FOI 2400 -
Document 1

From: Fraser, Bede
To: s22 [redacted]
Cc: s22 [redacted]; Purvis-Smith, Marisa
Subject: FW: Update to QB18-000106 - Tax - Negative Gearing [DLM=For-Official-Use-Only]
Date: Thursday, 11 October 2018 12:20:41 PM
Attachments: 18x849-181008-Oped-Labor-has-a-plan-to-rewrite-the-good-news.pdf

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FNA – note the request for relevant quotes from Treasury's FOI release.
Bede

From: s22 [redacted]
Sent: Thursday, 11 October 2018 12:08 PM
To: Fraser, Bede
Cc: Tsr DLOs; s22 [redacted] QTB
Subject: Update to QB18-000106 - Tax - Negative Gearing [DLM=For-Official-Use-Only]

Hi Bede,

Ahead of the next sitting fortnight, could we please request that a key quotes section be added to the negative gearing QTB?

We would be grateful if the key quotes could focus on what recent research has said regarding the potential impacts of Labor's policy on the housing market. If it helps, a number of these reports are referenced in the Treasurer's recent op-ed (attached – see quotes from Citi and RiskWise research). I've also been asked if we can include relevant quotes from Treasury's FOI release regarding potential impacts if negative gearing was removed during a market downturn.

In terms of placement, I think this section could probably sit between key facts and background sections in the QTB. Please let me know if you have any questions.

Thanks in advance for your help,

s22 [redacted]

s22 [redacted]
Departmental Liaison Officer | Office of the Hon Josh Frydenberg MP
Treasurer, Parliament House, Canberra ACT 2600
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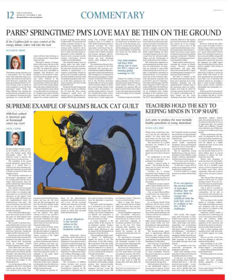
LABOR HAS A PLAN TO REWRITE THE GOOD NEWS ON...

By JOSH FRYDENBERG

The Australian
Monday 8th October 2018
898 words
Page 12 | Section: COMMENTARY
380cm on the page



FOI 2400 - Document 1

LABOR HAS A PLAN TO REWRITE THE GOOD NEWS ON THE HOUSING FRONT

ALP promises to take a wrecking ball to negative gearing, capital gains tax discount

JOSH FRYDENBERG

The housing market has slowed. Prices in our major capital cities have fallen for 12 consecutive months, with property values in Sydney down more than 6 per cent and Melbourne more than 4 per cent from last year's peaks.

These movements follow interventions by the Australian Prudential Regulation Authority, which sought to strengthen residential lending standards following an upsurge in lending to property investors.

APRA's decision to place a 10 per cent benchmark limit on the growth in bank lending to investors and clamp down on interest-only loans has had the desired impact.

From a high of 10.8 per cent in mid-2015, growth in housing loans to investors has slowed to 1.5 per cent today. This has not come at the expense of lending to owner-occupiers, but credit growth has remained relatively stable around 7.5 per cent over the last couple of years.

This changing dynamic away from investors driving much of the growth in the housing market to one where owner-occupiers are back playing the predominant role is particularly good news for people getting into the market for the first time.

Last year more than 100,000 first-home buyers received a loan approval, the highest number since 2009, and their share of the overall number of owner-occupier loans was 18 per cent. This was significantly up from 12.9 per cent in early 2016.

Acknowledging that the heat has come out of the housing market, the Reserve Bank said in its monetary policy statement last week that "conditions in the Sydney and Melbourne housing markets have continued to ease and nationwide measures of rent inflation remain low". This "pullback is a welcome development", said RBA governor Philip Lowe, and is putting the market "on a more sustainable footing".

One of the world's leading rating agencies, Standard & Poor's, recently reaffirmed Australia's AAA credit rating and has commented positively on the "orderly unwind" in the housing market, which it says "won't weigh heavily on consumer spending and the financial system's asset quality".

However, all the benefits now flowing from this managed-transition housing market are at risk from the Labor Party's reckless attack on negative gearing and the capital gains tax discount.

In its determination to drive property prices further down, Labor is taking to the next election a policy to limit negative gearing to only newly constructed housing and to cut the capital gains tax discount on assets that are held for longer than 12 months from 50 to 25 per cent.

This will punish not just the 1.3 million people with negatively geared properties but everyone with equity in their home, as when they eventually sell their property they will do so in a market with fewer potential buyers. What is more, many of those accessing negative gearing are people that the public would not necessarily consider rich.

> This is not the time to give Labor a chance to roll the dice with its reckless and punitive taxation policy

About two-thirds of those with negative geared properties have a taxable income of less than $80,000, and of everyone claiming a net rental loss, 70 per cent do so with only one property and 72 per cent claimed a net loss of $10,000 or less.

