

## **FEDERAL GOVERNMENT – HOUSING AFFORDABILITY INQUIRY 2021**

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This is my 2<sup>nd</sup> submission. First Submission is No1 on the webpage.

I grew up in government housing and have spent over 22 years saving a deposit to buy a home in Western Sydney. I still now need a bigger loan than I did in 1999 for houses in the area.

For some of us, our parents are a burden rather than a bank because of their disabilities. And it's this problem that those of us who have come from low socio economic families struggle to gain a leg up on the capital gains tax free asset class.

Both demand and supply of housing is a problem and both should be acknowledged in this inquiry.

The immediate market is hot mainly due to low interest rates, but when interest rates rise in the future, this will abate. But the real long term problem is not just ownership, but inequality.

It is important that a long term focus is taken on the tax and transfer system, as the tax system is dynamic and interconnected.

### **Efficient Use of Property**

Currently the NSW Government applies a vacant bedroom tax to their properties that are under-utilised.

<https://www.facs.nsw.gov.au/housing/living/rent-and-bills/vacant-bedroom-charge>

This is not applied to the private sector.

Consideration should be given to an equivalent Federal Land tax on all properties.

The current tax regime and age pension arrangements over incentivise investment in the family home. Almost everybody I know has a 2<sup>nd</sup> lounge room, or multiple rooms, but only one or two people occupy the property.

Applying a Land Tax to existing properties would help improve the supply of housing that is not being used efficiently.

A Federal Land Tax applied to undeveloped but rezoned land would also help to supply more housing. The tax rates should rise over time such that holding onto the land becomes unprofitable the longer it is held. And where possible government should intervene to build housing.

Existing but rezoned land should also be considered for an additional land tax as existing owners are preventing additional supply. And thus creating a cost to society.

## Swapping a Portion of Income Tax with a Federal Land Tax

The Federal Government is not precluded from applying a land tax.

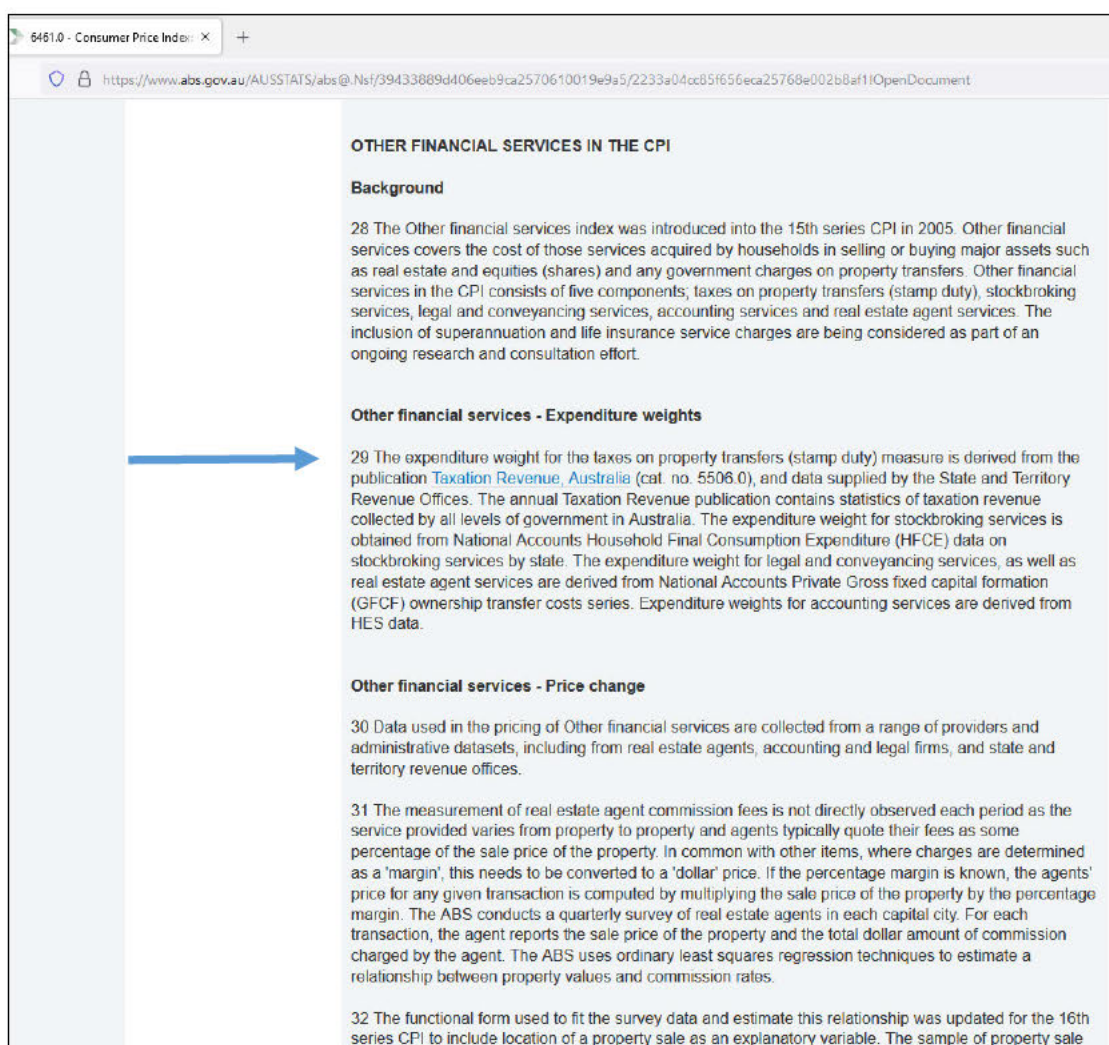
By swapping a portion of income tax with a Federal land tax to housing, this would help make better and more efficient use of housing.

