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11 December 2003

Inquiry into first home ownership  
Productivity Commission  
LB2 Collins Street East  
Melbourne VIC 8003

**copy to:**

- (a) The Treasurer
- (b) The Department of Treasury (attention James Bond, Domestic Economy Division)

Sir,

**Concessional tax treatment of owner-occupied housing**

I refer to my letter of 7 October 2003 to the Treasurer, which was copied to the Inquiry (and reproduced below). I also enclose a letter dated 2 December 2003 from the Treasurer's Office. I would be grateful if you could publish this letter, together with the Treasurer's letter, as part of my submission to the Inquiry.

**1 The Treasurer has been asked whether the Commission is precluded from recommending the abolishment of concessional tax treatment for owner-occupied housing**

In my letter to the Treasurer, I expressed concerns that the Inquiry's Terms of Reference precluded the Commission from recommending measures to make housing affordable, whether owner-occupied or not. In particular, I was concerned that the Commission is precluded from recommending any of the following:

- (a) abolishing the concessional tax-treatment for owner-occupied housing;
- (b) allowing taxpayers to deduct rental expense from taxable income;
- (c) allowing taxpayers to nominate a single residential property in respect of which concessional tax treatment would apply regardless of whether the property is occupied by the taxpayer.

**2 The Treasurer has indicated that the Commission may recommend measures to make housing affordable, whether owner-occupied or not**

It would seem that the Treasurer believes that the Inquiry's terms of reference is wide enough to allow the Commission to recommend measures to make housing

affordable, whether owner-occupied or not. While the focus of the Inquiry is on first home ownership, the Terms of Reference:

“have been drafted to evaluate all components of the cost and price of housing [*whether owner occupied or not*], and to identify any impediments to the efficient operation of the [*rental and owner occupied*] housing market”.

**3 The Terms of Reference requires the Commission to assess “direct ownership subsidies” including concessional tax treatment for owner-occupied housing**

Whilst the Treasurer has not expressly confirmed that it is open to the Commission to recommend abolishing the concessional tax treatment for owner-occupied housing, I submit that:

- (a) “direct ownership subsidies” (see the Terms of Reference) includes a reference to the concessional tax treatment for owner-occupied housing;
- (b) the Treasury has directed the Commission to assess such “direct ownership subsidies”; and
- (c) it is therefore open to the Commission to recommend:
  - (i) abolishing the concessional tax-treatment for owner-occupied housing; or
  - (i) extend the concessional tax-treatment to rental housing by:
    - (A) allowing taxpayers to deduct rental expense from taxable income; or
    - (B) allowing taxpayers to nominate a single residential property in respect of which concessional tax treatment would apply regardless of whether the property is occupied by the taxpayer.

Each of the recommendations mentioned promotes:

- (a) the “efficiency ... of taxes”; and
- (b) “the efficiency of use of existing residential [*rental and owner occupied*] housing stock”

(see the Terms of Reference).

**4 There should be a tax deduction for the annualised cost of capital invested in the owner-occupied property**

I note that if the Commission recommends abolishing concessional tax-treatment for owner-occupied housing by taxing the implicit value of rental services provided by owner-occupied housing, the owner-occupier should also be allowed to claim, as a tax deduction, any interest expense incurred in respect of that

housing property. Under current tax principles, such a deduction should of course be set off against all sources of income.

Yours faithfully,

Zhong Jianying