

Removal of Capital Gains Tax (CGT) discount  
on rental properties to decrease house prices.



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**Subject:** Capital Gains Tax Discount on rental properties removal  
**Date:** Tuesday, 23 January 2024 at 11:30:44 pm Australian Eastern Daylight Time  
**From:** Jack Wadsworth  
**To:** [PreBudgetSubmissions@treasury.gov.au](mailto:PreBudgetSubmissions@treasury.gov.au)  
**Attachments:** 20240123\_Doc2.pdf, image001.png, image002.png

Please remove the Capital Gains Tax (CGT) discount on rental properties to increase housing affordability.

Income Tax Assessment Act 1997 (ITAA 1997) under Division 115 and section 115-100.

I don't want to be homeless and live in temporary housing.

#poor

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Jack Wadsworth



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To: Date: 25/09/2024

Senate Standing Committees on Economics  
PO Box 6100  
Parliament House  
Canberra ACT 2600

## Appendix

I think the Australian Taxation Office don't want to do work.

They aren't pushing and working on increasing the living conditions of everyone in Australia and they are adding to the cost of living.

### 1.1 The Capital Gains Tax Discount

I don't think enough is done on the Capital Gains Tax (CGT) Discount (Division 115 in the Income Tax Assessment Act 1997 (ITAA 1997)) where it is applied to housing.

CGT was announced after 19 September 1985 and section 3-160ZM (inserted 1986) of the Income Tax Assessment Act 1936 (ITAA 1936) to allow:

'Deemed disposal for consideration equal to indexed cost base'.

This was to allow asset disposal price to be reduced by inflation.

The 50% discount apart from inflation was announced 21 September 1999 and inserted Division 115 of ITAA 1997.

According to the Explanatory Memorandum New Business Tax System (Integrity and Other Measures) Act 1999 without going into any detail; which there wasn't. it was to disregard the indexation to a set percentage of 50% without any indexation applying to the cost base.

Perhaps this was to simplify calculations on asset sales and the tax.

## 2.1 House prices and the Capital Gains Tax Discount for individuals and trusts

According to the Australian Taxation Office 'Taxation statistics 2021–22' rents have increased 79.77% from 2009.

Other data shows it is 91.53%.

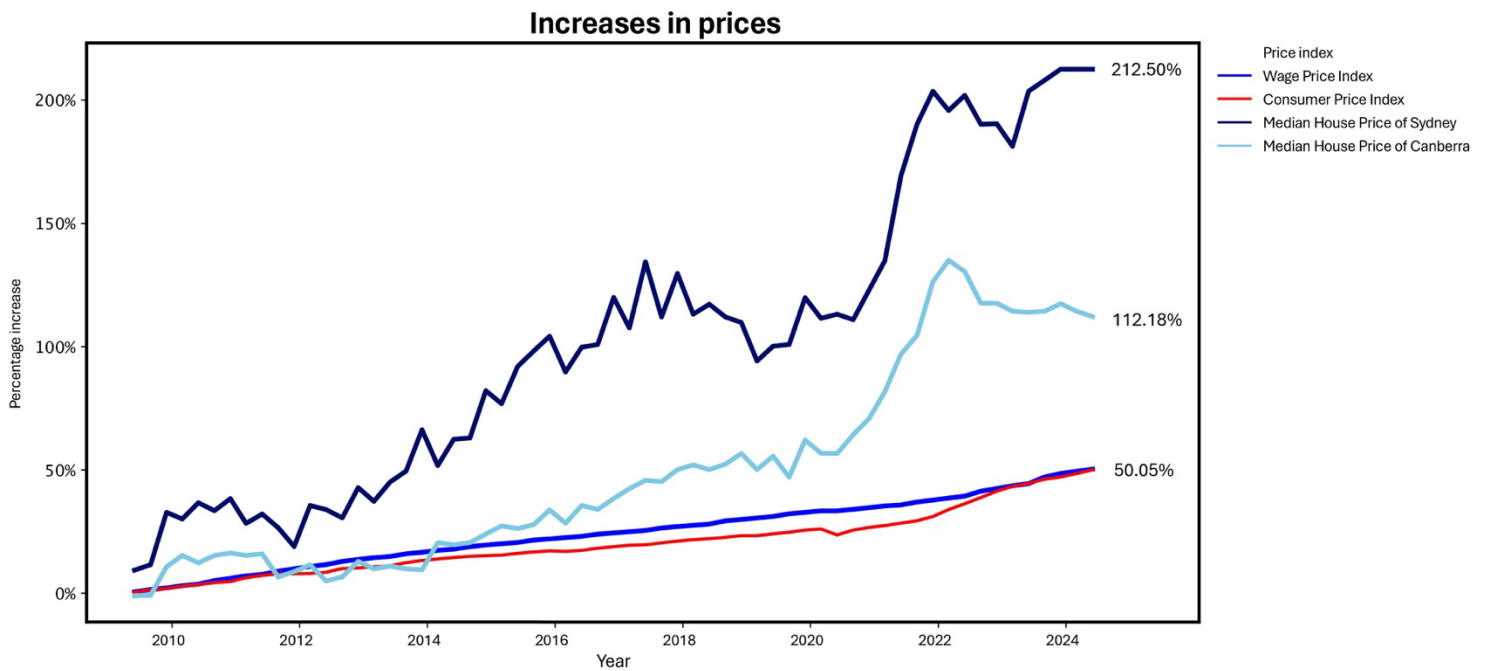
A product for what is the same point what it was always. A person to live in. The concept that isn't any different to the past.

