

## What are the experts saying about Federal tax policy and affordable housing?

April 2016

CGT = Capital Gains Tax NG = Negative Gearing

Organisation	Position, recommendations for Federal policy	Key quotes	Source
Australia Institute	NG + CGT discount benefit top 10% of income-earners and drive up house prices. Proposes: <ul style="list-style-type: none"> <li>• End CGT discount</li> <li>• NG only on newly built residential investment properties; only be deductible for 10 yrs from purchase; "Grandfather" existing NG for 5 yrs</li> </ul>	<i>The combination of [NG] and [CGT] discount is distorting the Australian residential property market, encouraging speculative behaviour... used by predominately high income households as a tax shelter... costing taxpayers \$7.7b per year... majority of the benefits of negative gearing and the CGT discount are not going to middle Australia but rather to high income earners... [NG and CGT discount] combine together to encourage Australian investors to invest in residential property...having the effect of pushing up house prices and lowering rates of home ownership... A good tax is efficient and equitable. [NG] and the CGT discount fail on both those criteria. p. 3</i>	Policy brief <i>Top Gears</i> (2015) at <a href="http://www.tai.org.au/sites/default/files/Top%20Gears%20-%20How%20Negative%20Gearing%20and%20CGT%20benefits%20top%2010%20per%20cent.pdf">www.tai.org.au/sites/default/files/Top%20Gears%20-%20How%20Negative%20Gearing%20and%20CGT%20benefits%20top%2010%20per%20cent.pdf</a>
Australian Council of Social Services (ACOSS)	NG + CGT discount raise prices, do nothing to increase affordable supply. Advocates: <ul style="list-style-type: none"> <li>• Restrict tax deductions for NG'd investments</li> <li>• Use resultant savings to strengthen tax incentives for building new affordable housing</li> <li>• Increase tax on capital gains ("inequitable and investment-distorting") and reduce them on other investment incomes</li> </ul>	[NG and CGT] discounts for investors together encourage overinvestment in existing properties and expensive inner city apartments which lifts housing prices and does little to promote construction of affordable housing. p. 4  <i>These tax and housing reforms would improve housing affordability for tenants on low incomes, ease barriers to first home ownership, and improve the fairness of the tax system as well as the efficiency of investment. It would be good for people struggling to find decent and affordable housing and good for the economy as well. p. 29</i>	Report <i>Fuel on the Fire</i> (2016) at <a href="http://www.acoss.org.au/images/uploads/Fuel_on_the_fire.pdf">www.acoss.org.au/images/uploads/Fuel_on_the_fire.pdf</a>  Reported by ABC 15/2/16 at <a href="http://www.abc.net.au/news/2016-02-15/treasurer-hints-at-negative-gearing-crackdown/7167346">www.abc.net.au/news/2016-02-15/treasurer-hints-at-negative-gearing-crackdown/7167346</a>
Business Council of Australia (BCA)	Most NG benefits accrue to the wealthy. CGT, rent and interest income should be equally taxed; longer-term government should reconsider rate and base of CGT; but changes to NG must be "carefully assessed".	<i>Despite its widespread use, it is estimated that most of the benefits of negative gearing accrue to higher-income earners. p. 59</i>	Report <i>Realising our Full Potential</i> (2016) at <a href="http://www.bca.com.au/publications/-realising-our-potential-tax-directions-for-a-transitioning-economy">www.bca.com.au/publications/-realising-our-potential-tax-directions-for-a-transitioning-economy</a> Reported <i>SMH</i> 8/3/16 <a href="http://www.smh.com.au/federal-politics/political-news/business-council-backs-calls-for-changes-to-negative-gearing-and-capital-gains-tax-20160308-gndmg9.html">www.smh.com.au/federal-politics/political-news/business-council-backs-calls-for-changes-to-negative-gearing-and-capital-gains-tax-20160308-gndmg9.html</a>
Grattan Institute	NG and CGT discounts distort investment and should be limited.	<i>Reforms to tax arrangements that favour property investment would help reduce investor demand, thereby easing pressure on house prices and making it easier for households on the margins of ownership to buy a home. Recommendation 2, p. 38</i>  [NG and CGT discount] ... <i>tax breaks distort investment choices and inflate house prices. Summit presentation, p. 25</i>	Report <i>Renovating Housing Policy</i> (2013) at <a href="https://grattan.edu.au/report/renovating-housing-policy/">https://grattan.edu.au/report/renovating-housing-policy/</a>  National Reform Summit presentation (2015) at <a href="http://grattan.edu.au/wp-content/uploads/2015/08/245_daley_presentation_nationalreformsummit1.pdf">http://grattan.edu.au/wp-content/uploads/2015/08/245_daley_presentation_nationalreformsummit1.pdf</a>
McKell Institute	Compares 5 reform policy options. NG is "expensive and inefficient". Favours allowing by "grandfathering" existing NG but only allowing new NG for new construction.	<i>The most economically appealing option is [current NG "grandfathering"] but allow new [NG] only for new construction... This reform has many appealing features. p. 8 This would: ... help tackle the serious issue of constrained housing supply, allow for a smooth transition for existing investors, ... have important indirect benefits in... housing construction... [yielding] a material and positive impact on the federal budget... could easily be more than \$5b over 5 years. p. 32</i>	Report <i>Switching Gears</i> (2015) at <a href="http://mckellinstitute.org.au/wp-content/uploads/pdf/McKell_Negative-Gearing_A4_WEB.pdf">http://mckellinstitute.org.au/wp-content/uploads/pdf/McKell_Negative-Gearing_A4_WEB.pdf</a>
(Federal) Parliamentary Budget Office (PBO)	PBO suggests (either/or/combination): <ul style="list-style-type: none"> <li>• Limit NG to new purchases;</li> <li>• Reduce CGT discounts - save \$9b in 4 years. Includes "grandfathering", not applying to existing owners; and/or</li> <li>• Trim the tax discount on CGT</li> </ul>		Recent costing (2015) reported <i>Fairfax</i> 5/8/15 <a href="http://www.smh.com.au/federal-politics/political-news/cut-negative-gearing-trim-capital-gains-tax-concession-and-save-9-billion-parliamentary-budget-office-says-20150804-girj31.html">www.smh.com.au/federal-politics/political-news/cut-negative-gearing-trim-capital-gains-tax-concession-and-save-9-billion-parliamentary-budget-office-says-20150804-girj31.html</a>

