Dear Sir or Madam,

I have a suggestion on a way of increasing tax efficiency and equity, while at the same time improving long term affordability of housing in Australia. It involves the removal of distortions in the tax treatment of principal residences in a way that is basically revenue neutral.

It involves two changes. The first is the scrapping of state government related purchase costs (principally stamp duty) on property transactions undertaken after a specified future date. The second is to bring the tax treatment of the principal residence into line with other types of investment. This swap would mean that people still pay tax on property purchases but rather than being taxed on the 'way in' in the form of stamp duty, they are taxed on the 'way out' in the form of CGT.

As CGT is calculated on net capital gains, interest payments, the costs of buying and selling, maintanence, renovations, etc would form part of the cost base. As a result of these deductions net capital gains may not exceed stamp duty in most cases anyway, except perhaps during periods of explosive property price growth. However, as a transitional measure to ensure no additional costs to home owners, CGT found to payable on the sale of the pricipal residence could be capped at the amount that was paid (or rather would have been paid) as stamp duty at the time the home was initially purchased. This transitional arrangement could have a sunset clause and be phased out, say, 7 years from the date of the new legislation. From that point on the principal residence would have the same capital gains tax treatment as any other asset class.

The preferential tax treatment of the principal residence over the last 20 years has attracted artificially high levels of investment and competition into that market. This has driven up house prices and is at least partly responsible for the current record low levels of housing affordability. The proposed change would improve short term housing affordability because home buyers (especially first home buyers) would not need to come up with the stamp duty at the time of purchase, allowing all available funds to be put towards the deposit. In the long term affordability would be improved as the bias in tax treatment of the principal residence would be removed, encouraging home owners to put a greater proportion of their savings into alternative investments, particularly superannuation. This would also mean that a greater proportion of future savings, which would otherwise be locked up in real property, would continue to circulate, benefiting the economy as a whole. That said, the removal of stamp duty would provide significant incentives to real estate investors who are currently taxed both on the way in (as stamp duty) and on the way out (as CGT).

Housing affordability gains aside, taxation efficiency would be improved because a major distortion in the investment 'playing field' would be removed, and a highly inefficient form of taxation would also be scrapped. Equity would be improved because tax would only be paid if a net gain is realised, rather than on potentially loss making transactions as is currently the case. Equity would also be improved because the tax would apply to property developers who repeatedly claim the principal residence exemption to avoid tax.

Thank you for taking the time to read my submission.

Robert Williams