

Should that be cynical instead of cyclical in regard to any action to really help first homebuyers.

I received your Discussion paper with great interest but after reading it, I'm very cynical about the report. As you state in your report, "In Australia, since 1996, average house prices have doubled in nominal terms and risen by 70 per cent in real terms – about half of this in the past two years" (Average, that means some properties would have gone up by much more than that) and the commission has basically said the government can do nothing about it and the markets are cyclical.

I would call on the commission to think about history has there ever been so much drivers in the market like negative gearing, low interest rates and capital gains tax reductions driving the market, the Federal Government have the power and they have done nothing, they have sat back as hundreds of thousands have been added to peoples mortgages, many many years of extra debt. Ask them what are they going to do about it?

The Productivity Commission instead of saying that "Various general aspects of the taxation regime – including negative gearing rules, high marginal income tax rates and the change to capital gains tax for assets held by individuals should be assessed in a broader context. Pending such a review, it would be inadvisable to make any housing-specific changes to these arrangements" **The Commission should be stating that a review is urgently required into negative gearing and Capital Gains tax. If not mark my words nothing will happen because of the votes that hinge on it.**

Affordability is the key, flat prices are not enough when prices have gone up by double digits a year for 7 years (1996-2003) and wages have gone up by no where near that much It will take years for people to catch up. Even if people on standard wage saved all there income after tax they would still be behind, that is unbelievable.

The Commission and the Government and the RBA are clutching at straws saying look at the housing market it's slowing. I remember people were saying this 12 months ago and nothing happened, nothing has changed, rates are up, but all this does is add more pain to first home buyers. Action needs to be taken urgently.

Everybody needs to address the problems of rising house prices not just the States and the RBA. What is the Federal Government doing? Getting a report done is nothing when they are a major cause of these rising prices, as I will state with facts below:

Please find below a list of the institutions that Australians look towards to control the economy and markets and asset inflation and a review of what they have done or not done to help first homebuyers:

- **The Australian Reserve Bank:** Low interest rates that helped to destroy household affordability have been addressed by the Reserve Bank via Rate increases.

Why has the Reserve bank been forced to act against rising property prices, because of the non-action of the Federal Government?

Through this non-action to address their drivers and simulates (The policies they have control over negative gearing and Capital Gains Tax) the Reserve Bank has been forced to act and this just hurts first homebuyers more.

- **The States and Territories:** Stamp Duty is being addressed by the States but still not enough and also it made me laugh to read in the The Australian Financial Review on the 2nd Feb 2004 about “States face \$1.3 Billion budget hole”. The states are saying that they may have to cut funding in sensitive areas such as health, education and transport, this is a joke, how long did they think they could make **billions and billions of dollars from Stamp duty, the gravy train has left.** It was never going to last forever and those big rises in Stamp duty were paid for with the loss of owning a home for thousands of first home buyers and a massive debt burden for home owners.
- **The Liberal Federal Government:** Nothing is being done by the Federal Government to combat negative gearing or Capital Gains Tax and other drivers that it has control over. Calling a inquiry is not enough, the Federal Government needs to do their share, the \$7000 first home buyers scheme is a joke, it’s a couple of cents of support that does nothing to combat the hundreds of thousands that has been piled on to many thousands of mortgages. If anything it is another cause of rising prices.

“In a recent interview on ABC radio in Brisbane, Prime Minister John Howard has spoken out against changes to negative gearing laws, saying changes would have an adverse effect on the rental market. Mr Howard also noted that the Commonwealth Government is looking at unnecessary additional costs for first homebuyers such as excessive levels of state stamp duty and restrictive land release policies of state and local governments.”

Source: The Real Estate Institute of NSW (REINSW) website

What is interesting is if the above comment was true by the Prime Minister it would have support from concerned parties but the above view is not supported by the RBA, Brotherhood of St.Lawrence or The Australian Council of Social Service that have all called for negative gearing to be scrapped or restricted. If anything negative gearing has added to rental costs as they have gone up with house prices.

I’m very disappointed in a government that even before the Commission has handed down its final report, it has already ruled out Negative gearing changes. What a joke, it is time for the Federal Government to make a decision that is long overdue do they put investors first or first home buyers.

