COLES AND WOOLIES ARE NOT THE PROBLEM !

TAX LAW IS HISTORIC AND THE BANKS ARE RUNNING THE SHOW

It is not the first time the ACCC and the Government has put the blame on Coles and Woolies for inflating prices and at the same time divert attention from the real issues .
Containing Inflation is based on the theory that increasing interest rates will mop up excess discretionary spending and curtail demand and in turn business will have to compete aggressively to bring prices down .
The present system is flawed and fails to take into account the impact of globalisation , extreme global competition , the “race to the bottom” and the impact on small business and the polarisation of profits to large global corporations .
Recently it was bought to light that the Australian Tax Office is chasing small business debt of $58 billion dollars .
That is significant and will impact many small business operators who are already facing challenging times impacted by increased interest rates ,insurance and rents driven by interest rates and natural disasters.
All of the factors mentioned must be considered when managing Australia's economy.
Uber and its impact on the taxi industry is a small example of the impact of globalisation.
These notes are designed to examine controlling inflation with the adjustment of interest rates alone and having little regard to the impact of globalisation of corporations and trade.
Increased interest rates are currently driving billions of dollars of Australian workers wages to the Banks pumping up their working capital loaned at increased margins and fattening up profits while home owners and renters suffer significantly.
The theory that increasing interest rates will mop up excess demand and contain inflation by specifically targeting.. 1: Owner occupied home buyers. 2: Investors buying residential property .
3: Small business owners with loans secured over the family home …....is flawed .
That presumption needs to be inspected as property investors will increase rents to business and residential tenants . Small business operators will increase the price of goods and services to cover increased rents and interest on loans. That would seem to drive inflation rather than contain inflation ?
Conversely polarisation of profits to large corporations post the introduction of the internet and globalisation has seen billions of dollars distributed to shareholders , driving demand and inflaming inflation. (Including banks profits largely derived by inflating house prices ...paper profits taken from those least able to afford to invest in the share market.)
The banks in recent years have irresponsibly driven house prices to the point that many home owners are experiencing mortgage stress and can barely manage to pay the monthly mortgage instalment.
In turn small business is experiencing a downturn in turnover and small business debt is climbing to $58 billion dollars according to the ATO.
The system is failing and creating a new economic poor and yet governments refuse to address the issue of bringing pre Globalisation tax law into the 21st century for fear of voter rejection .

My notes on taxation reform may be a bridge too far in the short term but are designed to focus attention on the need for genuine tax reform and stop banks controlling the economy.
Change should spread the burden of economic adjustment across the whole economic spectrum and result in a more stable interest environment and provide investment certainty going forward.

1 RBA cash rate changes to be replaced with an ECONOMIC ADJUSTMENT LEVY to be applied to mortgage interest and remitted to the ATO . That is basis points increases will no longer drive billions of dollars to the banks but rather fund infrastructure, affordable homes and government services .

2 GST tax will be replaced with ECONOMIC SUSTAINABILITY TAX which will be adjusted in line with bank rates (spreading and softening the burden) with the application of ECONOMIC ADJUSTMENT LEVY. The new tax will vary according to the industry classification and exempt to small business with a turnover less than 1 million .

Perhaps the ACCC and the RBA would explain why although renters and home owners are struggling to meet their commitments prices of house are still rising ? Could it be the billions of dollars driven to the banks by interest rate rises is funding new loans on houses that are over valued by the irresponsible banks ? Inspection of banks cash flows will establish the truth .

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The supermarkets are amateurs when it comes to price gouging .