These are estimates of recent (25/09/2024) weekly rent prices:

Canberra	NSW	Queanbeyan	Inner West Sydney	Sydney
\$740	\$650	\$550	\$725	\$800
\$559	\$480	\$360	\$490	\$730

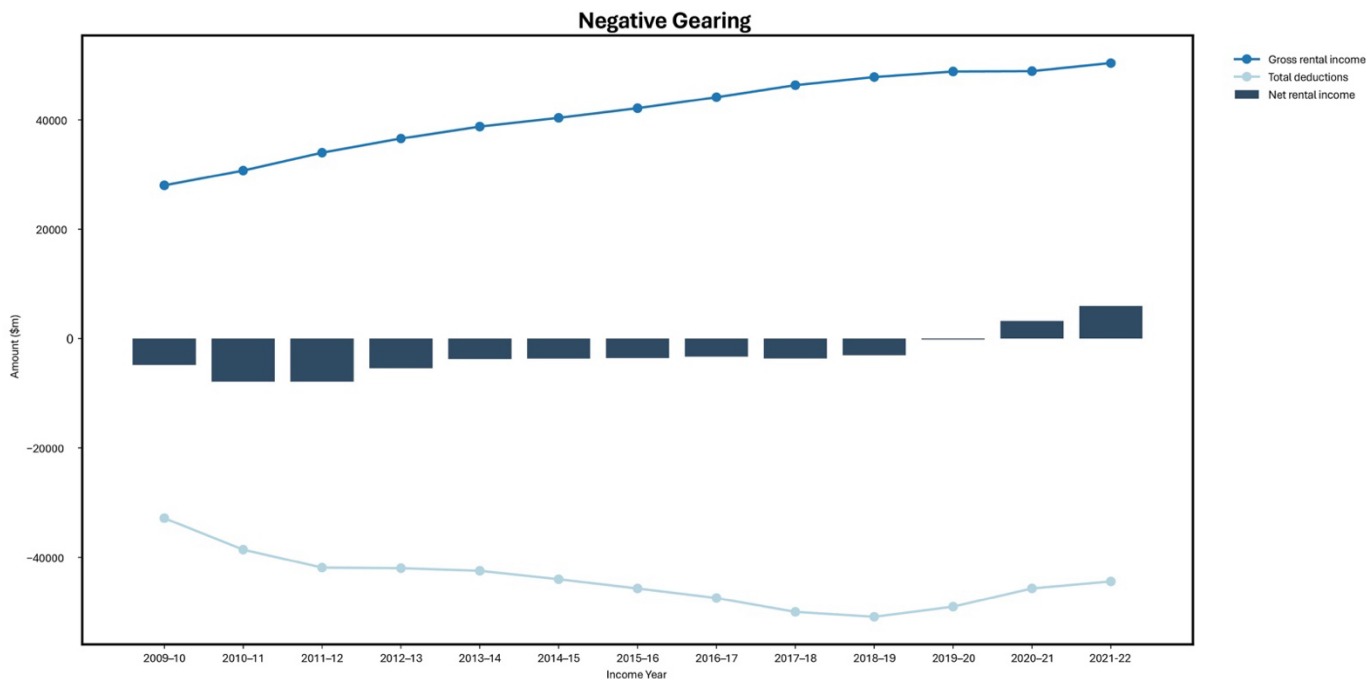
Due to data limitations including the Australian Taxation Office data (statistics) and house price data; some data was calculated from 2009.

