Real Estate Institute of Australia

ATTACHMENT 1 TO
REIA SUBMISSION ON
HOUSING
AFFORDABILITY
DATED 2 APRIL 2008

THE REAL ESTATE INSTITUTE OF AUSTRALIA'S POLICY STATEMENT ON NEGATIVE GEARING AS AT 31 MARCH 2008

PURPOSE

1. The purpose of this paper is to set out the Real Estate Institute of Australia's support for the retention of negative gearing on residential property as an incentive for wealth creation to assist self-funded retirement and continuing investment in new and established houses for the benefit of individual investors, their tenants and the nation.

BACKGROUND

2. Recent population projections, of which the most-cited are those by the Australian Bureau of Statistics, show that Australia faces an increasingly aging population. As the proportion of retirees in the population has increased, their ability to adequately fund their retirement years to meet normal living needs has come under increasing scrutiny by governments and the population at large.

3. All political parties endorse the contribution of self-funded retirement to reduce the impost on Federal and State Government taxes, particularly in relation to the aging of Australia's population. As the aging population increases and there is the prospect of an associated increase in a variety of Government financial assistance programs to support them, the issue of how to encourage self-funded retirement programs to mitigate this trend has gained increasing attention.

4. Personal wealth is created primarily from investment, because very few people are able to save enough money for future self-funded retirement. Wealth gives people financial freedom and the ability to make life-style choices including education for children and self-funded retirement. Personal wealth reduces the need for, and reliance on, a range of Government financial assistance programs. Ideally, any investment portfolio should be balanced with a range of different investments to spread the inevitable risks associated with achieving future earnings.

COMMON INVESTMENT OPPORTUNITIES FOR INDIVIDUALS IN AUSTRALIA

5. For most individuals, the various investment opportunities that are available comprise superannuation funds, bank deposits, the share market, oil stocks, gold stocks, commercial property and residential property.

6. Most employees contribute to a superannuation fund augmented by a 9% contribution from their employer. Most contributors to superannuation schemes have little or no say about where they would like to see their money invested. Most superannuation contributions are paid into fund-managed schemes that spread their

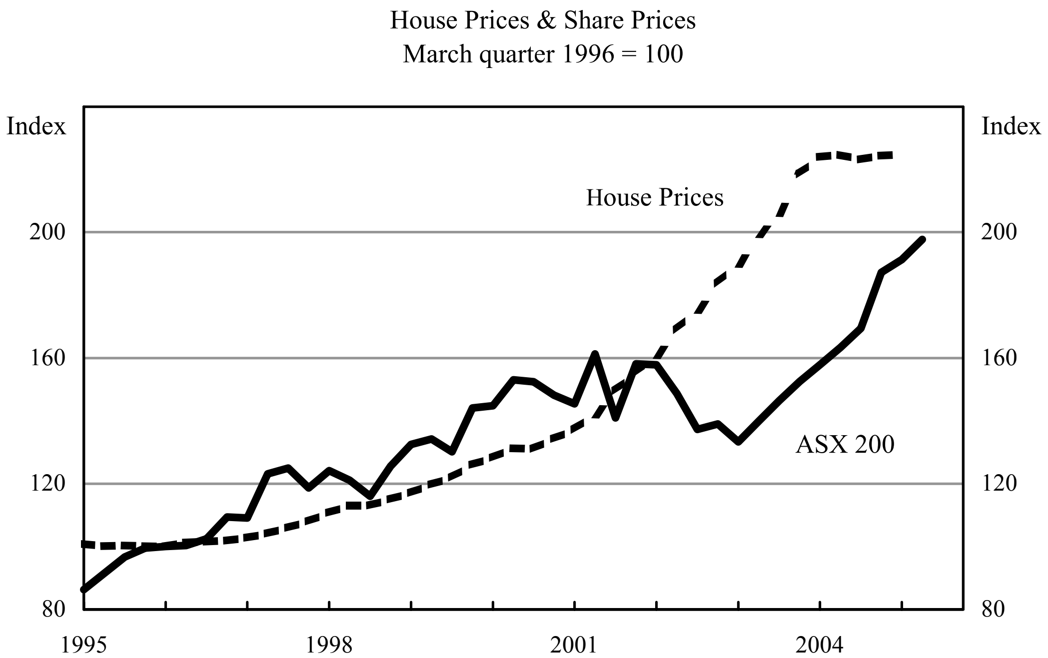
total investment over a range of portfolios, usually with the majority of funds being invested in the share market. During 2002 to 2004 when the Australian and world share markets had not performed well, the returns to many managed funds were very low. Alternatively, the returns to managed funds with a relatively high proportion of property investment in their portfolios received the benefits of the high property prices in Australia since mid-1996.

