

From: Louis M Leahy [Louis@numberworld.com.au]
Sent: 6 November 2003 5:50 PM
Cc: housing@pc.gov.au
Subject: FW: Home Owners Caught In Cross Fire

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From: Louis M Leahy
Sent: 6 November 2003 4:42 PM
To: 'edletters@afrc.com.au'
Subject: Home Owners Caught In Cross Fire

Dear Sir / Madam

Re Rate Rise: RBA taps the Brakes AFR page 1 Thu 6 Nov 2003. Morgan Mellish reports the RBA are trying to cool the housing boom. However what is not apparent it appears is that in order to control market behaviour through the use of interest rates will require an inordinant increase in rates because the speculation is being driven not by home owners but by investors who in most instances are on top marginal tax rates and effectively getting a 50% tax break on their interest costs.

Thus a 0.25% increase in rates represents only a 0.12% increase in real terms for the section of the market that is borrowing most heavily and who are driving prices up through speculation. To have sufficient impact rates will have to go to levels that will unfortunately adversely effect traditional home owners and small business. I have previously outlined to you in response to AFR 30 Oct page 3 Cherelle Murphy Story about the suggestion by the HIA to put yet another impost on Australian Tax-payers, that the answer to assisting home owners (first or otherwise) is relatively simple and that is to allow interest for home mortgages to be deductible.

This can 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 modelling 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. These measures are badly needed for our Country and I would beg you allow them to be aired in your esteemed journal.

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