income effects. For example, a person can face the same EMTR when faced with the progressive withdrawal of a subsidy of $10 000 as with the withdrawal of a subsidy of $1000. * By definition, EMTRs illustrate changes at the margin — the share of an additional dollar of market income that an individual pays in tax or that is offset by the withdrawal of their income support payment. It is the net return to working that influences work decisions. |
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## 2 Interactions between housing assistance policies and market income

To assess the financial incentives to work associated with housing assistance policies, it is necessary to understand how the policies affect disposable income at different levels of market income. To that end, this section provides an overview of CRA and social housing rent setting arrangements. More detail on these policies is available in background paper 1.

### An overview of Commonwealth Rent Assistance (CRA)

#### Eligibility and payment amounts

CRA is a subsidy paid to recipients of ISPs[[8]](#footnote-9) and Family Tax Benefit Part A (FTB A) (in excess of the ‘base rate’) who rent in the private market or from a community housing provider.[[9]](#footnote-10)

Eligible people who pay rent above a threshold level receive the lower of:

* 75 per cent of the difference between their rent and that threshold amount
* a maximum amount.

The threshold and maximum amounts vary by family situation (table 1).

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| Table 1 CRA threshold and maximum amounts by family situation, as at March 2014 |
| |  |  |  |  | | --- | --- | --- | --- | | Family situationa | Number of dependent children | Threshold amount | Maximum amount | |  | Number | $ per annum | $ per annum | | Single | 0 | 2 912 | 3 286 | | Couple | 0 | 4 742 | 3 089 | | Single | One to two | 3 837 | 3 847 | | Couple | One to two | 5 678 | 3 847 | | Single | Three or more | 3 837 | 4 350 | | Couple | Three or more | 5 678 | 4 350 | |
| a Other rules apply to people sharing a rental property and for temporarily‑separated couples. |
| *Source*: DSS (2014). |
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#### Rules governing withdrawal of rent assistance

Once market income reaches a certain level, rent assistance is withdrawn as income increases. The withdrawal of CRA is determined by the ‘income test’ that applies to the recipient’s welfare payment (the Department of Human Services defines the income test to include both the *level* of income above which the benefit is withdrawn and the *rate* of withdrawal). For example, if a person receives the Disability Support Pension (DSP) and CRA, then the withdrawal of CRA is determined by the DSP income test. If they receive CRA because they get more than the base rate of FTB A, withdrawal of CRA is based on the FTB income test.

##### Income support payment income tests

Income tests vary by payment type and a recipient’s characteristics.[[10]](#footnote-11) For example, the income threshold at which an ISP starts to be withdrawn (also known as the income free area) and the rate of withdrawal (also known as the taper rate) will be different for Disability Support Pension (DSP) recipients and Parenting Payment recipients, and for singles and couples.[[11]](#footnote-12)

CRA is withdrawn only after the ISP has reduced to zero.[[12]](#footnote-13)

The effect of an ISP income test on CRA payments is illustrated in figure 1. Up to market income $A the full ISP and CRA are paid. Between $A and $B, the ISP is withdrawn as market income increases, but the full CRA amount is received. Finally, after the ISP has reduced to zero (at $B), CRA is withdrawn at the same rate as the ISP was withdrawn. At levels of market income above $C, the person no longer receives any CRA.

The effect of this approach to withdrawing CRA is to extend the range over which welfare payments are withdrawn, rather than to increase the rate of withdrawal. An alternative approach would see CRA withdrawn at the same time as an ISP — contributing to higher EMTRs for CRA recipients.

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| Figure 1 The interaction between CRA and the ISP income test**a** |
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| a This schematic ignores supplement payments and is not to scale. |
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##### Family Tax Benefit Part A income test

The Family Tax Benefit (FTB) Part A is the larger of two amounts (DHS 2014):

* a maximum rate less 20 cents per dollar of adjusted family income[[13]](#footnote-14) above $50 151
* a base rate less 30 cents per dollar of adjusted family income above $94 316 (or higher if the family includes more than one eligible child).

The maximum and base rates vary according to the number and characteristics of children in the family (for example, their age, student status and whether they are a triplet or quadruplet). The maximum rate also depends on CRA, which is included in calculating the maximum rate for all families that rent in the private market. That is, a family that rents has a higher FTB A maximum rate than a family with otherwise identical characteristics, including income, that owns their home. (Summary tables for each tenure type are presented in annex B.) CRA is withdrawn as adjusted family income rises, and is zero at the income level that qualifies a family to receive the base rate of FTB A, that is, $94 316 if the family includes one child. For families with three or more children, income does not reach a level at which a base rate of FTB applies. In this case, FTB continues to reduce from the maximum payment at a rate of 20 cents per dollar of extra income until it reaches zero.

If CRA was not included in the maximum rate of FTB A, the maximum rate would be lower by exactly the CRA amount, and would decrease to the base rate (or to zero for families for whom the base rate doesn’t apply) at a lower level of adjusted family income. In other words, receipt of CRA both increases a family’s maximum FTB A rate, and increases the range of income over which this payment is higher than the base rate.

This is illustrated in figure 2 for a family for whom the base rate applies. The bold line represents the amount of FTB A, including CRA, received at different levels of adjusted family income by a renting family. At incomes up to $50 151 the family receives the maximum FTB A rate, which includes CRA. Above this level of adjusted income, the maximum rate is reduced until it reaches the base rate at $C. If the CRA component was not included in the maximum rate, the FTB payment would reach the base rate at a lower family income ($B). The family receives the base rate of FTB A up to income $D (for example, $94 316 if a family has one eligible child, or $98 112 with two eligible children). As income rises beyond $D the family’s base rate of FTB A is withdrawn.

