

The Senate

Select Committee on the
Operation of the Capital Gains
Tax Discount

Report on the Operation of the Capital
Gains Tax Discount

March 2026

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Members

Chair

Senator Nick McKim AG, TAS

Deputy Chair

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Members

Senator Andrew Bragg LP, NSW

Senator Dave Sharma LP, NSW

Senator Ellie Whiteaker ALP, WA

Participating Members

Senator David Pocock IND, ACT

Secretariat

Ivan Powell, Committee Secretary

James Strickland, Principal Research Officer

Emma Banyer, Principal Research Officer

Mervyn Piesse, Senior Research Officer

Lloyd Caletti, Administrative Officer

PO Box 6100

Parliament House

Canberra ACT 2600

Telephone: 02 6277 3821

Email: CGTD.Sen@aph.gov.au

List of findings

Finding 1

5.1 The committee has consistently heard that the current design of the capital gains tax discount results in a degree of concessional treatment relative to labour income which can distort decision making and incentivise tax planning.

Finding 2

5.2 The design of the capital gains tax discount has the potential to distort the allocation of investment across the economy, with evidence that existing housing stock makes up a substantial share of capital gains that benefit from the capital gains tax discount.

Finding 3

5.3 While there are a number of factors that influence housing markets, there is evidence that the concessions provided by the capital gains tax discount, in combination with negative gearing, have skewed the ownership of housing away from owner-occupiers and towards investors.

Finding 4

5.4 The benefits of the capital gains tax discount are also unequally distributed, with implications for income and wealth inequality and intergenerational inequality.

Chapter 1

Introduction

Appointment of the committee and conduct of the inquiry

- 1.1 On 4 November 2025, the Senate appointed the Select Committee on the Operation of the Capital Gains Tax Discount (the committee). The committee was required to present a final report by 17 March 2026.¹
- 1.2 The committee advertised the inquiry on its website and called for written submissions by 19 December 2025. The committee also wrote to various stakeholders to invite them to make a submission.
- 1.3 The committee received 97 submissions, which are listed at Appendix 1. The committee held public hearings in Melbourne, Canberra, and Sydney on 23, 24, and 25 February 2026, respectively. A list of witnesses who appeared before the committee at the hearings is at Appendix 2.
- 1.4 The committee thanks all those who made submissions and gave evidence at the public hearings.

Structure of the report

- 1.5 There are five chapters in this report:
 - this chapter outlines the conduct of the inquiry and provides background information on the capital gains tax discount (CGTD);
 - Chapter 2 discusses the role of the CGTD in suppressing Australian productivity and how the discount influences investment decisions;
 - Chapter 3 examines the distributional effects of the CGTD and its contribution to inequality in Australia;
 - Chapter 4 outlines and considers options for reform of the CGTD; and
 - Chapter 5 presents the committee's findings.

Note on references

- 1.6 In this report, references to the *Committee Hansard* are to the proof (that is, uncorrected) transcript. Page numbers may vary between the proof and official transcript.

¹ *Journals of the Senate*, No. 21, 4 November 2025, pp. 678–680.

Capital gains tax

1.7 Before 1985 most capital gains were excluded from the income tax base in Australia. Over the previous decade there had been 'growing concern about the equity of the taxation system', which contributed to public debate for reform.²

1.8 The *Reform of the Australian Tax System: Draft White Paper* (Draft White Paper), published in 1985, made the argument for wide ranging tax reform. It recognised:

Taxation is never popular but, until the late 1960s and early 1970s, Australia had a tradition of strong taxpayer compliance. This tradition is being threatened, in large part because increased revenue demands are being placed on a system that contains some basic structural flaws and a tax base that has been whittled away through special concessions and tax minimisation arrangements...The system's basic unfairness, its complexity, and its adverse effects on incentives to work, save, invest and take risks are widely recognised. In short, respect for the system, which is essential for voluntary compliance, has been seriously undermined.³

1.9 Among other potential reforms to the taxation system, the Draft White Paper recommended the broadening of the tax base through the introduction of a capital gains tax (CGT).⁴ At the time, Australia was 'virtually unique among [Organisation for Economic Co-operation and Development] countries in having no general capital gains tax'. While a tax was imposed on capital gains from the disposal of property within one year of purchase, there was no tax imposed on realised capital gains from the disposal of an asset held for longer than a year.⁵

1.10 The Draft White Paper suggested the introduction of a CGT would 'improve economic efficiency and reduce tax avoidance'.⁶ It stated the lack of a CGT:

...represents a structural defect in the present income tax system and lies at the core of many avoidance arrangements. The Government is disposed towards introducing a general capital gains tax applied to realised gains which accrue after the commencement of the tax. It would be levied at ordinary rates of personal and company income tax, would allow some

² Sam Reinhardt and Lee Steel, [A brief history of Australia's tax system](#), 4 September 2006, Department of the Treasury (Treasury), (accessed 15 January 2026).

³ Commonwealth of Australia, *Reform of the Australian Tax System: Draft White Paper*, June 1985, p. 18.

⁴ Sam Reinhardt and Lee Steel, [A brief history of Australia's tax system](#), 4 September 2006, Treasury, (accessed 15 January 2026).

⁵ Commonwealth of Australia, *Reform of the Australian Tax System: Draft White Paper* (Draft White Paper), June 1985, p. 77.

⁶ Sam Reinhardt and Lee Steel, [A brief history of Australia's tax system](#), 4 September 2006, Treasury, (accessed 15 January 2026).

losses to be offset against gains, and would exempt the taxpayer's principal residence and certain other assets.⁷

1.11 The Draft White Paper suggested reform should seek to improve the equality of the taxation system, which imposed taxes on some forms of income and not others. It observed that because real capital gains increase purchasing power in a similar way 'to real increases in wages, salaries, interest or dividends, they should be included in any comprehensive definition of income'.⁸

1.12 Adding real capital gains to taxable income would, according to the Draft White Paper, close a tax avoidance loophole:

...if income can be converted into or dressed up as capital gains, income tax can be avoided completely. The imposition of a capital gains tax would, therefore, strike at one of the foundations of tax avoidance in Australia.⁹

1.13 The Draft White Paper considered that it would be appropriate to adjust the CGT rate to account for increases in the value of assets caused by inflation as:

A rise in the value of assets that merely reflects a rise in the general price level does not increase the asset-holder's command over goods and services and therefore does not constitute a 'real' increase in income. It follows, then, that during periods of inflation a capital gains tax applying full marginal rates to nominal capital gains would be punitive.¹⁰

The operation of the capital gains tax

1.14 The CGT was introduced in 1985 and applied to realised gains and losses on assets acquired after 19 September 1985. Until 1999, capital gains were indexed in line with the consumer price index (CPI) to ensure that only real gains were taxed.¹¹

1.15 Income from a capital gain is not treated separately from other taxable income. The tax applicable to a capital gain 'is estimated by applying each taxpayer's tax rate to their amount of taxable capital gains income'.¹²

1.16 The Australian Taxation Office (ATO) provided the following explanation of how capital gains tax is applied to individual taxpayers:

Capital gains tax (CGT) is the tax you pay on profits from disposing of assets including investments, such as property, shares and crypto assets. Although

⁷ Commonwealth of Australia, Draft White Paper, June 1985, p. 4.

⁸ Commonwealth of Australia, Draft White Paper, June 1985, p. 77.

⁹ Commonwealth of Australia, Draft White Paper, June 1985, p. 78.

¹⁰ Commonwealth of Australia, Draft White Paper, June 1985, pp. 79–80.

¹¹ Sam Reinhardt and Lee Steel, [A brief history of Australia's tax system](#), 4 September 2006, Treasury (accessed 15 January 2026).

¹² John Clark, [Capital gains tax: historical trends and forecasting frameworks](#), March 2019, Treasury, pp. 36–37.

it is referred to as 'capital gains tax', it's part of your income tax. It's not a separate tax.

If you dispose of assets (generally when you stop being the owner of an asset) a CGT event may be triggered. This is when you need to report capital gains and capital losses in your tax return.

If you have a:

- capital gain, it will increase the tax you need to pay—you may want to work out how much tax you'll owe and set aside funds to cover it
- capital loss, you can offset it against any capital gains in the year they occur, or in future years, and reduce the tax you need to pay—it's important to include losses in your tax return.¹³

The introduction of the capital gains tax discount

1.17 In 1999, the *Review of Business Taxation—A Tax System Redesigned* (the Ralph Review) identified CGT as 'an area of major concern to taxpayers'. The Ralph Review suggested:

...reforms to the current regime could substantially improve the operation of Australian capital markets and help support a stronger investment culture amongst ordinary Australians.

Australia taxes capital gains more harshly than most other comparable countries and certainly more harshly than other countries in our region competing for international investment.¹⁴

1.18 The Ralph Review recommended that the indexation of capital gains with CPI be abolished and replaced with the CGTD. Under the new method of calculating CGT, an individual would only pay tax on 50 per cent of realised capital gains at their marginal income tax rate if they had held the asset for more than 12 months.¹⁵

1.19 The CGTD was designed 'to promote more efficient asset management and improve capital mobility, by reducing the tax bias towards asset retention, and to make Australia's capital gains tax internationally competitive'.¹⁶

1.20 The Ralph Review stated that its recommendations related to CGT 'are designed to enliven and invigorate the Australian equities markets, to stimulate greater participation by individuals, and to achieve a better allocation of the nation's capital resources'. The recommendation to halve the CGT on eligible assets held for more than 12 months would 'increase significantly the attractiveness of

¹³ Australian Taxation Office, [What is capital gains tax?](#), 23 June 2025 (accessed 15 January 2026).

¹⁴ Treasury, *Review of Business Taxation – A Tax System Redesigned* (the Ralph Review), July 1999, p. 77.

¹⁵ Treasury, the Ralph Review, July 1999, p. 77.

¹⁶ Sam Reinhardt and Lee Steel, [A brief history of Australia's tax system](#), 4 September 2006, Treasury.

investing in capital-gains-bearing assets by individuals' as the maximum marginal tax rate on capital gains income would be limited to 24.25 per cent.¹⁷

1.21 The CGTD was introduced in the *New Business Tax System (Integrity and Other Measures) Act 1999*. It altered the tax charges for realised capital gains in the following ways:

- for assets acquired at or before 11.45 am AEST on 21 September 1999 and held for at least 12 months:
 - individuals and trusts can choose to calculate any capital gain on an asset by either using an indexed cost base with indexation frozen or reducing by one-half the capital gain without indexation of the cost base; and
 - superannuation funds can choose to calculate any capital gain on an asset by either using a frozen indexed cost base or reducing by one-third the capital gain without indexation of the cost base; and
- for assets acquired after 11.45 am AEST on 21 September 1999 and held for at least 12 months:
 - individuals and trusts are allowed a one-half exemption on any capital gain made in relation to the asset; and
 - superannuation funds are allowed a one-third exemption on any capital gain made in relation to the asset.¹⁸

1.22 While the indexation method was available to companies prior to 21 September 1999, they are generally not able to use the CGTD. According to Clark, this change has contributed to 'a reduced incentive for domestic companies to realise capital gains'.¹⁹

1.23 Net capital gains are 'broadly similar' under the indexation method and the 50 per cent discount method provided that CPI increases by 2.5 per cent annually and asset prices increase yearly by 5.25 per cent. The one-third discount on capital gains for superannuation funds is not as generous as the indexation method.²⁰

1.24 According to Clark, both methods of calculating CGT have encouraged:

...financial investment in products which provide significant capital growth, such as shares or property, rather than in products which primarily provide income streams, such as bonds. The concessionary treatment of

¹⁷ Treasury, the Ralph Review, July 1999, pp. 598–599.

¹⁸ Explanatory Memorandum to the New Business Tax System (Integrity and Other Measures) Bill 1999, pp. 9–10.

¹⁹ John Clark, [Capital gains tax: historical trends and forecasting frameworks](#), March 2019, Treasury, pp. 39–40.

²⁰ John Clark, [Capital gains tax: historical trends and forecasting frameworks](#), March 2019, Treasury, p. 39.

capital gains income is arguably the primary motivation for financial investment in negatively geared real estate, which aims to shift all of the investment return into the capital gain on the eventual sale of the asset.²¹

- 1.25 Economists Josh Ryan-Collins and Cameron Murray have argued that the CGTD provided property investors:

...who speculated on relatively short-term price movements...with a major tax advantage compared to those who relied on long-term ownership and incomes from rents. For example, under the indexation method, a \$100,000 capital gain realized after two years when inflation was 2% would have been taxed as a \$96,000 income, whereas under the discount method it would have been taxed as a \$50,000 income—a massive tax advantage.²²

Australia's Future Tax System

- 1.26 A 'root and branch' review of the Australian tax system was announced in the 2008–09 Budget. The aim of that review was 'to create a tax structure that [would] position Australia to deal with its social, economic and environmental challenges and enhance economic, social and environmental wellbeing'.²³

- 1.27 The Review Panel was chaired by the then Secretary to the Department of the Treasury, Dr Ken Henry AC. The panel presented *Australia's Future Tax System Review Final Report* (the Henry Review) to the Treasurer in December 2009.

- 1.28 The Henry Review found that different forms of savings are taxed inconsistently in Australia:

...depending on the form of saving undertaken. Interest has the least favourable tax treatment. The entire return, including inflationary gains, is included annually in taxable income, generating an effective marginal tax rate on the real return greater than the statutory marginal personal tax rate. In contrast, shares benefit from the capital gains tax discount, while domestic shares also benefit from dividend imputation.

Rental properties benefit from the differential treatment of gains and losses, driven by the capital gains discount and exacerbated by high levels of gearing. Returns from owner-occupied housing are untaxed, giving rise to a zero effective tax rate. For superannuation, the ability to make contributions out of pre-tax income (rather than post-tax income as for other savings, including your own home), can result in a negative effective marginal tax rate on saving through superannuation.

There is considerable evidence that such tax differences can have large effects on the assets in which a household's savings are invested. The large variations in tax treatment can therefore alter the allocation, ownership and

²¹ John Clark, [Capital gains tax: historical trends and forecasting frameworks](#), March 2019, Treasury, p. 40.

²² Josh Ryan-Collins and Cameron Murray, 'When homes earn more than jobs: the rentierization of the Australian housing market', *Housing Studies*, vol. 38, no. 10, 2023, pp. 1888–1917, p. 1905, <https://www.tandfonline.com/doi/epdf/10.1080/02673037.2021.2004091>.

²³ Treasury, *Australia's Future Tax System: Part 1*, December 2009, p. v.

the management of the nation's savings. This can have adverse impacts on overall economic efficiency, capital market stability and the distribution of risk between individuals. The tax advantages from borrowing to invest in a rental property, also relevant for shares, leads to investors taking on too much debt and distorts the rental property market.²⁴

- 1.29 The Henry Review pointed to evidence that these discrepancies effect where savings are invested, which 'alter[s] the allocation, ownership and the management of the nation's savings'. On a national level:

This can have adverse impacts on overall economic efficiency, capital market stability and the distribution of risk between individuals. The tax advantages from borrowing to invest in a rental property, also relevant for shares, leads to investors taking on too much debt and distorts the rental property market.²⁵

- 1.30 Distortions in the allocation of capital can also affect national productivity. The Henry Review stated:

Productivity is reduced if tax-induced distortions lead to a misallocation of resources, with savings directed towards less productive investment opportunities. By favouring one form of savings income over another, the tax system alters the allocation, ownership and the management of the nation's capital. This can have adverse implications for the efficiency and stability of capital markets and the way risk is distributed between individuals.²⁶

- 1.31 To more consistently tax the various forms of savings in the Australian economy, the Henry Review recommended:

A move to a broad 40 per cent discount for income from bank deposits, bonds, rental properties, and capital gains and for certain interest expenses would address these problems by providing more consistent tax outcomes. Savings would be allocated more productively, distortions to rental property and other markets would be reduced, and household investment and financing choices would better suit their circumstances and risk-preferences. The discount would also provide a means of adjusting for the effect of inflation, which increases the effective rate of tax on savings income.²⁷

Henry Review Recommendation 14:

Provide a 40 per cent savings income discount to individuals for non-business related:

- (a) net interest income;

²⁴ The Treasury, *Australia's Future Tax System: Part 1*, December 2009, pp. 32–33.

²⁵ The Treasury, *Australia's Future Tax System: Part 1*, December 2009, p. 33.

²⁶ The Treasury, *Australia's Future Tax System: Part 2*, December 2009, p. 62.

²⁷ The Treasury, *Australia's Future Tax System: Part 1*, December 2009, pp. 33–34.

- (b) net residential rental income (including related interest expenses);
- (c) capital gains (and losses); and
- (d) interest expenses related to listed shares held by individuals as non-business investments.

In conjunction with introducing the discount further consideration should be given to how the boundaries between discounted and non-discounted amounts are best drawn to achieve certainty, reduce compliance costs, and prevent labour and other income being converted into discounted income. Further consideration should also be given to addressing existing tax law boundaries related to the treatment of individuals owning shares in order to address uncertainties about when the shares are held on capital account (and subject to capital gains tax) and on revenue account (and taxed as ordinary income).²⁸

- 1.32 The Henry Review clarified that while the introduction of the proposed savings income discount would change the treatment of negative gearing it would not restrict its application, as occurred in 1985:

The effect of applying the recommended savings income discount to net rental income would be that a negatively geared investor would still be able to offset net rental losses against other income, including labour income. While the extent of the offset would be reduced, negatively geared investors would continue to access ongoing deductions that they might value for cash flow reasons.

Under the savings income discount, there would also be a generally better outcome for rental property investors that finance out of equity. The more neutral treatment would reduce the crowding out of other potential investors in rental housing by those undertaking negative gearing, and improve the long-term stability of the housing market.

Accordingly, this is quite a different approach to that adopted in 1985 (and reversed in 1987). In 1985 the tax benefits of negative gearing became restricted through the introduction of quarantining measures for excess deductions. As such, negatively geared investors could not access the entire net rental loss in the income year it was incurred, rather, excess interest in any year was carried forward and offset against future rental income or any gains taxable under capital gains tax from the sale of such investments.²⁹

The Financial System Inquiry

- 1.33 On 20 December 2013 the then-Treasurer, the Hon Joe Hockey MP, appointed a committee to conduct the Financial System Inquiry (the Murray Inquiry).³⁰ The

²⁸ Treasury, *Australia's Future Tax System: Part 1*, December 2009, p. 83.

²⁹ Treasury, *Australia's Future Tax System: Part 2*, December 2009, p. 419.

³⁰ Treasury, *Financial System Inquiry: Final Report*, November 2014, p. vii.

committee was chaired by Mr David Murray AO and presented its final report in November 2014.

- 1.34 The Murray Inquiry made some observations that are relevant to the present inquiry's terms of reference. In relation to the taxation of savings and assets, it suggested:

A more neutral tax treatment of savings vehicles would reduce distortions in the composition of household balance sheets and the broader flow of funds in the economy. Across savings vehicles, after-tax returns differ markedly. For example, interest income is relatively heavily taxed. To the extent that distortions direct savings to less productive investments, a more neutral treatment would increase productivity.

For assets that generate capital gains, the tax treatment encourages leveraged investment, which is a potential source of financial system instability. Investors are attracted by the asymmetry in the tax treatment of expenses and capital gains, where individuals can deduct the full interest costs of borrowing (and other expenses) from taxable income, but only half of their long-term capital gains are taxed. The tax treatment of investor housing, in particular, tends to encourage leveraged and speculative investment in housing.³¹

- 1.35 Capital gains tax concessions and negative gearing were identified by the Murray Inquiry as having a distortionary effect on the allocation of funds and risk in the Australian economy. Its report stated:

Capital gains tax concessions for assets held longer than a year provide incentives to invest in assets for which anticipated capital gains are a larger component of returns. Reducing these concessions would lead to a more efficient allocation of funding in the economy.

For leveraged investment, the asymmetric tax treatment of borrowing costs incurred in purchasing assets (and other expenses) and capital gains, can result in a tax subsidy by raising the after-tax return above the pre-tax return. Investors can deduct expenses against total income at the individual's full marginal tax rate. However, for assets held longer than a year, nominal capital gains, when realised, are effectively taxed at half the marginal rate. All else being equal, the increase in the after-tax return is larger for individuals on higher marginal tax rates.

The tax treatment of investor housing, in particular, tends to encourage leveraged and speculative investment. Since the Wallis Inquiry, higher housing debt has been accompanied by lenders having a greater exposure to mortgages. Housing is a potential source of systemic risk for the financial system and the economy.³²

- 1.36 In relation to lending by Australian banks for investment in the housing market, the Murray Inquiry recognised:

³¹ Treasury, *Financial System Inquiry: Final Report*, November 2014, p. 17.

³² Treasury, *Financial System Inquiry: Final Report*, November 2014, p. 278.

Australia's banks are heavily exposed to developments in the housing market. Since 1997, banks have allocated a greater proportion of their loan books to mortgages, and households' mortgage indebtedness has risen. A sharp fall in dwelling prices would damage household balance sheets and weigh on consumption and broader economic growth. It would also reduce the quality of the banking sector's balance sheets and the capacity of banks to extend new credit, which would compromise the speed of a subsequent economic recovery.³³

- 1.37 Despite both reviews identifying the CGTD's role in inflating house prices and increasing inequality, neither the Henry Review nor the Murray Inquiry led to any changes to these tax settings.

Negative gearing

- 1.38 Negative gearing is employed by taxpayers in a way that works in tandem with the CGTD and, as such, was considered throughout the course of this inquiry.

- 1.39 Negative gearing is defined as 'a situation where expenses associated with an asset (including interest expenses) are greater than the income earned from the asset'. A range of investments may be negatively geared, not just housing.³⁴

- 1.40 If an individual experiences a loss associated with an asset they own, they:

...can deduct their loss against other income, such as salary and wages. This is consistent with the broader operation of Australia's income tax system.

Australia's tax system operates on the principle that people pay tax on their personal income, less any expenses (called deductions) in generating that income. This is similar to how business profits (that is, income less expenses) are taxed, ie tax is levied on the net profit of a business, not its gross revenue.³⁵

- 1.41 The 1985 Draft White Paper recommended 'quarantining' deductions from the negative gearing of rental properties. Under its proposed system, any rental loss could only be deducted from rental income.³⁶

- 1.42 In 1985 the government amended the *Income Tax Assessment Act 1936* to effectively abolish the negative gearing of property in Australia. The Acting Treasurer at the time, the Hon Christopher Hurford MP, stated:

Negative gearing occurs where, in a particular year, interest on borrowings used to finance rental property investments exceeds net rental income from those investments. Under the existing law, a taxpayer is able to set off that excess against income from other sources and thereby shelter that other income from tax.

