-year losing s time up for gearing?

dollar drain on the budget and most without it, writes **Shane Wright.**

ernment's wide-ranging ul of the tax system.
g tax shelters such as e gearing would enable a ning of the tax base.
$55 million expected to be in the first year after the would help pay for a cut in al income tax.
e government cannot ue to tolerate a situation in the general body of ers effectively subsidises perty investments of a lar group of, usually, high- e taxpayers," Keating ed to the cabinet.
years later he was back the cabinet where negative g was reinstated.
claimed revenue had not alised. Instead of $55 million mmonwealth had collected lion.

ating described gative gearing as 'outrageous rort'.

estors avoided the financial caused by the end of negative g by using other tax devices. ts climbed in Sydney (and to er extent in Perth) although vere stable in other capitals. en Liberal leader John rd had argued that axing ive gearing was "done in the

The debate around negative gearing quietened until the release of the Howard government's response to the Ralph review of business taxation in 1999.

It had advocated a cut in capital gains tax, arguing that to do so would "enliven and invigorate" equity markets, encourage people to invest in shares and more broadly "achieve a better allocation of the nation's capital resources".

The Howard government followed the advice, slicing capital gains tax.

But within two years of that concession coming into operation, something had happened to the rental market.

Whereas landlords had been "positively geared" ahead of the change, the size of losses exploded with investors moving their cash into the property market to chase capital gains.

Total rent collections turned negative in 2001-02. They have not been positive since, reaching a record $10.8 billion in 2008-09.

Losses have fallen but they are still a multibillion-dollar drain on the overall federal budget.

Tax Office figures show a substantial difference between landlords who are negatively geared and those who earn a positive return on their rental properties.

In 2015-16, the most recent year for available data, there were close to 3 million rental properties around the country. Of those, 1.8 million lost money.

The single largest expense claimed against the rent on a property is interest.

Of the 1.2 million positively geared properties there was

Photo: Elke Meitzel

Buy and hold is the plan

Cate Bakos, 44, of Yarraville, owns more than 20 investment properties, mostly residential houses in Victoria but some interstate. Her properties in Melbourne are negatively geared.

"I'm a buy-and-hold investor, I'm not an investor who plans to sell. My plan to retire my debt is over time because I started early, so I got the benefit of being able to hold my assets, and I won't be selling in the foreseeable future.

Anyone who is planning on flipping – selling to make a profit – or anyone who finds themselves in a situation where they may have to sell could justifiably be nervous about paying more tax on the sale and giving up some of that gain.

But at the end of the day you're only taxed on your gain, so anyone who is selling and making a loss isn't going to be negatively impacted by that change, obviously the negative impact is making a loss in the first place.

[Bill Shorten] certainly has made it obvious that [addressing negative gearing] is on his agenda so it would be silly of any of us to believe that it won't happen, but we can't bank on it happening immediately.

Amounts claimed by negative gearing landlords, 2015-16

Mortgage interest	$18b
Capital works	$2.5b
Plant depreciation	$2.1b

1.3 million
Total individuals with negatively geared property, 2015-16

$3.6b
Mortgage interest claimed by 816,000 positive/neutral landlords, 2015-16

+250%
Increase in number of people negatively gearing residential property, 1994-2014.

The interaction between negative gearing and the capital gains tax concession has roused the interest of the Reserve Bank.

As early as 2003, it used a submission to a Productivity Commission inquiry into first home ownership to note its interest in the effect of negative gearing on the property market.

The Reserve Bank argued property promoters were selling the tax advantages of negative gearing for real estate so that "resources and finance are being

when, as Labor's new shadow treasurer, he suggested a change to negative gearing during an ABC *Lateline* interview in 2003.

The Henry tax review of 2010, while not advocating an end to negative gearing, made clear it needed to change.

Its research found highly indebted investors were being delivered a huge tax advantage that was ultimately footed by ordinary taxpayers.

A more "neutral" tax treatment around property, which included a change to the capital gains tax

investment, particularly in housing".

The tax system was funnelling problems into a housing market that itself was a significant source of risk to both the nation's banks and the Australian economy.

It was around this time that shadow treasurer Chris Bowen started work on Labor's policy with a primary aim of raising revenue to deal with the budget bottom line.

Housing affordability was also part of the picture as he and senior members of the ALP frontbench worked through options.

would be paid for by overhauling tax concessions.

"In that framework, negative gearing should be skewed towards new housing so that there is an incentive to add to the housing stock rather than an incentive to speculate on existing property," he said.

Labor announced its policy in early 2016. While the government went hard opposing the policy, even then treasurer Scott Morrison conceded there were "excesses" around negative gearing.

gearing and the capital gains tax concession is a toxic elixir," he says.

The government is standing by negative gearing.

Treasurer Josh Frydenberg says the policy prescription of Labor will prove devastating for the property market and to small-time mum-and-dad investors who may have one or two properties.

"Labor's policy will make sure that people who own their home will see the value of their home be less, and fall, and if they rent their home, their rent will go up as a

The ri that b will so

Melissa Heagney

Simon Beasley is a Melbo maker taking a punt on property market.

He and wife Merrie sol ury South Yarra apa November, and are now the hopes of buying bac cheaply as Melbourne's prices slump.

And they're not alone past 12 months as prices property speculators gambling on the market, fore it gets worse and ren for the bargains.

Experts are urging those trying to cash in as slows and home loans tig

Director of Wakelin Pr visory Jarrod McCabe owners have been look market closely to see if take advantage of the co

"There's definitely be that, particularly earlier selling and hoping they peak and then waiting for to fall," Mr McCabe said

Mr McCabe said this s risky because it was har the property market. might be six months aft ket troughs before any that it has hit the bottom take time to emerge.

Financial adviser and ProSolution Private Cli Wemyss agreed, saying of his clients were "cons thinking about" trying market, he advised again ularly as it was too har exactly what would hap bourne's property mark next few years.

"It's too high risk and against them signific Wemyss said.

People with large could end up selling f expected, before payin price for their next pr market turns in the me

Adding to market McCabe said upgraders