

Federal tax concessions on housing investment: neither fair nor effective



The Uniting Church believes that taxation is a profoundly moral matter. It is the primary means for ensuring the equitable distribution of wealth and the raising of public money, our 'common wealth' in order that we may ensure that the basic needs of people are met.¹

Housing is a fundamental need and right. All people require secure, affordable housing in order to flourish. In Australia, the effects of two tax concessions, negative gearing and the capital gains tax discount, are combining to push up prices, reduce home ownership and increase housing insecurity.

Negative gearing allows investors to deduct the cost of an investment property against all their other income, thus lowering their tax bill.

The capital gains tax discount (CGT discount) means investors only pay tax on half the increased price when a property is sold.

Together, these tax concessions encourage speculative investment in residential property. In the past, they have been supported by governments of both major parties. Many commentators are now expressing concern about their impacts, and urging they be limited or ended.

What are the costs and who benefits?

It is estimated the cost of both tax concessions is \$7.7 billion a year.² This represents a large amount of lost tax revenue that could have been used to benefit the whole community.

Australian Tax Office data shows that well over one million Australians have an investment property. But the bulk of the financial benefits flow to higher income households. In work commissioned by the Australia Institute, the National Centre for Social and Economic Modelling (NATSEM) analysed the benefit of the tax concessions by income.² They found:

- 34% of the benefit of negative gearing goes to the top 10% of income earners; and
- 73% of the benefit of CGT discount goes to the top 10% of income earners.

When the benefits of both tax concessions were combined, 56% goes to the top 10% of income-earning households and 67% of the benefit flows to the top 20% of households. By contrast, only 13% of the benefit goes to the bottom half of income-earning households.

In summary, the tax concessions of negative gearing and capital gains tax discount represent a very significant amount of foregone income, the benefits of which flow disproportionately to higher income households.

What is the problem?

The Uniting Church believes that taxes should be both fair and efficient, i.e. that they should achieve the purpose for which they are intended.¹ Negative gearing and the capital gains tax discount fail to measure up against either criteria.

The tax concessions are unfair because:

- The majority of the benefits go to higher income households - those who need them least.
- They reduce home ownership by squeezing young people and those on middle and lower incomes out of the market.
- They increase housing instability and insecurity, as more people are forced to rent for longer.
- They contribute to social inequality by deepening the divide between those who own housing and those who do not, and risk this division growing in the future.

The tax concessions are not efficient:

- They encourage speculative investment and so push up house prices unnecessarily.
- They do very little to encourage new housing construction (the original purpose of negative gearing).
- They make the residential property market more volatile (prone to 'bubbles') and the economy less manageable than would otherwise be the case.

What is the alternative?

Negative gearing and CGT discount represent a substantial amount of foregone tax revenue at a time the Federal government is struggling to fund needed services. NATSEM calculated the benefits of one alternative strategy that involved:

- ending the CGT discount; and
- changing negative gearing so it only applied to new homes/was deductible for ten years.²

NATSEM calculated this reform would increase government revenue by \$7.4 billion per annum, with 67% coming from the top 20 per cent of income-earning households.

Many commentators, including groups associated with business and finance, have called for open debate about, and reform of, these tax breaks.³

What can I do?

1. Express your concerns by contacting your local Federal Member of Parliament. Find your electorate here: www.openaustralia.org.au/ Write or send an email expressing your views about their party's policies on negative gearing and capital gains tax discount. Share your concerns on the need for Federal government action to secure affordable housing for all people.
2. Ask candidates in your seat about their views/ their party's policies on negative gearing and CGT discount. Ask them what they/their party will do to reduce the negative impact of these tax breaks. What else will they do to increase secure affordable housing for all?

Let us know what you do

As you take action we would love to know about it. You could send a copy of any letters or emails you write, or just tell us you have done so. Contact us at socialjustice@uniting.org

References

¹ UnitingJustice Australia. Briefing Note. The Uniting Church and Taxation Reform. Sydney: UJA; 2015.

² Grudnoff M. Top gears: How negative gearing and the capital gains tax discount benefit the top 10 per cent and drive up house prices. Canberra: The Australia Institute; 2015.

³ Clancy Yeates. Negative gearing blamed for irrational property obsession: ANZ boss Phil Chronican. *Sydney Morning Herald*, November 3, 2014.