Negative Gearing

KEY MESSAGE

- The Government is committed to working to improve housing outcomes for all Australians, regardless of their circumstances, and is implementing a comprehensive housing reform agenda.
- The Government has no plans to change negative gearing arrangements.

KEY FACTS AND FIGURES

- Established housing market conditions appear to be stabilising, with national dwelling prices rising for the fourth consecutive month in June, to be 3.4 per cent above the trough in February.
    - National dwelling prices are now 6.0 per cent below the April 2022 peak but are 18.7 per cent higher than the onset of the pandemic in March 2020.
- As reported in the 2022-23 Tax Expenditures and Insights Statement (page 41), in 2019-20, 1.3 million people had a rental loss (i.e., were negatively geared). This is about half of the total number of people that had rental deductions.
- The deductions associated with rental losses provided a tax benefit of around $3.6 billion in 2019-20.

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BACKGROUND

- The Albanese Government is committed to an ambitious housing agenda which will boost the supply of all housing – more social housing, more affordable housing, more homes to rent and more homes to buy – to address the cost of housing whether you are buying or renting.
- On 18 June 2023, the Albanese Government announced a new $2 billion Social Housing Accelerator to deliver thousands of new social homes across Australia. The Social Housing Accelerator payment was delivered to State and Territory Governments before 30 June 2023. This will increase housing supply sooner for Australians on social housing waiting lists, with all funding to be committed by states and territories by 30 June 2025.
- The Albanese Government has delivered on its housing agenda already by:
  - Establishing the Regional First Home Buyer Guarantee three months early, helping regional Australians purchase a home with as little as a 5 per cent deposit and avoiding paying Lenders' Mortgage Insurance.
  - Widening the remit of the National Housing Infrastructure Facility, making up to $575 million available to invest immediately in social and affordable rental homes.
  - Working with the states and territories through the National Housing Accord and National Cabinet to support planning and zoning reforms to contribute to our aspiration of building one million new homes over 5 years from 2024, as well as investing $350 million in additional federal funding to deliver 10,000 affordable rental homes over five years from 2024 as part of the Accord – matched by the states and territories.
  - Working to establish the $10 billion Housing Australia Future Fund, which would help support 30,000 new social and affordable housing properties in its first five years
  - Establishing the interim National Housing Supply and Affordability Council to provide expert advice to Government on housing supply and affordability.
- The Albanese Government is building on this agenda with a number of new measures in the 2023-24 Budget to assist Australians to find a safe, secure and affordable place to call home. In the Budget, the Government is:

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- Delivering the largest increase to Commonwealth Rent Assistance in more than 30 years, with a 15 per cent increase in the maximum rates;
- Increasing the National Housing Finance and Investment Corporation’s liability cap by $2 billion to provide lower cost and longer-term finance to community housing providers through the Affordable Housing Bond Aggregator;
- Providing tax incentives to encourage more build-to-rent developments to boost new supply in the private rental market;
- Providing an additional $67.5 million of funding to the states and territories to help tackle homelessness challenges as part of a one-year extension of the National Housing and Homelessness Agreement which will provide approximately $1.7 billion in 2023-24 to the states and territories for housing and homelessness services
- Expanding eligibility for the Home Guarantee Scheme, which helps people purchase a home sooner by reducing the deposit they need to save.

• The Albanese Government will also develop a National Housing and Homelessness Plan to identify the short, medium and long-term steps that can be taken to address housing issues in Australia.

Negative gearing – how it works

• A property is said to be ‘negatively geared’ if it is purchased with debt and the 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 principle of Australia’s tax law that expenses incurred in the process of generating assessable income are deductible.

• 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.

Negative Gearing

Capital gains tax – how it works

- The income tax law treats capital gains as a form of income, just as wages, salaries, profits and interest are treated, because they increase the income of the owner of the assets. However, the capital gains of individuals usually receive concessional treatment, compared with other forms of income. This concessional treatment comes in the form of a 50 per cent discount on capital gains realised on assets owned by individuals for at least 12 months. The discount applies not only to housing, but also to other capital assets held for more than 12 months, such as shares.

Recent media articles

- Media coverage of the 23 May 2023 Victorian Government Budget noted the Victorian Premier, Daniel Andrews, had commented that the expanded land tax would be deductible for landlords.
  - For example, in a 24 May 2023 article in The Guardian the Victorian Premier was reported to have said "I'd encourage anybody who can lawfully, legally make claims against that federal tax system to do so".
  - The changes to Victorian land tax are not reflected in the Commonwealth 2023-24 Budget as they were not announced at the time the Budget forecasts were prepared.
  - The Victorian Government makes its own decisions about its own tax base, including land tax, stamp duty and payroll tax. All other things being equal, an increase in state land taxes would increase deductions available to individuals owning rental properties, and therefore result in lower Commonwealth tax collections from those investors. However, the extent of this impact is highly dependent on a range of factors including taxpayer circumstances (for example, their marginal tax rate) and behaviour in response to the policy.
  - Any changes resulting from policies announced in State budgets will be considered as part of the update to the forecasts at MYEFO.

Negative Gearing

- On 26 April 2023, the Australian Greens issued a media release ahead of Greens Leader Adam Bandt's National Press Club address presenting their Parliamentary Budget Office (PBO)-costed proposed housing package.
- The media release stated: "The Greens have identified significant concerns with the government's Housing Australia Future Fund (HAFF) Bill" and "that if the government doesn't come to the table on tackling the rental and housing crisis, the HAFF Bill will not pass the Senate in its current form".
  - The Greens proposed housing package included:
    - Establishing a Rent Freeze Housing Fund for State Governments by doubling the $1.6 billion in annual funding provided under the existing National Housing Affordability Agreement.
    - Doubling the rate of Commonwealth Rent Assistance if income support payments were not raised to a sufficient level.
    - Directly building 225,000 publicly owned properties over the decade.
  - To fund these proposals, the Greens would:
    - Immediately abolish the 50 per cent capital gains tax (CGT) discount for individuals for assets held for more than 12 months; and
    - Phase out the deductibility for all investment property interest expenses against personal income for individuals with more than one investment property purchased before 1 July 2023 over a 5-year period.
- An earlier media release issued by the Australian Greens on 3 November 2022 states that analysis performed by the PBO shows that the fiscal cost of negative gearing will increase as interest rates rise. The media release also references PBO analysis on the fiscal cost of the CGT discount.
  - According to the media release, PBO analysis shows that the fiscal cost of negative gearing will reach $97 billion over the next decade, while the cost of the CGT will reach $60 billion over the next 10 years, a total of $157 billion over the decade.

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- The PBO analysis shows that 56 per cent of the two tax concessions will go to the top 10 per cent of income earners, with 85 per cent of the CGT discount going to the top 10 per cent of earners over the next 10 years.
- The analysis is based on an official cash rate of 2.85 per cent. The totals are measured for 10 years from the 2023-24 financial year.

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