

# **Submission of the Equality Rights Alliance to Tax White Paper**

**1 June 2015**

# A Tax System that works for Women

Equality Rights Alliance is Australia's largest network advocating for women's equality, women's leadership and recognition of women's diversity. We bring together 62 organisations with an interest in advancing women's equality.

ERA welcomes the opportunity to make a submission to this discussion/Tax White Paper. For a number of years now, ERA has worked with our 62 member organisations on the issue of housing affordability. Women face unique challenges in Australia's housing market due to a constellation of factors, including domestic and family violence and the feminisation of poverty. There is consensus within our network on the need to increase housing affordability through tax reform. For this reason, we are responding to discussion question 21. We see a clear role in housing affordability for the Federal Government through reform to the tax treatment of housing. Regarding other areas of taxation, we endorse the submission of the National Foundation of Australian Women, as outlined below.

## **Gender Lens**

ERA supports the submissions made by the National Foundation of Australian Women in relation to the need for the tax reform process to have a robust gender lens.

## **Income Splitting**

ERA:

- opposes income splitting arrangements generally, but particularly in the current environment which includes a significant wage gap, gendered inequities in unpaid care distribution and an overrepresentation of women in casual and precarious work, which ensure that women are more likely to be the secondary income earners in a household; and
- generally supports the submissions of the NFAW in relation to superannuation.

## **Superannuation**

ERA:

- supports the inclusion of superannuation guarantee payments as part of the paid parental leave system;
- supports the review of the taxation of superannuation, particularly in relation to the alignment of tax rates in the accumulation and pension phase of a fund; and
- generally supports the submissions of the NFAW in relation to superannuation.

## **GST**

ERA:

- opposes any extension of the GST without payment of appropriate compensation to low income earners; and
- generally supports the submissions of the NFAW in relation to the GST.

## **Simplification and administration of the tax system**

ERA generally supports the submissions of the NFAW in relation to simplification and the administration of the tax system.

## *Discussion Question 21: Do the CGT and negative gearing influence savings and investment decisions, and if so, how?*

### **Negative Gearing: Driving Housing Affordability in Reverse**

ERA is disappointed about recent comments from the Treasurer and Prime Minister ruling out changes to negative gearing.<sup>i</sup> The Tax White Paper has firmly put negative gearing and the capital gains tax exemption on the table for discussion. Increasingly, there is discussion across a broad spectrum of the community about the costs of negative gearing and the CGT exemption to the Budget and the impacts on housing affordability. Negative gearing and the CGT exemption are clear areas for discussion, investigation and reform and must be thoroughly examined in the White Paper. We recommend options to restructure negative gearing or reductions to the CGT exemption are the best paths forward.

The interaction between the capital gains tax exemption and negative gearing stimulates investor demand in a supply-constrained market, resulting in upward pressure on prices. This heightened demand from investors distorts the market, leaving home ownership out of reach for other potential buyers, such as first home buyers or those on low-medium incomes.<sup>ii</sup> While investors continue to make up an increasing proportion of the market, data points to a long-term decline in overall home ownership and an increase in renting as a more permanent form of tenure in Australia.<sup>iii</sup> *“Negative gearing and the Capital Gains Tax discount are not the only drivers of inflation in house prices and rents, but they have become a much more important factor as investors have purchased a growing share of dwellings.”<sup>iv</sup>*

The scale of Government subsidies levelled at investors far outweighs subsidies to renters; it is estimated that Government support for investors through negative gearing and the capital gains tax exemption costs \$6.8 billion annually.<sup>v</sup>

The evidence is clear: high income earners are the chief beneficiaries of negative gearing, despite rhetoric about so-called “mum and dad investors”. Analysis from NATSEM shows that, in relation to negative gearing, “half of the tax break flows to the top 20 per cent of households. By comparison the bottom half of Australians only get 20 per cent of the benefit of negative gearing.”<sup>vi</sup> The Reserve Bank of Australia’s analysis of Household Income and Labour Dynamics in Australia (HILDA) data further demonstrates this inequity, showing that 60% of investment housing debt is held by the top fifth of income earners.<sup>vii</sup> It has been suggested that negative gearing “encourages investors to look at high-end properties” and not “where there is the greatest need.”<sup>viii</sup>

