

NOTE RE CAPITAL GAIN and INFLATION

Understanding my notes regarding Rental property and the RBA cash rate .

PAYING FORWARD CAPITAL GAINS IS DESTROYING OUR ECONOMY

THE INVESTOR (the seller)

- A: The example is a house purchased in 2011 for \$500,000 and sold 10 years later for \$851,397 an increase of 70.27% a capital gain of \$351,397

Mortgage arranged with 80% LVR \$400,000 @6% interest ...per annum \$24,000

- B: The investor was making losses of \$9,695 over 10 years = \$96,950.
less negative geared tax savings of \$29,080 over 10 years = \$290,800 taken from a tax pool
Net loss = \$67,870

The investor makes a capital gain of \$351,397 less \$67,870 loss = \$283,527

A

THE NEW OWNER OCCUPIER (The purchaser)

The investor sell his house to a new owner to live in with the family

New owner buys house to live in \$500,000

Plus capital gain \$351,397 \$851,397 paid for the house

less deposit with LVR ratio of 80% \$170,280

Mortgage required @6% interest \$68,117

Savings required to purchase the property \$170,280 per annum x 10 years = \$1,702,800

Loan Principal and interest payment @6% \$4,084 per month over 30 years .

Total cost of house is \$851,397 plus interest \$788,995 = \$1,640,392

B

COMPARISON IF RBA TARGET OF 3% INFLATION APPLIED

The investor sell his house to a new owner to live in with the family

New owner buys house to live in \$500,000

Plus capital gain \$152,387 \$652,387 paid for the house

less deposit with LVR ratio of 80% \$130,477

Mortgage required @6% interest \$52,191.

Savings required to purchase the property. \$130,477 per annum x 10 years = \$1,304,770

Loan Principal and interest payment @6% \$3,130 per month over 30 years .

Total cost of house is \$652,387 plus interest \$604,572 = \$1,256,959

NOTE RE CAPITAL GAIN and INFLATION

Understanding my notes regarding Rental property and the RBA cash rate .

A The capital gain of \$351,397 is financed as part of the mortgage loan of \$681,117. That portion of the loan attracts interest of \$407,052 over the term of the 30 year mortgage and results in the total cost of the paper profit (no economic value) ballooning out from \$351,397 plus interest \$407,052 = \$758,449

The only winner is the bank providing and servicing the loan and adding interest of \$407,052 to the banks revenue .

The loser is the purchaser of the home who is paying for the capital gain for 30 years.

B The capital gain of \$152,387 is financed as part of the mortgage loan of \$521,910. That portion of the loan \$152,387 attracts interest of \$176,523 over the term of the 30 year mortgage and results in the total cost of the paper profit (no economic value) ballooning out from \$152,387 plus interest \$176,523 = \$481,297

The only winner is the bank providing and servicing the loan and adding interest of \$176,523 to the banks revenue .

The looser is the purchaser of the home who is paying for the capital gain for 30 years.

The 3% capital gain per annum (RBA target) taking into consideration 3% wage rises over the same period would keep prices in the affordable range ..so why did the RBA and the ACCC allow house prices to double the target rate and destroy house and rental affordability ?

THE VERY BIG PROBLEM Paying forward capital gains !

The purchaser does not have the cash to pay the previous owners capital gain and it is added to the mortgage.

My calculations are based on a variable mortgage rate of 6% but even at a targeted sustainable mortgage rate of 4 to 5% the practice of paying forward capital gains (non economic value) is destroying our economy. It is also important to note that none of the recommendations in my notes impact the business of responsible banking .

Presently When interest rates are rising every RBA rate rise of 1% added to interest on existing variable rate loans and those coming off fixed interest terms (the mortgage cliff) adds another \$15 to \$20 billion dollars to the banks revenue .

The banks use the extra cash to finance larger mortgages required to pay for the inflated house prices that include the capital gain brought forward from the previous owner .The problem being that over the next 30 years the bank is going to steel \$758,449 from the workers wages that should be driving the economy and paying for government services and infrastructure.

NOTE RE CAPITAL GAIN and INFLATION

Understanding my notes regarding Rental property and the RBA cash rate .