7. Whilst bank deposits are a secure investment, the returns from interest on bank deposits are often lower than other investment returns. It is suggested that most investors would be loath to have significant amounts of capital tied up in such an investment for the purposes of providing an annual retirement income and would prefer to spread the capital across additional higher-yielding investment opportunities.

8. It is probably true to suggest that most investors who have the freedom to choose their investment options do not choose oil or gold stocks for a range of reasons including lack of familiarity and expertise with those markets, and the high capital costs of investment relative to other options.

9. Apart from superannuation funds, the two most popular investment options for the majority of investors in Australia are the share market and residential property. From 2002 to 2004, the share market performed poorly and many investors shifted their money into the residential property market in Australia. Chart 1 shows a comparison of the Australian Stock Exchange Index with the Australian Bureau of Statistics Index of House Prices.

Chart 1. Indexes of House Prices and Stock Exchange



Sources: ABS; Australian Stock Exchange; Standard & Poor's

10. The recent poor performance of the stock market relative to the housing market was one contributing factor to the high demand for property. As a result of the increased demand for residential property in the two years from June 2001 to June 2003, median house prices in Sydney, Brisbane, Adelaide, Canberra and Hobart increased by between 45% and 52%. By September 2003, there were signs that share markets in Australia and overseas were beginning to recover some of the lost ground sustained in the previous two years, and that many investors were beginning to redirect their attention to those markets.

11. Investment in property is usually undertaken with a longer term time horizon to take account of the generally recognised 5 to 7 year "housing cycle" and the long term trend of increasing capital values.

12. In recent years, changes to bank lending policies substantially increased the incentives for investors to buy real estate. The introduction of lines of credit with high credit limits have enabled many people the freedom of choice to borrow for a wide range of investment or consumer spending options and has substantially increased the investment opportunities for individuals on modest incomes.

13. A balanced investment portfolio including property is most likely to create the wealth necessary to support self-funded retirement. It is beyond the means of nearly all Australians to be able to purchase property for cash. Therefore, a significant loan is needed often with the principal place of residence used as collateral. A key incentive for investors to achieve wealth creation for self-funded retirement is negative gearing.

THE CONCEPT OF GEARING

Concept

14. Borrowing money to invest in property, shares or managed funds is generally called "gearing". Macquarie Bank defines "gearing" as 'borrowing to increase the amount of money invested by, or on behalf of an investor'. This concept is by no means new. The concept of allowing tax deductions on losses and outgoings incurred in gaining or producing assessable income (ie negative gearing) was included in the provisions of Section 51 in the Income Tax Assessment Act 1936 and remains there in the current legislation.

15. If an investor's fund is geared it means that the investor has the ability, and has taken the opportunity to borrow to take advantage of investment opportunities greater than those that could have been achieved without the borrowed funds. Gearing increases the volatility of the value of the investment, both upwards and downwards. When market prices are rising, the benefits to an investor will be greater for a geared fund compared to the benefits for a non-geared fund. Conversely, when a market is falling, geared investors are likely to be at greater risk. Typically, it is expected that long-term returns will be increased by gearing.

Definitions of Negative Gearing and Positive Gearing

16. There are two types of gearing, negative gearing and its corollary, positive gearing. The Australian Tax Office tax guide, 'Rental Properties 2005', defines negative gearing in relation to rental property as, "A rental property is negatively geared if it is purchased with the assistance of borrowed funds and the net rental income, after deducting other expenses, is less than the interest on the borrowings". The definition also applies to other asset classes. Positive gearing is when the net investment income after deduction of other expenses is greater than the interest on the borrowings.

