Tax White Paper Task Force

Make A Submission, email to [bettertax@treasury.gov.au](mailto:bettertax@treasury.gov.au/haveyoursay)

Submission of 4 pages

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25th May, 2015

Tax White Paper Task Force

The Treasury

Langton Crescent

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ACT 2600

Dear Sirs,

Make a submission for Better Tax

Tax White Paper Task Force – Have Your Say

I hereby make a submission on one taxation issue, as follows:

Submission Matter:

Removal of exemption of individual taxpayer’s capital gain on disposal of their main principal place of residence.

Rationale:

The main residence has become the preferred individual financial investment in Australia.

The main residence is the optimum tax shelter for Australian income tax purposes. Any gain on disposal of the main residence is tax free; it is not subject to income tax.

The main residence is also upgraded, improved as a tax free investment over the time of ownership, done to produce further tax exempt capital gain.

The main residence is an asset not asset-tested for the age pension, so individuals deliberately invest monies into their main residence acquisition, plus by adding capital improvements and overall reducing age pension assessable assets, thus qualifying themselves for age pension, an age pension that would not otherwise be received save and except for diversion of monies, for non-asset test of the main residence

The taxpayer or pensioner never contributes income tax nor suffers any social service loss during their lifetime, nor at time of death, an ‘inheritance’ saver, without any redistribution of a portion of their residence wealth back to Australia.

Submission Issue One

That Capital gain exemption be changed to tax the capital gain on disposal of a taxpayer’s main residence.

Submission Issue Two

That 50% part of said capital gain on sale of the main residence be subject to personal income tax.

Assessment

I propose that all sales of residential residence for gross sale price of one and a half million dollars $1,500,000 (or such sum Government sets) be taxed as follows.

Property purchased after commencement (announcement date) for a cost of $1,500,000 and sold for a sale price of more than $1,500,000 will have the capital gain calculated.

50% (fifty per centum) of the resulting gain on sale will be included in the assessable income of the individual. Retain the current CGT 50% exemption.

Cost of residence does not include council rates or water rates or residence insurance which are a living cost of the individual.

Cost of residence sold will include any non-deductible interest cost for funds used to purchase the main residence.

Any capital residence loss is carried forward to be offset against any future capital gain on sale of a subsequent future main residence. The loss is quarantined.

The taxation of gains extends to all residence owners irrespective of their percentage share of ownership in the residence. All owners are assessed on their proportionate share of residence gain.

Transition

For residences owned as at commencement announcement date, any main residence that is subsequently sold for $1,500,000 or greater is subject to tax, but the deemed cost is the greater of either:

1. The original cost plus allowable cost add-ons such as interest expense or capital improvements, or
2. The capital improved value of the main residence determined by the State or local Council for rates purposes, notified in the residence rate notice immediately preceding the commencement announced date.

For residences sold for more than $1,500,000 that were owned as at commencement announcement date, that have a deemed cost price less than $1,500,000 as at commencement date, that the first step calculation of capital gain is to deduct the deemed cost from the sale price.

This notional capital gain is then subject to a second step capital gain calculation. The notional capital gain is time apportioned. The notional gain for the number of days from commencement announcement date is the assessable gain subject to income tax.

Example: $600,000 original cost in year 2000.

$100,000 add-on-costs.

1. $700,000 owner cost, deemed cost.
2. $1,200,000 Council CIV in year 2015, deemed cost.
3. $1,700,000 Net Sale price in year 2017.

Actual Gain: $1,000,000...C minus A

Notional Gain 2nd step: $500,000...C minus B

Assessable Gain: $58,823 = 2/17 x $500,000

Summary

The current capital gain exemption of the principal place of residence is the result of outmoded, obsolete tax revenue logic. It is a stupid, senseless tax law in today’s modern financial investment climate. It favours every taxpayer to arrange their tax affairs to capitalise their residence to avoid income tax and for some to gain the age pension by devious means by reduction of assessable assets transferred and capitalised in the exempt residence.

High net worth taxpayers particularly, deliberately invest and buy and sell main residences without any income tax liability. Surely the Government and Opposition parties and the people of Australia deplore this Government-sponsored tax shelter, aided and abetted by the irresponsible income tax laws providing tax exemption of gains on the principal place of residence.

I commend this submission to the Government to implement.

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Neil Duncan