

Senate Inquiry into Affordable Housing

Submission by Ashley Holmes

February 2014

I would like to thank the Senate Standing Committees on Economics for the opportunity to contribute to this important inquiry into housing affordability.

I am a property owner, therefore I would be hurt by the following suggested reforms, but they are economically correct and essential to making housing affordable in Australia.

Recommendations

1. Remove negative gearing on established dwellings
2. Remove stamp duty
3. Introduce a broad based land value tax
4. Prevent foreign purchases of established dwellings
5. Remove the First Home Owners Grant
6. Include place of residence in the asset test for the aged pension

1. Remove negative gearing on established dwellings

Currently losses on property investments can be deducted from wages for tax purposes. Investment property expenses do not contribute to the ability to earn a wage, there is no logical link between the two. In fact commuting and parking expenses are not deductible and they are certainly essential for earning a wage.

Negative gearing is simply a government subsidy to encourage the purchase of property as an investment in order to increase the supply of housing. The theory is flawed however, because buying an existing dwelling does not increase supply, it only bids up prices. Advocates of negative gearing incorrectly argue, that if removed, investors will sell, and rental supply will reduce. Housing supply can only reduce if the building is destroyed, not sold.

Investment in new housing construction does however increase supply, and should remain the sole target for negative gearing.

Additionally, incentivising loss making investments is not good policy.

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

2. Remove Stamp Duty

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

3. Introduce a broad based land value tax

LVT 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

4. Prevent foreign purchases of established dwellings

Again, foreign investment in existing homes increases demand and bids up prices. Foreign investors should be directed towards new construction to help increase supply and improve housing affordability.

5. Remove the First Home Owner's Grant

Again, the FHOG only bids up prices, often by more than the grant itself due to leverage.

6. Include place of residence in the asset test for the aged pension

Deciding the level of wealth at which people are eligible for the aged pension is outside the scope of this enquiry. If the asset test is to include the family home, the total threshold can be increased to minimise any changes to the number of people that qualify for this payment.

The intention of this recommendation is to stop housing being the asset test evasion haven for wealth. Currently pensioners can 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.

Conclusion

The government must decide between; maintaining the status quo, by continuing to defend the asset values of the property owning class, who in return for this service keep the government elected, or implementing dramatic, but economically sound reform to ensure the equity and efficiency of the Australian economy in the long term, at the risk of losing favour with the property owning class in the short term. The two options are mutually exclusive.