

Dear Sir or Madam

The Productivity Commission is wrong about negative gearing and stamp duty. Stamp duty poses a minimal problem for first homebuyers compared to negative gearing. The Productivity Commission is shooting at the wrong target.

I am a property investor who purchases residential real estate and then rents the properties to low-income earners. If it were not for negative gearing I could offer properties to tenants at lower rents, and/or with more facilities, and/or a better location for a given rent.

When I am looking for properties to purchase I have to compete with other purchasers ('negative gearers') who are prepared to pay higher prices because they are able to deduct losses from their other incomes and they can therefore pay less or no tax on their other income. If I did not have to compete with the 'negative gearers' I could buy the same properties at a lower price and then I could then offer properties to tenants at lower rents and/or with more facilities for a given rent. This is such an obvious fact that it is difficult to see how anybody could claim otherwise. It is equally obvious that if a homebuyer wants to buy a property then they too will have to pay a higher price because they have to compete with people who want to negative gear their investment properties.

Therefore, negative gearing causes:

- Higher property prices.
- Higher rents.
- Reduced opportunity for low-income earners to buy their own home.
- Property purchasers to save a higher deposit to make a purchase.
- Property purchasers to have higher repayments or to repay over longer terms. The repayments or the term is further increased not only by the higher principle but also by the extra interest payable on the higher principle. Negative gearing also increases the amount of stamp duty that must be paid on the higher price.

The Productivity Commission and the Federal Government should do all they can to stop negative gearing and to thereby assist all homebuyers and renters; and in particular to assist first homebuyers and low-income earners. Negative gearing was severely curtailed in the USA about 20 years ago and the US will is unlikely to return to negative gearing again. It is time we in Australia did the same as the US to bring fairness to our property market. Negative gearing can easily add more than \$50,000 plus loan servicing costs to the price of an average home. That is what creates a major problem for homebuyers.

To minimise disruption when eliminating negative gearing I suggest that only property purchased prior to a specified date be allowed as a deduction for negative gearing purposes. This is the same method that was used to introduce Capital Gains Tax in 1984. Alternatively, negative gearing could be phased out by reducing the allowable percentage deduction each year. To further ease controversy and to correct the high proportion of capital taxation in Australia Capital Gains Tax could be reduced by a revenue neutral proportion vis a vis negative gearing.

Yours faithfully,

Peter Rowan.