

# Negative gearing: The future of property investment

Many worried investors have been asking me about the future of negative gearing, especially if Labor wins the next election. Politicians are not always guided by common sense, and there are many reasons why they should be careful when tinkering with negative gearing

**THE** statement we most often hear is that negative gearing benefits the rich, but let's take a closer look. According to the ATO there are about 13 million individual taxpayers, of whom about two million (15.4%) own one or more investment properties. Of these two million property investors, 1.5 million own one property and only about 80,000 own more than four properties. So negative gearing does not primarily benefit the wealthy; instead, it helps ordinary people supplement their superannuation.

## Materiality for government budgeting

By allowing negative gearing on investment properties, the government forgoes about \$3bn in taxes every year. Compare this to other taxes forgone by the government:

1. Superannuation concessional taxation: **\$36bn**
2. Capital gains exemption on owner-occupier property: **\$34bn**
3. GST on uncooked and unprepared food: **\$7bn**

The \$3bn forgone because of negative gearing is further reduced by the fact that, for every dollar of interest deduction

## OUR EXPERT

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claimed (the biggest deductible amount by far), there is a corresponding dollar of taxable income for the banks. As a result, the government is only marginally impacted by this tax concession as interest is by far the biggest deduction claimed.

In addition, the government

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collects \$10bn a year in capital gains, which is only paid by investors (owner-occupiers are exempt). So, is it worth even thinking about getting rid of negative gearing?

## Effect on the economy

Back in 1985, when the economy was already fragile, economic chaos soon followed the Hawke government's removal of negative gearing. The same government that removed it reinstated it 18 months later. Given the reluctance of politicians to ever back down on their policies, it was a clear admission that it had been a major mistake! This lesson from history should provide ample warning for the future.

## Understanding the numbers

In countries where negative gearing does not exist, properties tend to have higher yields or lower expenses, so the return to investors remains reasonable. No one in their right mind would invest in a venture that did not provide market returns. In Australia, negative gearing is part and parcel of the equation and, if it was removed, the only logical outcome would be that investors would have to raise rent to compensate, or simply sell. In effect, property prices would decline and construction of new dwellings would slow down dramatically, creating a huge economic downturn as the construction industry in Australia employs a sizeable workforce.

## In conclusion

Tinkering with negative gearing will have only downsides for everyone: the supply of properties will reduce, rents will go up, and unemployment numbers

will rise and create a downward spiral such as the one that rocked Australia the last time a government removed it. Property investment is an effective tool that helps two million mostly ordinary Australians bolster their retirement income and, at the same time, provides much-needed rental accommodation that the government does not need to supply. **YIP**

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