THE LAST GREAT TAX SHELTER? WHO'S KEATING WHO?

I wish a number of my media colleagues would stop calling the family house "the last great tax shelter".

First, it's not. Second, with Canberra's vaunted budget surplus vanishing as quickly as Western Australian political donations, we don't want to give the Federal Government ideas. There's a touch of the Spanish inquisitor about Paul Keating, a capacity to believe that more torture will prove good for our souls.

The view of the family house as a tax shelter is based on the fact that its sale doesn't attract capital gains tax. That's a plus in good times, but many people are now finding that the value of houses and flats can fall as well as rise; generally, the idea of a capital gain is ludicrous.

Okay, some people have improved their homes and manage to trade up or, these days, more often just get out) with a notional profit despite the sagging real estate markets. But let's look at how that "profit" is arrived at.

Every dollar spent on renovations and improvements by the ordinary householder ($9 billion in 1988/89) has already been taxed. Whether the money is dribbled out in small amounts of cash painfully saved from income, or whether it goes from income to pay off a loan taken to finance home improvements, between a third and a half of it has already been bitten off by the tax man.

So, you have accumulated a sum of (taxed) money or you have the right to write a cheque for repairs and will pay off that money with taxed income at high interest rates plus colourful charges imposed by the bank. You call for quotes to renew the wiring in your old house.

The electricians know that the tax man will take a further bite of the money which changes hands for their work. So the quotes all include not just their costs and a margin for profit but a further margin for the contractor's income tax. Our renovations dollar has now been chomped down to 25 cents. Sheltered from tax? Try and persuade someone battling to do up an old house that they haven't been standing right out in the storm.

Okay, so you're handy. You decide to do lots of the renovation work yourselves. Very brave. (a) You're risking the divorce court or the end of a good relationship; (b) the money you "save", realistically viewed, works out to you paying yourselves $2 an hour for desperately tricky work; (c) when things go wrong, you often have to call in an outsider anyway and even the notional "savings" have vanished.

But even for the DIY renovator, the plethora of indirect taxes weighing down everything he or she buys means the chomping of the tax man's teeth provides background music to the whole painful exercise.

And we're told we are somehow fortunate that if we manage to survive being toasted on the fires of high interest rates, if we have the good taste and endurance to make our 25 cents renovations dollar earn its keep, if we manage to be ready to sell in a favourable market (which may be a long wait now), somehow we are getting away with a "rort" because Canberra doesn't jump in to take yet another bite. Rot.

In Britain, where the tax regime is so tough they tax the plaque on your teeth, you can deduct two-sevenths of the mortgage interest from your taxable income. And you can keep refinancing the home you're renovating so that renovation costs fall within this two-sevenths regime. Smarties manage to get furniture and fittings within the call by a bit of imaginative script-writing at which building societies often connive. That's an edge, that's an advantage. Okay, it might be called a rort.

But in Australia we don't have that edge. But I'm not willing to feel grateful every day that each dollar in renovation capital committed to my house, each 25 cents left to me after Mr Trevor Boucher's gentle attention, will not be still further savaged if one day I should sell in a good market.

But let's be realistic for a moment about Australian real estate markets. When home loan interest rates, personal loans/overdraft rates, cost of materials and contractor labour/profit/tax are viewed rationally, someone who bought a house and started in on renovations five years ago would need to make a whopping notional "profit" to be even. At current market levels it's odds-on there would be a real loss, in many cases a thumping loss.

In recent years, Canberra has managed to stuff up almost every aspect of our national life, and several state governments have done ignoble service, especially in Victoria, in swinging the boot to hit almost everything else.

So far they haven't completely demolished the family home. Let's try to keep it that way. One day soon, the Hawke/Keating Government might finally accept it has zilch chance of re-election under either leader. In that sort of mood, who knows what further damage they may opt for in the cause of micro-economic reform?

Peter Smark,
"The Age", 1/5/91.