Documents 1,2,3,5,6,and 8 are versions of a question time brief. The purpose of these documents is to assist the Treasurer and Treasury Ministers to respond to questions that are raised in Parliament. In practice, preparation of question time briefs generally involves Treasury providing background material, facts and figures, which Ministers and their Offices draw on when developing their talking points and accompanying lines of argument. This can often become an iterative process in which drafts are then exchanged with the Treasury also asked to insert additional facts as required and/or check factual material inserted by Ministerial offices. Treasury's role is to provide the Government with advice that is based on the best available evidence, before these products are finalised in the Offices of the Ministers.

FOI 2397
Document 1

TAX – NEGATIVE GEARING/CAPITAL GAINS TAX

TOP LINES:

- The Government is committed to supporting Australians who wish to invest and provide for their future and support their families.
- The housing market in many parts of Australia has been strong in recent years.
- This has led to a large increase in dwelling investment and much of that supply is now coming to market. We should expect this to have a moderating impact on house price growth.
- In its advice, Treasury explicitly says that "the ALP policies could introduce some downward pressure on property prices in the short term." This is not inconsistent with what the Government has been saying.
- In fact Treasury went further and warned that the proposed policy change could be particularly problematic if it coincides with weakness in the housing market.
- The Government is taking an appropriate and proportionate response to addressing pressures in the Australian housing market. In the 2017-18 Budget, the Government announced a comprehensive housing affordability plan designed to improve outcomes across the housing spectrum from Australians struggling to put a roof over their head to those in affordable housing, private renters, first home buyers and downsizers
- The Government is also ensuring that the Australian Prudential Regulation Authority (APRA) is able to respond flexibly to financial and housing market developments that pose a risk to financial stability. This includes giving APRA new powers over the provision of credit by lenders that are outside the traditional banking sector.
- Government action must be responsive to evolving conditions in housing markets and this is why the Government is making it clear that APRA has the ability to use geographically-based restrictions on the provision of credit where APRA considers it appropriate.

COALITION ACTION:

- The Government is improving taxpayer confidence in the tax arrangements for residential investment properties by disallowing deductions for travel expenses from 1 July 2017 and, for properties bought after 9 May 2017, limiting plant and equipment depreciation deductions to only those expenses directly incurred by investors.
  - Legislation giving effect to these measures received Royal Assent on 30 November 2017.
- From 1 January 2018, resident individuals investing in qualifying affordable housing either directly or through managed investment trusts will be able to obtain a capital gains tax (CGT) discount of up to 60 per cent.

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KEY QUOTE:

- "Treasury's advice confirms what we have been saying all along — that if you increase capital gains tax by 50 per cent, if you remove negative gearing, it would have a disastrous impact when combined with weakness in the housing market"

LABOR'S POLICY:

- Labor's negative gearing policy is madness. By allowing losses to only be offset against investment income, it stops mum and dad investors like teachers and police officers from being able to negatively gear, but allows the super wealthy with large investment incomes to be able to negatively gear.

- Investors accessing negative gearing under Labor's policy will now have only the option of going to the new home market and, if you're a first-home buyer, you'll be competing with all of them.

- In the UK, you cannot offset a net rental loss against your wage income. In the absence of negative gearing, London still has a housing affordability problem.

Comment s22 For TO review. Treasury has not fact-checked.

KEY FACTS AND FIGURES:

- 72 per cent of people with rental properties have one property.

- Around 1.3 million Australians have negatively geared rental property.

- Almost two-thirds of those who declared a net rental loss in 2014-15 had a taxable income of $80,000 or less.

- Of the tax filers who had a net rental loss in 2014-15, 72 per cent claimed a net rental loss of $10,000 or less.

- There are three times more negative gearers who are nurses, teachers and defence force personnel than those who are doctors, surgeons and finance professionals – just over 100,000 claimants compared with 32,000.

BACKGROUND INFORMATION:

Negative gearing – how it works

- A property is said to be 'negatively geared' if it is purchased with debt and the return on investment (rental income) is less than the cost of owning the investment (including interest on borrowings and allowable deductions such as rates and maintenance).When this occurs, the investor can apply their net loss against their other income and reduce their taxable income. The practice of negative gearing is based on the general deduction principle that allows taxpayers to deduct, from their assessable income, expenses incurred in generating or producing that income.

- A taxpayer may be willing to negatively gear because they expect the investment property, once sold, will generate a large enough capital gain to offset their prior 'loss'. Negative gearing is not limited to investment properties – taxpayers may also own other assets, such as shares, which can be negatively geared.

Table 1: Taxable income of individuals with negatively geared investment properties (residential and commercial)

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Tax Bracket	Total tax filers ('000s)*	Tax filers with net rental losses ('000s)*	Proportion of tax filers with net rental losses	Value of net rental losses ($ billion)#
Less than $18,200	2,488	156	6.3%	1.3
$18,201 to $37,000	3,121	175	5.6%	1.2
$37,001 to $80,000	4,939	476	9.6%	3.6
$80,001 to $180,000	2,267	380	16.8%	3.6
More than $180,001	399	90	22.6%	1.5
TOTAL	13,214	1,278	9.7%	11.1

Source: 2014-15 Tax Stats.

Note: * Figures rounded to the nearest 1,000 people. # Figures rounded to the nearest $100 million.

Capital Gains Tax – how it works

- Unlike other forms of income (which are generally taxed at their full value), capital gains are taxed concessionally. Only 50 per cent of the net capital gain is subject to income tax for assets held longer than 12 months. Tax is only one of many factors that affect the investment decisions of individuals.

Table 2: Taxable income of individuals (resident and non-resident) who reported a net capital gain in 2014-15

Tax Bracket	Total tax filers ('000s)*	Tax filers with net capital gains ('000s)*	Proportion of tax filers with net capital gains	Value of net capital gains ($ billion) #
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TOTAL	13,214	672	5.1%	17.4

Source: 2014-15 Tax Stats.

Note: * Figures rounded to the nearest 1,000 people. # Figures rounded to the nearest $100 million.

Media commentary on negative gearing

- The Shadow Treasurer's media release of 8 January 2018, concerning the release of documents under FOI relating to negative gearing, states that Treasury advice directly contradicts repeated claims by the Prime Minister and the Treasurer that Labor's reforms to negative gearing and the CGT discount would be a "sledgehammer" to the housing market.
  - In its advice, Treasury explicitly says that "the ALP policies could introduce some downward pressure on property prices in the short term." This is not inconsistent with what the Government has been saying.
  - Treasury went further and warned that the proposed policy change could be particularly problematic if it coincides with weakness in the housing market.
- Some media articles have reported incorrectly as Treasury analysis, distributional modelling undertaken by Mr Ben Phillips of the Australian National University on Labor's negative gearing policies. References to Mr Phillips' modelling were contained in documents released under FOI relating to Treasury work on negative gearing.

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Impacts of abolishing negative gearing

- Abolishing or limiting negative gearing would affect up to 1.3 million Australians who have negatively geared rental property.
  - Almost two-thirds of these individuals had a taxable income of $80,000 or less in 2014-15.
- The Government has previously stated that Labor's negative gearing policy would be a "sledgehammer" to the housing market.
  - Treasury's view is that Labor's policy could introduce some downward pressure on property prices in the short term and that this could be particularly problematic if it coincides with weakness in the housing market.
  - Further, the large increase in dwelling investment that has spurned growth in property prices in recent years is now coming to market. We should expect this to have a moderating impact on house price growth.
- Some may argue that negative gearing benefits mostly high income earners, and should be abolished to help improve income inequality.
  - The Government is addressing inequality with policies to boost economic growth that will generate greater employment and income for Australians, while targeting assistance to those who need it most.
    - Indicators such as the Gini coefficient show that income inequality has stabilised since the Global Financial Crisis (GFC), following a gradual increase in some income and wealth inequality measures leading up to the GFC.
    - The slight improvement in the Gini coefficient for income inequality since the GFC has been driven in part by lower income households catching up to the median.
  - As part of the 2017-18 Budget, the Government announced a comprehensive housing affordability plan designed to improve outcomes across the housing spectrum, from Australians struggling to put a roof over their head to those in affordable housing, private renters and first home buyers.
  - The Government is creating the right incentives to improve housing outcomes by helping first home buyers save a deposit through voluntary contributions into superannuation, including through salary sacrificing, reducing barriers to downsizing to free up larger homes, strengthening the capital gains tax rules so that foreign investors pay their fair share of capital gains tax, clamping down on negative gearing excesses and reforming foreign investment rules to discourage investors from leaving their property vacant.

RBA research workshop: University of Melbourne study on negative gearing

- Researchers from the University of Melbourne recently presented economic modelling on the welfare impacts of removing negative gearing at an RBA research workshop.
- One of the major problems with this research is that in the model's initial conditions it assumes investors expected capital gains from their housing investments are zero. Yet around two-thirds of investors in the model are prepared to accept negative income flows from their investments (i.e. they are negatively geared). This assumption does not accord with reality, nor the most basic logic as to investor motivations, which undermines any results from the exercise.
- One of the Authors, Dr Lawrence Uren, noted that the results were preliminary and incomplete.

Key statistics on the housing market

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[The latest data on median dwelling house prices will be provided when released on 5 February 2018.]

Release of FOI documents: ALP policy on negative gearing and capital gains tax

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- On 5 January 2018, Treasury released documents under FOI relating to negative gearing tax deductions and CGT policies.
  - This followed the appeal decision by the Australian Information Commissioner (AIC) that providing access to this information would not, on balance, be contrary to the public interest.
- Mr Dan Conifer of the ABC News appealed to the AIC on 25 July 2016, in relation to the FOI decision by Treasury on 17 June 2016 to deny him access to documents sought on negative gearing and CGT. This included a request for access to documents prepared by Treasury on the Australian Labor Party's proposed policies in these areas.
  - Apart from a small amount of material in a Question Time Brief regarding a report by Mr Ben Philips, all other material in scope of the FOI request was exempted at the time under three FOI law provisions: Cabinet, business affairs and deliberative.
- In its decision dated 8 December 2017, the AIC held that in relation to the applicant's FOI request: "the material that the Department found to be exempt under s 47C of the FOI Act (deliberative) is conditionally exempt.
  - However, giving the applicant access to this material at this time would not, on balance, be contrary to the public interest. Accordingly, this material is not exempt."

APRA Measures

- On 31 March 2017, APRA announced further supervisory measures to reinforce sound residential mortgage lending practises, with all Authorised Deposit-Taking Institutions (ADIs) expected to:
  - Limit the flow of new interest-only lending to 30 per cent of total new residential mortgage lending. This includes placing strict internal limits on the volume of interest-only lending at loan-to-value ratios (LVR) above 80 per cent and ensuring strong scrutiny and justifications of any instances of interest-only lending at an LVR above 90 per cent.
  - Manage lending to investors in such a way as to comfortably remain below the benchmark of 10 per cent annual growth previously advised in December 2014.
  - Review and ensure the serviceability assessments, including interest rate and net income buffers are set at appropriate levels for current conditions.
- In addition, APRA also advised ADIs of its expectation of the growth rate and lending standards in the warehouse facilities provided by ADIs to other lenders. APRA would be concerned if these facilities grow faster than the ADI's own housing loan portfolio, and if the lending standards are below the industry-wide sound practices.
- APRA will continue to monitor residential mortgage lending market, and adjust existing measures or implement new ones as warranted.

Housing Affordability

- For further information, see QB18-000030 – Housing Measures – Foreign Investment, Tax and Superannuation.

Labor's plan for housing affordability

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- The Opposition Leader, Bill Shorten MP, reaffirmed Labor's commitment to their housing affordability plan, including their proposed changes to negative gearing arrangements.

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TAX – NEGATIVE GEARING/CAPITAL GAINS TAX

FOI 2397
Document 2

TOP LINES:

- The Government is committed to supporting Australians who wish to invest in real estate and provide for their future and support their families.
- The Government is also ensuring that there is integrity in the housing system, and taking action to take the heat out of the housing market. The Government has supported APRA responding flexibly to financial and housing market developments that pose a risk to financial stability. We have seen them impose a 10% speed limit on investor loans, and limit interest only loans to less than 30% of their loan book.
- The Government has also given APRA new powers over the provision of credit by non-bank lenders, as well as allowed APRA to create rules based on geographic region.
- This response – a scalpel rather than a sword – means we can target the overheated areas of our property market without bringing the whole thing down which would be catastrophic for owner occupiers.
- With the housing market strong recently, this has led to a large increase in dwelling investment and construction, much of which supply is now only just coming to market. We should expect this to have a moderating impact on house price growth.

