# Submission to the Taxation Review

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## Introduction

After reading the Tax Discussion Paper (TDP) I felt compelled to make a submission to you. Whilst you make many worthwhile points in the TDP, and raise many important questions I believe there are further items to raise. These include:

1. The Impact of Tax Policy On The Cost Of Housing – with a special focus on the negative economic & social impacts.
2. The Relationship Of Tax Policies At All Levels Of Government To Infrastructure, Housing Sprawl & City Liveability.
3. Negative Gearing & Alternatives.
4. Capturing Revenue Leakage From The Black Economy.
5. Broadening The Tax Base.
6. Tax & Policy Suggestions

All taxation systems create incentives & disincentives. Sometimes these are intentional & sometimes unintentional. However, the effects can be far reaching & not sustainable.

## The Impact Of Tax Policy On The Cost Of Housing

As you point out in the TDP there is no appetite in Australia to tax primary residence housing. But you don't ask the question if home ownership is still something we should encourage. Current tax & policy settings at all levels of Government have contributed to the increased cost of housing over the last 50 years, right across the country.

Most economists report the cost of housing in a way which hides the extent of the problem. For example, they often measure affordability using median house prices compared to a statistically created income measure. This statistical measure assumes more than one income to calculate affordability & has changed over time. However, we have many people in society today who will remain single. We also have single divorcees, single parent families, & also many single income families. So the measure understates the extent of the affordability problem for all those groups. Discriminates against them, if you will.

If you measure the ratio of median property price to median salaries you get a clearer picture. The ratio has moved from around 3:1 in the early 1960s in Sydney & Melbourne, to almost 11:1 today.

In recent years the numbers of the working poor have swollen, at the same time the number of Sydney suburbs where homes have reached an average of $1,000,000 have swollen. The release of the Intergenerational Report came alongside media reports of long term budgetary concerns & consequences of a future with less retirees being homeowners. However, we have the capability to give our citizens a brighter future. If only we have the will to make it a priority.

My strong belief is that if you are born in a city you should have an opportunity to be able to afford to own a home in that city. A society cannot be sustainable if its citizens aren't able to afford to live there. We have to create a fairer system where young Australians can afford to purchase a home of their own, both now & into the future. The fair go ethos is part of the Australian way. However, this is under serious threat as our current approach is unsustainable.

## The Relationship Of Tax Policies At All Levels Of Government To Infrastructure, Housing Sprawl & City Liveability

Part of the reason for home price rises is that housing sprawl in major cities has created additional demand in existing suburbs with good transport & infrastructure. Our whole planning structure has often been short-sighted, and/or political.

High levies & charges have dramatically forced up the price of land release and land rezoning to developers & home buyers.

Traffic in major cities is reducing the liveability of our cities.

A co-ordinated approach is needed across all levels of Government.

## Negative Gearing & Alternatives

I note that the cost of gearing to the Budget is around $2.4B annually. So it makes sense to keep the positive aspects of debt deductibility for productive investments.

For less productive assets such as geared residential property there is an unmeasured cost. The cost is something we all end up paying for in higher property prices. It arises as a result of policy settings which influence the price drivers of supply & demand.

The current gearing rules for residential property create a conflict which puts investors in competition with first home buyers & all home buyers for the stock of existing homes. Thus increasing the demand. This extra demand feeds into prices – part of the unmeasured cost.

However, if residential property gearing was restricted in the future to new dwellings only, then this would remove much of this conflict & competition for the stock of existing homes. The result is that residential property gearing would expand the supply of properties available. Extra supply is what we need for a growing population.

A recent study of young Australians under 35 showed that 38% had purchased a home & 6% were home investors. This 6% was predominately made up of adults living at home with parents who had borrowed to buy a property & were using a rent paying tenant for them to reduce the mortgage.

## Capturing Revenue Leakage From The Black Economy

Figures from the US & UK estimate there is a loss of around 6% of GDP from the black economy. Whilst these are estimates it is probably fair to suggest the figures in Australia would be similar. Leakage is a loss of revenue which comes about from a number of areas including:

1. Cash Jobs – these frequently are unreported & not declared in personal income tax returns or small business tax returns. GST is not collected. Lower income in tax returns also creates a cost to Government via overpayments of benefits such as Family Tax Benefit & Centrelink payments. Divorcees maintenance payments are often affected with further personal & system costs.
2. Crime – cash transactions are hidden from authorities.