No doubt many of those are among the 58,000 teachers, 41,000 nurses and 19,000 police and emergency service workers who negatively gear property.

Since Labor's policy was announced, there has been no shortage of critics.

In June, a report by RiskWise warned of "unintended consequences", estimating Melbourne and Sydney median property prices could fall about 9 per cent.

Last month, Citi published research suggesting Labor's policy could, "accelerate the cyclical weaknesses in housing prices by further limiting housing demand, with spillovers to consumer spending".

Even more problematic was Standard & Poor's warning that "our ratings could come under pressure if house prices fall sharply and increase risks to fiscal accounts, real economic growth and financial stability".

Labor's policy couldn't come at a worse time and be more ill-judged.

Yesterday, opposition finance spokesman Jim Chalmers thought to bat away these dangers by saying: don't worry now about the market conditions today — trust us, as we are making this policy for the "long term".

But this ignores the real risks that Labor's policy poses to stability of the housing market, the value of the No 1 household asset and the adverse impact it could have on Australia's credit rating and economic growth.

Let's not forget the RBA governor recently said of the housing market: "It is good news that the adjustment is taking place at a time when global growth is strong, the labour market is positive and interest rates are low."

Were any of these conditions to be different at the time Labor hits the property sector with its new property tax, the consequences on housing prices could even be worse.

Australia is enjoying its 27th year of consecutive economic growth, a AAA credit rating from the three leading agencies and a budget deficit that is the lowest in a decade.

This is not the time to give Labor a chance to roll the dice with its reckless and punitive taxation policy that puts at risk our economic strength.

Josh Frydenberg is the federal Treasurer.

FOI 2400 - Document 2

From: s22 [redacted]
To: s22 [redacted]
Cc: MEG MECD Executive; Tsr DLOs; s22 [redacted]
Subject: s22 [redacted] [SEC=UNCLASSIFIED]
Date: Thursday, 11 October 2018 2:18:45 PM
Attachments: 18x849-181008-Oped-Labor-has-a-plan-to-rewrite-the-good-news.pdf

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Hi s22 [redacted]

s22 [redacted], it would be good if the update could include relevant quotes and stats referenced in the Treasurer's recent op-ed on the housing market (attached and below).

Happy to discuss.

Thanks
s22 [redacted]

s22 [redacted]
Departmental Liaison Officer

Office of the Hon Josh Frydenberg MP
Treasurer
p 02 6277 7340 | s22 [redacted] | e s22 [redacted]@treasury.gov.au

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Labor has a plan to rewrite the good news on the housing report

Published: 8 October 2018
Author: Josh Frydenberg
Publication: The Australian

The housing market has slowed. Prices in our major capital cities have fallen for 12 consecutive months, with property values in Sydney down more than 6 per cent and Melbourne more than 4 per cent from last year's peaks.

These movements follow interventions by the Australian Prudential Regulation Authority, which sought to strengthen residential lending standards following an upsurge in lending to property investors.

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This changing dynamic away from investors driving much of the growth in the housing market to one where owner-occupiers are back playing the predominant role is particularly good news for people getting into the market for the first time.

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This will punish not just the 1.3 million people with negatively geared properties but everyone with equity in their home, as when they eventually sell their property they will do so in a market with fewer potential buyers. What is more, many of those accessing negative gearing are people that the public would not necessarily consider rich.

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From: [redacted] s22
To: [redacted] s22
Cc: [illegible]; Purvis-Smith, Marsia; Fraser, Bede; [redacted] s22 QTB; Tsr DLOs
Subject: RE: Update to QB18-000106 - Tax - Negative Gearing [DLM=For-Official-Use-Only]
Date: Friday 12 October 2018 4:36:19 PM
Attachments: [illegible]

Hi [redacted] s22

We have updated the negative gearing QTB as requested to include quotes from the recent op-ed by the Treasurer and the update is saved as TSR - TAX NEGATIVE GEARING - QB18-000106.

QTB NO	QTB TITLE	FOLDER/TOPIC	RESPONSIBLE MINISTER	MO ADVISER RESPONSIBLE	TREASURY CONTACT OFFICER	REASON FOR UPDATE	DATE (OF MOST RECENT UPDATE)
QB18-000106	Negative gearing	RG - IITD – Taxation	TSR	[redacted] s22	Bede Fraser (x3555)	Office request	12/10/2018

The quotes have been cleared with our Macroeconomic Group colleagues on the provision that they are attributed to the relevant authors.

Happy to discuss

Regards

[redacted] s22
Analyst | Individuals Tax Unit
Individuals and Indirect Tax Division
The Treasury
☎ 61 2 [redacted] s22 | ✉ [redacted] s22 @treasury.gov.au

From: [redacted] s22
Sent: Thursday, 11 October 2018 12:08 PM
To: Fraser, Bede
Cc: Tsr DLOs; [redacted] s22 ; QTB
Subject: Update to QB18-000106 - Tax - Negative Gearing [DLM=For-Official-Use-Only]

Hi Bede

Ahead of the next sitting fortnight could we please request that a key quotes section be added to the negative gearing QTB?

