

Government changes Superannuation laws to boost property market?

What will happen to the property market after the First Home Boost?

We are the very first generation of Australians who know that we must fund our own retirements.

Already, before the 2009 May Federal Budget, most of us thought that Superannuation was not going to be enough to provide us with a decent lifestyle when we retire. How many changes have there been to superannuation laws and how many are to come?

By cutting the concessional contributions to superannuation in the last budget Wayne Swan has put this thinking beyond any reasonable doubt. He actually ensured that investing in direct property is now even more attractive to anyone who is looking at building a nest egg for their later years. Now unless you want to have your assets tied up until age 67, investors will need to stay outside superannuation.

Moreover, the Treasurer's budget shows how fragile any superannuation strategy can be because of the constant changes in its taxation effectiveness. How long is the generous tax treatment of super fund income for people over 60 going to last? Tax free today, taxed tomorrow?

Some cynics would argue that the government has curtailed concessional contributions to superannuation to force people into property investment in order to compensate for the expected dip in property activity when the First Home Grant Boost is removed later this year. Maybe these cynics give government too much credit for their foresight, but nevertheless I can only think that it makes sense!

Property taxation is less of a target. The government needs private investors to provide housing that they cannot provide themselves. The main taxation aspects of property investing are negative gearing and capital gains tax.

There has been only one serious attempt at removing negative gearing, which occurred in 1985, with disastrous consequences for the property market and people trying to rent. Rents rose by 37% across Australia and by 57% in Sydney. The negative effect of this decision on the economy forced the very same government to reintroduce negative gearing in 1987. In any case removing negative gearing does not materially change tax revenue for the government as for every dollar of tax deduction for interest paid by a borrower there is also a dollar of taxable interest received by a lender. So there is little incentive for any government to re-open this Pandora's Box any time soon.

Any move to increase capital gains tax will have consequences in terms of real estate prices, both for purchasers and renters, as investors would be looking at offsetting the extra tax if they sold their property/ies (banks are not too dissimilar in their strategies!)

In addition, there are many ways to realize the value of a property without having to sell it. In other words the property investor has a better degree of control over his taxation options than a superannuation investor.

In term of leverage, property has always been way ahead of shares with 90% lending available compared to 60-70% lending, at best, for shares using the now dreaded margin loan schemes, and no leverage for direct savings. Any sensible investment strategy would need to include some leverage as direct savings will mostly just cover the cost of living and will not help you greatly to "get ahead" with your finances.

Finally, if you want to leverage your investment and hesitate between shares and property, the most important consideration is that **you need to be able to sleep at night**, and this is a personal decision based on your character and risk/reward attitude. Although long term returns are similar, I know that the share market wild fluctuations in the last 18 months have kept many investors worrying at night about how savagely their share portfolio would be mauled the next day.

Property investment does not suffer from the same volatility. 70% of all Australian property owners are home owners, only 30% are owned by investors. With 70% of the market base being stable, the volatility in property prices is greatly reduced compared to share trading where 100% of share owners are investors.