

Who's getting negative?

The benefits of negative gearing by
federal electorate

April 2015
ISSN 1836-9014

Matt Grudnoff

About TAI

The Australia Institute is an independent public policy think tank based in Canberra. It is funded by donations from philanthropic trusts and individuals and commissioned research. Since its launch in 1994, the Institute has carried out highly influential research on a broad range of economic, social and environmental issues.

Our philosophy

As we begin the 21st century, new dilemmas confront our society and our planet. Unprecedented levels of consumption co-exist with extreme poverty. Through new technology we are more connected than we have ever been, yet civic engagement is declining. Environmental neglect continues despite heightened ecological awareness. A better balance is urgently needed.

The Australia Institute's directors, staff and supporters represent a broad range of views and priorities. What unites us is a belief that through a combination of research and creativity we can promote new solutions and ways of thinking.

Our purpose—'Research that matters'

The Institute aims to foster informed debate about our culture, our economy and our environment and bring greater accountability to the democratic process. Our goal is to gather, interpret and communicate evidence in order to both diagnose the problems we face and propose new solutions to tackle them.

The Institute is wholly independent and not affiliated with any other organisation. As an Approved Research Institute, donations to its Research Fund are tax deductible for the donor. Anyone wishing to donate can do so via the website at <https://www.tai.org.au> or by calling the Institute on 02 6130 0530. Our secure and user-friendly website allows donors to make either one-off or regular monthly donations and we encourage everyone who can to donate in this way as it assists our research in the most significant manner.

Level 5, 131 City Walk
Canberra, ACT 2601
Tel: (02) 61300530
Email: mail@tai.org.au
Website: www.tai.org.au

Introduction

While a large number of people take advantage of negative gearing for residential investment properties in Australia, the majority of the benefits are more narrowly focused. A previous paper by the Australia Institute looked at how the benefit of negative gearing was distributed by income and aged groups. It also looked at how negative gearing and the capital gains tax discount was distorting the property market. This paper will focus on the geographic distribution of negative gearing by federal electorates.

An analysis of the data shows that taxable income and the proportion of people undertaking negative gearing are correlated. As income increases so does the number of people undertaking negative gearing. Taxable income and net rental loss are also correlated. As income rises the amount deducted because of negative gearing also rises.

The paper finds that net rental loss, which is effectively the value of negative gearing, is not spread equally across electorates. The top 10 electorates by net rental loss are all Liberal electorates. The representatives of these electorates include the Prime Minister Tony Abbott, the Treasurer Joe Hockey, the Minister for Communications Malcolm Turnbull and the Trade Minister Andrew Robb.

Liberal electorates have the biggest net rental loss and the largest proportion of people using negative gearing. National party electorates have the lowest net rental losses and the smallest proportion of people using negative gearing. A large factor in this is likely to be income. Average taxable income in Liberal seats is 22 per cent higher than in National party seats.

The geographic spread of negative gearing

Negative gearing is where losses made on investments can be deducted from taxable income derived from other sources. In Australia negative gearing most commonly relates to investments in real estate. An investor borrows money to buy an investment property and rents the property out. If the rent being paid is less than expenses relating to the property, then this loss can be deducted from other taxable income. The investor loses money on the property, but the reduction in tax they pay from their regular income, say from a high salary, is very valuable. The deductible expenses include interest paid on investment loans - an important part of these deductions.

A paper recently released by The Australia Institute showed that the benefit of negative gearing was concentrated on high income earners with 50 per cent of the benefit going to the top 20 per cent of households by income.¹ Middle income households, the 50 per cent of households between the 3rd and 8th decile, received only about 40 per cent of the benefit.

Another aspect to negative gearing is the geographical distribution of negative gearing. In this paper we will look at Australian Tax Office (ATO) data that shows the distribution of negative gearing by post code. This data has been aggregated up to show the distribution of negative gearing by federal electorates. The aggregation process was done by the National Centre for Social and Economic Modelling (NATSEM).

The data derived from the ATO shows average net rental loss. This is the average amount that is deducted by people in a particular electorate for the purposes of negative gearing. The average amount only includes those who make a net rental loss. The other figure used in this report is the percentage of registered voters in a particular electorate who have made a rental loss.