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In terms of placement I think this section could probably sit between key facts and background sections in the QTB. Please let me know if you have any questions.

Thanks in advance for your help

[redacted] s

[redacted] s22
Departmental Liaison Officer | Office of the Hon Josh Frydenberg MP
Treasurer, Parliament House, Canberra ACT 2600
P 61 2 6277 7340 | M [redacted] s | E [redacted] s22 treasury.gov.au

FOI 2400 - Document 4

From: [redacted]
To: [redacted]
Cc: [illegible], Maryanne; Purvis-Smith, Maree; Fraser, Bede [redacted]; QTB; Tax DLOs
Subject: Update to QB18-000106 - Tax - Negative Gearing [DLM=For-Official-Use-Only]
Date: Thursday 25 October 2018 4:30:02 PM
Attachments: image001.jpg

H [redacted]

We have updated the negative gearing QTB to include quotes from the recent media release by the Master Builders Association and provide an update to the data on house prices. The update is saved as TSR - TAX NEGATIVE GEARING - QB18-000106.

QTB NO	QTB TITLE	FOLDER/TOPIC	RESPONSIBLE MINISTER	MO ADVISER RESPONSIBLE	TREASURY CONTACT OFFICER	REASON FOR UPDATE	DATE (OF MOST RECENT UPDATE)
QB18-000106	Negative gearing	RG - IITD – Taxation	TSR	[redacted]	Bede Fraser (x3555)	Reflect more recent data	25/10/2018

Happy to discuss

Regards

[redacted]
Analyst | Individuals Tax Unit
Individuals and Indirect Tax Division
The Treasury
[redacted]

TAX – NEGATIVE GEARING FOR RESIDENTIAL HOUSING

TOP LINES:

- Those who negatively gear are not rich. There were about three times as many negatively gearing nurses, teachers and military personnel in 2015-16 than doctors, surgeons and finance professionals – approximately 100,000 claimants compared with 33,000.
- The Government is committed to supporting Australians who wish to invest in real estate and provide for their future and support their families.
- The Government is also ensuring that there is integrity in the housing system, and taking action to target overheated areas, without bringing the whole housing market down which would be catastrophic for owner occupiers.

s22 [redacted]

QTB Number:	QB18-000106	QTB Category:	Taxation
Contact Officer:	Bede Fraser	Date and time:	23/11/2018 3:05 PM
Contact Number:	(02) 6263 3555	Next update:	
Office Responsible	TSR	Office Adviser Initial and Date Cleared	s2 [redacted] 13/08/2018

s22 [redacted]

- In 2015-16, around 71 per cent of people with rental properties had one property.
- In 2015-16, around 1.3 million Australians had negatively geared rental property.
- Almost two-thirds of those who declared a net rental loss in 2015-16 had a taxable income of $80,000 or less.
- Of the tax filers who had a net rental loss in 2015-16, around 72 per cent claimed a net rental loss of less than $10,000.

KEY QUOTES:

- Master Builders Association media release (October 2018):
  - 'Independent modelling by Cadence Economics shows that Labor's policy would mean up to 42,000 fewer new homes would be built over the five years following the implementation of Labor's policies, resulting in a reduction in the value of residential building activity of between $2.8 billion and $11.8 billion.'
  - 'Home renovations would also be hit by an expected reduction of between $50 million to $210 million in activity over a five year period. Inevitably this would mean a fall in employment which is expected to be between 7,200 and 32,000 less jobs across the country.'
- Citigroup (September 2018):
  - 'Changes to negative gearing are likely under Labor, and may weigh on both turnover and price.'
  - 'We do expect an impact on volumes transacted in the property market and price declines of 5 per cent could be possible. This is in addition to an already weak property market.'
  - 'The greater risk at present is probably to accentuate the cyclical weakness in house prices by further limiting housing demand, with spillovers to consumer spending.'
- Standard & Poor's (September 2018):
  - 'While our base case is for a soft landing, our ratings could come under pressure if house prices fall sharply and increase risks to fiscal accounts, real economic growth, and financial stability.'
- RiskWise Property Research and WargentAdvisory Report (June 2018):
  - 'The last thing they need is a further dampening of demand. An introduction of Labor's proposed changes to negative gearing needs a more nuanced response with some mitigating processes and policies that could be implemented so there are no unintended consequences.'
- Treasury FOI (publically released January 2018, following Office of the Australian Information Commissioner review):
  - 'The ALP policies could introduce some downward pressure on property prices in the <u>short term</u>, particularly if the commencement of the policy coincides with a weaker housing market.'

