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MEDIA RELEASE

H&R BLOCK
TAX ACCOUNTANTS

Negative Gearing Changes will Impact Australians across the Income Spectrum

Australia's leading tax agents, H&R Block, said today the implications of any change to negative gearing will impact both the wealthy and lower income earners across Australia.

According to Australian Tax Office figures, 72 per cent of investors with negatively geared properties earned $80,000 or less (2011-12 figures) so the removal of negative gearing stands to impact many middle income families, who may be forced to sell their property as they see their tax bills rise.

So what does abolishing negative gearing actually mean? Labor has talked about removing negative gearing for all but new properties (and also grandfathering current arrangements, so taxpayers currently negatively geared would not be affected).

There's also talk that the Liberals are looking at negative gearing as part of their tax reform process, with a particular focus on those with multiple negatively geared properties, which might involve restricting negative gearing to a set number of properties or capping deductions at a set proportion of taxable income.

Mr Mark Chapman, Director of Tax Communications for H&R Block, said "What is certain is that whatever approach is taken, there will be unintended consequences, not just in terms of the impact on the property and rental markets but in terms of administering whatever new rules are introduced.

"The potential for taxpayers to work around the rules is very real. That will increase the pressure on government to seek to block any potential loopholes with complex law, which will be difficult for ordinary taxpayers to follow and will increase compliance costs – not exactly a good look when the government and the ATO are pushing to cut red tape and reduce compliance costs", he added.

In addition, the removal or restriction of negative gearing rules stands to impact on other parts of the tax system, including the broader retirement savings system (many use property as a de-facto super scheme) and the broader role of deductions in the system, including for small business and employees.

Mr Chapman added, "What taxpayers need now is certainty. At the moment, radical and – for some – unpalatable ideas are being run up the flag pole and for many taxpayers – consumers, employees, investors – there's a feeling of uncertainty in the air. The government needs to make clear exactly what its intentions are so that taxpayers can begin to plan with certainty. The current confusion is economically damaging and can't continue for much longer".

Even as the government weighs up changes to the rules, the ATO continues to target property investors who are abusing the existing law, particularly property owners who are claiming deductions for properties which have not been available for rent. .

Mr Chapman said “We find that some property owners are trying to claim deductions on their weekend getaway places, when they are not being rented or leased. In addition, rental income and deductions from part owned weekenders can only be claimed in the proportion of the ownership level”.

Interest payments in relation to loans taken out on property – the heart of the negative gearing strategy - is deductible against rental property income, provided the loan has been taken to purchase the rental property.

Common errors in these claims are:

1. The loan was taken out to purchase a new property that you move into - and your old residence is rented. The interest is not deductible as the loan was used to purchase your principal residence and not the investment property.

2. A draw down is taken on an investment property loan to purchase a car. The interest on the loan needs to be apportioned for the % of the loan for the investment property and a % for the car, which is regarded as a private expense.

3. Split loans - interest on these types of loans is not deductible.

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