Your Knowledge Newsletter

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A Labor Government on Tax & Super

Tax on investment property

In general, taxpayers are able to deduct from their assessible income any expenses they incur generating or producing that income. An investment is negatively geared when the cost of owning the asset is more than the return. Negative gearing is not limited to property but can apply to other assets such as shares. In 2016-17, Australians claimed $47.5 billion in rental deductions against gross rental income of around $44.1 billion.

A number of capital gains tax (CGT) exemptions potentially apply to investment property. For Australian resident individuals, a 50% CGT discount applies to net capital gains made on investments held for longer than 12 months.

In addition, a taxpayer's main residence is exempt from CGT. As part of this exemption, a taxpayer can be absent from their main residence for up to 6 years and still claim the property as their main residence (assuming they do not treat any other property as their main residence). So, the property can be used as an investment property for 6 years but then sold as the taxpayer's main residence.

Labor's plan seeks to:

- **Limit negative gearing to new housing from 1 January 2020.** All investments made prior to this date will not be affected by the changes and will be fully grandfathered. The ALP states that the grandfathering element of the policy applies to property and assets purchased prior to the start date of the policy. "This means, for example, that if you own a property prior to 1 January 2020, you are able to negatively gear it after that date. The changes to the CGT discount will not apply to superannuation funds or to the 50 per cent active asset reduction concession that applies to small businesses."
- **Halve the capital gains tax discount for all assets purchased after 1 January 2020.** This will reduce the CGT discount for assets held longer than 12 months from 50% to 25%. Once again, all investments made prior to the 1 January 2020 will be fully grandfathered.

There is no policy statement from the ALP on the main residence exemption. The Morison Government had introduced legislation to remove access to the main residence CGT exemption for non-resident taxpayers, but this Bill stalled in the Senate. Chris Bowen told the Australian Financial Review that it will be up to the ALP to work through outstanding tax measures and "iron out any unintended consequences" including the impact on expats and retrospectivity.

More information

- ALP Positive plan to help housing affordability

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