³³ Treasury, *Financial System Inquiry: Final Report*, November 2014, p. 22.

³⁴ Treasury, [Negative gearing](#), (accessed 27 January 2026).

³⁵ Treasury, [Negative gearing](#), (accessed 27 January 2026).

³⁶ Commonwealth of Australia, Draft White Paper, June 1985, p. 46.

The Government takes the view that the general taxpaying community should not be obliged effectively to subsidise the acquisition of investments by a particular group of taxpayers in this way. Competition for the purchase of residential property between these investors has been reflected in increased prices, to the detriment of ordinary home buyers.³⁷

1.43 The amendment quarantined any losses made on rental properties purchased after 17 July 1985. The reform was justified for the following three reasons:

- taxpayers should not be expected to subsidise property investors;
- negative gearing increased property prices to the detriment of home buyers; and
- quarantining rental losses would be revenue positive.³⁸

1.44 In 1987, the government removed the quarantine measure effective from 1 July of that year. Following that reversal, negative gearing has been permitted on all forms of investment in Australia.³⁹

1.45 The Hon Michael Duffy MP, the then Minister for Trade Negotiations, explained the rationale for the reversal:

Restoration of full tax deductibility of interest on rental property borrowings will mean uniformity of tax treatment of interest costs for all types of investment. This measure has been made possible only as a result of the Government's comprehensive tax reform program—in particular, due to the implementation of a capital gains tax and the reduction of the top marginal tax rate to 49 per cent. That reform program has brought a new integrity to the tax system and in so doing has relieved the tax paying community generally of the burden of the excessive tax benefits that negative gearing offered high income earners prior to July 1985 when the restriction now being lifted was introduced.⁴⁰

1.46 According to the Treasury:

Rental property investors can claim deductions for expenses associated with maintaining and financing property interests. These include interest, capital works and other deductions required to maintain their rental property.

It is estimated that 2.4 million people claimed \$47.9 billion of rental deductions incurred in earning \$52.9 billion of gross rental income in 2021–22. This resulted in a total tax reduction of \$16.9 billion. Of the total number

³⁷ The Hon Christopher Hurford MP, Acting Treasurer, *House of Representatives Hansard*, 17 April 1986, p. 2553.

³⁸ Jim O'Donnell, 'Quarantining Interest Deductions for Negatively Geared Rental Property Investments', *eJournal of Tax Research*, vol. 3, no. 1, June 2005, pp. 63–114, pp. 69–70, <https://ssrn.com/abstract=753804>.

³⁹ Jim O'Donnell, 'Quarantining Interest Deductions for Negatively Geared Rental Property Investments', *eJournal of Tax Research*, vol. 3, no. 1, June 2005, pp. 63–114, p. 70, <https://ssrn.com/abstract=753804>.

⁴⁰ The Hon Michael Duffy MP, Minister for Trade Negotiations, *House of Representatives Hansard*, 29 October 1987, p. 1720.

of people with rental deductions, around 42 per cent (1.0 million) had a rental loss, known as negative gearing, which added up to total rental losses of \$6.3 billion. These rental losses provided a tax benefit of around \$2.2 billion in 2021–22.⁴¹

1.47 Views on negative gearing are considered in the other chapters of this report.

2019 policy proposals

1.48 Prior to the 2019 Federal election, the Australian Labor Party (ALP) made commitments to remove negative gearing and reduce the CGTD to 25 per cent.⁴²

1.49 The commitments would have come into effect from 1 January 2020 and would have only applied to assets purchased or investments made after that date.⁴³

1.50 In relation to the commitment to halve the CGTD, the PBO stated:

This component would change the capital gains tax discount for individuals, partnerships and trusts from 50 per cent after a 12-month holding period to 25 per cent after a 12-month holding period.

- There would be no changes to the existing capital gains tax discount that applies to superannuation funds, or to the 50 per cent active asset reduction concession that applies to small business.⁴⁴

1.51 Advice from the Reserve Bank of Australia (RBA), released under a freedom of information request, indicated the long-term housing supply would not be significantly affected by the proposals. The RBA pointed to analysis from Treasury and the Grattan Institute, which suggested the proposals would lead to a 'relatively modest' decline in house prices of around two per cent with little change to rents or housing supply. While the RBA cautioned:

Estimating the overall effects of the policy is complex. Our initial thinking agrees with these assessments. In the short-run, reduced investor demand could contribute to lower housing prices and dwelling investment; but in the longer run the overall effect on supply is likely to be minimal as developer margins are maintained through falls in the price of developable land. Rents may also adjust downward in response to housing price falls over the short to medium-run, with more renters transitioning to owner-occupiers due to lower prices.

- Financial stability implications include:
 - Erosion of the equity positions of households in the near term if housing prices fall.

⁴¹ The Treasury, *2024–25 Tax Expenditures and Insights Statement*, December 2024, p. 38.

⁴² Parliamentary Budget Office (PBO), '[Negative gearing and capital gains tax \(CGT\) reform \(PER414\)](#)', [p. 1].

⁴³ PBO, '[Negative gearing and capital gains tax \(CGT\) reform \(PER414\)](#)', [p. 1].

⁴⁴ PBO, '[Negative gearing and capital gains tax \(CGT\) reform \(PER414\)](#)', [p. 1].

- Lower investor demand for housing may dampen price cyclicality and limit speculative demand (as shifts incentives away from capital gains and towards rental income).
- Lower incentive to gear property purchases may reduce household debt.
- Substitution of investment into other asset classes.⁴⁵

⁴⁵ Reserve Bank of Australia, '[Negative Gearing and Labor's Policy Proposals](#)', RBAFOI-202131, February 2019, p. 1.

Chapter 2

Supporting productive investment

Introduction

- 2.1 The capital gains tax discount (CGTD) was initially introduced to 'enliven and invigorate the Australian equities markets'.¹ After considering the productivity growth rationale for the introduction of the CGTD, this chapter examines how economic productivity is affected by the ways in which the discount influences the:
- allocation of capital;
 - supply of new housing; and
 - productivity of the workforce.
- 2.2 Options for reforming the CGTD are outlined and discussed in Chapter 4 of this report.

Productivity rationale for the CGTD

- 2.3 Some inquiry participants reflected on the original purpose of the CGTD as being to foster investment by taxing capital more favourably than labour. Several of these argued the current CGTD rate overcompensates property investors.²
- 2.4 The Ralph Review (discussed in Chapter 1) stated the following rationale for the introduction of the CGTD:

The Review's recommendations for capital gains taxation are designed to enliven and invigorate the Australian equities markets, to stimulate greater participation by individuals, and to achieve a better allocation of the nation's capital resources. In the first three or four years of the new regime there is likely to be considerable extra turnover on Australian equity markets as equity holders respond to reduced lock-in by realigning their portfolios. Even in the medium to longer-term, the Review expects a heightened level of realisations activity among individual shareholders and CIVs [Collective Investment Vehicles].³

¹ Department of the Treasury (Treasury), *Review of Business Taxation – A Tax System Redesigned*, July 1999, p. 598.

² See, for example, Professor Chris Evans, *Submission 6*, [p. 2]; Grattan Institute, *Submission 12*, p. 3; Justice and Peace Office, Catholic Archdiocese of Sydney, *Submission 16*, p. 3; Associate Professor Kathryn James, *Submission 23*, p. 2; Australian Manufacturing Workers' Union (AMWU), *Submission 24*, p. 5; Per Capita, *Submission 50*, p. 1; Mr Brendan Coates, Housing and Economic Security Program Director, Grattan Institute, *Committee Hansard*, 23 February 2026, p. 23.

³ Treasury, *Review of Business Taxation – A Tax System Redesigned*, July 1999, p. 598.

2.5 Mr Brendan Coates, from the Grattan Institute, pointed out that, while there is a conventional, general agreement that returns on capital should be taxed at a lower rate than labour, in his view property investors have been 'overcompensated for inflation'. As discussed in Chapter 3, when the CGTD is combined with negative gearing, 'the tax system creates strong incentives for debt finance and speculative investments'.⁴

2.6 However, this conventional general agreement does not go unchallenged. Dr Kathryn James, from the University of Melbourne, questioned the rationale for taxing capital income more lightly than labour income, saying this belief is 'increasingly disputed':

Empirical evidence consistently shows that taxing capital income affects tax planning behaviour more so than underlying substantive economic behaviour, and evidence from [Organisation for Economic Co-operation and Development (OECD)] countries—who, for the past four decades, have all moved to tax capital gains preferentially—consistently shows inequality increasing, especially with the share going to the top 10 per cent and one per cent of income earners who generate the majority of capital gains.⁵

2.7 Dr Robert Breunig, from the Tax & Transfer Policy Institute, agreed that this economic theory 'has come under critique because there's a lot of investment that's not in productive capacity and there's a lot of investment that's simply getting rents'. He provided the following example related to housing:

I buy a house. That house goes up in value, not because of any hard work that I do but because of government zoning laws and because of infrastructure that government builds to contribute to that housing. I should be finding a way to tax that. That should not be untaxed...So I think the orthodoxy today is probably that savings should not be taxed at zero, but they should be taxed at a lower rate than labour income. The reason for that is partly that savings are held for a long period of time, and, with any inflation, if you hold an asset for a sufficiently long period of time, you end up having a 100 per cent tax rate.⁶

2.8 Dr Breunig elaborated on this point, saying savings should be taxed at a lower rate than labour because 'a lot of that savings income goes into productive capital', which in turn generates productivity increases, which translate into wages for workers. However, Dr Breunig explained that:

If that money is going into non-productive assets, that rationale no longer makes sense. But there are still a lot of savings in Australia that are going

⁴ Mr Coates, Grattan Institute, *Committee Hansard*, 23 February 2026, p. 23

⁵ Dr Kathryn James, Private capacity, *Committee Hansard*, 23 February 2026, p. 47.

⁶ Dr Robert Breunig, Director, Tax and Transfer Policy Institute (TTPI), Crawford School of Public Policy, Australian National University, *Committee Hansard*, 24 February 2026, p. 2.

into productive investment. There is a lot of superannuation and a lot of shareholding.⁷

- 2.9 Mr Alan Kohler, who appeared in a private capacity, proposed that the CGTD overcompensates property investors compared to the CPI indexation model that operated prior to 1999. He explained:

The inflation rate in that year, 1999, was 1.8 per cent. The average time of owning a house for investors was about seven or eight years. If you multiply the inflation rate of that year with the average time to own a house, you get about a 13 to 15 per cent reduction in the capital gains tax. So, obviously, 50 per cent is three times what was necessary to replace the inflation adjustment...

Even if you take the average CPI over the subsequent eight years from 1999, that was 3.2 per cent. If you multiply that by the average period of owning a house, it's still half, 50 per cent, of the capital gains that were actually brought in. Currently, the CPI is 3.2 per cent again, so 50 per cent is still twice what it needs to be to adjust for inflation.⁸

- 2.10 This led Mr Kohler to question why such a generous scheme was introduced. He noted that the government was 'interested in encouraging investment in shares, to promote the idea of Australians becoming a nation of small capitalists, of shareowners', believing this would assist in productivity. However, the CGTD has not achieved that aim because shortly after its introduction, in March 2000, 'the dotcom bubble burst', investing in shares became unfashionable:

Probably it's the case that if the discount of the capital gains tax had been introduced five years earlier then maybe it would've been more popular and would've actually led to people using it to buy shares rather than investment property. But in fact what happened was that it led to people using it to invest in property, as opposed to shares, because shares were on the nose.⁹

- 2.11 Mr Saul Eslake, who appeared in a private capacity, agreed the CGTD has failed to 'turn Australia into a nation of entrepreneurs and shareholders'. He supported this assertion with the following statistics:

The proportion of the adult population who own shares has dropped from 41 per cent in 1998 to 38 per cent as of 2023. The proportion of the employed workforce who are owner-managers of independent enterprises has fallen from just under 20 per cent in 1999 to 15.3 per cent as of last year.¹⁰

- 2.12 Mr Eslake shared the following statistics to demonstrate the CGTD has contributed to:

...Australia becoming even more of a nation of property speculators than we already were. The proportion of taxpayers reporting rental property

⁷ Dr Breunig, TTPI, *Committee Hansard*, 24 February 2026, p. 8.

⁸ Mr Alan Kohler, Private capacity, *Committee Hansard*, 23 February 2026, p. 9.

⁹ Mr Kohler, Private capacity, *Committee Hansard*, 23 February 2026, p. 9.

¹⁰ Mr Saul Eslake, Private capacity, *Committee Hansard*, 25 February 2026, p. 16.

income to the tax office rose from 14.3 per cent in the 1997–98 financial year to a peak of 20.8 per cent in 2013–14, and at 18 per cent in the most recent year for which we have data, 2022–23, it's still well above the level prior to the introduction of the 50 per cent capital gains tax discount.¹¹

- 2.13 Professor Chris Evans shared the outcome of two decades of research into the CGTD, which indicated that it 'has produced outcomes that substantially diverge from its original policy intent'. Among other outcomes identified, the discount 'has contributed to tax planning, lock-effects, and misallocation of capital'. Further, Professor Evans' research suggested the CGTD has 'produced significant inequities, inefficiencies, revenue losses and compliance burdens, while failing to meet the principles of a well-designed tax system'.¹²
- 2.14 The NSW Treasury agreed that the CGTD makes some assets more attractive than others, which ultimately affects 'overall investment behaviour and asset allocation, which may have flow-on effects for Australia's productive capacity'.¹³

Impacts on business investment

- 2.15 The Australia Institute argued the CGTD has failed to encourage business investment, noting that average annual business investment growth has actually declined by 40 per cent since the introduction of the discount.¹⁴
- 2.16 The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) reported that it is difficult for small businesses with annual revenue between \$2 million and \$20 million to secure capital. According to the results of a survey of 1 212 businesses, 'two thirds of respondents had tried to access some level of equity in the previous three years and over half were unsuccessful'.¹⁵
- 2.17 ASBFEO maintained that equity funding for smaller businesses in Australia is 'underdeveloped compared to other OECD countries such as the UK, France, and Canada, where SMEs have greater access to capital growth'. Access to equity is important for business growth, according to ASBFEO:
- ...as it allows founders to retain control while freeing up resources for innovation and expansion rather than servicing debt. It also provides access to strategic expertise that can accelerate growth.¹⁶
- 2.18 ASBFEO remarked that there is opportunity to extend access to equity for businesses that have operated for more than two years with revenue between \$2 million and \$20 million. These businesses 'account for 42 per cent of total

¹¹ Mr Eslake, Private capacity, *Committee Hansard*, 25 February 2026, p. 16.

¹² Professor Chris Evans, *Submission 6*, [p. 2].

¹³ NSW Treasury, *Submission 31*, p. 6.

¹⁴ The Australia Institute, *Submission 35*, pp. 4–5.

¹⁵ Australian Small Business and Family Enterprise Ombudsman (ASBFEO), *Submission 56*, p. 2.

¹⁶ ASBFEO, *Submission 56*, p. 2.

employment and are outperforming the broader economy, with a compound annual growth rate of 5.7 per cent compared to 4.3 per cent'. In ASBFEO's view, any proposed changes to the CGTD:

...should also consider the potential impacts on small business' access to capital. This includes any broader impacts for the economy and productivity if access to capital were to become more limited for early stage and growing small business.¹⁷

2.19 Mr Geoff Wilson AO argued that current tax settings have contributed to the prevailing economic environment where:

...non-mining investment has remained weak relative to historical levels; access to long-term growth capital for small and medium enterprises [SME] is constrained; and Australia's venture and growth capital markets remain smaller than those of comparable economies.¹⁸

2.20 Reforming the CGTD to deprioritise investment in property assets would, in Mr Wilson's view, encourage long-term investment in more productive business ventures. That outcome would support business expansion and increase SME access to funding. Increased capital investment in productive businesses would contribute to greater labour productivity and real wage growth.¹⁹

2.21 Conversely, the Centre for Independent Studies (CIS) suggested that viewing the CGTD solely in relation to housing does not accurately reflect how it is used by investors. It noted that housing does not account for most of the capital gains events reported to the Australian Taxation Office:

Taxation statistics on the composition of current year (gross) capital gains in 2022–23 (latest available, but a representative year) point to real estate transactions accounting for 40% of all CGT events for individual taxpayers and only 5% for superannuation funds. As 'real estate' includes the non-residential type, the proportions for housing would be even lower. Allowing housing to drive CGT policy would therefore overlook the dominance of other asset types.²⁰

2.22 However, the true extent of property sales is likely to be underestimated because trusts, which make up 36 per cent of capital gains tax claims would also be made up of property sales, but Treasury does not hold this information of assets sold within a trust.²¹

¹⁷ ASBFEO, *Submission 56*, p. 3.

¹⁸ 005 Mr Geoff Wilson AO – Discussion Paper, public hearing on 25 February 2026, Sydney, tabled on 25 February 2026, [p. 4].

¹⁹ 005 Mr Geoff Wilson AO – Discussion Paper, public hearing on 25 February 2026, Sydney, tabled on 25 February 2026, [p. 6].

²⁰ Centre for Independent Studies (CIS), *Submission 7*, p. 5

²¹ Australian Taxation Office, '[Capital gains tax statistics for Taxation statistics 2022–23](#)', Table 1: Selected items, by entity, 2012–13 to 2022–23 income years, 27 June 2025; 002 Treasury, CGT

- 2.23 CIS supported the retention of the CGTD, arguing it boosts productive investment in the Australian economy:

All things considered, it is difficult to make a case that the CGT discount is inimical to productivity growth. To the contrary, investment and innovation are critical to productivity growth and the CGT discount is meant to encourage investment. Removing or reducing the discount would raise the cost of capital and be detrimental to investment.²²

- 2.24 CIS argued that weak productivity growth is attributable to other factors and removing the CGTD would only serve to further weaken business investment:

The rationale for the discount remains today. Indeed, it is needed more than ever in light of the weakness of business investment and productivity growth. This is not to suggest that the discount alone will spark a revival of entrepreneurship, innovation and investment. The fact that business investment has been weak for a long time even with the discount in place points to the case for another agenda including factors like deregulation to help lift investment.²³

Impact of the CGTD on housing investment

- 2.25 Many inquiry participants argued the CGTD has made housing a more attractive investment choice compared to other options, which weakens the productive capacity of the Australian economy.²⁴

- 2.26 Economist and former Secretary to the Australian Treasury, Dr Ken Henry, highlighted the shortcomings of the current tax system and explained how it promotes the sheltering of wage and salary income from taxation through rental property investing:

One of the outcomes of this tax system that we still have is that it encourages people to do exactly what Commissioner Asprey related back in the 1970s, which is to find all sorts of creative ways of sheltering wage and salary income from tax, particularly from the top marginal tax rate. That brings me to rental property investments, because that's what they're about. Rental property investments are primarily, under Australian tax law, a vehicle for sheltering wage and salary income from tax.²⁵

properties and trusts, asked in writing by Senator McKim on 21 January 2026, received on 24 February 2026.

²² CIS, *Submission 7*, pp. 5–6.

²³ CIS, *Submission 7*, p. 6.

²⁴ See, for example, Australian Nursing and Midwifery Federation (ANMF) – Federal Office, *Submission 13*, p. 5; Grounded Community Land Trust Advocacy, *Submission 20*, [p. 3]; Planning Institute of Australia (PIA), *Submission 22*, p. 3; St Vincent de Paul Society, *Submission 30*, pp. 1–2; ACT Shelter, *Submission 55*, p. 6; Mr Matt Grudnoff, Senior Economist, Australia Institute, *Committee Hansard*, 24 February 2026, p. 54.

²⁵ Dr Ken Henry, Private capacity, *Committee Hansard*, 25 February 2026, p. 23.

- 2.27 The UNSW City Futures Research Centre posited that investing in Australian property is comparatively less risky than investing in other assets. With capital gains from property taxed in the same way as those derived from riskier assets, investors are 'disproportionately attracted to housing'. That situation creates problems 'for national economic productivity, however, [as] this is liable to stifle investment in more productive activities such as small business start-ups and human capital formation'.²⁶
- 2.28 Providing favourable tax incentives to property investors also has implications at the household level. According to the UNSW City Futures Research Centre:
- ...the inflationary impact of tax-advantaged over-investment in residential property feeds through into higher rents and mortgage payments, exposing many housing consumers to stressful housing cost burdens. These, in turn, have the potential to crowd out other forms of household expenditure with greater employment-generating qualities. These observations suggest that over-expensive housing—partly attributable to existing tax settings—is liable to depress national economic productivity as well as impairing household welfare for those directly affected.²⁷
- 2.29 The Financial Advice Association of Australia argued that the CGTD plays an 'important role' in the Australian taxation system. However, it conceded that, while the CGTD encourages capital investment in productive assets, 'not all assets demonstrate the same prospects of growing the overall economy and employing more Australians'.²⁸
- 2.30 Economist, Mr Cathal Leslie, reminded the committee that '[c]apital is not unlimited', and if a large portion of it is directed towards existing housing it simply 'increases the share of savings tied up in bidding for the same stock of housing', directing it away from 'new machinery, technology, intellectual property, skills, and genuinely additional housing'. Mr Leslie noted that this lowers business investment and weakens productivity growth, saying:
- ...while some investment in housing is desirable, sustained real house price appreciation driven by land scarcity and pro-demand-side policies does little to raise output per hour worked. By contrast, investment in technology, equipment, and skills has much larger productivity pay-offs.²⁹
- 2.31 According to Mr Leslie, Australia 'has quite high rates of tax', including payroll tax and corporate tax, so the 'preferential treatment to land windfalls' offered by the CGTD negatively impacts 'our ability to invest in other sectors of the economy' and disincentivises work. Mr Leslie submitted that, if capital from land was reallocated to business investment, there would be 'a benefit for

²⁶ UNSW City Futures Research Centre, *Submission 27*, p. 12.

²⁷ UNSW City Futures Research Centre, *Submission 27*, p. 12.

