ALBANESE CONFIRMS NEGATIVE GEARING AND CGT OPTIONS UNDER REVIEW

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Anthony Albanese has confirmed that Treasury is looking at options to curb the use of negative gearing and the capital gains tax deduction for investors – but refused to confirm whether the government had asked the department to undertake the work.

Following a report by The Sydney Morning Herald and The Age that Treasury was examining policy options to take to the next election, the prime minister said: “I want a public service that is full of ideas.”

“What we do is we value the public service. So from time to time, I’m sure the public service are looking at policy ideas.”

Pressed on whether the government had asked for Treasury to work out options, Mr Albanese said: “I didn’t confirm that. Treasury I’m sure, like other departments, do a range of proposals, policy ideas.”

Mr Albanese said the government’s immediate focus, in terms of fixing the housing crisis, was boosting supply. The government is still trying to secure the passage through parliament of its Help to Buy and Build to Rent policies.

“What our government is considering is fixing housing supply by getting our legislation through the Senate,” he said.

Treasurer Jim Chalmers was similarly evasive.

“Treasury looks at all kinds of different policies from time to time, it is not unusual for us to get advice from departments on issues that have been speculated about in the public or the parliament," he said.

The language is similar to that used by the government when it claimed Treasury came up with the idea to revamp the stage three tax cuts, in that it had not been specifically requested.

Consequently, confirmation that negative gearing and CGT options are under examination will only increase speculation about the government taking tax changes to the election, which is due by May at the latest.

Labor took to both the 2016 and 2019 federal elections proposals to limit negative gearing to new homes only while grandfathering all existing negatively geared properties. It also proposed to halve the 50 per cent CGT discount for those held an asset for more than 12 months to 25 per cent.

In 2016, Labor nearly won when housing prices were soaring. In 2019, the policy backfired as that election coincided with a housing market slump in Melbourne and Brisbane.

The unprecedented housing crisis gripping the nation would suggest a favourable environment to try again.

Shadow treasurer Angus Taylor indicated the Coalition would oppose any such proposals.

“Well, my experience is, if you want the cost of something to go down, you don’t tax it more. If you want the cost of something to go up, you tax it more. It’s pretty simple economics,” he said.

Asked if he would support changes to negative gearing, he said the Coalition would not support a “tax on housing that will reduce the supply of housing and increase the cost of housing in a cost of living crisis”.

While the Greens are demanding negative gearing and CGT deductions be phased out altogether in return for their support for the housing bills stuck in the Senate, the reports said Labor was looking at milder options – such as capping the number of properties an investor can own while grandfathering all existing investors.

Economists have argued that negative gearing alone is not the problem.

In February this year, economist Saul Eslake said negative gearing became a problem when the Howard government halved the capital gains tax deduction for investors who had held an asset for at least a year. Negative gearing went from being a delayed payment of taxes to “a mechanism to convert wage and salary income into capital gains, which are taxed at half the rate”.

“It’s the interaction between the two that has caused the problem.”

The Howard government halved CGT as in return for removing the ability to take inflation into account when calculating CGT.

The Greens’ policy would abolish the CGT deduction and limit negative gearing to existing investment properties, and then over five years progressively phase out the rules for second and subsequent investments. The party says about 1.6 million owners with only one investment property would not be affected.

However, in April 2023, the Parliamentary Budget Office, which has costed the Greens’ policies, warned they could have dire consequences for the housing sector and the economy at large.

The PBO estimates that “ending unfair tax breaks for property investors” could raise $74 billion over a decade, comprising $12 billion from ending the CGT deduction and $62 billion from phasing out the deductibility of interest expenses for property investors.

Although this would cover the $69 billion cost of the Greens’ rental and public housing demands, the PBO warned the proposal “would greatly reduce the return on investment for landlords such that many would be unlikely to invest without either a significant fall in prices or a significant increase in rents”.

“For some investors, we calculate that rental yields would need to double for returns to be equivalent to what they are under current policy settings.”