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By email

Review of Tax Expenditure Statement

On behalf of the Housing Industry Association (HIA) I would like to raise concern with the treatment of capital gains as outlined in the *Review of the Tax Expenditure Statement (TES) – Consultation Paper* dated September 2017.

The TES, as outlined in the Review, inappropriately classifies asset price rises generated by general price inflation as taxable income and therefore creates a distorted perspective on the returns gained from investment.

When investors sell an asset, such as company shares or an investment property, they have to pay tax on the profit, or capital gain, they have made.

Until 1999, in making an asset disposal some of the profit derived from the investment was likely to have resulted from economy-wide price inflation over the period since they acquired the asset. After 1999, alternative adjustment factors were introduced which reduce the capital gain that is subject to taxation.

Our particular concern is that this benchmark will result in an over-estimation of the expenditure foregone by tax payers from investing in the property market. Because the benchmark, as outlined in the Review, will not take into account either inflation or the discount factors that have applied since 1999 the TES will over-estimate the revenue foregone.

This is of concern as an incorrect assessment of the cost of measures in the TES could lead to either:

1. Policy decisions based upon this advice, which would subsequently be proven incorrect.
2. Undermining the public confidence in the probity of Treasury's tax estimates.

It would be prudent to review the benchmarks with the objective of ensuring that the TES estimates of revenue foregone are accurate. In the case of capital gains on investments this should take into consideration general price inflation over the period in which the asset was held.

It is inequitable to tax investors on general price inflation and the TES should not presume to do so.

We look forward to discussing this matter with you in the near future and if you require any further information on these comments please do not hesitate to contact Tim Reardon, Principal Economist on t.reardon@hia.com.au or 6245 1355.

Yours sincerely
HOUSING INDUSTRY ASSOCIATION LIMITED

A handwritten signature in black ink, appearing to read 'Kristin Brookfield', written in a cursive style.

Kristin Brookfield
Chief Executive Industry Policy