For Immediate Release

Wednesday 27th June 2024

From the Desk of the Chief Economist

Stage 3 Tax Cuts: Will it allow greater access to the property market?

As the Financial Year 2023-2024 comes to an end, there is anticipation for Stage 3 tax cuts to come into effect – as it is promised to assist with the cost of living.

Higher mortgage repayments and property prices climbing to greater heights have made homeownership a greater challenge. **The question is: to what extent will stage 3 tax cuts assist? Will it allow greater access to property markets?**

Home Loan Affordability

Housing affordability has improved, albeit slightly, for the first time since 2021. **Between the December quarter 2023 and March quarter 2024, the proportion of family income needed to meet loan requirements declined from 47.7% to 46.7%.**

Table 1. Proportion of family income needed to meet loan repayments (source: Real Estate Institute of Australia, Housing Affordability Report March quarter 2024)

	March Quarter 2024	December Quarter 2023	March Quarter 2023
NSW	56.3%	58.5%	54.4%
VIC	45.9%	46.8%	46.1%
QLD	45.2%	45.1%	40.8%
SA	44.2%	44.2%	40.6%
WA	37.8%	36.8%	34.2%
TAS	42.0%	43.3%	42.2%
NT	33.2%	33.1%	32.5%
ACT	34.3%	35.2%	34.2%
AUSTRALIA	**46.7%**	**47.7%**	**44.5%**

Interestingly **New South Wales saw the largest improvement in home loan affordability**, though still holding the title for the most expensive state to live in. Dubbed the "more affordable places to live" **Queensland and South Australia are among states that did not see an improvement**; neither did Western Australia and the Northern Territory.

Stage 3 Tax Cuts

When the government released its Federal Budget for 2024, stage 3 tax cut revisions were the main cost of living measure.

The Stage 3 tax cuts bracket, to come into effect on 1st July 2024, are as follows:

- Earn up to $18,200 – pay no tax
- Pay a 16% tax rate on each dollar earned between $18,201 - $45,000
- Pay a 30% tax rate on each dollar earned between $45,001 - $135,000
- Pay a 37% tax rate on each dollar earned between $135,001 - $190,000
- Pay a 45% tax rate on each dollar earned above $190,000

The stage 3 tax cuts will impact approximately 13.6 million Australians and are designed to improve a person's disposable income. For example, a person with a taxable income of **$70,000 will take home $37,128.85 in FY2024-2025**, a saving of **$1,429 when compared to the $35,699.88 disposable income in FY2023-2024**.

Having a higher disposable income provides households with many choices. From a property perspective, this translates into mortgage repayments or borrowing capacity. For those who are already homeowners and are paying a mortgage, the extra funds can be channelled into either extra repayments or a deposit into the mortgage offset account. For those about to take the plunge into homeownership, it can translate to higher borrowing power.

A person earning (and thus a taxable income of) **$120,000 has a borrowing power of $615,135.51 in FY 2023-2024**. With stage 3 tax cuts, this increases to **$642,197.44 in FY2024-2025**. This is a significant increase of $27,061.93; or 4.4%. Those earning top dollar, of $140,000 and above, will still see the largest benefit, with their maximum borrowing power increasing by at least 5.36%.

Table 2. Stage 3 tax cuts impact on disposable income and borrowing power (source: Aussie Home Loans Stage 3 tax cuts media release, 19th June 2024)

Financial Year	Taxable Income	Disposable Income	Max Borrowing (6.28% interest rate)	Difference due to Stage 3 Tax Cuts	Purchase Price (20% deposit)
FY 2023-2024	$70,000	$35,699.88	$360,670.33	$14,436.66	$450,837.91
FY 2024-2025	$70,000	$37,128.85	$375,106.99		**$468,883.74**
FY 2023-2024	$80,000	$38,958.89	$393,595.51	$16,962.36	$491,994.39
FY 2024-2025	$80,000	$40,637.86	$410,557.87		**$513,197.34**
FY 2023-2024	$90,000	$45,508.89	$459,769.13	$19,488.08	$574,711.41
FY 2024-2025	$90,000	$47,437.86	$479,257.21		**$599,071.51**
FY 2023-2024	$100,000	$52,058.89	$525,942.75	$22,013.79	$657,428.44
FY 2024-2025	$100,000	$54,237.86	$547,956.54		**$684,945.68**
FY 2023-2024	$120,000	$60,887.37	$615,135.51	$27,061.93	$768,919.39
FY 2024-2025	$120,000	$63,566.01	$642,197.44		**$802,746.80**
FY 2023-2024	$140,000	$69,521.43	$702,364.05	$37,672.95	$877,955.06
FY 2024-2025	$140,000	$73,250.37	$740,037.00		**$925,046.25**

