

# Labor's gearing policy a risk to our prosperity

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Page 21 | Section: OPINION

407cm on the page



## Labor's gearing policy a risk to our prosperity

**A**CCORDING to the latest data from the Australian Taxation Office, about 310,000 Victorians use negative gearing on their property, with the majority of those in Labor-held seats. For example, in Julia Gillard's former seat of Lalor, which takes in the suburbs of Werribee and Hoppers Crossing, nearly 13,000 people negative gear.

Those who use negative gearing are not necessarily rich nor the owners of multiple investment properties. Rather, they are made up of 58,000 teachers, 41,000 nurses, 19,000 police and emergency personnel, and many other trades and small business people who put aside a bit each month to save for their future.

About two-thirds of those who negative gear have a taxable income under \$80,000, with 71 per cent having only one property and 72 per cent using it for a tax deduction of less than \$10,000 a year. In total, there are about 1.3 million Australians using negative gearing, a policy which until now has received bipartisan support for more than three decades. Other than for a brief period under the Hawke government, when Labor changed negative gearing only to backflip two years later, neither political party has thought to abolish it.

As then Labor treasurer Wayne Swan said on Melbourne radio in 2010, it would be "economically disastrous to do anything on negative gearing".

However Bill Shorten, desperately short of revenue to meet his huge spending promises, is promising to abolish negative gearing as we know it and increase the capital gains tax rate by 50 per cent on property investments and other assets. On Labor's own calculations, that is a \$32 billion tax grab and it will hurt the economy by putting downward pressure on housing prices when the market is moving to what the Reserve Bank of Australia says is a more sustainable level.

Prices have come down for 12 consecutive months across capital cities, and economic commentators say a significant fall from here could have a much broader negative effect. Citi's economic research said Labor's policy would "accelerate the cyclical weaknesses of house prices by further limiting housing demand with spillovers to consumer spending". The Master Builders Association said Labor's policy would constitute a \$11.8 billion hit to the construction sector, leading to 42,000 fewer dwellings being built and 32,000 fewer full-time jobs.

Leading international credit rating agency Standard and Poors has warned "that Australia's AAA credit rating would come under pressure if house prices fall sharply and increase risks to fiscal accounts, real economic growth and financial stability".

Were Australia to lose its AAA credit rating, the cost of borrowing,



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from banks to corporates, and governments to households would increase. What is more, a significant property price drop could see the equity families have in their homes disappear for some if the debt levels become greater than the value of their assets.

But it is not only homeowners who are affected, but also the millions of people who rent. That is because investors with access to negative gearing tend to charge less rent in the expectation of an after-tax capital gain. These investors have helped stabilise the rental market, but Labor's destructive policy puts this all at risk and will send rents higher, according to the Centre for International Economics.

Labor claims it is abolishing negative gearing as we know it in order to create more affordable housing. While both sides of politics are committed to that, we disagree on the best way to achieve this end. On the Coalition's watch over the past year, more than 100,000 first-home buyers had a loan approved, the highest number since 2009.

**T**HAT reflects our successful policies, with more initiatives being rolled out. We have

legislated changes that enable seniors to downsize their home by contributing some of the proceeds of sale to their superannuation; put in place a First Home Super Savers Scheme enabling first-home buyers to build a deposit through their super; increased charges for foreign purchases of residential property; provided tax arrangements for investors in affordable rental accommodation; and established a new \$1 billion national housing infrastructure facility, facilitating lower cost finance for community housing. We have also released land for housing development, including a 127ha defence site in Maribyrnong with the potential for 6000 homes.

In recent weeks, the front page of the highly regarded *The Economist* magazine praised the Australian economy under the heading, "Aussie Rules: What Australia can teach the world". It was a reminder the policy settings, performance and direction of the Australian economy is sound.

But there is also no room for complacency. With house prices on the decline, Australia can ill-afford Labor's big new property tax, which will hurt homeowners, renters and investors and threaten our economic prosperity.

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