## Broadening The Tax Base

In the TDP you explore ideas about expanding the tax base, particularly in respect of the GST & tax on multinational businesses who are transferring profits offshore. I can only add my encouragement for you to do the politically difficult & press ahead with those ideas. These ideas not only broaden the tax base but also make the system fairer & more sustainable.

In the end we all have to live within our means.

## Tax & Policy Suggestions

Flowing from the issues raised above are some suggestions to deal with the problems:

1. Phase out the use of cash as soon as possible – without paper currency & coins we gain a permanent "Black Economy Dividend". This extra income would also be accompanied by some extra funding for the ATO & Centrelink to their investigation & electronic surveillance teams to ensure compliance. I envisage an advertising campaign to change public perceptions that it is not right to cheat anymore. Greater collection of GST would be welcomed by the States.
2. Broadening the tax base – by collecting GST off all economic activity in Australia & taxing offshore transactions by Australians (eg. Netflix paying GST). Also targeting multinationals who are transferring profits offshore.
3. Creation of a specific Government Agency for infrastructure, housing & sustainable planning – the idea being to create a sustainable non-political federal planning authority. This would interact with the States & local governments to co-ordinate & plan without political interference. A specific focus would be to plan our cities in a more efficient way so as to make them more affordable & more liveable over the longer term. The mandate should also include reducing the taxes on land release & rezoning to reduce costs to the community of adding housing supply.
4. Residential property negative gearing – restrict it to new properties for all forms of investors except first home buyer investors. In many instances these first home buyer investors are merely attempting to gain a foothold into the property market. They will often move into the investment property once they have reduced their mortgage to a more manageable level.
5. Introduce a first home buyers tax rebate – the problem with previous first home buyer grants was that they acted to bring forward home purchasers & increase prices. Using some of the Black Economy Dividend from suggestion number 1 we could introduce a tax rebate paid to first home buyers. The advantage of the tax rebate is that it does not impact the home price & it can be paid in a way so as to reduce debt. How it would work is as follows:
   (a) The rebate would be paid on a sliding scale dependent on personal income. For example, $5,000 per annum rebate on incomes of less than $80,000. Then reducing as your income grows so that it cuts out at $130,000 income per annum.
   (b) The rebate would be payable per person – so a couple could both claim the rebate if buying a home together.
   (c) The rebate would be paid for a number of tax years (say 5 years).

(d) The rebate would be quarantined & paid to the loan directly, automatically paid off the loan principal, & cordoned off so it cannot be redrawn. Minimum payments could not be reduced as a result of receiving the rebate.
(e) The rebate is only to be paid where the loan is for principal & interest. Not interest only.

6. Financial literacy funding – provide a grant for a first home buyers literacy & one-on-one coaching pilot program for 1000 young people in Sydney. I have done this pro-bono previously to help selected young people & have been building a capacity to do this. However, I cannot do something of this scale without funding or without charging a fee.
7. Provide first home buyers with a tax deduction for the cost of professional financial advice – first home buyers need as much help as they can get. I would specify that the advisers are 100% fee based with no conflicted remuneration (including no risk insurance commissions).
8. Change the gifting rule for age pensioners – after seeing the Treasurer trying to tackle a loaded question on the Q&A ABC TV program last week, I can see that we need to make a change. It should be brought into alignment with the same principle as bankruptcy laws. Any gifting done with the intent of qualifying for the Age Pension should be looked at irrespective of time frame. If you don't have the stomach for that then a fall back position would be to expand the deprivation period so that it applies from age 55. Anything substantial they give away should be counted for 10 years initially. Therefore, as the age pension qualifying ages increase in future years the deprivation period will start at 10 years & grow. As a society we can't afford for a wealthy person to give away enough assets to qualify for an Age Pension for the rest of their life. A couple on full Age pensions of around $30,000pa for 20 years is a $600,000 cost in today's dollars. The fact they can transfer this cost onto the Government (& therefore taxpayers) is outrageous.

Thank you for consideration of all of the issues I raise here as a part of the taxation review. I encourage you to look forward and remember first home buyers and the kind of communities we want to create and sustain into the future.

Yours sincerely,

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