Labor and Treasury's advice

- In the Treasury advice received under FOI, Treasury explicitly says that "the ALP policies could introduce some downward pressure on property prices."
- Labor seems to be trying to have it both ways – on the one hand they are saying this advice shows that their policy wont impact prices in any meaningful way, and yet they're saying the policy is about housing affordability.
  - What this shows is that this policy to Labor is not about housing affordability, but is nothing more than a revenue grab! This is part of the $164 billion in extra taxes Labor wants to put on Australians.
- When it comes to housing affordability, the Government is taking an appropriate and proportionate response to addressing pressures in the Australian housing market. In the 2017-18 Budget, the Government announced a comprehensive housing affordability plan designed to improve outcomes across the housing spectrum from Australians struggling to put a roof over their head to those in affordable housing, private renters, first home buyers and downsizers
- Unfortunately the Treasury advice that Labor seems to be so proud of does show exactly what the Government has been saying – it says that housing prices would fall. In fact Treasury went further and warned that the proposed policy change could be particularly problematic if it coincides with weakness in the housing market – which is what is occurring now, with house price growth now declining in monthly terms.
- Government action must be responsive to evolving conditions in housing markets and this is why the Government is making it clear that APRA has the ability to use geographically-based restrictions on the provision of credit where APRA considers it appropriate.

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KEY FACTS AND FIGURES:

Key statistics on the housing market

	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra (ACT)	National
Median Dwelling Price as at January 2013	$555,000	$467,000	$420,000	$380,000	$460,000	$325,000	$500,000	$473,000	$420,000
Median Dwelling Price as at January 2018	$820,000	$675,000	$500,000	$440,000	$475,000	$413,000	$470,000	$600,000	$526,000
Price growth over the past 5 years (%)	47.7	44.5	19.0	15.8	3.3	27.1	-6.0	26.8	25.2
Average annual growth rate over the past 5 years (%)	8.1	7.6	3.5	3.0	0.6	4.9	-1.2	4.9	4.6
Month-on-Month to Jan-18 (%)	-2.4	-0.7	0.3	0.0	-1.0	2.0	-1.1	-0.8	-1.7
Through-the-Year to Jan-18 (%)	-0.1	12.5	4.7	2.3	-1.5	11.6	-3.1	11.6	5.2

Source: CoreLogic

- 72 per cent of people with rental properties have one property.
- Around 1.3 million Australians have negatively geared rental property.
- Almost two-thirds of those who declared a net rental loss in 2014-15 had a taxable income of $80,000 or less.
- Of the tax filers who had a net rental loss in 2014-15, 72 per cent claimed a net rental loss of $10,000 or less.
- There are three times more negative gearers who are nurses, teachers and defence force personnel than those who are doctors, surgeons and finance professionals – just over 100,000 claimants compared with 32,000.

LABOR'S POLICY:

- The Member for McMahon claims that taxing investments more will fix housing affordability. If that is the case, show us the modelling. The Labor Party won't model the impact of abolishing negative gearing because it will reveal their real reason for doing it – a massive revenue raising measure.
  - And let's not forget their planned cut to the CGT discount, which is a tax on all Australians.
  - This is all part of their $164 billion tax hit on Australians and their families. Labor has one answer for everything – to raise taxes.
- Labor's negative gearing policy is madness. By allowing losses to only be offset against investment income, it stops mum and dad investors like teachers and police officers from being able to negatively gear, but allows the super wealthy with large investment incomes to be able to negatively gear.

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- Investors accessing negative gearing under Labor's policy will now have only the option of going to the new home market and, if you're a first-home buyer, you'll be competing with all of them.
- In the UK, you cannot offset a net rental loss against your wage income. In the absence of negative gearing, London still has a housing affordability problem.

MEDIA COMMENTARY ON NEGATIVE GEARING

- The Shadow Treasurer's media release of 8 January 2018, concerning the release of documents under FOI relating to negative gearing, states that Treasury advice directly contradicts repeated claims by the Prime Minister and the Treasurer that Labor's reforms to negative gearing and the CGT discount would be a "sledgehammer" to the housing market.
  - In its advice, Treasury explicitly says that "the ALP policies could introduce some downward pressure on property prices in the short term." This is not inconsistent with what the Government has been saying.
  - Treasury went further and warned that the proposed policy change could be particularly problematic if it coincides with weakness in the housing market.
- Some media articles have reported incorrectly as Treasury analysis, distributional modelling undertaken by Mr Ben Phillips of the Australian National University on Labor's negative gearing policies. References to Mr Phillips' modelling were contained in documents released under FOI relating to Treasury work on negative gearing.

Impacts of abolishing negative gearing

- Abolishing or limiting negative gearing would affect up to 1.3 million Australians who have negatively geared rental property.
  - Almost two-thirds of these individuals had a taxable income of $80,000 or less in 2014-15.
- The Government has previously stated that Labor's negative gearing policy would be a "sledgehammer" to the housing market.
  - Treasury's view is that Labor's policy could introduce some downward pressure on property prices in the short term and that this could be particularly problematic if it coincides with weakness in the housing market.
  - Further, the large increase in dwelling investment that has spurred growth in property prices in recent years is now coming to market. We should expect this to have a moderating impact on house price growth.
- Some argue that negative gearing benefits mostly high income earners, and should be abolished to help improve income inequality.
  - The Government is addressing inequality with policies to boost economic growth that will generate greater employment and income for Australians, while targeting assistance to those who need it most.
    - Income inequality, as measured by the Gini coefficient, has experienced a slight improvement since the GFC driven in part by lower income households catching up to the median.
  - As part of the 2017-18 Budget, the Government announced a comprehensive housing affordability plan designed to improve outcomes across the housing spectrum, from Australians struggling to put a roof over their head to those in affordable housing, private renters and first home buyers.

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– The Government is creating the right incentives to improve housing outcomes by helping first home buyers save a deposit through voluntary contributions into superannuation, including through salary sacrificing, reducing barriers to downsizing to free up larger homes, strengthening the capital gains tax rules so that foreign investors pay their fair share of capital gains tax, clamping down on negative gearing excesses and reforming foreign investment rules to discourage investors from leaving their property vacant.

RBA research workshop: University of Melbourne study on negative gearing

- Researchers from the University of Melbourne recently presented economic modelling on the welfare impacts of removing negative gearing at an RBA research workshop.
- One of the major problems with this research is that in the model's initial conditions it assumes investors expected capital gains from their housing investments are zero. Yet around two-thirds of investors in the model are prepared to accept negative income flows from their investments (i.e. they are negatively geared). This assumption does not accord with reality, nor the most basic logic as to investor motivations, which undermines any results from the exercise.
- The model also assumes the reintroduction of death taxes. Is the Labor Party seriously planning on bringing back the death tax? It's not enough for them to tax us while we live but they want to take from us when we are six feet under!
- One of the Authors, Dr Lawrence Uren, noted that the results were preliminary and incomplete.

Release of FOI documents: ALP policy on negative gearing and capital gains tax

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BACKGROUND INFORMATION:

COALITION ACTION:

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  - Legislation giving effect to these measures received Royal Assent on 30 November 2017.
- From 1 January 2018, resident individuals investing in qualifying affordable housing either directly or through managed investment trusts will be able to obtain a capital gains tax (CGT) discount of up to 60 per cent.

KEY QUOTE:

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- APRA will continue to monitor residential mortgage lending market, and adjust existing measures or implement new ones as warranted.

Housing Affordability

- For further information, see QB18-000030 – Housing Measures – Foreign Investment, Tax and Superannuation.

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Contact Officer:	Bede Fraser	Date and time:	5/02/2018 11:28 AM
Contact Number:	(02) 6263 3555	Next update:	
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TAX – NEGATIVE GEARING/CAPITAL GAINS TAX

TOP LINES:

- The Government is committed to supporting Australians who wish to invest in real estate and provide for their future and support their families.

- The Government is also ensuring that there is integrity in the housing system, and taking action to take the heat out of the housing market. ~~the~~ The Government has supported ~~Australian Prudential Regulation Authority~~ (APRA) ~~is able to~~ responding flexibly to financial and housing market developments that pose a risk to financial stability. We have seen them impose a 10% speed limit on investor loans, and limit interest only loans to less than 30% of their loan book.

- The Government has also ~~This includes~~ givening APRA new powers over the provision of credit by non-bank lenders, as well as allowed APRA to create rules based on geographic region.

- This response – a scalpel rather than a sword – means we can target the overheated areas of our property market without bringing the whole thing down which would be catastrophic for owner occupiers. ~~that are outside the traditional banking sector.~~

- ~~The housing market in many parts of Australia has been strong in recent years.~~

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- With the housing market strong recently, t~~T~~his has led to a large increase in dwelling investment and construction, much of ~~that~~ which supply is now only just coming to market. We should expect this to have a moderating impact on house price growth.

Labor and Treasury's advice

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- In ~~its~~ the Treasury advice received under FOI, Treasury explicitly says that "the ALP policies could introduce some downward pressure on property prices ~~in the short term~~."

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- Labor seems to be trying to have it both ways – on the one hand they are saying this advice shows that their policy wont impact prices in any meaningful way, and yet they're saying the policy is about housing affordability.

  – What this shows is that this policy to Labor is not about housing affordability, but is nothing more than a revenue grab! This is part of the $164 billion in extra taxes Labor wants to put on Australians.

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- When it comes to housing affordability, t~~T~~he Government is taking an appropriate and proportionate response to addressing pressures in the Australian housing market. In the 2017-18 Budget, the Government announced a comprehensive housing affordability plan designed to improve outcomes across the housing spectrum from Australians struggling to put a roof over their head to those in affordable housing, private renters, first home buyers and downsizers

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- Unfortunately the Treasury advice that Labor seems to be so proud of does show ~~This is~~ exactly what ~~not inconsistent with what~~ the Government has been saying – it says that housing prices would fall.

- In fact Treasury went further and warned that the proposed policy change could be particularly problematic if it coincides with weakness in the housing market.

- ~~The Government is taking an appropriate and proportionate response to addressing pressures in the Australian housing market. In the 2017-18 Budget, the Government announced a comprehensive housing affordability plan designed to improve outcomes across the housing spectrum from Australians struggling to put a roof over their head to those in affordable housing, private renters, first home buyers and downsizers.~~

- ~~The Government is also ensuring that the Australian Prudential Regulation Authority (APRA) is able to respond flexibly to financial and housing market developments that pose a risk to financial stability. This includes giving APRA new powers over the provision of credit by lenders that are outside the traditional banking sector.~~

- Government action must be responsive to evolving conditions in housing markets and this is why the Government is making it clear that APRA has the ability to use geographically-based restrictions on the provision of credit where APRA considers it appropriate.

KEY FACTS AND FIGURES:

- ~~72 per cent of people with rental properties have one property.~~
- ~~Around 1.3 million Australians have negatively geared rental property.~~
- ~~Almost two-thirds of those who declared a net rental loss in 2014-15 had a taxable income of $80,000 or less.~~
- ~~Of the tax filers who had a net rental loss in 2014-15, 72 per cent claimed a net rental loss of $10,000 or less.~~
- ~~There are three times more negative gearers who are nurses, teachers and defence force personnel than those who are doctors, surgeons and finance professionals – just over 100,000 claimants compared with 32,000.~~

Key statistics on the housing market

	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra (ACT)	National
Median Dwelling Price as at January 2013	$555,000	$467,000	$420,000	$380,000	$460,000	$325,000	$500,000	$473,000	$420,000
Median Dwelling Price as at January 2018	$820,000	$675,000	$500,000	$440,000	$475,000	$413,000	$470,000	$600,000	$526,000
Price growth over the past 5 years (%)	47.7	44.5	19.0	15.8	3.3	27.1	-6.0	26.8	25.2
Average annual growth rate over the past 5 years	8.1	7.6	3.5	3.0	0.6	4.9	-1.2	4.9	4.6

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(%)									
Month-on-Month to Jan-18 (%)	-2.4	-0.7	0.3	0.0	-1.0	2.0	-1.1	-0.8	-1.7
Through-the-Year to Jan-18 (%)	-0.1	12.5	4.7	2.3	-1.5	11.6	-3.1	11.6	5.2

Source: CoreLogic

~~[The latest data on median dwelling house prices will be provided when released on 5 February 2018.]~~

- 72 per cent of people with rental properties have one property.
- Around 1.3 million Australians have negatively geared rental property.
- Almost two-thirds of those who declared a net rental loss in 2014-15 had a taxable income of $80,000 or less.
- Of the tax filers who had a net rental loss in 2014-15, 72 per cent claimed a net rental loss of $10,000 or less.
- There are three times more negative gearers who are nurses, teachers and defence force personnel than those who are doctors, surgeons and finance professionals – just over 100,000 claimants compared with 32,000.