The use of ATO statistics in discussing who accesses and uses negative gearing often doesn’t account for the difference in taxable and total income and therefore doesn’t account for the artificial reduction of income by tax deduction arising from negative gearing strategies.<sup>ix</sup> For example, the ATO figures on rental data indicates that 108 765 people who negatively geared in 2012-13 were on a taxable income of less than or equal to \$6000.<sup>x</sup>

In addition, “the distribution of the CGT discount is also skewed to high income households. Almost three quarters (73.2 per cent) flowed to the top 10 per cent of households.”<sup>xi</sup>

When we consider negative gearing is estimated to *inflate* house prices by 9%<sup>xii</sup> and 95% of investors who negatively gear are buying established properties,<sup>xiii</sup> there are serious questions about what return on investment the Government is getting.

The recent Financial Systems Inquiry (Murray Review) flagged the systemic issues in negative gearing and the CGT exemption; *“tax treatment of investor housing... tends to encourage leveraged and speculative investment in housing.”* The Review identified over-investment in housing, aided and abetted by this tax treatment, as a *“potential source of systemic risk for the financial system and the economy.”*

**Reform options for consideration:**

- Restructuring negative gearing so that is only available for newly constructed properties or deductibility is only available against rental income.
- Reducing the 50% Capital Gains Tax exemption by 10% as per recommendation 14 of the Henry Tax Review to raise an extra \$1 billion in revenue.
- Investigating modelling from NATSEM on ending the CGT discount and reforming negative gearing to only apply to newly built housing and only be deductible for 10 years after purchase which would increase revenue by \$7.4 billion.<sup>xiv</sup>

# Appendix

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<sup>i</sup> N Khadem, 'Prime Minister Tony Abbott rules out changes to negative gearing', *Sydney Morning Herald*, 17 April 2015, retrieved 18 April 2015 <http://www.smh.com.au/business/prime-minister-tony-abbott-rules-out-changes-to-negative-gearing-20150416-1mmibf.html>

<sup>ii</sup> J Mather, 'Wealthy benefit most from negative gearing', *Australian Financial Review*, 28 April 2015, retrieved <http://www.afr.com/news/policy/tax/wealthy-benefit-most-from-negative-gearing-20150427-1muozw>

<sup>iii</sup> M Wade, 'Renters on rise as home dream fades', *Domain*, 29 August 2013, retrieved 7 November 2014 <http://news.domain.com.au/domain/real-estate-news/renters-on-rise-as-home-dream-fades-20130828-2sqq6.html> and C Yeates and T Johnstone, 'Fears stretched investors may destabilise housing market', *Sydney Morning Herald*, 31 October 2014, <http://www.smh.com.au/business/property/fears-stretched-investors-maydestabilise-housing-market-20141031-11ermy.html>

<sup>iv</sup> M Grudnoff, *Top Gears: How negative gearing and the capital gains tax discount benefit the top 10 per cent and drive up house prices*, The Australian Institute, Canberra, 2015

<sup>v</sup> J Kelly, *Renovating Housing Policy*, Grattan Institute, Carlton, 2013

<sup>vi</sup> Grudnoff, pp. 4-5

<sup>vii</sup> Australian Council of Social Service (ACOSS), *Fuel on the fire: negative gearing, capital gains tax and housing affordability*, Sydney, 2015

<sup>viii</sup> Inquiry into Affordable Housing, *Adelaide Hearing*, Senate Economics References Committee, 28 July 2014, p. 19

<sup>ix</sup> ACOSS, p.15

<sup>x</sup> Australian Tax Office, *Taxation Statistics 2012-13*, Table 11: Individuals

<sup>xi</sup> Grudnoff, p.5

<sup>xii</sup> J Shapiro, 'Negative gearing pumping house prices, but they're not overvalued yet', *Sydney Morning Herald*, 24 July 2014, retrieved 5 May 2015, <http://www.smh.com.au/business/the-economy/negative-gearingpumping-house-prices-but-theyre-not-overvalued-yet-20140724-zw9y5.html>

<sup>xiii</sup> J Daley and D Wood, 'Negative gearing: the economic reasons why government must kill this sacred cow', *Sydney Morning Herald*, 17 March 2015, retrieved 17 March 2015 <http://www.smh.com.au/comment/negative-gearing-the-economic-reasons-why-government-must-kill-this-sacred-cow-20150317-1m14s4.html>

<sup>xiv</sup> Grudnoff, p.6