Urban Development Institute of Australia
NATIONAL

Member Alert

23 February 2016

UDIA RELEASES NEW MODELLING THAT CONFIRMS NEGATIVE GEARING AND CAPITAL GAINS TAX ARE A CONTRIBUTOR TO GOVERNMENT REVENUES NOT A DRAIN

The Urban Development Institute of Australia (UDIA) has today released new modelling confirming the danger of making changes to negative gearing and capital gains tax. The modelling has been independently validated by MacroPlan Dimasi.

The modelling shows that capital gains tax claws way more back in tax than an investor receives in negative gearing support over the life of an investment. The government is currently between $43,000 to $71,000 ahead in revenues from the combination of Negative Gearing & CGT.

Negative gearing should be seen in its proper context. It is a rational tax policy designed to ensure investment occurs in assets with low yield and high capital growth, while capital gains tax then claws back that support when the asset is sold.

“There is a common misconception that negative gearing is a tax benefit and a drain on Government coffers. In fact, it is a rational tax policy designed to ensure investment occurs in assets with low yield and high capital growth,” Michael Corcoran, UDIA National President, said.

“Capital gains tax then claws back that support when the asset is sold,” he continued.

“UDIA modelling, validated by MacroPlan Dimasi, shows that when seen as a package of taxes as they should, the government ends up making a lot more out of property investment than it gives in support to investors,” Mr Corcoran said.

The UDIA has modelled four scenarios, validated by MacroPlan Dimasi, showing that capital gains tax claws way more back in tax than an investor receives in negative gearing benefits:

49% marginal tax rate	Status quo	Reduce discount to 25%	Remove discount	Limit deductions to capital account
Negative gearing NPV	$86,865	$86,865	$86,865	-$23,356
CGT	$158,564	$237,846	$317,128	$158,564
Difference collected by Govt	**$71,699**	**$150,981**	**$230,263**	**$181,920**

30% marginal tax rate	Status quo	Reduce discount to 25%	Remove discount	Limit deductions to capital account
Negative gearing NPV	$53,182	$53,182	$53,182	-$14,299
CGT	$97,080	$145,620	$194,160	$97,080
Difference collected by Govt	**$43,897**	**$92,437**	**$140,977**	**$111,379**

The model shows that:

- Under the current scenario, **capital gains tax claws back between $43,897 and $71,699 more** than an investor receives over the life of their investment.
- Under the Labor Party's policy, **capital gains tax would claw back between $92,437 and $150,981 more** than an investor receives over the life of their investment.
- If negative gearing is retained but the CGT discount is removed altogether, **the government claws back between $140,977 and $230,263 more** in capital gains tax than an investor would receive in negative gearing support.
- If negative gearing was limited to the capital account, **the government would claw back between $111,379 and $181,920 more** in capital gains tax than an investor would receive in negative gearing support. This option would undermine the entire premise of Negative Gearing as a support for the negative cash-flows incurred by investors in this low yield investment class.

"This modelling shows that the only financially viable & responsible option for supporting investment in our undersupplied housing market is the status quo," Mr Corcoran said.

"Given the findings of this research, UDIA urges the Commonwealth Government & Opposition not to change a system that has been efficiently delivering rental accommodation for decades," Mr Corcoran said.

Details of the modelling can be found here:
http://www.udia.com.au/_literature_210167/Analysis_of_Negative_Gearing_and_CGT_Changes.