The Advantages of Gearing

17. The advantages of gearing are summarised below.

a. Gearing enables an investor to realise increased potential profits from capital gains accrued by a larger or higher valued investment over time when the investment is sold. Usually there are also annual benefits from rental returns on investment properties, or dividends and bonuses from shareholdings.

b. Tax benefits are derived by investors when negative gearing losses are claimed against an investor's tax liability. (No such claim is, however, possible for a positively geared investment). **N**egative gearing tax benefits apply when the *net* income from an investment (eg rent, share dividends or bonus share issues) is less than the cost of the investment (ie the interest on the investment loan). Negative gearing is an incentive for investors if it is utilised sensibly. Negative gearing is not designed solely for the purposes of saving on tax. The profitability of a negatively geared investment depends on the ability of the investor to repay the borrowings and also depends on after-tax capital gain.

c. Gearing is a cornerstone for family wealth creation. Small investors are able to reap substantially higher benefits from increased capital gains and tax benefits from negative gearing than would otherwise be the case if they had to rely entirely on their own resources for wealth creation for their retirement.

d. A 1991 National Housing Strategy (Financing Australian Housing – The Issues, AGPS 1991 p.36) indicated that negative gearing tax concessions were most advantageous on property yielding the highest capital gains which encouraged investors to operate in the middle and upper ends of the market. Negative gearing also provides advantages to investors in the lower end of the market.

e. Negative gearing assists all income levels and is a key instrument to assist the wealth-creation process. The availability of finance has given investors access to funds that previously were not so readily available. The increased investment in property, aided by negative gearing, has also had the effect of benefiting those who cannot afford to buy a home and who have therefore, had to rely on renting a place to live. Increasing the supply of property available for rent will have the effect of tending to reduce the cost of renting.

f. Negative gearing works through the leveraging effect of investing small amounts of an investor's own money whilst receiving returns over time on a large asset and not for the sole purpose of getting tax refunds from the deductibility of interest on borrowings for investment in property.

Residential property purchases by investors should be treated in the same manner as all other business investments, including purchases of businesses and shares, particularly as these investments also draw significantly on owner-occupied home equity for borrowing purposes.

g. Moreover, whilst home owner-occupiers are afforded all the socio-economic benefits of living in their own home, the family home can be used as equity for wealth creation. Few other investment classes offer such a benefit.

THE DEBATE ABOUT NEGATIVE GEARING

18. The concept of negative gearing has been the subject of much debate in Australia for many years, mostly in relation to property. The significance of the issue can be judged by the frequent references to it in the Federal Parliament as well as in the media, and the actions taken by governments in the past, particularly in 1985. In July 1985, the Treasurer announced quarantining of the tax benefits of negative gearing. This meant that incurred losses from mortgage repayments exceeding net rental income could only be carried forward to reduce future tax liabilities from capital gains tax. Over the next two years, house prices and rents spiralled upwards and as an indication of the sensitivity of this issue, the negative gearing tax laws were reinstated in 1987 to allow negative gearing in its original form. Only six months later, there was clear evidence from ABS data (Catalogue No. 8731), that the reintroduction of negative gearing had encouraged significant numbers of investors back into the residential property markets. Between July 1985 and September 1987, the changes to the laws on negative gearing were thought to have been mainly responsible for the downturn in building activity. Likewise, the subsequent re-instatement of the laws on negative gearing was thought to be the primary reason for encouraging significant numbers of investors back into the residential property markets.

19. On ABC Brisbane Radio, 19 September 2003, the Prime Minister stated he had no plans to change the policy on negative gearing, and the then Leader of the Opposition also stated there were no ALP plans to change the negative gearing policy (ABC Radio 7 July 2003). Both cited the adverse effect on the rental market if the negative gearing policy was changed. Again in March 2005, in an address to CSR in Sydney, the Prime Minister stated that the Government has repeatedly resisted a call to remove negative gearing because it would be counter-productive. He said, “I couldn’t think of anything more calculated to discourage investment in housing of a cheaper variety and which is available for rental”.