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| Figure 2 The interaction between CRA and the FTB A income test**a,b**  Situation for families for which the base rate applies |
| |  | | --- | | This chart shows the interaction between CRA and the FTB Part A income test. As income rises, CRA is withdrawn at the same time as FTB. | |
| a This schematic is not to scale. For instance, the positions of $B, $C and $D depend on family characteristics. b As per previous comment, this diagram only applies to FTB recipients (eligible for CRA) where the base rate is applicable. The base rate is not applicable where the rate calculated under the first income test is higher than the rate calculated under the second income test (i.e. where there are 3 or more children). |
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There are special rules for families that receive both an ISP and FTB A. First, ISP recipients always receive the maximum rate of FTB A. Second, recipients receive rent assistance through FTB A rather than through the ISP payment, so CRA is withdrawn along with FTB A, not the ISP. Withdrawal of CRA does not commence until family income reaches $50 151 or all ISP is withdrawn, whichever is higher. CRA is withdrawn in line with the FTB A income test, not the ISP income test, meaning that the EMTRs are lower.

### An overview of social housing rent setting

#### Rent setting in public housing

As discussed in background paper 1, rent setting arrangements vary across the country because public housing is provided by state governments. Nonetheless, there are substantial similarities across jurisdictions:

* Most states charge residents 25 per cent of ‘assessable household income’, up to market rent. The exceptions are the Northern Territory (23 per cent is charged, up to market rent) and New South Wales (between 25 per cent and 30 per cent is charged depending on household income, up to market rent).[[14]](#footnote-15)
* In calculating assessable income:
* states include income from all household members, although some states treat income from youths or aged pensioners differently. Also, some states count only a proportion of income from some members of the household (such as children, carers or secondary income earners)
* states take a similar approach to income from government payments (table 2). The main ISPs are fully counted, and payments that are deemed to be for ‘specific purposes’ are fully excluded (including the Child Care Benefit and Child Care Rebate). Sixty per cent of Family Tax Benefit is included in most states[[15]](#footnote-16), although the Northern Territory has different rules
* Tasmania is alone in deducting income tax and the Medicare levy from gross income (market income plus transfers). Other jurisdictions use pre‑tax income.

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| Table 2 Proportion of government payment counting as income for public housing rent setting**a**  Per cent |
| |  |  |  | | --- | --- | --- | | Government payment | NSW, SA, Tas | NT | | Age Pension; Disability Support Pension | 100 | 100 | | Newstart Allowance, Youth Allowance | 100 | 100 | | Parenting Payment, Carer Payment | 100 | 100 | | Austudy | 100 | 100 | | Family Tax Benefit part A | 60 | 43 | | Family Tax Benefit part B | 60 | 0 | | Child Care Benefit | 0 | 0 | | Child Care Rebate | 0 | 0 | |
| a Information could not be included for Victoria, Queensland or Western Australia.  *Source*: Personal communication with State Housing Authorities. |
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#### Rent setting in community housing

Community housing rent setting closely follows public housing rent setting rules in most jurisdictions (CHFA 2014). For example, in Victoria, community housing rent is set at 25 to 30 per cent of assessable income, although family payments are charged at 15 per cent (CHFV 2013). While community housing tenants are eligible for CRA, tenants are required to pay it to the landlord (CHFV 2013), and it has no bearing on a tenant’s disposable income or financial incentives to work (BP 1). Community housing rent setting, therefore, affects incentives to work in much the same way as public housing rent setting despite the receipt of CRA. All of the analysis presented below for public housing tenants can be read as also applying to community housing tenants.

## 3 Financial incentives to work related to housing assistance

This section summarises and discusses incentives to work under CRA and social housing rent settings for ‘typical’ housing assistance recipients — the most prevalent types of recipients (box 3).

The observations presented rely on analysis of budget constraints for each typical recipient. The Commission has used the PCTT 2014 model to derive these curves, applying the logic set out in section 1 to isolate the effects of housing assistance.

Rather than explain budget constraints and EMTRs for all typical recipients, only one example is worked through in this paper — for a single, childless DSP recipient. Using this model, other examples can be similarly examined, as needed. This example was chosen because the budget constraints and EMTR curves for a person with these characteristics are relatively simple to explain. This relative simplicity arises because the DSP is not assessable for income tax purposes for people under age pension age. Other welfare payments, including the Age Pension, Newstart Allowance, Youth Allowance and Parenting Payment (Partnered) are assessable, complicating the analysis for these groups (ATO 2014). It is recognised that DSP recipients face barriers to employment. Nonetheless, some do work and most new recipients since 2006 have been assessed as having some job capacity (BP 3).

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| Box 3 The most prevalent groups receiving housing assistance |
| Data from the Department of Human Service’s administrative collection indicate that three groups, classified by ISP and family situation, accounted for over 50 per cent of working age CRA recipients who receive ISPs in 2013:a   * childless singles receiving the Newstart Allowance — 20.5 per cent * childless singles receiving the Disability Support Pension — 18.4 per cent * single parents receiving the Parenting Payment and the FTB — 14.8 per cent.   The same dataset indicates that the same groups make up nearly 60 per cent of working age public housing tenants who receive ISPs:   * childless singles receiving the Disability Support Pension — 36.6 per cent * childless singles receiving the Newstart Allowance — 10.3 per cent * single parents receiving the Parenting Payment and the FTB — 10.7 per cent. |
| a Data exclude people who receive FTB only (that is, no ISP). |
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Summary insights are presented for other typical recipients. Budget constraints and EMTR curves for the other typical recipients are presented in annex C to this background paper.