¹ Grudnoff (2015) *Top Gears: How negative gearing and the capital gains tax discount benefit the top 10 per cent and drive up house prices*

The three largest parties in the lower house are the Liberal Party of Australia, The Australian Labor Party and the National Party. Between them they make up 145 seats of the 150 seats available in the House of Representatives. For these calculations Queensland Liberal National Party (LNP) members and Northern Territory Country Liberal Party members (CLP) have been split into either the Liberal party or the National party depending on which party room they choose to sit in.

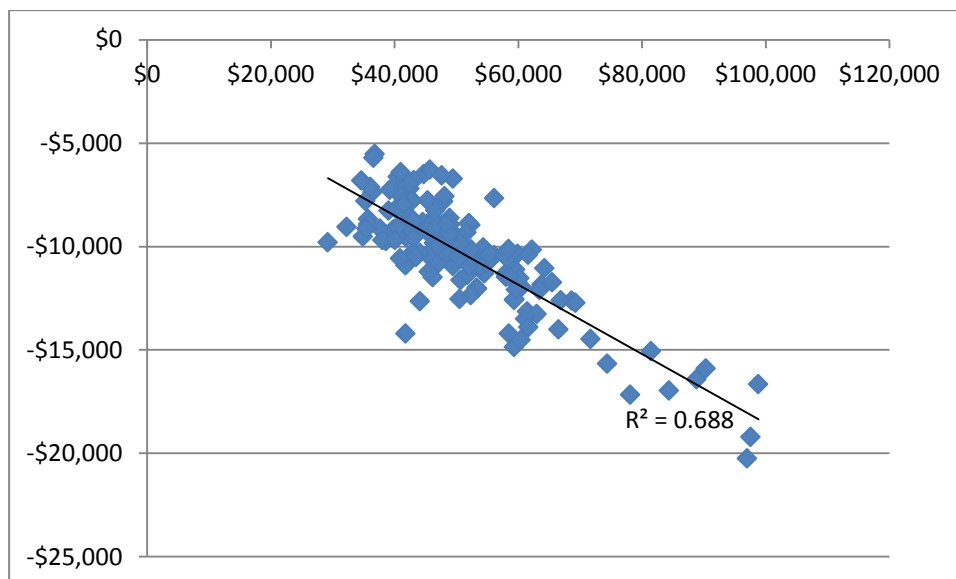
Done this way there are 75 Liberal electorates, 55 Labor electorates and 15 National electorates. The remaining 5 electorates are made of parties that have only one seat in the lower house or independents.

The net rental loss is the amount of money claimed in deductions by individuals for their investment properties. While this does not tell us the exact benefit that they got from negative gearing it does give as a close approximation. In order to get the exact amount of the benefit we would need to know their marginal tax rate which is unavailable.

Geographic spread confirms benefits are going to high income earners

*Top Gears*² showed that 50 per cent of the benefit of negative gearing went to the top 20 per cent of households. If we look at the spread of the benefits of negative gearing across electorates we see that it is correlated with taxable income. That is the larger the average deduction for negative gearing for a particular electorate the higher the average taxable income. This is shown in Figure 1.