LABOR'S POLICY:

- The Member for McMahon claims that taxing investments more will fix housing affordability. If that is the case, show us the modelling. The Labor Party won't model the impact of abolishing negative gearing because it will reveal their real reason for doing it – a massive revenue raising measure.
  - And let's not forget their planned cut to the CGT discount, which is a tax on all Australians.
  - This is all part of their $164 billion tax hit on Australians and their families. Labor has one answer for everything – to raise taxes.
- Labor's negative gearing policy is madness. By allowing losses to only be offset against investment income, it stops mum and dad investors like teachers and police officers from being able to negatively gear, but allows the super wealthy with large investment incomes to be able to negatively gear.
- Investors accessing negative gearing under Labor's policy will now have only the option of going to the new home market and, if you're a first-home buyer, you'll be competing with all of them.
- In the UK, you cannot offset a net rental loss against your wage income. In the absence of negative gearing, London still has a housing affordability problem.

~~*Labor's plan for housing affordability*~~

~~– The Opposition Leader, Bill Shorten MP, reaffirmed Labor's commitment to their housing affordability plan, including their proposed changes to negative gearing arrangements.~~

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~~COALITION ACTION:~~

- ~~The Government is improving taxpayer confidence in the tax arrangements for residential investment properties by disallowing deductions for travel expenses from 1 July 2017 and, for properties bought after 9 May 2017, limiting plant and equipment depreciation deductions to only those expenses directly incurred by investors.~~
  - ~~Legislation giving effect to these measures received Royal Assent on 30 November 2017.~~
- ~~From 1 January 2018, resident individuals investing in qualifying affordable housing either directly or through managed investment trusts will be able to obtain a capital gains tax (CGT) discount of up to 60 per cent.~~

~~KEY QUOTE:~~

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- ~~"Treasury's advice confirms what we have been saying all along — that if you increase capital gains tax by 50 per cent, if you remove negative gearing, it would have a disastrous impact when combined with weakness in the housing market"~~

~~LABOR'S POLICY:~~

- ~~Labor's negative gearing policy is madness. By allowing losses to only be offset against investment income, it stops mum and dad investors like teachers and police officers from being able to negatively gear, but allows the super wealthy with large investment incomes to be able to negatively gear.~~
- ~~Investors accessing negative gearing under Labor's policy will now have only the option of going to the new home market and, if you're a first home buyer, you'll be competing with all of them.~~
- ~~In the UK, you cannot offset a net rental loss against your wage income. In the absence of negative gearing, London still has a housing affordability problem.~~

Comment s22 For TO review. Treasury has not fact-checked.

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~~BACKGROUND INFORMATION:~~

~~*Negative gearing – how it works*~~

- ~~A property is said to be 'negatively geared' if it is purchased with debt and the return on investment (rental income) is less than the cost of owning the investment (including interest on borrowings and allowable deductions such as rates and maintenance). When this occurs, the investor can apply their net loss against their other income and reduce their taxable income. The practice of negative gearing is based on the general deduction principle that allows taxpayers to deduct, from their assessable income, expenses incurred in generating or producing that income.~~

- ~~A taxpayer may be willing to negatively gear because they expect the investment property, once sold, will generate a large enough capital gain to offset their prior 'loss'. Negative gearing is not limited to investment properties – taxpayers may also own other assets, such as shares, which can be negatively geared.~~

~~Table 1: Taxable income of individuals with negatively geared investment properties (residential and commercial)~~

~~Tax Bracket~~	~~Total tax filers ('000s)*~~	~~Tax filers with net rental losses ('000s)*~~	~~Proportion of tax filers with net rental losses~~	~~Value of net rental losses ($ billion)#~~
~~Less than $18,200~~	~~2,488~~	~~156~~	~~6.3%~~	~~1.3~~
~~$18,201 to $37,000~~	~~3,121~~	~~175~~	~~5.6%~~	~~1.2~~
~~$37,001 to $80,000~~	~~4,939~~	~~476~~	~~9.6%~~	~~3.6~~
~~$80,001 to $180,000~~	~~2,267~~	~~380~~	~~16.8%~~	~~3.6~~
~~More than $180,001~~	~~399~~	~~90~~	~~22.6%~~	~~1.5~~
~~TOTAL~~	~~13,214~~	~~1,278~~	~~9.7%~~	~~11.1~~

~~Source: 2014-15 Tax Stats~~

~~Note: * Figures rounded to the nearest 1,000 people. # Figures rounded to the nearest $100 million.~~

~~*Capital Gains Tax – how it works*~~

- ~~Unlike other forms of income (which are generally taxed at their full value), capital gains are taxed concessionally. Only 50 per cent of the net capital gain is subject to income tax for assets held longer than 12 months. Tax is only one of many factors that affect the investment decisions of individuals.~~

~~Table 2: Taxable income of individuals (resident and non-resident) who reported a net capital gain in 2014-15~~

~~Tax Bracket~~	~~Total tax filers ('000s)*~~	~~Tax filers with net capital gains ('000s)*~~	~~Proportion of tax filers with net capital gains~~	~~Value of net capital gains ($ billion) #~~
~~Less than $18,200~~	~~2,488~~	~~88~~	~~3.5%~~	~~0.5~~
~~$18,201 to $37,000~~	~~3,121~~	~~133~~	~~4.3%~~	~~0.7~~
~~$37,001 to $80,000~~	~~4,939~~	~~204~~	~~4.1%~~	~~1.9~~
~~$80,001 to $180,000~~	~~2,267~~	~~178~~	~~7.8%~~	~~3.6~~
~~More than $180,001~~	~~399~~	~~70~~	~~17.5%~~	~~10.7~~
~~TOTAL~~	~~13,214~~	~~672~~	~~5.1%~~	~~17.4~~

~~Source: 2014-15 Tax Stats~~

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Media commentary on negative gearing

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- The Shadow Treasurer's media release of 8 January 2018, concerning the release of documents under FOI relating to negative gearing, states that Treasury advice directly contradicts repeated claims by the Prime Minister and the Treasurer that Labor's reforms to negative gearing and the CGT discount would be a "sledgehammer" to the housing market.
  - In its advice, Treasury explicitly says that "the ALP policies could introduce some downward pressure on property prices in the short term." This is not inconsistent with what the Government has been saying.
  - Treasury went further and warned that the proposed policy change could be particularly problematic if it coincides with weakness in the housing market.
- Some media articles have reported incorrectly as Treasury analysis, distributional modelling undertaken by Mr Ben Phillips of the Australian National University on Labor's negative gearing policies. References to Mr Phillips' modelling were contained in documents released under FOI relating to Treasury work on negative gearing.

Impacts of abolishing negative gearing

- Abolishing or limiting negative gearing would affect up to 1.3 million Australians who have negatively geared rental property.
  - Almost two-thirds of these individuals had a taxable income of $80,000 or less in 2014-15.
- The Government has previously stated that Labor's negative gearing policy would be a "sledgehammer" to the housing market.
  - Treasury's view is that Labor's policy could introduce some downward pressure on property prices in the short term and that this could be particularly problematic if it coincides with weakness in the housing market.
  - Further, the large increase in dwelling investment that has spurred growth in property prices in recent years is now coming to market. We should expect this to have a moderating impact on house price growth.
- Some argue that negative gearing benefits mostly high income earners, and should be abolished to help improve income inequality.
  - The Government is addressing inequality with policies to boost economic growth that will generate greater employment and income for Australians, while targeting assistance to those who need it most.
    - Income inequality, as measured by the Gini coefficient, has experienced a slight improvement since the GFC driven in part by lower income households catching up to the median.
  - As part of the 2017-18 Budget, the Government announced a comprehensive housing affordability plan designed to improve outcomes across the housing spectrum, from Australians struggling to put a roof over their head to those in affordable housing, private renters and first home buyers.
  - The Government is creating the right incentives to improve housing outcomes by helping first home buyers save a deposit through voluntary contributions into superannuation, including through salary sacrificing, reducing

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barriers to downsizing to free up larger homes, strengthening the capital gains tax rules so that foreign investors pay their fair share of capital gains tax, clamping down on negative gearing excesses and reforming foreign investment rules to discourage investors from leaving their property vacant.

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RBA research workshop: University of Melbourne study on negative gearing

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- Researchers from the University of Melbourne recently presented economic modelling on the welfare impacts of removing negative gearing at an RBA research workshop.
- One of the major problems with this research is that in the model's initial conditions it assumes investors expected capital gains from their housing investments are zero. Yet around two-thirds of investors in the model are prepared to accept negative income flows from their investments (i.e. they are negatively geared). This assumption does not accord with reality, nor the most basic logic as to investor motivations, which undermines any results from the exercise.
- The model also assumes the reintroduction of death taxes. Is the Labor Party seriously planning on bringing back the death tax? It's not enough for them to tax us while we live but they want to take from us when we are six feet under!
- One of the Authors, Dr Lawrence Uren, noted that the results were preliminary and incomplete.

~~***Key statistics on the housing market***~~

~~[The latest data on median dwelling house prices will be provided when released on 5 February 2018.]~~

Release of FOI documents: ALP policy on negative gearing and capital gains tax

- On 5 January 2018, Treasury released documents under FOI relating to negative gearing tax deductions and CGT policies.
  - This followed the appeal decision by the Australian Information Commissioner (AIC) that providing access to this information would not, on balance, be contrary to the public interest.
- Mr Dan Conifer of the ABC News appealed to the AIC on 25 July 2016, in relation to the FOI decision by Treasury on 17 June 2016 to deny him access to documents sought on negative gearing and CGT. This included a request for access to documents prepared by Treasury on the Australian Labor Party's proposed policies in these areas.
  - Apart from a small amount of material in a Question Time Brief regarding a report by Mr Ben Philips, all other material in scope of the FOI request was exempted at the time under three FOI law provisions: Cabinet, business affairs and deliberative.
- In its decision dated 8 December 2017, the AIC held that in relation to the applicant's FOI request: "the material that the Department found to be exempt under s 47C of the FOI Act (deliberative) is conditionally exempt.
  - However, giving the applicant access to this material at this time would not, on balance, be contrary to the public interest. Accordingly, this material is not exempt."

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BACKGROUND INFORMATION:

COALITION ACTION:

- The Government is improving taxpayer confidence in the tax arrangements for residential investment properties by disallowing deductions for travel expenses from 1 July 2017 and, for properties bought after 9 May 2017, limiting plant and equipment depreciation deductions to only those expenses directly incurred by investors.
  - Legislation giving effect to these measures received Royal Assent on 30 November 2017.
- From 1 January 2018, resident individuals investing in qualifying affordable housing either directly or through managed investment trusts will be able to obtain a capital gains tax (CGT) discount of up to 60 per cent.

KEY QUOTE:

- "Treasury's advice confirms what we have been saying all along — that if you increase capital gains tax by 50 per cent, if you remove negative gearing, it would have a disastrous impact when combined with weakness in the housing market"

Negative gearing – how it works

- A property is said to be 'negatively geared' if it is purchased with debt and the return on investment (rental income) is less than the cost of owning the investment (including interest on borrowings and allowable deductions such as rates and maintenance).When this occurs, the investor can apply their net loss against their other income and reduce their taxable income. The practice of negative gearing is based on the general deduction principle that allows taxpayers to deduct, from their assessable income, expenses incurred in generating or producing that income.
- A taxpayer may be willing to negatively gear because they expect the investment property, once sold, will generate a large enough capital gain to offset their prior 'loss'. Negative gearing is not limited to investment properties – taxpayers may also own other assets, such as shares, which can be negatively geared.

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TOTAL	13,214	1,278	9.7%	11.1

Source: 2014-15 Tax Stats.

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TOTAL	13,214	672	5.1%	17.4

Source: 2014-15 Tax Stats.

Note: * Figures rounded to the nearest 1,000 people. # Figures rounded to the nearest $100 million.