## What are the major political parties saying about Federal tax policy and affordable housing?

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Party	Federal policy	Key quotes	Source
Liberal/Nat Party Government	No clear policy yet. Rejects ALP approach; reported to be developing plans to cap number of properties that can NG, or limit annual tax deductions that can be claimed.  Claims ALP policy targets “everyday mum-and-dad investors”.	Treasurer Scott Morrison at National Press Club, announces no policy on NG/CGT but asserts “for the vast majority of Australians who use negative gearing they are modest income earning Australians”; ALP plan “will actually increase the inequity in the system, not alleviate it”; “any measures that we would consider would be designed to ensure those who really are doing this just simply to get ahead and are on modest incomes, we would seek to mitigate indeed limit or remove any impact on them at all.”  PM Turnbull says ALP proposal would “distort the housing market” but won’t rule out making some changes.	National Press Club 17/2/16 at <a href="http://sjm.ministers.treasury.gov.au/speech/009-2016/">http://sjm.ministers.treasury.gov.au/speech/009-2016/</a>  ABC 15/2/16 at <a href="http://www.abc.net.au/news/2016-02-15/treasurer-hints-at-negative-gearing-crackdown/7167346">www.abc.net.au/news/2016-02-15/treasurer-hints-at-negative-gearing-crackdown/7167346</a>
ALP Opposition	2016 policy is that from 1/7/16: <u>NG:</u> <ul style="list-style-type: none"> <li>Limited to new housing</li> <li>Investments before 1/7/16 “grandfathered” provided any rent losses come from newly constructed housing</li> <li>Losses from new investments in shares and existing properties can still offset investment income tax liabilities, and can still carry forward to offset final capital gain</li> </ul> <u>CGT:</u> <ul style="list-style-type: none"> <li>Discount halved – from current discount 50% on assets held for &gt;12 months to 25%</li> <li>Investments before 1/7//16 fully grandfathered</li> <li>Won’t apply to investments by super funds or small business assets</li> </ul>	Party website says present CGT/NG subsidies “unaffordable”.  Re affordability: <i>The capital gains tax discount and negative gearing have also given investors an unfair advantage over first home buyers. In 2015 investors outnumbered owner-occupiers in new housing loans for the first time.</i>  <i>Labor will reform negative gearing and the capital gains tax discount to ensure that our tax system is fair, sustainable and targets jobs and growth.</i>	ALP national website <a href="http://www.alp.org.au/negativegearing">www.alp.org.au/negativegearing</a>
The Greens	5/8/15 announced they support reform to: <ul style="list-style-type: none"> <li>Scrap NG to save \$3b and use proceeds to boost affordable housing supply including new houses for homeless and new social housing</li> <li>Remove discount on CGT</li> </ul> Greens say this would reduce discrimination against people earning income from savings/work vs those gaining income by accumulating assets. They say removal of NG 1985-87 did not lead to a jump in rents.	Dep Leader Scott Ludlam: <i>The discount on capital gains tax and the use of negative gearing provide tax concessions for high income earners to accumulate more wealth, while wage earners are left behind, are locked out of the housing market and pay higher rents. It is profoundly unfair.</i>	<a href="http://scott-ludlam.greensmps.org.au/campaigns/reforming-negative-gearing">http://scott-ludlam.greensmps.org.au/campaigns/reforming-negative-gearing</a>  <a href="http://scott-ludlam.greensmps.org.au/content/media-releases/greens-release-costings-capital-gains-tax-reform">http://scott-ludlam.greensmps.org.au/content/media-releases/greens-release-costings-capital-gains-tax-reform</a>