

Don't Tinker with Negative Gearing



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It's hard to miss the current debate around tax reform with recent focus being on Negative Gearing and Capital Gains Tax (CGT).

The opposition's plan to limit negative gearing provisions to new dwellings only is premised on the idea that such a move will; encourage new construction, improve supply, create more construction jobs, improve affordability and raise \$500 odd million over the forward estimates. These "positive" outcomes can be countered by; construction costs will rise, supply of rental housing will plummet, construction jobs require skilled workers, property values will fall, affordability wouldn't change much and \$500 million is chump change given our current deficit.

“Rents would inevitably rise.”

Any plan to mess with the current negative gearing provisions is fraught because it is so deeply entrenched and therefore interlinked with our vast and complex tax system. Tinkering with one part of it inevitably impacts on others. What about losses incurred across other asset classes? Excluding them will simply mean investors will re-direct funds to those assets that are unaffected by the rule change. Existing housing stock would be ignored as an investment option putting immense pressure on the supply of rental stock. Rents would inevitably rise.

The last time a government tried to abolish negative gearing it was back in several months



later as the voter backlash from soaring rents and plunging property values frightened them into a retreat.

The States have much to lose too as it will be them and their tax payers that will need to come to the aid of the many who would no longer be able to afford the rent and provide them housing in a system already short on supply and resources.

About 80 percent of investment properties are owned by mum and dad types who only have one investment property. Half of those that make a loss on those investments earn less than \$80,000 per annum. Labor's proposal is hardly a tax on the wealthy and it ignores the fact that not all investors choose to buy property to avoid tax otherwise payable through negative gearing. A loss is a loss and pressure on families to meet their daily expenses means investors are often attracted to property investments that either break even or are positively geared in order to maintain cash flow.

Our housing system is complex and tinkering with a component of it is dangerous and ill-conceived.