QTB Number:	QB18-000106	QTB Category:	Taxation
Contact Officer:	Bede Fraser	Date and time:	23/11/2018 3:05 PM
Contact Number:	(02) 6263 3555	Next update:	
Office Responsible	TSR	Office Adviser Initial and Date Cleared	s22 [redacted] 13/08/2018

BACKGROUND:

Negative gearing – how it works

- A property is said to be 'negatively geared' if it is purchased with debt and the rental income is less than the cost of owning the investment (including interest on borrowings and allowable deductions such as rates and maintenance). When this occurs, the investor can apply their net loss against their other income and reduce their taxable income. The practice of negative gearing is based on the general deduction principle that allows taxpayers to deduct, from their assessable income, expenses incurred in generating or producing that income.
- A taxpayer may be willing to negatively gear because they expect the investment property, once sold, will generate a large enough capital gain to offset their prior 'loss'. Negative gearing is not limited to investment properties – taxpayers may also own other assets, such as shares, which can be negatively geared.

s22 [redacted]

s22 [redacted]

Citigroup Research 'Australian Political Uncertainty' – September 2018

- Citigroup released its analysis of the political factors which may impact the Australian economy and the financial market. It assessed the potential outcome of the implementation of changes to the current settings on negative gearing and capital gains tax, among other policies.

TREASURY MINISTERIAL SUBMISSION

1 November 2018 PDR No. MS18-003479

Treasurer cc: Assistant Treasurer, Assistant Minister for Treasury and Finance

BUSINESS LIAISON – AUGUST TO OCTOBER 2018

TIMING: For information.

s22 [redacted]

s22 [redacted]

Angelia Grant
Division Head
Macroeconomic Conditions Division
Ext: 02 6263 3153

Contact Officer: s22 [redacted]
Ext: s22 [redacted]

ATTACHMENT B – KEY THEMES

<u>Residential property</u>

s22 [redacted]

- s22 [redacted] s22 [redacted] Uncertainty about future negative gearing and capital gains tax policy was also cited as dampening demand.

s22 [redacted]

TREASURY MINISTERIAL BRIEF

FOI 2400 - Document 7

5 November 2018 | PDR No. MS18-003762

Treasurer

TREASURER INFORMATION NOTE: HOUSEHOLD DEBT

Timing: For information

s22 [redacted]

s22 [redacted]

John Swieringa
Principal Adviser
Macroeconomic Modelling and Policy Division
Ext: 6263 3522

Contact Officer: s22 [redacted] Ext: s22 [redacted]

Consultation: Macroeconomic Conditions Division, Financial System Division, Tax Framework Division s22

[redacted]

Where around two-thirds of housing investors are negatively geared, these investments are implicitly predicated on expectations of capital gain in the future. Should these expectations be reconsidered in light of the recent declines in house prices or increased difficulty in rolling over financing, such as under the interest-only mortgages preferred by housing investors, investor sales may put additional downward pressure on prices.

s22

[redacted]

NEGATIVE GEARING/CAPITAL GAINS TAX

s22
[redacted]

Key Points

- The Government is improving taxpayer confidence in the tax arrangements for residential investment properties.

s22
[redacted]

s22
[redacted]

– The measures for plant and equipment and travel deductions relating to residential investment property apply to both positively and negatively geared investors.

s22 [redacted]

Background

Negative gearing

- A property is said to be 'negatively geared' if it is purchased with debt and the return on investment (rental income) is less than the cost of owning the investment (including interest on borrowings and allowable deductions such as depreciation and maintenance).
  - When this occurs, the investor can apply their net loss against their other income and reduce their taxable income.
- The practice of negative gearing is based on the general deduction principle that allows taxpayers to deduct, from their assessable income, any expenses incurred in generating or producing that income.
  - Negative gearing is not limited to property – it can also apply to other assets such as shares.
- A taxpayer may be willing to negatively gear because they expect the investment property, once sold, will generate a large enough capital gain to offset their prior "loss".

s22

[redacted]

s22

[redacted]

s22 [redacted]

- In its advice, Treasury explicitly says that “the ALP policies could introduce some downward pressure on property prices in the short term, particularly if the commencement of the policy coincides with a weaker housing market.”

Commentary from Treasurer Frydenberg: 7 October 2018

- “In its determination to drive property prices further down, Labor is taking to the next election a policy to limit negative gearing to only newly constructed housing and to cut the capital gains tax discount on assets that are held for longer than 12 months from 50 to 25 per cent. This will punish not just the 1.3 million people with negatively geared properties but everyone with equity in their home, as when they eventually sell their property they will do so in a market with fewer potential buyers. This ignores the real risks that Labor’s policy poses to stability of the housing market, the value of the No 1 household asset and the adverse impact it could have on Australia’s credit rating and economic growth.”

s22 [redacted]