Figure 1 – Average net rental loss versus average taxable income

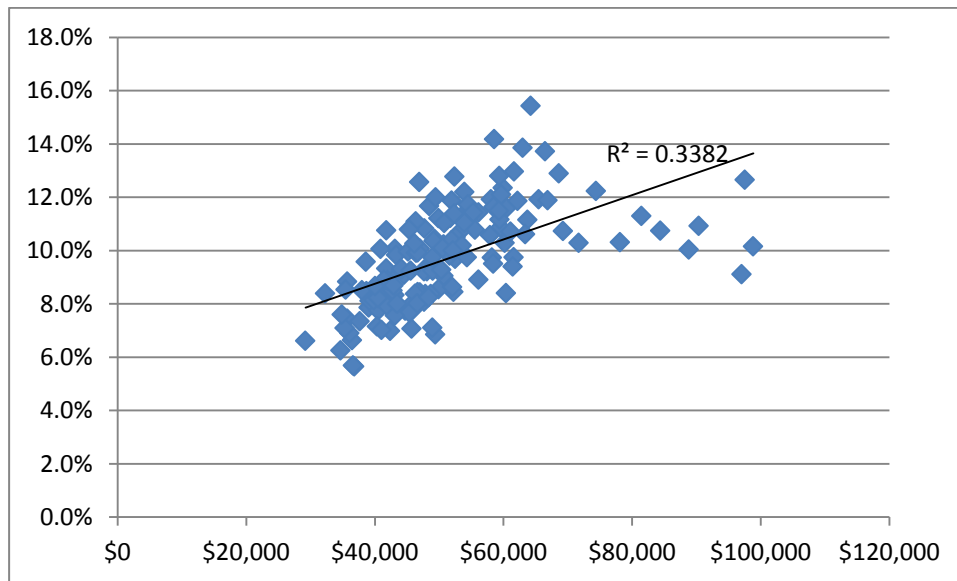


Source: ATO (2014) and NATSEM

We see the same relationship when we look at the proportion of people in the electorate involved in negative gearing and taxable income. As average taxable income rises so does the proportion of people negatively gearing.

² Grudhoff (2015)

Figure 2 – Net rental loss share versus average taxable income



Source: ATO (2014) and NATSEM

This is further confirmation that the benefits of negative gearing increase with income.

Spread by major party

Looking at federal electorates we can see that Liberal party seats have the highest average net rental loss. On average those in Liberal party seats lost \$10,990. Labor party seats had the second highest average loss with people in Labor party seats losing on average \$10,264. The National party had a significantly lower net rental loss of just \$8,047.

Table 2 – Negative gearing benefit by major party

Party	Average net rental Loss	Average proportion with net rental loss	Average taxable income
Liberal	-\$10,990	10.1%	\$54,294
ALP	-\$10,289	9.6%	\$49,210
National	-\$8,047	8.5%	\$44,526

Source: ATO (2014) and NATSEM

This means that people in Liberal party seats on average were likely to get the largest benefit from negative gearing. Those in Labor seats were second and significantly further back are those in National party seats.

This is not surprising given the average taxable income of electorates for each of the major parties. As *Top Gears*³ showed, most of the benefit of negative gearing flowed to high income earners. The electorate data confirms this. Liberal party electorates not only had the largest amount of negative gearing, they also had the highest average taxable income at \$54,294. The Labor party electorates came second with an average taxable income 11 per cent lower on \$49,024. The National party electorates who had the lowest amount of

³ Grudnoff (2015)

negative gearing also had the lowest average taxable income. 22 per cent lower than the Liberal electorates at \$44,526.

Looking at the percentage of people in federal seats who engaged in negative gearing of residential properties we see that the Liberal party had the highest percentage at 10.1 per cent. The Labor party was second at 9.6 per cent and the National party was third with 8.5 per cent.

The Prime Minister and the Treasurer and others in the Liberal party hierarchy have dismissed calls for watering down or scrapping of negative gearing. This is not surprising given the size of the negative gearing benefit that is flowing to those in their electorates. What is more surprising is that the National party are not advocating more for its removal. With lower rates of negative gearing, smaller net rental losses and a lower average taxable income, National party electorates receive significantly less in benefits from negative gearing than the other two major parties.

Electoralates getting the most benefit from negative gearing

We will now look at the electoralates that are getting the largest deductions from negative gearing. Of the top 10 electoralates for net rental loss all 10 were Liberal electoralates. Table 3 lists the top 10 electoralates by net rental loss

Table 3 – Top 10 electoralates by net rental loss

Electorate	Net Rental Loss	Party	Representative
Wentworth	-\$20,248	Liberal	Malcolm Turnbull
Curtin	-\$19,216	Liberal	Julie Bishop
Kooyong	-\$17,169	Liberal	Josh Frydenberg
Bradfield	-\$16,969	Liberal	Paul Fletcher
Higgins	-\$16,659	Liberal	Kelly O'Dwyer
Warringah	-\$16,423	Liberal	Tony Abbott
North Sydney	-\$15,895	Liberal	Joe Hockey
Brisbane	-\$15,666	Liberal	Teresa Gambaro
Goldstein	-\$15,068	Liberal	Andrew Robb
Ryan	-\$14,857	Liberal	Jane Prentice

Source: ATO (2014) and NATSEM

The top 10 by amount deducted for negative gearing includes the Prime Minister Tony Abbott, the Treasurer Joe Hockey, the Minister for Communications Malcolm Turnbull and the Trade Minister Andrew Robb.

Proportion of those negatively geared

When we look at the top 10 electoralates by the proportion of people negatively gearing we get a slightly different picture. In particular an interesting state breakdown appears. A large proportion of the top 10 (40 per cent) come from Western Australia. As a reference Western Australia only makes up 15 per cent of lower house electoralates.