APRA Measures

- On 31 March 2017, APRA announced further supervisory measures to reinforce sound residential mortgage lending practises, with all Authorised Deposit-Taking Institutions (ADIs) expected to:
  - Limit the flow of new interest-only lending to 30 per cent of total new residential mortgage lending. This includes placing strict internal limits on the volume of interest-only lending at loan-to-value ratios (LVR) above 80 per cent and ensuring strong scrutiny and justifications of any instances of interest-only lending at an LVR above 90 per cent.
  - Manage lending to investors in such a way as to comfortably remain below the benchmark of 10 per cent annual growth previously advised in December 2014.
  - Review and ensure the serviceability assessments, including interest rate and net income buffers are set at appropriate levels for current conditions.
- In addition, APRA also advised ADIs of its expectation of the growth rate and lending standards in the warehouse facilities provided by ADIs to other lenders. APRA would be concerned if these facilities grow faster than the ADI's own housing loan portfolio, and if the lending standards are below the industry-wide sound practices.
- APRA will continue to monitor residential mortgage lending market, and adjust existing measures or implement new ones as warranted.

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Housing Affordability

- For further information, see QB18-000030 – Housing Measures – Foreign Investment, Tax and Superannuation.

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~~***Labor's plan for housing affordability***~~

~~The Opposition Leader, Bill Shorten MP, reaffirmed Labor's commitment to their housing affordability plan, including their proposed changes to negative gearing arrangements.~~

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Document 4

NEGATIVE GEARING/CAPITAL GAINS TAX

Headline Statement

- The Government is committed to supporting hardworking Australians who wish to invest and provide for their future and for their families.

Key Points

- Through the Housing Affordability package announced in the 2017-18 Budget, the Government is playing its part to get the settings right while encouraging all levels of government to work collaboratively to improve housing and homelessness outcomes.
- State and Territory governments have primary responsibility for housing supply, as the Commonwealth has limited policy levers and Constitutional power.
- The Government is also ensuring that the Australian Prudential Regulation Authority (APRA) is able to respond flexibly to financial and housing market developments that pose a risk to financial stability. This includes giving APRA new reserve powers over the provision of credit by non-bank-lenders when their activity is materially contributing to risks of instability in the Australian financial system.
- Government action must be responsive to evolving conditions in housing markets and this is why the Government is making it clear that APRA has the ability to use geographically-based restrictions on the provision of credit where APRA considers it appropriate.
- The Government supports the macroprudential measures announced by APRA in March 2017, regarding mortgage lending standards and high risk lending such as investor and interest-only home loan lending.
- The Government is improving the integrity of the tax system for individual investors by:
  - from 1 July 2017, disallowing deductions for travel expenses for residential investment properties; and
  - for residential investment properties bought after 9 May 2017, limiting plant and equipment depreciation deductions to assets not previously used.

- The measures for plant and equipment and travel deductions relating to residential investment property apply to both positively and negatively geared investors.
- The integrity measures are estimated to have a gain to revenue of $800.0 million over the forward estimates which will help offset the costs of the Government's Housing Affordability plan and contribute to budget repair.

ALP policy and Treasury advice

- In its advice, Treasury explicitly says that "the ALP policies could introduce some downward pressure on property prices."
- In fact Treasury went further and warned that the proposed policy change could be particularly problematic if it coincides with weakness in the housing market.
  - This is not inconsistent with what the Government has been saying.

Policy Commitments

- The Government announced measures in the 2017-18 Budget to improve taxpayer confidence in tax arrangements for residential investment properties.
  - The measures include disallowing deductions for travel expenses for residential investment properties from 1 July 2017, and for properties bought after 9 May 2017, limiting plant and equipment depreciation deductions to assets not previously used.
  - Legislation giving effect to these measures received Royal Assent on 30 November 2017.
- As part of the Budget, the Government announced it would be providing tax incentives to increase private and institutional investment in affordable housing.
  - From 1 January 2018, resident individuals investing in qualifying affordable housing either directly or through managed investment trusts will be able to obtain a capital gains tax (CGT) discount of up to 60 per cent.
    - Qualifying affordable housing will need to be managed through a registered community housing provider, consistent with state and territory housing policies, and provided as affordable housing for at least three years.
    - Legislation giving effect to this measure was introduced on 8 February 2018.

Background

Negative gearing

- A property is said to be 'negatively geared' if it is purchased with debt and the return on investment (rental income) is less than the cost of owning the investment (including interest on borrowings and allowable deductions such as depreciation and maintenance).
  - When this occurs, the investor can apply their net loss against their other income and reduce their taxable income.
- The practice of negative gearing is based on the general deduction principle that allows taxpayers to deduct, from their assessable income, any expenses incurred in generating or producing that income.
  - Negative gearing is not limited to property – it can also apply to other assets such as shares.
- A taxpayer may be willing to negatively gear because they expect the investment property, once sold, will generate a large enough capital gain to offset their prior "loss".

Capital Gains Tax (CGT)

- Unlike other forms of income (which are generally taxed at their full value), capital gains are taxed concessionally.
  - For individuals, only 50 per cent of the net capital gain is subject to income tax for assets held longer than 12 months. This is referred to as the CGT discount. In addition, the family home is exempt from CGT.
- The concessional taxation of capital gains increases the attractiveness of capital assets from a tax perspective.
  - Having said that, tax is only one of many factors that affect the investment decisions of individuals.

Release of FOI documents: ALP policy in negative gearing and capital gains tax

- On 5 January 2018, Treasury released documents under FOI relating to negative gearing tax deductions and CGT policies.
  - This followed the appeal decision by the Australian Information Commissioner (AIC) that providing access to this information would not, on balance, be contrary to the public interest.
- Mr Dan Conifer of the ABC News appealed to the AIC on 25 July 2016, in relation to the FOI decision by Treasury on 17 June 2016 to deny him access to documents sought on negative gearing and CGT. This included a request for access to documents prepared by Treasury on the Australian Labor Party's proposed policies in these areas.
  - Apart from a small amount of material in a Question Time Brief regarding a report by Mr Ben Philips, all other material in scope of the FOI request was exempted at the time under three FOI law provisions: Cabinet, business affairs and deliberative.

- In its decision dated 8 December 2017, the AIC held that in relation to the applicant's FOI request: "the material that the Department found to be exempt under s 47C of the FOI Act (deliberative) is conditionally exempt.
  - However, giving the applicant access to this material at this time would not, on balance, be contrary to the public interest. Accordingly, this material is not exempt."

TAX – NEGATIVE GEARING/CAPITAL GAINS TAX

FOI 2397
Document 5

TOP LINES:

- The Government is committed to supporting Australians who wish to invest in real estate and provide for their future and support their families.
- The Government is also ensuring that there is integrity in the housing system, and taking action to take the heat out of the housing market. The Government has supported APRA responding flexibly to financial and housing market developments that pose a risk to financial stability. We have seen them impose a 10% speed limit on investor loans, and limit interest only loans to less than 30% of their loan book.
- The Government has also given APRA new powers over the provision of credit by non-bank lenders, as well as allowed APRA to create rules based on geographic region.
- This response – a scalpel rather than a sword – means we can target the overheated areas of our property market without bringing the whole thing down which would be catastrophic for owner occupiers.
- With the housing market strong recently, this has led to a large increase in dwelling investment and construction, much of which supply is now only just coming to market. We should expect this to have a moderating impact on house price growth.

Labor and Treasury's advice

- In the Treasury advice received under FOI, Treasury explicitly says that "the ALP policies could introduce some downward pressure on property prices."
- Labor seems to be trying to have it both ways – on the one hand they are saying this advice shows that their policy wont impact prices in any meaningful way, and yet they're saying the policy is about housing affordability.
  - What this shows is that this policy to Labor is not about housing affordability, but is nothing more than a revenue grab! This is part of the $164 billion in extra taxes Labor wants to put on Australians.
- When it comes to housing affordability, the Government is taking an appropriate and proportionate response to addressing pressures in the Australian housing market. In the 2017-18 Budget, the Government announced a comprehensive housing affordability plan designed to improve outcomes across the housing spectrum from Australians struggling to put a roof over their head to those in affordable housing, private renters, first home buyers and downsizers
- Unfortunately the Treasury advice that Labor seems to be so proud of does show exactly what the Government has been saying – it says that housing prices would fall. In fact Treasury went further and warned that the proposed policy change could be particularly problematic if it coincides with weakness in the housing market – which is what is occurring now, with house price growth now declining in monthly terms.
- Government action must be responsive to evolving conditions in housing markets and this is why the Government is making it clear that APRA has the ability to use geographically-based restrictions on the provision of credit where APRA considers it appropriate.

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KEY FACTS AND FIGURES:

Key statistics on the housing market

	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra (ACT)	National
Median Dwelling Price as at January 2013	$555,000	$467,000	$420,000	$380,000	$460,000	$325,000	$500,000	$473,000	$420,000
Median Dwelling Price as at January 2018	$820,000	$675,000	$500,000	$440,000	$475,000	$413,000	$470,000	$600,000	$526,000
Price growth over the past 5 years (%)	47.7	44.5	19.0	15.8	3.3	27.1	-6.0	26.8	25.2
Average annual growth rate over the past 5 years (%)	8.1	7.6	3.5	3.0	0.6	4.9	-1.2	4.9	4.6
Month-on-Month to Jan-18 (%)	-2.4	-0.7	0.3	0.0	-1.0	2.0	-1.1	-0.8	-1.7
Through-the-Year to Jan-18 (%)	-0.1	12.5	4.7	2.3	-1.5	11.6	-3.1	11.6	5.2

Source: CoreLogic

- 72 per cent of people with rental properties have one property.
- Around 1.3 million Australians have negatively geared rental property.
- Almost two-thirds of those who declared a net rental loss in 2014-15 had a taxable income of $80,000 or less.
- Of the tax filers who had a net rental loss in 2014-15, 72 per cent claimed a net rental loss of $10,000 or less.
- There are three times more negative gearers who are nurses, teachers and defence force personnel than those who are doctors, surgeons and finance professionals – just over 100,000 claimants compared with 32,000.

LABOR'S POLICY:

- The Member for McMahon claims that taxing investments more will fix housing affordability. If that is the case, show us the modelling. The Labor Party won't model the impact of abolishing negative gearing because it will reveal their real reason for doing it – a massive revenue raising measure.
  - And let's not forget their planned cut to the CGT discount, which is a tax on all Australians.
  - This is all part of their $164 billion tax hit on Australians and their families. Labor has one answer for everything – to raise taxes.
- Labor's negative gearing policy is madness. By allowing losses to only be offset against investment income, it stops mum and dad investors like teachers and police officers from being able to negatively gear, but allows the super wealthy with large investment incomes to be able to negatively gear.

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- Investors accessing negative gearing under Labor's policy will now have only the option of going to the new home market and, if you're a first-home buyer, you'll be competing with all of them.

- In the UK, you cannot offset a net rental loss against your wage income. In the absence of negative gearing, London still has a housing affordability problem.

MEDIA COMMENTARY ON NEGATIVE GEARING

- The Shadow Treasurer's media release of 8 January 2018, concerning the release of documents under FOI relating to negative gearing, states that Treasury advice directly contradicts repeated claims by the Prime Minister and the Treasurer that Labor's reforms to negative gearing and the CGT discount would be a "sledgehammer" to the housing market.
  - In its advice, Treasury explicitly says that "the ALP policies could introduce some downward pressure on property prices in the short term." This is not inconsistent with what the Government has been saying.
  - Treasury went further and warned that the proposed policy change could be particularly problematic if it coincides with weakness in the housing market.

- Some media articles have reported incorrectly as Treasury analysis, distributional modelling undertaken by Mr Ben Phillips of the Australian National University on Labor's negative gearing policies. References to Mr Phillips' modelling were contained in documents released under FOI relating to Treasury work on negative gearing.

Impacts of abolishing negative gearing

- Abolishing or limiting negative gearing would affect up to 1.3 million Australians who have negatively geared rental property.
  - Almost two-thirds of these individuals had a taxable income of $80,000 or less in 2014-15.

- The Government has previously stated that Labor's negative gearing policy would be a "sledgehammer" to the housing market.
  - Treasury's view is that Labor's policy could introduce some downward pressure on property prices in the short term and that this could be particularly problematic if it coincides with weakness in the housing market.
  - Further, the large increase in dwelling investment that has spurred growth in property prices in recent years is now coming to market. We should expect this to have a moderating impact on house price growth.

- Some argue that negative gearing benefits mostly high income earners, and should be abolished to help improve income inequality.
  - The Government is addressing inequality with policies to boost economic growth that will generate greater employment and income for Australians, while targeting assistance to those who need it most.
    - Income inequality, as measured by the Gini coefficient, has experienced a slight improvement since the GFC driven in part by lower income households catching up to the median.
  - As part of the 2017-18 Budget, the Government announced a comprehensive housing affordability plan designed to improve outcomes across the housing spectrum, from Australians struggling to put a roof over their head to those in affordable housing, private renters and first home buyers.

