

Negative gearing windbacks could deliver \$5.3bn a year: Grattan

Written by The Conversation USA

Tax reform to target Australia's distorting capital gains tax and negative gearing regimes could net the government A\$5.3 billion in tax revenue per year, according to a [new report](#) from the Grattan Institute.

The report recommends reducing the capital gains tax discount for individuals and trusts to 25%, and phasing in limits to negative gearing over 10 years.

"The case for reform is extremely strong and we do not think that this is likely to lead to a material crash in the housing market," said the report's author John Daley.

Daley and report co-author Danielle Wood have modelled the impact of their recommendation on house prices, rents and the rate of new housing development, estimating house prices would be 2% lower than otherwise.

Under their suggested tax changes people would no longer be able to write off losses from passive investments like housing against unrelated wage income.

"The only developed country we have found that lets you deduct the costs of interest and allows you to deduct it from your labour income apart from us is New Zealand," Daley said.

Curtin Law School Associate Professor Helen Hodgson said the proposals were well balanced, based on sound evidence, and would improve the efficiency and fairness of the tax system.

She said the challenge was to claw back concessions without creating further distortions. "In that respect the Grattan Institute recommendations go further than those proposed by the Australian Labor Party.

"The ALP proposals allow existing negatively geared properties to remain deductible. This

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would have a lock in effect similar to the pre-CGT exemption from capital gains tax. Borrowers would be reluctant to sell their property and reinvest in other, potentially more productive, forms of investment.

[The Labor Party](#) proposal would reduce the capital gains tax discount to 25% and restrict negative gearing to new properties only.

Daley said this approach was likely to create a new distortion in the housing market.

“Essentially those new houses will be higher priced than the older houses and so you’ll get a distortion as investors disproportionately show up to the auctions for new housing and owner-occupiers disproportionately show up to the auctions for old housing. I’m not sure why we’d want to encourage that.”

Prime Minister Malcolm Turnbull has argued Labor’s proposal would deliver [“massive shocks”](#) to the residential housing market, removing all investors. Finance Minister [Mathias Cormann has said](#) it would drive down the value of established properties, and push up the cost of rental accommodation.

But Daley said given new housing supply was significantly restricted by planning rules rather than inadequate returns, it was unlikely there would be any material impact on supply or rents.

“As Commonwealth Bank CEO Ian Narev, who sits on a loan book of \$400 billion has said, what keeps him awake at night is interest rates and unemployment rates, not negative gearing.”

Data from the Australia Tax Office shows negative gearing is more popular among taxpayers on higher incomes, and the Grattan Institute argues it largely benefits the wealthy.

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Reforming the system would result in more funds instead flowing into equities, businesses and bank deposits.

“The current regime pushes people into property, it encourages them into much higher leverage than they would have otherwise, and that increases the volatility of the housing market and the vulnerability of the financial system,” Daley said.

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