REFORMING NEGATIVE GEARING
A FAIRER HOUSING MARKET FOR ALL AUSTRALIANS

The Greens’ plan to reform negative gearing and fund the urgent supply of housing

Reforming negative gearing will help restore fairness to our housing market, and directly benefit low and middle income earners, people experiencing homelessness and families stuck on social housing waiting lists.

A HOUSING SYSTEM IN CRISIS

Australia’s chronic undersupply of affordable housing is at a crisis point. Years of underinvestment in affordable supply has been accompanied by decades of generous subsidies to property investors and speculators which has driven prices up as investors out-compete first home buyers. Our housing market is now one of the most unaffordable in the world.

The Greens’ proposal to reform negative gearing is based on models outlined in consecutive reports by a wide range of advocates and economists.

NEGATIVE GEARING: WHO BENEFITS?

Negative gearing allows investors to deduct losses made on rental properties from their other income, thereby reducing their overall annual tax liability.

The biggest winners from negative gearing are the nation’s highest income earners:

- Over half of individual taxpayers with negatively geared rental housing investments are in the top 10% of personal taxpayers, with 30% earning over $500,000.
- The tax benefit of negative gearing is 10 times more for the highest income earners than for the lowest.
- The number of people using negative gearing is almost four times higher for those with incomes of $150,000 than for those earning $50,000 or less.
- 1930 millionaires collectively claimed rental property losses of $115m – a tax deduction worth almost $60,000 each.

The proportion of low to moderate income earners who are negatively geared is very low: only 10% of people earning a total income of $50,000-$100,000 are claiming a net property loss.

The majority of property investors are in the two highest income quintiles (Table 1). The Financial Stability Review report published by the RBA in September 2014 shows households in the top 20 per cent have 60 per cent of all investor housing debt, while the bottom 40 per cent account for less than 10 per cent.

As income increases so does the average ‘loss’ or deduction claimed. The average net property loss reported in 2011-12 was $10,870; but for those earning between $250,000 to $500,000 the average loss was $38,500.

If negative gearing were removed, 95% of people earning $50,000 or less would be unaffected, along with 90% of people earning a total income of $50,001 to $80,000.

WHAT COULD WE DO INSTEAD?

The Greens propose budget savings from reform of negative gearing should be used to build new affordable rental accommodation for thousands of families and individuals stranded on social housing waiting lists and suffering homelessness.
The Parliamentary Budget Office (PBO) was requested to provide a costing to remove negative gearing for all asset classes, for assets purchased on or after 1 July 2015, with grandfathering arrangements for existing investments.

The PBO estimated this proposal would be expected to increase revenue by almost $2.94 billion over the 2014-15 forward estimates. This includes $2.95 billion in revenue and $11 million in departmental expenses to administer. (Table 1)

The PBO estimate the proposal would increase revenue by $42.5 billion over the period to 2024-25.

This includes an increase in departmental expenses to implement and administer the proposal of $18 million over ten years.

Table 1: Financial implications – Remove negative gearing for all asset classes for assets purchased on or after 1 July 2015

<table>
<thead>
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<th>Impact on</th>
<th>2014-15</th>
<th>2015-16</th>
<th>2016-17</th>
<th>2017-18</th>
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<tr>
<td>Fiscal balance ($m)</td>
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<td>-6</td>
<td>896</td>
<td>2,049</td>
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</tr>
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The PBO note the negative impact in 2015-16 reflects an increase in departmental expenses. The revenue impacts in 2014-15 and 2015-16 are small due to the grandfathering arrangements and the timing of tax collections, and have been rounded to zero.

**WHO COULD THIS HELP?**

The Greens propose the revenue raised from negative gearing reform be redirected to increasing the supply of housing for the most vulnerable: people who are currently experiencing primary homelessness and families and individuals stranded on the social housing waiting list.

The Greens propose that revenue from negative gearing reform be redirected to:

- **Directly fund construction of 7000 new homes for the homeless by 2020** – enough to house every person currently sleeping rough or without adequate shelter.

This is estimated to cost $1.12b over forward estimates.

- **Include a target of high quality, fast build, modular or ‘prefabricated’ housing** which will be significantly faster and more affordable to construct. It’s proposed that one third of the social housing and half of the homelessness housing supply be prefabricated.

This initiative would cost a total of $2.845 billion over forward estimates and would directly assist up to 22,000 of the most vulnerable in the community.

**HOUSING THE HOMELESS**

On any given night more than 105,000 Australians are homeless. That’s 1 in every 200 people.

According to the last census 6813 of these people were sleeping on the streets. Many thousands more were forced to couch surf, live in severely overcrowded housing, or in places like caravan parks and boarding houses that lack personal space and security.

More than a quarter of our homeless population are children under the age of 18. On census night almost 18,000 children under 12 were counted as homeless, 402 were sleeping rough.

Domestic violence is still the main cause of homelessness. In 2013 over 77,000 cases of people receiving assistance from homelessness agencies were escaping some form of domestic violence or family violence, but emergency accommodation was only provided in 81% of cases.

**TAKING FAMILIES OFF THE WAITING LIST**

In Australia today there are more than 217,000 applicants languishing on the social housing waiting list.

The time spent on the waiting list has blown out massively. The undersupply of social housing is so bad it’s currently taking an average of 2.6 years to house those on the priority list in greatest need, and 7.7 years for all applicants on the waiting list. The figures vary greatly across the states and territories, and can be deceptive. In Melbourne’s southern suburbs, one applicant had to wait for 18 years and 10 months before they were given a home.

More than 67,000 (34%) applicants on the waiting list are classified as being the ‘greatest need’ – they are homeless, or their life, safety or health is at risk in their current housing.
The Greens do not believe the failures in our system or the excruciating time on the waiting lists are acceptable in a modern and prosperous economy.

Core funding for social housing has been in decline for the last 15 years. The states have been selling off public housing stock and using federal funding to prop up their housing programs with little transparency on how many new dwellings they are building.

Meanwhile, demand for social housing will keep growing dramatically. Before the Abbott Government closed it down, the National Housing Supply Council projected demand for public housing will be higher than that for private rental housing or home ownership in coming years.

More housing is required to relieve the pressure on our social housing system. As with the successful social housing component of the 2009 stimulus package, a mix of public and not-for-profit community housing will be funded according to priorities set collaboratively with state and territory public housing agencies and the community housing sector.

> SUPPORTING INNOVATION WITH A PREFAB TARGET

Our housing supply initiative includes a target for 1/3 of social housing and ½ of homelessness housing to be constructed from sustainable prefabricated or modular housing. Modular housing can be delivered in significantly less time and at up to half the cost of conventional housing. In suburban Perth a one bedroom house was recently delivered in just 14 weeks from the time of order to delivery on site – at a cost of around $75,000 it can be installed in 10 hours by four people.

Modular and prefabricated housing is also far cheaper to inhabit; high levels of insulation means the house is far easier to heat in winter and keep cool in summer, and typically use just 10% of the energy of a five star home. High quality prefabricated homes can also be built to a wide variety of designs and are extremely well suited to medium density infill developments in urban centres.

3 Parliamentary Library briefing using RBA and HILDA data 2015
4 Parliamentary Library research using ATO Taxation Statistics, 2011-1
5 Parliamentary Library using ATO Taxation Statistics for 2011-12 (latest available data). This is because just 5% of taxpayers earning below $50,000 and only 9.6% of taxpayers earning between $50,000-$80,000 have net rental property losses.
8 viii Cockburn Herald ‘Pre-fabulous’. September 15 2012