Unlike in section 1, the budget constraints that are presented link market income to disposable income *less* *rent paid*. This small change in approach is needed in order to compare the two housing policies. Both policies mean that a recipient has more disposable income after paying rent, but this outcome is achieved in different ways. CRA increases a tenant’s disposable income directly, but doesn’t change the rent that they pay (they still pay the market rent). In this case, the housing assistance subsidy received by the tenant is explicit. Social housing rent setting doesn’t change a tenant’s disposable income, but reduces the rent that they pay (they pay less than the market rent). In this case, the housing assistance subsidy received by the tenant is implicit. An example illustrating these differences is presented in table 3.

The different ways in which rent subsidies are delivered also means that the income effect described in section 1 is defined slightly differently for social housing tenants. Because a person’s disposable income doesn’t change when they move into social housing (because the subsidy is implicit), the income effect is measured as the change in disposable income less rent. This is equal to the implicit rent subsidy.[[16]](#footnote-17)

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| Table 3 Illustrative example — rent subsidies for private renters and social housing tenants**a** |
| |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | | Housing assistance | Income | Market rent | Income less market rent | CRA | Disposable income | Rent paid | Disposable income less rent paid | Rent subsidy/ income effect | | CRA | 20 000 | 10 000 | 10 000 | 5 000 | 25 000 | 10 000 | 15 000 | 5 000 | | SH | 20 000 | 10 000 | 10 000 | .. | 20 000 | 5 000 | 15 000 | 5 000 | |
| a This illustrative example does not use actual data. The numbers have been chosen to illustrate the difference between rent subsidies for the two types of housing assistance — not to reflect actual scenarios. |
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The mechanics of the two rent subsidies are summarised in box 4.

Finally, unless otherwise indicated, it is assumed in examples presented throughout the section that housing assistance recipients live in properties with a market rent of $10 000 per year ($192 per week). This amount would allocate the maximum rate of CRA to an eligible private renter. It is also consistent with an estimate of the median rent paid by DSP recipients who rented privately and received CRA in June 2013 (BP 3, annex A).[[17]](#footnote-18)

A description of the budget constraints and EMTR schedules for a single, childless DSP recipient in either the private rental market or social housing follows. A summary of the income and price effects of housing assistance for CRA recipients and social housing tenants is then presented. Finally, the disposable incomes of otherwise similar CRA recipients and social housing tenants are compared.

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| Box 4 The mechanics of Australian rent subsidies in a nutshell |
| *How the subsidies are paid*   * CRA is received as a cash transfer, so directly increases a tenant’s disposable income. The recipient pays the private landlord the agreed market rent. * Under social housing rent setting, subsidised tenants may be charged a rent below the market rate. In this case, there is no explicit cash transfer — the rent subsidy is implicit. The subsidy doesn’t change a tenant’s disposable income; rather, it decreases the amount of income that has to be spent on rent.   In both cases, after the recipient of housing assistance has paid rent, they can spend more on other goods than they would be able to in absence of the policy. In other words, both policies are a rent subsidy — both increase disposable income *net of out‑of‑pocket* *rent*.  *How the subsidies are set*   * Under CRA, the subsidy is a percentage of market rent above a minimum threshold (that varies by family situation) up to some maximum amount. * Social housing rent is set as a percentage of income, up to market rent. In other words, the rent subsidy is the difference between market rent and some percentage of income.   *How the subsidies change as income increases*   * CRA is reduced according to the income test that applies to the recipient’s ISP (or FTB A if that is how they qualify for this form of assistance). The rent subsidy does not change at lower levels of market income. * Social housing rent increases with every dollar of additional market income earned and the rent subsidy decreases accordingly. |
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### Financial incentives for a single, childless DSP recipient

#### Income effects — rent subsidies

Consider two single, childless DSP recipients — one rents privately and receives CRA, the other lives in social housing. Both receive a DSP of about $21 600 a year, and live in properties with a market rent of $10 000 a year. Without subsidies, each would have a disposable income post rent (DIPR) of about $11 600.[[18]](#footnote-19)

* CRA adds close to $3300 to the private tenant’s disposable income per year, giving them a DIPR of about $14 900 if they have zero market income (figure 3a).[[19]](#footnote-20)
* The social housing tenant pays rent equal to 25 per cent of their income, or about $5400, giving them a DIPR of about $16 200.[[20]](#footnote-21)

The rent subsidies raise DIPR by $3300 for the CRA recipient and $4600 for the social housing tenant. In figure 3, this effect can be seen in the gaps between the budget constraints for each tenant (‘DSP, CRA’ and ‘DSP, SH’, respectively) and the budget constraint they would face without the subsidy (‘DSP, no HA’).

The tenant renting privately continues to receive the full amount of CRA until DSP is fully withdrawn — at a market income of about $45 000. CRA is then withdrawn at a rate of 50 cents in the dollar as market income rises. It is fully withdrawn at a market income of about $52 000. The tenant continues to receive a small amount of pension supplement up to an income of about $54 000, and at higher incomes receives no ISPs or CRA — they have the same budget constraint as someone without DSP or CRA (‘No DSP, no HA’). The social housing tenant pays more in rent as market income rises because rent is set as a percentage of income. At a market income of about $36 000, the tenant pays market rent — the rent subsidy reaches zero. Why doesn’t this occur at $40 000, when 25 per cent of market income would be equivalent to the $10 000 market rent? The answer lies in the fact that at a market income of $36 000, the tenant receives an ISP of about $4000 — which takes assessable income to $40 000.

Withdrawal of DSP continues at market incomes above $36 000, until an income of about $44 000. At this point, the social housing tenant has the same budget constraint as someone with no DSP or HA (‘No DSP, no HA’).