²⁸ Financial Advice Association of Australia, *Submission 45*, [p. 1].

²⁹ Mr Cathal Leslie, *Submission 8*, p. 6.

workers, including those who do not hold capital assets, as the increased capital investment would contribute to higher productivity and higher wages'.³⁰

- 2.32 Mrs Rayna Fahey, from Prosper Australia, proposed that a lot of the capital gains in Australia are not derived from 'new, productive investment'. In her view, 'a significant share of capital gains...come from gains in land value', which occur:

...not because an owner works harder or innovates, but because the population grows, infrastructure is built, zoning changes and communities develop. These are community created gains, not individual.

When we apply a discounted capital gains tax to those gains, we're not primarily encouraging productive enterprise, we are rewarding the passive holding of appreciating land. The result is very predictable, and we have been tracking and observing this for 130 years: more speculative behaviour, higher land prices, greater barriers to entry for young Australians and genuine developers, and volatility tied to asset cycles rather than productive growth.³¹

- 2.33 Mrs Fahey pointed out that most of the time the CGTD is not being used for its original purpose 'to encourage business productivity', with depreciation used more for this purpose:

If I set up a cafe and I buy a coffee machine, that's a piece of capital. That's going to allow me to generate income. It's going to depreciate as an asset, unless it becomes some kind of weird hipster trendy coffee machine that I can get a speculative value off. But most of the time that is not the case. So we really want to make sure that we're treating those two things separately.³²

- 2.34 The Australian Council of Trade Unions (ACTU) noted the CGTD was introduced 'to improve incentives for investor risk and innovation and better allocate capital' and, as a result, 'we would have expected improvements in productivity'. However, research published by the OECD has concluded that the CGTD 'can generate significant economic distortions, may contribute little additional investment to a domestic economy, and that it appears to have little impact on overall economic growth'.³³

- 2.35 Mr Joshua Newton, from the Australian Manufacturing Workers Union (AMWU), suggested directing capital to housing is not the most effective way to increase productivity, because it does not create jobs or boost business productivity:

³⁰ Mr Leslie, Private capacity, *Committee Hansard*, 24 February 2026, p. 13.

³¹ Mrs Rayna Fahey, Executive Director, Prosper Australia, *Committee Hansard*, 23 February 2026, p. 29.

³² Mrs Fahey, Prosper Australia, *Committee Hansard*, 23 February 2026, p. 36.

³³ Australian Council of Trade Unions (ACTU), *Submission 66*, p. 11.

If we can change tax policy settings in order to have that money going through—obviously the determinants of productivity on a high-level are [research and development (R&D)] and fiscal capital investment. Anything which can have physical capital investment going into these sorts of sectors is obviously something which we see as advantageous.³⁴

- 2.36 Mr Newton also pointed out 'gross fixed capital formation has fallen off the cliff since the 1970s'. He suggested reform needs to look at ways 'to move capital in that direction away from an unproductive asset'.³⁵
- 2.37 The Tax Justice Network (TJN) argued a shift in capital allocation occurred at a similar time to the introduction of the CGTD in 1999. According to TJN, the surge in investment in rental property contributed to house price increases in the 2000s and again in the mid-2010s. It suggested most of this investment resulted in limited productivity gain for Australia and 'inflated the cost of land and homes' compared with other assets.³⁶

CGTD and speculation in the housing market

- 2.38 Many inquiry participants raised concerns about increased speculative behaviour in the Australian housing market and the financial risk associated with the provision of credit to property investors.³⁷
- 2.39 Mr Leslie outlined the tax incentives that encourage investors to speculate on existing housing as follows:
- banks are willing to extend loans at far higher loan-to-value (LVR) ratios than on alternative investments (i.e. 80% LVR);
 - there are no margin calls if the price of the underlying asset falls in value;
 - full deductibility of interest and many holding costs against other income; and
 - the expectation of sustained capital gains, particularly in major cities, is driven by factors such as planning, income growth and migration.³⁸
- 2.40 Mr Leslie explained that 'together these settings make leveraged investment in existing housing highly attractive on an after-tax basis', with high-income investors able to access 'very low, or even negative effective marginal tax rates':

³⁴ Mr Joshua Newton, National Coordinator of Legal and Research, AMWU, *Committee Hansard*, 23 February 2026, pp. 43–44.

³⁵ Mr Newton, AMWU, *Committee Hansard*, 23 February 2026, p. 41.

³⁶ Tax Justice Network Australia (TJNA), *Submission 54*, p. 3.

³⁷ See, for example, PIA, *Submission 22*, p. 3; National Shelter, *Submission 32*, p. 13; Prosper Australia, *Submission 42*, [p. 2]; Australian Housing and Urban Research Institute (AHURI), *Submission 44*, p. 7; Fair Agenda, *Submission 48*, p. 4; Anglicare Australia, *Submission 51*, p. 7; Mr Grudnoff, Australia Institute, *Committee Hansard*, 24 February 2026, p. 53.

³⁸ Mr Cathal Leslie, *Submission 8*, p. 5.

A typical pattern for a geared investor is to accept a negative cash flow, use those cash losses to reduce tax on labour income, and then rely on a tax-favoured capital gain on eventual sale. In this way, the CGT discount effectively 'completes the circuit' for speculative property investment.³⁹

2.41 The AMWU pointed out that housing has become a major source of income in Australia, saying that from 1960 to 1980, the average annual value gain of housing was 9.3 per cent of GDP, whereas it was over 24 per cent of GDP in the period since 2000. In fact, for 16 out of 29 quarters prior to June 2019, the AMWU noted, 'the median Sydney home earned more than the median full-time worker'.⁴⁰

2.42 The AMWU suggested this is demonstrative of a 'shifting mindset towards housing as a tool of capital accumulation', which is driving speculation in the housing market.⁴¹

2.43 This 'speculative mindset' drives the decisions of most Australian property investors, according to the UNSW City Future Research Centre:

Research evidence demonstrates that the prioritisation of capital growth over a rental income stream is dominant among Australia's individual private landlords. As a result, individual investor behaviour is likely to be especially sensitive to capital growth prospects. In other words, a 'speculative' mindset. This importantly contrasts with the prime motivation of institutional investors in the purpose-built student housing and 'build to rent' sectors where long term rental yield is the key business motivation.⁴²

2.44 The UNSW City Future Research Centre proposed the speculative mindset is not a new or temporary one. It noted that, since the late 2000s, most Australian property investors have 'identified long-term investing or capital gains as the most important reason for having invested rather than rental income'. That trend was reinforced by a survey of private landlords in Western Sydney conducted by the UNSW City Futures Research Centre in the mid-2010s, which:

...found that 83% considered capital growth prospects as 'highly important' or 'extremely important' in their acquisition locational choice. Rental return expectations were similarly important for only 64% of the cohort.⁴³

2.45 According to the UNSW City Future Research Centre, property markets that are driven by speculation rather than long-term rental yields are more likely to be volatile. In its view, volatile property markets 'amplify booms and slumps in the wider economy'.⁴⁴

³⁹ Mr Cathal Leslie, *Submission 8*, p. 5.

⁴⁰ AMWU, *Submission 24*, pp. 5–6.

⁴¹ AMWU, *Submission 24*, p. 6.

⁴² UNSW City Future Research Centre, *Submission 27*, p. 5.

⁴³ UNSW City Future Research Centre, *Submission 27*, p. 13.

⁴⁴ UNSW City Future Research Centre, *Submission 27*, p. 5.

2.46 National Shelter shared this concern about heightened volatility and the implications it could have on the macroeconomy and wider Australian society, saying the combination of the CGTD, negative gearing, low interest rates and 'relatively lax prudential requirements' is incentivising investors to 'highly leverage to purchase multiple assets on which they expect significant capital gains'. In National Shelter's view, this is 'a macro-economic concern' and a significant factor in 'rapidly rising, unaffordable residential property prices that stifle productivity and supercharge housing and wealth inequality'.⁴⁵

2.47 The ACTU noted that bank loans to investors have increased to 40.6 per cent and argued that the 'surge' in investor loans 'speaks to deep, underlying problems in the Australian economy', where weak productivity is coupled with an overinvestment in existing housing stock:

In September 2025, 82.8 per cent of total investor loans were used to speculate on the existing housing stock. A mere 12.6 per cent were used for new housing builds, a share which has declined over the last year from 14.1 per cent, also an incredibly low proportion.⁴⁶

2.48 Chief Executive Officer of Think Forward, Mr Thomas Walker, observed that the CGTD 'rewards the wrong things', by rewarding:

...speculation and rent seeking over work, ideas and learning. As a country, we've basically got this big, flashing sign saying, 'Hey, don't go to university, don't become an engineer, don't become a nurse, because what we're going to reward is speculation'. This is also actively putting our economy and future at risk. Our economy is becoming increasingly dependent on a narrow band of wealthy investors, ageing consumers and family inheritances, because many younger people can't afford to get ahead. If they can't get ahead, then how are they expected to learn or create or start a new business?⁴⁷

2.49 Mr Walker identified an additional burden on young people caused by inflated house prices, which further weighs on Australia's productivity by making it harder to invest in ideas, new businesses or take risks.⁴⁸

2.50 Conversely, Professor Alan Robson, Deputy Chair of the Productivity Commission, noted that it is possible to view housing as a productive investment:

In principle, housing provides services to people. They value it. It puts a roof over people's heads. It provides a source of income to landlords and a source

⁴⁵ National Shelter, *Submission 32*, p. 14.

⁴⁶ ACTU, *Submission 66*, pp. 7–8.

⁴⁷ Mr Thomas Walker, Chief Executive Officer, Think Forward, *Committee Hansard*, 23 February 2026, p. 30.

⁴⁸ Mr Walker, Think Forward, *Committee Hansard*, 23 February 2026, p. 31.

of capital gains to people who are saving. In that sense, to the extent that it's valued, it's productive.⁴⁹

2.51 However, Dr Robson stressed that the productivity commission has not done any work on the question of 'whether tax arrangements create a distortion among different asset classes'. He contended that a good tax system:

...would be something that didn't distort too much between different asset classes or savings vehicles...because one benefit you provide in one area tends to come at a cost to another area and prevents the value of resources flowing to their highest value, and that drags down overall productivity.⁵⁰

Disproportionate servicing of housing debt over business investment

2.52 Some inquiry participants commented on the increasing provision of credit to property investors relative to business lending, and the connected increase in debt carried by Australian households.⁵¹

2.53 Prior to the introduction of the CGTD, the provision of credit to business was greater than the credit provided to house purchasers, according to The Australia Institute:

In September 1999 business lending made up 47% of all credit and lending for housing made up 42% of all credit. Today business lending makes up only 33% of credit, while housing makes up 62% of credit.⁵²

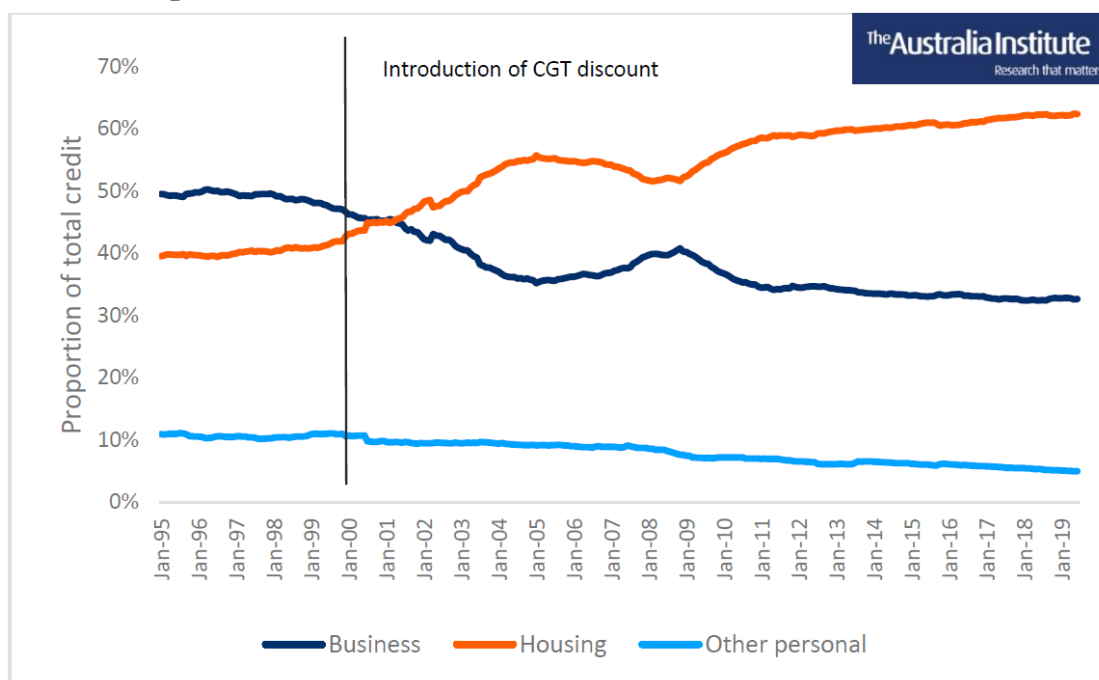
⁴⁹ Dr Alan Robson, Deputy Director, Productivity Commission, *Committee Hansard*, 25 February 2026, p. 52.

⁵⁰ Dr Robson, Productivity Commission, *Committee Hansard*, 25 February 2026, p. 52.

⁵¹ See, for example, AHURI, *Submission 44*, p. 5; Australian Council of Social Service (ACOSS), *Submission 46*, pp. 12–13; TJNA, *Submission 54*, p. 3; ACT Shelter, *Submission 55*, pp. 6–7.

⁵² The Australia Institute, *Submission 35*, p. 22.

Figure 2.1 Proportion of lending going to business, housing, and other personal



Source: RBA (2025) *D2 Lending and Credit Aggregates*,

<https://www.rba.gov.au/statistics/frequency/fin-agg/2025/>

Source: *The Australia Institute, Submission 35, p. 22*

- 2.54 Mr Kohler suggested this is a result of both rising house prices and encouragement from banking regulators for banks to move more towards loans that are 'secured by real estate as opposed to the cash flow of businesses'. According to Mr Kohler, the global financial crisis changed the way banks were regulated in a way that increased the desirability of real estate security.⁵³
- 2.55 The Chief Executive Officer of the e61 Institute, Mr Michael Brennan, identified two other global and domestic factors that played a larger role than the CGTD in shifting bank credit from business to housing loans. The first was the global shift to a lower inflationary environment and the second, which is specific to Australia, was the increase in real incomes associated with the significant increase in trade with China.⁵⁴

CGTD preferences existing housing

- 2.56 As discussed in Chapter 3, many submitters indicated that the CGTD encourages investors to purchase existing homes rather than construct new ones, which increases demand for the same pool of housing, increases purchase prices, and places upward pressure on rents. Ultimately housing becomes less

⁵³ Mr Kohler, Personal capacity, *Committee Hansard*, 23 February 2026, p. 11.

⁵⁴ Mr Michael Brennan, Chief Executive Officer, e61 Institute, *Committee Hansard*, 25 February 2026, p. 5.

affordable, especially for low-income households, young people, older renters, and single-parent families.⁵⁵

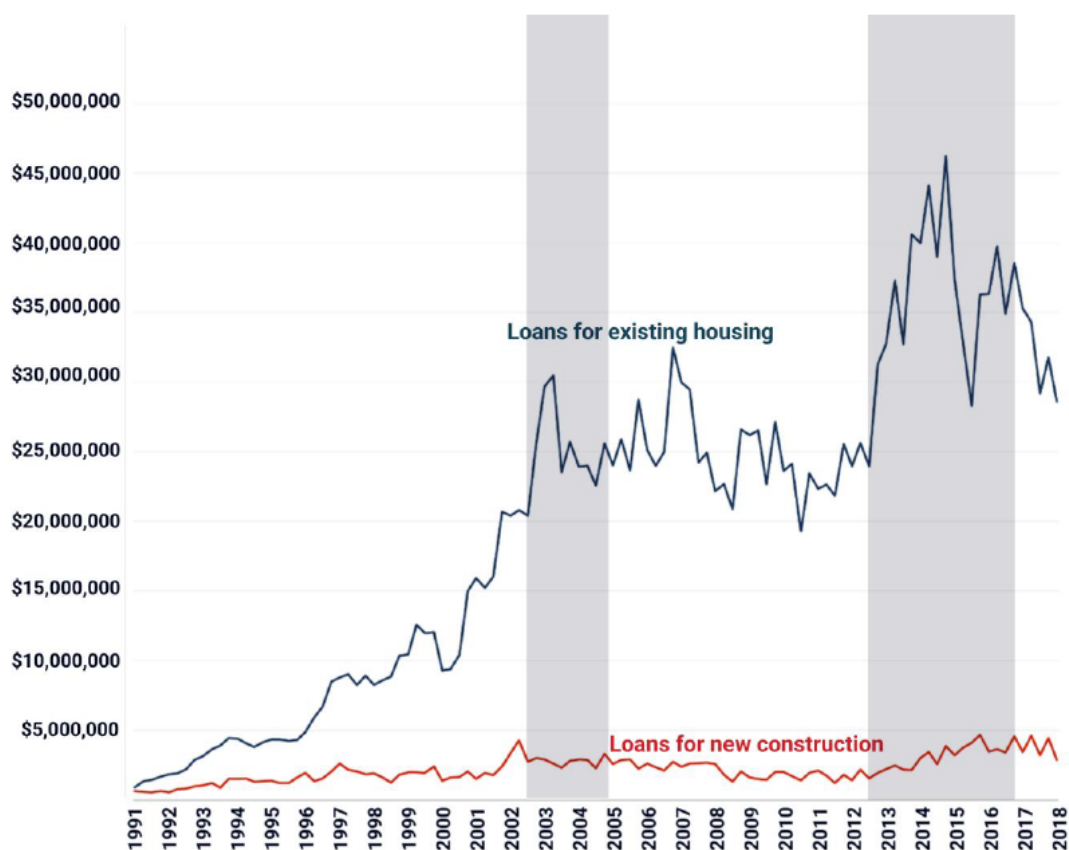
- 2.57 According to ABS data, over the past five years an average 92 per cent of property investor lending has gone into existing housing. This eight per cent going to new construction can be contrasted with the 20 per cent average of lending for owner occupiers going into new homes.⁵⁶
- 2.58 The Australian Council of Social Service (ACOSS) reported that 'credit for rental property investment expanded dramatically after the CGT discount was introduced in 1999', leading to 'housing booms' in the 2000s and 2010s.⁵⁷ This trend is illustrated in Figure 2.2.

⁵⁵ See, for example, Greater Western Sydney Advocacy Network, *Submission 2*, p. 2; B Miles Women's Foundation, *Submission 5*, p. 2; ANMF, *Submission 13*, pp. 9–10; Justice and Peace Office, Catholic Archdiocese of Sydney, *Submission 16*, p. 2; Council to Homeless Persons, *Submission 19*, p. 2; Housing for the Aged Action Group, *Submission 25*, p. 4; Everybody's Home, *Submission 41*, p. 1; Prosper Australia, *Submission 42*, [p. 2]; Anti-Poverty Week, *Submission 53*, p. 2; ACT Shelter, *Submission 55*, p. 4.

⁵⁶ Note: These statistics are from analysis of five years (from the December 2020 quarter to September 2025 (inclusive)) of data collected by the Australian Bureau of Statistics (ABS). See: ABS, '[Lending indicators](#)', last updated 11 February 2026.

⁵⁷ Australian Council of Social Service (ACOSS), *Submission 46*, p. 11.

Figure 2.2 Value of investor loans for existing and new construction



Source: ABS (2024), *Housing Finance Commitments by Purpose*.

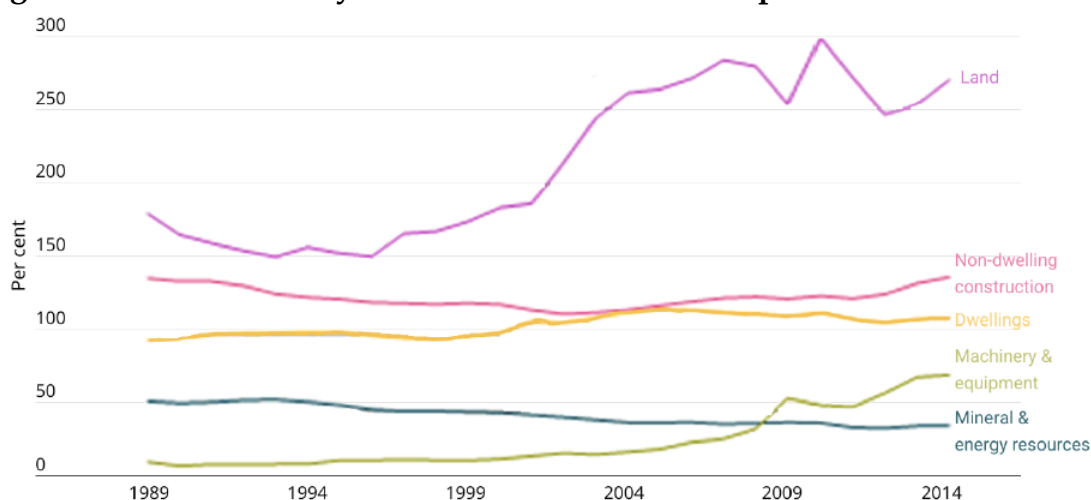
Note: CPI Adjusted to Q2 2022 Prices as Per Capita. Shaded areas represent home price booms.

Source: ACOSS, *Submission 46*, p. 11.

2.59 As shown in Figure 2.3, ACOSS demonstrated that the total value of land in Australia rose at a faster rate than 'other assets such as machinery and equipment used by active businesses'. It pointed out:

After the introduction of the CGT discount in 1999, the total value of land in Australia rose from around 160% of Gross Domestic Product (GDP) to 260% of GDP by 2014. Former RBA Governor Lowe (then Head of Research at the Bank) raised concerns that investment in land was crowding out more productive investment.⁵⁸

⁵⁸ ACOSS, *Submission 46*, pp. 11–12.

Figure 2.3 Net wealth by asset (% of GDP in current prices)

Source: Lowe P (2015), *National Wealth, Land Values and Monetary Policy*, Shann Memorial Lecture, Perth 12 August 2015.

