Labor's crackdown on negative gearing 'a threat to small business'

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Economics Editor

Paul Drum, senior tax counsel with peak accounting group CPA Australia.

Labor's proposed crackdown on negative gearing could affect thousands of small businesses despite assurances from Treasury spokesman Chris Bowen that it is not intended to target business assets.

The policy is also likely to curb the practice of margin lending in the sharemarket and will particularly affect private investors in unlisted small businesses.

Paul Drum, senior tax counsel with peak accounting group CPA Australia, said yesterday that thousands of small businesses structured with sole proprietors could potentially be affected.

"As we know the state of play at the moment, if it is quarantined so that you could only negatively gear new property, then small unincorporated business would also be a victim of the cutback," he said.

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Reserve Bank figures show there are about 140,000 people with margin lending accounts. At least one MP, former treasurer Wayne Swan, includes margin loans on his pecuniary interest declarations.

There are about 250,000 sole proprietors who claim interest expenses, although only a portion of these would involve negative gearing against wage income.

Mr Drum said it would be common for a farmer to have an off-farm salary income and claim the losses from the farm in a bad year as deductions against the tax on wages. Although there are special rules governing farm losses, he said the same situation would apply across thousands of small businesses.

"On the basis of what we know today and subject to the ultimate design features of whatever may or may not transpire, we would expect particularly unincorporated businesses — which are most businesses in Australia — that where they're geared or in years of losses, they would be expected to carry the total economic loss of until such time as they became profitable."

Mr Bowen rejected concerns that Labor's policy would affect small business financing.

"This is just the next episode of a wanting scare campaign by a government desperate to hide its own policy vacuum," he said last night. "Labor has always been clear: our changes to negative gearing do not affect any active investments made by businesses, whether large or small."

Labor has provided assurances to this effect to peak small business group the Council of Small Business of Australia.

Council chief executive Peter Strong said yesterday existing rules made it hard for a person to negatively gear against their salary income for borrowings used to finance investment in a business they run on the side.

"My assumption is that there will be no change from the current situation in financing small business beyond the real estate sector," he said.

But NSW Business Chamber chief executive Stephen Cartwright was more cautious.

"If any policy reduces residential property prices it will hurt SME (small business) lending capacity as most use their family home to secure a line of credit for business. Whether Labor's policy does that remains to be seen."

Tim Wedd, the executive director of wealth management group Crystal Wealth Partners, said the policy would have an impact on private investment in unlisted businesses, which is commonly negatively geared.

"If I'm an investor and in an unlisted project with good growth profile, I would now face a higher tax cost, so I may not be so keen,'' he said.

Mr Bowen has made clear that Labor's policy will allow individual investors to negatively gear investments in newly built residential real estate but not against other assets such as shares.

Margin lending, or borrowing to buy shares, would become less attractive under the new policy, according to Mr Wedd.

He said the impact of the policy would be to push more investment in to the family home and superannuation, which remain the two tax-favoured investment avenues. It would make the use of non-recourse loans to buy investment property inside self-managed superannuation funds more attractive.

The managing director of financial planner Omniwealth, Matthew Kidd, said by far the biggest effect of the policy would be on residential real estate.

"Residential real estate is not a great investment when you have to pay stamp duty, pay lawyers to do conveyancing and arrange mortgage funding, while there are strata fees, real estate agency fees and maintenance for holding it,'' he said.

http://www.theaustralian.com.au/national-affairs/labors-crackdown-on-negative-gearing-a-threat-to-small-business/news-story/a0b14a4ba0236b78ad6d1225af59953d