Dear Committee,

I write to say that the only change that the committee should recommend for the sophisticated investor tests is that it should have the family home excluded from the test.

The complaint is that people who are not sophisticated in their investments are qualifying due to the increase in the property values of their homes. If the person's home is excluded from the test, then this removes that problem.

The current threshold of 2.5m in assets is already sufficiently high. You can see this from the fact that if you have $2.5m to invest, and you don't take any risks with it, so all you get is the cash rate, then you will still earn a six figure income, well and truly enough to justify spending all your time as an investor. If a full-time investor, ie a professional investor doesn't qualify as a sophisticated investor, then nobody will!

Removing the home from the test also makes regulation more consistent. The home is exempt from CGT because we recognise that it is first and foremost shelter, and essential item, and is not an income producing asset. If that is how we treat it for CGT, then we should not include it when assessing the investable wealth a person has.

It also removes the Sydney/Melbourne bias in the current test given the high property values in Sydney/Melbourne. Removing housing from the threshold makes the test fairer for all Australians.

It prevents the family home from being exposed to undue risk.

The media also reports concerns that the government might get blamed if a sophisticated investor loses their money in an investment scheme. But this is a fallacious concern. To get access to the wholesale investments, the investor first needs to declare or hold out that they are a sophisticated investor, and they need to get an accountant to declare that they are a sophisticated investor. How can someone who has told every one that they are sophisticated then turn around and say they didn't understand what they were doing?

Increasing the threshold to 5m will harm Australia's ability to form capital. The threshold will be out of line with important capital markets such as the US where the threshold is $1 million in assets and will put Australia at a comparative disadvantage. It will interfere with the ability of start-ups to raise capital. It will adversely impact investment markets by adding more cost to the process. It will make much of the private credit market more expensive. It will adversely impact the property market. This is to the detriment of both borrowers and lenders. Raising the thresholds will only be to the benefit of those already rich enough to meet the higher threshold as there will be less competition for investment opportunities. It will be help the rich get richer.

In short, it is a backward move that does not tackle the underlying issue. It is not in Australia's interest.

Yours Sincerely,

Peter Milford

CPA Accountant