Note: The 'CGT 50% discount' was introduced in September 1999.

Source: ACOSS, *Submission 46*, p. 12.

- 2.60 ACT Shelter contended that, while investment in rental housing 'should expand supply and help moderate rents over time', that has not occurred in Australia because investors are incentivised to invest in existing houses rather than new construction. It explained that investors are drawn to 'more expensive properties with greater prospects for high capital gains', contributing to 'the steady decline in properties at the affordable end of the rental market, while the number of properties for rent at higher prices continues to grow'.⁵⁹
- 2.61 According to ACT Shelter, this dynamic 'inflates housing prices without adding to overall housing stock', entrenching 'a cycle in which speculative investment drives prices higher, to the detriment of renters and aspiring homeowners alike'.⁶⁰
- 2.62 The Planning Institute of Australia (PIA) submitted that the preference for investment in existing housing stock 'often displaces more productive capital uses', including:

- medium-density and infill housing in well-located areas
- urban renewal precincts that require coordinated investment
- employment land and innovation clusters
- infrastructure and enabling works required to support growth.⁶¹

⁵⁹ ACT Shelter, *Submission 55*, p. 4.

⁶⁰ ACT Shelter, *Submission 55*, p. 4.

⁶¹ PIA, *Submission 22*, p. 3.

2.63 PIA argued the CGTD directs capital towards 'unproductive land value escalation instead of new supply that supports labour markets, workforce participation and economic clustering'.⁶²

2.64 Ms Michele Bullock, the Governor of the Reserve Bank of Australia, has also reflected on why Australian investors may preference existing housing over investing in new construction, saying:

As to the way that investors choose to buy established housing or new housing, I don't know why that may be the case. It might be that there are certain advantages taxation-wise for doing that. But again, with all these things, the whole housing market issue basically comes down to a supply and demand story. As we've talked about before, we aren't building enough houses and demand for houses obviously is outstripping that. That's what's driving not only the housing prices issue but also the rental situation and vacancy rates.⁶³

2.65 Mr Tim Reardon, from HIA, contended that a reduction in the cost associated with the construction of new houses would adjust the cost-benefit analysis investors and owner occupiers make when deciding whether to purchase new or existing housing.⁶⁴

Effects on labour productivity

2.66 Some inquiry participants discussed the effect of higher property prices on labour productivity and suggested some of those costs are attributable to the CGTD. For instance, National Shelter identified a range of 'indirect effects negatively impacting productivity in Australia' that are linked to the CGTD, including:

- Reducing labour mobility (as people tend to stay put when it is difficult to find safe, secure, affordable housing)
- Creating a spatial mismatch between employment centres and where affordable housing is located, forcing people to commute for longer – this can also negatively impact business recruitment while worsening congestion in large and medium-sized cities and urban areas
- When people spend more than they can afford on housing, their education and productivity is affected directly (because they do not have the financial capacity to further their education) and indirectly (because it affects their physical and mental health and long-term wellbeing).⁶⁵

2.67 The Australian Housing and Urban Research Institute (AHURI) agreed that the CGTD 'also affects labour force potential and availability'. It referred to 'strong

⁶² PIA, *Submission 22*, p. 3.

⁶³ Ms Michele Bullock, Governor, Reserve Bank of Australia, Senate Standing Committee on Economics Legislation Committee, *Committee Hansard*, 12 February 2026, p. 9.

⁶⁴ Mr Tim Reardon, Chief Economist, HIA, *Committee Hansard*, 24 February 2026, p. 39.

⁶⁵ National Shelter, *Submission 32*, p. 12.

evidence that Australia's tax system has contributed to poor housing outcomes and economic inefficiency more generally'.⁶⁶

- 2.68 AHURI pointed out that, while low-income households play a critical role in the Australian workforce, they are finding it increasingly difficult to find affordable rental properties near employment in major urban areas:

Over two decades, the nation's shortage of affordable dwellings available for low-income households in the private rental sector grew to 173,000, with the most extreme shortage in Sydney (60,000 dwellings), where 71 per cent of all low-income private rental households pay unaffordable rent.⁶⁷

- 2.69 Research conducted by AHURI shows that the housing system has likely contributed to a weakening of urban productivity growth as there is less affordable housing available in central parts of Australian cities. For example, in Sydney, the percentage of people on lower incomes living within 10 kilometres of the central business district fell by 82 per cent between 1986 and 2011.⁶⁸

- 2.70 The UNSW City Futures Research Centre considered high house prices as a deterrent for foreign investment in capital cities, saying:

American research has estimated that high house prices have created new economic geographies of production that have reduced US productivity and GDP by 10%. Associated with this is the scenario where footloose and often highly productive international companies are discouraged from siting new facilities in cities such as Sydney by housing affordability anxieties.⁶⁹

- 2.71 Better Renting added that the rental market does not currently enable renters to fully contribute to society and economic productivity, because:

Unstable, unaffordable, and unhealthy rental homes provide a poor foundation for productivity. Currently, too many renters are forced to move every year or two, have to choose between paying unaffordable rent or buying food and medicines, and are too scared to request essential maintenance or upgrades. As long as governments fail to address the systemic causes of these challenges, which include the CGT discount and negative gearing, renters will struggle to contribute fully to their employment, education, caring, and volunteering responsibilities, let alone maintain their health or wellbeing.⁷⁰

⁶⁶ AHURI, *Submission 44*, p. 5.

⁶⁷ AHURI, *Submission 44*, p. 6.

⁶⁸ AHURI, *Submission 44*, pp. 5–6.

⁶⁹ UNSW City Futures Research Centre, *Submission 27*, pp. 12–13.

⁷⁰ Better Renting, *Submission 21*, pp. 2–3.

2.72 Ms Madeline Cooper, a contributor to Think Forward who has more than 20 years of lived experience as a renter, discussed what the lack of affordable rental housing near employment means for essential workers:

...if you are working in the centre of Melbourne or Sydney and you're an essential worker, you are going to have to be commuting an hour or an hour and a half if you are wanting to buy. If you want to rent, it's maybe slightly less. But do we want people who have just worked a 12-hour shift as an ambulance officer or as a nurse to then have to drive an hour at 2 am? That seems ridiculous to me.⁷¹

2.73 Ms Cooper suggested offering longer lease terms might help renters better connect with their community and improve productivity.⁷²

Reform options and findings

2.74 Inquiry participants made several suggestions for how the CGTD could be reformed to address the productivity issues raised in this chapter. These are outlined and discussed in Chapter 4 of this report, with Chapter 5 presenting the committee's findings.

⁷¹ Ms Madeline Cooper, Contributor, Private capacity, *Committee Hansard*, 23 February 2026, p. 33.

⁷² Ms Cooper, Private capacity, *Committee Hansard*, 23 February 2026, p. 33.

Chapter 3

Impacts on inequality

Introduction

- 3.1 A significant proportion of the inquiry participants expressed concerns regarding the contribution of the capital gains tax discount (CGTD) to widening inequality in Australia, its influence on worsening housing affordability, and its role in weakening Australia's long-term social and economic wellbeing.
- 3.2 This chapter provides a brief overview of income and wealth distribution in Australia, including trends over time, and identifies the key beneficiaries of the CGTD—as well as those who do not share in its benefits.
- 3.3 The chapter contemplates how negative gearing, in conjunction with the CGTD, has contributed to a growing divergence between house prices and incomes; looks at the impacts of tax concessions on housing security; and considers the drivers of decreasing home ownership in Australia.
- 3.4 Finally, this chapter outlines views on the use of the CGTD by discretionary trusts.
- 3.5 Proposals for reforming the CGTD are discussed in Chapter 4 of this report.

Income and wealth distribution in Australia

- 3.6 Inquiry participants raised concerns regarding increasing inequality in income and wealth distribution in Australia, and the contribution that tax concessions, including the CGTD, have had in exacerbating these inequalities.
- 3.7 National Shelter submitted that income and wealth inequality in Australia has grown rapidly over the last decade. It stated that, although estimates of the Gini coefficient (explained below) indicated that income inequality in Australia was only moderately high (0.307 in 2022–23), wealth inequality was much higher (0.606) and represented a greater and unequal concentration of wealth.¹

Box 3.1 What is the Gini coefficient?

The distribution of income and wealth amongst households is an important aspect of community wellbeing. One measure to assess how equally income and wealth is distributed is the Gini coefficient. A Gini coefficient can range between 0 and 1, with a lower Gini coefficient representing a more equal distribution. Wealth is typically distributed less equally than income.²

¹ National Shelter, *Submission 32*, p. 4.

² Australian Bureau of Statistics, [Income and wealth inequality](#), 15 September 2025 (accessed 27 February 2026).

Income inequality

In 2022–23, the Gini coefficient for equivalised disposable household income was 0.307. This is a decrease from 2021–22 (0.323), but slightly higher than in 2002–03 (0.299). In 2022, Australia had the 16th highest level of income inequality among the 37 Organisation for Economic Co-operation and Development (OECD) countries for which data was available.³

Wealth inequality

In 2022–23, the Gini coefficient for household net worth was 0.606. This has decreased from 0.628 in 2018-19. In 2022, Australia had the 20th highest level of wealth inequality among the 29 OECD countries for which data was available (using the 'share of top 10% of wealth' measure).⁴

- 3.8 National Shelter submitted that, while the highest income quintile earned five times more than the lowest, the top fifth of households owned 146 times more wealth than the poorest 20 per cent of households.⁵ To illustrate these discrepancies, it stated:

Another way to represent this stark income—and starker wealth—inequality is by highlighting that while the bottom quintile 20% of income earners receives 9.6% of total income and owns just 0.4% of the total wealth, the top 20% of income earners receives 40.9% of the total income and owns 63.2% of the total wealth.⁶

- 3.9 The Australian Council of Social Services (ACOSS) also noted that wealth is much more unequally distributed than income in Australia and argued that this inequality was increasing and entrenching social and political division in Australia. ACOSS submitted:

- the average value of assets held by the highest 10 per cent of households ranked by wealth was \$5.2 million in 2022—4.4 times the average wealth of all households (\$1.2 million);
- the average wealth of the highest 10 per cent of households rose by 84 per cent from 2003 to 2022, compared to 74 per cent for all households and 55 per cent for the lowest 60 per cent of households; and
- wealth in the form of investment assets attracting capital gains tax is materially unequally distributed, with the highest 10 per cent of households ranked by wealth holding around 66 per cent of all investment property, shares, financial, and business assets.⁷

³ Australian Bureau of Statistics, *Income and wealth inequality*, 15 September 2025.

⁴ Australian Bureau of Statistics, *Income and wealth inequality*, 15 September 2025.

⁵ National Shelter, *Submission 32*, p. 5.

⁶ National Shelter, *Submission 32*, p. 5.

⁷ Australian Council of Social Services (ACOSS), *Submission 46*, [p. 1].

3.10 In 2025, the Australia Institute examined the growth in Australians' wealth by asset type and found that 80 per cent of wealth came from three asset classes: the family home, superannuation, and other property. It found that, from 2002 to 2022, the category of 'other property'—which includes investment properties—was the fastest growing of these asset classes, growing at an average annual rate of 7.7 per cent. It stated that the majority of the increase—53 per cent—was attributed to the wealthiest 10 per cent of Australian households, while only seven per cent was attributed to the poorest 50 per cent.⁸

3.11 Oxfam Australia (Oxfam) argued that wealth is too concentrated in Australia:

Over recent years, when everyday Australians have endured a cost-of-living crisis, billionaire and centi-millionaire wealth has continued to soar. The total wealth of Australian billionaires has increased by 347% over the last decade ... while the average [Australian Financial Review] Rich Lister has almost 16,000 times the wealth of an Australian household in the bottom 50% of the wealth spectrum. At the same time, one in seven Australians (14.4%) were living in relative poverty—the highest level since 2001. Despite being one of the wealthiest nations in the world, Australia's relative poverty rate sits above the OECD average, and sits higher than countries like the United Kingdom, France, Germany, Canada and New Zealand.⁹

3.12 In contrast, the Centre for Independent Studies (CIS) noted that there are many determinants of income and wealth inequality, that Australia's income inequality is close to the average for OECD countries, and that its wealth inequality is below average. It also argued that the Gini coefficient does not provide clear evidence of a rising trend in inequality since the end of the 20th century:

Wealth inequality is significantly higher than income inequality because asset ownership is more concentrated, as is the case in all countries. The ABS [Australian Bureau of Statistics] measure of the Gini coefficient for wealth did increase somewhat up to the global financial crisis of 2008-09, but not since; and the [Household, Income and Labour Dynamics in Australia (HILDA)] measure has not increased at all.¹⁰

Tax concessions and inequality

3.13 Some inquiry participants highlighted discrepancies between how different forms of income are taxed in Australia, and argued wealthier households are better placed to take advantage of those differences.

3.14 Anglicare Australia argued that these discrepancies typically favour wealthier Australians, who tend to derive more income from investments than less wealthy Australians:

⁸ Australia Institute, *Submission 35*, p. 9.

⁹ Oxfam Australia (Oxfam), *Submission 18*, p. 1.

¹⁰ Centre for Independent Studies (CIS), *Submission 7*, pp. 4 and 5.

Income earned through capital gains...is taxed at only half the applicable marginal rate once the CGT discount is applied. This design overwhelmingly favours people who are able to derive a significant share of their income from capital gains. These are typically higher-income households, who are more likely to own investment properties, shares, and other appreciating assets.¹¹

3.15 In addition to the CGTD, Anglicare Australia suggested that negative gearing, superannuation tax concessions, and the use of discretionary trusts offer 'multiple, overlapping pathways for high-income households to reduce their tax liabilities and grow their wealth'.¹² Figure 3.1 shows tax expenditures by income quintile in 2022–23.

Figure 3.1 Tax expenditures by income quintile 2022–23

Benefit	Total expenditure (\$B)	Bottom 20% (\$B)	Top 20% (\$B)
Principle residence CGT exemption	\$48	\$3.36 (7%)	\$20.64 (43%)
Superannuation - earnings	\$21.5	\$-0.06 (0%)	\$12.47 (58%)
Superannuation - contributions	\$23	\$-0.07 (0%)	\$13.34 (58%)
Capital gains tax concession	\$23.7	\$0.47 (2%)	\$19.4 (82%)
Negative gearing	\$5.06	\$0.1 (2%)	\$2.78 (55%)
Private health GST exemption	\$5	\$0.4 (8%)	\$1.75 (35%)
Discretionary trusts	\$2	\$0 (0%)	\$2 (100%)
Cessions Total	\$128.26	\$4.2 (3%)	\$72.38 (56%)

Source: Anglicare Australia, *Submission 51*, p. 9.

3.16 Modelling conducted by Anglicare Australia indicated that in 2022–23 'the combined cost of major tax concessions, including the CGT discount, negative gearing, superannuation concessions, and discretionary trusts, was \$128 billion'. In the same financial year, 'total spending on working-age income support and the Age Pension was around \$76 billion', as shown in Figure 3.2, below.¹³

¹¹ Anglicare Australia, *Submission 51*, p. 9.

¹² Anglicare Australia, *Submission 51*, p. 9.

¹³ Anglicare Australia, *Submission 51*, p. 10.

Figure 3.2 Budgeted expenditure on income support measures in 2022-23, compared with tax concessions

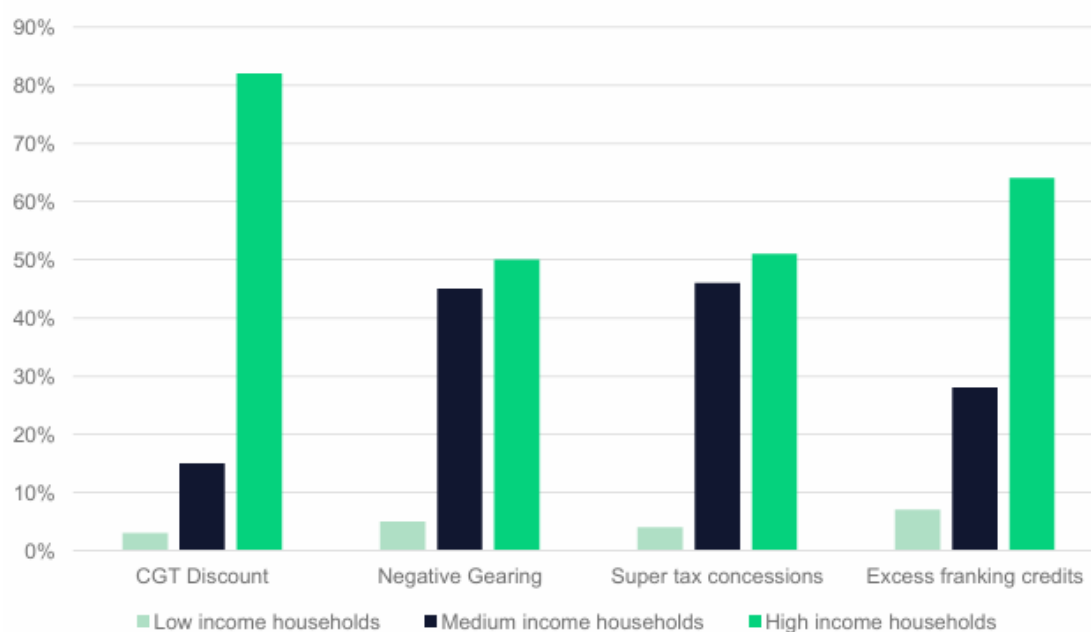
Benefit	Total expenditure (\$B)
Age pension	\$55.3
Working age payments	\$20.3
Benefits Total	\$75.6

Benefit	Total expenditure (\$B)
Principle residence CGT exemption	\$48
Superannuation - earnings	\$21.5
Superannuation - contributions	\$23
Capital gains tax concession	\$23.7
Negative gearing	\$5.06
Private health GST exemption	\$5
Discretionary trusts	\$2
Concessions Total	\$128.26

Source: Anglicare Australia, Submission 51, p. 10.

3.17 The Council to Homeless Persons reported that medium- and high-income households are the main beneficiaries of these tax concessions, with low-income households receiving very little benefit (see Figure 3.3).¹⁴

Figure 3.3 Distribution of tax concessions by low, medium, and high-income households



Source: Council to Homeless Persons, Submission 19, p. 4.

¹⁴ Council to Homeless Persons, Submission 19, p. 4.

- 3.18 Asked to explain why the benefits of the CGTD are increasingly concentrated among Australia's top income earners, Dr Shane Johnson, First Assistant Secretary, Department of the Treasury, said it was not unexpected:

A more predominant factor, I think, is that CGT...operates on a realisation basis. Gains accumulate each year, and so it doesn't add to your taxable income until you decide to realise that asset. At the time you realise the asset, then it adds to your capital gain. The longer you hold onto the asset, the greater your gain will be, all else equal, if you're under rates of return. And then, if you've got strong asset price growth, the larger your gain. What is happening is that individuals are being moved up into that top one per cent largely because they are realising gains—significant gains—because they've been holding onto other assets for a long period or because there's been significant asset price accumulation. They'd be the two primary drivers.¹⁵

- 3.19 Prosper Australia argued that the current system is 'fundamentally unfair' as the top one per cent of taxpayers 'receive a negligible share of wages yet capture a substantial proportion of capital gains. Meanwhile, workers and renters bear the brunt of taxation on labour and consumption'.¹⁶

- 3.20 Former Australian Council of Trade Unions (ACTU) secretary, Mr Bill Kelty, told the committee:

It's an obscenity, really. Societies can't operate this way without creating injustices and without creating imperfections and without creating a huge fiscal and economic problem for the nation. Report after report will say it's not fair that working people pay more and more of the tax burden. That's what's happening. Those working Australians—those cleaners, those people who are baristas—are paying more and more of the tax burden.¹⁷

- 3.21 The ACTU similarly suggested that Australia's progressive system of income tax 'breaks down completely for the top 5 per cent of income earners who pay a wide range of effective tax rates'.¹⁸

- 3.22 Research by the e61 Institute showed that different factors alter the effective tax rate depending on the individual taxpayer's income level:

For the bottom 40 percent, most of the dispersion is due to different eligibility for tax offsets and family-related payments and levies. Above 40th percentile, non-income generating deductions become increasingly important for differences in the tax rate paid by individuals. Above the 93rd

¹⁵ Dr Shane Johnson, First Assistant Secretary, Department of the Treasury (Treasury), *Committee Hansard*, 24 February 2026, p. 27.

¹⁶ Prosper Australia, *Submission 42*, [p. 2].

¹⁷ Mr Bill Kelty, Private capacity, *Committee Hansard*, 23 February 2026, p. 3.

¹⁸ Australian Council of Trade Unions (ACTU), *Submission 66*, p. 2.

percentile, the capital gains discount becomes the largest driver of the difference in income tax rates between individuals with similar incomes.¹⁹

- 3.23 Mr Alan Kohler, who appeared in a private capacity, pointed out that, while the CGTD may have been intended to offset the impacts of inflation on capital gains, income taxes are not adjusted for inflation:

Tax scales were adjusted for inflation for about three years in the 1970s by the Fraser government, and that was reversed partially and then fully in 1982. We have a situation where capital income is over-adjusted for inflation and labour income is not adjusted for inflation. I think that sends a clear signal that capital income is preferred over labour income. That's one of the foundations of inequality in Australia.²⁰

- 3.24 Dr Kathryn James, from Melbourne Law School, opined that the operation of the CGTD 'undermines the progressivity' of Australia's tax system:

We have an exceptionally generous discount, and I think where we really fall down in Australia is with our failure to tax wealth effectively, compared to comparable countries. But the point I would make is that, in all these countries, they're dealing with a real economic and political crisis around inequality.

...

The only time, across most developed countries, that we've seen economic growth increase and inequality decrease was in the golden age of the welfare state, on the back of a broad-based progressive income tax. Since the 1970s we've unwound that, and we've seen inequality grow ever since, across all developed countries.²¹

- 3.25 Emeritus Professor Hal Pawson, from the University of New South Wales (UNSW) City Futures Research Centre, contended that, while the distribution of income 'isn't so unequal in Australia relative to the international comparators', the distribution of wealth 'is where the real problem is'. Further, this wealth inequality is 'continuing to magnify mainly through the housing market'.²²
- 3.26 In a recently released report, the OECD argued that, to improve the equity of Australia's tax system, '[c]utting or eliminating some capital gains tax discounts could also help, as would phasing out "negative gearing", whereby losses on investment properties can be deducted against other taxable income'.²³

¹⁹ Greg Kaplan, Matthew Maltman, and Matt Nolan, '[Who pays income tax?: The distribution of individual income tax rates in Australia](#)', e61 Institute, 25 July 2025, [p. 3].

