

INTRODUCTION:

I am very concerned about the proposed tax reform based on what I have read on the government website, and in the consultation paper. From the perspective of a single income pensioner homeowner there are serious problems with this proposed model. That is not to say it is completely flawed, or there is no merit.

However, it is clearly favouring easing the burden of the developer, the wealthier land owner, and those building a property portfolio. Meanwhile those in the most financially limited situation will be greatly disadvantaged, with the potential of destitution. While initially it may assist those it intends [i.e. first time, low income home owners] into the market, there are some glaringly obvious pitfalls and counter-productive outcomes for this demographic and others of low income and pensioners*.

I present my concerns in numbered point form for easy reference and simplicity. These comments are derived from logical analysis of the obvious issues with the proposal as outlined. Many of the 'pros' put forward by the government for this tax are actually the 'cons' for those of low income and pensioners.

Currently being a home owner on a single pension, who originally struggled under great difficulty as a single [divorced] mother working full time on a lowly 'female' base wage – pre child support era – to buy a home, I am more than qualified to make these assessments. Sadly it is those of us who have lived experience of real struggle that are dismissed in these debates for change, skewing the perspective in favour of those far better off.

These proposed changes present considerable concern to me, should the situation arise that I will have to move home. I would certainly not be alone in this.

* Reference to pensioners in this submission refers to all forms of the pension, single parent, disabled, aged, etc.

CONCERNS:

1. REFORM:

1. Stamp duty is out of control due the escalating cost of housing. That is a given. Nor is it new.
2. Simply adjusting the existing stamp duty tax free threshold upwards and lowering the rate at which the remaining % is taxed could have been done yearly, or at any time to counter the rapid and disproportionate increase in housing cost, making home ownership easier – so begs the question why hasn't this been done? [also see point 1: 4 below]
3. At any time the rate could have been applied to 'unimproved land value' to ease the burden.
4. Additional to points 1:2&3 above: including an instalment plan for those on below average income – with a modest fee for administration – whereby the instalments are tailored to income, would be a simple and sensible measure to overcome the difficulty of this demographic to own a home.
5. A sensible solution to the issues outlined below re the proposed 'forever increasing forever' tax: include a fourth tier at a further reduced rate that is fixed and capped [i.e. a finite amount] for low income earners and pensioners. It would show genuine reform regards the government's declared intent to make home ownership affordable, should this amount also be less than the cost of the current market value system. [*Perhaps by basing a calculation on the points above 1:2&3.*]

There are wider economic benefits of this demographic being in their own homes. It reduces demand on public housing, rental assistance, and other issues that will cost the government. Punishing those less fortunate will only increase poverty, impact social issues and the government purse in the long term. The 'lost' tax will be repaid many times over in reduced welfare payouts.

2. PROTECTIONS:

1. A few thousand dollars tax per year may not sound much [to the comfortably well off bureaucrat that wrote the sales pitch], but to a single pensioner home owner whose pension is little over \$22,000 it can be crippling. The ever increasing council rates and insurance alone take around 25%.

Even a double pension is only a bit over \$33,000. The basic min wage about \$38,000. [Based on 40 hours over 48 weeks].

Are these struggling less wealthy not deserving of owning a home? Is there a politician homeowner on so meagre an income able to declare from experience that this 'forever tax' that can 'forever increase with no upper limit' in current times is doable? If a politician can't live it they shouldn't force it on others! Feel free to pick up the gauntlet!

