

INQUIRY INTO FIRST HOME OWNERSHIP
PRODUCTIVITY COMMISSION

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SUBMISSION

The cost of the price of housing in my opinion has gone up over 100% in the last 6 years due to a number of factors. These are the low interest rates, the first home owners grant and the large amount of property investors buying investment properties. Interest rates are not really able to be used to control housing prices and so can't really be utilised.

The first home owners grant was brought in to assist with the extra cost of the GST in relation to housing costs going up. It applies to all homes bought by first home owners and is helping to increase the cost of existing houses. As houses already built have no GST attached they should not qualify for the first home owners grant, which should only be for newly constructed homes. This would reduce the amount of people trying to buy existing houses and keep the prices from rising too much as demand would be reduced. By giving first home owners incentive to buy only new houses would discourage them from borrowing too much, as they are generally cheaper as they are further from the major cities and the land value is not as much. Existing houses up to a certain level of say \$100,000 in country areas could still receive the grant to encourage more people to the country.

I own a number of investment properties and benefit from negative gearing which allows me to get a tax refund every year of thousands of dollars. However, I find that a good outcome of your inquiry would be to recommend that losses could only be claimed against income from the investment property in question, and not offset against income from other sources, such as wages from a job. I believe that this is what happens overseas in a number of countries, such as the U.K. This would mean that losses would accumulate and only after the investment property starts making more money than it losses could those losses then offset paying tax on the income from the investment property until all the losses are used up. This would mean that investors would pay far more attention to the property as an investment rather than just as a means to reduce their taxable income and receive a large refund. This is what the tax office changed a number of years ago in relation to farms owned by high income individuals.

I have attended a large amount of property investment seminars and it seems they all seem to say to buy new properties and get a large amount of depreciation and tax benefits. I can't recall any actually saying to try to make a profit. They all point out how the tax man helps make up any loss. With the cost of most of the new units and apartments they advocate , their initial cost and low rent, it would be many years if ever before the rent would cover all costs. If investors were only allowed to claim losses against income from the individual property, more people would then treat it as a true investment, rather than just a tax break. This would reduce investor demand for housing, and reduce the cost to the taxpayer of subsidizing those losses. Negative gearing would not be removed as in the middle 80's, but more closely targeted at the underlying investment. With less demand, prices would not increase as much and prices would remain far more affordable for first home buyers.

Yours sincerely,

Trevor BERGMAN