



PRIME MINISTER

5 May 1974

REDUCTION OF HOME-INTEREST RATES

The Prime Minister, Mr Whitlam, today said that the Labor scheme for income tax deductibility on home interest payments would effectively cut interest rates for home buyers by 3 percent.

It would bring home-interest rates for an average wage earner down to their lowest level in ten years.

The Prime Minister announced details of the scheme at a meeting in Adaminaby in support of the Labor M.P. for Eden-Monaro, Mr Bob Whan.

One of the few positive undertakings Mr Snedden had given during this campaign was to scrap this scheme, and let interest rates for home buyers take their course.

Every home owner - whether buying a new house, or paying off an existing dwelling - would benefit from Labor's plan.

"Unlike the hasty and unclear election policies of the Liberal/Country Party, the Government's scheme has been carefully costed and prepared over the past year," Mr Whitlam said.

"The legislation has been drafted and the scheme will take effect from 1 July 1974."

"For an average wage earner with a \$15,000 loan, it will effectively reduce a savings bank loan with an interest rate of 8.5 per cent down to 5.5 per cent, or a building society interest rate of 9.5 per cent down to 6.2 percent," Mr Whitlam said.

"Mr Snedden has something different to say on interest rates every day.

"One day he says they would go down, the next day he says they would not go down, and then again he says they would go up before they went down.

"On one thing, however, he is quite clear. He has promised that he would abandon this scheme of tax deductibility for home buyers. He is apparently more interested in what rate of interest big business will pay than in the burden of interest rates on home repayments for the average man.

"It is essential that the home buyer be relieved of the interest rate burden. I said in my election speech in November 1972 that I would bring in this scheme for home buyers. I announced in February that it would begin from the 1st July. It is now ready."

Under the scheme, all tax-payers whose actual income is \$4,000 or below will be entitled to deduct 100 per cent of their interest rate payments. The percentage of total interest payments which is deductible will be reduced by one per cent for every \$100 of income in excess of \$4,000.

In addition, for new home buyers, the Labor Government would enter into discussions with lending institutions so as to bring about a re-arrangement of mortgage payments so that younger home owners will pay less at a time when the demands on their income are highest and begin to pay more later in life when they are better able to provide higher repayments, Mr Whitlam said.

Tables released by Mr Whitlam providing examples of the effects of the scheme at different interest rates, different income levels and for various society loans are attached to this statement.

CANBERRA. A.C.T

A

THE EFFECTS OF THE SCHEME TO ALLOW INCOME TAX DEDUCTION ON HOUSING
LOAN INTEREST AT DIFFERENT REPAYMENT PERIODS FOR A \$ 10,000 LOAN

Annual Income	\$ 4,000	\$ 6,000	\$ 8,000	\$ 10,000
Monthly Income	333.3	500.0	660.7	833.3
Monthly Repayments ^{b/}	122.3	22.3	122.3	122.3
Monthly Interest Repayments ^{c/}	105.3	106.3	106.3	105.3
Loan Rebate per Month	25.6	25.1	25.4	18.7
Net Monthly Repayments	95.7	95.2	96.9	105.6
Effective Interest Rate (%) ^{d/}	5.9	5.5	5.9	6.6

Percentage of Monthly Income Allocated to Repayments

No tax deduction	35.7	22.2	18.3	14.7
With tax deduction	25.0	18.6	14.5	12.4

- a/ The \$15,000 loan is to be repayed over 25 years
- b/ Based on a current rate of interest of 6 1/2%
- c/ This refers to the first year of repayment. The total monthly repayments remain the same throughout the life of the loan while the interest component of repayments declines
- d/ If all the tax savings were used to reduce total repayments, the reduced level of repayments can be associated with a lower "effective" interest rate for the same \$15,000 loan.

B

THE EFFECTS OF THE SCHEME TO ALLOW INCOME TAX DEDUCTIONS ON HOUSING
LOAN INTEREST AT DIFFERENT LEVELS OF INCOME FOR A \$15,000 LOAN a/

Annual Income	<u>\$4,000</u>	<u>\$6,000</u>	<u>\$8,000</u>	<u>\$10,000</u>	<u>\$12,000</u>
Monthly Income	333.33	500.00	666.67	833.33	1,000.00
Monthly Repayments <u>b/</u>	132.45	132.45	132.45	132.45	132.45
Monthly Interest Repayments <u>b/ c/</u>	118.75	118.75	118.75	118.75	118.75
Tax Rebate/Month	28.08	32.43	28.3	20.95	11.45
New Monthly Repayments	104.37	100.02	104.15	111.50	121.00
Effective Interest Rate <u>d/</u>	6.7	6.2	6.7	7.4	8.4
Percentage of Monthly Income Allocated to Repayments					
- No tax deduction	39.7	26.5	19.7	15.9	13.2
- With tax deduction	31.3	20.1	15.6	13.4	12.1

a/ The \$15,000 loan is to be repaid over a period of 25 years

b/ Based on a current rate of interest of 9½%

c/ Refers to first year of repayment

d/ If all the tax savings were used to reduce total repayments, the reduced level of repayments can be associated with a lower "effective" interest rate for the same \$15,000 loan.

THE EFFECTS OF THE SCHEME TO ALLOW FOR INCOME TAX DEDUCTIONS
ON HOUSING LOAN INTEREST

Annual Income	<u>\$4,000</u>	<u>\$6,000</u>	<u>\$8,000</u>	<u>\$10,000</u>	<u>\$12,000</u>
Mortgage	15,000	17,500	20,000	22,500	25,000
Monthly Income	333.33	500.00	666.67	833.33	1,000
Monthly Repayments ^{a/}	132.45	154.52	176.60	198.68	220.75
Monthly Interest Repayments ^{a/ b/}	118.75	138.54	158.33	178.13	197.90
Tax Rebate per Month	28.08	37.38	37.34	31.42	19.08
New Monthly Repayments	104.37	117.14	139.26	167.44	201.67
Effective Interest Rate ^{c/} (%)	6.7	6.3	6.7	7.4	8.4
Percentage of Income Allocated to Repayments					
- No tax deduction	39.7	30.9	26.5	23.8	22.1
- With tax deduction	31.3	23.4	20.9	20.1	20.1

a/ All loans are to be repaid over a period of 25 years at a current interest of 9½%

b/ Refers to the first year of mortgage repayments.

c/ If all of the tax savings were used to reduce total repayments, the reduced level of repayments can be associated with a lower "effective" interest rate for the same mortgage.