2. There is the question as to how much this tax will be increased in relation to 'unimproved' land values, which could be considerable if a 'property boom' hit the locality. This too could have dire consequence for those on low incomes who are the most likely not to have a wage or pension increase to compensate for the increase in the tax. Thereby, losing opportunity to purchase or change residence, or pushed into hardship no fault of their own, but via this "forever tax".
3. Deferment due hardship may sound good on paper; however in reality it is not so clear cut.
 - i. Safety net: A low income person needs to keep funds to cover eventualities: e.g. repair or replace roof [insurance is void on unmaintained homes], illness, known future bills and the unexpected. These funds need to be considerable in this day and age, given high cost of trades and so on. They are unlikely to secure a loan or have means to pay it off. It is extremely hard to save on a pension or low income for life's inevitable eventualities. [Something few in government would have experienced and seem loathe to speak to those who have, so as to genuinely protect those at the bottom from adverse consequence of political policy.]
 - ii. Will this 'safety net' preclude the deferment? Will a safety net have to be eroded to pay this tax? In other words forcing a person into destitution before deferment is allowed, such that any prospects of financial recovery are snuffed out.
 - iii. If the government sets a safety net allowance will it be relative to real life needs or abysmally low?
 - iv. The tax may be deferred once at rock bottom, but what of the council rates, other costs of living, home maintenance etc. that it has robbed funds for? It would be just one expense away from loss of the home or even homelessness. In effect the homeowner forced to sell to meet the commitments the 'tax' has eroded the means to meet, so it can be declared that the 'forever tax' is not responsible for the damage, even though it is.
 - v. To put a person at rock bottom because they cannot qualify for deferment, based on a bureaucratic benchmark* that does not allow for savings of this nature, but takes the person to their last penny can also have serious mental and physical health outcomes. A sense of financial security is paramount for a person's wellbeing. Every amount saved may cancel the deferment leading to an eternal cycle of living hand to mouth living in dread of the next leaking tap, failed fridge, or maintenance on the car or house.

*Truth is Governments have a long history of being "out of touch" and setting unrealistic benchmarks for those at the bottom of the financial and social ladder.
4. Deferment penalty: any interest rate applied to the outstanding debt could in itself create even greater hardship. [From personal experience deferred HECS fees of approx. \$4000 increased to over \$6000 within a few years, with no consideration for ones circumstance.] Were one in difficulty a long time one could find on selling one's home that a huge percentage went to paying this accrued debt, thereby eroding opportunity in repurchasing a home or going into aged care facilities and so on. It would compound the erosion of savings as previously outlined to keep abreast of other expenses etc. [see point 2:3 above]
5. Loss of home and/or capital due all the above could lead to a situation of becoming reliant on family [losing independence], on government housing which is in serious short supply or even homelessness. Children will become victims of these outcomes, to be raised in poverty compounding social issues.

3. MARKET IMPACTS:

1. Low income earners and pensioners locked out of the home owners market: Property developers and those building property portfolios will take advantage of what to them would be a tax break [clearly the intention of this tax reform]. This will tie up the lower cost end of the property market first [also the intention according to the consultation paper]. This will take away the opportunity [loss of availability of low cost housing] for those on low incomes. In other words the consequence of this reform will be to keep low income persons out of home ownership – the opposite of the supposed intention of this tax reform.
2. Property developers taking advantage of this ‘tax break’ will buy up big in low cost housing areas. The resultant lots/ homes will up-scale out of low cost housing. This will result in a higher valuation for ‘unimproved’ land also, thereby increasing the ‘forever tax’. Thereby, more housing taken out of the reach of those on low income due the higher cost of both the initial purchase and the ‘forever tax’. As areas are taken up for this new surge in development, nearby homes – not of the development – will increase in ‘unimproved land value’ also, increasing their ‘forever tax’ to unmanageable levels.
3. Anyone of low income forced to move home for whatever reason may find there is nowhere to rebuy except the very farthest and remotest city and regional margins. With current city to regional exodus the cost of housing in outer areas due aggressive development and demand by the comfortably well off is also taking away opportunity for those of low income. Low income earners will be trapped in the forever increasing rent spiral unable to buy in the only remaining areas of low cost housing due no work in these remote places. Rental availability could be affected by this loss of supply in low cost housing, leading to higher rents, again putting pressure and further marginalisation on the poorest in our society.
4. The above would also have the effect of forcing the ageing and pensioners into areas without services they are dependent on, including medical and grocery shopping. It is the low income and pensioner [often with serious health issues], often unable to travel, or travel far, drive or afford a car – that will find their selves isolated, sans basic needs met.
5. With the low end of the market quickly taken up by developers and low income home buyers it will transition quickly to the new system on a permanent basis. This could have the potential to lock low income purchasers out of the housing market or into a system of a ‘forever tax’ debt, or with an ever escalating deferred property tax payment compounding exponentially – with as yet – an unknown rate of interest that could also increase. It may even mean a permanent deferment with a fear of selling, even if necessary, due to a debt that will erode their capital. Money that would have been saved to spend in the general market place will now be redirected permanently to this ‘forever tax’.