The Federal Government wants the States to address this massive problem of affordability and first home buyers losing the dream of owning a home so they can be seen to be doing something in an election year so they can get the political gain but are unwilling to address the areas that they control in regard to negative gearing and capital gains tax so they can also get that political gain from investors, it does not work that way and the Federal government inaction should be addressed in the final report from the Productivity Commission.

The links are so massive linking investment to the rising prices. **I want to see the phasing out of negative gearing or at the very least a reduction or we should at least use the United States model of where high-income earners are barred from negative gearing. This should be demanded by the Productivity Commission.**

I can't believe they will keep negative gearing, not even look at it, the evidence is so damning but the Federal governments only solution is Stamp duty reductions, unbelievable.

History will judge this governments with it's non action to help first home buyers, attacking stamp duty and getting a report done does little, what are they really going to do about the affordability.

Just some more evidence (Source The Australian Financial Review, 22 January 2004)

“Thankfully for our investors, Australia is relatively unusual internationally in having no restriction on offsetting rental losses against other income – so-called negative gearing. Anyone can do it, and can, within reason, lose as much as they want.”

Australians invest in property not to generate rental income but to exploit lower tax rates on capital gains. If an investment is held for more than 12 months, a 50 per cent discount applies on the capital gains that need to be paid. That's an effective tax rate of only 25 per cent on capital income for high-income earners.

It's been a great lurk for the rich. In the 2000-02 financial year, the 2.4 per cent of taxpayers with incomes over \$100,000, earned about half (\$2.9 billion) the nation's reported taxable capital gains of almost \$6 billion. And about 40 per cent of the capital gains by these high-income earners was earned by out 2500 millionaires.

The Federal government has basically done nothing but hope the market would correct itself all this while first homebuyers are left out to dry while the rich use all the gains.

This is what I see happening, The Australian Labor Party may talk about and the Liberal Government will attack them and promise to keep Negative gearing in place and who will be the losers: FIRST HOME BUYERS. They will milk it for every vote they can. The Federal government talk the talk via this report but do nothing about walking the walk, they expect others to do it and they get the political gain, what a joke.

In 1999 when the reduction in Capital Gains Tax were realised The Australian Council of Social Services opposed the reduction stating, “It would be a travesty if wealthy investors secured a large cut in Capital Gains Tax while low and middle income earners are faced with the GST.

Across the board cuts in Capital Gains Tax would also harm Australia’s economic development by diverting investment into unproductive and speculative activity. Contrary to claims of an investment bonanza, tax rates would only fall on the sale of property, shares and other assets. not on business income generally.”

All of this has come true:

“Just in the month of September 2003 alone investors borrowed a massive 6.8 billion, up 5%. A record level.

Lending to Property investors has jumped a massive 35 per cent since August last year.”

(Source: Australian Financial Review 14/10/2003)

I believe governments should be judged by their actions not their words. I have grave concerns if this government is returned what will happen to first home buyers, the transfer of wealth will continue with no controls on it and houses will just get further and further out of reach for first home buyers.

Some more evidence form the Online Opinion Website:

“Negative gearing is a practice severely constrained or banned in the Unites States, Canada and the United Kingdom, and elsewhere in the developed world, (although many of these countries do provide tax relief on home mortgages, which Australia does not)”.

“It has contributed to distorted investment patterns, badly targeted housing investment, speculative overheating in the property market, high house prices and excessive rental costs.”

What about World’s best practise, It is very interesting to see that these countries don’t have these massive incentives for investors and their housing markets have not grown at the rates of our market and their interest rates are

allot lower than ours. No body else in the world does it but we do it here and for the winners, first homebuyers and the next generation are the big losses.

- **The Productivity Commission:**

I can't believe the Commission basically has a wait and see approach, I'm in shock no action and the market will balance out, what a simplistic response to a very large problem.

I see the Productivity Commission and the Federal Government want the States to reduce Stamp duty. Is reducing Stamp duty the answer? I really wonder as what happens if prices just rise by the reductions? You need to look at the drivers? Guess what investors who are buying properties with yields of 2-3% because they know they can still make money because of the tax perks.

The Federal Government has just sat back and watched as First Home buyers and housing affordability were destroyed and even now when housing affordability is the lowest on records they still do nothing, except get a report done that means nothing if no one actions the recommendations.

Yours Sincerely,
Stephen Koci
Victoria
2004