



Speech by
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MEMBER FOR CAPALABA

Hansard 22 April 2004

DUTIES AMENDMENT BILL

Mr CHOI (Capalaba—ALP) (5.08 p.m.): The great Australian dream of home ownership is not only our inspiration but is fast becoming our obsession, not to mention entertainment in terms of TV programs and so-called reality shows. The brick veneer house with a garage and backyard, perhaps a dog or two for good measure, formed the largest component of most Australians' wealth. In fact, our home is usually the biggest investment of our lives.

The level of home ownership in Australia is amongst the highest in the world. Most people like property because everyone needs a roof over their heads. In essence, a house is not a luxury but an essential need. For many years, particularly in the southern states, the property market has been booming and as a result property values have skyrocketed. This boom has resulted from several factors, such as the move towards safe-haven assets like property during times of uncertainty on the global front, the lowest interest rate environment that Australia has experienced for many decades, the first home buyer grant and the negative gearing tax incentives.

In the last two years, Queensland has also seen the housing market go through unprecedented growth. Every second week we heard that another price record had been broken. For the first time in my life I saw potential land buyers drawing lots to determine the lucky one who would have the privilege to buy a block of dirt from the developer. If someone told me this as little as three years ago I would have laughed at the suggestion.

However, this unprecedented growth is not without pain. Rising house prices simply mean that it is getting harder and harder for buyers to afford their home. This is particularly relevant for first home buyers, who are predominantly the younger people in our community. That is the primary reason for this bill: to give stamp duty relief to first home buyers to assist them with buying their first home and fulfilling the great Australian dream.

Before I speak to the details of this bill, I would like to talk about one of the reasons for the rising house prices, which is the strong property investor market fuelled by the negative gearing tax regime. Many honourable members would realise that I worked in the property industry for 15 years and I do have a lot of friends in the industry. I am looking for the closest exit now because I am sure that I will get a few phone calls tonight from them because of what I am about to say. At the outset I state that I am not in principle objecting to any tax regime which creates employment and business activities. However, we have to stop and think about the pros and cons of this tax regime over different periods to see whether it has caused other problems.

The Productivity Commission Inquiry into First Home Ownership draft report called for grants to first home buyers to be targeted at those in need but shies away from proposing immediate reforms to negative gearing or capital gains tax rules, despite finding that they have played a key part in making housing less affordable. Instead, it suggests the federal government commission a review of the tax treatment of investments generally, including negative gearing and tax breaks on capital gains, without limiting it to real estate investments. The report concludes that the surge in housing prices since 1996 stems from lower interest rates, rising incomes, easier borrowing conditions, the stock market slump and a 'supportive' tax environment for housing investors. But it also said that the price surge in the past two years can be based only on expectations of capital gains, with investors taking 40 per cent of housing finance.

The Reserve Bank also bought into the debate by requesting the Australian Taxation Office to crack down on investors who deliberately buy loss-making properties to negative gear. Although interest rates have halved in the past decade, the Reserve Bank puts most of the blame for the big jump in house prices on tax breaks for property investors. The Reserve Bank said that the federal government should consider 'moderating' demand for housing among investors. The RBA also said it was not 'challenging the validity' of negative gearing and there was no case to scrap it altogether. I agree. I am not advocating the elimination of the negative gearing tax incentives, but I do note that the RBA commented that Australian housing investors enjoy a much kinder tax system than any other country in the world. In particular, the Reserve Bank highlighted the ability to negative gear property when there was little prospect of the property being cash-flow positive for many years. It is not good economic policy.

Two senior tax law academics at the University of Melbourne told the Productivity Commission inquiry that the current taxation treatment of negatively geared investment properties is now significantly more favourable than the taxation treatment accorded many other business investments. Australia's tax treatment of residential property investments is also more favourable than in many other advanced economies. In the United Kingdom, for example, negative gearing is not allowed, while in the United States it is limited to taxpayers on annual incomes of less than \$US100,000. In Canada it is allowed, but only if the losses on the property do not arise from depreciation expenses.

In short, the negative gearing tax regime is not the sole reason but is at least instrumental in getting investors into the property market, which in turn causes property prices to increase as a result of simple supply and demand conditions. As a result, the same house in Brisbane has gone up some 40 per cent to 100 per cent in the last four years. On the one hand, a flamboyant property market creates jobs. On the other hand, one has to work harder to pay for the mortgage because of this boom. So what is the real story here?

In 2001 the median first home price was \$210,000 and average household income was \$71,000, which has a ratio of 2.95. In 2003 the median first home price skyrocketed to \$337,000, whereas the average household income increased to only \$75,500, a ratio of 4.48. This means that in those three years the affordability of the first home decreased by 51 per cent.

More revealing is the ability to pay for the first 10 per cent deposit generally required of first home buyers. In 1990 a 10 per cent deposit represented approximately 25 per cent of average annual household income. In 2003 this has increased to 45 per cent—a massive increase of 80 per cent over that period. No wonder young people are finding it much harder to save enough money to pay for the deposit, let alone buying the first home.

No-one has been able to convince me that a 40 per cent property investor participation in the property market has no upward pressure on house prices and interest rates. Although the negative gearing regime has a positive effect on generating jobs, the effect also is that we are going to work harder and much longer to pay off the mortgage. There is more financial pressure on the family as both parents need to work and there is less time for the family, which causes other social problems for society. Clearly, something must be done to arrest the rapid increase of prices and freefall of housing affordability. Again, I must reiterate that I am not advocating the scrapping of the negative gearing tax regime, but it must be examined to look at the problems it is now causing.

The Beattie Labor government responded in this legislation by reducing mortgage and stamp duty for first home buyers. The objectives of this bill are to implement transfer duty and mortgage duty concessions for first home buyers; and include a general anti-avoidance provision, which is very important in legislation of this nature, to support this concession. This is to avoid a prior transaction or arrangement taking advantage of this bill. It will also introduce an 18-year age requirement which taxpayers must satisfy to claim the concession. Again, this is to avoid potential abuse of this concession.

I am sure that first home buyers in my electorate of Capalaba will welcome the implementation of this bill on 1 May 2004 and I congratulate the Treasurer for helping young Queenslanders to fulfil their great Australian dream. However, more has to be done. I call on the federal government to investigate amending some parts of the negative gearing tax regime as well as applying a means test to the first home owners scheme. I commend this bill to the House.