²⁰ Mr Alan Kohler, Private capacity, *Committee Hansard*, 23 February 2026, p. 9.

²¹ Dr Kathryn James, Private capacity, *Committee Hansard*, 23 February 2026, p. 50.

²² Emeritus Professor Hal Pawson, UNSW City Futures Research Centre, *Committee Hansard*, 25 February 2026, p. 36.

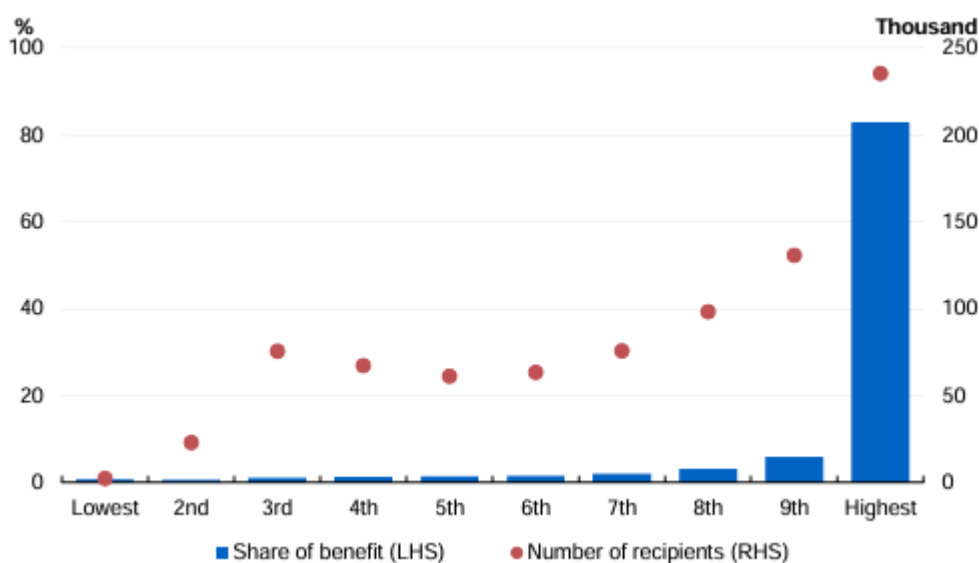
²³ Organisation for Economic Co-operation and Development (OECD), *OECD Economic Surveys: Australia 2026*, January 2026, pp. 39 and 40.

Who benefits from the CGTD?

High income earners

3.27 In its *2025–26 Tax Expenditures and Insights Statement* (TEIS), the Treasury reported that over 1.1 million individual tax filers realised a net capital gain in 2022–23 and that, of those, 71 per cent had benefitted from the capital gains discount for individuals and trusts. The Treasury stated that approximately 95 per cent of the benefit was received by people with above median incomes (top 50 per cent), and that 83 per cent of the benefit was received by those in the top income decile (top 10 per cent) (see Figure 3.4).²⁴

Figure 3.4 Share of benefit and recipients by taxable income decile, 2022–23



Source: The Treasury, *2025–26 Tax Expenditures and Insights Statement*, p. 19 (accessed 20 February 2026).

3.28 Along with one per cent of tax filers accounting for 54 per cent of all capital gains income in 2022–23, these tax filers were four times more likely to realise a capital gain than tax filers not in the top percentile, and had an average capital gain of \$850 690, compared with \$29 240 for other tax filers who reported a capital gain.²⁵

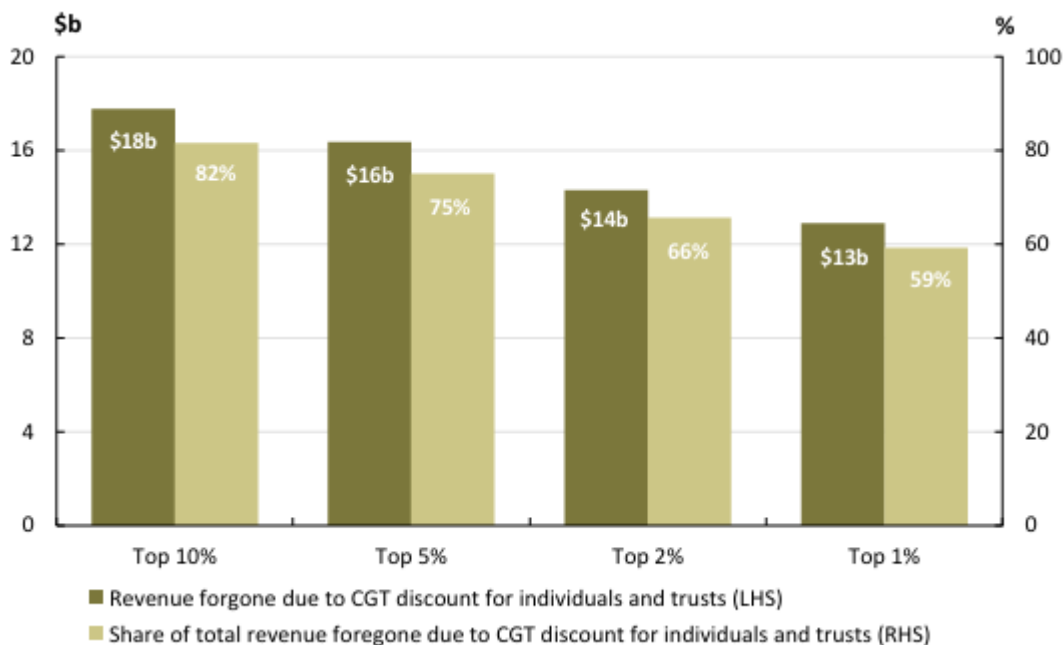
3.29 Analysis undertaken by the Parliamentary Budget Office (PBO) at the request of the committee for the 2025–26 fiscal year shows that the distribution of benefits from the CGTD continues to be highly skewed towards higher-income taxpayers. Similar to Treasury's historical analysis, the PBO estimates that the top 10 per cent of income earners will accrue around 82 per cent of the tax savings from the CGTD in 2025–26. PBO analysis also showed that, within this

²⁴ Treasury, *2025–26 Expenditures and Insights Statement*, p. 19.

²⁵ Treasury, *2025–26 Expenditures and Insights Statement*, p. 20.

group of high-income earners, the benefits are concentrated, with almost 60 per cent of total tax savings going to the top one per cent (see Figure 3.5).²⁶

Figure 3.5 Estimated revenue forgone due to the capital gains tax discount for individuals and trusts, top taxable income percentiles 2025–26



Source: Parliamentary Budget Office, *Response to Request for Budget Analysis*

3.30 Emeritus Professor Chris Evans, from UNSW, argued the CGTD 'functions as a regressive tax expenditure, eroding vertical equity'. Further, the CGTD:

...significantly offends against the principle of horizontal equity, providing preferential treatment for one form of income (the realisation of capital gains) as opposed to other forms of income (for example, earned income, business income, rents, interest and dividends).²⁷

3.31 The Australian Nursing and Midwifery Federation—Federal Office (ANMF) argued the current 50 per cent CGTD 'amplifies wealth inequality', encourages investors to own multiple properties, and increases the 'concentration of wealth and assets among the already wealthy'.²⁸

3.32 The Justice and Peace Office of the Catholic Archdiocese of Sydney added that this effect contributes to 'upward pressure on land and housing prices', making it harder for low- and medium-income households to secure 'stable, affordable homes'.²⁹

²⁶ Parliamentary Budget Office, *Response to Request for Budget Analysis*, p. 2.

²⁷ Emeritus Professor Chris Evans, *Submission 6*, [p. 2].

²⁸ Australian Nursing and Midwifery Federation (ANMF)—Federal Office, *Submission 13*, p. 8. See also: Ms Michele O'Neil, President, ACTU, *Committee Hansard*, 23 February 2026, p. 20.

²⁹ Justice and Peace Office, Catholic Archdiocese of Sydney, *Submission 16*, p. 1.

- 3.33 The Grattan Institute submitted that the 'wealthiest one fifth of Australians receive nearly 90 per cent of the benefit' of the CGTD and that this distorts the tax system, meaning 'people on very high incomes can end up with lower rates than those who earn far less'.³⁰
- 3.34 While acknowledging that the CGTD disproportionately benefits those with more wealth and assets, CIS argued that gains from the CGTD 'should not be expected to be distributed evenly or progressively, because the discount does not serve the purpose of a social security or welfare payment'.³¹
- 3.35 CIS suggested it was necessary to consider the tax system as a whole rather than 'tax by tax', saying:

Some taxes (such as the [Goods and Services Tax] and excise duties) are regressive but are accepted because there are other reasons to keep them in the tax system. Likewise for the CGT discount. The tax system as a whole is markedly progressive, and the joint tax/transfer system even more so.

But it should not be accepted that the CGT itself is regressive. The flip side of the skewed distribution of the benefits of the discount is that the CGT actually paid is just as skewed towards the top two income deciles. The CGT is therefore progressive, but a bit less than it would be without the discount.³²

Older Australians

- 3.36 According to the TEIS, only 4 per cent of the benefit of the CGTD goes to those under 35 years of age, while individuals over 50 receive 75 per cent of the benefit.³³
- 3.37 Individuals aged between 50 and 69 received the greatest share of the benefit from the CGTD (see Figure 3.6). Individuals aged 60 to 64 received the largest share of the benefit—20 per cent—'driven by a small number of individuals who received a particularly large share of the benefit'.³⁴

³⁰ Grattan Institute, *Submission 12*, p. 3.

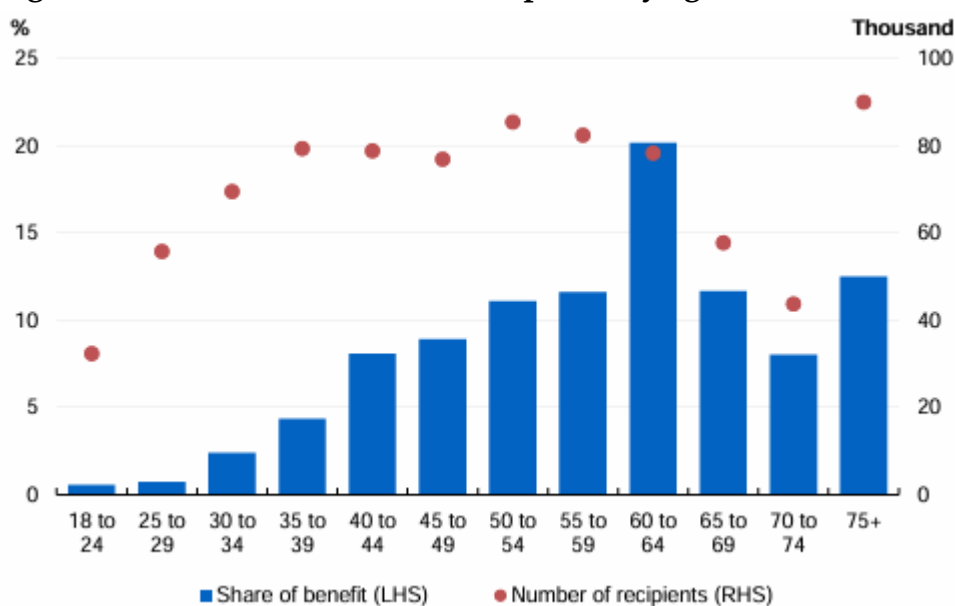
³¹ CIS, *Submission 7*, p. 4.

³² CIS, *Submission 7*, p. 4.

³³ Treasury, *2025–26 Tax Expenditures and Insights Statement*, p. 20. Please also see chart data available at: Department of the Treasury, *2025–26 Tax Expenditures and Insights Statement*, <https://treasury.gov.au/publication/p2025-721342> (accessed 12 March 2026).

³⁴ Treasury, *2025–26 Tax Expenditures and Insights Statement*, p. 20.

Figure 3.6 Share of benefit and recipients by age, 2022–23



Source: Treasury, 2025–26 Tax Expenditures and Insights Statement, p. 20.

3.38 While the CGTD mainly benefits older Australians, the Housing for the Aged Action Group (HAAG) importantly pointed out that not all older Australians benefit:

In reality, increasing numbers of older people also experience the impact of an unfair housing system. As highlighted above, home ownership among older people is declining and many are locked out of housing market as they age due to barriers to obtain home loans from financial institutions, and being ineligible for government incentives, especially those targeting first home buyers.³⁵

3.39 According to HAAG, while the Australian retirement system 'is built on the expectation that older people will own a home at the time of retirement', research demonstrates at least 42 per cent of people over 55 will not achieve home ownership.³⁶

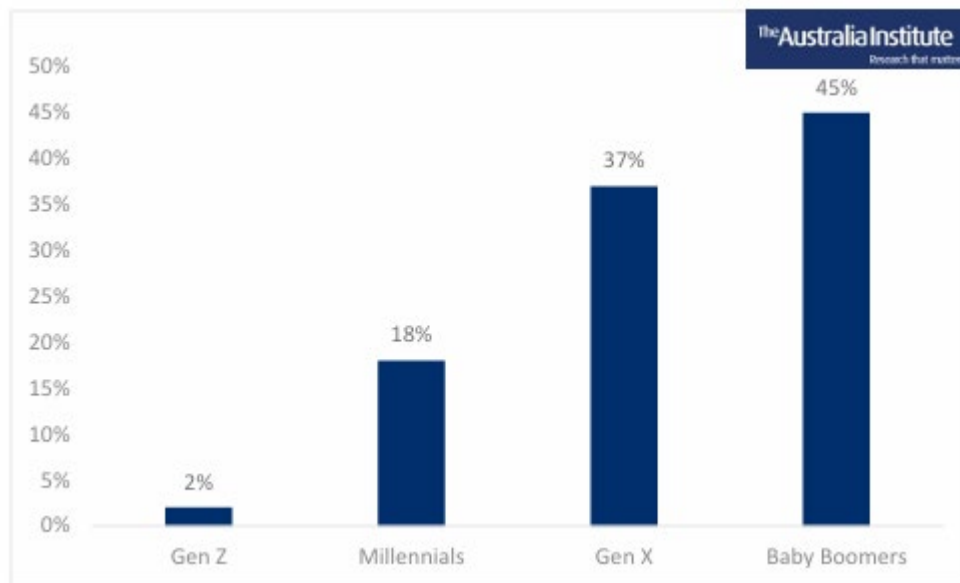
3.40 The Australia Institute noted that the 'baby boomer generation' receives the largest share of the CGTD, with this cohort having received 45 per cent of the benefit in 2021–22, followed by generation X with 37 per cent. In contrast, millennials received only 18 per cent, and generation Z only two per cent (see Figure 3.7, below).³⁷

³⁵ Housing for the Aged Action Group (HAAG), *Submission 25*, p. 7.

³⁶ HAAG, *Submission 25*, p. 5.

³⁷ The Australia Institute, *Submission 35*, p. 7.

Figure 3.7 Distribution of the CGT discount by age groups, 2021-22



Source: *The Australia Institute, Submission 35, p. 8.*

3.41 Professor Evans submitted that younger and lower-income Australians are finding it harder to accumulate assets as the CGTD 'inflates asset prices, particularly for housing'.³⁸

3.42 ANMF similarly argued that home ownership is 'becoming unattainable for many younger people', with the CGTD playing a significant role:

Since 1999, home prices have increased by 142%, while wages have only risen by 44%, and the proportion of income needed to meet mortgage payments has risen from 27% in 2001 to 49%. At the same time, older and wealthier cohorts, who are more likely to already own property or multiple investment properties, disproportionately benefit from the CGT discount. This imbalance entrenches generational divides, concentrates wealth among those who already hold assets, and undermines long-term economic resilience.³⁹

3.43 Think Forward submitted that the CGTD is one of a number of 'big structural issues' in the tax system that disadvantages young people. The Chief Executive Officer of Think Forward, Mr Thomas Walker, said:

Firstly, the discount drives inequality between and within generations. It has created a system where the average young worker, particularly if they've got a HECS debt, is paying a much higher effective tax rate than people much, much wealthier than them...Secondly, the discount costs the taxpayer a lot of money, and tax expenditures such as the discount erodes the effectiveness and trustworthiness of our tax system...Thirdly, the

³⁸ Professor Chris Evans, *Submission 6*, p. 2.

³⁹ ANMF, *Submission 13*, p. 9.

discount rewards the wrong things. It rewards speculation and rent seeking over work, ideas and learning.⁴⁰

- 3.44 Think Forward argued the CGTD 'should not have a role in Australia's future tax mix'. It noted younger Australians no longer believe 'Australia is a land of economic opportunity', where hard work pays off:

For a so-called egalitarian society like ours, I think it's a shocking outcome that we've ended up in that situation. Much of the erosion of the 'fair go', we argue, can be traced back to the introduction of the CGT discount and similar reforms, which have prioritised private wealth accumulation.⁴¹

- 3.45 A number of submitters, including the B Miles Women's Foundation and the Catholic Archdiocese of Sydney, reflected on the wider social implications of this rising intergenerational inequality, with the B Miles Women's Foundation saying:

Younger Australians face the double burden of soaring housing prices and stagnant wages, while older or wealthier cohorts benefit disproportionately from property-based tax concessions. This fuels social division and weakens long-term economic stability.⁴²

- 3.46 Oxfam argued there are damaging impacts of intergenerational equality on democracy. Mr Rod Goodbun, Executive Lead, Public Engagement, explained:

It means that basic requirements like housing are becoming out of reach for younger generations. It means that tax breaks for the superrich take billions in revenue away from essential services and supports. When governments fail to provide quality services for the general population we have a crisis in service delivery and a crisis in trust, and that can lead to a crisis in our democracy.⁴³

- 3.47 The Greater Western Sydney Advocacy Network argued the CGTD widens the gap between renters and owners and locks younger generations out of the property market:

A typical first-home buyer in Western Sydney now needs over 11 years to save a 20% deposit—nearly double what was required in the early 2000s. Meanwhile, untaxed capital gains for multi-property owners can exceed \$200,000 per year in some [Local Government Areas]. Younger people—particularly in the West, where incomes lag and housing costs surge—are

⁴⁰ Mr Thomas Walker, Chief Executive Officer, Think Forward, *Committee Hansard*, 23 February 2026, p. 29.

⁴¹ Mr Walker, Think Forward, *Committee Hansard*, 23 February 2026, p. 30.

⁴² B Miles Women's Foundation, *Submission 5*, p. 2; Justice and Peace Office, Catholic Archdiocese of Sydney, *Submission 16*, p. 2.

⁴³ Mr Rod Goodbun, Executive Lead, Public Engagement, Oxfam, *Committee Hansard*, 23 February 2026, p. 53.

locked out of wealth-building pathways, undermining long-term economic stability.⁴⁴

- 3.48 Economist and former Secretary to the Australian Treasury, Dr Ken Henry, agreed that the cost of housing is entrenching intergenerational inequity because of the 'lost or lack of opportunity'. With house prices now 5.5–6 times the median income, he said it is hard to imagine how those on average wages can purchase a house at all, which does 'great injustice to younger generations of Australians'. Dr Henry said the conversation on the CGTD was important because 'we've got to find ways of restoring to this generation of young workers the opportunities that were available to previous generations of young workers'.⁴⁵
- 3.49 The Tax and Transfer Policy Institute (TTPI) examined trends in the income of Australians at different ages, along with 'the role that the Australian tax and transfer system plays in addressing intergenerational equity'. The TTPI concluded that the Australian tax and transfer system 'has not adjusted to the changing age profile of income in Australia', and 'current settings increasingly favour older Australians at the expense of younger Australians'. Along with other policy ideas, the TTPI suggested that reducing the CGTD 'would represent a small step towards restoring intergenerational balance in the tax and transfer system'.⁴⁶
- 3.50 Director of the TTPI, Dr Robert Breunig, suggested that the inequality in the system is not necessarily between older and younger Australians, but between those who own property and those who do not. Asked if the TTPI's research suggests 'we're heading back to some kind of neo-feudal society where the opportunities that you have in life are determined significantly by the relationship that your parents have with real estate, land and property', Dr Breunig said:

That is the trajectory that we are on. I don't think we're back to pre-French-Revolution times, but I'm worried about that. In many ways, that's the big punchline of our report. We often frame the equality problem as an intergenerational, old versus young problem, which it's not really. If you're a young person and your parents have a lot of assets, those assets will eventually come to you. More and more what we see in the data is that they're coming to you even before your parents pass away, in the form of inter vivos transfers to buy housing et cetera. So the real inequality is

⁴⁴ Greater Western Sydney Advocacy Network, *Submission 2*, p. 3.

⁴⁵ Dr Ken Henry, Private capacity, *Committee Hansard*, 25 February 2026, pp. 23 and 28.

⁴⁶ Tax and Transfer Policy Institute (TTPI), *Submission 15*, p. 2. See also: Mr Saul Eslake, Private capacity, *Committee Hansard*, 25 February 2026, p. 21.

between people within the same generation—those who have assets and those who don't.⁴⁷

Disproportionate benefits to men

3.51 The National Foundation for Australian Women submitted that tax concessions focused on investment income are less likely to benefit women, because women:

- are less likely than men to accumulate investment assets, including superannuation;
- are 'overrepresented in the lowest income tax brackets';
- are disproportionately affected by reductions in funding to government benefits and social services (which become necessary where the tax system is not collecting sufficient revenue); and
- are increasingly affected by housing insecurity and homelessness, which the CGTD may exacerbate.⁴⁸

3.52 While Treasury data indicates similar numbers of women as men are accessing the CGTD (420 000 men and 410 000 women in 2022–23), men received around 58 per cent of the benefit from the discount (see Figure 3.8, below).

Figure 3.8 Distributional effect by gender, 2022–23*

Gender	Average benefit (\$)	Recipients (million)	Share of total benefit (%)
Men	21,010	0.4	58
Women	15,930	0.4	42
Total	18,520	0.8	100

*Totals may not sum due to rounding.

Source: Treasury, 2025–26 Tax Expenditures and Insights Statement, p. 20.

