

The Game of Homes: how the vested interests lie about negative gearing

Written by Cameron Murray, Lecturer in Economics, The University of Queensland

When you want to take back a multibillion-dollar giveaway to the country's wealthiest, expect them to put up a fight.

The Labor Party's proposal to reduce the tax advantages of being a landlord by limiting negative gearing to new homes has become the new enemy of the landlord class, who are arming themselves for policy combat.

Luckily, the modern way we fight over resources requires no weapons, nor bloodshed, but it is nevertheless a strategic [Game of Homes](#), with subplots, twists, surprises.

Negative gearers use losses made from investments such as renting out properties to cut their taxable incomes. If they make an eventual profit by selling out of the investment, the capital gains tax rules mean only half of it is taxed.

Labor is [promising to](#) :

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allow existing negative gearing arrangements to continue

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restrict new negative gearing to investment income, meaning investors could subtract investment losses from investment income but not wage income

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allow an exemption for investments in newly constructed housing, meaning those losses could still be deducted from wage income as they can at present

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cut the capital gains tax discount from 50% to 25%, meaning three-quarters of each capital gain would be taxed instead of one half as at present

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exempt existing investments from the change, meaning the capital gain on selling them would be only half taxed as at present whenever they were sold.

The changes would allow it to claw back more than A\$30 billion over ten years, most of it from the higher earners in a position to take advantage of negative gearing.

Among the weapons being deployed against its plans are untruths. Here are some of them.

Untruth: it'll cost us our AAA credit rating

No less an authority than the prime minister has claimed Labor's negative gearing and capital gains tax proposal — that would recoup billions in taxes — would somehow make Australia's public debt [less manageable](#). It would, for some reason, make rating agencies remove the letter A from rating documents that lenders pay little attention to.

This is untrue on two fronts. First, increasing taxes by A\$10 billion per year would make public debt more manageable, not less.

Second, ratings by agencies who proved to be unable to judge risk during the global financial crisis don't matter much to borrowers. Morrison would be as well served by claiming that he has three fully grown and trained dragons that would roast the grandchildren of people who vote Labor.

How effective it is depends on how much our media has become a clickbait farm rather than a news reporting service.

Hint for journalists: it is not news when a politician repeats untruths. It is newsworthy when one tells the truth. If you have to report untruths, simply write a headline along the lines of “politician lies again”. You will better inform the public.

Untruth: mums, dads, teachers and nurses will suffer

The unspoken rule in Australia is that policy changes cannot hurt “Mums and Dads”. Add in teachers, nurses and police, and there’s an untouchable alliance.

Putting aside for one moment that the claim is misleading (the occupations most likely to negatively gear are [surgeons and anaesthetists](#)), the inconvenient truth for those claiming that mums and dads will be hurt is that is that will still be able to negatively gear ([new properties](#)) under Labor’s policy.

What’s more shocking about the claim it that rests on the assumption that the government [care s about the financial well being of police officers](#)

It is hard to believe that a government that presided over a [two-year pay freeze](#) for the 6,500 staff of the Australian Federal Police, and who recently cut its budget, wants its officers to have more money.

To be part of the Game of Homes you apparently need not just to be a police officer, or a Mum or a Dad, but to be landlord as well.

Untruth: we won’t build more houses

In an unlikely claim, Master Builders Australia has [asserted](#) that a policy designed to channel funding into newly built housing won’t help build more houses.

It’s becomes easier to understand when you realise that the association is part of the Game of Homes. Actual builders have been leaving it, in some cases because of concern that it [doesn’t](#)

[rsquo;t represent their interests](#)

and in others because of concern that it has

[ties to the Coalition](#)

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Australia's largest developer of new homes has been quoted in the [Australian Financial Review](#) as saying

the Labor Party's plan to limit negative gearing tax breaks to new housing would put a rocket under the business of residential developers because demand from investors would surge

Untruth: housing will be cheaper, or more expensive

Opponents of Labor's proposal have claimed housing will be both cheaper and more expensive, as if each is a bad thing.

Sometimes, as with [Treasurer Josh Frydenberg](#), they claim both in the same speech, in the same sentence:

Under the policy, everyone who owns a home will see it be worth less, and under that policy, everyone who rents a house will end up paying more.

At least he has pulled back somewhat from the claims made by then Prime Minister Malcolm Turnbull during the last election campaign.

Back then Labor's plan was going to

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devalue every home, every property, in Australia

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smash up home values

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take a big sledgehammer to property prices

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deliver massive shock to the housing market

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put at risk the investments of millions of Australians

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pull the rug out from under the property sector

It isn't what the Treasury was telling the government. We now know, from documents released under the [Freedom of Information Act](#) , that it had told it

overall, the price changes are likely to be small, though the composition of ownership may shift away from domestic investors

Last year the government asked whether it could at least say the Treasury thought Labor's plan [would reduce house prices](#)

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Treasury replied that it [could not](#) , in strikingly blunt terms:

We did not say that the proposed policies “will” reduce house prices. We said that they “could” put downward pressure on house prices in the short-term depending on what else was going on in the market at the time, but in the long-term they were unlikely to have much impact.

There is unlikely to be much impact on rents either. When Labor cut back negative gearing in the mid-1980s in the same way as it plans to now rents rose sharply in Perth and rose somewhat in Sydney. They fell in Adelaide and Brisbane and remained steady in real terms in Melbourne. The Grattan Institute sums up the likely impact this time by saying rents “[won't change much](#)”.

Untuth: the government wants Labor to win the election

Treasurer Frydenberg has [implored Labor](#) to

listen to the critics of its policy, cut its losses and abandon the changes to negative gearing and capital gains tax

The lie here is that Frydenberg is trying to help Labor out, that he would want it to cut its “losses”. In political battles, parties generally celebrate the other side’s losses rather than steer them away from them.

As a rule, the more vested interests organise their strategic alliances and myth-making battle plans to stop your policy, the better it is. We saw it the mining super-profit tax, we saw it with gold tax (yes, until 1991 the profits made from mining gold [used not to be taxed](#)) we saw it with fringe benefits tax, we saw it with capital gains tax itself.

Stay tuned

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I can't predict what will happen next season on Australia's Game of Homes, but there's a chance some of the characters in this story will dramatically meet their demise, perhaps at the election.

Winter is coming.

Read more: [**Vital Signs: why now is the right time to clamp down on negative gearing**](#)

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