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| Figure 3 Budget constraints and EMTRs**a,b,c,d**  Single, childless DSP recipient |
| |  | | --- | | This chart shows the budget constraints faced by a single, childless, DSP recipient, in a number of scenarios: - living in social housing - receiving CRA - not receiving housing assistance | | This chart shows the EMTRs faced by a single, childless, DSP recipient, in a number of scenarios: - living in social housing - receiving CRA - not receiving housing assistance | |
| a Market rent is assumed to be $10 000 per annum. b The small ‘notches’ in each budget constraint (at an income of about $48 000 for social housing residents and $54 000 for CRA recipients) reflect the fact that pension supplements are withdrawn at a rate of 100 per cent at those income levels. This causes the EMTRs to spike above 100 per cent at these income levels. For simplicity, this is not shown in the diagram. c The budget constraints include the effects of income taxes and housing assistance. d The small step down in the EMTR schedule at a market income of about $67 000 reflects the point at which the low income tax offset goes to zero. |
| *Source*: Estimated from the PCTT 2014 model. |
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#### Price effects — effective marginal tax rates (EMTRs)

As market income increases, five factors can influence the share of any extra dollar earned that is retained as disposable income — withdrawal of ISPs, the low income tax offset, income taxes, the Medicare levy and reductions in housing subsidies.

Both tenants can earn about $4000 before DSP starts to be withdrawn — at a rate of 50 cents in the dollar. Both qualify for the low income tax offset, meaning that they don’t pay income tax or the Medicare levy until earning more than about $20 500.[[21]](#footnote-22) (Other income earners face a tax free threshold of $18 200.) From about $20 500, the tenants pay income tax at 19 cents in the dollar and the Medicare levy is introduced. Because of their higher effective tax free threshold, the tenants initially face a relatively high Medicare levy (10 cents in the dollar). At an income of about $24 000, the tenants’ Medicare contributions are similar to other tax payers’, and the levy drops back to 1.5 cents in the dollar — the marginal tax rate (MTR) due to income taxes and the Medicare levy is 20.5 cents in the dollar.[[22]](#footnote-23) From an income of $37 000, income taxes are 32.5 cents in the dollar, the Medicare levy 1.5 cents and the low income tax offset is withdrawn at a rate of 1.5 cents in the dollar. The MTR due to these three factors is, therefore, 35.5 cents in the dollar within a market income range of $37 000 to about $67 000. At about $67 000, the low income tax offset is completely phased out.

Withdrawal of CRA (at 50 cents in the dollar) starts once DSP payments are zero (at an income of about $45 000). The social housing tenant pays 25 cents of each dollar of assessable income in rent.

What does this all mean? Looking at the social housing tenant first, up to a market income of about $4000, rent payments increase by 25 cents for each dollar earned — their EMTR is 25 per cent (figure 3b). Beyond $4000, DSP is reduced by 50 cents with each additional dollar of market income. This means that the income used in determining a tenant’s rent payments (‘assessable income’) rises by 50 cents. Rent increases by 25 per cent of this rise — or 12.5 cents. In total, the tenant faces an EMTR of 62.5 per cent — 50 percentage points from the withdrawal of DSP and 12.5 percentage points from a higher rent payment. In other words, a tenant retains 37.5 cents of each additional dollar of market income.

From a market income of about $20 500 to about $24 000 (a relatively small range), the EMTR increases by the MTR, 29 per cent, to 91.5 per cent.[[23]](#footnote-24) The tenant takes home less than 10 cents of each extra dollar earned. The EMTR drops back to 83 per cent at incomes between about $24 000 and $36 000 — 62.5 percentage points from withdrawal of DSP and increasing rent payments and 20.5 percentage points from income tax and the Medicare levy.

At about $36 000, the tenant starts paying market rent, and continues to pay this level of rent as market income increases. The contribution of housing assistance to the EMTR goes to zero, but the total EMTR remains at 70.5 per cent — 50 percentage points from withdrawal of DSP and 20.5 percentage points from income tax and the Medicare levy. With the higher marginal income tax rate (32.5 cents per dollar) and decline in the low income tax offset at incomes above $37 000, the tenant’s EMTR rises to 85.5 per cent. Once DSP is totally withdrawn (at about $45 000), the EMTR curve summarises the effects of the income tax rate, the Medicare levy and the reduction of the low income tax offset.[[24]](#footnote-25)

In summary, the contribution of housing assistance to EMTRs affects the social housing tenant’s disposable income over market incomes between zero and $36 000 with EMTRs of over 80 per cent experienced between $20 000 and $36 000 market income. While the effect of housing assistance on the proportion of an extra dollar of market income retained by a tenant is smaller than the effect of the combination of DSP withdrawal and taxes, it nevertheless contributes overall to a major apparent disincentive to work.

Turning to the tenant renting privately, housing assistance makes no contribution to their EMTR until an income of about $45 000. CRA is then withdrawn, adding to the 35.5 per cent MTR from the income tax, the Medicare levy and reduction of the low income tax offset to give a total EMTR of 85.5 per cent between about $45 000 and $52 000. Once CRA is totally withdrawn, disposable income is not affected by welfare support.[[25]](#footnote-26)

The contribution of CRA to the EMTR is large (50 percentage points) in comparison with the contribution of rent setting rules to a social housing tenant’s EMTR (a maximum of 25 percentage points). However, it affects a recipient’s disposable income over a relatively small income range and at higher levels of income.

As noted above, there is some variation in public housing rent setting across jurisdictions. The effects of this on EMTRs are described in annex D.

#### Income and price effects due to housing assistance for typical recipients

Income and price effects faced by the typical CRA recipients and social housing tenants listed in box 3 are presented in this section. For simplicity, only key points are illustrated. As noted above, the budget constraints and EMTR schedules underlying these points are available in the annex to this background paper.

Price effects are discussed first because they influence the summary presentation of income effects. EMTRs show how much of one more dollar earned a person keeps as disposable income, but employment offers tend to involve work that pays much more than one more dollar — for example, an extra shift a week, a job with the same hours paying more (or less) or a move from unemployment into a part‑time job. In this case, it is the cumulative effect of EMTRs that is likely to influence decisions. A person will think about how their disposable income will change in total if they take up a job offer. The cumulative effects of the different factors affecting disposable income are illustrated below, and in the process, so are income effects.

