To: Australian Tax Forum
Topic: Submission: Personal Tax - negative gearing - effect on housing prices

Housing prices have now risen so high that is unlikely my children (aged 22 and 20) will be able to afford house repayments before they are in their mid-30's. I believe prices are distorted largely due to the Australian Negative Gearing taxation rules. I would strongly support winding back negative gearing, to give all Australians a fair go at housing, not just the wealthy, who are the main recipients of this tax's largesse. In most countries, losses from rental properties can only be offset against income from that property, not other (e.g. employment) income.

Here are some comments lifted from Wikipedia, which express my criticism:
http://en.wikipedia.org/wiki/Negative_gearing_%28Australia%29

"Deduction of negative gearing losses on property against income from other sources for the purpose of reducing income tax is illegal in the vast majority of countries, the exceptions being Canada, Australia, and New Zealand."

"Opponents of negative gearing say,

- It encourages over-investment in residential property, an essentially "unproductive" asset, which is an economic distortion.
- Investors inflate the residential property market, making it less affordable for first home buyers or other owner-occupiers.
- It is effectively a large subsidy from people who are working and saving to people who are borrowing and speculating.
- In Australia in 2007, 9 out of 10 negatively geared properties are for existing dwellings, so the creation of rental supply comes almost entirely at the expense of displacing potential owner-occupiers. Thus, if negative gearing is to exist, it should only be applied to newly constructed properties.
- It encourages speculators into the property market, inflating for instance the Australian property bubble that began in the mid-1990s, partly the result of increased availability of credit that occurred following the entry of non-bank lenders into the Australian mortgage market.
- Tax deductions and overall benefits accrue to those who already have high incomes. This will make the rich investors even richer and the poorer population even poorer. If this prolongs and create a social divide, it will bring the Australian society back to middle age, where there was a clear gap between landlord and peasants (landlords and renters). (One can see from the rules above that the break-even point for those on high tax is less than the break-even for those on low tax, though the latter then give up a lesser portion if they make an overall gain.)
- Tax deductions reduce government revenue by a significant amount each year, which either represents non-investors subsidising investors, or makes the government less able to provide other programs.
- A negatively geared property never generates net income, so losses should not be deductible. (Deductibility of for example business losses when there was a reasonable

expectation of gaining income is well-accepted, the point against negative gearing is that it will never generate income. Opponents of full deductibility would presumably at least allow losses to be capitalised into the investor's cost base.)"

VCOSS also has an excellent paper on negative gearing: http://www.vcoss.org.au/documents/VCOSS%20docs/insight/VCOSS_Insight04_crunch_time.pdf

Thank you for your consideration.

Regards,

Chris Beall