Assuming the maximum borrowing represents 80% of the purchase price, based on a standard minimum 20% deposit (to avoid lenders' mortgage insurance); this **brings up the purchase price from $768,919 to $802,747**.

Note: this calculation does not include stamp duty, legal fees, grant, and scheme incentives accessible to the buyer, and other associated costs/incentives.

Not surprisingly, the amount saved in taxes increases as one's taxable income bracket climbs higher, resulting in a bigger difference in the maximum borrowing capacity between FY 2023-2024 and FY2024-2025.

Access into Australia's Property Market

The Stage 3 tax cuts do put a prospective buyer in a more advantageous position, especially the price range that the person can now consider. That said, with house prices climbing higher than before, how does this translate in real terms? Is there greater access to the property market?

To work this out, we looked at house and unit sales for 2024 in all the Greater areas – i.e. Greater Sydney, Greater Brisbane, Greater Melbourne; etc. We then compared this data to the purchase price as set out in Table 2, to work out the percentage of sales that is accessible to a particular taxable income bracket.

Table 3. Purchasing power under stage 3 tax cuts vs access to market (source: prepared by PRD Research, raw data through APM Pricefinder)

Financial Year	Taxable Income	Purchase Price (20% deposit)	Greater Sydney		Greater Melbourne		Greater Brisbane		Greater Hobart	
			House	Unit	House	Unit	House	Unit	House	Unit
FY 2023-2024	$70,000	$450,837.91	2.3%	13.2%	1.5%	25.1%	2.9%	20.4%	10.5%	19.7%
FY 2024-2025	**$70,000**	**$468,883.74**	**2.5%**	**14.3%**	**1.8%**	**27.3%**	**3.3%**	**23.7%**	**13.3%**	**26.8%**
FY 2023-2024	$80,000	$491,994.39	2.8%	16.6%	2.8%	31.3%	4.1%	29.6%	15.9%	33.8%
FY 2024-2025	**$80,000**	**$513,197.34**	**3.3%**	**18.8%**	**4.0%**	**35.2%**	**5.0%**	**34.3%**	**18.7%**	**38.7%**
FY 2023-2024	$90,000	$574,711.41	5.2%	27.3%	9.5%	46.7%	9.1%	47.8%	27.2%	52.1%
FY 2024-2025	**$90,000**	**$599,071.51**	**6.4%**	**30.7%**	**12.9%**	**51.7%**	**11.4%**	**52.5%**	**30.9%**	**58.5%**
FY 2023-2024	$100,000	$657,428.44	9.9%	40.6%	25.5%	62.8%	19.4%	64.7%	40.3%	67.6%
FY 2024-2025	**$100,000**	**$684,945.68**	**11.4%**	**44.4%**	**31.0%**	**66.2%**	**23.0%**	**68.8%**	**46.0%**	**71.8%**
FY 2023-2024	$120,000	$768,919.39	17.4%	56.4%	46.0%	75.9%	35.1%	79.7%	58.4%	78.2%
FY 2024-2025	**$120,000**	**$802,746.80**	**21.5%**	**61.5%**	**50.8%**	**79.0%**	**39.6%**	**82.3%**	**62.3%**	**83.1%**
FY 2023-2024	$140,000	$877,955.06	30.5%	69.8%	58.6%	83.7%	48.6%	86.9%	73.0%	88.7%
FY 2024-2025	**$140,000**	**$925,046.25**	**37.3%**	**74.8%**	**63.1%**	**86.3%**	**53.8%**	**89.2%**	**77.1%**	**91.5%**