3.53 Working with Women Alliance (WwWA) argued these figures 'likely hide a larger discrepancy, given that many women own property with male partners'. In fact, WwWA submitted that women 'are less likely to own property and much less likely to own an investment property than men', citing figures that indicate 14.2 per cent of men own at least one investment property, compared with 11.4 per cent of women. In addition, 'young men own investment properties at double the rate of young women', men are more likely 'to own multiple investment properties', and women are more likely to experience housing affordability stress and homelessness.⁴⁹

3.54 WwWA suggested that other housing-related tax concessions, such as negative gearing, also benefit men over women, saying:

⁴⁷ Dr Robert Breunig, Director, TTPI, Crawford School of Public Policy, Australian National University, *Committee Hansard*, 24 February 2026, pp. 3–4. See also: Dr Henry, Private capacity, *Committee Hansard*, 25 February 2026, p. 23.

⁴⁸ National Foundation for Australian Women (NFAW), *Submission 17*, pp. 2–3.

⁴⁹ Working with Women Alliance (WwWA), *Submission 14*, pp. 3–4.

Women make up half of claimants of rental deductions, but only receive 42% of the benefits, because their average deductions are smaller, and their taxable incomes are lower. Australia's tax settings must be designed to improve inequality, not worsen it.⁵⁰

- 3.55 The B Miles Women's Foundation argued that compounding intergenerational inequality has a 'disproportionate impact' on women with lower incomes.⁵¹

Rental deductions and negative gearing

- 3.56 Negative gearing occurs when taxpayers who have purchased an investment property with the assistance of borrowed funds collect less rental income than their deductible expenses (including interest on the borrowings). According to the Australian Taxation Office (ATO), a negatively geared property is one where a net rental loss arises. Taxpayers may then claim a deduction for the full amount of expenses against their rental and other income (such as salary, wages or business income).⁵²
- 3.57 At the time that the CGTD commenced in 1999–00, Australian landlords earned a net \$219 million. In the latest year of reporting, in 2022–23 a total \$11 000 million of rental losses were recorded. As journalist Peter Martin said, the introduction of the CGTD 'has turned Australians into a bunch of losers'.⁵³
- 3.58 A number of inquiry participants highlighted the interlinked nature of the CGTD and negative gearing in Australia's taxation system, with many submitting that these two concessions combined had 'turbocharged' housing prices and increased inequality.⁵⁴
- 3.59 The Australia Institute maintained that the CGTD has had a larger effect on housing affordability than negative gearing as it 'turned Australian housing into

⁵⁰ WwWA, *Submission 14*, p. 4.

⁵¹ B Miles Women's Foundation, *Submission 5*, p. 2.

⁵² Australian Taxation Office (ATO), [Negative gearing](#), last updated 24 November 2015 (accessed 27 February 2026).

⁵³ Peter Martin, '[A land of easy gains and loads of losers](#)', *Sydney Morning Herald*, 19 November 2009; Treasury, *2025–26 Tax Expenditures and Insights Statement*, p. 42.

⁵⁴ See, for example: National Shelter, *Submission 32*, p. 9; Council to Homeless Persons, *Submission 19*, p. 6; Anglicare Australia, *Submission 51*, p. 7; Mr Kohler, Private capacity, *Committee Hansard*, 23 February 2026, p. 13; Greater Western Sydney Advocacy Network, *Submission 2*, p. 4; B Miles Women's Foundation, *Submission 5*, p. 3; NFAW, *Submission 17*, p. 5; Oxfam, *Submission 18*, p. 4; Grounded Community Land Trust Advocacy, *Submission 20*, [p. 1]; Better Renting, *Submission 21*, pp. 1–2; Australian Manufacturing Workers' Union (AMWU), *Submission 24*, pp. 3–4; HAAG, *Submission 25*, p. 3; UNSW City Futures Research Centre, *Submission 27*, p. 6; St Vincent de Paul Society, *Submission 30*, p. 1; NSW Treasury, *Submission 31*, pp. 2–3; The Australia Institute, *Submission 35*, p. 2; Q Shelter, *Submission 37*, [p. 2]; Mr Troy Clare, *Submission 39*, [p. 1]; Everybody's Home, *Submission 41*, pp. 1–2; Tenants Union of NSW, *Submission 52*, [p. 3]; ACT Shelter, *Submission 55*, p. 2.

a speculative investment', saying: 'If negative gearing is the grass fire of the housing affordability crisis, then the CGT discount was the can of petrol poured over the flames'.⁵⁵

3.60 According to the Australia Institute, after the introduction of the CGTD:

Negative gearing, which had previously been no more likely to occur than positive gearing, became common tax accountant advice, because the CGT discount lowered the threshold required to recover lost income and profit from property investment.⁵⁶

Distributional analysis

3.61 According to Treasury, in 2022–23, around 2.4 million people claimed \$57.1 billion of rental deductions incurred in earning \$59.0 billion of gross rental income. This resulted in a total tax reduction of \$21.0 billion. Of the total number of people with rental deductions, 49 per cent (1.2 million) had a rental loss, known as negative gearing, which added up to total rental losses of \$11.0 billion. These rental losses provided a tax benefit of around \$3.9 billion in 2022–23.⁵⁷

3.62 In that same year, 78 per cent of the total tax reduction from rental deductions went to people with above-median income, with 37 per cent of the reduction going to people in the top taxable income decile. Further, while 1.2 million men claimed rental deductions and received an average tax reduction of \$9 790, the average for women was \$2 080 lower.⁵⁸

Impacts of rental deductions and negative gearing

3.63 The Council to Homeless Persons submitted that negative gearing 'disproportionately benefits high-income households who have disposable income' and disadvantages 'low-income renting households and prospective first-home buyers'. When combined, the CGTD and negative gearing provide 'tax shelters to borrowers that have led to a rapid and disproportionate increase investment in housing which has raised [house] prices'.⁵⁹

3.64 Anglicare Australia submitted that negative gearing 'cost 5.7 billion dollars in lost revenue in 2023–24', arguing this revenue could have been used 'to address homelessness and housing equity through building social housing'. However, it is the dual operation of the CGTD with negative gearing which really amplifies the regressive impacts, as investors 'bid up house prices, confident that any

⁵⁵ The Australia Institute, *Submission 35*, p. 2.

⁵⁶ The Australia Institute, *Submission 35*, p. 27.

⁵⁷ Treasury, *2025–26 Tax Expenditures and Insights Statement*, p. 42.

⁵⁸ Treasury, *2025–26 Tax Expenditures and Insights Statement*, pp. 42–43.

⁵⁹ Council to Homeless Persons, *Submission 19*, p. 6.

losses incurred along the way can be written off against their income, and that eventual gains will be lightly taxed'.⁶⁰

3.65 According to Anglicare, the combination directly exacerbates inequality by:

- advantaging investors over owner-occupiers, particularly first home buyers;
- concentrating housing wealth among those who already hold assets; and
- increasing pressure in the rental market.⁶¹

3.66 National Shelter argued the combined incentive of the CGTD and negative gearing is 'extraordinarily unfair', providing the below example to illustrate how the combination works in practice:

Richard earns the average anaesthetist income of \$465,477 per year...[He and his partner] buy three investment properties in a middle-class neighbourhood with a 5% deposit. Richard rents two properties, deducting loan interest, council rates, tenant advertising, gardening from their taxable income, and renovates the third, increasing its capital value, and deducting capital expenses from the renovation from their taxable income as well.

...

Richard rents the properties to Ahmed, a carpenter (\$85,695 average annual income) and Stephanie, an arboriculture worker (\$70,723 average annual income) who cannot buy their own home because they keep losing against high income property investors—such as Richard—at auctions, who can rely on (a) borrowing against their existing assets, including their own home and (b) higher income allowing them to service higher loans to outbid competition. In effect, Stephanie and Ahmed subsidise their own landlord's investment properties through their tax.

Once the renovation of the third property is complete, Richard sells it, realising a large capital gain which is only taxed on 50% of the gain. Once the other two properties become positively geared (because mortgage interest reduces as the principal is paid off, making it harder to make 'losses' and meaning the property becomes positively geared, he can sell them (taking advantage of the CGT discount again), and start the same operation in another neighbourhood to continue increasing his wealth.⁶²

3.67 Mr Saul Eslake, who appeared in a private capacity, pointed out the wider budgetary implications of the interaction between the CGTD and negative gearing, saying:

Revenue foregone as a result of the capital gains discount has risen from \$860 million in 2000–01 to \$22 billion in 2025–26—or, if you like, from 1.1 per cent of total personal income tax collections to 6.1 per cent of total personal income tax collections over that 25-year interval.⁶³

⁶⁰ Anglicare Australia, *Submission 51*, p. 7.

⁶¹ Anglicare Australia, *Submission 51*, p. 7.

⁶² National Shelter, *Submission 32*, pp. 11–12.

⁶³ Mr Saul Eslake, Private capacity, *Committee Hansard*, 25 February 2026, p. 16.

3.68 Anglicare did not support the argument that negative gearing and CGTD concessions 'increase rental supply', saying:

...the evidence suggests they primarily shift ownership of existing housing stock rather than adding new dwellings. In tight markets, this increased investor activity can push up both prices and rents. Anglicare Australia's own research shows that these tax settings have been a major contributor to the growth in housing wealth among higher-income households over the past two decades, while lower-income households have fallen further behind.⁶⁴

The fracturing between house prices and incomes

3.69 From 1970 to 2000, house prices in Australia generally rose in line with household incomes, and from September 1989 until March 2000 they increased at a rate of only 4.2 per cent per annum. From March 2000 until June 2025, however, house prices increased at an accelerated rate of 15.2 per cent—more than three and a half times faster than the pre-2000s rate and far exceeding household income growth. Given this growth rate, house prices increased almost fivefold from 2000 to 2025, while wages only increased by 120 per cent. A house worth \$200 000 in 2000 would be worth about \$1 million in 2025 if its value increased by the average rate over that period.⁶⁵

3.70 Importantly, as house prices grow faster than incomes, housing becomes less affordable for the community. New South Wales (NSW) Treasury proposed that house prices increasing faster than household incomes contributed to the decline in home ownership—from 71 per cent in 1999–2000 to 66 per cent in 2019–20—saying:

A key driver is the growing difficulty of saving for a deposit as property prices outpace income growth. For first home buyers particularly, the standard 20 per cent deposit requirement has increased disproportionately to income, creating a major barrier to entry.⁶⁶

What is causing the divergence?

3.71 Ms Michele O'Neil, President of the ACTU, maintained that the CGTD, combined with negative gearing, 'has been a key driver of this unfair picture', building 'a class of professional landlords who own large numbers of properties and are pushing house prices beyond the reach of working Australians'. Ms O'Neil explained:

Before the introduction of the CGT, a house cost about six times the average income. Today it's nearly doubled, to 11 times. Research we conducted for this inquiry—it's at page 9 of our submission—shows that growth in investor loans is strongly correlated with growth in house prices. In stark

⁶⁴ Anglicare Australia, *Submission 51*, p. 7

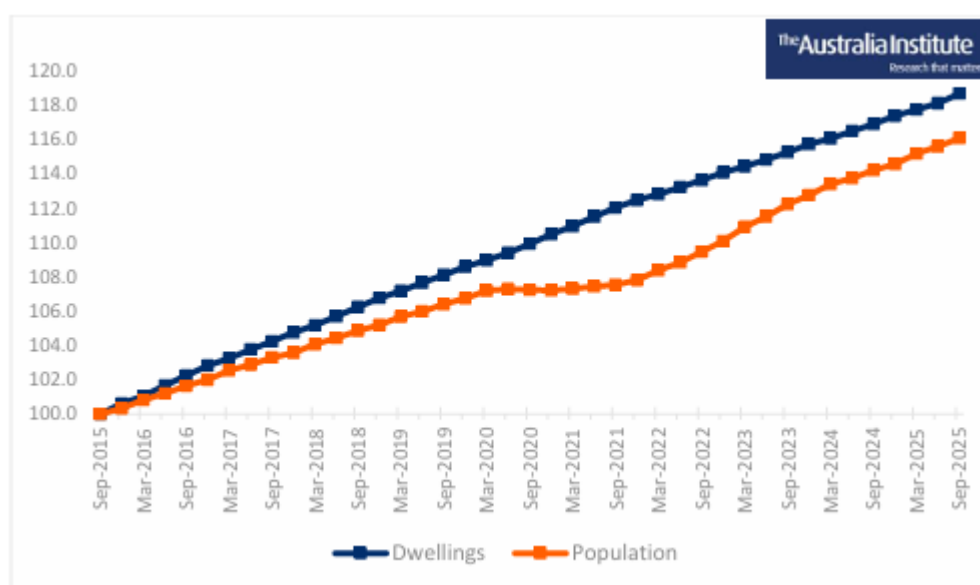
⁶⁵ The Australia Institute, *Submission 35*, p. 10.

⁶⁶ NSW Treasury, *Submission 31*, p. 2.

contrast, there's almost no link between first-home loans and house prices. The source of the problem is really clear.⁶⁷

- 3.72 It is commonly argued by commentators that Australia's housing affordability crisis has been caused by a combination of strong population growth and low rates of house construction—that is, high demand and low supply.
- 3.73 Analysis provided by the Australia Institute suggests that this may not be the case, with the number of dwellings increasing faster than the population over the last decade. Specifically, the population over the last 10 years increased by 16 per cent, while the number of dwellings increased by 19 per cent (see Figure 3.9 below).⁶⁸

Figure 3.9 Index of Population and Dwelling Stock (Sep 2015 = 100)



Source: *The Australia Institute, Submission 35, p. 11.*

- 3.74 Further, over the longer 20-year period from 2001 to 2021, the population increased by 33 per cent while the number of dwellings increased by 39 per cent—again showing that the number of dwellings grew faster than the population.⁶⁹
- 3.75 A number of inquiry participants argued that it was, in fact, the introduction of the CGTD in September 1999 that caused Australia's housing affordability crisis. For example, the ACTU submitted:

The introduction of the CGT discount in 1999, with its tax-favourable interaction with the existing negative gearing arrangements, marked the point where incomes and house prices started to diverge dramatically.

⁶⁷ Ms O'Neil, ACTU, *Committee Hansard*, 23 February 2026, p. 15.

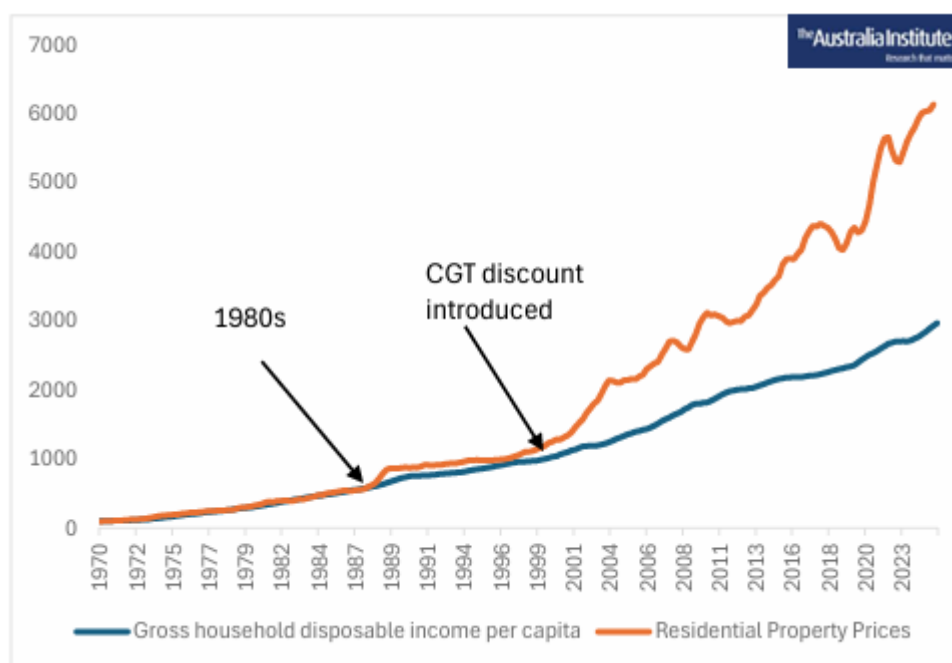
⁶⁸ The Australia Institute, *Submission 35*, p. 11.

⁶⁹ The Australia Institute, *Submission 35*, p. 12.

Back then it took 6 times the average income to purchase a house outright. Today it has nearly doubled to 11 times. This is because the CGT discount has given professional investors a huge advantage in bidding up house prices.⁷⁰

- 3.76 Mr Kohler examined house prices in comparison to median incomes and gross domestic product. He found that 'house prices started rising, at about double the rate of incomes and about double the rate of GDP, in the year 2000' when the CGTD was introduced.⁷¹
- 3.77 The Australia Institute drew the same conclusion, highlighting the rapid divergence of household disposable income and house prices following the CGTD's introduction in 1999 (see Figure 3.10 below).⁷²

Figure 3.10 Index of Residential Property Prices and Household Disposable Income per capita (1970 = 100)



Source: *The Australia Institute, Submission 35, p. 10.*

- 3.78 In his submission, a former Assistant Secretary at the Department of the Treasury, Mr Geoff Francis, took an alternate view, saying:

Lack of affordability in the housing market in Australia has mainly been driven by demographic factors such as high population growth and the trend to fewer people per household on the demand side, and supply

⁷⁰ ACTU, *Submission 66*, p. 2.

⁷¹ Mr Kohler, Private capacity, *Committee Hansard*, 23 February 2026, p. 9.

⁷² Australia Institute, *Submission 35*, p. 12.

constraints such as restrictions on land release and usage, rising construction costs and labour shortages on the supply side.⁷³

- 3.79 Similarly, CIS argued that 'local factors', including 'supply constraints', are relatively more important' than the tax discounts.⁷⁴
- 3.80 Housing industry representatives also argued that tax concessions are not the problem—the problem is supply. Managing Director, Housing Industry Association, Mrs Jocelyn Martin, said the CGTD is a distraction from the real issues and that 'removing or restricting negative gearing or the capital gains tax discount would reduce dwelling starts, reduce [gross domestic product (GDP)], reduce construction employment and increase rents over time'.⁷⁵
- 3.81 Mrs Martin argued that investors build a significant proportion of new homes in Australia, saying, 'remove them and you remove supply'. She suggested there are 'constructive levers available', such as depreciation schedules, to encourage investors to build new housing and these would have a bigger impact than reducing the CGTD.⁷⁶
- 3.82 Similarly, Master Builders Australia did not support any reduction or abolition of the CGTD, saying:
- ... a reduction in a tax incentive for the private market to invest in housing will lead to a reduction in supply. A reduction in the CGT discount may reduce property investment in the short term, freeing up properties for owner-occupiers, but in the long term we know it will reduce supply, reduce the availability of private rental accommodation and drive up rental prices for those remaining in the rental market.⁷⁷
- 3.83 This view was echoed by the real estate and property industries, which argued it 'makes no sense to deliberately discourage housing investment as you're cutting off your primary rental pipeline'.⁷⁸
- 3.84 Conversely, the ANMF pointed to Australian Council of Social Service (ACOSS) research which shows 'competition for housing from investors increased sharply following the introduction of the 50 per cent CGT discount in 1999', leading to house price growth around 13 per cent per year above inflation

⁷³ Mr Geoff Francis, *Submission 11*, [p. 1].

⁷⁴ CIS, *Submission 7*, p. 4.

⁷⁵ Mrs Jocelyn Martin, Managing Director, Housing Industry Association (HIA), *Committee Hansard*, 24 February 2026, p. 36.

⁷⁶ Mrs Jocelyn Martin, HIA, *Committee Hansard*, 24 February 2026, p. 36.

⁷⁷ Mr Shane Garrett, Chief Economist, Master Builders Australia, *Committee Hansard*, 24 February 2026, p. 37.

⁷⁸ Mr Andrew Mihno, Head of Policy and Government Relations, Urban Development Institute of Australia, *Committee Hansard*, 25 February 2026, p. 39.

between 2001 and 2003, and approximately six per cent per year from 2013 to 2017.⁷⁹

3.85 Mr Michael Brennan, Chief Executive Officer of e61 Institute Ltd, pointed to three factors which he considered had influenced the dramatic rise in house prices since the late 1990s:

- an 'adjustment to a lower inflation world', coupled with 'a locking-in of expectations that interest rates would be permanently lower than they had been in the past';
- a 'very significant rise in real incomes as a result of the terms of trade boom that started from around 2003 led by the iron ore price and the development of China'; and
- 'significant population growth' across the 2000s.⁸⁰

3.86 ACOSS acknowledged that 'tax arrangements are not the only cause of growth in home prices'. However, it noted that prices 'rose sharply' after introduction of the CGTD, and then again in the mid-2010s during a 'subsequent housing boom', which was also 'investor-led'.⁸¹

3.87 In addition, ACOSS noted that most rental property investment is into existing dwellings, meaning negative gearing and CGTD have not substantially improved the supply of rental dwellings. As such, ACOSS recommended 'reducing investor tax concessions' to 'ease growth in home prices and lift home ownership without significantly impacting rent levels'.⁸²

3.88 Similarly, NSW Treasury noted the inflationary effect of the CGTD on house prices, saying:

By reducing the effective tax rate on capital gains and allowing tax deferral, the CGT discount increases after-tax returns for investors, enabling them to bid more aggressively. Combined with negative gearing, these concessions strengthen investor advantage in competitive markets, making it even more difficult for first home buyers to secure properties. The CGT discount also allows investors to defer tax and time the sale of assets, effectively providing an interest-free loan from the government.⁸³

3.89 The Grattan Institute argued that the CGTD was not a 'principal or major driver of house prices over the course of the last couple of decades', but it should still be reduced. Housing and Economic Security Program Director at the Grattan Institute, Mr Brendan Coates, submitted that global factors 'appear to be bigger'

⁷⁹ ANMF, *Submission 13*, p. 8.

⁸⁰ Mr Michael Brennan, Chief Executive Officer, e61 Institute Ltd, *Committee Hansard*, 25 February 2026, p. 5.

⁸¹ ACOSS, *Submission 46*, p. 2.

⁸² ACOSS, *Submission 46*, p. 2.