**Figure 2.1: Increases in house prices from 2009**



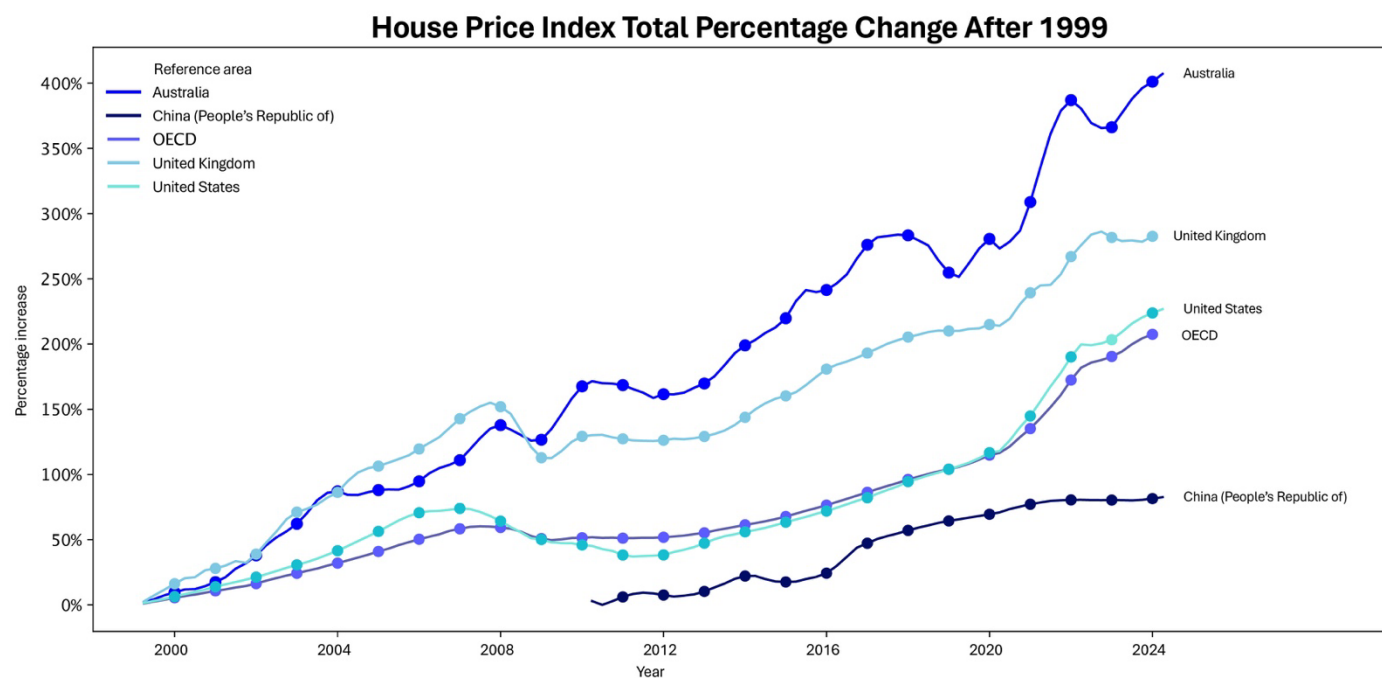
Reference: Australian Bureau of Statistics (2024). Australian Bureau of Statistics (ABS).

**Figure 2.2: Negative gearing net amount**



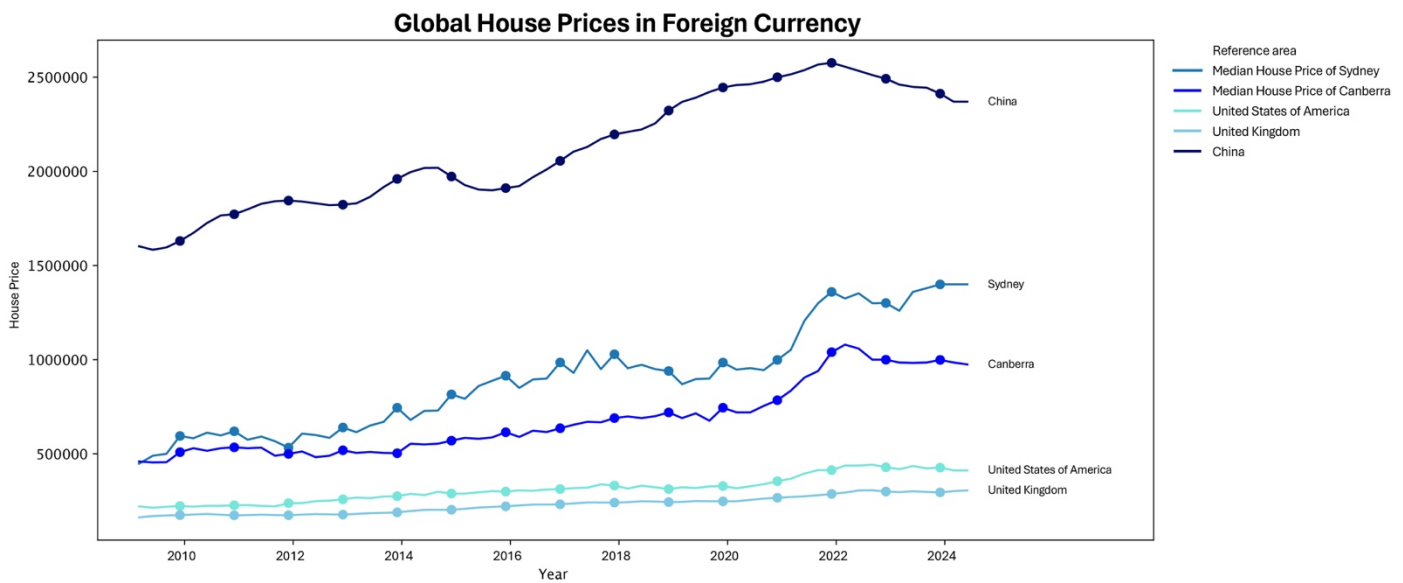
Reference: Australian Taxation Office (2022). Australian Taxation Office (ATO).