20. On 4 November 2003, the Commonwealth Treasurer stated in the House of Representatives that, “One of the consequences of investment in housing is that rents have been falling in Australia. According to the CPI, they fell 0.7 per cent in real terms up to the September quarter of 2003 and over the past two years have fallen 1.6 per cent. TD securities and the Melbourne Institute estimate that rents in Melbourne have fallen 11 per cent in the five months since May 2003. The point I want to underline is that that actually works in favour of renters”. He added, “We do have empirical evidence that making the taxation treatment of investor housing more onerous works against renters. It was tried in 1985. In the two years from June 1985 to June 1987, when the Keating government changed the taxation treatment of

investor housing, rents across Australia rose by 37 per cent. During that period, the average rent for a three-bedroom house in Sydney rose by 57.5 per cent. So the one thing we know is that changing tax treatment to work against investor housing – whatever effect it has on house prices – most certainly works against renters".

21. Table 1 shows the fall and subsequent increase in new dwelling approvals during the time of the removal of negative gearing in 1985, and its reinstatement in 1987. The data for 2002-03 have been included for comparative purposes.

Table 1. Private Sector New Building Dwelling Approvals.

1985-86		1986-87		1987-88		2002-03	
No.	$m	No.	$m	No.	$m	No.	$m
126,017	6,645	108,611	6,342	140,464	8,977	172,002	28,026

Source: ABS Catalogue No. 8731

22. Negative gearing is an incentive for investors to enter the markets for property and other asset classes. However, it has not been a major driving force behind the rapidly rising property prices since mid-1996. According to a 1999 survey by ABS, only 23 per cent of those who considered investing between June 1997 and June 1999 nominated negative gearing as a main reason for investing in property compared with 14.3% of investors in 1993. The progressive improvement in the national economy through the 1990s that led to historically low rates of interest, strong levels of consumer confidence (particularly from 1997 onwards), financial deregulation and the serious deterioration in the performance of the share markets in Australia and around the globe, were more likely to be the key factors that attracted investors into the property markets. In comparison with these significant macroeconomic developments, the effects of negative gearing would have been considerably overshadowed.

23. Despite the separate announcements by the Government and the Opposition through 2003, 2004 and 2005 stating that neither party had any intention of changing the current laws in relation to negative gearing, a debate on whether to abolish or modify negative gearing continues to surface from time to time in the media.

24. The debate about negative gearing often arises in relation to the contribution that negative gearing may or may not make to increased investor activity in the residential property markets and any resultant increase in property prices. The rapid escalation in property prices that began in the latter half of 2001 and carried through in the major capital cities until mid-2004 fuelled the speculation about the part that negative gearing may have played in the price rises.

25. The recent high property prices substantially reduced the affordability of homes particularly for first home-buyers. It was largely the deteriorating affordability issue that generated renewed interest in the possible causes, including negative gearing. For example, Recommendation 5.3 in the Productivity Commission report on its Inquiry into First Home Ownership, March 2004 stated:

> "The Australian Government should, as soon as practicable, establish a review of those aspects of the personal income tax regime that may have recently contributed to excessive investment in rental housing. The focus of the review should be on the Capital Gains Tax provisions. However, it should also assess

‘second best’ options for addressing distortions in incentives to invest in housing and other asset markets, including: restrictions on negative gearing and changes to the capital works deduction provisions for buildings. Pending such a review, it would not be appropriate to make housing-specific changes to negative gearing rules or to capital gains tax arrangements”.

26. Another factor that fuels the debate on negative gearing is its impact on Government revenue. Estimates of the impact of negative gearing from rental property only on the Federal budget are available from the annual Compliance Programs of the Australian Tax Office and from the ATO’s Taxation Statistics. In the taxation years 1999-00 to 2002-03, the number of taxpayers declaring rental income has been relatively stable at about 1.3 million. By 2005-06, the number had risen to 1.5 million. The declared gross rental income was $19.1 billion in 2005-06 whilst total rental deductions were $24.2 billion. The non-taxable net loss of Government Revenue from rented properties was $5.0 billion in 2005-06. From a national perspective, any revenue lost to the Commonwealth Government via non-taxable losses due to negative gearing is far outweighed by the sum of tax receipts from net taxable profits from positively geared rental property, GST on new dwellings (approximately 174,000 per year), revenue to the states from land tax and real property stamp duty, income tax derived from interest assessable to lenders of new home loans and other investment loans, Capital Gains Tax when the investment property is sold, GST on new furniture and fittings for new homes, and fees paid to local governments for approvals for new dwellings or modifications to existing dwellings. Annex A provides estimates of government revenue in relation to tax foregone through negative gearing. Annex A shows that in 2005-06, a non-taxable amount of $8.6 billion attributable to negatively geared property was offset by other directly-related property revenues at all three levels of government (Commonwealth, State, Local) by an amount in excess of $25.8 billion.

