

Scrap or preserve negative gearing? Here's six other options worth debating

Written by The Conversation USA

The Australian tax debate has placed negative gearing [under scrutiny](#) . Most of the debate lurches between retentionists, who back negative gearing as a necessary subsidy to [support affordable housing](#) , versus abolitionists, who see it as a market-distorting extravagance that delivers an [unfair advantage to the wealthy](#) .

But what if there was a middle option between retention and abolition that made it work better?

Negative gearing allows investors to claim a tax concession against their personal income for losses incurred on a rental investment property. It is estimated to be worth around [A\\$8 billion a year in tax concessions](#) .

There is a somewhat obscure technical argument in favour of negative gearing for equalising concessions for property investment losses with similar concessions for other investment classes. But most participants in the debate about negative gearing treat it as a subsidy for investment in housing supply.

The abolitionist argument hinges on two main issues. First, it distorts investment by encouraging deliberate loss-making in property investment. Second, as a form of subsidy, it adds inflationary pressure to housing markets that favour already wealthy investors over home buyers. And the federal government pays for it in tax revenue forgone.

Retentionists, however, argue that abolishing negative gearing would lead to an adverse supply shock in the rental housing sector. That would result in housing shortages, higher rents, and worsening affordability for low-income households.

Labor has taken a moderate abolitionist stance. It proposes to [restrict negative gearing to new housing](#) , though with the concession continuing for loss-making landlords who already receive it.

The Coalition government has not yet stated its position on negative gearing. However, there appears to be a strong retentionist stream within government policy statements. The government is also being assailed by property sector lobby groups advocating retention.

We're flying blind on policy reform

There may be another perspective that sits between abolition and retention. A sensible reformist view might be encouraged by the federal government's preparedness to, in effect, subsidise private market housing by \$8 billion per year.

But such a view might also lament the extraordinarily ineffective targeting, outrageously poor transparency about who receives the subsidy, and egregious lack of accountability for supply outcomes.

These concerns emphasise the gross information gaps about the landlords who receive the subsidy and the rental houses that incur the concession. We generally know which landlords receive negative gearing, their occupational status and their income levels. We don't which properties in the rental market are negatively geared, nor the social status of their tenants.

Thus there is no transparent connection between the landlords receiving the subsidy, the dwellings that are negatively geared and the status of the tenants who live in them. This means there is no direct empirical way to verify whether negative gearing benefits low-income tenants.

The federal government seems willing to forgo \$8 billion in tax revenue to subsidise rental housing supply. Surely, then, it ought to ensure this concession assists the neediest tenants in the most pressured parts of the housing market and make landlords transparently accountable for this.

Labor's partial abolition proposal takes a minimal step towards transparency by limiting negative gearing to new properties.

Let's talk about the alternatives

A reformist approach would seek better value for the government's A\$8 billion-a-year investment, in terms of improved affordability for tenant households. How might this work?

The key requirements would be to ensure transparency about which dwellings are negatively geared and the socioeconomic status of their tenants. There are various ways to achieve this.

One model would be to tie the negative gearing subsidy to specified tenant groups. In this case, only if landlords let properties to target tenants, such as those on Newstart, sole parent or aged pension, would they receive the subsidy. This could be done by requiring tenant social security numbers to be reported with landlord tax returns to enable verification.

This approach could be extended by capping the value of weekly rents on properties to which negative gearing could apply. Locational targeting could focus the subsidy to areas with high market rents and poor affordability.

The transition to such a model could be phased in by starting with minimal transparency and accountability requirements and ramping up to more specific requirements. Additional compliance costs would raise the cost of investing in housing. But, it would weed out the investors who are seeking pure profit and encourage those with a social perspective.

A second model that extends transparency and accountability could involve converting negative gearing to a formal low-income housing tax credit [as operates in the US](#) . Such a model provides a tax credit for investors in affordable housing that is certified as managed by a legitimate social housing provider. This could be the fillip that Australia's small community and non-profit social housing sector needs.

A third model might be to channel negative gearing to a dedicated financial investment vehicle drawing on private investment for affordable housing that is built for or let to low-income tenants. There has been a long-standing debate in Australian housing policy circles about the need for long-term institutional investment in [affordable housing](#) .

A finance vehicle that offered a return on capital to investors supported by a tax concession

Scrap or preserve negative gearing? Here's six other options worth debating

Written by The Conversation USA

could underpin new affordable housing supply. Other countries have used housing bonds in this way to attract additional investment in affordable housing.

Another model could use a reverse auction approach, with landlords competing to supply housing of certain specifications to tenants of a particular income category in return for set levels of tax credit. This would operate in a similar way to the government's carbon abatement plan, which involves a [reverse auction for renewable energy projects](#). Though this might raise transaction costs, it might encourage helpful institutional consolidation in the private rental sector.

A fifth approach might be for the government to provide the A\$8 billion as vouchers to low-income tenants for use in renting housing of a set standard or location. Landlords would then cash these vouchers in as tax concessions. The US operates a subsidy model of this type known as "[Section 8](#)".

A final option would be to simply take the \$8 billion-a-year subsidy represented by negative gearing and build desperately needed public housing. Such an approach guarantees transparency and accountability and could directly build around 20,000 dwellings a year, or more with leveraged private finance.

No doubt the current subsidy could be remixed in multiple other ways to improve effectiveness, transparency and accountability in how it procures affordable housing. The examples offered above show that we could be having a much more positive debate about negative gearing than just abolition or retention.

Jago Dodson receives funding from the Department of Environment, the UN Habitat Program and AHURI.

Read more <http://theconversation.com/scrap-or-preserve-negative-gearing-heres-six-other-options-worth-debating-55293>