THE RBA GOT IT WRONG and paying forward the huge amount of capital gain built into the inflated house prices has created a new economic poor struggling to keep a roof over their heads. **The ponzi scheme has run out of steam !**

HOW THE RBA GOT IT WRONG

The RBA reduced interest rates that put a fire under house prices that were already rising twice the RBA inflation target rate of 3% per annum. Their responsibility was to contain interest rates in an economic sustainable band of between 4 to 5% That would seem to confirm my understanding that a culture of banking exists between The RBA , The ABA and the Big 4 banks (a cartel) who have turned a blind eye to the impact of rising prices to affordability of houses and rents.

Time line of events

Globalisation of trade and corporations post the GFC created “extreme global competition” reducing margins and driving prices down. That competition became known as

“The race to the bottom”

The resulting cheaper prices of consumer goods resulted in consumers having more discretionary spending. “??? don't seem to hear that mentioned now that prices have risen” . Then along came the global pandemic that kept people at home and working from home. The tourism industry collapsed and many small businesses closed.

To counter the downturn in the economy the government provided cheap funds to the banks and gave generous grants to business to keep employees on the payroll.

The RBA in turn dropped interest rates to near zero and the greedy and irresponsible banks pumped with cash deposits from those staying home and cheap government funds offered low interest loans that fuelled the rapid increase in house prices.

“The pandemic is over”

The pandemic is over and it is business as usual.

Unfortunately however ,driven by the disruption of supply lines ,the reduction of inventories, energy prices , natural disasters , global conflicts and the need for business to reverse the race to the bottom or fail prices of all sorts of consumer goods , electricity , fuel and food begin to rise. The reality is that much of that inflation is the result of the need for business to increase prices to reverse the **“Race to the bottom”** and account for floods and fires driven by climate change or go out of business .

To counter the rising prices (inflation) the RBA proceeded to increase interest rates rapidly and created a new economic poor that can barely afford mortgage payments or rent and live in fear of becoming homeless. The RBA should have allowed inflation to return to a base level of 3% as business reset over time . The Government should have responsibly advised consumers that they simply must tighten their belts on discretionary spending until the business economy rests.

The RBA dropped interest rates and put a fire under house prices and rental accomodation . **The Government is introducing tax cuts from July and wage rises for many are in the pipeline. Unfortunately a large proportion of those increased earnings will go directly to the banks to pay forward the capital gains referred to in these notes**

NOTE RE CAPITAL GAIN and INFLATION

Understanding my notes regarding Rental property and the RBA cash rate .

PAYING FORWARD CAPITAL GAINS IS DESTROYING OUR ECONOMY

THE BANKING BANDITS ASSOCIATION (RBA , ABA, ACCC , BIG 4 BANKS)

There simply is no other term that can describe what the learned colleagues of this group have dished out to the Australian citizens over a period of years and resulting in many Australians now not able to afford to keep a roof over their head .

Turning a blind eye to reality is perhaps driven by personal and corporate greed that is substantiated in these notes.

But what is more stunning is the economic value that has been wasted in funding paper profits that should have funded major infrastructure projects and in particular government services that are not adequately funded .

Perhaps the lucrative business of financing capital gains has been too hard to resist by the big4 banks .

Refer too my notes Rental property and the RBA cash rate.

A The capital gain of \$351,397 is financed as part of the mortgage loan of \$681,117. That portion of the loan attracts interest of \$407,052 over the term of the 30 year mortgage and results in the total cost of the paper profit (no economic value) ballooning out from \$351,397 plus interest \$407,052 = \$758,449

The only winner is the bank providing and servicing the loan and adding interest of **\$407052** to the banks revenue .

The loser is the purchaser of the home who is paying capital gains forward from hard earned wages .

To also add insult to injury in the example the ATO tips in \$29080 to reduce the loss of the loss making enterprise .

Note : Investment in bricks and mortar at moderate and sustainable interest rates will remain popular and property prices should increase in a range of 2% to 3% annually. The paying of moderate capital gains forward will be viable provided the banks code of conduct states capital gains financed forward must remain in a band of 2% to 3% per annum.

Is there a GROUP OF INDEPENDENTS that will hold the torch for genuine tax reform for all Australians ?

Do the numbers . You will have the votes to win .

All renters

All home owners (not investors)

Responsible investors not negatively geared

Let us show the banks who really is in charge