And secondly, land taxes are a holding cost in the inflation rate. Stamp Duty is already counted in inflation under 'Insurance and Financial Services'.

The link to this information is found below:

<https://www.abs.gov.au/AUSSTATS/abs@.Nsf/39433889d406eeb9ca2570610019e9a5/2233a04cc85f656eca25768e002b8af1!OpenDocument>

Increasing land tax as a higher weighting in the inflation rate would help influence interest rates. The recent lowering of interest rates would have seen the recent price rises feed back into the inflation rate. Ultimately putting upward pressure to raise the rates much earlier. Effectively working as a stabiliser.



6461.0 - Consumer Price Index

<https://www.abs.gov.au/AUSSTATS/abs@.Nsf/39433889d406eeb9ca2570610019e9a5/2233a04cc85f656eca25768e002b8af1!OpenDocument>

### OTHER FINANCIAL SERVICES IN THE CPI

#### Background

28 The Other financial services index was introduced into the 15th series CPI in 2005. Other financial services covers the cost of those services acquired by households in selling or buying major assets such as real estate and equities (shares) and any government charges on property transfers. Other financial services in the CPI consists of five components; taxes on property transfers (stamp duty), stockbroking services, legal and conveyancing services, accounting services and real estate agent services. The inclusion of superannuation and life insurance service charges are being considered as part of an ongoing research and consultation effort.

#### Other financial services - Expenditure weights

29 The expenditure weight for the taxes on property transfers (stamp duty) measure is derived from the publication *Taxation Revenue, Australia* (cat. no. 5506.0), and data supplied by the State and Territory Revenue Offices. The annual Taxation Revenue publication contains statistics of taxation revenue collected by all levels of government in Australia. The expenditure weight for stockbroking services is obtained from National Accounts Household Final Consumption Expenditure (HFCE) data on stockbroking services by state. The expenditure weight for legal and conveyancing services, as well as real estate agent services are derived from National Accounts Private Gross fixed capital formation (GFCF) ownership transfer costs series. Expenditure weights for accounting services are derived from HES data.

#### Other financial services - Price change

30 Data used in the pricing of Other financial services are collected from a range of providers and administrative datasets, including from real estate agents, accounting and legal firms, and state and territory revenue offices.

31 The measurement of real estate agent commission fees is not directly observed each period as the service provided varies from property to property and agents typically quote their fees as some percentage of the sale price of the property. In common with other items, where charges are determined as a 'margin', this needs to be converted to a 'dollar' price. If the percentage margin is known, the agents' price for any given transaction is computed by multiplying the sale price of the property by the percentage margin. The ABS conducts a quarterly survey of real estate agents in each capital city. For each transaction, the agent reports the sale price of the property and the total dollar amount of commission charged by the agent. The ABS uses ordinary least squares regression techniques to estimate a relationship between property values and commission rates.

32 The functional form used to fit the survey data and estimate this relationship was updated for the 16th series CPI to include location of a property sale as an explanatory variable. The sample of property sale

## **APRA Inter-Generational Stress Test and Capital Gains Tax for Lending**

### **Stress Test**

A long term interest rate floor should be created for lending that provides equity between generations.

Both an Interest Rate and Debt to Income ratio could be considered.

### **Including Capital Gains Tax for Lending**

One of the problems of a capital gains tax free home is that equity is passed onto their children, thus providing an advantage over children from disadvantaged backgrounds or parents who only rent.

Changes should be made to remove this regressive element.

The maximum amount lent should be calculated on net equity including after taxes.

If both existing owner occupiers and investors have capital gains tax to pay upon sale in the future, this should be included in their assessment to leverage into an investment property or a property for their children.

An example is a family who bought a family home for \$300,000 in 2000. Then in 2021 it was recently valued at \$1,300,000. A \$1m increase. If the increase was taxed at 30%, the equivalent tax payable is \$300,000. Hence the families equity they can leverage against is \$1m not \$1.3m.

Hence introducing a capital gains tax on existing owner occupiers would be beneficial for first home buyers especially those with parents without equity. This is because their savings are often taxed before being used as a deposit. This then creates a level playing field.

## Summary of Options

### **Paper 1**

Land Tax with a Credit Scheme used for implementation.

Comprehensive Tax Reform

Revenue Neutral Change

Complete Removal of the 50% CGT Discount

A Capital Gains Tax on the Family Home. Alternatively with a Tax free threshold of \$25,000 p.a. equivalent to the age pension.

Removal of tax concession on Superannuation. Superannuation becomes delayed income for retirement.

The above Initiatives allow the 2024 Income Tax Rates to be reduced by up to 1/3.

Meaning the marginal tax rates are 0%, 12.5%, 20% and 30% and applied equally to wages, super, and investment income and capital gains.

### **Paper 2**

Introduction of a Federal Land Tax. With targeted and more aggressive Land Taxes applied to rezoned land to increase supply.

Swapping a portion of Income Tax with a Land Tax. (In addition to Paper 1 Comprehensive Tax Reform)

Introduce an APRA Inter-generational stress test for lending. And include Capital Gains Taxes for lending assessments.