



5 November 2003

The Chairman
Mr Gary Banks
Public Enquiry on First Home Ownership
Productivity Commission
LB2, Collins Street East
Melbourne, Victoria 8003

By Facsimile to (03) 9653 2305

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Dear Sir / Madam

The answer to assisting home owners (first or otherwise) is relatively simple and that is to allow interest for home mortgages to be deductible. Everyone knows this but the bigger problem is how to fund such an initiative. I suggest the following is considered.

It could be funded by a mix of limiting deductions for gearing on passive non business investments to the extent of income produced (or to some greater extent based on a predetermined formula if economic modeling suggests this is required to keep a balance in the system) and by setting a cap on the main residence exemption.

It would also be necessary to cap the deduction to ensure that this is not in turn exploited. There would not be a reoccurrence of the problems that arose when the Labour Government tried to abolish negative gearing in the late eighties because gearing would not be entirely eliminated it would simply be effectively controlled to limit tax concessions and to correctly redirect them to those that need the subsidy for housing any differential for the less entrepreneurial sections of society who for whatever reason are unable to enter into home ownership could be redirected to state housing projects to ensure public housing funding is maintained.

Income redistribution through the tax system should ensure that basic needs such as housing are being met not lining the pockets of well to do investors and the tax system needs to be fixed. The property market is being distorted by tax funded speculation and the system needs to be revised to ensure that investment capital is being directed towards industry that will create jobs and not be tied up in passive investments speculating on capital growth alone without adding any true benefit to economic output.

These measures carefully costed and introduced in a co-ordinated fashion without unnecessary interference from grandstanding Senators should ensure continued activity within the housing industry, which is in itself such an important source of employment, is maintained.

We would be pleased if the Commission would consider these initiatives in developing its report to the Government.

Please feel free to contact our office should any of the above matters require clarification.

Yours Faithfully

A handwritten signature in black ink, enclosed within a hand-drawn oval. The signature is cursive and appears to read 'Louis Leahy'.

Louis Leahy
Director

cc Australian Financial Review
cc Hon Peter Costello MP