⁸³ NSW Treasury, *Submission 31*, p. 3.

contributors to house prices, such as 'the secular decline in interest rates that we saw over the course of the last couple of decades' and the failure to build 'enough housing':

Australia used to build substantially more housing to meet the needs of a growing population, substantially outpacing, say, the growth in the number of adults. Since 2000, that has reversed. In fact, we've been building less housing per adult over that period and, in fact, less housing per adult than most other countries in the OECD.⁸⁴

3.90 Mr Kohler noted that, while house prices rose in the early 2000s in a number of countries:

...Australia's decline in housing affordability has been greater than elsewhere. House prices in Australia have gone up the most. I think that's correct to say. Sydney is now the second-least affordable city in the world. So it certainly had more of an impact here.⁸⁵

3.91 The Grattan Institute reported modelling the likely impact of possible reforms on housing affordability and other measures, including positive impacts on the Federal Budget, with Mr Coates saying:

[Reforming the CGTD by reducing the rate to 25 per cent] ranks highly on budget, sustainability and economic growth because it's a substantial reform that would raise significant revenue and recalibrate the tax system. But, as a measure to boost to improve affordability, it falls a long way behind measures around supply.

... The merits of the proposals to reform the discount really rest on their economic and budgetary impacts and much less so the housing impacts, whether it be used to reduce income tax rates for younger Australians or whether it be used to boost the supply of social housing, pay for rent assistance or to address the long-term budget sustainability challenges that we as a nation face.⁸⁶

3.92 The Grattan Institute indicated house prices 'would probably fall by less than 1 per cent'.⁸⁷

3.93 The NSW Treasury concluded that the value of the CGTD that enters the NSW housing market each year 'represents a material injection of demand, equivalent to close to 1 per cent of annual dwelling transaction values in NSW'.⁸⁸

3.94 That said, while the Grattan Institute did not believe reducing the CGTD would lead to a dramatic reduction in house prices, it did agree that more houses

⁸⁴ Mr Brendan Coates, Housing and Economic Security Program Director, Grattan Institute, *Committee Hansard*, 23 February 2026, p. 23.

⁸⁵ Mr Kohler, Private capacity, *Committee Hansard*, 23 February 2026, p. 11.

⁸⁶ Mr Coates, Grattan Institute, *Committee Hansard*, 23 February 2026, p. 24.

⁸⁷ Grattan Institute, *Submission 12*, p. 4.

⁸⁸ NSW Treasury, *Submission 31*, p. 2.

would go to first home buyers, rather than investors.⁸⁹ Similar arguments were made by Dr Breunig.⁹⁰

- 3.95 Dr Johnson agreed that research suggests removing or reducing the CGTD 'would typically have a relatively small impact on the housing market' but would likely increase the number of properties available to owner-occupiers. The Treasury official stated:

Underlying demand is not changing. What may change, from one of these changes, is the ownership mix. If you did one of these changes, the demand would still be there, which would support the supply. What may change is the ownership mix. When you look at those studies that have been done, that seems to be the effect; you have very, very small changes in the housing market and potentially changes in the ownership mix.⁹¹

- 3.96 The Head of Policy and Advocacy for Oxfam, Ms Josie Lee, argued that removing or reducing the CGTD 'significantly' would increase affordability of housing by around one to four per cent, which is 'not insignificant' and would have 'a profound impact in allowing more people to move out of the rental market and into the housing market for new home buyers'.⁹²
- 3.97 A 2025 report published by ACOSS highlighted that a significant and increasing amount of public revenue is foregone through the CGTD and negative gearing, and that this presented a 'major social opportunity cost' as the foregone revenue could be used to, amongst other things, improve housing affordability. It also noted that, in each year from 2021–22 to 2023–24, revenue foregone on these tax concessions for investment housing exceeded all direct expenditure on Commonwealth housing assistance, combined.⁹³
- 3.98 Mr Eslake suggested the modelling may be underestimating the impact of changes to the CGTD to housing affordability:

[Reducing the CGTD] would result in a mass exodus of landlords from the property market. If that were true, and it might be, that would, I think, put rather more downward pressure on prices than the formal modelling has suggested. My instinct is that it might be more than one per cent to three per cent. In that context, I suppose I'd note that the modelling that was undertaken by Treasury about the government's five per cent deposit scheme suggested a very small impact on house prices, whereas the evidence we've got so far since that scheme came into effect suggests that

⁸⁹ Mr Coates, Grattan Institute, *Committee Hansard*, 23 February 2026, p. 25.

⁹⁰ Dr Breunig, TTPI, *Committee Hansard*, 24 February 2026, p. 6.

⁹¹ Dr Johnson, Treasury, *Committee Hansard*, 24 February 2026, p. 31.

⁹² Ms Josie Lee, Lead, Policy and Advocacy, Oxfam, *Committee Hansard*, 23 February 2026, pp. 54 and 57.

⁹³ ACOSS, *Homes for living, not wealth creation—Tax and expenditure reforms to improve housing affordability an equity*, March 2025, p. 38.

the impact on prices has been bigger than the formal modelling has suggested. What that implies to me is the possibility that the formal modelling understates the impact from all sorts of changes to the way that the housing market operates and from the incentives for participants in it.⁹⁴

3.99 On this point, Mr Bernard (Bernie) Fraser, a former governor of the Reserve Bank of Australia appearing in a private capacity, also said the following:

I think it was the Reserve Bank people that came up with the very modest contribution that doing away with the discount would contribute. But I can't believe that the abolition of the kind of housing market we've got out there—and the way wealthy people are investing in it and are likely to continue to invest in it—wouldn't be as small as that. I think that it would be much more pronounced than that.⁹⁵

Impacts on housing security

3.100 The ACTU submitted that, due to rising house prices, 'today too many workers can no longer afford to live near where they work'. Increasingly, employees struggle to 'save enough for a deposit', with 'accelerating rents and house prices ...outpacing the money they can save each week'. The union argued that the CGTD represents 'a tax avoidance scheme for the richest Australians that is helping to drive record inequality and is pricing mostly younger people out of home ownership'.⁹⁶

Box 3.2 Case study – Danielle's story

I've been working in aged care for over 16 years. I've been living in the Port Macquarie area for about 14 of those. I started off living with some roommates, and then I took my sister in after she left a domestic violence situation, with her two daughters. Then my brother joined us after a stint in a mental health unit. Between the three of us, things were going along fine, and then I found out I had cancer. So Mum moved up from Victoria to help me and my brother and my sister. After I got through that, my sister found out that she had three brain aneurysms and a mass on her brain. She had three operations to get that fixed, and during that time we lived in a house that was full of black mould and asbestos. It was an older house, with a landlord that was very reluctant to fix anything that ever went wrong. After five years, nearly six years, we were told that he wasn't going to renew the lease.

My sister got housing with Mum, but my brother and I didn't. I ended up homeless at 45 years old, still trying to work. In that time, I had applied for over 60 houses. I still worked full time, taking time out to look at those 60

⁹⁴ Mr Eslake, Private capacity, *Committee Hansard*, 25 February 2026, p. 21.

⁹⁵ Mr Bernard William Fraser, Private capacity, *Committee Hansard*, 24 February 2026, p. 21.

⁹⁶ ACTU, *Submission 66*, pp. 1–2.

houses and to do the applications and all that. At each showing, there were probably a dozen people looking to rent as well, because the Port Macquarie area is growing, and quite quickly.

I had a bit of a mental breakdown when I was homeless. Then my brother and I ended up getting a private rental. Rent between our combined incomes is 45 per cent. It's only supposed to be 30 per cent. I've had to use food banks—Salvos—for food vouchers. About seven or eight months after getting the house, I was made redundant, so I had some time off. I'm back being employed now after a bit; now my brother is unemployed. So it's a bit hard. This does affect more than the cities—even us out in the sticks.⁹⁷

3.101 The Council to Homeless Persons maintained that the growing unaffordability of housing, 'caused in part by the CGT discount, drives people into homelessness'. According to the Council, in 2024–25, 37 363 people sought assistance from homelessness services in Victoria 'because of housing affordability issues', including: 'housing crisis', 'financial difficulties', or 'housing affordability stress'.⁹⁸

3.102 The B Miles Women's Foundation observed that 'rising rents and insecure tenancies' increase demand on homelessness and crisis services, 'as people are priced out of the rental market' in cities and the regions:

As investors pursue higher returns, properties are more frequently bought and sold, often forcing tenants to move—sometimes repeatedly—at significant personal and financial cost. This instability affects health and education outcomes, workforce participation and job security, and community connection and safety.⁹⁹

3.103 ANMF said similarly that the crisis in housing affordability is pushing people 'into insecure forms of housing tenure', which lead to 'ongoing financial stress and limits people's ability to save for home ownership, accumulate assets, or build financial resilience'.¹⁰⁰

Box 3.3 Case study—impacts on nurses, midwives, and care workers

ANMF noted that housing affordability 'is a critical issue' for nurses, midwives, and care workers around Australia.

A 2023 ANMF survey found that many NSW nurses and midwives 'struggle to secure affordable housing', with:

⁹⁷ Ms Danielle Hooper, Personal capacity, *Committee Hansard*, 23 February 2026, pp. 15–16.

⁹⁸ Council to Homeless Persons, *Submission 19*, p. 3.

⁹⁹ B Miles Women's Foundation, *Submission 5*, pp. 1–2.

¹⁰⁰ ANMF, *Submission 13*, pp. 9–10. See also: Justice and Peace Office, Catholic Archdiocese of Sydney, *Submission 16*, p. 2.

- 76% indicating a lack of affordable, secure housing was an issue for them; and
- over half indicating they either did not have 'a steady place to live currently' (6%) or that they were 'insecure in their current accommodation' (47%).

Impacts of insecure housing included:

- an increase in arguments related to financial pressures;
- being forced to resign from flexible roles 'to access more lucrative penalty rates';
- 'constant worry and depressed mood' impacting concentration at work; and
- impacts on mental health and relationships from taking on overtime 'to meet their financial obligations'.

Survey respondents described skipping meals and forgoing the purchase of petrol, or visits to relatives, to afford housing, and older nurses described 'feeling panicked about getting to the end of their working lives without stable accommodation'.¹⁰¹

3.104 Associate Professor at UNSW City Futures Research Centre, Dr Chris Martin, maintained that the constant 'churn' of properties through the investor market also impacts on the 'affordable and social housing sectors', which 'face higher prices when they go to the market for land and housing, and they too are crowded out'.¹⁰²

3.105 Mr Thomas Chailloux, Lead Author, National Shelter; and Senior Policy Officer, Shelter NSW, argued that, over the last 20–25 years, Australia has 'relied very extensively on the private rental market to make house prices fall or stay stable', and that evidence shows 'this does not work'—especially not for people on very low and low incomes. Reforms to housing taxation and greater investment in social housing are required to reduce demand from investors, give first home buyers a better chance to compete in the housing market, and, ultimately, boost 'equity and housing justice, both within generations and between generations'.¹⁰³

3.106 Dr Peter Davidson, from ACOSS, noted the unique opportunity for progressive reform provided by the government's current parliamentary majority, and said:

¹⁰¹ ANMF, *Submission 13*, pp. 11–13.

¹⁰² Dr Chris Martin, Associate Professor, UNSW City Futures Research Centre

¹⁰³ Mr Thomas Chailloux, Lead Author, National Shelter; and Senior Policy Officer, Shelter NSW, *Committee Hansard*, 25 February 2026, p. 12. See also: Mr Eslake, Private capacity, *Committee Hansard*, 25 February 2026, p. 20.

Tax treatment of capital gains is inequitable and inefficient, and it contributes to the unaffordability of housing. Reducing the CGT discount is not the whole answer, but it's an important part.¹⁰⁴

3.107 Mr Eslake disputed the assertion made by some that a reduction in the CGTD would reduce the supply of rental housing, saying investors—who overwhelmingly purchase established properties—effectively inflate the demand for rental housing 'by the same amount as they are increasing the gross supply of it'. He added that reducing investor demand for housing would be 'a good thing' and that:

...it's unlikely that property investors would seek to recoup the impact on their after-tax incomes of any changes to the CGT regime by raising rents. Renting isn't a cost-plus business. Rents are largely determined by the interaction between the supply of and demand for rental housing, as proxied, for example, by vacancy rates. Landlords don't typically pass on increases or decreases in interest rates to tenants in the form of increases or reductions in rents. There's no reason to think they'd be any more likely to do so with changes to the CGT discount.¹⁰⁵

Decreasing home ownership and increasing inequality

3.108 The Australia Institute identified a reduction in home ownership since the introduction of the CGTD and a corresponding rise in rental rates:

From 1999–2000, the year that the CGT discount was introduced, until 2019–20, the most recent year for which we have data, home ownership rates fell 4.4%. This represents 440,000 fewer households owning their home. For context, the total number of private dwellings in Brisbane is 518,664.¹⁰⁶

3.109 The Australia Institute noted that, as less people own their home, wealth inequality increases.¹⁰⁷ The Australian Manufacturing Workers' Union said, similarly:

As property and housing wealth increases, the divide between those who own their own home and those who do not increases. A household able to save 15% of their annual gross income would have to save for more than 10 years just to afford a deposit to buy the median house at today's prices.¹⁰⁸

3.110 Housing for the Aged Action Group argued that, by encouraging investors to buy existing houses, the CGTD increases demand 'for the same pool of housing', driving up prices and putting 'upward pressure on rents'. This increases inequality by 'making it harder for low-income households, older renters, young people, and single-parent families to secure affordable housing'. The process by

¹⁰⁴ Dr Peter Davidson, Principal Adviser, ACOSS, *Committee Hansard*, 25 February 2026, p. 12.

¹⁰⁵ Mr Eslake, Private capacity, *Committee Hansard*, 25 February 2026, pp. 16–17.

¹⁰⁶ Australia Institute, *Submission 35*, p. 8.

¹⁰⁷ Australia Institute, *Submission 35*, p. 9.

¹⁰⁸ AMWU, *Submission 24*, p. 4.

which properties are 'frequently bought and sold' also leads to further housing insecurity for renters who are regularly 'forced to move'.¹⁰⁹

3.111 Mr Kohler observed that, 25 years ago, saving for a house deposit took around six years whereas it now takes around 12 years:

Twelve years, for a lot of married people, is impractical, so, unless they get some help with a deposit from their parents, they can't buy a house. So it then comes down to whether the parents have got the cash to give or room in their own equity for a guarantee...I think a lot of young families are really struggling because of the size of their mortgage and the cost of everything else. So parents have to step in and help with school fees or other things—child care and so on. In some ways, this is the foundation of the inequalities that we're seeing—inequalities getting perpetuated by the fact that, if you don't have parents who own property or if your parents are renters then you're really stuffed.¹¹⁰

3.112 This point of view was also expressed by aged care worker, Ms Danielle Hooper, who said:

Coming from parents that have never owned and grandparents that have never owned, it's not looking good, especially with the prices and wages and that. These things are generational. It's called 'intergenerational' for a reason, isn't it. The chance of my nieces or nephews ever owning property is quite low.¹¹¹

3.113 Mr Walker suggested that Australia's retirement system relies on home ownership, which means those who do not own their own home 'can't afford to retire':

That inequality is really tearing at the social fabric of society, rewarding speculation and property investing versus work, and denying that opportunity to people because they don't have wealth to lean on. It's a problem now and it's only going to get worse.¹¹²

3.114 Mr Eslake said changes to tax settings around housing would 'contribute...positively to increasing the homeownership rate, or, perhaps, more accurately, reducing the rate in which home ownership is falling—as it has been since 1966'.¹¹³

Discretionary trusts and income splitting

3.115 Usually, individual taxpayers are personally subject to taxation on their capital gains when they sell assets that they own, such as an investment property.

¹⁰⁹ Housing for the Aged Action Group, *Submission 25*, p. 1.

¹¹⁰ Mr Kohler, Private capacity, *Committee Hansard*, 23 February 2026, p. 13.

¹¹¹ Ms Danielle Hooper, Personal capacity, *Committee Hansard*, 23 February 2026, p. 21.

¹¹² Mr Walker, Think Forward, *Committee Hansard*, 23 February 2026, p. 35.

¹¹³ Mr Eslake, Private capacity, *Committee Hansard*, 25 February 2026, p. 17.

Taxpayers can, however, split, defer, or minimise their tax liability by indirectly owning investments through interposed entities, such as discretionary trusts, self-managed super funds, and private companies.¹¹⁴

3.116 National Shelter submitted that 95 per cent of wealth held in trust is owned by the wealthiest 20 per cent of households, and that conservative estimates of taxation revenue foregone due to the utilisation of trusts was between \$2 billion and \$5 billion in 2015—costing every other taxpayer an annual average amount of between \$202 and \$354. Further, the organisation noted that over half of very high-income individuals, i.e. those earning over \$500 000 per annum, receive some form of trust distribution.¹¹⁵

3.117 NSW Treasury observed that trusts are a popular investment vehicle in Australia as they offer a range of tax privileges for, generally, individuals on higher incomes. It highlighted that discretionary trusts (also known as family trusts) enable income-splitting and deferral of income, thus allowing beneficiaries to minimise their income tax and capital gains tax liabilities by distributing capital gains to those in lower tax brackets.¹¹⁶

3.118 Think Forward noted that it is common for high-income taxpayers to minimise the tax payable on the sale of an asset by holding it through a discretionary trust, and distributing the trust's taxable income and gains to family members and other entities controlled by the individual that are:

- taxed at lower rates;
- eligible for the 50 per cent CGTD;
- have tax losses that can reduce the assessable capital gain before applying the discount; and/or
- can 'stack' the 50 per cent CGTD with other tax concessions, such as small business relief concessions.¹¹⁷

3.119 Dr Kathryn James, an Associate Professor at Melbourne Law School, highlighted that tax minimisation strategies surrounding the use of the CGTD by trusts usually focus on how trusts can stream capital gains to beneficiaries who can use the discount—and thereby reduce the trust's assessable capital gain—rather than the trust itself claiming the CGTD.¹¹⁸

3.120 Dr James provided a scenario whereby the effective tax rate was only 5.8 per cent (excluding Medicare Levy and surcharge) for an individual whose sole income for a tax year was \$100 000 of capital gains from the disposal of an

¹¹⁴ Dr Kathryn James, *Submission 23*, p. 7.

¹¹⁵ National Shelter, *Submission 32*, pp. 16–17.

¹¹⁶ NSW Treasury, *Submission 31*, p. 6.

¹¹⁷ Think Forward, *Submission 28*, p. 8.

¹¹⁸ Dr Kathryn James, *Submission 23*, p. 7.

investment property that the taxpayer individually held for 12 months. She also highlighted that, through the utilisation of a discretionary trust, the effective tax rate could be reduced to zero. Please see Figure 3.11 below:

Figure 3.11 Illustrative calculations of effective tax rates on discountable capital gains: individual versus discretionary trust

(a)	Capital Gain	\$100,000	\$100,000		
(b)	Individual's portion of capital gain	\$100,000	Beneficiary A (Partner/spouse)	Beneficiary B (Adult child)	Beneficiary C (Adult child)
			\$33,000	\$33,000	\$34,000
(c)	50% CGT discount [(b) x 50% = (c)]	\$50,000	\$16,500	\$16,500	\$17,000
(d)	Tax-free threshold	\$18,200	\$18,200	\$18,200	\$18,200
(e)	Remaining amount taxable [(c) – (d) = (e)]	\$31,800	\$0	\$0	\$0
(f)	Tax payable [(e) x tax rate*]	\$5,788 <i>Calculated as follows:</i> $16\% \times (\$45,000 - \$18,200) = \$4,288$ <i>plus</i> $30\% \times (\$50,000 - \$45,000) = \$1,500$	\$0		
(g)	Effective tax rate [(f) / (a) x 100%]	5.8%	0%		

*Rates used in this illustration are the marginal tax rates for the income year ending 30 June 2026, excluding Medicare levy and surcharge.

Source: Dr Kathryn James, Associate Professor, Melbourne Law School, answers to questions on notice, 23 February 2026.

3.121 Dr James stated that this is because tax law strongly disincentivises the retaining of profits within a trust, as any undistributed income is taxed to the trustee at the top marginal rate of 47 per cent (including the Medicare levy), and also loses entitlement to the CGTD. She also noted that a beneficiary can only access the

CGTD if the trust distributes the discountable capital gains to a beneficiary during the income year.¹¹⁹

Criticisms of the use of trusts

3.122 The B Miles Women's Foundation, the ANMF, and the Justice and Peace Office of the Catholic Archdiocese of Sydney all argued that trust structures can intensify and amplify inequity by allowing high-wealth individuals to minimise their tax obligations, and that they also reduce transparency.¹²⁰

3.123 NSW Treasury submitted that the ability to access the CGTD via trusts 'further exacerbates inequality in the tax system', providing tax advantages for wealthy households which:

... amplify the regressive impact of the CGT discount and contributes to intergenerational wealth transfer and tax planning strategies that may be less accessible to other taxpayers.¹²¹

3.124 Tax and trust experts, Dr Sonali Walpola and Dr John Minas, argued there is a need for a 'broader analysis of the tax incentives to use trusts in Australia', saying 'the whole suite of tax incentives associated with trusts...have made trusts an attractive vehicle for property investment, and contributed to wealth inequality and housing unaffordability in Australia'.¹²²

3.125 Dr Walpola and Dr Minas submitted that the 'tax-motivated use of trusts in Australia is substantial', with 2022–23 tax return data showing that there are over one million trusts in Australia. They maintained that, while the CGT regime itself increased incentives to use trusts for tax minimisation, this was 'further enlarged' with the introduction of the 50 per cent CGTD.¹²³

3.126 Because they allow income to be distributed to beneficiaries with favourable tax profiles, such as children or spouses with lower incomes, discretionary trusts are actively promoted as a way of minimising tax on investment properties:

Advisors emphasise the tax benefits of trusts in promoting trusts as a means of acquiring Australian real estate, including investment properties. There are numerous online sites that provide information about using a 'family trust' to purchase a home or an investment property. For example, one web page that highlights 'effective tax planning' as an advantage of using a trust to acquire property, states that the 'tax benefits' include:

¹¹⁹ Dr Kathryn James, *Submission 23*, p. 7.

¹²⁰ B Miles Women's Foundation, *Submission 5*, p. 2; ANMF, *Submission 13*, p. 7; and Justice and Peace Office of the Catholic Archdiocese of Sydney, *Submission 16*, p. 3. See also: St Vincent de Paul Society, *Submission 30*, p. 2.