Financial Year	Taxable Income	Purchase Price (20% deposit)	Greater Adelaide		Greater Perth		Greater Darwin		Greater Canberra	
			House	Unit	House	Unit	House	Unit	House	Unit
FY 2023-2024	$70,000	$450,837.91	4.0%	27.5%	4.1%	44.6%	25.4%	71.8%	1.2%	20.6%
FY 2024-2025	**$70,000**	**$468,883.74**	**4.8%**	**30.1%**	**5.2%**	**48.0%**	**27.8%**	**73.9%**	**1.3%**	**23.4%**
FY 2023-2024	$80,000	$491,994.39	6.6%	34.7%	7.4%	53.6%	33.1%	77.5%	1.6%	27.6%
FY 2024-2025	**$80,000**	**$513,197.34**	**8.7%**	**38.6%**	**9.9%**	**58.2%**	**39.7%**	**79.6%**	**1.7%**	**31.6%**
FY 2023-2024	$90,000	$574,711.41	16.7%	50.1%	20.7%	67.6%	53.3%	82.4%	2.2%	42.1%
FY 2024-2025	**$90,000**	**$599,071.51**	**19.9%**	**54.4%**	**26.1%**	**70.8%**	**58.7%**	**84.5%**	**2.4%**	**46.6%**
FY 2023-2024	$100,000	$657,428.44	32.2%	65.4%	40.4%	78.1%	69.5%	89.1%	4.9%	60.1%
FY 2024-2025	**$100,000**	**$684,945.68**	**36.9%**	**68.6%**	**46.1%**	**80.8%**	**72.5%**	**90.1%**	**6.2%**	**64.7%**
FY 2023-2024	$120,000	$768,919.39	51.2%	78.5%	58.7%	86.4%	82.7%	94.0%	18.1%	78.4%
FY 2024-2025	**$120,000**	**$802,746.80**	**56.6%**	**81.8%**	**62.8%**	**88.4%**	**86.1%**	**95.4%**	**24.8%**	**82.2%**
FY 2023-2024	$140,000	$877,955.06	65.3%	87.1%	69.8%	91.2%	90.0%	96.8%	37.8%	86.9%
FY 2024-2025	**$140,000**	**$925,046.25**	**70.3%**	**89.5%**	**73.5%**	**93.1%**	**91.9%**	**97.2%**	**47.1%**	**89.4%**

Table 3 suggests there is an increase in access to property markets, in all Greater areas. That said, **the percentage change between the two financial years is not as high as expected. Further, it is quite limited to those earning a higher income.**

For example, a person earning **$90,000** will have access to **5.2% of houses in Greater Sydney Pre-Stage 3 tax cuts**. Come 1st July 2024, the person will have **6.4%** access. In comparison, a person earning **$140,000** will see their access increase from **30.5% to 37.3% in the Greater Sydney house market**.

We can see there is greater affordability in units, creating more opportunities for buyers. **Greater Brisbane residents earning $80,000** can currently access **4.1% of houses**, which will increase to **5.0% after Stage 3 tax cuts**. However, if they choose **units**, the Stage 3 tax cuts allow for greater access, from **29.6% to 34.3%**.

This research also suggests potential options for Australians. Residents of **Greater Melbourne earning $120,000** currently can access **46.0% of houses**, which will go up to **50.8% thanks to Stage 3 tax cuts**. Should that person choose to move to **Greater Adelaide**, after Stage 3 tax cuts, they will have access to **56.6% of houses and 81.8% of units**. Thus, improving their chances at home ownership.

Moving Forward

The Stage 3 tax cuts do impact a person's maximum borrowing power, and thus the property purchase price that a person can access. On paper, the calculation is quite impressive – **for example, a person earning $120,000 can now consider a property listed in the early $800,000s, as opposed to the mid-$700,000s**. This widens the buyer's prospects, essential in the current housing-supply shortage.

From a property perspective, **will the Stage 3 tax cuts make a difference**? Yes and no. It will not make a significant difference, as the percentage increase in access to the market is somewhat small, **between 5-7%, and will mostly be felt by those earning a higher income (i.e. $120,000 and more).** However, it does make some difference, especially regarding a home buyer's hopes and positive sentiment. Combined with a stable interest rate, currently at 4.35%, and the outlook for stability (both in employment/wage growth and cash rate); the stage 3 tax cuts might just be what is needed to turn a cautious buyer into a signed contract.

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