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- The Government is creating the right incentives to improve housing outcomes by helping first home buyers save a deposit through voluntary contributions into superannuation, including through salary sacrificing, reducing barriers to downsizing to free up larger homes, strengthening the capital gains tax rules so that foreign investors pay their fair share of capital gains tax, clamping down on negative gearing excesses and reforming foreign investment rules to discourage investors from leaving their property vacant.

AHURI Inquiry into pathways to housing tax reform: Final report

- AHURI published its report 'The income tax treatment of housing assets: an assessment of proposed reform arrangements' on 7 March 2018.

- The report found that negative gearing and CGT discount benefits are currently heavily skewed towards those who are more affluent, potentially exacerbating income and wealth inequality among the Australian population.

- The report models transitional arrangements that may ease distributional pressures arising from reforms to negative gearing and CGT. These include:

  - a progressive rental deduction reform whereby 'mum and dad' investors receive access to more generous tax concessions that 'sophisticated' investors on higher income and wealth levels; and

  - a gradual reduction in the CGT discount to 'soften' the impact of CGT reform.

- While progressive rental deduction reform would ease the impact of reforms for 'mum and dad' investors, the report noted this would likely be administratively more complex to implement than an alternative option to cap rental deductions.

Grattan Institute Report – Housing Affordability: re-imagining the Australian dream

- The Grattan Institute's March 2018 report on housing affordability recommends that the Government:

  - reduce the CGT discount to 25 per cent, phased in over 5 years; and

  - limit negative gearing so that investment losses can only be offset against other investment income.

RBA research workshop: University of Melbourne study on negative gearing

- Researchers from the University of Melbourne recently presented economic modelling on the welfare impacts of removing negative gearing at an RBA research workshop.

- One of the major problems with this research is that in the model's initial conditions it assumes investors expected capital gains from their housing investments are zero. Yet around two-thirds of investors in the model are prepared to accept negative income flows from their investments (i.e. they are negatively geared). This assumption does not accord with reality, nor the most basic logic as to investor motivations, which undermines any results from the exercise.

- The model also assumes the reintroduction of death taxes. Is the Labor Party seriously planning on bringing back the death tax? It's not enough for them to tax us while we live but they want to take from us when we are six feet under!

- One of the Authors, Dr Lawrence Uren, noted that the results were preliminary and incomplete.

Release of FOI documents: ALP policy on negative gearing and capital gains tax

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- On 5 January 2018, Treasury released documents under FOI relating to negative gearing tax deductions and CGT policies.
  - This followed the appeal decision by the Australian Information Commissioner (AIC) that providing access to this information would not, on balance, be contrary to the public interest.
- Mr Dan Conifer of the ABC News appealed to the AIC on 25 July 2016, in relation to the FOI decision by Treasury on 17 June 2016 to deny him access to documents sought on negative gearing and CGT. This included a request for access to documents prepared by Treasury on the Australian Labor Party's proposed policies in these areas.
  - Apart from a small amount of material in a Question Time Brief regarding a report by Mr Ben Philips, all other material in scope of the FOI request was exempted at the time under three FOI law provisions: Cabinet, business affairs and deliberative.
- In its decision dated 8 December 2017, the AIC held that in relation to the applicant's FOI request: "the material that the Department found to be exempt under s 47C of the FOI Act (deliberative) is conditionally exempt.
  - However, giving the applicant access to this material at this time would not, on balance, be contrary to the public interest. Accordingly, this material is not exempt."

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BACKGROUND INFORMATION:

COALITION ACTION:

- The Government is improving taxpayer confidence in the tax arrangements for residential investment properties by disallowing deductions for travel expenses from 1 July 2017 and, for properties bought after 9 May 2017, limiting plant and equipment depreciation deductions to only those expenses directly incurred by investors.
  - Legislation giving effect to these measures received Royal Assent on 30 November 2017.
- From 1 January 2018, resident individuals investing in qualifying affordable housing either directly or through managed investment trusts will be able to obtain a capital gains tax (CGT) discount of up to 60 per cent.

KEY QUOTE:

- "Treasury's advice confirms what we have been saying all along — that if you increase capital gains tax by 50 per cent, if you remove negative gearing, it would have a disastrous impact when combined with weakness in the housing market"

Negative gearing – how it works

- A property is said to be 'negatively geared' if it is purchased with debt and the return on investment (rental income) is less than the cost of owning the investment (including interest on borrowings and allowable deductions such as rates and maintenance).When this occurs, the investor can apply their net loss against their other income and reduce their taxable income. The practice of negative gearing is based on the general deduction principle that allows taxpayers to deduct, from their assessable income, expenses incurred in generating or producing that income.
- A taxpayer may be willing to negatively gear because they expect the investment property, once sold, will generate a large enough capital gain to offset their prior 'loss'. Negative gearing is not limited to investment properties – taxpayers may also own other assets, such as shares, which can be negatively geared.

Table 1: Taxable income of individuals with negatively geared investment properties (residential and commercial)

Tax Bracket	Total tax filers ('000s)*	Tax filers with net rental losses ('000s)*	Proportion of tax filers with net rental losses	Value of net rental losses ($ billion)#
Less than $18,200	2,488	156	6.3%	1.3
$18,201 to $37,000	3,121	175	5.6%	1.2
$37,001 to $80,000	4,939	476	9.6%	3.6
$80,001 to $180,000	2,267	380	16.8%	3.6
More than $180,001	399	90	22.6%	1.5
TOTAL	13,214	1,278	9.7%	11.1

Source: 2014-15 Tax Stats.

Note: * Figures rounded to the nearest 1,000 people. # Figures rounded to the nearest $100 million.

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Capital Gains Tax – how it works

- Unlike other forms of income (which are generally taxed at their full value), capital gains are taxed concessionally. Only 50 per cent of the net capital gain is subject to income tax for assets held longer than 12 months. Tax is only one of many factors that affect the investment decisions of individuals.

Table 2: Taxable income of individuals (resident and non-resident) who reported a net capital gain in 2014-15

Tax Bracket	Total tax filers ('000s)*	Tax filers with net capital gains ('000s)*	Proportion of tax filers with net capital gains	Value of net capital gains ($ billion) #
Less than $18,200	2,488	88	3.5%	0.5
$18,201 to $37,000	3,121	133	4.3%	0.7
$37,001 to $80,000	4,939	204	4.1%	1.9
$80,001 to $180,000	2,267	178	7.8%	3.6
More than $180,001	399	70	17.5%	10.7
TOTAL	13,214	672	5.1%	17.4

Source: 2014-15 Tax Stats.

Note: * Figures rounded to the nearest 1,000 people. # Figures rounded to the nearest $100 million.

APRA Measures

- On 31 March 2017, APRA announced further supervisory measures to reinforce sound residential mortgage lending practises, with all Authorised Deposit-Taking Institutions (ADIs) expected to:
  - Limit the flow of new interest-only lending to 30 per cent of total new residential mortgage lending. This includes placing strict internal limits on the volume of interest-only lending at loan-to-value ratios (LVR) above 80 per cent and ensuring strong scrutiny and justifications of any instances of interest-only lending at an LVR above 90 per cent.
  - Manage lending to investors in such a way as to comfortably remain below the benchmark of 10 per cent annual growth previously advised in December 2014.
  - Review and ensure the serviceability assessments, including interest rate and net income buffers are set at appropriate levels for current conditions.
- In addition, APRA also advised ADIs of its expectation of the growth rate and lending standards in the warehouse facilities provided by ADIs to other lenders. APRA would be concerned if these facilities grow faster than the ADI's own housing loan portfolio, and if the lending standards are below the industry-wide sound practices.
- APRA will continue to monitor residential mortgage lending market, and adjust existing measures or implement new ones as warranted.

Housing Affordability

- For further information, see QB18-000030 – Housing Measures – Foreign Investment, Tax and Superannuation.

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TAX – NEGATIVE GEARING/CAPITAL GAINS TAX

TOP LINES:

- The Government is committed to supporting Australians who wish to invest in real estate and provide for their future and support their families.
- The Government is also ensuring that there is integrity in the housing system, and taking action to take the heat out of the housing market. The Government has supported APRA responding flexibly to financial and housing market developments that pose a risk to financial stability. We have seen them impose a temporary 10 per cent speed limit on investor loans, and limit interest only loans to less than 30 per cent of their loan book.
  - In response to a reduction in higher risk lending and improvements in lending standards, APRA recently announced plans to replace the 10 per cent investor loan speed limit with more permanent measures to strengthen lending standards from 1 July 2018.
- The Government has also given APRA new powers over the provision of credit by non-bank lenders, as well as clarified that APRA can take measures based on geographic region where appropriate.
- This response – a scalpel rather than a sword – means we can target the overheated areas of our property market without bringing the whole thing down which would be catastrophic for owner occupiers.
- After one of Australia's largest booms in housing construction and several years of very strong growth in prices, national dwelling prices have moderated in recent months and are now growing below their 5-year average annual growth rate.
- The Government's calibrated approach is achieving results. As a recent report released by the Housing Industry Association states: "We cannot tax our way out of the housing affordability problem".

Labor policy and Treasury's advice

- In the Treasury advice received under FOI, Treasury explicitly says that "the ALP policies could introduce some downward pressure on property prices."
- Labor seems to be trying to have it both ways – on the one hand they are saying this advice shows that their policy wont impact prices in any meaningful way, and yet they're saying the policy is about housing affordability.
  - What this shows is that this policy to Labor is not about housing affordability, but is nothing more than a revenue grab! This is part of the $164 billion in extra taxes Labor wants to put on Australians.
- When it comes to housing affordability, the Government is taking an appropriate and proportionate response to addressing pressures in the Australian housing market. The Government is implementing its comprehensive housing affordability plan, announced in

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the 2017-18 Budget and designed to improve outcomes across the housing spectrum — from Australians struggling to put a roof over their head to those in affordable housing, private renters, first home buyers and downsizers.

- Unfortunately the Treasury advice that Labor seems to be so proud of does show exactly what the Government has been saying – it says that housing prices would fall. In fact Treasury went further and warned that the proposed policy change could be particularly problematic if it coincides with weakness in the housing market – which is what is occurring now, with house price growth now declining in monthly terms.
- Government action must be responsive to evolving conditions in housing markets and this is why the Government is making it clear that APRA has the ability to use geographically-based restrictions on the provision of credit where APRA considers it appropriate.

Comment s22 This context was not Treasury dra[redacted] checked, although minor amendments have been made to reflect implementation of Budget measures.

KEY FACTS AND FIGURES:

Key statistics on the housing market

	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra (ACT)	National
Median Dwelling Price as at April 2013	$570,000	$475,000	$422,000	$375,000	$484,000	$325,000	$475,000	$480,000	$434,000
Median Dwelling Price as at April 2018	$828,200	$678,750	$490,000	$435,000	$472,500	$429,000	$465,000	$587,000	$535,000
Price growth over the past 5 years (%)	45.3	42.9	16.1	16.0	-2.4	32.0	-2.1	22.3	23.3
Average annual growth rate over the past 5 years (%)	7.8	7.4	3.0	3.0	-0.5	5.7	-0.4	4.1	4.3
Month-on-Month to Apr-18 (%)	4.0	2.8	2.1	-1.1	0.3	2.1	1.1	1.2	3.9
Through-the-Year to Apr-18 (%)	-3.2	7.7	2.3	2.4	-2.6	15.9	-3.1	4.8	1.9

Source: CoreLogic

- In 2015-16, around 71 per cent of people with rental properties had one property.
- In 2015-16, around 1.3 million Australians had negatively geared rental property.
- Almost two-thirds of those who declared a net rental loss in 2015-16 had a taxable income of $80,000 or less.
- Of the tax filers who had a net rental loss in 2015-16, around 72 per cent claimed a net rental loss of less than $10,000.

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- There were about three times as many negatively gearing nurses, teachers and military personnel in 2015-16 than doctors, surgeons and finance professionals – approximately 100,000 claimants compared with 33,000.

