

# The Financial Regulatory Framework and Home Ownership Inquiry 2024

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**Use the regulatory and tax system to incentivise new construction.**

## Recommendations

1. Focus Negative Gearing to new builds only.
2. Remove any capital gains tax on new builds. Remove the CGT discount on existing.
3. Government Developers.
4. Non-Citizens can only buy new builds.
5. Replace Stamp Duty with Land Value Tax.
6. Temporarily double the capital risk weighting on investor loans for existing properties.
7. Include place of residence in the asset test for the aged pension.
8. Vacant property tax.
9. Sell the expensive public houses, build more.
10. Link immigration to housing supply.
11. Rezoning.

### 1. Focus Negative Gearing to new builds only.

There is nothing morally right or wrong about negative gearing. It is simply a policy setting. It is however the perfect tool to steer economic behaviour.

Remove the tax advantage of negative gearing from investors that buy established dwellings and only offer it to those that invest in new housing stock. This will reduce the demand for existing houses while putting upward pressure on new construction.

It could be grandfathered, so existing investors retain the settings they were promised.

### 2. Remove any capital gains tax on new builds. Remove the CGT discount on existing.

Similar to the above, policy settings can be temporarily adjusted to drive the supply and demand dynamics required to increase access to housing.

Offer investors tax free future capital gains as an incentive to build more housing. At the same time remove the CGT 50% discount for investors that buy existing dwellings.

Just change it back once the housing crisis is resolved.

### **3. Government Developers**

If the private market can't keep up with the demand for new land developments and dwelling construction, there is room for Government owned and run developers. The Federal Government and each of the State Governments should run developers creating housing lots and building high density towers. These should be run at modest profit levels to balance the expense of Governments and prices offered to buyers.

### **4. Non-Citizens can only buy new builds.**

There is a large demand from foreign investors looking to buy Australian property. We should harness this large demand exclusively to boost new construction.

At the same time this would remove one segment of buyers competing with local buyers trying to purchase a house to live in.

### **5. Replace Stamp Duty with Land Value Tax**

Stamp duty is an inefficient means of raising government revenue and has an adverse effect on housing affordability.

Stamp duty is effectively a tax on moving. People need to freely move with as little cost as possible in order to; find better employment, upsize when the family grows, downsize when the family shrinks and just be able to transfer wealth between asset classes efficiently.

This change should be revenue neutral, so other taxes will need to be increased.

Also see recommendation 51 of the 2009 Ken Henry Tax Review

Land Value Tax is an efficient means of raising government revenue as land is inelastic in supply. An LVT will help to remove speculators from the property market and ensure land is put to its most efficient use.

This change should be revenue neutral, this will allow other inefficient taxes to be reduced.

Also see recommendations 52 - 54 of the 2009 Ken Henry Tax Review

This also needs to hit developers holding on to land unnecessarily. Sell your stock at market rates or pay the tax.

### **6. Temporarily double the capital risk weighting on investor loans for existing properties.**

While the goal of financial institution regulation is to protect depositors, macroprudential tools can also be used to encourage new construction over acquiring existing dwellings for investment.

It would reduce the strength of the financial system if you were to reduce capital requirements on construction loans, so that is not a preferred option. But you could double the capital requirements for investor loans used to buy established dwellings, while leaving the capital requirements for new construction unchanged. This would shift investor demand from taking up supply to creating supply.

## **7. Include place of residence in the asset test for the aged pension.**

THIS DOES NOT MEAN THAT ANYONE WILL BE FORCED TO SELL THEIR HOUSE!  
THIS DOES NOT MEAN THAT ANYONE WILL BE FORCED TO MOVE AWAY FROM THEIR  
COMMUNITY!

The pension is not an entitlement, in return for a lifetime of contributing taxes. It is a welfare safety-net, funded by today's taxpayer. It is not an income replacement, so you can have the privilege of leaving what you otherwise would have used to fund your retirement, to your kids. It is designed solely to provide for those in the community that have no other means of supporting themselves. And frankly, the aged pension is grossly inadequate, and needs to be urgently increased, but the government is unable to increase it, because too many have access to it, who should not.

The current system allows for an unlimited amount of wealth to be transferred to a place of residence in order for the wealthy to continue to earn a government funded aged pension. This is extremely distorting and unfair.

Reverse mortgages allow retirees to unlock the equity in their homes, in order to provide for themselves without ever needing to move out of their home. Currently those that do wish to move, may be penalised if they decide to sell the family home and downsize to something more suited to their needs. Pensioners should have the option to keep or sell their residence without adverse financial impact.

Similar could be achieved with a pension loan scheme. Suppose someone receives the pension for 20 years totaling \$400,000. Suppose that when they die their estate is worth \$1million. Would it not be reasonable that the government recoup \$400,000 from the estate? If the estate cannot cover the debt, it is forgiven.

Would you rather pay tax when you are alive, or when you are dead? It is essentially a victimless tax.

## **8. Vacant Property Tax**

As per Victoria and Canada.

Use it or lose it.

## **9. Sell the expensive public houses, build more.**

Sell all public housing worth over \$1million and use the proceeds to build new high-rise units. This will be a cost-effective way to increase the amount of public housing.

## **10. Link immigration to housing supply.**

This is not to say immigration is causing the housing crisis (although it probably is contributing). Even if it is categorically proven that immigration goes not contribute to the housing shortage, we need to stop inviting guests over until we have somewhere ready for them to sleep.

Immigration levels need to be tied to a metric such as rental vacancy rates, dwelling completions, or something similar.

There should be an exception for construction workers. Unlimited construction worker immigration until the crisis is resolved.

### **11. Rezoning.**

Temporarily allow the Federal Government to bypass local and state governments to rezone some parcels of land to release more housing lots quicker.

### **Conclusion**

The problem is, all of the above will have downward pressure on house prices. Politicians and the majority of voters do not want house prices to fall. Therefore, there is no hope.

*Declaration of interests: Two properties owned.*