



SMATS Services Pte Ltd
Global Headquarters
#17-01 Sim Lim Tower
10 Jalan Besar
Singapore 208787

Tel +65 6293 3858
Fax +65 6293 4332

Email: steve@smats.net
Web: www.smats.net

Singapore
Australia
Hong Kong
Malaysia
United Arab Emirates
United Kingdom
United States of America

Australian Tax Agent Number
62364 000
Australian Credit Licence
385201

28th June 2018

The Hon Scott Morrison
Treasurer

Dear Treasurer,

I have been assisting Austcham Hong Kong in dealing with the issue of Capital Gains Tax changes for Expatriates former Principal Residence when sold while living abroad.

I understand you had a fairly productive meeting recently and just wanted to follow up with a last request for you to seriously reconsider the passing of this legislation.

I understand the desire to make housing more affordable and support this at all levels, however I genuinely think you are undertaking a wrong course of action in this legislation that would not make housing more affordable, but in fact more expensive.

Many expatriates and foreigners, own and rent their former residences at very sensible rentals, especially considering the high holding costs and land taxes that they bear. This creates valuable housing stock in quality areas, providing reasonable accommodation cost to thousands of Australians.

Furthermore, the current tax regime that appropriately grants them tax exemption for the period the property was actually used as a principal residence, means a willingness to rotate the property and release it on the market every now and again.

To remove this benefit not only seems great unjust, but is likely to act as a significant pressure to keep the property due to the legislation granting full tax relief if sold on return to Australia. This would tighten up an already limited supply market and put upward pressure on the pricing, not downward.

It is greatly accepted that affordability can only be controlled through sensible levels of supply of demanded property coming into the market.

As such this limiting change would not help your cause at all.

If you are serious about tax reform assisted supply change, then perhaps you should consider the alternatives such as:

- Limiting Construction Capital Allowances to "liveable size" foot prints such as over 50sqm 1 bed, over 65sqm 2 bed and over 100sqm 3 beds in order to ensure that new building supply is directed into areas of demand, rather than just a predominance of small investor style apartments.

- You could also work further on releasing quality land in nearby area with pre-conditions to maximise the built up area and bring in more new supply (an area your Government is already working generally thereon).
- You could work with the states to eliminate the "double dip" on new construction where they receive a full stamp duty and full GST benefit by granting full Stamp Duty concession to ANY buyer that is an owner occupier on a NEW dwelling - logical as they are receiving the 10% GST already, so no need to also charge the 6% Stamp Duty. This alone would make housing massively and instantly more affordable to all owner occupiers and ensure new supply was preferred, supporting job creation and economic activity - especially now that foreign investors are reducing in volume from 42,205 in 2016 to 14,620 in 2017.

These are just a few of the concepts that would work far more effectively than the proposed change to CGT on foreigners former residences.

Furthermore, I remind you that there is already an additional tax burden for anyone living abroad and investing in Australian property due to the removal of the 50% CGT discount in May 2012. In addition the former residence is already subject to capital gains tax for periods of rental under current law with some concession on the first 6 years only.

The proposed change would have little to no positive impact on affordability issues and would only punish those expatriates forced to sell for unforeseen reasons such as death, divorce or financial hardship. Losing out on their justified and rightful tax exemption for their principal residence just because circumstance found them overseas at the time of sale.

I would strongly urge you to seriously reconsider this change, for the sake of the property market and fairness to all Australians living now, and potentially in the future, abroad.

We support fairness for all, homebuyers, residents and expatriates, and I am sure you understand the value and scale of the Australian expatriate population and their significant contribution to the Australian economy, both directly and indirectly.

I trust you can find a way to recognise these efforts and protect the fairness that Australia stakes its reputation upon. After all it was a cornerstone of your budget this year, which I loudly applauded in my recent international seminar series.

I remain available to discuss any of these points further and trust in your judgement to do the right thing.

Regards



Steve Douglas,
Executive Chairman
SMATS Group
Ph. +65 6293 3858 Email. steve@smats.net