**Figure 2.3: Total house price percentage increases from 1999**



Reference: The Organization for Economic Cooperation and Development (2024). The Organization for Economic Cooperation and Development (OECD).

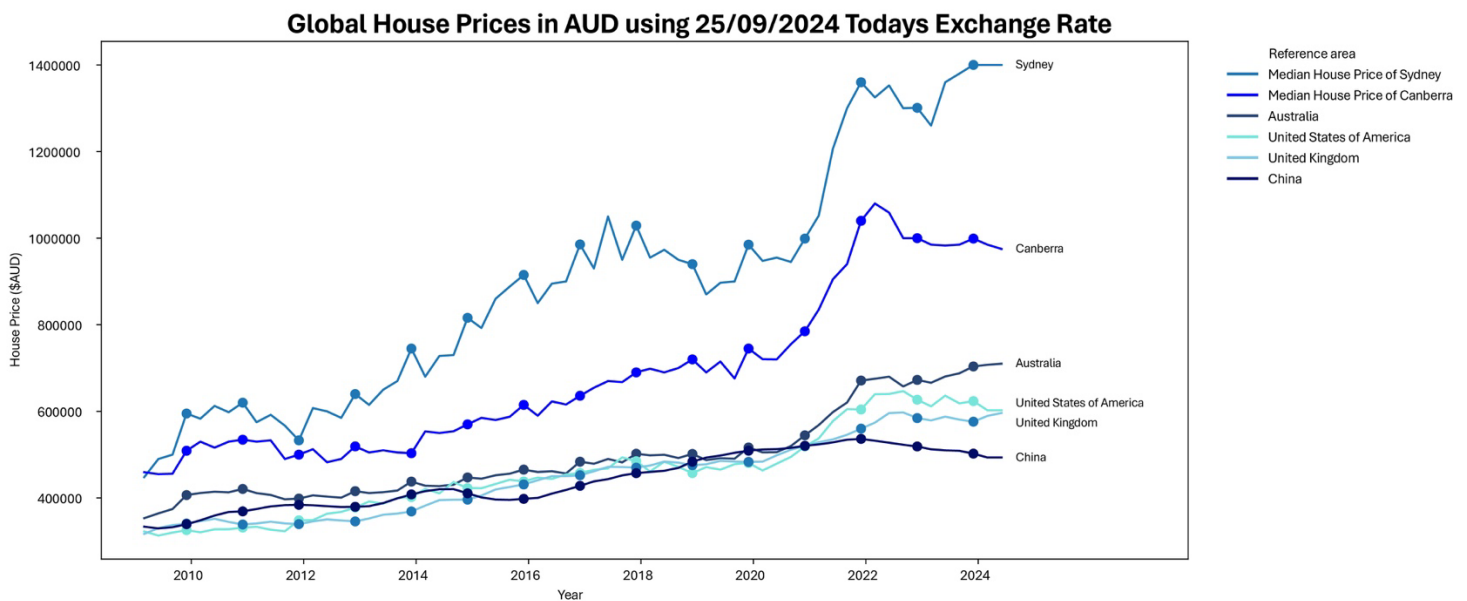
**Figure 2.4: House prices in foreign currency**



Reference: Various.

China was modelled due to insufficient data.

**Figure 2.5: House prices in todays AUD 25/09/2024**



Reference: Various; and Exchange rates (Microsoft (2024)).

China was modelled due to insufficient data.

Australia compared to other countries with higher living standards and economies (not including Europe). The house prices are ordinarily high. With Organization for Economic Cooperation and Development (OECD) data (OECD, 2024) back to 1999 house prices in Australia have increased over 400% from the price in 1999.

The price to income an equation like a price to earnings in equity markets. The After Tax Wages Full Time in Canberra It would take 12.25 years (12.25 price to income). This is more like after taking away living expenses (estimated \$24505 (University of Sydney via Department of Home Affairs) and \$16614 per annum) the total loan repayments on a median house price \$975000 is \$2177338

with interest \$1202338 at 6.34% interest. The interest in the 1<sup>st</sup> repayment is around \$1188.75 and over the life of the loan the interest per week is about \$770.72 a week.