LABOR'S POLICY:

- The Member for McMahon claims that taxing investments more will fix housing affordability. If that is the case, show us the modelling. The Labor Party won't model the impact of abolishing negative gearing because it will reveal their real reason for doing it – a massive revenue raising measure.
  - And let's not forget their planned cut to the CGT discount, which is a tax on all Australians.
  - This is all part of their $164 billion tax hit on Australians and their families. Labor has one answer for everything – to raise taxes.
- Labor's negative gearing policy is madness. By allowing losses to only be offset against investment income, it stops mum and dad investors like teachers and police officers from being able to negatively gear, but allows the super wealthy with large investment incomes to be able to negatively gear.
- Investors accessing negative gearing under Labor's policy will now have only the option of going to the new home market and, if you're a first-home buyer, you'll be competing with all of them.
- In the UK, you cannot offset a net rental loss against your wage income. In the absence of negative gearing, London still has a housing affordability problem.

Comment s22 This content was not Treasury drafted or checked.

MEDIA COMMENTARY ON NEGATIVE GEARING

FOI release on Labor's policy

- The Shadow Treasurer has issued a number of media releases, most recently on 27 April 2018, concerning documents released under FOI earlier this year and asserting that statements made by the Treasurer contradict Treasury advice.
  - In its advice, Treasury explicitly says that "the ALP policies could introduce some downward pressure on property prices in the short term." This is not inconsistent with what the Government has been saying.
  - Treasury went further and warned that the proposed policy change could be particularly problematic if it coincides with weakness in the housing market.
- Some media articles have reported incorrectly as Treasury analysis, distributional modelling undertaken by Mr Ben Phillips of the Australian National University on Labor's negative gearing policies. References to Mr Phillips' modelling were contained in documents released under FOI relating to Treasury work on negative gearing.

Impacts of abolishing negative gearing

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- Abolishing or limiting negative gearing would directly affect up to 1.3 million Australians who have negatively geared rental property.
  - Almost two-thirds of these individuals had a taxable income of $80,000 or less in 2015-16.
- The Government has previously stated that Labor's negative gearing policy would be a "sledgehammer" to the housing market.
  - Treasury's view is that Labor's policy could introduce some downward pressure on property prices in the short term and that this could be particularly problematic if it coincides with weakness in the housing market.
  - After one of Australia's largest booms in housing construction and several years of very strong growth in prices, national dwelling prices have moderated in recent months and are now growing below their 5-year average annual growth rate.
- Some argue that negative gearing benefits mostly high income earners, and should be abolished to help improve income inequality.
  - The Government is addressing inequality with policies to boost economic growth that will generate greater employment and income for Australians, while targeting assistance to those who need it most.
    - Income inequality, as measured by the Gini coefficient, has experienced a slight improvement since the GFC driven in part by lower income households catching up to the median.
  - As part of the 2017-18 Budget, the Government announced a comprehensive housing affordability plan designed to improve outcomes across the housing spectrum, from Australians struggling to put a roof over their head to those in affordable housing, private renters and first home buyers.
  - The Government is creating the right incentives to improve housing outcomes. It has passed legislation that allows first home buyers save a deposit through voluntary contributions into superannuation, including through salary sacrificing, reduced barriers to downsizing to free up larger homes, strengthened the capital gains tax rules so that foreign investors pay their fair share of capital gains tax, clamped down on negative gearing excesses, and reformed foreign investment rules to discourage investors from leaving their property vacant.

Housing Industry Association/Centre for International Economics report

- In a 16 April 2018 media release, the Housing Industry Association (HIA) states it commissioned the Centre for International Economics (CIE) to investigate the economic implications of changes to the rate of capital gains tax (CGT) on the economy.
- The release stated: "According to research released today, an increase in Capital Gains Tax would result in a $1bn reduction in revenue to state Governments, increase the cost of renting and exacerbate the housing affordability challenge".
  - The HIA media release also claimed "the analysis shows that increasing CGT would generate a revenue gain for the Federal Government of $0.5 billion a year which would be dwarfed by stamp duty tax losses to the states in excess of $1 billion per year".
  - The HIA concludes "We cannot tax our way out of the housing affordability problem".

AHURI Inquiry into pathways to housing tax reform: Final report

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- AHURI published its report 'The income tax treatment of housing assets: an assessment of proposed reform arrangements' on 7 March 2018.

- The report found that negative gearing and CGT discount benefits are currently heavily skewed towards those who are more affluent, potentially exacerbating income and wealth inequality among the Australian population.

- The report models transitional arrangements that may ease distributional pressures arising from reforms to negative gearing and CGT. These include:

  - a progressive rental deduction reform whereby 'mum and dad' investors receive access to more generous tax concessions than 'sophisticated' investors on higher income and wealth levels; and

  - a gradual reduction in the CGT discount to 'soften' the impact of CGT reform.

- The report observed that while progressive rental deduction reform would ease the impact of reforms for 'mum and dad' investors, this would likely be administratively more complex to implement than an alternative option to cap rental deductions.

Grattan Institute Report – Housing Affordability: re-imagining the Australian dream

- The Grattan Institute's March 2018 report on housing affordability recommends that the Government:

  - reduce the CGT discount to 25 per cent, phased in over 5 years; and

  - limit negative gearing so that investment losses can only be offset against other investment income.

RBA research workshop: University of Melbourne study on negative gearing

- Researchers from the University of Melbourne presented economic modelling on the welfare impacts of removing negative gearing at an RBA research workshop in late 2017.

- One of the criticisms of this research is that in the model's initial conditions it assumes investors expected capital gains from their housing investments are zero. Yet around two-thirds of investors in the model are prepared to accept negative income flows from their investments (i.e. they are negatively geared). It is argued this assumption does not accord with reality, or basic logic as to investor motivations, which undermines any results from the exercise.

- The model also assumes the reintroduction of death taxes.

- One of the Authors, Dr Lawrence Uren, noted that the results were preliminary and incomplete.

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BACKGROUND INFORMATION:

COALITION ACTION:

- The Government is improving taxpayer confidence in the tax arrangements for residential investment properties by disallowing deductions for travel expenses from 1 July 2017 and, for properties bought after 9 May 2017, limiting plant and equipment depreciation deductions to only those expenses directly incurred by investors.
  - Legislation giving effect to these measures received Royal Assent on 30 November 2017.
- From 1 January 2018, resident individuals investing in qualifying affordable housing either directly or through managed investment trusts will be able to obtain a capital gains tax (CGT) discount of up to 60 per cent.
  - This measure is scheduled for debate in the 2018 Winter sittings of Parliament.

KEY QUOTE:

- "Treasury's advice confirms what we have been saying all along — that if you increase capital gains tax by 50 per cent, if you remove negative gearing, it would have a disastrous impact when combined with weakness in the housing market"

Negative gearing – how it works

- A property is said to be 'negatively geared' if it is purchased with debt and the return on investment (rental income) is less than the cost of owning the investment (including interest on borrowings and allowable deductions such as rates and maintenance). When this occurs, the investor can apply their net loss against their other income and reduce their taxable income. The practice of negative gearing is based on the general deduction principle that allows taxpayers to deduct, from their assessable income, expenses incurred in generating or producing that income.
- A taxpayer may be willing to negatively gear because they expect the investment property, once sold, will generate a large enough capital gain to offset their prior 'loss'. Negative gearing is not limited to investment properties – taxpayers may also own other assets, such as shares, which can be negatively geared.

Table 1: Taxable income of individuals with negatively geared investment properties (residential and commercial) in 2015-16

Tax Bracket	Total tax filers ('000s)*	Tax filers with net rental losses ('000s)*	Proportion of tax filers with net rental losses	Aggregate net rental losses ($ billion)#
Up to $18,200	2,562	159	6.2%	1.3
$18,201 to $37,000	3,112	170	5.5%	1.2
$37,001 to $80,000	4,999	467	9.3%	3.6
$80,001 to $180,000	2,419	401	16.6%	3.7
More than $180,000	417	94	22.5%	1.5
TOTAL	13,508	1,291	9.6%	11.3

Source: 2015-16 Tax Stats.

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Note: * Figures rounded to the nearest 1,000 people. # Figures rounded to the nearest $100 million.

Capital gains tax – how it works

- Unlike other forms of income (which are generally taxed at their full value), capital gains are taxed concessionally. Only 50 per cent of the net capital gain is subject to income tax for assets held longer than 12 months. Tax is only one of many factors that affect the investment decisions of individuals.

Table 2: Taxable income of individuals (resident and non-resident) who reported a net capital gain in 2015-16

Tax Bracket	Total tax filers ('000s)*	Tax filers with net capital gains ('000s)*	Proportion of tax filers with net capital gains	Aggregate net capital gains ($ billion) #
Up to $18,200	2,562	90	3.5%	0.4
$18,201 to $37,000	3,112	130	4.2%	0.7
$37,001 to $80,000	4,999	194	3.9%	1.8
$80,001 to $180,000	2,419	177	7.3%	3.6
More than $180,000	417	71	17.0%	11.6
TOTAL	13,508	662	4.9%	18.1

Source: 2015-16 Tax Stats, Table 10A.

Note: * Figures rounded to the nearest 1,000 people. # Figures rounded to the nearest $100 million.

Release of FOI documents: ALP policy on negative gearing and capital gains tax

- On 5 January 2018, Treasury released documents under FOI relating to negative gearing tax deductions and CGT policies.
  - This followed the appeal decision by the Australian Information Commissioner (AIC) that providing access to this information would not, on balance, be contrary to the public interest.
- Mr Dan Conifer of the ABC News appealed to the AIC on 25 July 2016, in relation to the FOI decision by Treasury on 17 June 2016 to deny him access to documents sought on negative gearing and CGT. This included a request for access to documents prepared by Treasury on the Australian Labor Party's proposed policies in these areas.
  - Apart from a small amount of material in a Question Time Brief regarding a report by Mr Ben Philips, all other material in scope of the FOI request was exempted at the time under three FOI law provisions: Cabinet, business affairs and deliberative.
- In its decision dated 8 December 2017, the AIC held that in relation to the applicant's FOI request: "the material that the Department found to be exempt under s 47C of the FOI Act (deliberative) is conditionally exempt. However, giving the applicant access to this material at this time would not, on balance, be contrary to the public interest. Accordingly, this material is not exempt."

APRA Measures

- On 31 March 2017, APRA announced further supervisory measures to reinforce sound residential mortgage lending practises, with all Authorised Deposit-Taking Institutions (ADIs) expected to:
  - Limit the flow of new interest-only lending to 30 per cent of total new residential mortgage lending. This includes placing strict internal limits on the volume of interest-only lending at loan-to-value ratios (LVR) above 80 per cent and ensuring strong scrutiny and justifications of any instances of interest-only lending at an LVR above 90 per cent.

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- Manage lending to investors in such a way as to comfortably remain below the benchmark of 10 per cent annual growth previously advised in December 2014.
- Review and ensure the serviceability assessments, including interest rate and net income buffers are set at appropriate levels for current conditions.

- On 26 April 2018, APRA announced plans to replace the temporary limit on investor loan growth of 10 per cent with more permanent measures to strengthen lending standards from 1 July 2018, in response to a reduction in higher risk lending and improvements in lending policies. The limit will be removed where the board of an ADI is able to provide assurance on the strength of their lending standards.
- APRA will continue to monitor residential mortgage lending market, and adjust existing measures or implement new ones as warranted.

Housing Affordability

- For further information, see QB18-000030 – Housing Measures – Foreign Investment, Tax and Superannuation.

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NEGATIVE GEARING/CAPITAL GAINS TAX

Headline Statement

- The Government is committed to supporting hardworking Australians who wish to invest and provide for their future and for their families.

Key Points

- The Government is playing its part to get the settings for housing right, while encouraging all levels of government to work collaboratively to improve housing and homelessness outcomes.
- State and Territory governments have primary responsibility for housing supply, as the Commonwealth has limited policy levers and Constitutional power.
- The Government is also ensuring that there is integrity in the housing system, and taking action to take the heat out of the housing market. The Government has supported APRA responding flexibly to financial and housing market developments that pose a risk to financial stability. We have seen them impose a temporary 10 per cent speed limit on investor loans, and limit interest only loans to less than 30 per cent of their new residential mortgage lending.
  - In response to a reduction in higher risk lending and improvements in lending standards, APRA recently announced plans to replace the 10 per cent investor loan speed limit with more permanent measures to strengthen lending standards from 1 July 2018.
- The Government has also given APRA new powers over the provision of credit by non-bank-lenders, as well as clarifying that APRA can take measures based on geographic region where appropriate.
- This response – a scalpel rather than a sword – means we can target the overheated areas of our property market without bringing the whole thing down which would be catastrophic for owner occupiers.
- After one of Australia's largest booms in housing construction and several years of very strong growth in prices, national dwelling prices have moderated in recent months and are now growing below their 5-year average annual growth rate.