Table 4 – Top 10 electorates by proportion of with a net rental loss

Electorate	State	Proportion with net rental loss	Party	Representative
Durack	WA	15.4%	Liberal	Melissa Price
Solomon	NT	14.2%	Liberal	Natasha Griggs
Moore	WA	13.9%	Liberal	Ian Goodenough
Canberra	ACT	13.7%	ALP	Gai Brodtmann
Tangney	WA	13.0%	Liberal	Dennis Jensen
Berowra	NSW	12.9%	Liberal	Philip Ruddock
Fraser	ACT	12.8%	ALP	Andrew Leigh
Lingiari	NT	12.8%	ALP	Warren Snowdon
Curtin	WA	12.7%	Liberal	Julie Bishop
Mitchell	NSW	12.6%	Liberal	Alex Hawke

Source: ATO (2014) and NATSEM

The high proportion of Western Australian electorates might be due to the influence of the recent mining boom. Western Australia benefited most from the mining boom including increased wages to mining workers. It could be that some of those additional wages were invested in residential property, which has increased the proportion of those involved in negative gearing.

Those who benefit least from negative gearing

We can also look at those electorates that are gaining the least from negative gearing. Table 5 looks at the bottom 20 electorates by amount deducted for negative gearing.

Table 5 – Bottom 20 electorates by net rental loss

Electorate	Net Rental Loss	Party	Representative
Lyons	-\$5,528	Liberal	Eric Hutchinson
Mallee	-\$5,712	National	Andrew Broad
Braddon	-\$6,281	Liberal	Brett Whiteley
Wannon	-\$6,405	Liberal	Dan Tehan
Bendigo	-\$6,502	ALP	Lisa Chesters
Farrer	-\$6,563	Liberal	Sussan Ley
Indi	-\$6,629	Independent	Cathy McGowan
Bass	-\$6,719	Liberal	Andrew Nikolic
New England	-\$6,799	National	Barnaby Joyce
Riverina	-\$6,805	National	Michael McCormack
Parkes	-\$6,936	National	Mark Coulton

Murray	-\$7,128	Liberal	Sharman Stone
Barker	-\$7,198	Liberal	Tony Pasin
Maranoa	-\$7,255	National	Bruce Scott
McMillan	-\$7,361	Liberal	Russell Broadbent
Cowper	-\$7,425	National	Luke Hartsuyker
Grey	-\$7,565	Liberal	Rowan Ramsey
Calare	-\$7,666	National	John Cobb
Franklin	-\$7,767	ALP	Julie Collins
Gippsland	-\$7,769	National	Darren Chester

Source: ATO (2014) and NATSEM

National party electorates are over represented in the bottom 20. National party electorates make up 10 per cent of House of Representative seats but make up 40 per cent of the bottom 20 by net rental loss. In fact more than half of National party electorates are in the bottom 20. Those in National party electorates benefit significantly less from negative gearing.

It is likely that the upcoming federal budget will cut spending in various areas. Given the lower average income of those in National Party seats they are likely to be hit harder by spending cuts. They are also likely to have been hit harder by the spending cuts in the last budget. Given this you might expect the National party would advocate removing negative gearing since it will reduce the amount of spending cuts in other areas.

Conclusion

The electorate analysis shows that income is still the most important factor in negative gearing. Higher incomes are correlated with higher rates of negative gearing and larger negative gearing deductions. While there may be many people who are claiming deductions for negative gearing the benefits are heavily concentrated to high income earners.

The largest beneficiaries of negative gearing are represented by government ministers including the Prime Minister, the Treasurer and other senior ministers. Those that benefit the least are disproportionately found in National party electorates.

Negative gearing mostly benefits high income earners, has little if any public benefit and is distorting the property market to the detriment of low and middle income earners. The geographic distribution of negative gearing may be an important factor in understanding why negative gearing is able to continue in its current form.

References

ATO (2014) *Taxation statistics 2011-12*, Australian Tax Office, Individual tax tables, Table 6, Available at <https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Tax-statistics/Taxation-statistics-2011-12/?anchor=indiv_detailed#indiv_detailed>

Grudnoff M (2015) *Top Gears: How negative gearing and the capital gains tax discount benefit the top 10 per cent and drive up house prices*, The Australia Institute, Available at <<http://www.tai.org.au/content/top-gears>>