27. Further analysis of the ATO taxation statistics for 2005-06 shows that 1,561,630 (13.6%) of total individual taxpayers in that year declared gross income from rental properties but of those, 1,038,809 or 66.5% were negatively geared and claimed rental interest deductions. 522,821 individual taxpayers, or 33.5%, were positively geared and paid tax on net rental income of $3.6 billion. Therefore the net non-taxable loss on rental property to the Commonwealth budget was $5.1 billion.

28. The distribution of taxpayers by levels of taxable income who claimed net rent loss in 2005-06 is shown in the Chart at Annex B. That Chart shows 521,846 taxpayers or 50.2% of those who claimed non-taxable net rent loss had taxable incomes of between $21,601 and $63,000. 21.9% or 228,645 taxpayers who claimed net rent loss had taxable incomes of less than $21,600, whilst 288,318 or 27.8% had taxable incomes of $63,001 or more. Only 11.0% or 113,872 taxpayers with negatively geared rental property had a taxable income greater than $95,001.

29. Annex C shows the Chart with the distribution of the dollar values of net rent losses claimed by taxpayers in the various taxable income brackets. That Chart shows $3.78 billion or 43.7% of the total net rent loss claimed in 2005-06 was from taxable incomes between $21,601 and $63,000. Taxable incomes of less than $21,600 accounted for 22.0% ($1.9 billion) whilst 34.1% or $2.97 billion was claimed from

taxable incomes of $63,001 or more. $1.5 billion or 17.5% was claimed by those with taxable incomes greater than $95,001.

ADVANTAGES AND DISADVANTAGES OF NEGATIVE GEARING

Some Basic Concepts

30. A useful background paper that provides some fundamental concepts for the consideration of negative gearing is "Should Negative Gearing Be Abolished?" Nick Renton, Institute of Public Administration, IPA Review, June 1999. Some of the key points made in the paper were:

a. Investment is normally engaged in to make a profit and hence investors face an element of risk. If profits are to be taxed, then as a matter of morality, losses ought to be allowed as a legitimate deduction.
b. Borrowing in order to make a productive investment helps economic growth because value is being added.
c. Inevitably, there will always be some investments that have lower returns than the interest on the loans taken out to acquire the investments. For example, due to start-up periods or because the investment did not go as planned. This economic fact has nothing to do with taxation.
d. A typical property investment starts with a large loan and low rent. As time goes by the loan is paid off and the rent increases. Overall, the investor makes a profit and the government receives its share of the profits through the tax paid by the investor.
e. For every dollar of tax deduction for interest paid by a borrower, there is also a dollar of taxable interest received by the lender and therefore from a government viewpoint, the annual losses in revenue incurred through negative gearing are offset to a large extent (but not necessarily equated to) the taxable interest on investment loans. This point is frequently ignored by those who argue for the abolition of negative gearing. Furthermore, as shown in Annex A, total annual revenue from property to all governments far outweigh the non-taxable net losses to the Commonwealth Government as a result of negatively geared rental properties. For example, in 2005-06, revenue from property to all governments was more than $25.8 billion compared with the net non-taxable loss from negatively geared property to the Commonwealth of $5.1 billion.
f. Any legislative changes to *modify* the current tax laws on negative gearing (as opposed to abolition which is not regarded by Renton as an option), would need to distinguish between those who set out to intentionally use negative gearing and those who encounter it unintentionally, because:
    - (i) interest rates may rise after a loan has started;
    - (ii) rent levels may fall after a loan has started;
    - (iii) rental income may cease if the property becomes vacant;
    - (iv) market conditions may force a landlord to give a tenant a rent-free period to entice the tenant to enter a new lease;
    - (v) essential repairs may be necessary, or because of
    - (vi) bad debts.

