

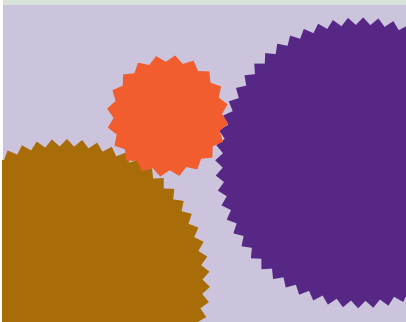
NEGATIVE GEARING



TAXATION, FINANCE & CORPORATE AFFAIRS
NEGATIVE GEARING
AUSTRALIAN DEMOCRATS ISSUE SHEET

The investment driven housing bubble

Over the past three years, housing prices have skyrocketed. This has been wonderful for home-owners but has created plenty of problems for the Australian economy and those without homes. The Government has created the housing bubble by providing too many tax incentives for investors. It has failed in its role of smoothing the boom and bust cycle of the housing market.



Property investors have pushed housing prices up nearly 100% over the past three years. The tax system provides negative gearing, depreciation and capital gains tax incentives to invest in property. The Democrats believe that housing is a basic human need, vital for social stability and financial security, but shouldn't be used to avoid tax or as a 'get rich quick' scheme.

Negative gearing

Negative gearing is when your income from an investment is less than the cost of interest on that investment. The difference between the two amounts is usually a deduction on your taxable income. Investors can also claim agents' fees, cleaning and maintenance as deductions.

Generally, negative gearing is used to reduce the tax on salary income. It can apply to share investments as well as property.

The Democrats oppose the use of negative gearing as a tax avoidance practice. It costs Australia approximately \$2 billion a year¹. Losses should be claimable only against income from the investment; they should be carried forward to future years but not available to reduce tax on other income.

Negative gearing encourages tax-levered debt and tax schemes solely designed to minimise tax. It is the foundation of all the 'taxman buys your investment property' schemes.

The majority of overseas countries – including the USA, the UK, and Canada - do not allow negative gearing. The United States, for example, allows negative gearing losses from investment to be claimed against income from that (and other investments), but not against salary income.

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Negative gearing attacks the integrity of the tax system, and significantly reduces the tax revenue available for Government services such as health and education. The Government have clamped down on other 'non-commercial' business losses but have allowed the abuse of the tax system through negative gearing to continue.

The argument that attacking negative gearing would damage investment in low cost housing is not an argument that has been sustained overseas, where negative gearing has rightly been banned. Direct tax credits or grants are anyway a far more effective method of promoting low cost housing²

Capital Gains Tax Concessions

Back in 1999, the Government further encouraged investment in property by reducing capital gains tax by half. This is another tax concession costing Australian taxpayers around \$2.5 billion a year³

This concession, which is only available to those owning investment property and shares, was opposed by the Democrats but was introduced with the support of the Labor Party.

Depreciation

There are other tax concessions such as depreciation and building allowances that provide investors with tax deductions not available to those who live in their homes.



What now?

As in all bubbles, property prices won't keep going up. Bursting the bubble could create significant problems for the Australian economy, but we need to make sure that the housing prices are sustainable and the tax system doesn't provide as many incentives in the next boom cycle.

The Democrats propose;

- limiting negative geared losses so that they can only be used to offset profits from investment assets, not from salary income;
- encouraging investment in community low-cost housing from the private sector; and
- promoting further stamp duty concessions for first home owners.

Footnotes

¹ Based on the 2000-01 information from the Tax Office the cost was around \$1.2 billion. Due to the investment driven housing boom, this cost has increased significantly.

² See the Democrats Issue Sheet on 'Low cost housing

¹ for details of the Brotherhood of St Laurance affordable housing investment proposals.

³ The cost of the concession in 2004-05 will be \$2,470 million based on the Federal Treasury, Australian Tax Expenditure Statement 2003, page 140



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