4. Other issues:

1. Tiered Tax: The lower rate for home occupiers compared to investors and commercial properties is a good model. However, it does not address the vast difference in the incomes of those at the very bottom and those on average and higher wages. Homeowners unexpectedly unemployed or going onto the pension will no doubt be similarly adversely affected as Protections are ‘dubious’ as previously outlined.
2. Rise in ‘unimproved land values’ [which go up in hand with market values] will impact the most vulnerable first and foremost. A “forever tax” that can escalate out of control with the ever spiralling upward property market, without any upper constraint, could easily become a horrendous millstone leading to dire circumstance to those who can least afford or deserve it. The same could be said of any increase in the base fee or % of land value of this new tax.
3. A home owner – depending on their potential life expectancy – could find they end up paying more for the new property tax than for the original stamp duty as it stands currently. This forever payment may be the difference between saving for other eventualities or going without, or being pushed into loans to ever greater debt and poverty [see issues raised point 2 Protections].

4. Pensioners: [the following outcomes do not include the difficult obstacles of renting interim sale and re purchase that Centrelink rules create when a homeowner moves home.]
 - i. Pensioners, many of whom have struggled life-long to purchase a home, will now find that any move could be seriously impacted by this ‘new’ tax due the factors of market stranglehold and income stress as previously outlined above. Only those of short life expectancy may find benefit via this tax, provided they can find another affordable property in an ever escalating market.
 - ii. For a pensioner to move home and pay the current stamp duty is hard. However, even if the initial purchase is easier without the ‘old’ tax, they cannot set aside a portion of their house sale money to pay foreseeable future instalment payments of the ‘new forever tax’, because Centrelink will dock their pensions making it counter-productive. Additionally this new “forever tax” has no cap due ‘unimproved land values’ ever increasing, therefore cannot be predicted.
 - iii. Should a pensioner sell and not be able to repurchase a home the pension will be stopped until the funds from the house sale are severely eroded. Any monies surplus post this relocation if purchase is successful, will be subject to Centrelink deeming etc. leaving them no better off.
 - iv. Therefore, a pensioner may be trapped into an ever degrading situation with this “forever tax”, unable to resolve the problem by downsizing or moving to lower cost areas due to the loss in the market. Else still crippled by the “forever tax” that “forever increases” on the new home. Trapped in a damned if they do or damned if they don’t situation. Opposite the government’s forecast outcome of making it easier for the elderly to downsize – at least for this poorer demographic.
5. Rentals: once the lower end of the housing market is tied up by property developers and landlords, those who would have once bought in this area, will either have to move to remote places, provided they can find work, else stay trapped in the rental market in these areas, unable to get a foothold into home ownership.
6. Most rents are already beyond the reach of a single pensioner, or low income earner. So everything needs to be done to keep these people financial in their own homes. Another reason to have another and lower priced tier in this ‘forever’ tax situation for low income persons and pensioners.

5. SUMMARY:

1. The proposed tax has the potential – as it is currently presented – to create a greater divide between the haves and the have nots. Rather ironically it will erode the opportunities of those it is deemed to help – low income – with potential to create great hardship for them should they be in a position whereby they must exchange homes for whatever reason or buy in under the proposed reformed tax.
2. It presents a serious hazard for those on very low incomes/pensions – due big *eternal* slice of a meagre income near the poverty line. Solutions for these issues have been outlined above under: 1: 2 to 5 – Reform.
3. As for the resulting stranglehold of the lower cost residential market by developers and landlords, that’s a hard fix, as it is the intention to encourage them with this scheme. It is acknowledged that more rental properties are needed, but this is not necessarily the best approach. Much of this buy up will just be upgraded and put out of reach, the rest left as degraded housing that landlords are loathe to repair and upkeep [as is currently the case], to strangle the life out of the poorer most disadvantaged in society, who end up putting almost all their meagre income on rent, as they have no other options.

Thankyou for reading my submission, to which I have given much thought. Sadly it is battlers from disadvantaged backgrounds or life consequences, on the lowest of incomes that are the least considered in changes to government policy. So please to take my suggestions as outlined for those on the lowest incomes and pensions seriously [point 1. Reform]. Poorer financial circumstance doesn’t make a person unintelligent, unable to evaluate and analyse, or deserving of disregard.

My submission may be published under initials only, as given at the top of page [name withheld].