To deny tax deductions to any person who makes commercial losses under these conditions would increase the financial and economic hardship on that person. Potentially, this could also have a serious impact on investment every time economic conditions change in Australia.

31. Taking account of the concepts in Paragraph 30 and the results of economic research on negative gearing referred to below, the assertion that negative gearing on its own was a major contributor to the recent boom in residential property prices in Australia is wrong.

A Treasury View

32**.** The Commonwealth Treasury has recorded that negative gearing is only one factor that affects the tax treatment of income and cost streams associated with investment in housing. Other factors likely to have much greater impacts include:

a. capital gains tax exemptions,
b. interest rates,
c. share markets,
d. the unemployment rate, and
e. regional specific issues.

Treasury asserted that investment in medium density housing is influenced more by the interaction of interest rates, changes in the equity markets and demographic and social attitudes to inner city living rather than changes in taxation policy. Hence negative gearing may only exert a minor influence. Evidence of this was provided in 1997 by the ABS when they reported that a low 16% of all household investors in rental dwellings cited negative gearing as one of the reasons they invested in residential property.

33. The effects that negative gearing alone may have in moderating above-normal levels of investment in rental property are impossible to determine. There is, however, little doubt that negative gearing can attract small investors to invest more than their own assets would allow in order to enhance their wealth creation.

34. Since the tax reforms that were introduced in 1985 and subsequently repealed in September 1987 when indicatively, median house rents increased by over 40% in Sydney and by 35% in Perth and house prices also rose in most capital cities, there have been many assertions that the changes to the negative gearing laws in 1985 were the prime reason for the rapid escalation in residential property rents.

35. However, a Treasury paper in 2003 suggested that a *range of influences*, including the tax measures had a large impact on the housing sector between 1985 and 1987. For example, the fall in dwelling investment coincided with a tightening in monetary policy that resulted in a rise of 2.5% to 15% in the variable mortgage interest rates and an increase of 140% in the ASX 200. Negative gearing was reintroduced September 1987. Soon after and coincidently, the stock market crashed, property prices continued to rise and rents began to soar largely as a result of an undersupply of rental properties. Once again property investment appeared to be favourable. Treasury stated, "it is difficult to conclude that the removal of negative gearing between 1985 and 1987 resulted in a dramatic fall in property investment and higher rents since so many other economic factors were also at work. Today's experience would probably differ to the 1985 situation since some capital cities are in

a different part of the rental cycle, interest rates are lower, equity markets are weaker and financial product innovation has advanced”.

Research by Deloitte Touche Tohmatsu (DTT)

36. A Deloitte research paper entitled ‘Negative Gearing a Positive for Landlords and Tenants’ Dale Judd, 2003, showed that for a range of house prices (to simulate the rapid price escalation at the time), removal of the tax benefit through negative gearing from property investments would push up rents by as much as 80% and/or send property prices spiralling. This was based on the assumption that investors would desire the same after-tax return should negative gearing be abolished. If the tenants were not prepared to pay higher rents under this scenario, the return on rented property would likely become unattractive compared to other investments such as shares, where negative gearing applies. If this occurred, many properties would most likely come onto the market and drive prices down due to excess supply.

37. Dale Judd, a Deloitte’s partner, commented as follows, “Any change in tax law to address housing prices is obviously interventionist and denies property investors the tax mechanics that are already available to other investors whether they are share investors or investors in small business”. He concluded that property as an investment class, should not receive a different tax treatment from other classes.

SUMMARY

38. Since the latter half of 2001, high property prices have reduced the affordability of homes across Australia. Discussion on this issue frequently leads to a debate about the role that negative gearing may have played as a causal factor for the high property prices.

39. In most cases, discussion about the role or economic impacts of negative gearing tends to centre solely on negative gearing. The fact that the concept of allowing tax deductions on losses and outgoings incurred in gaining or producing assessable income (ie negative gearing) was included in the provisions of Section 51 in the Income Tax Assessment Act 1936 and remains there in the current legislation, is most often ignored. Revenue to all levels of government far outweighs the loss to the Commonwealth Government from negatively geared rental property, for example in 2005-06, revenue from property to all governments was more than $25.8 billion compared with the net non-taxable loss from negatively geared property to the Commonwealth of $5.1 billion. Of the total taxpayers who negatively geared rental properties in 2005-06, 50.2% had taxable incomes between $21,601 and $63,000 and were responsible for claiming 43.7% of the total non-taxable net rent loss per year.

