

## Additional Notes to Submission Number 201

Events since my submission of 12 November, '03, cause me to enquire whether the Productivity Commission can accept additional comments complementary to those made in my Submission. If it is so, I would greatly appreciate your help in bringing my comments to the attention of the Productivity Commission.

Additional comments :

Since my first Submission the Reserve Bank has,

- a) stated its considered opinion that particular tax concessions underlie the housing price bubble, and that increasing housing prices have led to excessive borrowing, and
- b) increased interest rates.

The Reserve Bank had, for many months, warned the Government that interest rates would have to rise if the housing price bubble was not brought under control.

It has been apparent for some considerable time that tax concessions have been a significant factor in the loss of housing affordability. In response to repeated queries as to why *speculators* who meet some simple requirements have to pay only half the tax demanded of non-speculator income earners with similar incomes, the Government replied, "The Government considers that it is appropriate generally to tax capital gains more concessionally than other income in recognition of the greater risk involved in capital investment."

In other words, the Government seeks to reward those *gambling on ever increasing housing prices*. Because its tax concessions have drawn excessive funds into the housing market and thus contributed to price increases, the Government itself has in effect 'loaded the dice' in favour of the speculator.

The rush for tax advantaged capital gains has inflated housing prices to the level whereby investment housing no longer gains its traditional profits from the rental market. The housing market thus is now dangerously skewed, not only within itself but in respect of the national economy.

The housing market problems and Reserve Bank corrective actions are affecting many more people than first home buyers alone. Any person seeking to move to another home of similar value is now confronted with greatly magnified taxes and fees. Older homeowners seeking to downsize are frustrated both financially and because young families often have already bought the smaller home despite its being inadequate for their needs.

Further to the above, the increased interest rates must place a heavier burden on homepurchase-borrowers, and on any other borrower, such as the small or large business, manufacturer, farmer, etc. The national economy in general is hurt because a remedy specific to the flow of excessive funds into the housing market has not been effected.

In light of the above comments the suggestion is respectfully offered that the Productivity Commission examine the role of the reduced capital gains tax concession in exacerbating the diminishment of housing affordability. It does seem possible that rescission of that concession would take sufficient heat out of the housing market for restoration of equilibrium in the National economy to be achievable, and without the traumas associated with ever-increasing interest rates.

Yours sincerely

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