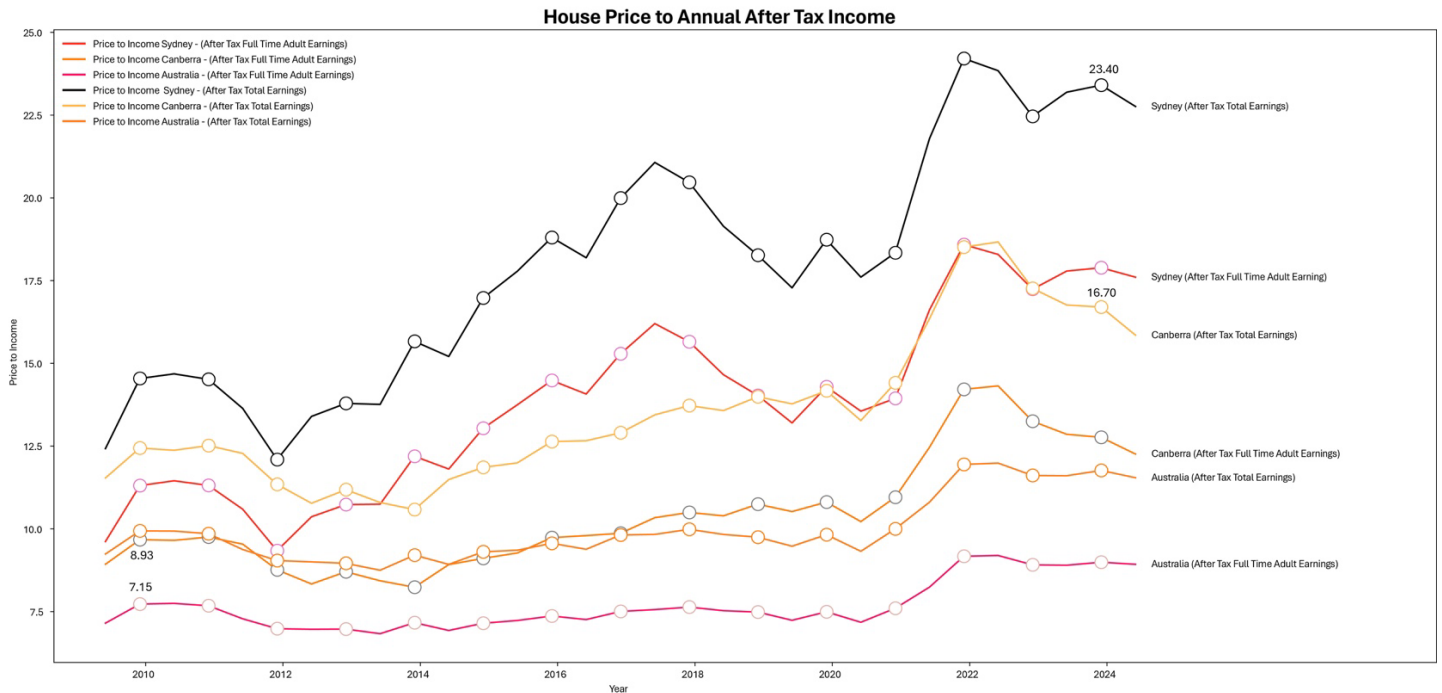
After living expenses the Price to Income is 34.68 to 39.65 times for a full time income with loan repayments and interest.

A person on a lower income is 58 times after living expenses with loan repayments and interest.

A person on the average full time income \$103703.60 would have a disposable income after tax and loan repayments of \$6784.93 to pay for living expenses and -\$9829.07 in savings after living expenses.

We have done research into incomes and loans and disposable incomes outside this paper.