Offset accounts provide the banks with funds at less than 1%

ANALYSIS OF MORTGAGE OFFSET ACCOUNT INTEREST and BANKS CASH POSITION

Mortgage $	MORTGAGE Interest Rate %	CUSTOMER AVERAGE Offset balance	BANK Annual Interest	CUSTOMER Interest saved Per month	CUSTOMER Interest saved Per annum	BANK Annual Interest reduced to	ADJUSTED MORTGAGE Rate	PRINCIPAL RETURNED TO BANK	COST OF CASH TO BANK
$400,000.00	6.70%	$10,000	$26,800.00	$56	$670.00	$26,130	6.5325%	$670.00	0.1675%
$399,330.00	6.70%	$9,330	$26,755.11	$52	$625.11	$26,130	6.5435%	$625.11	0.1565%
$400,000.00	6.70%	$20,000	$26,800.00	$112	$1,340.00	$25,460	6.3650%	$1,340.00	0.3350%
$398,660.00	6.70%	$18,660	$26,710.22	$104	$1,250.22	$25,460	6.3864%	$1,250.22	0.3136%
$400,000.00	6.70%	$30,000	$26,800.00	$168	$2,010.00	$24,790	6.1975%	$2,010.00	0.5025%
$397,990.00	6.70%	$27,990	$26,665.33	$156	$1,875.33	$24,790	6.2288%	$1,875.33	0.4712%

The annual interest of $26800 on the mortgage is reduced by $670 being 6.70% of the amount held in the offset account.
The monthly loan repayment remains fixed .The principal in the repayment is increased by $670 and the banks interest is reduced by $670.
The interest saved $670 is returned to the bank as a repayment of principle and reduces the balance of the mortgage and interest charged.
The $670 reduction is 1/40 of total interest of $26800 and reduces the banks interest received by 6.70 / 40 = 0.1675 % LESS THAN 1 PERCENT
In the example principal (capital) is returned to the bank at a cost 0.17% to fund new mortgages at 6.70% an interest margin of 6.53%
The interest margin on offset funds costing 0 .17% is 6.53% to arrive at 6.70%.
That is more than double the banks stated margin of around 2% and needs to be examined in conjunction with statements of cash flow.
Going forward provided funds are maintained in the offset account principal will be returned to the bank at rates of less than 1% to fund new loans.
The banks customer is not informed that the cost of the offset interest impacts very little on net interest received by the bank
The bank is encouraging customers to deposit funds in offset accounts that may be used to fund mortgages at a cost to the bank of less than 1%
Additionally banks are charging wealth package fees to access offset accounts.
When the monthly instalment including the reduced interest and increased principal is paid from the offset account the savings made is negated until more funds are deposited into the offset account. Offset accounts more importantly allow the bank to monitor the finances of the mortgagee.

THE ACCC IS NOT DOING ITS JOB !!!

Customers understand they are saving mortgage interest but are not aware they are providing the bank with funds at less than 1% that is funding new loans at an interest rate of 6.7 . The Bank is guilty of price gouging and deception .
The bank customer should be compensated for the difference in the banks cost of funds on term deposits (around 4%) less the funds provided to the bank at 0.17% = 3.83 % on the average offset deposits over 12 months.
IS THAT GROUNDS FOR A CLASS ACTION ?The bank should reduce the monthly payment by the amount of interest saved to correct the problem
It is the customers option to reduce the mortgage or otherwise retain the interest saved in the offset and continue to save interest going forward.

Note : The yellow line in the chart details the result if the $670 taken from the offset account is not replaced
If the interest saved $670 was deposited by the bank to the offset account = $10,670 the savings going forward would be $714. It is to the customers advantage if the interest is saved in the offset account.

The Commbank statement of cash flows does not include the following :

Total mortgages at the start of the financial year less principal repaid plus new mortgages issued.
Total funds held in offset accounts should appear on the balance sheet as a liability.
Commbank states that more than 70% of new mortgage loans are financed by increased deposits.
That statement is conveying to customers that the cost of funds for new mortgages is aligned to deposit interest rates quoted on the banks website . Not so when after tax profits , loan principal returned , dividends declared, share buy backs and capital raising are taken into consideration.
All effect the statement of cash flows and creative accounting can skew the outcomes regarding interest margins .
The chart herein exposes the true cost of interest on principal returned via offset account arrangements that provide the banks with liquidity and more importantly the data to confirm the financial standing of its clients.