Critical Policy - 4
HOME OWNERSHIP

PROBLEMS FACING HOME BUYERS

NOTE: In the context of this Home Ownership policy “Home” means any authorised residential dwelling.

The Problems are:

1. Federal Problems, Not State
2. International Buyers with ‘Black” Money
   - Anti-Money Laundering (AML) Laws 12 years overdue
   - Abettors and Accessories profiteering
3. Immigration
   - Uneven Playing Field
4. CGT Concession contributing to demand
   - Fairness of the Negative Gearing Tax Concession
     - Level Playing Field
     - The Harsh Reality
5. A Deposit Too Far
6. Lack of Affordable Housing

But before touching on each of the above topics we would urge all potential Home buyers to spend a few hours doing some internet research. You will find many authoritative case studies/reports and be alarmed at how successive federal governments have allowed us to be denied the Human Right of owning a Home.

Here are a few brief words on each of the above six (6) problems and their corresponding solutions; solutions that would be immediately introduced by a Federal Party of Australia government.

FEDERAL PROBLEMS, NOT STATE – 1

It is undeniably the responsibility of the federal government to address and fix a problem which it has created. The Foreign Investment Review Board (FIRB) has been derelict in its lack of control over foreign investment. Naturally, there are those who have profited enormously from this dereliction which has resulted in an overheated housing market far from the reach of most young Australians.

And we can only assume that many Australian politicians have prospered and will continue to prosper illegally well into the future. They have already given the OECD (as at March 2015) cause to rate Australia as having the fifth most “over-valued” housing market in the developed world.

It will take a strong government to turn its back on the billions of dollars (50% laundered) needing to be parked in Australian properties by Chinese investors alone.

INTERNATIONAL BUYERS WITH ‘BLACK’ MONEY – 2

China is certainly not alone when it comes to laundering money that has been generated illegally or in some cases generated through legitimate business and property dealings. But either way, it has not been disclosed for tax purposes in the country of origin. And so, all of it is ‘black’.

This presents a problem for an investor who cannot openly use this cash without running the risk of being caught. And so, Australian properties, specifically Homes, have become a prime target into which the money can be placed (parked) undetected. But only undetected because of the dishonesty of the federal government. Our FIRB should never have allowed this to happen.

The result has been unprecedented rises in the value of Australian Homes over the past 20 years, but dramatically so over the past 12.

Anti-Money Laundering (AML) Laws 12 years overdue

It has been 12 years since it was decided by our federal government to introduce legislation banning the inflow of international black money destined to be laundered (i.e. turned into white) by investing it in Australian properties.

Our successive Federal Attorneys-General have shown obvious reluctance to legislate appropriate AML Laws. How many fortunes have been made by Australian officials as a result of this wilful criminal conduct?

Abettors and Accessories profiteering

In order to facilitate the money laundering requirements of international buyers there has been (and still is) an army of professionals quick to reap the financial rewards that the Home buying industry is providing. So let us start at the top and look at who money launderers need to complete their purchases.

These are the players:

1. **Real Estate Agents** who are quick to let Home owners know that they have buyers prepared to pay top dollar.

2. **Lawyers** who charge exorbitant fees to set up the Australian corporate structures needed by wealthy international buyers. But these Lawyers tend to work with;

3. **Accountants** who also ensure that Australian business addresses are offered as registered offices and places of business. And when this profile (or ‘front’) has been established it is over to the;

4. **Banks** who are only too keen to handle the vast sums of black money that pour into the newly established accounts.

The answer to this problem lies in **Solutions** (www.federals.org.au/solutions.pdf).

IMMIGRATION – 3

According to many authorities on the subject, housing unaffordability has been caused by population growth which has been underpinned by high levels of immigration. And many of these migrants have flooded our major cities with their ability to (once again) pay any price for a Home from funds often derived from spurious sources.

Uneven Playing field

Simply put, Australians are not being given a fair go. We are being forced to compete on a very uneven playing field. For instance, our capital is generated within a culture of hard work and commensurate incomes. And many, if not most, wealthy migrants have come from a socio-economic class in their own countries that few Australians can match.

In short, competing with ourselves can be difficult enough without introducing buyers from a different culture who have no difficulty in trumping each bid we make for an Aussie Home, even if the source of their money *is* legitimate.

The answer to this simple problem lies in **Solutions**.

CGT CONCESSION CONTRIBUTING TO DEMAND – 4

Unlike negative gearing tax relief, the Capital Gains Tax (CGT) concession is not underpinned by any investment rationale. It is a tax break that could only have been conceived to disproportionately benefit the wealthy few more so than ordinary PAYG taxpayers. And in the 2016 financial year the federal government lost over $4billion in tax revenue as a result.

And this loss of tax revenue was caused by offering investors the right to only pay tax on 50% of the capital gain produced on the sale of their investment properties. Again, there is no logical investment reason why CGT should only apply to 50% of the capital gain produced.

However, CGT is a definite contributor to the demand for investment properties. And the answer to this problem lies in **Solutions**. But before going there, please read 'Fairness of the Negative Gearing Tax Concession' below.

Fairness of the Negative Gearing Tax Concession

It is constantly argued that negative gearing influences the escalation of Home prices. And that is an undeniable fact even if this influence is regarded as minimal.

It is also a fact that in the 2016 financial year the federal government forfeited approximately $6billion in tax revenue because of the tax concession offered to taxpayers who owned negatively geared investment Homes (i.e. properties).