**Figure 2.6: Price to After tax Income (Price to Earnings)**

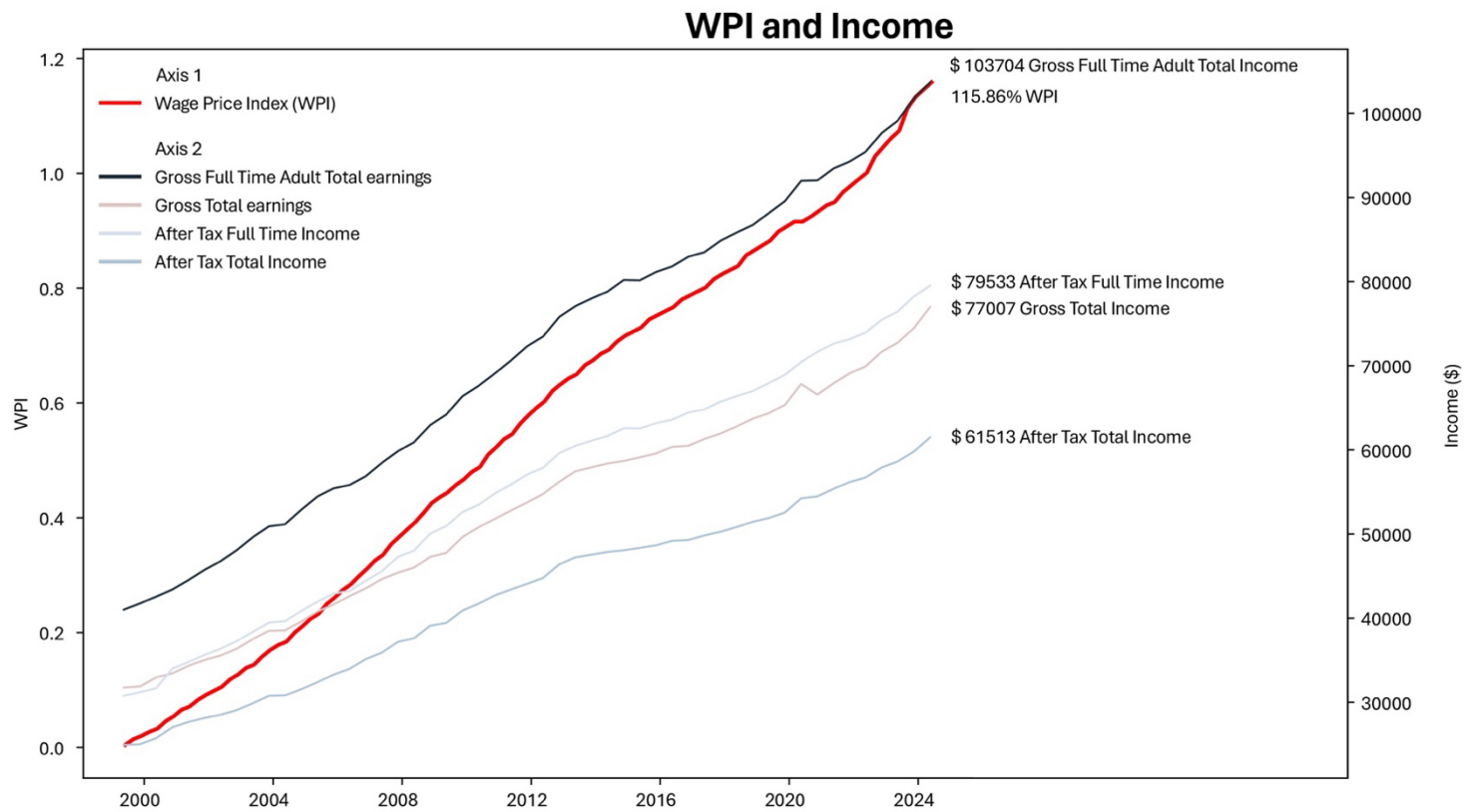


Reference: Australian Bureau of Statistics (2024); Australian Taxation Office (2024).

Australian Bureau of Statistics (ABS); Australian Taxation Office (ATO).

In the past year total housing loans were \$332.19 billion and investors equated for 62.54% of loans. Investors recently accounted for 13.28% and 15.23% in increasing (new) supply in the housing market.

**Figure 2.7: Wages and salary earnings growth**



Reference: Australian Bureau of Statistics (2024). Australian Bureau of Statistics (ABS).

### 3.1 House prices; rental yield and rents

Figure 3.1: How to calculate rental yield

## HOW TO CALCULATE RENTAL YIELD



Reference: Westpac (2024).

Rents are often driven by house prices and the yield. Sometimes it's a simpler equation and its around about dropping 0s off the purchase price. The higher the house price - the higher the rent in dollar amount. A higher return is required to often cover interest repayments and worn by the one paying the rent.

Property owners are under wide spread advice to increase prices by real estate agents. With the information and data driven by technology it's easier to adjust prices to higher market prices and optimize pricing systems to be prohibitively expensive.

I don't think removing negative gearing is a economical option that's affordable.

Negative gearing allows a loss. The property owner can afford to charge a lower rent and wear the cost.

The point of tax is to get deduction. It is wrong to where the deduction isn't allowed on taxable income.

With rent you receive equity from the other party.

And the other party pays off that equity and the interest on the debt.

It doesn't make sense renting paying off someone else's mortgage.

You pay the interest and the repayments they get the equity due to you paying it off. That is what rent is.

Unlike other assets where you pay for the equity like shares.

Then they pay less tax on the income.

There is the bracket where a individual can't afford to buy and it is the exception.

However society is getting priced out.

Often the market and suburb that the house is in sets the rent. That's economics and market premium.

However due to house prices the rent is unaffordable.

Its adding to the equation with interest increasing with loan amounts.

### **Figure 3.2: Why house prices are increasing rents...**

**WHERE THE RENT IS \$100 A WEEK**

**THE HOUSE PRICE WAS \$100 000**

**THE YIELD IS 5.20%**

#### **1 BEDROOM APARTMENT YIELDS**

- **SYDNEY RENTAL YIELD 5.17%**
- **CANBERRA RENTAL YIELD 5.36%**

**HOUSE PRICES ARE INCREASING RENTS**

**YIELDS AREN'T VOLATILE OVER TIME**

**AND WEEKLY RENT PRICES DON'T DECREASE WITH  
DECREASES IN HOUSE PRICES**

However its likely due to real estate agents and low entry to the sector. Its getting sophisticated.

- Like interest rate forecasts;
- House prices and interest rates;
- Long term low rental yields deviations;
- Low rent decrease deviations and drawdowns; and
- The internet and data.

