

-----Original Message-----

From: Pearl Fernandes

Sent: 18 January 2004 12:28 PM

To: maps@pc.gov.au

Subject: Submission - Productivity Commission Enquiry into Housing Affordability

Thank you for having this facility so that one can comment, and provide a submission in response to the paper on housing affordability.

1. Firstly let's look at the issue in terms of social equity, rather than mere economics. We are given to understand that there are approximately 11 million residential dwellings in Australia. This should be more than enough for a population of 20 million.

The problem is probably one of distribution of the dwellings (where people live), and ownership. There are hundreds of thousands of Australians who do not own a home, but there are many more who own more than one. Relatively speaking we probably need more hospitals and infrastructure, not homes. Let's leverage on what we have (residential dwellings), and adjust the tax system, so that there is enough disincentive for people who have more than one home to dump them in the market, so that prices can come down to more reasonable levels, by bringing more supply in the market.

Income generated through house price increases does not get taxed enough, and in many cases completely escapes the tax system. This creates inequity in our community, as the monetary reward is not for hard work, but related to either luck, or 'taking a punt in the market'. It would be interesting to know the trends in inequity over a period of time in Australia, and the extent to which asset price increases, and the associated tax laws have contributed to this.

Income is a means. Wealth is the end. In many cases, income can be converted to wealth without necessarily being taxed. Property investment is definitely one such avenue. Let's examine options of having a better mix of taxing income and wealth. Remember people with the wealth are already there (in the top rungs of the ladder). People with incomes (even though they may be high incomes), may or may not get there. If differential taxation of income is an acceptable practice, then so should some form of differential wealth tax.

The money raised could be put back into more need-based initiatives such as investment into hospitals, medical research, education and infrastructure.

The focus of the strategies should therefore be to tax the holding of non-need based (by need based we mean for principal place of residence) residences - extend land tax. Land or a property-based tax (based on the relative combined value of land and building) could achieve this. Principal place of residence till a certain value could be exempt, and so could community, charitable, agricultural land etc. In the case of pensioners, they could be provided with the option of deferring the payment, and having the amount paid from their estate.

But then some may say, that this could inflate rents. Can the government not overcome this by simply regulating the residential rental market.

Another strategy related to this would obviously be one of providing incentives for people to live outside the main capital cities. This could only be achieved if the government developed regional centres from an economic perspective.

2. Secondly, it is important not to consider the housing industry issues in isolation, but as part of a competitive system. We are not sure that this has been the case so far.

The principal competitors to housing from a 'mum and dad' perspective are 'the share market', and 'superannuation'. We are particularly concerned with superannuation. Again we keep hearing that we do not have enough superannuation for an ageing population. If that is the case, why do we not promote this sector. If people need funds in their retirement, the government needs to ensure that they invest in superannuation, and not the property sector. Through some of their policies, the government has done just the opposite. The recent superannuation surcharge on high-income earners is a typical example. This policy definitely seems anti-competitive against the superannuation sector, and in favour of sectors viz. property. Many high-income earners probably specifically go in for an investment property to avoid the superannuation surcharge, through negative gearing. They also probably avoid making voluntary contributions to superannuation, as they could get taxed at upto an extra 15%.

The government needs to either get rid of the superannuation surcharge (which would have an impact on government income), or from a competitive perspective, should levy a similar surcharge on high income (or better still high wealth) people investing in property and shares. This would be fair, and not anti-competitive. It is obvious, that the high-income earners are the ones who have disposable funds (after providing for their basic needs), and will invest them in a logical and prudent manner.

If the strategies are to be needs based, then superannuation should be promoted. As an option for people who do not wish to take a risk, the government should have a scheme where they guarantee an 8-10% return to people on their superannuation money. This would reduce a lot of stress for many people. The irony is that most politicians in Australia do not take any risk on their superannuation, as they belong to defined benefit schemes, which in addition to being very attractive in terms of final payments received, are also by and large risk free. The government should protect the retirement savings of hard working Australians, and provide people with reasonable risk free options for investment returns on superannuation funds. In a capitalist economy not everyone needs to be an entrepreneur and take risks.

Whilst we accept that housing is a key sector of the economy, there are many other options. This is particularly so given that our population is small. It looks like the government is willing to compromise on social issues (housing ownership obviously has many social benefits) for economic reasons. The investor is causing obvious problems for the first homebuyers. Why is it that the money made (capital gain) by taking a punt in the property market is taxed at a maximum of approximately 25%, but the money earned through a hard day's labour could get taxed at 48.5%. There are many other options for economic growth - manufacturing, software processing and export, infrastructure, hospitals etc. Housing development seems to be the easy way out. Development of the housing sector needs to be primarily needs based, with the economic aspects being secondary. Economic development (although a very important means) is not an end in itself, but a means to a better society. Social objectives should not be

compromised for economic ends. Let's not mix business and the economy with basic social needs such as housing.

3. Thirdly, there is the whole issue of investment properties, and negative gearing. The investors no doubt cause a problem for first homebuyers. It is easy to say that this is a wider issue just like investment in shares, and put it aside. The fact is that investors will cause a problem for first home buyers, as long as there is no differentiation (currently the main differentiation is related to the rules surrounding negative gearing for investors, and capital gains tax exemption for principal place of residence. The timing difference of the benefits is large, and therefore it is difficult to conduct some comparative analysis). Differentiation could be done in a number of ways:

- Differential interest rates, through legislation

- Increased land / property tax based on land and building value (so that there is no undue advantage for units)

- Regulation of the rental market

- Pull back the current depreciation benefits

- Have more incentives for investment in so called socially backward areas eg. outer western suburbs of capital cities

- Have more incentives for investment in regional areas, so that regional jobs can be created

- Limit the investment benefits to new residential dwellings only (this is most logical, if one of the objectives is economic development).

4. The government should take a stance and adopt strategies that will provide a relatively more equitable and fair society in the long term. This requires a bold government, and not one that merely caters to the economic needs of the majority of the population. If sold and explained properly, the average Australian will support strategies that deliver a fair, equitable and stable society in the long term, rather than short term absolute economic benefits (even though if looked at in relative terms people could be economically worse off) for the majority of the population.

Summary recommendations

1. Amend taxation rules, combined with other strategies, so that non-need based (not for principal residence) residential properties are dumped in the market to add to supply. This will bring prices down in the property market. Have incentives for people to live and work outside the main capital cities, and within capital cities, in the outer suburbs. This will also be better for the social structure of our main cities.

2. Make superannuation more attractive compared to investment in property. At this stage this is not the case. We need more investment in superannuation. This will also be better for the government, as a higher proportion of the population will be self-funded in retirement.

3. Whilst maintaining negative gearing, amend the rules so that there is a clear demarcation between the investment and principal residence components of the market.

4. Regulate the rental market from a social perspective.

5. The government to take some bold decisions that promote an equitable and fair society in the long term.

#### Notes

The above information is provided in the form of a submission, which we believe we are entitled to make. They are purely personal views based on the limited information and knowledge that we possess as individuals in living in the Australian society. Whilst we have an interest, and some strong views on the subject, in no way do we claim to be experts in the subject. I hope that the information we have provided is useful, and will be considered by the 'Productivity Commission Enquiry into Housing Affordability'. We look forward to hearing from you, and acknowledgment of our submission.

Pearl and Francis Fernandes  
Plumpton NSW 2761