

10 March 2009

AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Madam/Sir

SUBMISSION ON AUSTRALIA'S TAX AND TRANSFER SYSTEM

Could the committee please consider and act on the findings of two separate reports by the RBA and a Senate committee. If these findings and recommendations are continually ignored then these meetings would have accomplished nothing.

2003 RBA First Home Ownership report:[1]

To paraphrase key finding of RBA: The main reason for housing unaffordability in Australia is negative gearing. (Point 22 Executive Summary of report)

2008 Senate report Housing Affordability:[2]

Senate recommendations included:

4.2 - Tax System Review Panel consider implications for housing affordability and overall fairness of the tax system:

- a) tax discount for capital gains on investor housing.
- b) exemption from land taxation of owner-occupied housing.
- c) current negative gearing provisions.

I have read the submissions by the powerful Government lobbyists HIA, REIA and the Property Institute and noted their opposition to the removal of negative gearing citing the rise in rents from the removal in August 1985, however a SMH article [3] offers a totally different recollection of events. Their successful lobbying of Government in the past will no doubt continue, and Members of Parliament such as NSW Housing Minister Matt Brown et al who owns fourteen investment properties [4] will ensure that their vested interests are best served. Nevertheless, this is an issue I feel very strongly about and should be addressed if Australia's tax system is to be made better for future generations.

The negative gearing tax incentive to property investors was introduced to increase the supply of affordable rental accommodation. This objective has obviously failed with rents climbing to 20 year highs.[5] This is most likely because the scheme includes existing housing investment. It is easier and cheaper to invest in an existing residence were a residence and market for the property already exists.

It appears as if the incentive has turned into a tax avoidance scheme whereby tax revenue is being syphoned away from Government to the banks without any social benefit. "AUSTRALIA'S landlords are claiming more than \$3 billion a year in subsidies from the Government, as the popularity of negatively geared rental housing and its cost to taxpayers continues to balloon." [6]

The specific recommendations are these:

Recommendation 1: Taxation laws should be reinterpreted or modified to prevent negative gearing for existing housing. This could be done by phasing in a reduced percentage claimable back on

income tax. Negative gearing should be allowed for new property for a medium term-investment as it would solve the current problems of low affordability, high rents and low property supply.

Recommendation 2: Full capital gains tax should be equal for all investments, not a preferential system for an asset that is a necessity and does not contribute to a growing economy. If anything, investment in Australian business should be preferentially treated with capital gains tax discounts to ensure Australia's manufacturing sector remains competitive.

Recommendation 3: Self managed superannuation funds should be precluded from borrowing to invest directly in residential property. If these funds can not be accessed by first-home buyers to buy their home (which could also form part of their superannuation) then this should not be allowed by people buying their second or third property.

[1]

http://www.rba.gov.au/PublicationsAndResearch/SubmissionsToParliamentaryCommittees/inquiry_into_competition_in_banking_non_banking_sectors.pdf

[2] http://www.aph.gov.au/Senate/committee/hsaf_ctte/report/b02.htm

[3] <http://www.smh.com.au/articles/2003/08/24/1061663676588.html>

[4] <http://www.news.com.au/dailytelegraph/story/0,22049,23552680-5013110,00.html>

[5] <http://www.news.com.au/story/0,23599,24977706-462,00.html?from=communities>

[6] <http://www.theage.com.au/news/national/landlords-tax-bonanza/2008/03/18/1205602384109.html>

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