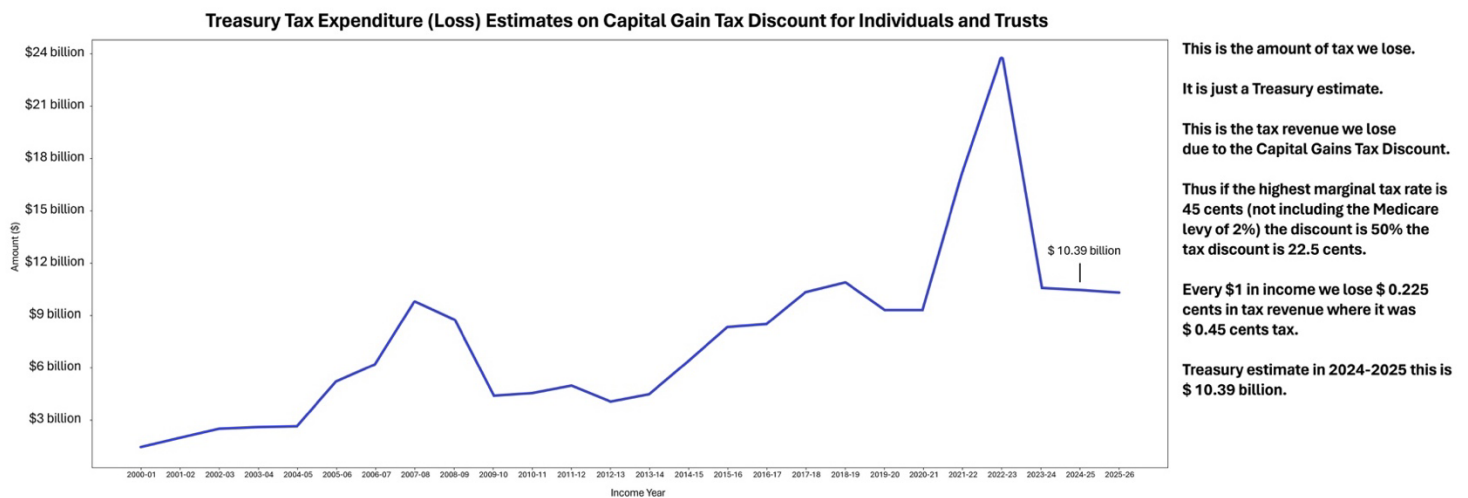
## 4.1 Capital Gains Tax Discount Tax Expenditure (Loss)

Investors are trying to get a discount on income tax at 50% marginal tax rate with house price increases.

Resident tax rates 2024–25	
16c discounted by 50%:	8c
30c discounted by 50%:	15c
37c discounted by 50%:	18.5c
45c discounted by 50%:	22.5c

With the top marginal tax rate paying less tax with a lower tax rate on investment property than a person earning \$45000 to \$135000 tax bracket.

**Figure 4.1: Treasury tax expenditure estimates**



Reference: The Treasury (Commonwealth of Australia). '2024-1999 Tax Expenditures and Insights Statements'.

**Figure 4.2: Limited CGT calculations**

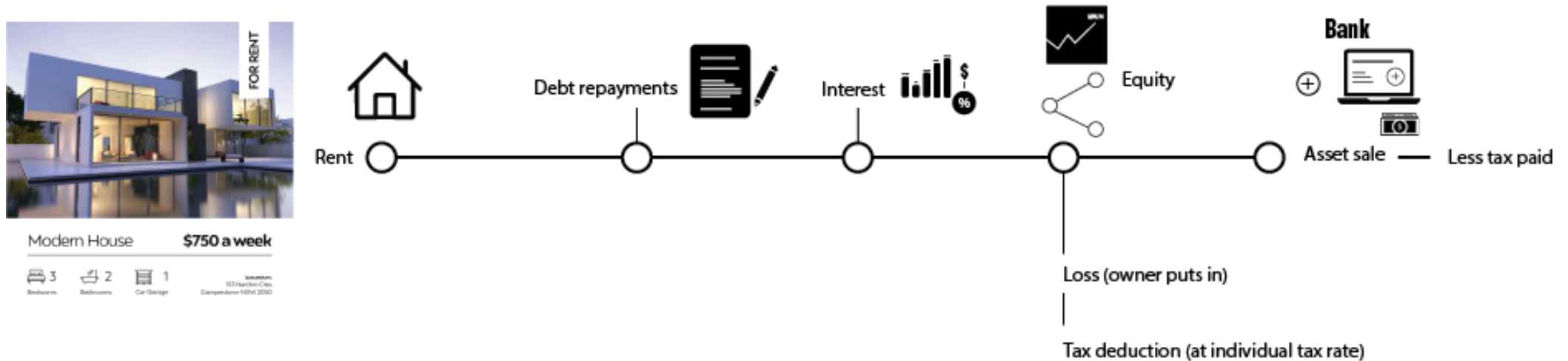
+	\$	150.00	Asset sale price
-	\$	20.00	Less expenses (allowable deductions)
-	\$	30.00	Less asset cost price (buy price)
<hr/>			
=	\$	100.00	Apply any previous allowable capital losses
∴	\$	100.00	Net income
×		50%	Capital Gains Tax (CGT) Discount
<hr/>			
=	\$	50.00	\$ 100 × 50% Capital Gains (CGT) Tax Discount = Net capital gain
∴	\$	50.00	
×		0.45	Highest marginal tax bracket tax rate 45 cents tax
<hr/>			
=	\$	22.50	Tax
+	\$	2.00	Medicare levy
<hr/>			
\$		22.50	Tax revenue loss

Reference: Australian Taxation Office (ATO).