For comparability, both with the preceding analysis and between ISP groups, market rent is assumed to be $10 000 a year in these examples. This is likely to be below the level of rent paid by some single Newstart Allowees and many Parenting Payment (Single) recipients. Setting market rent at a higher level would not affect the CRA analysis (at an annual rent of $10 000, recipients are receiving the maximum rate of CRA). It would, however, affect the range of market income over which housing assistance contributed to EMTRs for public housing tenants. In particular, if tenants were paying rent below the market level at the point at which their ISP was withdrawn, the contribution of housing assistance to their EMTR would increase to 25 per cent.[[26]](#footnote-27)

##### Price effects

In general, housing assistance (for both social housing and CRA recipients) is not the primary factor determining a person’s EMTR, either because the corresponding EMTR is small in comparison with other factors that create a gap between market and disposable income or, where large, do not apply over a big income range. That said, the contributions of housing assistance to EMTRs, and the income ranges over which they apply, vary markedly with welfare payments.

In the case of CRA, EMTRs are relatively high for single Newstart (NWS) and single DSP recipients (60 per cent and 50 per cent, respectively) — reflecting the withdrawal rates for those payments (figure 4). The high withdrawal rates mean that CRA goes to zero reasonably quickly and clearly contributes to high EMTRs. As CRA is withdrawn last, and at a high rate, the high EMTRs apply over a relatively small income range. In contrast, CRA withdrawal rates for FTB recipients are lower (20 per cent), so the contribution of housing assistance to EMTRs applies over a wider range of income.

Similarly, EMTRs for social housing tenants depend on their ISP:

* the higher an ISP, the smaller the income range over which the contribution of housing assistance to EMTRs applies. This occurs because, the higher the ISP, the more rent a tenant pays at zero market income, and so, other things equal, the tenant reaches market rent at a lower level of market income than they would if they received a lower ISP
* the higher the income threshold for withdrawal of ISPs, the smaller the total income range over which housing assistance contributes to EMTRs. This occurs because, other things equal, the higher the threshold, the larger the income range over which the tenant faces a contribution to EMTRs from housing assistance of 25 per cent (that is, before ISP withdrawal commences), and the sooner they start paying market rent
* the higher the ISP withdrawal rate, the lower the contribution of housing assistance to EMTRs and the larger the range over which those EMTRs apply. This occurs because, other things equal, a higher withdrawal rate means that assessable income rises more slowly with market income, and so, therefore, do rent payments.

The ISPs of typical social housing tenants vary markedly across household characteristics (table 4), and this variation is reflected in the contribution of housing assistance to EMTRs (figure 5). Among the typical recipients, a single parent with one child who receives Parenting Payment and FTB has the highest ISP at zero market income, the highest threshold before payments are withdrawn and the lowest withdrawal rate. Consistent with this, their EMTR goes to zero at a relatively low level of market income, is 25 per cent over a larger income threshold range and is higher when ISP withdrawals begin. They also pay the most rent at zero market income — $5987 (information on rent paid at zero market income is presented in brackets in the legend in figure 5).

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| Table 4 ISP characteristics of typical social housing tenants**a,b,c** |
| |  |  |  |  | | --- | --- | --- | --- | | Type of ISP recipient | Annual ISP when market income is zero | Market income threshold before ISP withdrawal commences | Rate at which ISP is withdrawn | |  | $ | $ | Cents in the dollar | | Single, childless, NWS | 13 309 | 2 607 | 50 or 60 | | Single, childless, DSP | 21 611 | 4 171 | 50 | | Single, one child, PP + FTB | 27 518 | 4 813 | 40 | |
| DSP – Disability Support Pension; NWS – Newstart; PP – Parenting Payment; FTB – Family Tax Benefit. a Rates current at September 2014. b The ISP is assumed to include the pension supplement where applicable. Other supplements such as the Energy Supplement, Telephone Allowance and the Pharmaceutical Allowance are ignored. These payments total about $600 annually, but only apply to some recipients. c A withdrawal rate of 50 cents in the dollar applies for market income between $100 and $250 per fortnight. At incomes above $250, the withdrawal rate is 60 cents in the dollar. |
| *Source*:DHS (2014)*.* |
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| Figure 4 Contribution of CRA to EMTRs**a,b,c,d,e**  Selected payment types |
| |  | | --- | | This chart shows the contribution of CRA to EMTRs for different income support recipients. | |
| a Market rent is assumed to be $10 000 per annum. b The payments are: Newstart Allowance (NWS), Disability Support Pension (DSP), Parenting Payment (PP) and Family Tax Benefit (FTB). c The single parents’ child is assumed to be 5 years old. In reality, at this level of income Parenting Payment is fully withdrawn. The text is included in the label to facilitate comparison with the following figure for public housing tenants. d The effect of pension supplement withdrawal is not shown. e The schedule for the PP recipient does not include the effects on disposable income of the Seniors and Pensioners Tax Offset. Inclusion of this offset has no discernible effect on the schedule. |
| *Source*: Estimated from the PCTT 2014 model. |
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| Figure 5 Contribution of social housing rent setting to EMTRs**a,b,c**  Selected payment types |
| |  | | --- | | This chart shows the contribution of social housing rent setting to EMTRs for recipients of different income support payments. | |
| a Market rent is assumed to be $10 000 per annum. b The payments are: Newstart Allowance (NWS), Disability Support Pension (DSP), Parenting Payment (PP) and Family Tax Benefit (FTB). c Rents paid at zero market income are presented in brackets in the legend for each typical ISP recipient. |
| *Source*: Estimated from the PCTT 2014 model. |
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##### Cumulative price effects and income effects

Relative to ISPs, the income effects of CRA and social housing rent setting are not the primary driver of high EMTRs (figures 6 and 7). For example, for a single, childless DSP recipient, the effect from CRA is about $3300 at zero market income and $1900 at a market income of $50 000. If the same person was in social housing, the income effect would be $4600 at zero market income and zero at a market income of $50 000.

