



14 MAR, 2026

Negative gearing law changes effects

Western Advocate, Bathurst



Page 1 of 2

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AUSTRALIAN landlords are grappling with major changes to negative gearing laws that would limit the ability to reduce their annual tax through loss-making investment properties.

While details of what changes to existing negative gearing laws are still being considered, the potential for changes to rental losses being tax deductible is on the cards.

The federal Treasury has admitted to modelling possible changes to negative gearing, which could include a cap placed on the number of properties a landlord can negative gear to just two.

It comes after the Grattan Institute made a submission to the government late last year recommending reforming negative gearing due to the distortion in the property market as the independent public policy think tank looks for ways to bring more housing supply into the market.

The potential for changes to the already contentious negative gearing laws comes as the government looks for ways to bring more equity into the nation's housing market.

The back story

Negative gearing was introduced 25 years ago to stimulate the investment market nationally.

But as the government looks for measures to balance the federal budget, the tax break could be on the chopping block.

As it stands, landlords can offset losses from property ownership against other forms of income, which could provide significant savings on an annual tax bill.

While making a loss on an investment property doesn't sound ideal, some investors use this strategy for tax purposes, knowing that they can offset their loss against other income, such as their salary.

Equitable housing

But some argue that the national debate on housing affordability has become distracted by investor-focused tax settings.

Making changes won't result in new homes being built, which the nation des-

perately needs to meet the current housing shortfall of 1.2 million homes over the next five years.

Property Investment Professionals of Australia chair Cate Bakos said governments need to acknowledge their role in the nation's housing affordability crisis.

Between land tax, stamp duty and council rates, property investors carry a disproportionate level of tax when contrasted against sharemarket investors. The public conversation needs to shift from investor blame to structural reform, she said.

"Property investors are widely viewed as scapegoats for additional taxes, and the unintended consequences of such targeted taxation will be damaging to the property market as a whole," she said.

Tax break

Meanwhile, accounting body CPA Australia notes that negative gearing is often debated only in terms of residential property, but the broader principle of deducting losses is a long-standing feature of Australia's tax system and requires careful consideration before any redesign.

The accounting body's tax lead Jenny Wong is concerned that tweaking negative gearing in isolation could risk pushing further pressure into the rental market or distort investment decisions.

She said many Australians use a mix of assets to build long-term financial security, including investments held outside superannuation. They deserve a fair go, and their hard-earned savings should not be undermined by fragmented or short-term tax changes.

"Any reform should prioritise stability, integrity and transitional fairness, and avoid settings that unintentionally advantage those with access to sophisticated structures," Ms Wong said.

Treasurer Jim Chalmers will consider changes to tax measures, with an announcement expected as he hands down the budget in May. He has not spoken publicly about his plans at this stage, only saying that



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Treasury is looking into changes to negative gearing, among other policies.



As the government looks for measures to balance the federal budget, the tax break of negative gearing multiple properties could be on the chopping block. Picture Shutterstock