40. From the evidence presented above, it is clear that it is impossible to determine the effects that negative gearing alone may have in contributing to above-normal levels of investment in rental property. Negative gearing is only one of a range of factors that contribute to the level of investment in property and that also might affect property prices. In relation to other factors, the contribution from negative gearing is likely to be small. Any non-taxable net losses to the Commonwealth from negatively geared rental properties are far outweighed by the total national revenues from property taxes, duties and fees to all levels of government.

41. Any attempt to change the current tax laws in relation to negative gearing for property investments should *not involve abolition* of negative gearing. Property as an investment class should not receive any tax treatment that is different to the tax treatment of other investment classes (eg shares).

42. The current tax rules in relation to negative gearing for investments in real estate property (and other investment classes) should be retained as an important incentive to assist Australians to create wealth by investing in a range of asset classes including property, for their self-funded retirement the benefit of the nation.

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ANNEX A
TO THE REAL ESTATE INSTITUTE OF AUSTRALIA'S POLICY STATEMENT ON NEGATIVE GEARING AS AT 31 MARCH 2008

REVENUE FROM PROPERTY TO ALL LEVELS OF GOVERNMENT COMPARED TO INCOME TAX FOREGONE THROUGH NEGATIVE GEARING

The following estimates are based on the 2005-06 income tax year. They are indicative of the magnitude of annual revenues to the Commonwealth/State/Local governments from a range of sources directly associated with real property, and the income tax foregone by the Commonwealth Government as a result of negative gearing on rental property.

	Revenue 2005-06 $ billion	**Cost 2005-06 $ billion**
From Tax Returns:		
Gross rent declared from rental property	19.1	
Rental interest deductions claimed (57.0% of total rent deductions)		**13.8**
Total rent deductions claimed		24.2
Net non-taxable loss on rental property to C'wealth budget		5.1
[Net non-taxable losses from **negatively geared** rental property (66.5% of claims)		**8.6**
Net taxable profits from **positively geared** rental property (33.5% of claims)	**3.5**	
Net non-taxable loss on rental property to Commonwealth]		**5.1**
Capital gains tax on real estate (from individual taxpayers)	11.3	
Capital gains tax on real estate (non-individual taxpayers)	3.1	
GST on 160,000 new dwellings (estimated at about $25,000 per dwelling)	4.0	
Revenue to States from Land Tax and stamp duty	16.9	
Revenue to Local Governments from municipal rates	8.9	
Tax revenue on interest paid to lenders for home loans	No est.	
GST on new furniture and fittings for 160,000 new homes	No est.	
Fees paid to local governments for approvals for new dwellings or modifications to existing dwellings	No est.	

Source: ATO Taxation Statistics 2004-05; ABS Cat No. 5506.0; 8750.0

The table shows:

- In 2005-06, the total rental interest deductions claimed for all rental property was $13.8 billion.
- From the total claims for deductions for rental property, 66.5% were negatively geared and recorded net non-taxable losses of $8.6 billion.

- From the total claims for deductions for rental property, 33.5% were positively geared and recorded net taxable profit of $3.5 billion.
- Thus the net non-taxable loss on rental property to the Commonwealth in 2005-06 was $5.1 billion.
- The non-taxable amount of $8.6 billion attributable to negatively geared property was substantially more than offset by other directly-related property revenues at all three levels of Government (Commonwealth, State, Local) by an amount well in excess of $25.8 billion.
- Notably, the Commonwealth Government collected $11.3 billion in capital gains tax on real estate from individual taxpayers in 2005-06. A further $3.1 billion was collected from non-individual taxpayers.

ANNEX B
TO THE REAL ESTATE INSTITUTE OF AUSTRALIA'S POLICY
STATEMENT ON NEGATIVE GEARING AS AT 31 MARCH 2008

[redacted]

Source: ATO, Taxation Statistics 2005-06, Table 2.5

[redacted]

Source: ATO, Taxation Statistics 2005-06, Table 2.5