Other factors that affect disposable income as market income rises, that is, price effects other than those created by housing assistance, have a much larger cumulative influence on work incentives than the withdrawal of CRA or social housing rent setting. For example, at zero market income a single, childless DSP recipient renting privately and receiving CRA has a disposable income (including rent) of about $25 000, whereas at $50 000 market income, their disposable income is about $44 000. So the DSP recipient would be better off by about $19 000 if they could take on a job paying $50 000. At this level of income, they would have to pay income tax and would forego benefits worth nearly $23 000 — of which CRA makes up a relatively small part (about $1400). Altering withdrawal rates of housing assistance in isolation is unlikely to alter work incentives in this set of circumstances.

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| Figure 6 CRA and other transfers at different market incomes**a,b**  Income flows and post rent income at zero and $50 000 market income |
| |  | | --- | |  | |
| a Market rent is assumed to be $10 000 per annum. b Data for the PP recipient do not include the effects on disposable income of the Seniors and Pensioners Tax Offset. Inclusion of this offset has no discernible effect on the figure. |
| *Source*: Estimated from the PCTT 2014 model. |
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| Figure 7 Social housing and other transfers at different market incomes**a,b**  Income flows and post rent income at zero and $50 000 market income |
| |  | | --- | |  | |
| a Market rent is assumed to be $10 000 per annum. b Data for the PP recipient do not include the effects on disposable income of the Seniors and Pensioners Tax Offset. Inclusion of this offset has no discernible effect on the figure. |
| *Source*: Estimated from the PCTT 2014 model. |
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## 4 Comparing the income effects of CRA and social housing rent setting

This section compares the income effect of each form of housing assistance — or, in other words, looks at which form of housing assistance leaves a tenant with a higher DIPR. The answer depends on market rents, ISP types and market income.

At lower market rents, some tenants who rent privately and receive CRA will have a larger DIPR than an otherwise similar social housing tenant so long as they have some income in addition to their welfare benefits (figure 8). For example, a single person with one child who:

* receives Parenting Payment and FTB
* lives in a property with an annual market rent of $10 000 ($192 a week)
* earns about $10 000 a year ($192 a week)

has about $2000 more in DIPR per annum if they rent privately than if they live in social housing.

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| Figure 8 Difference in disposable income post rent (DIPR) under each housing policy**a,b**  DIPR for a social housing tenant *minus* DIPR for a CRA recipient, $ per annum |
| |  | | --- | | This chart shows the DIPR for a socail housing tenant minus DIPR for a CRA recipient. It shows that for a Newstart recipient on low income, the social housing subsidy is larger than CRA. For some DSP and FTB recipients, the CRA rent subsisdy is larger than the social housing subsidy. | |
| a Schedules are drawn assuming a market rent of $10 000 per annum, or $192 a week. b The schedule for the PP recipient does not include the effects on disposable income of the Seniors and Pensioners Tax Offset. Inclusion of this offset has no discernible effect on the schedule. |
| *Source*: Estimated from the PCTT 2014 model. |
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This conclusion raises some key questions:

* How low do rents have to be before the DIPR from renting privately and receiving CRA is greater than the DIPR from renting in social housing?
* Is it possible to rent at those levels in the private market?
* How many tenants have some income in addition to their ISP?

The answer to the first question is that rents have to be quite low for people with zero market income (figure 9), but can be higher for people who earn at least the median market income for their ISP group (figure 10).[[27]](#footnote-28) For example, a single parent with one child who is receiving Parenting Payment and FTB and earning zero market income has a higher DIPR if renting privately up to a rent of about $185 a week. With a market income of $18 000 (the median for single parents who received Parenting Payment in 2013), they have a higher DIPR if renting privately up to a market rent of about $250 a week.

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| Figure 9 Post rent income under each policy at different weekly rents**a,b** |
| |  | | --- | |  | |
| a ISP and FTB rates as at June 2014. b The schedule for the PP recipient does not include the effects on disposable income of the Seniors and Pensioners Tax Offset. Inclusion of this offset has no discernible effect on the schedule. |
| *Source*: Estimated from the PCTT 2014 model. |
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| Figure 10 Post rent income under each policy at different weekly rents**a,b**  Median market incomes for each ISP group |
| |  | | --- | |  | |
| a Curves are estimates assuming a median annual market income for single Newstart recipients of $15 000, single DSP recipients of $6000 and Parenting Payment (Single) and FTB recipients of $18 000. These estimates are based on data from the DHS database. b ISP and FTB rates as at June 2014. |
| *Source*: Estimated from the PCTT 2014 model. |
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So what is the answer to the second question? What proportion of tenants face private market rents that mean that their DIPR from renting privately is higher than it would be if they were living in social housing? As shown in figures 9 and 10, this depends on ISP type and market income. Estimates of rents for CRA recipients provide some insight into this question.[[28]](#footnote-29)

Assuming zero market income:[[29]](#footnote-30)

* Single DSP recipients who pay less than about $160 a week in rent have a higher DIPR if renting privately. In 2013, it is estimated that approximately 40 per cent of all DSP recipients who rented privately and received CRA paid rent at or below this level (author estimates based on annex A, BP 3). Assuming that single DSP recipients are likely to pay more in rent than partnered DSP recipients (footnote 17), the percentage of singles paying less than about $160 will be smaller than 40 per cent.
* Single Newstart recipients who pay less than about $100 a week in rent have a higher DIPR if renting privately (extrapolating from the NWS series in figure 9) — but, in 2013, very few Newstart recipients who rented privately and received CRA paid rents at or below this level (figure 11).
* Single recipients of Parenting Payment who pay rent of less than about $185 a week are financially better off renting privately. In 2013, fewer than 25 per cent of recipients who rented privately and received CRA paid rent at or below this level.

