# Annex D The effects of variation in social housing rent setting between states

As noted in section 2 of BP 2, there are three key differences in rent setting between states:

* Tasmania calculates assessable income on the basis of income net of income taxes; other jurisdictions do not
* the Northern Territory includes Family Tax Benefit (FTB) in assessable income at a lower rate than other states
* New South Wales and the Northern Territory do not set rents at 25 per cent of assessable income at all levels of income. In particular, the percentage of income charged as rent varies at higher incomes.

Effect of excluding income tax in calculating assessable income

Tasmania’s approach of using income net of income tax, rather than gross income, in calculating assessable incomes causes lower effective marginal tax rates (EMTRs) whenever tax is paid. It also means that the contribution of rent setting rules to EMTRs is spread over a larger income range than it is in other jurisdictions.

Consider the EMTR for a single, childless recipient of the Disability Support Pension (DSP) from a $1 increase in income above the point at which they start to pay income tax — about $20 500. In Tasmania, a social housing tenant’s assessable income increases by $0.71 ($1 minus the income tax rate plus Medicare levy). In other jurisdictions, assessable income increases by $1. In all jurisdictions, at this level of income, assessable income also reduces by $0.50 due to the withdrawal of DSP. The net change in assessable income in Tasmania is, therefore, $0.21, and rent increases by 25 per cent of this, or by $0.05. The contribution of housing assistance to the EMTR is 5 per cent. In other jurisdictions, the net change in assessable income is $0.50, rent increases by $0.125 (25 per cent of $0.50) and the contribution of housing assistance to the EMTR is 12.5 per cent, which adds to any effects from other parts of the tax and transfer system.

Differences between jurisdictions are illustrated for a single, childless DSP recipient living in a property with an annual market rent of $10 000 (figure D.1). The gap between the schedules ‘DSP, no HA’ and ‘DSP, HA…’ captures the contribution to EMTRs of housing assistance. The effect of the difference in approach between Tasmania and other jurisdictions is shown by the gap between the ‘DSP, HA, Aust excl Tas’ and ‘DSP, HA, Tas’ schedules.

Although social housing residents in Tasmania face a lower contribution of housing assistance to EMTRs than tenants in other jurisdictions, they face this contribution over a larger income range. In the example below, single, childless DSP recipients around the country face the same contribution of housing assistance to EMTRs up to the point at which the tax system starts to affect disposable income — about $18 000. Between $18 000 and $32 000, a tenant in Tasmania faces a lower contribution of housing assistance to their EMTR. At about $32 000, tenants in other jurisdictions start to pay market rent. Tenants in Tasmania continue to face a contribution from housing assistance to EMTRs until a market income of about $45 000, at which point they too are paying market rent.

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| Figure D.1 The effect of deducting tax on EMTRs**a**  Single, childless DSP recipient |
| |  | | --- | | This chart shows the effect of deducting tax on EMTRs for a single, childless DSP recipient under different housing assistance scenarios. | |
| a The small dip in the ‘DSP, HA, Tas’ schedule between about $18 000 and $20 500 is due to an assumption that the rent setting rules do not take the low income tax offset into account. |
| *Source*: Estimated from the PCTT 2014 model. |
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Effect of including a smaller proportion of FTB in assessable income

The Northern Territory’s approach of including a smaller proportion of FTB in calculating assessable income reduces the level of assessable income at any market income, but does not change a tenant’s EMTR. Up to the income threshold at which welfare payments are withdrawn, tenants in the Northern Territory are assumed to pay 25 cents of each additional dollar of income in rent.[[1]](#footnote-1) However, the fact that assessable income is lower means that housing assistance contributes to EMTRs over a larger range of market income. Tenants have to earn a higher level of market income to reach the level of assessable income at which they pay market rent. This is illustrated for a FTB recipient with two children who lives in a property with a market rent of $10 000 (figure D.2).

Withdrawal of FTB doesn’t start until market income reaches about $50 000. Tenants, both in the Northern Territory and other jurisdictions, begin to pay market rent well before that income level — at about $35 000 and $32 000, respectively.

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| Figure D.2 The effect of counting FTB at a lower rate on EMTRs  FTB recipient with two children |
| |  | | --- | | This charts shows the effect of counting FTB at a lower rate on EMTRs, for an FTB recipient with two children. It compares EMTRs when FTB is counted at 100%, 60% or 43%. | |
| a For clarity, we have assumed the Northern Territory sets rent at 25 per cent of assessable income, not 23 per cent. |
| *Source*: Estimated from the PCTT 2014 model. |
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Effect of increasing the percentage of income paid in rent as income increases

In New South Wales, rents are set at between 25 and 30 per cent of assessable income (up to the point where a tenant is paying market rent). Different thresholds determine the percentage paid by a household. For example, at an assessable income of less than $38 325 (the ‘moderate income threshold’), the percentage of income charged as rent is set at 25 for a tenant living alone (figure D.3). At incomes between $38 325 and $47 919, the rate increases linearly from 25 per cent to 30 per cent. Above $47 919, the tenant is charged 30 per cent of assessable income, until $71 175 (the ‘subsidy eligibility threshold’) above which market rent is charged (if the tenant is not already paying this level of rent).

