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Tax and housing

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The tax issues

- stamp duties
- land tax
- exemption for capital gains
- imputed rent
- negative gearing

Stamp duties

- appears to increase the price of housing
- does not apply to all other assets
- may not affect price as much as claimed; prices may be discounted so after-stamp duty value is the same as other assets
- not based on ability to pay

Land tax

- **ideal base from a tax policy perspective**
- **valuation**
- **distortion**
- **mobility**
- **equity**

Capital gains

- late 1800s income tax comes to Aust. colonies
- “income” not defined
- two views – what comes in and trust law
- Australian courts adopt trust law meaning
- first attempt at inclusion was 1974
- copied Canadian law, including home exemption

Capital gains

- **not included until 1985**
- **gains on homes exempted**
- **immediate capitalisation of the exemption**
- **expensive, city, central benefit most**
- **“tax expenditure”**

Capital gains

- cap value of property
- cap gain
- roll into lifetime exemption
- dual income tax

Imputed rent

- **imputed rent is self-consumption of the income from an asset**
- **true of any asset – e.g., washing machine**
- **homes don't depreciate like a washing machine**

Imputed rent

- **previously taxed imputed rent like all other income**
- **ended by a Labor government to subsidise home ownership**
- **capitalised into price of homes**
- **only possible reform would be in a package such as dual income tax**

Negative gearing

- **borrow to buy property generating rental income and capital gains**
- **deduct interest now and defer adding capital gain until sale of property**
- **since 2000, deduct full interest and only pay tax on half the gain**
- **can have a loss in the real world and make a profit after tax**

Negative gearing

- pay \$100 interest to generate \$50 rent and \$40 capital gain. In the real world, lost \$10
- in the tax world:

deductions	- \$ 100
rent inclusion	+ \$ 50
capital gain inclusion:	+ \$ 20
net loss:	- \$30 which generates a tax savings or a tax refund of \$13.50

Negative gearing

total expense = \$100

total income = 40 + 50 +13.50 = \$103.50

**real world loss of \$10 turns into an after tax gain
of \$3.50**

Negative gearing

- last year negative gearing deductions of \$8.6 billion generated tax savings of \$4 billion
- 70% of landlords are negatively geared