

Australia's Future Tax System Submission – Stephen Koci

16th October 2008

Dear Sir/madam,

I make this submission in reference to Appendix A: Terms of reference of the Australia's Future Tax System discussion paper in particular the following sections being:

3.5. simplifying the tax system, including consideration of appropriate administrative arrangements across the Australian Federation.

4.2. individuals to save and provide for their future, including access to affordable housing;

I would like to discuss housing and the role of negative gearing in the destruction of access to affordable housing and the benefits to the economy of the removal of the use of negative gearing or even just a restriction on it in regard to the simplifying of the tax system. These benefits would include an increase in tax revenue as taxpayers could no longer negative gear or at least have a cap on investor's claims for example one investment property. This would also reduce/simplify the audit/enforcement expenses of the Australian Tax Office in regard to these tax deductions and also could reduce tax evasion in regard to some investors making false claims in regard to expenses for investment properties that can be claimed via negative gearing. I believe this would help to provide greater access to affordable housing instead of first home buyer's grants that only increase house prices and first home buyer's savings accounts that both cost all taxpayers billions of dollars and achieve nothing or make matters worse for affordability.

Also it would reduce the record keeping obligation of these investors as they would no longer need to keep receipts for all costs for an investment property or shares and also reduce their accounting costs.

My submission is about increasing revenue via simplifying reductions, basically keeping it simple and basically following World's best practise in regard to not having negative gearing available and this extra money could be spent on health and building more public housing and improving Australia for all Australians not just investors.

First off I would like to declare that I am not an investor in property, I own one home and I live in that home, I don't work in the property sector and I have no vested interest in raising prices and high prices like other groups like the Real Estate Institute of Victoria or developers big and small and State governments that get massive amounts of stamp duty on the increase in property prices and councils that get higher rates because of higher property prices. I'm a 38 year old middle class Australian who works full time.

As I stated I don't own an investment property and don't plan to as I don't want to be a party to the destruction of housing affordability. I am a share investor and also

understand that outlawing or amending the negative gearing rules would effect me but I think the laws are unfair and have to be changed and I would happily pay more tax for a fairer Australia. I think big picture not just what is good for me. My only concern is real action and a whole of housing solution and real affordable housing for all Australians.

The worst thing is that these tax payer subsidies to investors are paid for by all Australians including Australians who can't enter the property market because of the high costs of properties; it is so unfair on so many levels and must be addressed. Are 25% capital gains a year in property investment not enough so investors need/demand taxpayer subsidies to increase this gain?

Who knows how much tax the government is missing out on with these subsidies; it would easily be billions and billions of dollars.

To back up my point about reviewing negative gearing and removing it I would like to refer to the First Home Ownership Productivity Commission Inquiry Report completed on the 31st March 2004 that is as relevant today as it was in 2004. In their key findings the commission stated:

“Only in the last couple of years have house prices surpassed levels that are explicable on this basis, with some additional investment seemingly predicated on unrealistic expectations (in a ‘supportive’ tax environment) of ongoing capital gains.”

“Interactions between negative gearing, ‘capital works’ deductions, post-1999 capital gains provisions and marginal income tax rates have lent impetus to investment demand during the housing boom.”

I would also like to refer to the Reserve Bank of Australia submission to that Inquiry and the below views from their submission:

“The Reserve Bank of Australia’s views on the comparative tax treatment of investment housing across countries.

With negatively-geared investments particularly attractive to individuals facing high marginal tax rates, a high share of Australian taxpayers are attracted to property investment to lighten their tax burden.

As with access to finance, the taxation arrangements for rental properties in Australia tend to be more favourable to investors than are the arrangements in other countries studied for this submission.

... Under the Australian taxation system, there are no restrictions on the ability of taxpayers to negatively gear investment properties.

... the treatment of depreciation in Australia also appears to be quite favourable, particularly when considered in conjunction with the fact that there are no restrictions on negative gearing.

...One aspect of depreciation that does not typically receive much attention, but is important for some investors, is its interaction with capital gains tax ... [in combination this can be more favourable in Australia than in other countries].

... in most countries the earnings of rental income is seen as the most important reason for investing in rental properties ... This seems to stand in contrast to the situation in Australia where properties are commonly marketed on the assumption that they do not earn positive taxable income for a considerable period.

Source: RBA, sub. 199, pp. 40-2.”

I made a submission to the Productivity Commission Inquiry as did a number of concerned Australians and I spent considerable time on my submission and was very disappointed that the report was basically ignored by the Federal government of the day. Why call an inquiry and then not take on board what it recommends? It was only used to blame all the problems on the State governments. I hope the same thing does not happen to this Inquiry.

I know vested interests will wheel out the old line if this inquiry calls for changes to negative gearing that Mr Paul Keating the ex Prime Minister of Australia outlawed negative gearing in the 80's and had to reinstate it as it reduced the amount of properties available for rent. Property investment in 2008 is very different to the 1980's as now property investment is regarded as just another investment class and has grown ten fold with no consideration to what it is doing to the whole fabric of Australian society and to the young who may never be able to own their own home.

I can connect the two, investment in property equals speculations and that equals destruction in housing affordability, it is a pity other people can't or choose not to connect the two.

Negative gearing seems to be a subject that is not even discussed by politicians from both sides but I believe needs to be addressed. I worry that this non action/discussion may be because of vested interests in that they want to be seen to be helping but really are doing nothing to help affordability by really trying to reduce the price of houses as they don't want to see their own investment properties lose value, I note that a Senator from South Australia owns six investment properties in Adelaide. The only party that has a progressive policy is the Greens that states “review existing subsidies and incentives for housing and property investment with a view to increasing the number of Australians who can afford to own their own home.” I'm not a member of the Greens but I support this policy 100%.

I was shocked to recently read that suburbs like Richmond, a suburb in Melbourne is 50% owned by investors. It begs the question? Are we just opening up new development in the outer suburbs with no services or infrastructure to cover the real problem of too much being held by too little? We let people own 1,2 basically any number of investment properties for capital gain so we then force people out further and further who just want a home to live in, is that fair? Basically what housing shortage?

Subdivision of larger blocks has also done nothing to give access to affordable housing, all that has happened is people are paying as much for a small block as they did for a large block only 5 years ago. It is just used by developers to squeeze more profit from blocks; it helps no one expect them.

As I stated above we need a whole of housing solution, no band aid solutions that just cost tax payers billions and billions and don't fix anything, if anything they add to the problem.

Another question I have to ask, what does property speculation especially in established homes add to the economy? It would generate minimal employment except for Real Estate agents and accountants to do investors tax returns.

In summary I call for a complete ban on negative gearing or at the very least a restriction on it for example you can only claim on one investment property or at least a call for a formal review of negative gearing.

Yours Sincerely,

Stephen Koci