These data suggest that a majority of ISP recipients with zero market income would have a higher DIPR if they lived in social housing than if renting privately and receiving CRA.

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| Figure 11 Rents paid by CRA recipients by ISP type — mean, median and interquartile range, at 30 June 2013**a** |
| |  | | --- | |  | |
| a The lower edge of each column represents the 25th percentile of the distribution of weekly rents for an ISP group, the line across a column is the median level, the diamond shape is the mean and the top of a column, the 75th percentile. |
| *Source*: Department of Human Services, administrative data (unpublished). |
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Finally, how many tenants have some income in addition to their ISP?

Rates of employment vary by ISP type (figure 12) (and by housing tenure); less than 9 per cent of all DSP recipients, 26 per cent of all Newstart recipients and 27 per cent of single parents who received Parenting Payment were working in the fortnight ending 30 June 2013. It is assumed that these rates also apply to single DSP and Newstart recipients and that those in employment at 30 June earned the median annual income estimated for their ISP type. In that case, only half of the members of each these ISP groups who worked earned at least the level of market income underlying the curves shown in figure 10 (because those curves are based on the median income earner in each ISP type).

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| Figure 12 Employment of housing assistance recipients by ISP type, 2013**a,b**  Per cent reporting earned income |
|  |
| a ISP recipients aged 15–65 at 30 June 2013. This figure does not include FTB(A)‑only recipients of CRA. b Commonwealth Rent Assistance refers to CRA recipients. Public housing to public housing tenants. |
| *Source*: Department of Human Services, administrative data (unpublished). |
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In other words:

* less than 5 per cent of single DSP recipients are estimated to have earned at least $6000 in 2013. At rents of up to about $180 a week (figure 10) they would have had a higher DIPR if renting privately and receiving CRA than if living in social housing. About 50 per cent of single DSP recipients who rented privately in 2013 are estimated to have paid rent at or below this level (figure 11)
* less than 13 per cent of single Newstart recipients are estimated to have earned at least $15 000 in 2013. At rents of up to about $165 a week they would have had a higher DIPR if renting privately and receiving CRA. About 25 per cent of single Newstart recipients who rented privately in 2013 are estimated to have paid rent at or below this level
* less than 15 per cent of single Parenting Payment recipients earned at least $18 000 in 2013. At rents of up to about $250 a week, they would have had a higher DIPR if renting privately and receiving CRA. About 50 per cent of single Parenting Payment recipients who rented privately in 2013 paid rent at or below this level.

In summary, the data suggest that some people with at least the median level of market income could find properties that left them with a higher DIPR if they were renting privately and receiving CRA, compared with living in social housing.

An important qualification to this conclusion — it rests on an assumption that social housing market rents are a true reflection of a dwelling’s market price. If, for example, a rent was set below the market price, a tenant would be receiving greater housing amenity than a peer renting in the private market.

Overall, the analysis suggests that:

* some single DSP recipients would have a higher DIPR if renting privately and receiving CRA than if living in social housing
* a very small proportion of single Newstart recipients would be in this position
* a majority of single Parenting Payment recipients are likely to have a higher DIPR if living in social housing.

This analysis has focused on financial calculations. Many other considerations influence decisions about where to live and whether to work, especially security of tenure and as well as location relative to work. In addition, decisions about where to live are constrained by the supplies of public housing, social housing and what someone might consider to be affordable housing.