Unfortunately, if we were to scrap the tax concession currently granted to these negatively geared taxpayers then we would need – in fairness – to scrap corresponding forms of tax relief for all investors (i.e. owners of properties and shares) be they PAYG taxpayers or otherwise. And this would be a gravely unfair option.

But before we go there, let us take a look at what a negatively geared investment Home is:

<u>Example</u>

Buying price of Home	– $500,000
Deposit placed	– $ 50,000
Moneys borrowed	– $450,000 @ 5% p.a. interest (say)
Associated expenses p.a.	– $ 4,000 plus $22,500 interest = $26,500
Rent ($450 p.w.)	– $ 18,580

<u>Note</u> that the rent paid to the investor for that year is based on 90% occupancy and estate agent Management fees of 7.5% plus the cost of changing the tenants once; a total expense to the Home investor of $4,820 for that year. And associated expenses of $4,000 would be for repairs and maintenance, insurance, and council rates.

This investment Home is negatively geared solely because the associated expenses of $26,500 (including interest on loan) <u>exceeds</u> the Rental income of $18,580 thus creating a loss for that year of **$7,920**. And it is this loss that can be used to reduce the personal PAYG taxable income of the investor/taxpayer.

Level playing field

Investor One

If we take the example of a taxpayer who owns a positively geared investment Home (i.e. a Home rented at a net profit) then the net annual profit produced would be added to that taxpayer's taxable income and taxed at the current PAYG tax rate.

Is that fair?.. Yes!

Investor Two

If we now take the example of a taxpayer who owns three investment Homes and two are positively geared and therefore producing net profits and one is negatively geared producing a loss then it becomes eminently fair that the loss should be deducted from the sum of the net profits (i.e. profits after expenses) and tax only paid on the remaining net profit which is then added to the taxpayer's PAYG taxable income.

Is that fair?.. Yes!

Investor Three

And now to the taxpayer who owns only one investment Home which is negatively geared (i.e. a Home rented at a loss). It also becomes fair that this loss should be deducted from the taxpayer's taxable income for two very sound reasons.

One – Investor Two was allowed to do so by firstly deducting a loss on one Home from the net profits on the other two before being taxed. And I am sure we agreed that that was fair. Or if we alter the perspective then deduct the loss from that taxpayer's taxable income first (which is the negative gearing tax concession) and then add the net profit produced on the other two Homes to the now reduced taxable income – same result.

Two – However, the moment this negatively geared Home begins returning a net profit then that net profit would be immediately added to this taxpayer's taxable income and taxed in the same manner as Investor One. (And also Investor Two)

To summarise the nature of the level playing field, if it is fair to have net investment profits (i.e. profits after deducting losses) added to the taxable income of a PAYG taxpayer who then pays tax on that increased taxable income **then** why should investment losses **not also be included** in the taxable income of a PAYG taxpayer before paying tax on that now reduced taxable income?

The Harsh Reality

Taxpayers invest in Homes and properties for the sole purpose of making money and creating wealth. They do not do so for the purpose of just minimising their tax. That leads nowhere other than possible bankruptcy. To explain:

Take a moment to compare two taxpayers (a) and (b) who have the same incomes and who pay the same tax.

Taxpayer (a) owns a negatively geared investment Home which produced a loss of $5,000 for the year. He pays 37c in the dollar tax (37%) on his earnings over $87,001 per annum. And after all allowable family and work related deductions his taxable income is $110,000.

By applying the negatively geared loss of $5,000 against his taxable income he is able to reduce his taxable income down to $105,000 which means he has saved himself from paying $1,850 in tax (i.e. 37% of $5,000). But the harsh reality is that he has **lost $3,150** on his investment property which can only be paid for out of his pocket (i.e. take-home income).

Taxpayer (b) owns a positively geared investment Home. And without producing a net profit, by just breaking even, he is still $3,150 better off than Taxpayer (a). But if he had produced a net profit he would have been more than happy to pay 37% of it in tax because he would then have been creating wealth.

The bottom line is that every property investor strives to become positively geared as quickly as possible. And strangely enough, I have never heard anyone complain about the personal (PAYG) tax that these Home investors are forced to pay.

A DEPOSIT TOO FAR – 5

For thousands of Australian families the greatest obstacle to buying a Home has been their inability to steadily save a deposit sufficient to make a financial institution offer a first mortgage loan to meet the balance of the purchase moneys. It seems that the closer they get to their deposit goal the further Home prices have risen; not to mention the attached impediment of stamp duties, mortgage insurance and legal fees.

The First Home Buyers State Grants are excellent but usually require young couples to buy into newly developed estates often well away from the city limits and with few employment opportunities and often poor infrastructure.

And insufficient deposit is not just a problem for first Home buyers. It is a problem for many second home buyers as well (i.e. owner occupiers), particularly where employment opportunities have dictated a change of location and there is insufficient equity in the Home being sold.

Most Australians in this predicament are forced to pay rent. And too often these rents are high enough to put an end to any further savings. They have very effectively been blocked from entering or re-entering the market as a serious Home buyer. And all for the want of some additional deposit money.

And naturally, the higher the deposit, the greater the chances are of being accepted by a lender, and in many cases the lower the interest rate charged on the Home loan.

The answer lies in **Solutions**.

LACK OF AFFORDABLE HOUSING – 6

Around the limits of major Australian cities we are experiencing the release of house and land packages well beyond the financial reach of ordinary Home buyers. The Australian Dream of a spacious Home is fine but this thinking which caters for the more established Home buyer is adding to the problems of Australian families. There are too few developments addressing the problem of affordability.

The answer lies in **Solutions**.