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| Figure D.3 Rate of assessable income charged as rent in NSW  Single persona |
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| a Larger households have higher thresholds. For each additional adult, first child and additional children respectively, the moderate income threshold increases by $10 168, $7561 and $5214, the 30 per cent threshold increases by $12 723, $9438, and $6518, and the subsidy eligibility threshold increases by $19 032, $14 339 and $9386. |
| *Source*: Housing NSW (2014). |
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This rent setting approach can lead to higher EMTRs than a quick glance might suggest because the increase in the percentage of income payable in rent applies to all income and not just to an additional dollar. In other words, as a tenant earns an additional dollar, they lose between 25 and 30 per cent of that additional dollar *plus* they must pay a higher rate on all existing income. This causes a jump in the contribution of housing assistance to EMTRs.

A greatly simplified example illustrates why this jump occurs. Imagine a person who:

* receives an income support payment of $20 000
* pays rent at a rate of 25 per cent of assessable income up to a market income of $10 000
* pays rent at a rate of 30 per cent of assessable income above a market income of $20 000
* pays no income tax, nor faces any income support payment (ISP) withdrawal.

Between the assumed threshold market incomes of $10 000 and $20 000, the percentage of income paid in rent increases linearly by 5 percentage points, or 0.0005 per cent with each additional dollar earned.

At a market income of $10 000, the person has an assessable income (including their ISP) of $30 000, and pays 25 per cent of this, or $7500 in rent (table D.1). Their EMTR is 25 per cent. At a market income of $10 001, their rent is set at 25.0005 per cent of their assessable income, or $7500.400005. Their EMTR is 40.0005 per cent. If the percentage of income paid in rent had remained at 25 per cent, their rent would have been $7500.25 and their EMTR would have remained at 25 per cent. At a market income of $10 002, their rent is set at 25.001 per cent of their income, and they pay $7500.80002 in rent, and their EMTR is 40.0015 per cent. In other words, the EMTR increases with income, and with a dollar increase in market income from $10 000, the EMTR increases from 25 to just over 40 per cent.

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| Table D.1 Illustrative example of the effects of NSW’s rent setting rules on EMTRs |
| |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | Rent paid at: | |  | EMTR when rent paid: | | | Market income | a flat rate of  25 per cent of income | an increasing rate at market income above $10 000 |  | is a flat rate of  25 per cent | increases at market incomes above $10 000 | | $ | $ | $ |  | % | % | | 9 999 | 7499.75 | 7499.750000 |  |  |  | | 10 000 | 7500.00 | 7500.000000 |  | 25 | 25 | | 10 001 | 7500.25 | 7500.400005 |  | 25 | 40.0005 | | 10 002 | 7500.50 | 7500.800020 |  | 25 | 40.0015 | |
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A comparison of the EMTRs faced by a single, childless DSP tenant living in a property with a market rent of $10 000 in New South Wales versus somewhere else in the country illustrates the effect of these rent setting rules (figure D.4).

From a market income of about $4000, a tenant in New South Wales faces a contribution from housing assistance to their EMTR of 12.5 per cent, as do their peers in other jurisdictions. From a market income of $29 250, the contribution of housing assistance to EMTRs in New South Wales increases to over 20 per cent. The higher EMTR means that a tenant in NSW starts paying market rent sooner than their peers in other jurisdictions (at an income of about $31 000 rather than $32 500).

This effect is more pronounced at higher levels of market rent. In New South Wales, total EMTRs exceed 100 per cent at some incomes for a single, childless DSP tenant whose annual market rent is $12 500 (figure D.5). In addition, the contribution of housing assistance to EMTRs increases between the moderate income and 30 per cent thresholds.

Note, the total EMTRs of more than 100 per cent illustrated in this example apply over a relatively small range of market income (from about $37 000 to $41 000). They would be relevant, for example, to the decisions of a tenant weighing up a job offer that would increase their market income from $35 000 to $40 000. (The tenant would have a drop in disposable income if they took up the offer.) But they wouldn’t be relevant if the tenant was weighing up an offer that raised their market income, for example, from $20 000 to $25 000. In addition, tenants in New South Wales would have much the same disposable income at a market income of about $50 000 (and higher) as tenants with similar characteristics in other jurisdictions. At this level of income, tenants face very similar cumulative EMTR effects wherever they live.

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| Figure D.4 The effect of NSW rent setting rules  Single, childless DSP recipient, $10 000 market rent |
| |  | | --- | | This chart shows the EMTRs faced by a single, childless DSP recipient in NSW, under different housing assistance scenarios, assuming market rent is $10 000 per annum. | |
| *Source*: Estimated from the PCTT 2014 model. |
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| Figure D.5 The effect of NSW rent setting rules with higher market rent  Single, childless DSP recipient, $12 500 market rent |
| |  | | --- | | This chart shows the EMTRs faced by a single, childless DSP recipient in NSW, under different housing assistance scenarios, assuming market rent is $12 500 per annum. | |
| *Source*: Estimated from the PCTT 2014 model. |
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1. In reality, in the Northern Territory, the figure is 23 cents in the dollar, but 25 cents is used in this section to simplify the comparison with other jurisdictions. The figure of 23 cents reduces EMTRs slightly and increases the income level at which a tenant pays market rent. For example, an NT tenant will pay a market rent of $10 000 at market income of close to $39 000 when rents are set at 23 per cent of assessable income, versus about $35 000 when they are set at 25 per cent. [↑](#footnote-ref-1)