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1. Concessions, for example for health care services or utilities, also affect the amount of goods and services that a person can purchase with their disposable income. These are not taken into account in the analysis. [↑](#footnote-ref-2)
2. The rules, thresholds and rates used in the model in calculating payments and taxes, and that, therefore, underlie the results presented in this paper, were those current at March 2014. [↑](#footnote-ref-3)
3. From the perspective of labour supply theory, an increase in unearned income at any level of employment is thought to cause a person to reduce their hours of work, or reduce their willingness to enter employment if they are not working. This paper makes no judgment on this matter. [↑](#footnote-ref-4)
4. While recipients of housing assistance might receive market income from dividends and interest, these sources of income are likely to be small. In addition, the paper’s focus on incentives to work (and working age housing assistance recipients) means that superannuation pensions are unlikely to be a relevant source of market income. For most working age housing assistance recipients, most market income is likely to be earnings from employment. [↑](#footnote-ref-5)
5. A change in the effective price that an individual is paid for an extra hour of work has two types of effects — income and substitution effects. The income effect stems from the effect of the price change on the person’s income. If the price falls, income declines, so the income effect describes how a person will have an incentive to work more hours to maintain their income. The substitution effect, however, will encourage them to work fewer hours (consume more leisure) because work pays less. The net effect is ambiguous. This is different from the effect of a price change of a normal good, where the income effect and substitution effect work in the same direction. This arises because an extra hour of leisure is preferred by most people to an extra hour of work. [↑](#footnote-ref-6)
6. Some studies use replacement rates (RR) or participation tax rates (PTRs) to measure financial incentives to work. The RR is the ratio of net income out of work to net income in work. The PTR measure the proportion of a person’s gross earnings from work that are lost in taxes or reduced benefits. Both measures require an assumption about what an individual would earn if they entered employment. For this purposes of this project, EMTR schedules are preferred because they illustrate the separate effects of the withdrawal of housing assistance and income support payments and the payment of income taxes at different levels of market income. [↑](#footnote-ref-7)
7. The term marginal tax rates (MTRs) is used to refer to the amount of tax paid on an additional dollar of market income. Effective marginal tax rates (EMTRs) include MTRs plus the effects of other factors (the tapering of housing assistance and ISPs) that create a difference between market and disposable income. In the context of housing assistance, tapering includes the withdrawal of CRA and increases in rent paid in public housing as market income rises. In both instances, the withdrawal of housing assistance contributes to the EMTRs faced by recipients. [↑](#footnote-ref-8)
8. ISPs are welfare payments administered by the Department of Human Services (DHS). Family Tax Benefit is also administered by DHS, but is not an ISP. [↑](#footnote-ref-9)
9. In addition, rent assistance is available to recipients of some Department of Veterans’ Affairs pensions, such as the service pension and the social security age pension (DVA 2013). Due to the focus on incentives to work, these payments are not analysed in this paper. [↑](#footnote-ref-10)
10. All income support recipients, irrespective of payment type, are permitted to combine employment with receipt of welfare payments in line with the income test applying to their payment. [↑](#footnote-ref-11)
11. There are some complicating factors. First, most individuals are eligible for more than one payment (for example, Age Pension recipients also receive a Pension Supplement and a Clean Energy Supplement). Only the Pension Supplement has been included in the analysis presented in this paper. Other supplements and allowances are ignored. Furthermore, different withdrawal rates can apply over different ranges of income. This is taken into account in the analysis presented. The situation for couples is more complex again — there is either a joint-income or partner-income test — and becomes even more complex if both receive ISPs. These characteristics of ISPs are not discussed further in this paper, but they are captured by the PCTT 2014 model. [↑](#footnote-ref-12)
12. Some smaller components of welfare support (such as part of the pension supplement) are withdrawn after rent assistance. [↑](#footnote-ref-13)
13. ‘Adjusted’ family income is used in the Family Tax Benefit income test. It includes market income and welfare payments. [↑](#footnote-ref-14)
14. South Australia also charges a lower percentage for cottage flats (single story flats in small groups) — 19 per cent for a bedsitter, 21 per cent for a one bedroom flat and 23 per cent for a two bedroom flat (Government of South Australia 2014). [↑](#footnote-ref-15)
15. Although different rules may apply depending on whether FTB is received fortnightly or as a single end-of-financial-year payment. (FTB recipients can choose between these options.) [↑](#footnote-ref-16)
16. In-kind support of this type ties a tenant to a housing outcome that they might not have chosen if they instead received a cash subsidy. To the extent that this is the case, the value the person places on their housing assistance is lower than the value of the subsidy — an inefficient outcome. [↑](#footnote-ref-17)
17. The median rent estimate in BP 3, annexe A is $176. This estimate is probably a bit lower than the median for single DSP recipients — suggesting that use of a higher figure is warranted. First, the estimate is based on rents paid by all DSP recipients. Partnered DSP recipients might pay less rent than singles (that said, 80 per cent of DSP recipients who receive CRA are single so the estimate is primarily driven by singles’ rents). Second, rent information for some ISP recipients might be out of date. In the data underlying the median rent estimate, over 80 per cent of CRA recipients had updated their rent details in the preceding 3 years — meaning the information was reasonably current. Those who hadn’t presumably either hadn’t experienced a rent increase in some time, or were paying rent above the threshold level for maximum CRA, and so did not notify Centrelink. In the absence of more information, it is assumed that $192 is a reasonable estimate of the rent paid by single DSP recipients who rent privately and receive CRA. [↑](#footnote-ref-18)
18. They would also receive a range of concessions, for example, via a Health Care Card and for utilities. These are ignored in the modelling (not least because they depend on individuals’ spending patterns so vary from person to person). [↑](#footnote-ref-19)
19. Centrelink considers all of sources of market income in determining a recipient’s ISP payment (DHS 2014b), although compensation for lost income is assessed at a lower rate (DHS 2014a). With the exception of superannuation pensions, income tax is payable on all these sources of income (ATO 2014). Because this analysis relates to working age housing assistance recipients, it assumes that all sources of market income are taxable. [↑](#footnote-ref-20)
20. In reality, DIPR is a bit higher than this because the pension supplement (about $1600 per annum) is not included in social housing tenants’ assessable income for rent setting purposes. Rent paid is therefore about $5000 and the DIPR, $16 600. [↑](#footnote-ref-21)
21. In 2013-14, the low income tax offset was $445 and was withdrawn at a rate of 1.5 cents per dollar of income over $37 000. It cut out at incomes above $66 667. [↑](#footnote-ref-22)
22. Rates are those prevailing in financial year 2013-14. [↑](#footnote-ref-23)
23. Rent payments are calculated on pre‑tax income, so income tax rates do not affect the housing assistance component of the EMTR. [↑](#footnote-ref-24)
24. If the tenant had not started to pay market rent at the point at which their ISP was withdrawn, the contribution of housing assistance to their EMTR would rise to 25 per cent. [↑](#footnote-ref-25)
25. The pension supplement that remains when CRA goes to zero is withdrawn at a rate of 100 per cent when income reaches about $54 000. This causes a big spike in the EMTR at that rate. For simplicity, this is not shown in the diagram. [↑](#footnote-ref-26)
26. Readers who are interested in the effects of higher market rents on EMTRs for public housing tenants could use PCTT 2014 to generate budget constraint and EMTR schedules. [↑](#footnote-ref-27)
27. Median annual incomes are estimated by multiplying data for the fortnight ending 30 June 2013 by 26. [↑](#footnote-ref-28)
28. These rent estimates are subject to the same qualifications raised in footnote 17. [↑](#footnote-ref-29)
29. The situation for median income earners is discussed below. [↑](#footnote-ref-30)