Disclaimer: Refer to Australian Taxation Office (ATO) on all taxation calculations or get professional advice. This is a limited calculation your calculations, inputs and figures could appear to be different. Please use due diligence.

Figure 4.3: The rent and equity equation

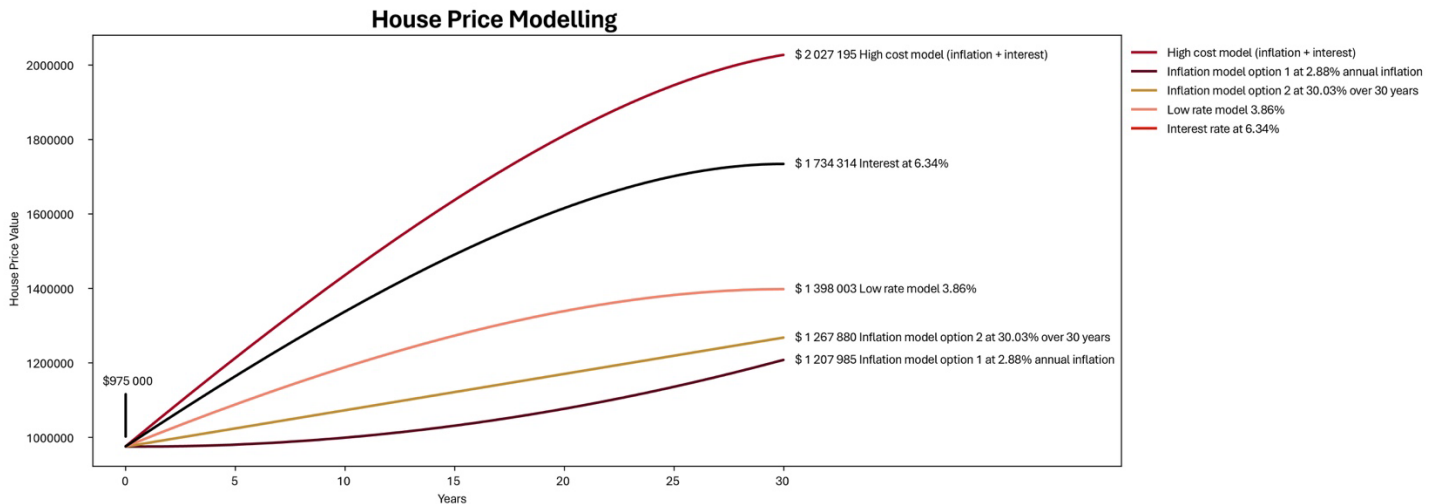
## Rent pays off interest and debt = equity



The understanding I have of real estate is low. Apart from I live in it. I think of it like a lay person that it is a personal expense to receive housing.

However we have done some house price modelling. We have underestimated inflation over the 30 year period. Otherwise the average price of a house with inflation in Canberra would be \$ 2,945,582.60 after 30 years and likely higher with increasing debt size. This doesn't include growth and premium.

**Figure 4.4: 30 year loan and house price modelling**



Reference: Reserve Bank of Australia (2024); Commonwealth Bank of Australia (25/09/2024) and Australian Bureau of Statistics (2024).

Reserve Bank of Australia (RBA); Commonwealth Bank of Australia (CBA) and Australian Bureau of Statistics (ABS).

Disclaimer: Please get professional advice. This is a limited calculation that is derived from assumptions in economic and market factors including interest rates and inflation which are administered at their discretion and non-discreetly influenced. These figures are not to be relied upon and subject to change with the market and administration (the market and banks including the RBA). This does not consider and take into account your figures and inputs or is it reliable under the data apparent and in calculations done. Interest calculated on debt was out by \$0 to under \$10000 which is immaterial and subject to market pricing and calculations by banks online.

Data was use from OECD however I don't know if the data is reliable and reflects society. Weekly rent prices are not widely available for the purpose of non-professional paid data and this paper. There are widely accepted sellers of data however the extent of this paper it was not economical and we don't widely professionally subscribe to as tax accountants in the sector and in the market we are placed in.

**Figure 4.5: Rent and house prices total percentage increase**



Reference: The Organization for Economic Cooperation and Development (2024); and Australian Bureau of Statistics (2024).

The Organization for Economic Cooperation and Development (OECD); and Australian Bureau of Statistics (ABS).

**Figure 4.6: House price and rent percentage change and correlations**



Reference: The Organization for Economic Cooperation and Development (2024); and Australian Bureau of Statistics (2024).

The Organization for Economic Cooperation and Development (OECD); and Australian Bureau of Statistics (ABS).

## **References were not included in this paper.**

Work it out yourself. I wasn't employed by you and this wasn't paid.

And todays professional social media and releases are lacking references anyway.

# Black Label Advisory