

16 October, 2003

Productivity Commission  
Locked Bag 2, Collins St East  
MELBOURNE VIC 8003

SUBMISSION TO THE PRODUCTIVITY COMMISSION INTO HOME OWNERSHIP.

Dear Sir or Madam,

I have decided to outline a few brief points that could be considered during this productivity commission inquiry.

A holistic approach will need to be taken to analyse the many factors influencing home ownership and affordability. This should ensure the outcomes achieved have the most chance of success.

The points I will briefly discuss include the following

TAX/ Government Policies

It is very obvious that first homebuyers are being priced out of the market by over eager investors who see all and any property as a goldmine! The onus seems to be on procuring a property for investment and collecting all those deductions. The losses seem to be the only criteria used in decision making. The returns on residential property are dismal. Commonly a 3% gross return is achieved. Without those generous deductions, a real estate investment would not be considered.

The government subsidizes these individuals through these deductions. ie has the effect of decreasing the marginal tax rate of the individual.

So that same individual who would readily criticize a social security recipient, arrogantly accepts this government handout. Yes I hear the outcry, but we all pay taxes-you and I ..

This propensity to acquire all housing for investment decreases first home stock. The use of financial resources in such endeavours is unproductive for Australia. They could be utilised elsewhere as is so commonly argued.

RESIDENTIAL INVESTMENT NEGATIVE GEARING should be:

„h Abolished

„h Reduced by heavy modification

The first point would not be palatable to the supporters of the government of the day. The obvious answer is to reduce the negative gearing arrangements with residential investment property. Reduce to a percentage the deductions available and reduce or preferably eliminate depreciation allowances. I.e. goal is reduce government SUBSIDISATION. If the investment is sound it will continue to be viable, if not it will have to be sold to a First homebuyer.

The new regime in CGT has fuelled the current speculative property bubble. CGT should have been reduced but over a greater period of time say four years on a sliding basis and only to the company tax rate level. This can still be achieved and should be considered.

The use of a home as collateral should immediately then make it obligatory that the house be then considered under the capital tax regime. (Only from the beginning of the initial investment and beyond). There is an unfair advantage to someone who has equity in his or her own home and doesn't have to pay capital gains tax yet readily claims deductions.

I am not naive and the issue that I have here is that this could prevent homes being used as collateral for REAL business purposes- eg a plumbing business. There may be a need for a waiver for these types of businesses; criteria could be it has to have a minimum of one employee: The employees are wage earners who would then spend their wages and allow the multiplicative investment effect to be fostered.

A special status for certain classes of investment ie-home collateral for residential investment would not be allowed ie excluded in this case. Seems fair!

With so many conditions and criteria this unfortunately would make the final scheme open to manipulation such, as is evident in the FHOG. Toorak Toddlers, as recently discovered, have an uncanny ability to exploit all available loopholes.

Stamp duty is a popular topic. I believe it should stay as it has always been there. It could eventually be reduced, especially for first homebuyers, but this should not be considered until the air is well and truly out of the bubble.

There should be no credence given to the self-interested and morally corrupt industry groups that continually air this topic. I would also prefer not to see the poor sod who has just purchased an expensive million dollar property on the front of a tabloid crying foul because they have just spent a huge amount on stamp duty. Buy a cheaper property! These are typical of persons who rub their hands with glee as house prices rise but then realise they now have to pay a proportionately higher level of tax. Why not consider living on the street and not paying taxes at all!

One method to decrease the burden of stamp duty on the buyer could be to impose the liability onto both parties. They could equally share the stamp duty cost.

Briefly on Land tax: I feel for the older person who eventually is forced to pay when the threshold is reached, but I have no mercy for those investors who complain when their land tax liabilities increase from year to year. The investment rules are there for all to see and land tax is something that should be considered before purchase. The capital value of the house has increased and there is no inverse relationship between the two variables.

Lastly it ceases to amaze me how much lip service the RBA gives this topic. It is blatantly clear that it is not working. It's objective is to control inflation. House prices have inflated, but they readily use empty rhetoric to attempt to pummel a monster that keeps growing. See all the current stats on investment housing. The weighting in the CPI may need to be adjusted. The only defense they have is the housing industry growth provides a disproportionate level for growth to the economy, as does the loose supply of money from low interest rates. When they act the pain may be widely felt! I say that it would be better to act than talk. The monetary policy could act in tandem with fiscal policy initiatives such as the savings one mentioned below.

## Finance

A recent report sponsored by the Menzies Institute encouraged the use of a new shared equity arrangement. It is ideas such as these coupled with the new innovative High LVR products available from institutions that encourage the use of easy money to finance purchases.

It seems that the money supply availability has been catered for in this innovation but the supply issue of property forgotten. I think that this would encourage prices in the market to go higher.

Why not encourage individual saving via the taxation system. No matched savings, no shared arrangements but rather a system whereby the first \$1000 or \$ 2000 in interest earned would not be subject to tax at the marginal tax

rate of the earner. THIS SHOULD BE MEAN TESTED, YES MEAN TESTED, A TERM THE CURRENT GOVERNMENT SEEMS TO HAVE FORGOTTEN. THIS COULD OCCUR ON A SLIDING SCALE FROM 50k TO 100K. Full benefit for up to 50K and no benefit for 100K and above. Other values could be discussed. This would encourage savings and reduce the reliance on our credit mentality. If they don't save then so be it. Renting is still and will always be a viable alternative. Intervention is sometimes necessary to massage the economic framework of a society.

#### Industry

This continual increase in house prices has increased and will continue to increase the cost of construction and maintenance. This coupled with a reluctance of younger people in selecting a trade, as a vocation will put pressure on Building work and prices. The standardization of building standards would be beneficial in reducing regulatory differences between states and hurdles in approvals.

The real estate industry should also come under scrutiny. At exactly the same time it discusses stamp duty and other punitive taxes it should also acknowledge that their commissions also affect prices. There is a lot of uncontrolled propaganda such as is evident in ads that should be more strictly controlled by an external body such as the ACCC preferably under a federal system. There will be cries of increased compliance costs but they will generally come from those with the most to lose. Those with nothing to worry about will happily comply.

When the bubble deflates, the result should be downward pressure on commissions, a nice positive.

.. ---- INTEGRITY is the keyword here-----

No mention will be made of the media industry. They again make many claims. Any work that they do, should readily outline all audited costs and actually realistically estimate the timeframe for completion with a normally sized workforce.

#### Closing

I have intentionally maintained a qualitative perspective as much has been written and produced with regards to the housing bubble we are experiencing at the moment. Analysts that have plenty of time can readily collect this material.

I also acknowledge that this PC investigation after reading the terms of reference may just seek to transfer the perceived blame to local and state governments.

Unfortunately I am not naive and it is possible that this report will only fill a slot in a library, just like so many others, conveniently quoted when a shortsighted political gain can be made.

I hope my comments, along with the many other submissions, are considered and if feasible incorporated in the final analysis.

I wish it success and I hope that any useful recommendations from the commission report are implemented.

Waiting to BUY FIRST HOME!!!

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