NEGATIVE GEARING AND LABOR'S POLICY PROPOSALS

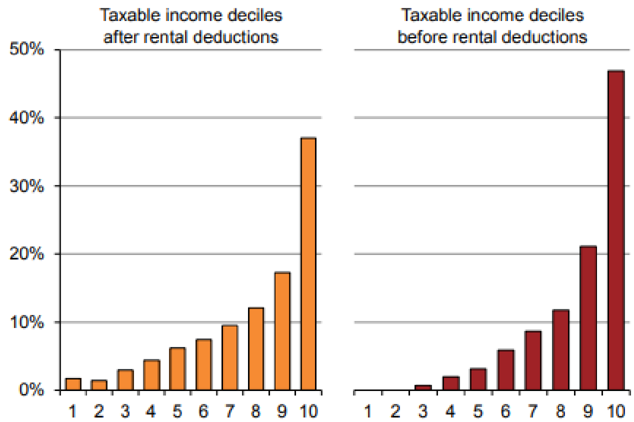
Labor's Proposal

- Negative gearing (ability to offset net rental investment losses against wage income) to be limited to new housing. For existing dwellings, losses will still able to be carried forward against the final capital gain of investments when the property is sold.
- Capital gains tax discount (share of realised capital gains excluded from taxable income and taxed at marginal rates) for assets held longer than 12 months (including new housing) to be halved from 50% to 25%.
- Existing provisions for all assets purchased prior to implementation would be fully grandfathered.

Beneficiaries of Negative Gearing

- 12% of adults own investment properties 61% are negatively geared.
- Investor share rises with income: almost ¾ of investors are in the top two income quintiles.
- Top 20% of income earners receive more than 50% of the benefits of negative gearing.

Percentage of total tax benefits from rental losses by income decile



Notes: Tax benefits are the reduction in tax paid because of rental losses. Income tax includes the Medicare levy, but not the Seniors and Pensioners Tax Offset.

Sources: ATO, Grattan Institute

Effects of Labor's Policy Proposal

- Analysis by Treasury and Grattan estimated only modest effects on housing prices, rents, and supply.
  - *Treasury*: a 'relatively modest' downward impact on housing prices.
  - *Grattan Institute*: price falls of around 2 per cent, with rents little changed.
- Estimating the overall effects of the policy is complex. Our initial thinking agrees with these assessments. In the short-run, reduced investor demand could contribute to lower housing prices and dwelling investment; but in the longer run the overall effect on supply is likely to be minimal as developer margins are maintained through falls in the price of developable land. Rents may also adjust downward in response to housing price falls over the short to medium-run, with more renters transitioning to owner-occupiers due to lower prices.
- Financial stability implications include:
  - Erosion of the equity positions of households in the near term if housing prices fall.
  - Lower investor demand for housing may dampen price cyclicality and limit speculative demand (as shifts incentives away from capital gains and towards rental income).
    - Lower incentive to gear property purchases may reduce household debt.
  - Substitution of investment into other asset classes.

Financial Stability Department
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