Submission by the Affordable Housing Party of Australia (AFHPA)

(lodgement of party registration pending)

To the Standing Committee on Economics

Inquiry into Home Ownership

Submitted by

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For and on behalf of the Affordable Housing Party of Australia

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Summary

The purpose of this submission is to make a real difference in Government policy so Housing can once again be Affordable in Australia. As a Political Party, we would like nothing better than to be redundant in 5 years times, in fact the sooner, the better!

Current Rates of Home Ownership

The Affordable Housing Party of Australia (AFHPA) recognises that the level of home ownership in Australian has remained constant at about 70% for the last three decades. However examination of Australian Bureau of Statistics Year Book (A.B.S; A.B.S., 2012) shows that many more households now have a mortgage. Whereas in 1996, 40% of home owners were mortgage free and 30% of home owners had a mortgage, by 2010 the situation had reversed, with more owners having a mortgage than not. Hence, the increased risk of mortgage stress if interest rates were to rise.

Demand and Supply Drivers in the Housing Market

On the demand side, the AFHPA cites the generous tax treatment of investors in residential housing as a driver of demand and hence rising pricing in the residential property market. The main areas of taxation requiring reform are negative gearing, reduced Capital Gains Tax (C.G.T.) on residential property and the allowing of Self Managed Superannuation Funds (S.M.S.F) to invest in residential property.

Of these the AFHPA cites the reduction in C.G.T. as the main driver in investor demand in the last decade(Brown, Brown, O'Connor, Schwann, & Scott, 2011; Goldie, 2011; Yates, 2008). This can be seen in the increasing percentage of investor in the residential housing market since changes were made in C.G.T. by the Howard Government in 1999.

However, the AFHPA also submits that negative gearing on residential property is also very ineffective (Yates, 2008). The bulk of investors using negative gearing have purchased existing properties, hence there can be no argument that negative gearing adds to the supply of housing.

Many economic commentators have stated that the treatment of Superannuation is far too generous. The fact that S.M.S.F.s are now allowed to included residential property further increases demand again without increasing supply.

Migration is not often mentioned in regard to housing affordability. The current level of immigration is one of the highest in the OECD and this increases demand in a limited market and hence puts upwards pressure on housing prices (Worthington, 2012).

The rules covering foreign ownership of residential property were eased in 2008 and implemented in 2009. Although it is generally considered that Australia needs to import investment funds, it is hard to see how this might apply to the residential property market. Recently both the Reserve Bank Chairman and the Head of

Treasury have indicated that there may be a housing bubble in Sydney and Melbourne; this would indicate an excess of finance not a lack of finance.

The Proportion of Investment Housing Relative to Owner-Occupied Housing

The AFHPA believes that other submissions will show that the proportion of investors in the market compared to owner-occupiers has risen since 2001

Impact of Current Tax Policy

The AFHPA has submitted information above that supports the argument that the favourable tax treatments for investors in the residential property market does little to increase supply, but greatly increases demand, hence rising prices and reduced housing affordability. However these favourable tax treatments also distort the market in other ways that have undesirable social outcomes.

Reduced C.G.T for residential property favours wealthier Australians (Goldie, 2011). Wealthier Australians make more of their income through capital gains than poorer Australians; poorer Australians make their income through wages (Goldie, 2011). Reduced C.G.T. favour Australians with excess funds that can be invested in the property market. . In a similar vein the generous treatment of funds in an S.M.S.F. advantages investors over owner occupiers.

Effectively wealth is transferred from poorer P.A.Y.E. tax payers and renters to wealthier Australians. As younger Australians generally have fewer assets than older Australians, this becomes an intergenerational issue; younger Australians are subsiding older Australians.

Australia now has a business migration program where applicants for immigration are selected on their financial status. The basic idea being these applicants will have funds to invest in Australia. To date the AFHPA knows of no economic study as to where these funds are being invested. If the funds brought to Australia are being invested in the residential property market, then this doubly affects housing affordability.

Finally, investment in existing residential property does little to improve the economic position of Australia. Effectively what is happening is Australia is repricing its existing assets, no real wealth is being created. Wealth is simply being transferred from one generation to the other. The funds invested in property could be better applied to other areas. Although State Governments improve their budgets positions through increased stamp duty and lending organisations make greater profits as housing prices rise, but this is not wealth creation.

Opportunities for Reform

The AFHPA would suggest that action be taken in the following areas;

- Negative Gearing on residential property,
- C.G.T discounts on residential property,
- Increase C.G.T. on S.M.S.F. investing in residential property,
- End foreign investment in the residential property market.
- Review the current level of immigration to Australia.

Negative Gearing, C.G.T. Discounts and S.M.S.F.

These three topics will be discounted together as the AFHPA approach to all is somewhat similar. There are three possible mechanisms to adjust these tax advantages for property investors;

1. Remove all tax advantages overnight
2. Retain tax advantages for existing investors, but close the tax advantages for new investors
3. Phase out tax advantages over a period as yet to determined, although probably not less 10 years.

G.C.T Discount

In the first year after a change is mad e property investors would pay tax on 55% of capital gains made on property, the next year it might be, say 60% increasing each year until C.G.T. is paid on 100% of the capital gain.

S.M.S.F.

Similar arrangements would be made with S.M.S.F. However as the Federal Government has committed to a review of Superannuation the AFHPA will wait until this review is released before commenting on what the actual rate of taxation should be.

Negative Gearing

In the first year after a change investors would be allowed to claim 100% of losses on residential property against their P.A.Y.E. tax obligations, in the second year it might be, say 90% etc.

Mechanism 1.
This would require a retrospective tax changes and is not supported by the AFHPA

Mechanism 2.
By closing the afore mentioned tax advantages to new investors, but allowed existing investors to retain all their existing tax advantages, would provide an incentive for existing investors to hold on to their properties. Due to the current level of property

held by investors, this might delay properties coming onto the market. Even if property prices fell, the reduction in price is unlikely to offset the advantages of negative gearing and capital gains tax discounts. If property prices and presumably rents were to fall, the government subsidy to existing investors via negative gearing would increase. Also this mechanism would result in a two tier tax system, and this is to be avoided where possible.

Mechanism 3.
From an economic point of view a gradual phase out of the tax advantages is very attractive.

Firstly, it is likely to encourage investors, especially long term investors, to release properties back onto the market to avoid increased capital gains tax. Hence we should see an increasing proportion of owner occupiers within 3-5 years. Secondly, as residential investment slowly becomes less tax effective there should be decline in investor interest and reducing prices over time. ,

Hence the AFHPA would propose a gradual reduction on the favourable tax treatments to residential property investments.

Foreign Investment in Australian Residential Property

The rules pertaining to foreign investment in residential property were eased in 2008/2009 and the A.H.P.A. would support a tightening of these rules to their pre 2008 level.

Immigration

Because of its undoubted effect on house prices, there is an urgent need to review the current level of migration to Australia. The A.H.P.A. would encouragement the widest possible public debate before a final level of immigration was set. However the A.H.P.A. position is that the current levels are unsustainable.

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