

Submission to Productivity Commission on the subject of First Home Ownership, Discussion Draft, Melbourne, December 2003

Red Herring

‘Owner occupiers benefit significantly from the non-taxation of imputed rental income.....’

This concept is a red-herring and should be totally omitted from the report because it is an absolute political ‘non-starter’. There is no chance of it ever being adopted by any political party as part of a panacea for restricted affordability.

In passing I would observe that it would add further complication to the already over-complicated Tax Act. (Also, If it were adopted for owner-occupiers, why not owner drivers? We could start with owner-drivers of motor-homes, naturally extend it to owner drivers of campervans and then it would be but a small step to all owner drivers! What a lunatic idea it is.)

Speculation

Secondly, please add the word ‘Speculation’ to your vocabulary. It is in the RBA’s so you would be in august company. It would eliminate a large number of verbal contortions – as on pages xvii, xix, xx, xxi, 6, 7, etc.

‘An expectation of continuing and strong appreciation in house prices appears to have been driving market outcomes’

‘...have magnified to attractiveness of investing in residential property during the recent upswing in house prices’

Land

Land is a unique form of asset and should never just be lumped in with others such as shares, bonds and bullion. This uniqueness should be recognised in your report. It has three facets,

1. In Australia there is a finite, even diminishing, supply of useful land. With environmental degradation and increasing ambient temperature – we are actually losing habitable land.
2. Land is essential for human societies.
3. The value is not inherent in the land itself but what surrounds it – in the form of services, markets, natural features. etc. This is underscored in practically every real estate advertisement; ‘Position, position, position’, ‘Close to shops, schools etc’. ‘Magnificent views, backs on to nature reserve’

There are many instances in the draft where it is recognised that it is the rising price of land that is reducing the affordability of housing Page 6, lines 9,10; page 93, fig6.1 and line 5. But this is not emphasised adequately nor given sufficient analysis. Land should have a major section, all to itself in your final report to demonstrate that it is how we treat, deal in, control it that has a major impact on all aspect of housing affordability.

That the Government can claim that inflation is at a thirty year low as land prices escalate, almost exponentially, underlines the uniqueness of land as a commodity. All other goods and services are in ample supply, in competition for the spenders/lenders dollar. Only for land is the old explanation for inflation still valid – too much money chasing too few ‘goods’.

Land Tax

For the same reasons of uniqueness, Land Tax should not be lumped in with other taxes such as stamp duty. It has fundamentally different characteristics from all other taxes on such as GST, income tax, stamp, payroll. All these hinder economic activity and are disincentives to employment and to the generation of useful services. Land tax should be subject to a detailed analysis in your final report because the present systems of Land Tax are distorting and illogical. A flat rate, federally set and state-collected – instead of the GST – would have been real tax Reform! I believe that the IPA agrees that Land tax is an effective form of taxation. It certainly meets the criteria set out in box5.4, page 74.

The most significant effect of a simple, flat rate Land Tax would be to discourage speculation in land and the holding of well-placed land out of use/production. [Encouraging well-placed land to be developed would result in more compact cities and towns.] That land is held out of use for housing is clearly shown in the terminology of the developer/real estate industry. “Stage II to be released shortly”. You cannot release something that has not been previously constrained!

Land tax has never, I believe, been properly applied Australia-wide. It should have a flat rate with no exceptions, no artificial limits. If you want a piece of Australia for your exclusive use, then you should pay the community for that right because it is what the community sets around it that you really want a slice of! And the value of that right should be public and set simply by public demand/auction values. **But Land Tax properly applied will hurt the speculators and you may expect vociferous and sustained opposition from the real estate/development lobby groups who have already appeared before you in numbers.**

Conclusion

Even from your draft report you could properly conclude:

1. Affordability of housing has been seriously reduced by speculation in both land and existing stock of housing.
2. Speculation has been encouraged by the present tax system of negative gearing and readily available loans.

And with a bit more research:

3. Land Tax is the most useful device to discourage speculative buying and holding of land out of production/use.

*Colin Cook,
NSW
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