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

- National dwelling prices are being affected by a combination of a higher interest rate environment and strong demand fundamentals, including population and income growth, amid low levels of housing supply.
  - National dwelling prices rose by 7.1 per cent through the year to August 2024.
- As reported in the 2023-24 Tax Expenditures and Insights Statement (page 34), in 2020-21, 1.1 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 $2.7 billion in 2020-21.
- There are a number of tax settings that affect demand for and supply of housing. However, there are a range of other factors that have a more significant effect on the housing market than tax, such as the planning and zoning system, construction sector capacity and interest rates.
  - The State of the Housing System 2024 report notes that “the housing system’s inability to supply sufficient housing that meets the population’s needs is the primary reason for worsening affordability.”

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BACKGROUND

Housing agenda

- 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.
- See QB24-000096 for more information on the Government's housing agenda.

Negative gearing – how it works

- A property is said to be 'negatively geared' if 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 own other assets (such as shares) which can also be negatively geared.

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.

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State of the Housing System 2024 report

- On 3 May 2024, the National Housing Supply and Affordability Council (the Council) published its State of the Housing System 2024 report, which stated that Australia's tax framework has a significant effect on the housing system. According to the Council, there is scope to reform current tax settings.
  - The Council considers that the tax system favours home ownership over other forms of housing tenure, which can widen inequality between homeowners and renters. The Council has called for a gradual transition to a more consistent tax system across housing tenure types, including supporting the development of alternative tenures that assist lower income households to access some of the tax benefits of homeownership.
  - The report also stated that the tax system may encourage the purchasing of investment property relative to other asset classes.
- The report also noted, however, that other factors including rising construction costs, higher interest rates, strong population growth and complex zoning and planning regimes all contribute to insufficient housing supply and affordability.
- The Council is an independent statutory body established under the *National Housing Supply and Affordability Council Act 2023*.

Other parties' policy positions

<u>Australian Greens / the Opposition</u>

- On 6 March 2024, the Australian Greens announced an update to their housing policy with a National Press Club address. The address presented a proposal which would see the Commonwealth build 360,000 homes and sell and rent them for below market prices, helping renters and first home buyers. The proposal was costed by the Parliamentary Budget Office (PBO), with a net underlying cash balance cost of $27.9bn over the decade.
  - To fund these proposals, the press release noted that they "…will scrap the tax handouts for property investors…"

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- An Australian Financial Review article from 12 February 2024 reports that the Australian Greens would demand changes to negative gearing and the capital gains tax discount in exchange for its support for the 'help to buy' shared equity scheme.
  - The article quotes Australian Greens leader Adam Bandt saying "the system is stacked against renters and first home buyers, and Labor's answer is a housing lottery for a lucky few and higher rents and house prices for everyone else" and "in negotiations with the government over the help-to-buy legislation, we'll push Labor to end the tax handouts for big property investors, freeze rents and build public housing to help renters and first home buyers".
  - The article also reports Shadow Treasurer Angus Taylor would leave negative gearing untouched because "we don't want to see more competition in the housing market coming from industry super funds and international investment finds, which is what would happen if Labor had their way".
- On 26 April 2023, the Australian Greens issued a media release ahead of Greens Leader Adam Bandt's National Press Club address presenting their PBO-costed proposed housing package.
- 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 and Homelessness 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.

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<u>Independent crossbenchers</u>

- On 23 April 2024, the PBO released costings commissioned by Senators David Pocock and Jacqui Lambie for five options to reform negative gearing arrangements and the CGT discount for residential investment properties (see Table 1).
  - PBO modelling suggests these options would raise between $16bn and $60bn from 2023-24 through 2033-34.

Table 1: PBO options

	Capital gains tax proposed changes	Negative gearing proposed changes	**UCB impact from 2023-24 to 2033-34**
Option 1	Remove the CGT discount for all residential property assets purchased after 1 July 2024, with property assets purchased prior to this date to be grandfathered under existing CGT discount arrangements.	Remove negative gearing arrangements for residential property purchased after 1 July 2024, with homes purchased prior to this date to be grandfathered under existing negative gearing arrangements.	$27.7bn
Option 2	As per option 1.	Remove negative gearing arrangements for an investor's second and subsequent investment property interests.	$17.0bn
Option 3	As per option 1, but provide a 25 per cent CGT discount for new homes built after 1 July 2024, if these new homes are held for longer than 3 years.	As per option 2, but also disallow rental deductions for vacant properties.	$15.6bn
Option 4	As per option 1, but provide a 50 per cent CGT discount for new homes built after 1 July 2024, if these new homes are held for longer than 3 years.	Remove all negative gearing arrangements.	$59.9bn

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Option 5	No changes to CGT.	As per option 4, but disallow deductions for vacant properties, and allow for new properties purchased or built after 1 July 2024.	$50.4bn

Note: For Option 3 and Option 5, vacant properties would not include unoccupied properties that are undergoing construction, or are on the market but yet to be rented. UCB impact does not include public debt interest impacts. A positive number for the underlying cash balance indicates an increase in receipts.

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