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Last updated: 13/11/2018 1:54:00 PM

- The Government has improved the integrity of the tax system for individual investors by:
  - from 1 July 2019, denying deductions for expenses associated with holding vacant land;
  - from 1 July 2017, disallowing deductions for travel expenses for residential investment properties; and
  - for residential investment properties bought after 9 May 2017, limiting plant and equipment depreciation deductions to assets not previously used.

ALP policy and Treasury advice

- In advice released under FOI, Treasury explicitly says that "the ALP policies could introduce some downward pressure on property prices."
- In fact Treasury went further and warned that the proposed policy change could be particularly problematic if it coincides with weakness in the housing market.
  - This is not inconsistent with what the Government has been saying.

Policy Commitments

- The Government announced measures in the 2017-18 Budget to improve taxpayer confidence in tax arrangements for residential investment properties.
  - The measures include disallowing deductions for travel expenses for residential investment properties from 1 July 2017, and for properties bought after 9 May 2017, limiting plant and equipment depreciation deductions to only those expenses directly incurred by investors.
  - Legislation giving effect to these measures received Royal Assent on 30 November 2017.
- As part of the Budget, the Government announced it would be providing tax incentives to increase private and institutional investment in affordable housing.
  - From 1 January 2018, resident individuals investing in qualifying affordable housing either directly or through managed investment trusts will be able to obtain a capital gains tax (CGT) discount of up to 60 per cent.
    - Qualifying affordable housing will need to be managed through a registered community housing provider, consistent with state and territory housing policies, and provided as affordable housing for at least three years.
    - Legislation giving effect to this measure was introduced on 8 February 2018.
- In the 2018-19 Budget, the Government announced the measure to deny deductions for expenses associated with holding vacant land.

Background

Negative gearing

- A property is said to be 'negatively geared' if it is purchased with debt and the return on investment (rental income) is less than the cost of owning the investment (including interest on borrowings and allowable deductions such as depreciation and maintenance).
  - When this occurs, the investor can apply their net loss against their other income and reduce their taxable income.
- The practice of negative gearing is based on the general deduction principle that allows taxpayers to deduct, from their assessable income, any expenses incurred in generating or producing that income.
  - Negative gearing is not limited to property – it can also apply to other assets such as shares.
- A taxpayer may be willing to negatively gear because they expect the investment property, once sold, will generate a large enough capital gain to offset their prior "loss".

Capital Gains Tax (CGT)

- Unlike other forms of income (which are generally taxed at their full value), capital gains are taxed concessionally.
  - For individuals, only 50 per cent of the net capital gain is subject to income tax for assets held longer than 12 months. This is referred to as the CGT discount. In addition, the family home is exempt from CGT.
- The concessional taxation of capital gains increases the attractiveness of capital assets from a tax perspective.
  - Having said that, tax is only one of many factors that affect the investment decisions of individuals.

Release of FOI documents: ALP policy in negative gearing and capital gains tax

- On 5 January 2018, Treasury released documents under FOI relating to negative gearing tax deductions and CGT policies.
  - This followed the appeal decision by the Australian Information Commissioner (AIC) that providing access to this information would not, on balance, be contrary to the public interest.
- Mr Dan Conifer of the ABC News appealed to the AIC on 25 July 2016, in relation to the FOI decision by Treasury on 17 June 2016 to deny him access to documents sought on negative gearing and CGT. This included a request for access to documents prepared by Treasury on the Australian Labor Party's proposed policies in these areas.
  - Apart from a small amount of material in a Question Time Brief regarding a report by Mr Ben Philips, all other material in scope of the FOI request was exempted at the time under three FOI law provisions: Cabinet, business affairs and deliberative.

- In its decision dated 8 December 2017, the AIC held that in relation to the applicant's FOI request: "the material that the Department found to be exempt under s 47C of the FOI Act (deliberative) is conditionally exempt.
  - However, giving the applicant access to this material at this time would not, on balance, be contrary to the public interest. Accordingly, this material is not exempt."

APRA Measures

- On 31 March 2017, APRA announced further supervisory measures to reinforce sound residential mortgage lending practises, with all Authorised Deposit-Taking Institutions (ADIs) expected to:
  - Limit the flow of new interest-only lending to 30 per cent of total new residential mortgage lending. This includes placing strict internal limits on the volume of interest-only lending at loan-to-value ratios (LVR) above 80 per cent and ensuring strong scrutiny and justifications of any instances of interest-only lending at an LVR above 90 per cent.
  - Manage lending to investors in such a way as to comfortably remain below the benchmark of 10 per cent annual growth previously advised in December 2014.
  - Review and ensure the serviceability assessments, including interest rate and net income buffers are set at appropriate levels for current conditions.
- On 26 April 2018, APRA announced plans to replace the temporary limit on investor loan growth of 10 per cent with more permanent measures to strengthen lending standards from 1 July 2018, in response to a reduction in higher risk lending and improvements in lending policies. The limit will be removed where the board of an ADI is able to provide assurance on the strength of their lending standards.
- APRA will continue to monitor residential mortgage lending market, and adjust existing measures or implement new ones as warranted.

TAX – NEGATIVE GEARING/CAPITAL GAINS TAX

FOI 2397
Document 8

TOP LINES:

- ~~Labor's only solution is a tax on everything.~~

- Those who negatively gear are not rich. There were about three times as many negatively gearing nurses, teachers and military personnel in 2015-16 than doctors, surgeons and finance professionals – approximately 100,000 claimants compared with 33,000.

- The Government is committed to supporting Australians who wish to invest in real estate and provide for their future and support their families.

- The Government is also ensuring that there is integrity in the housing system, and taking action to take the heat out of the housing market. The Government has supported APRA responding flexibly to financial and housing market developments that pose a risk to financial stability. We have seen them impose a temporary 10 per cent 'speed limit' on annual growth in investor loans, and limit interest-only loans to less than 30 per cent of new residential mortgages.

  – APRA announced plans to replace the temporary limit on investor loan growth of 10 per cent with more permanent measures to strengthen lending standards from 1 July 2018, in response to a reduction in higher risk lending and improvements in lending policies. The limit will be removed where the board of an ADI is able to provide assurance on the strength of their lending standards.

  – APRA will continue to monitor residential mortgage lending market, and adjust existing measures or implement new ones as warranted.

  ~~In response to a reduction in higher risk lending and improvements in lending standards, APRA recently announced plans to replace the 10 per cent investor loan speed limit with more permanent measures to strengthen lending standards from 1 July 2018.~~

- The Government has also given APRA new powers over the provision of credit by non-bank lenders, as well as clarified that APRA can take measures based on geographic region where appropriate.

- This response ~~– a scalpel rather than a sword –~~ means we can target the overheated areas of our property market without bringing the whole thing down which would be catastrophic for owner occupiers.

- After one of Australia's largest booms in housing construction and several years of very strong growth in prices, national dwelling prices have moderated in recent months and are now growing below their 5-year average annual growth rate.

- The Government's calibrated approach is achieving results. As a recent report released by the Housing Industry Association states: "We cannot tax our way out of the housing affordability problem".

~~***Those who negative gear are not rich***~~

- ~~In 2015-16, around 71 per cent of people with rental properties had one property.~~

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- ~~In 2015-16, around 1.3 million Australians had negatively geared rental property.~~
- ~~Almost two-thirds of those who declared a net rental loss in 2015-16 had a taxable income of $80,000 or less.~~
- ~~Of the tax filers who had a net rental loss in 2015-16, around 72 per cent claimed a net rental loss of less than $10,000.~~

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KEY FACTS AND FIGURES:

Key statistics on the housing market *– 9 August, 2018*

	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra (ACT)	National
Median Dwelling Price as at July 2013	$575,130	$475,000	$425,000	$380,000	$481,000	$315,000	$487,000	$476,000	$435,000
Median Dwelling Price as at July 2018	$797,000	$655,000	$490,000	$445,000	$470,000	$422,000	$462,500	$575,000	$527,000
Price growth over the past 5 years (%)	38.6	37.9	15.3	17.1	-2.3	34.0	-5.0	20.8	21.1
Average annual growth rate over the past 5 years (%)	6.7	6.6	2.9	3.2	-0.5	6.0	-1.0	3.9	3.9
Month-on-Month to Jul-18 (%)	-0.7	0.0	0.0	0.7	-1.4	-1.3	-0.5	2.7	-0.6
Through-the-Year to Jul-18 (%)	-6.2	2.3	1.7	3.5	-1.1	17.2	-0.7	5.5	0.4

Source: CoreLogic

- Sydney has the highest median house price of all capital cities at $797,000, followed by Melbourne at $655,000. The national median house price is $527,000.
- Over the last five years, house prices have grown on average by almost 7 per cent per year in Sydney and Melbourne, compared with the national average of 4 per cent.
- This growth has moderated with national house prices growing at 0.4 per cent through the year in the most recent update.

Those who negatively gear are not rich

- In 2015-16, around 71 per cent of people with rental properties had one property.
- In 2015-16, around 1.3 million Australians had negatively geared rental property.
- Almost two-thirds of those who declared a net rental loss in 2015-16 had a taxable income of $80,000 or less.
- Of the tax filers who had a net rental loss in 2015-16, around 72 per cent claimed a net rental loss of less than $10,000.

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LABOR'S POLICY:

- The Member for McMahon claims that taxing investments more will fix housing affordability. If that is the case, show us the modelling. The Labor Party won't model the impact of abolishing negative gearing because it will reveal their real reason for doing it – a massive revenue raising measure.
  - And let's not forget their planned cut to the CGT discount, which is a tax on all Australians.
  - Labor has one answer for everything – to raise taxes.
- Labor's negative gearing policy is madness. By allowing losses to only be offset against investment income, it stops mum and dad investors like teachers and police officers from being able to negatively gear, but allows the super wealthy with large investment incomes to be able to negatively gear.
- Investors accessing negative gearing under Labor's policy will now have only the option of going to the new home market.~~ and, if you're a first-home buyer, you'll be competing with all of them.~~
- In the UK, you cannot offset a net rental loss against your wage income. In the absence of negative gearing, London still has a housing affordability problem.

Labor policy and Treasury's advice

- In the Treasury advice received under FOI, Treasury explicitly says that "the ALP policies could introduce some downward pressure on property prices."
- Labor seems to be trying to have it both ways – on the one hand they are saying this advice shows that their policy wont impact prices in any meaningful way, and yet they're saying the policy is about housing affordability.
  - What this shows is that this policy to Labor is not about housing affordability, but is nothing more than a revenue grab!
- ~~When it comes to housing affordability, the Government is taking an appropriate and proportionate response to addressing pressures in the Australian housing market. The Government is implementing its comprehensive housing affordability plan, announced in the 2017-18 Budget and designed to improve outcomes across the housing spectrum — from Australians struggling to put a roof over their head to those in affordable housing, private renters, first home buyers and downsizers.~~
- Unfortunately the Treasury advice that Labor seems to be so proud of does show exactly what the Government has been saying – it says that housing prices would fall. In fact Treasury went further and warned that the proposed policy change could be particularly problematic if it coincides with weakness in the housing market – which is what is occurring now, with house price growth now declining in monthly terms.
- Government action must be responsive to evolving conditions in housing markets and this is why the Government is making it clear that APRA has the ability to use

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geographically-based restrictions on the provision of credit where APRA considers it appropriate.

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MEDIA COMMENTARY ON NEGATIVE GEARING

FOI release on Labor's policy

- The Shadow Treasurer has issued a number of media releases, most recently on 2 August 2018, concerning documents released under FOI earlier this year and asserting that statements made by the Treasurer contradict Treasury advice.
  - In its advice, Treasury explicitly says that "the ALP policies could introduce some downward pressure on property prices in the short term." This is not inconsistent with what the Government has been saying.
  - Treasury went further and warned that the proposed policy change could be particularly problematic if it coincides with weakness in the housing market.
- Some media articles have reported incorrectly as Treasury analysis, distributional modelling undertaken by Mr Ben Phillips of the Australian National University on Labor's negative gearing policies. References to Mr Phillips' modelling were contained in documents released under FOI relating to Treasury work on negative gearing.

