**Negative Gearing Reassigned**

Negative Gearing, as an attempt to create more housing rentals, has failed.

In basic terms, a person who buys a property allegedly to rent can claim costs and the interest on monies borrowed to buy the property. Technically, in any one year a tenant should rent that property for a month for the investor to receive that tax benefit. A book entry of a month’s rent to a “tenant – be a friend or false name” suffices, as the Tax Department has not the resources to check the validity of claims.

Negative Gearing has given tax benefits to investors, who in turn have bought up a significant proportion of available housing, without these investors investing in new housing to any significant degree to increase or create more rentals. Nor are they creating even more affordable housing for homeowners to own, who do not have the benefits of tax deduction of the interest, which the negatively geared investor receives. Consequently, investors are at an unfair advantage over prospective homeowners. The investors have been able to virtually monopolize the residential housing market, thereby forcing prices up to unstainable levels and thereby become unaffordable for the prospective homeowner. It does not increase the stock of rental properties.

Homeowners deserve interest deductibility, too, but only for a limited period. The homeowners that build or buy a new dwelling from a developer, and commits to living in their home, should be the recipients of these tax benefits for a period of four years, then reducing the tax deduction for the interest paid by 25% over the following four years, until it is zero benefit. The present investors already committed should have their tax advantage over all homebuyers, phased out of the Negative Gearing era over the tail four year period, just to be fair to them. After all, they have been encouraged to exploit this over generous tax benefit, and a sudden ending could have panic repercussions within the residential investor [gambling] community. Housing prices may actually fall for the benefit of potential homeowners and, hopefully, a reduction in housing asset inflation that has plagued the residential market for decades.

Further, all those empty residents being held only for the tax deductable benefit and the expected inflationary increase in prices, due to their fellow investors outbidding the home buyers for residences, may just have to start renting them out [just as the original Negative Gearing scheme envisaged]. Alternatively, the investors could increase the residential market by actually selling them to real actual homebuyers.

As genuine investors need to stay in the residential market, they could receive tax deductibility, provided they rented the property, similar to the homebuyers, as outlined above, but only receive the tail, namely 100% interest deduction in the first year, phased out at 25% reduction over four years, but only while rented out. This encourages the non-homebuyer investor continually investing in new residential properties to rent out, or if they fail to do so, not receive the tax benefits. In that case, the genuine investor will sell at a profit, thus increasing homebuyers’ chances of a home.

The proposed changes to Negative Gearing give the Government increased taxation receipts instead of a drain on its resources. Its demise needs phasing in, giving the investor four years to adjust. If the concept is extended to home buyers who live in the residence, the interest deduction assists people into a permanent home but similarly allows the home buyer to adjust to decreasing interest tax deductibility over eight years. Those in the rental market will have an increase in rental properties to choose from, and those genuine investors who build for the rental market will gain the interest deductibility phased out over four years. Due to lack of directions, the concept of Negative Gearing went awry. The proposals above will restore its initial aim of more rental and residential properties for Australians’ aspirational dream of home ownership to supplement their compulsory Superannuation income, thereby reducing the need to claim the Pension.

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