

Negative Gearing – What is the Real Problem?



It is time all the reactionary politicians got their facts straight. The only thing that is going to improve the housing crisis is more housing not punishing landlords. That is like moving the deck chairs on the Titanic. Landlord's need to offset their losses, for example large repairs for tenant damage. Nevertheless, we don't need to give Landlords tax breaks for expenses they have not incurred, such as building depreciation.

Consider an investment property earning \$750pw with only a \$500,000 loan. Let's assume the original building cost of that property is \$200,000 so building depreciation will be \$5,000 a year. This is a notional deduction assuming the building will depreciate to nothing over 40 years, even though, as we know, the building will go up in value. Here is how it works:

Tax Return	
Rent Income	\$39,000
Less:	
Rates	\$ 2,000
Insurance	\$ 3,000
Repairs	\$ 1,000
Property Management	\$ 3,000
Interest \$500,000 x 6%	\$30,000

The property breaks even	0
Then deduct depreciation	\$ 5,000

Loss For Tax Purposes	\$ 5,000

Tax Refund $\$5,000 \times 32\% = \$1,600$ cash from the ATO for no cash outlay.

Note \$750 per week rent, every week is a brilliant return with such a low mortgage, yet it still barely covers the costs of holding the property and the tenant is certainly not paying off the landlord's loan. The inequity in the market is the fact that the landlord receives \$1,600 from the ATO despite not having incurred an out of pocket expense. It is fair to ask, why should landlords receive this tax bonus when the building is not depreciating?

To remove negative gearing would be catastrophic to a landlord faced with repairs. Just like other risky investments and businesses they should be able to offset their losses. Expecting landlords to pay tax on income they have not received because it has gone straight out again on expenses creates irrational inequities in the market and risks homelessness for those in the greatest need, those who cannot afford to buy a house no matter the price.

The higher the income the higher the refund generated by building depreciation. Why has this issue not even been mentioned in all the discussion? A call to remove negative gearing shows how little the speaker understands property and tax. Remove the artificial non cash flow tax deduction that is Div 43 building depreciation and allow fair market forces back into the property market. Some will say we need building depreciation to stimulate new builds. The only help that end of the market needs at the moment is materials and labour.

Further, when the investor eventually sells their property they must pay CGT on inflation meaning that after selling costs and tax they will have nowhere near enough left to buy a similar property. Each year the ATO own a bigger percentage of the property. Yet every cent to pay the property off has come from the owners wages not the rent.

Removing the 50% CGT discount will make it even less logical to invest in rental accommodation to save for retirement. It maybe better to spare yourself the grief and worry of paying off and maintaining a property, just enjoy your money. Putting enough aside so you still qualify for the pension. I fail to see how there is any benefit in punishing landlords any further and a lot to lose. Consider what happened when Paul Keating abolished negative gearing. Investors left the market in droves and the law quickly had to be reversed.