Impacts of abolishing negative gearing

- Abolishing or limiting negative gearing would directly affect up to 1.3 million Australians who have negatively geared rental property.
  - Almost two-thirds of these individuals had a taxable income of $80,000 or less in 2015-16.
- The Government has previously stated that Labor's negative gearing policy would be a "sledgehammer" to the housing market.
  - Treasury's view is that Labor's policy could introduce some downward pressure on property prices in the short term and that this could be particularly problematic if it coincides with weakness in the housing market.
  - After one of Australia's largest booms in housing construction and several years of very strong growth in prices, national dwelling prices have moderated in recent months and are now growing below their 5-year average annual growth rate.
- Some argue that negative gearing benefits mostly high income earners, and should be abolished to help improve income inequality.
  - The Government is addressing inequality with policies to boost economic growth that will generate greater employment and income for Australians, while targeting assistance to those who need it most.
    - : Income inequality, as measured by the Gini coefficient, has experienced a slight improvement since the GFC driven in part by lower income households catching up to the median.
    - : The Gini coefficient measures inequality in society and takes on a value between zero (wealth/income is equally distributed) and one (a single person has all the wealth/income). According to the Australian Bureau of Statistics, the Gini coefficient fell from 0.333 in 2013-14 to 0.323 in 2015-16. This means that inequality decreased over this period.

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– As part of the 2017-18 Budget, the Government announced a comprehensive housing affordability plan designed to improve outcomes across the housing spectrum, from Australians struggling to put a roof over their head to those in affordable housing, private renters and first home buyers.

– The Government is creating the right incentives to improve housing outcomes. It has passed legislation that allows first home buyers save a deposit through voluntary contributions into superannuation, including through salary sacrificing, reduced barriers to downsizing to free up larger homes, strengthened the capital gains tax rules so that foreign investors pay their fair share of capital gains tax, clamped down on negative gearing excesses, and reformed foreign investment rules to discourage investors from leaving their property vacant.

Housing Industry Association/Centre for International Economics report

- In a 16 April 2018 media release, the Housing Industry Association (HIA) state~~s~~d it commissioned the Centre for International Economics (CIE) to investigate the economic implications of changes to the rate of capital gains tax (CGT) on the economy.
- The release stated: "According to research released today, an increase in Capital Gains Tax would result in a $1bn reduction in revenue to state Governments, increase the cost of renting and exacerbate the housing affordability challenge".
  – The HIA media release also claimed "the analysis shows that increasing CGT would generate a revenue gain for the Federal Government of $0.5 billion a year which would be dwarfed by stamp duty tax losses to the states in excess of $1 billion per year".
  – The HIA concludes "We cannot tax our way out of the housing affordability problem".

AHURI Inquiry into pathways to housing tax reform: Final report

- AHURI published its report 'Pathways to housing tax reform' on 5 July 2018 which drew on the findings of three empirical research projects to propose a coordinated, staged program of housing tax reforms.
- The report observed that 'the causes of the housing affordability challenges Australia is confronting are complex and multi-dimensional and include population growth, complex supply and demand issues, infrastructure, planning and investment factors, and government charges and taxes at all three levels of government.'
- ~~In particular, t~~The report found that negative gearing and CGT discount benefits are currently heavily skewed towards those who are more affluent, potentially exacerbating income and wealth inequality among the Australian population.
- The report recommends transitional arrangements that may ease distributional pressures arising from reforms to negative gearing and CGT. These include:
  – a $5,000 deductions cap on residential property, introduced at $20,000 to avoid sudden disruption before being incrementally lowered over 10 years; and
  – a similarly gradual reduction in the CGT discount from 50 per cent to 30 per cent to 'soften' the impact of CGT reform.

Grattan Institute Report – Housing Affordability: re-imagining the Australian dream

- The Grattan Institute's March 2018 report on housing affordability recommends that the Government:

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Contact Number:	(02) 6263 3555	Next update:	
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- reduce the CGT discount to 25 per cent, phased in over 5 years; and
- limit negative gearing so that investment losses can only be offset against other investment income.

RBA research workshop: University of Melbourne study on negative gearing

- Researchers from the University of Melbourne presented economic modelling on the welfare impacts of removing negative gearing at an RBA research workshop in late 2017.
- One of the criticisms of this research is that in the model's initial conditions it assumes investors expected capital gains from their housing investments are zero. Yet around two-thirds of investors in the model are prepared to accept negative income flows from their investments (i.e. they are negatively geared). It is argued this assumption does not accord with reality, or basic logic as to investor motivations, which undermines any results from the exercise.
- The model also assumes the reintroduction of death taxes.
- One of the Authors, Dr Lawrence Uren, noted that the results were preliminary and incomplete.

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Contact Number:	(02) 6263 3555	Next update:	
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BACKGROUND INFORMATION:

COALITION ACTION:

- The Government is improving taxpayer confidence in the tax arrangements for residential investment properties by disallowing deductions for travel expenses from 1 July 2017 and, for properties bought after 9 May 2017, limiting plant and equipment depreciation deductions to only those expenses directly incurred by investors.
  - Legislation giving effect to these measures received Royal Assent on 30 November 2017.
- From 1 January 2018, resident individuals investing in qualifying affordable housing either directly or through managed investment trusts will be able to obtain a capital gains tax (CGT) discount of up to 60 per cent.
  - This measure is expected to be debated in the Spring 2018 sittings.

Negative gearing – how it works

- A property is said to be 'negatively geared' if it is purchased with debt and the return on investment (rental income) is less than the cost of owning the investment (including interest on borrowings and allowable deductions such as rates and maintenance). When this occurs, the investor can apply their net loss against their other income and reduce their taxable income. The practice of negative gearing is based on the general deduction principle that allows taxpayers to deduct, from their assessable income, expenses incurred in generating or producing that income.
- A taxpayer may be willing to negatively gear because they expect the investment property, once sold, will generate a large enough capital gain to offset their prior 'loss'. Negative gearing is not limited to investment properties – taxpayers may also own other assets, such as shares, which can be negatively geared.

Table 1: Taxable income of individuals with negatively geared investment properties (residential and commercial) in 2015-16

Tax Bracket	Total tax filers ('000s)*	Tax filers with net rental losses ('000s)*	Proportion of tax filers with net rental losses	Aggregate net rental losses ($ billion)#
Up to $18,200	2,562	159	6.2%	1.3
$18,201 to $37,000	3,112	170	5.5%	1.2
$37,001 to $80,000	4,999	467	9.3%	3.6
$80,001 to $180,000	2,419	401	16.6%	3.7
More than $180,000	417	94	22.5%	1.5
TOTAL	13,508	1,291	9.6%	11.3

Source: 2015-16 Tax Stats.

Note: * Figures rounded to the nearest 1,000 people. # Figures rounded to the nearest $100 million.

Capital gains tax – how it works

- Unlike other forms of income (which are generally taxed at their full value), capital gains are taxed concessionally. Only 50 per cent of the net capital gain is subject to income tax for assets held longer than 12 months. Tax is only one of many factors that affect the investment decisions of individuals.

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Table 2: Taxable income of individuals (resident and non-resident) who reported a net capital gain in 2015-16

Tax Bracket	Total tax filers ('000s)*	Tax filers with net capital gains ('000s)*	Proportion of tax filers with net capital gains	Aggregate net capital gains ($ billion) #
Up to $18,200	2,562	90	3.5%	0.4
$18,201 to $37,000	3,112	130	4.2%	0.7
$37,001 to $80,000	4,999	194	3.9%	1.8
$80,001 to $180,000	2,419	177	7.3%	3.6
More than $180,000	417	71	17.0%	11.6
TOTAL	13,508	662	4.9%	18.1

Source: 2015-16 Tax Stats, Table 10A.

Note: * Figures rounded to the nearest 1,000 people. # Figures rounded to the nearest $100 million.

Release of FOI documents: ALP policy on negative gearing and capital gains tax

- On 5 January 2018, Treasury released documents under FOI relating to negative gearing tax deductions and CGT policies.
  - This followed the appeal decision by the Australian Information Commissioner (AIC) that providing access to this information would not, on balance, be contrary to the public interest.
- Mr Dan Conifer of the ABC News appealed to the AIC on 25 July 2016, in relation to the FOI decision by Treasury on 17 June 2016 to deny him access to documents sought on negative gearing and CGT. This included a request for access to documents prepared by Treasury on the Australian Labor Party's proposed policies in these areas.
  - Apart from a small amount of material in a Question Time Brief regarding a report by Mr Ben Philips, all other material in scope of the FOI request was exempted at the time under three FOI law provisions: Cabinet, business affairs and deliberative.
- In its decision dated 8 December 2017, the AIC held that in relation to the applicant's FOI request: "the material that the Department found to be exempt under s 47C of the FOI Act (deliberative) is conditionally exempt. However, giving the applicant access to this material at this time would not, on balance, be contrary to the public interest. Accordingly, this material is not exempt."

APRA Measures

- On 31 March 2017, APRA announced further supervisory measures to reinforce sound residential mortgage lending practises, with all Authorised Deposit-Taking Institutions (ADIs) expected to:
  - Limit the flow of new interest-only lending to 30 per cent of total new residential mortgage lending. This includes placing strict internal limits on the volume of interest-only lending at loan-to-value ratios (LVR) above 80 per cent and ensuring strong scrutiny and justifications of any instances of interest-only lending at an LVR above 90 per cent.
  - Manage lending to investors in such a way as to comfortably remain below the benchmark of 10 per cent annual growth previously advised in December 2014.
  - Review and ensure the serviceability assessments, including interest rate and net income buffers are set at appropriate levels for current conditions.

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- On 26 April 2018, APRA announced plans to replace the temporary limit on investor loan growth of 10 per cent with more permanent measures to strengthen lending standards from 1 July 2018, in response to a reduction in higher risk lending and improvements in lending policies. The limit will be removed where the board of an ADI is able to provide assurance on the strength of their lending standards.
- APRA will continue to monitor residential mortgage lending market, and adjust existing measures or implement new ones as warranted.

Housing Affordability

- For further information, see QB18-000029 - Progress On The Housing Affordability Plan.

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FOI 2397
Document 9

From: s22
To: Media Liaison
Subject: FW: Urgent fact check - negative gearing [SEC=UNCLASSIFIED]
Date: Tuesday, 13 November 2018 8:43:47 AM

From: Media Liaison
Sent: Monday, 8 January 2018 11:56 AM
To: s22
Cc: Media Liaison; s22 Kenna, Shannon; s22
Subject: RE: Urgent fact check - negative gearing [SEC=UNCLASSIFIED]

Hi s22

Please see a combined Treasury response to the fact check – it includes input from MECD and MMPD. I can put you in touch with the relevant policy teams if you have any questions.

Thank you,
s22

[MMPD] The first statement is not consistent with our advice. We did not say that the proposed policies 'will' reduce house prices. We said that they 'could' put downward pressure on house prices in the short-term depending on what else was going on in the market at the time, but in the long-term they were unlikely to have much impact. [IITD] We have also previously noted that the CGT discount would be *halved* under the approach by Labor.

In relation to the second and third statement, MECD has provided some revisions, see below:

> *Housing ~~investment~~ wealth ~~is~~ ~~more than~~ makes up around two thirds of Australian households' net worth.* (Note: We calculate housing wealth as 65.3 per cent of total household net worth, so it is incorrect to say more than two thirds).
>
> *The advice from Treasury was received two years ago, before macroprudential changes that have seen annual growth in Sydney house prices reduce from ~~15~~ 16 per cent to ~~five~~ 3 per cent in six months.*

s22
A/g Manager, Media and Speeches Unit
#s22

From: s22
Sent: Monday, 8 January 2018 11:43 AM
To: Media Liaison
Subject: RE: Urgent fact check - negative gearing [SEC=UNCLASSIFIED]

Hey s22

Would appreciate a response by midday.

Thanks,
s22

From: Media Liaison
Sent: Monday, 8 January 2018 10:43 AM
To: s22 ; Media Liaison
Cc: s22
Subject: RE: Urgent fact check - negative gearing [SEC=UNCLASSIFIED]

Hi s22 we're looking at this now.

Thanks,
s22

[redacted]
A/g Manager, Media and Speeches Unit
#s22

From: s22
Sent: Monday, 8 January 2018 10:37 AM
To: Media Liaison
Cc: s22
Subject: Urgent fact check - negative gearing [SEC=UNCLASSIFIED]

Hey s22

Can I please have the below statements fact-checked?

The documents released by Treasury confirm what we have been saying all along – that Labor's policy to increase capital gains tax by 50 per cent and abolish negative gearing will reduce house prices.

Housing investment is more than two thirds of Australian households' net worth.

The advice from Treasury was received two years ago, before macroprudential changes that have seen Sydney house prices reduce from 15 per cent to five per cent in six months.

Thanks,
s22

[redacted]
Media Adviser
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Minister Assisting the Prime Minister for the Public Service
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