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*WORKING TITLE:* **There's no place like home**

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The mining boom tax cuts have left the Australian budget unable to collect the revenue needed to fund the services that Australians expect from their government.

The Treasurer's insistence that there is no revenue problem, combined with the received political wisdom that the family home is off-limits in the tax debate, makes finding solutions difficult.

Meanwhile, the Productivity Commission is discovering that billions of equity lies trapped in people's homes. Luckily there are solutions that address both the revenue shortfall and the housing predicament that are fair, efficient and economically sound.

The Centre for Independent Studies' Simon Cowan wrote about including housing in the pensions assets test in yesterday's pages. While and he and I might not agree on much, at August's National Reform Summit, we did find common cause in the fact that leaving the family home out of the tax system is poor policy that creates significant economic distortions.

The first big economic test for the government will come later this month with the release of the mid-year economic and fiscal outlook.

## TAX TO GDP RATIO

Unless Scott Morrison shifts his rhetoric significantly, the government will have to explain why continued downgrades in revenue are not really a revenue problem at all. That's a tough job for an experienced Treasurer with some runs on the board.

Australia is the seventh-lowest taxing country out of 34 in the Organisation for Economic Co-operation and Development. Our tax to GDP ratio is lower now than under John Howard.

Significantly, increasing revenue doesn't have to mean increasing tax rates, it could alternatively be a process of simplifying the tax system and closing down the rorts and the loopholes.

Most of the attention in the tax reform debate has, so far, been focused on super tax concessions – due to their size and the fact they are overwhelmingly skewed to benefit high-income earners.

But there is one thing that makes super tax concessions look small. Top of the list is the capital gains tax exemption on the family home.

While super tax concessions are costing the budget $33.5 billion, the CGT exemption on the family home costs $46 billion a  year.

With the government's declaration that "everything is on the table", now may be the time to pare back tax concessions that have grown more than 40 per cent in the past three years.

The government does not need to abolish the tax concession completely. But it could limit the tax concession to houses under $2 million. This would mean houses that sold for $2 million or more would have to pay capital gains tax.

Applying CGT to high-value houses is not the only policy change that the government should consider.

The other relates to the age pension. The Productivity Commission released a paper this week that showed that retirees were not using the equity in their home to best effect.

There are two ways of linking the value of the home to rate of the pension. One is the traditional proposal to include the value of a person's home in the assets test for the age pension. The higher the value of the property, the lower the pension. The other is to decrease the value of the property and increase the rate of the pension.

## REVERSE MORTGAGES

The government already has such a scheme in place but it is underused and available to too few. It can help increase retirees income with almost no cost on the budget.

It's called the Pension Loans Scheme (PLS) and it allows people who are ineligible for a full pension to enter into a reverse mortgage with the government for a fortnightly payment up to an amount equal to a full pension.

This could be easily expanded to all people over 65, again at almost no cost to the budget, and help retired people access the almost $1 trillion that the Productivity Commission estimates they hold in the family home.

Under such a change, retirees who own their own home and are eligible for a full age pension could potentially double their pension, drawing from the equity in their home.

The Senate has already backed an investigation into an expansion of the PLS. Senators Lambie, Lazarus, Xenophon and Muir have released a costing from the Parliamentary Budget Office that showed that retirees could potentially boost their incomes by $2.8 billion.

So unlike previous budget failures in this term, such a move from the government on the PLS would be working with the Senate, not against it.

The family home has the potential to help the government out of a number of budget problems while helping to boost retirement incomes.

But the twin ideological straitjackets hampering both the discussion about increasing government revenue and "touching the family home" will have to be overcome first.

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