ShelterSA
Housing: a basic human right!

Labor's approach to tax reform – Proposed changes to negative gearing and the capital gains tax discount

Federal Labor leader Bill Shorten has announced the ALP's intention to introduce changes to both negative gearing and the Capital Gains Tax discount as it applies to residential property (currently the rate of CGT is halved if the investment property is held by the investor for more than 12 months). The proposed changes are summarised below:

- **Negative gearing** - Labor will limit negative gearing to new housing from 1 July 2017. All investments made before this date will not be affected by this change and will be fully grandfathered. This will mean that taxpayers will continue to be able to deduct net rental losses against their wage income, providing the losses come from newly constructed housing. From 1 July 2017 losses from new investments in shares and existing properties can still be used to offset investment income tax liabilities. These losses can also continue to be carried forward to offset the final capital gain on the investment.

- **Capital gains tax** - Labor will halve the capital gains discount for all assets purchased after 1 July 2017. This will reduce the capital gains tax discount for assets that are held longer than 12 months from the current 50 per cent to 25 per cent. All investments made before this date will not be affected by this change and will be fully grandfathered. This policy change will also not affect investments made by superannuation funds. The CGT discount will not change for small business assets.

National Shelter has long contended that the interaction of negative gearing deductibility (as it applies to existing rental homes) and the 50% Capital Gains Tax discount have conspired to place inflationary pressure on house prices and median weekly private rental asking prices. This is because they pit investors against would be home buyers largely for the same existing housing supply (since 1991 the proportion of negatively geared investment properties that are new houses has fallen from 31% to 7%). The interaction between negative gearing and the 50% CGT discount is not an effective housing supply measure as the vast majority of incentives are applied to existing rental housing. If applied solely to new properties it may be effective in adding to new rental supply in the medium term and thus may have a downward impact on rental and home purchase prices.
Above information supplied courtesy of ACT Shelter.