

Negative Gearing & Capital Gains Tax

#FairHousingAus Fact Sheet

How much does it cost the country?

According to a recent report from the Grattan Institute, the combination of negative gearing and the 50% discount on CGT comes at an annual cost of \$11 billion to the public purse.¹ With the introduction of the 50% discount on CGT in 1999, Australian landlords went from being profitable to consistently negative.

Who benefits?

Treasurer Scott Morrison dismissed as "a complete and utter myth" the notion that negative gearing chiefly benefits high income earners.² However, a study undertaken by the Australia Institute showed that half of the tax breaks for negative gearing flowed to the top 20% of households whilst almost three-quarters of CGT benefits (73.2%) flowed to the top 10% of households.³

What do the parties say?

The ALP has a policy of reducing the CGT concession to 25% and to restrict negative gearing from 2017 to new properties only. They estimate this will improve the budget by \$565 million over the forward estimates to 2018-9, and \$32.1 billion over the decade.⁴

The Coalition, by contrast, has no plans to make any changes to either negative gearing or the CGT.

The Greens policy is to remove negative gearing for all assets purchased after July 1st 2015, with grandfathering in place for existing investment and a reduction in CGT concession to 0% by 2020. The money saved would be redirected into building new affordable housing.⁵

What do the experts say?

Some say changing negative gearing will affect rental prices as landlords sell their investments. Others have gone so far as to suggest any changes could trigger a recession.⁶ But as Saul Eslake has pointed out, a mass sale of investment properties would drive prices down thereby making them more affordable to would-be home owners, whilst at the same time reducing the demand for rental properties.⁷ John Daley estimated that the changes would result in a modest improvement in housing affordability but that that changes "will not cause housing markets to collapse: their effects on prices are small compared to factors such as interest rates and supply of land".⁸

¹ Daley, J., Wood, D., and Parsonage, H. 2016. Hot property: negative gearing and capital gains tax reform, Grattan Institute. p. 2.

² <http://www.smh.com.au/business/federal-budget/scott-morrison-says-claims-negative-gearing-benefits-the-rich-are-a-complete-and-utter-myth-20160425-goetex.html#ixzz48CpexUMk>, 26/04/2016.

³ M. Grudnoff, 2015. Top Gears: How negative gearing and the capital gains tax discount benefit the top 10 per cent and drive up house prices. The Australia Institute. pp. 4-5.

⁴ <http://www.alp.org.au/negativegearing>.

⁵ The Greens, Reforming Negative Gearing. A fairer housing market for all Australians.

http://greens.org.au/sites/greens.org.au/files/negative_gearing_initiative.pdf

⁶ <http://www.afr.com/opinion/columnists/election-2016-labors-negative-gearing-plan-risks-recession-says-stockland-20160509-gopyho>

⁷ S. Eslake, 2013. Australian Housing Policy: 50 Years of Failure. p.11. Submission to the Senate Economics References Committee.

⁸ Daley et al. op.cit. p. 2.



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This message has been brought to you by St Kilda Community Housing, 102 St Kilda Road, St Kilda.

Authorised by J Enticott 102 St Kilda Road, St Kilda