¹²¹ NSW Treasury, *Submission 31*, p. 6. See also: National Shelter, *Submission 32*, pp. 16–17; Prosper Australia, *Submission 42*, p. 1.

¹²² Dr Sonali Walpola and Dr John Minas, *Submission 72*, p. 2.

¹²³ Dr Sonali Walpola and Dr John Minas, *Submission 72*, pp. 2–3.

[f]or example, for beneficiaries of the family trust who fall under a lower marginal tax rate, the trustee can distribute more income to them as a method of reducing tax paid.

In relation the CGT discount, the same web page states:

Also, if the trust holds the investment property for more than 12 months, you can also take advantage of a 50% capital gains tax discount.¹²⁴

3.127 Senior Adviser at ACOSS, Mr James Hall, said trusts are increasingly being used by already wealthy people to avoid paying tax, which is an equity issue:

That top quintile of wealth that has around 95 per cent of assets—their net worth on average is \$3.27 million, and we've seen a significant rise in the number of trusts over the last couple of decades. Around 80 per cent of them are discretionary rather than fixed. So, rather than having a fixed income stream attached to them, it suggests that they're overwhelmingly being used for these tax planning purposes.¹²⁵

3.128 Dr Walpola and Dr Minas observed that the cost of the CGTD is 'estimated to be \$21.79 billion in 2025–2026', but the TEIS 'does not separately identify the cost to revenue of providing the CGT discount specifically for trusts'. Nevertheless, they argued that allowing trusts to access the CGTD 'represents an extreme and aggravated case of unfairness', because:

- trusts already have access to a collection of tax benefits that undermine inequality; and
- these tax benefits are 'only enjoyed by economically privileged taxpayers'.¹²⁶

3.129 Treasury was asked if the Australian Government is able to apportion how much of the total forgone revenue from the CGTD is related to trusts. The question was answered by Mr William Day, Deputy Commissioner, Policy, Analysis and Legislation, Australian Taxation Office (ATO), who said:

We find that, whilst a discretionary trust, a non-fixed trust, can apply the CGT discount, in the majority of cases trusts will generally not pay tax on capital gains they make. Instead, the trustee of the trust will resolve to distribute the gains to the trust beneficiaries, and then tax will be paid on the gains at the beneficiary level.¹²⁷

¹²⁴ Dr Sonali Walpola and Dr John Minas, *Submission 72*, pp. 3–4.

¹²⁵ Mr Hall, ACOSS, *Committee Hansard*, 25 February 2026, p. 15.

¹²⁶ Dr Sonali Walpola and Dr John Minas, *Submission 72*, pp. 5–6.

¹²⁷ Mr William Day, Deputy Commissioner, Policy, Analysis and Legislation, Australian Taxation Office, *Committee Hansard*, 24 February 2026, p. 28.

3.130 On notice, the ATO further confirmed that it 'does not have sufficiently reliable data to identify the dollar value or portion of discounted capital gains that is distributed from trusts to corporate beneficiaries'.¹²⁸

3.131 The Treasury was, however, able to confirm that '36 per cent of gross capital gains in 2022–23 claimed by individuals were from a trust (including a managed fund)' and that, of those gross capital gains received through trusts 'that are readily identifiable, by value around 51 per cent was shares, 17 per cent was real estate and 8 per cent was "other"'.¹²⁹

3.132 According to the Treasury, data on properties owned by managed investment trusts is 'not readily available'; nor is data on 'property acquisitions by managed investment trusts'.¹³⁰

3.133 Dr Walpola, in her response to a question taken on notice, suggested five reforms which could enable an improved understanding of the tax integrity risks posed by trusts and the extent to which they contribute to tax and wealth inequality in Australia:

- additional specific ABS data on the nexus between wealth and assets held in trusts;
- the requirement that trusts disclose if a present entitlement has been paid to a beneficiary;
- the establishment a public trust registry which provides details as to the beneficial ownership of trust assets, potentially utilising a similar model to that used in the United Kingdom;
- trusts be required to disclose information as to the proportion of trust income allocated to tax-preferred beneficiaries, to provide a better understanding of revenue foregone due to income splitting; and
- the tax expenditure reported for the CGTD in the Treasury's Tax Expenditures and Insights Statement publication be reported specifically for trusts.¹³¹

Reform options and findings

3.134 Submitters and witnesses to the inquiry outlined a number of options for reforming the CGTD to address the inequalities raised in this chapter. These are

¹²⁸ 001 ATO, CGT claimed by trusts and companies, asked in writing by Senator McKim on 23 January 2026, received on 6 February 2026, [p. 1].

¹²⁹ 002 Treasury, CGT properties and trusts, asked in writing by Senator McKim on 21 January 2026, received on 24 February 2026, [pp. 1–2].

¹³⁰ 002 Treasury, CGT properties and trusts, asked in writing by Senator McKim on 21 January 2026, received on 24 February 2026, [pp. 1–2].

¹³¹ Dr Sonali Walpola, Associate Professor, Australian National University, answer to question taken on notice, 24 February 2026, p. 21.

presented and discussed in detail in Chapter 4 of this report. Chapter 5 presents the committee's findings.

Chapter 4

Reform options

Introduction

- 4.1 Inquiry participants overwhelmingly called for reforms to the capital gains tax discount (CGTD). The one area of unanimous agreement by witnesses was that the discount distorts the housing market in favour of investors and makes it more difficult for renters to compete in the market to buy their first home.
- 4.2 This chapter discusses the various options put forward throughout the inquiry to reform the CGTD, as well as other tax concessions available to property investors, and investigates the need for broader reform of the taxation system.

Reduce the capital gains tax discount

- 4.3 Reducing the CGTD from its current rate of 50 per cent was favoured by many inquiry participants as one possible reform option. Proposals for the new, reduced CGTD rate ranged from 40 per cent to 10 per cent.¹
- 4.4 In contrast, Dr Mark Humphery-Jenner, an Associate Professor of Finance at the University of New South Wales (UNSW), offered a counter proposal by advocating for a reduction to the capital gains tax rate or an increase in the CGTD.²
- 4.5 Equity market analyst, Mr Geoff Wilson AO, also suggested a different approach of reducing the CGTD but excepting 'Australian operating businesses', which would receive a 75 per cent discount on capital gains.³ In his

¹ See, for example, Grattan Institute, *Submission 12*, p. 3; National Foundation for Australian Women (NFAW), *Submission 17*, p. 3; Grounded Community Land Trust Advocacy, *Submission 20*, [p. 5]; St Vincent de Paul Society, *Submission 30*, p. 2; National Shelter, *Submission 32*, pp. 18–19; Australian Council of Social Services (ACOSS), *Submission 46*, p. 19; Dr Robert Breunig, Director, Tax and Transfer Policy Institute (TTPI), Crawford School of Public Policy, Australian National University, *Committee Hansard*, 24 February 2026, p. 2; Mr Cathal Leslie, Private capacity, *Committee Hansard*, 24 February 2026, p. 17; Mr David Montani, Private capacity, *Committee Hansard*, 24 February 2026, p. 46; Mr Saul Eslake, Private capacity, *Committee Hansard*, 25 February 2026, p. 18.

² Dr Mark Humphery-Jenner, Associate Professor of Finance, University of New South Wales; Founder, Otso Capital; and Founder, Prosperity Institute, *Committee Hansard*, 24 February 2026, p. 41.

³ Mr Geoff Wilson AO, Private capacity, *Committee Hansard*, 25 February 2026, p. 31. Also see: 005 Mr Geoff Wilson AO – Discussion Paper, public hearing on 25 February 2026, Sydney, tabled on 25 February 2026, [p. 5]. Note: Mr Wilson defined an operating business in this context as 'an Australian entity that actively carries on a business producing goods or providing services, rather than primarily deriving income from passive investment'. He suggested the Australian Taxation Office has 'practical reference points for identifying such entities', see: 026 Mr Wilson, response to

view, this would encourage investors to invest in Australian businesses, which is a more productive use of capital than housing investment.⁴

- 4.6 In terms of the benefits of reducing the CGTD, according to NSW Treasury this would slow housing price growth:

Reducing the CGT discount would lower the after-tax returns to property investment (as well as some other affected asset classes), which is expected to reduce demand from investors. While the initial effect on transaction volumes may be small, the reduction in demand would primarily be reflected in lower property prices, or at least slower price growth.⁵

- 4.7 NSW Treasury indicated that a reduction in the CGTD rate would improve 'neutrality, ensuring investment decisions reflect underlying economic fundamentals, rather than tax advantages'.⁶
- 4.8 Mr Michael Brennan, from the e61 Institute, indicated the current CGTD is 'too generous for some and it's not generous enough for others. It's not about overall generosity; it's about the distortions that it creates'. In his view, the best method of calculating capital gains tax would be inflation neutral, raise more revenue, and avoid the lock-in effect associated with the 50 per cent discount.⁷
- 4.9 Some inquiry participants suggested the CGTD rate be incrementally reduced over several years to avoid the lock-in effects of grandfathering the existing discount, and to reduce any shocks to the housing market by giving existing investors time to adjust to the change.⁸
- 4.10 The Australian Council of Trade Unions (ACTU) recommended the government conduct a review of the CGTD 'to investigate the case for reducing the discount on all types of capital gains'.⁹

question on notice asked at a public hearing by Senator Richard Dowling on 25 February 2026, received 10 March 2026.

⁴ Mr Wilson, Private capacity, *Committee Hansard*, 25 February 2026, p. 33.

⁵ NSW Treasury, *Submission 31*, p. 2.

⁶ NSW Treasury, *Submission 31*, p. 6.

⁷ Mr Michael Brennan, Chief Executive Officer, e61 Institute, *Committee Hansard*, 25 February 2026, p. 8.

⁸ See, for example, Grattan Institute, *Submission 12*, p. 3; Grounded Community Land Trust Advocacy, *Submission 20*, [p. 5]; St Vincent de Paul Society, *Submission 30*, p. 2; ACOSS, *Submission 46*, p. 19; Dr Mark Zirnsak, Spokesperson, Tax Justice Network Australia, *Committee Hansard*, 23 February 2026, p. 57; Ms Josie Lee, Lead, Policy and Advocacy, Oxfam Australia, *Committee Hansard*, 23 February 2026, p. 58; Mr John Engeler, Chair, National Shelter, *Committee Hansard*, 25 February 2026, p. 10; Dr Peter Davidson, Principal Advisor, ACOSS, *Committee Hansard*, 25 February 2026, p. 11.

⁹ Australian Council of Trade Unions (ACTU), *Submission 66*, p. 12.

4.11 When asked whether the CGTD is too high, Dr Robert Breunig, Director of the Tax and Transfer Policy Institute, responded that it depends on the purpose of the discount:

If you only think about it as a scheme to avoid taxing the inflationary component of returns, then it has been too high, relative to the inflation rate...But, if instead you have a broader theory about what the right level of taxation of savings is and you want to use the capital gains discount to lower the tax rate on savings relative to income, maybe it's not at the wrong level.¹⁰

4.12 The Chief Executive Officer of Think Forward, Mr Thomas Walker, preferred the indexation model over the CGTD as it 'accounts for the impact of inflation, which many economists and people say is really important to take into account because people hold assets for a long time'.¹¹

4.13 Mr Bernie Fraser questioned whether adjusting capital gains from the sale of property is necessary at all as:

...the housing market, compared to other markets, is more stable and not subject to those great big jumps you see in stock markets and so on. I think it would be unnecessary to be going back to something like that. It wouldn't do much to diminish the interest of wealthy investors in going into housing and, therefore, helping to press up the demand for and the price of housing to the detriment of less-well-off people wanting to buy and own houses.

...

I think scrapping the discount altogether and just applying the capital gains tax would be more significant in terms of helping to return to a more affordable housing market.¹²

4.14 The Prosperity Institute reported that other countries, such as New Zealand, do not tax capital gains at all. It warned that if Australia increased its capital gains tax rate, investors could withdraw capital and reinvest overseas. That could have further ramifications for tax revenue as capital flight:

...would also involve the person leaving to that foreign jurisdiction, also decreasing income tax. Not only that, foreign capital would be deterred, undermining growth. Higher CGT would also create frictions in the market, reducing transaction frequency. This would reduce tax revenue and would stop capital from going to its most efficient use.¹³

4.15 Dr Mark Humphery-Jenner, an Associate Professor of Finance at the University of New South Wales, warned the capital gains tax rate is high in Australia compared to other countries and that if the CGTD is reduced Australia risks

¹⁰ Dr Breunig, TTPI, *Committee Hansard*, 24 February 2026, p. 2.

¹¹ Mr Thomas Walker, Chief Executive Officer, Think Forward, *Committee Hansard*, 23 February 2026, p. 34.

¹² Mr Bernard Fraser, Private capacity, *Committee Hansard*, 24 February 2026, p. 21.

¹³ Prosperity Institute, *Submission 59*, p. 2.

becoming more uncompetitive. He pointed out it would reduce turnover of property, which has the associated effect of reducing revenue from capital gains tax and from stamp duty imposed by state governments.¹⁴

- 4.16 The Housing Industry Association (HIA) cautioned against any reduction in the CGTD as:

Economic modelling and historical experience consistently indicate that increasing taxes on housing investors reduces investment in new housing, particularly in supply-constrained markets. While the short-term effects of such changes may vary across regions and market segments, the longer-term consequences include less dwelling construction, reduced rental supply and upward pressure on rents. These effects are most pronounced where alternative sources of housing finance are limited and where planning and infrastructure constraints already restrict supply responsiveness.¹⁵

- 4.17 Dr Shane Johnson, from the Department of the Treasury (Treasury), reflected on 'the complex trade-offs' that need to be considered when designing capital gains tax arrangements:

It's very complex, and there are a number of factors that we want to consider when thinking about the underlying reasons for taxing savings and how you might tax them relative to other forms of income. For example, one of the key things that we think about when we're thinking about taxing capital gains is the potential for lock-in effect. Capital gains is taxed on a realisation basis. It can create an incentive for people to hold onto the asset longer. In fact, it can even incentivise people to hold onto assets that are underperforming.¹⁶

- 4.18 Ms Laura Berger-Thomson from Treasury elaborated on the lock-in effect described by Dr Johnson:

Because of the lumpiness of these gains, there is an incentive for people to defer realisation until their other income is low. So there's a bit of a tax planning argument as well. So, when thinking about capital gains and the appropriateness of different capital gains tax regime, there are actually a few different considerations in terms of equity but also the efficiency of the system and their real trade-offs.¹⁷

¹⁴ Dr Humphery-Jenner, Associate Professor of Finance, University of New South Wales; Founder, Otso Capital; and Founder, Prosperity Institute, *Committee Hansard*, 24 February 2026, p. 41.

¹⁵ Housing Industry Association (HIA), *Submission 60—Attachment 1*, p. 5.

¹⁶ Dr Shane Johnson, First Assistant Secretary, Department of the Treasury (Treasury), *Committee Hansard*, 24 February 2026, p. 27.

¹⁷ Ms Laura Berger-Thomson, First Assistant Secretary, Treasury, *Committee Hansard*, 24 February 2026, p. 34.

Halve the capital gains tax discount

4.19 A significant portion of inquiry participants argued the CGTD should be halved.¹⁸

4.20 Dr Wesa Chau, the Executive Director of Per Capita, did not support abolishing the CGTD as 'some form of discount is defensible. Capital gains are realised over time, and inflation erodes the real value of savings'. She suggested the 50 per cent discount is too generous and a 25 per cent discount 'would be more consistent with bank savings while reducing the structural bias in favour of capital gains over other forms of income'.¹⁹ She added that the new 25 per cent discount rate should be uniform for all assets 'to address inequality'.²⁰

4.21 Mr Brendan Coates illustrated why the Grattan Institute argues 25 per cent is the ideal rate for the CGTD using the following example:

...since 1999 house prices have risen by about 6.4 per cent a year. Now the typical investor is leveraged. Let's just say you borrow 80 per cent of the purchase price, so you've got 20 per cent. Then your gain each year is going to be five times the typical rate that applies, or that you observe in house price indices—noting, of course, that they are somewhat upwardly biased by the fact that there are renovations and bits and pieces that improve the value of the housing stock over time. So it's very plausible that, if you bought a house in 1999, and if you were leveraged at 80 per cent, your annualised capital gain might be 25 per cent a year. Inflation has averaged 2.9 per cent a year. So the effective discount, in that world, is just a little over 10 per cent, whereas, for shares, they've done less well, as the average share value of the ASX has risen 4.3 per cent over that same period. The discount that would apply in a world of inflation indexation depends on so many different things: how long you hold the asset for, whether you're leveraged—all these different things. Our view is that a 25 per cent discount for the CGT has the virtue of being simple. It's balancing these different considerations.²¹

4.22 Mr Matt Nolan, Senior Research Manager with the e61 Institute, argued that regardless of the CGTD rate investors will have an incentive 'to leverage up, to borrow more, in order to purchase property'. As a result, the existence of the CGTD, and all other things being equal, increases demand for property and inflates house prices.²² The e61 Institute proposed that adjusting capital gains

¹⁸ See, for example, Grattan Institute, *Submission 12*, p. 3; NFAW, *Submission 17*, p. 3; St Vincent de Paul Society, *Submission 30*, p. 2; National Shelter, *Submission 32*, pp. 18–19; ACOSS, *Submission 46*, p. 19; Mr Brendan Coates, Housing and Economic Security Program Director, Grattan Institute, *Committee Hansard*, 23 February 2026, p. 23; Dr Wesa Chau, Executive Director, Per Capita, *Committee Hansard*, 23 February 2026, p. 39; Mr Engeler, National Shelter, *Committee Hansard*, 25 February 2026, p. 10; Dr Davidson, ACOSS, *Committee Hansard*, 25 February 2026, p. 13;

¹⁹ Dr Chau, Per Capita, *Committee Hansard*, 23 February 2026, p. 39.

²⁰ Dr Chau, Per Capita, *Committee Hansard*, 23 February 2026, p. 41.

²¹ Mr Coates, Grattan Institute, *Committee Hansard*, 23 February 2026, p. 27.

²² Mr Matt Nolan, Senior Research Manager, e61 Institute, *Committee Hansard*, 25 February 2026, p. 4.

for inflation would ensure that only real capital gains are taxed. If income averaging is added to that inflation adjusted cost base the tax paid on the realised gain would be spread 'evenly over the holding period – making the system inflation, leverage, and timing neutral'.²³

Abolish the capital gains tax discount with no inflation adjustment

- 4.23 Some inquiry participants suggested that the CGTD could be abolished.²⁴
- 4.24 Dr Ken Henry AC proposed that if Australia is aiming to achieve tax neutrality, abolishing the CGTD would assist in the pursuit of that objective.²⁵
- 4.25 Mr Bernie Fraser argued that abolishing the CGTD and not adjusting for inflation would address the unaffordability of the housing market and make living conditions better and fairer for Australians. He warned that, if present conditions continue, with wealthier Australians benefiting at the expense of less wealthy people, 'that could well contribute to further divisions in Australian society'.²⁶
- 4.26 Mr Alan Kohler, who appeared before the committee in a private capacity, queried why capital gains should be adjusted for inflation at all. He pointed out that income tax scales are not adjusted according to the consumer price index (CPI) while Australia 'overadjust[s] capital gains for CPI in terms of taxation—so it seems to me, clearly, that that balance needs to be addressed'.²⁷
- 4.27 Dr Kathryn James, from the University of Melbourne, held a similar view:
- ...I argue that the discount should be either amended or removed through a principles-based approach that requires us to ask: what is the policy goal we're trying to achieve? In answering this, I'm going to take a step back to first principles and state that capital gains are simply income. Under the traditional benchmark we use in tax policy, an increase in the value of an asset increases an individual's economic resources, just as earning a salary does.²⁸

²³ 004 e61 Institute – What are we discounting for? report, public hearing on 25 February 2026, Sydney, tabled on 25 February 2026.

²⁴ See, for example, Australian Manufacturing Workers' Union (AMWU), *Submission 24*, p. 3; Tax Justice Network Australia, *Submission 54*, p. 1; Ms Lee, Oxfam Australia, *Committee Hansard*, 23 February 2026, p. 58; Mr Fraser, Private capacity, *Committee Hansard*, 24 February 2026, p. 19; Dr Sonali Walpola, Private capacity, *Committee Hansard*, 24 February 2026, p. 51; Mr Matt Grudnoff, Senior Economist, Australia Institute, *Committee Hansard*, 24 February 2026, p. 53;

²⁵ Dr Ken Henry, Private capacity, *Committee Hansard*, 25 February 2026, p. 25.

²⁶ Mr Fraser, Private capacity, *Committee Hansard*, 24 February 2026, p. 19.

²⁷ Mr Alan Kohler, Private capacity, *Committee Hansard*, 23 February 2026, p. 10.

²⁸ Dr Kathryn James, Private capacity, *Committee Hansard*, 23 February 2026, p. 46.

- 4.28 Mr Hamish Gamble of the Australian Manufacturing Workers Union (AMWU) argued that because housing performs a unique role that is distinct from other forms of capital it should not receive tax concessions. He explained:

A house is not capital in the same way that the stock market or machinery are capital. A house is a place to live. But our tax incentives treat houses as financial assets, as tools for speculation, as investments and as vehicles for accumulating wealth. Wealthy investors and property developers treat the housing market as their own personal casino. Just as at the casino, the house always wins. As such, we're advocating for the capital gains tax discount to be abolished on housing. The right to a safe, secure and stable place to live should be as fundamental as the right to clear air and fresh water.²⁹

- 4.29 Think Forward's Chief Executive Officer, Mr Thomas Walker, favoured abolishing the CGTD entirely in order to tax capital at the same rate as labour. He argued:

We have for some reason made a decision as a country that we're going to prioritise and reward wealth accumulation over work, and we just think that's wrong. The key principle we should have is that someone's work and effort as a nurse, a teacher or an engineer—they should pay the same tax rate as someone who's got a couple of million dollars worth of capital and is buying and selling assets and earning their income that way. We should not differentiate between those two things...We need to remove the discount and count capital gains as normal income, just like income from work. There are arguments around accounting for inflation or smoothing out gains over five years to make it more palatable. Sure, but our overriding position is that we should scrap it altogether.³⁰

- 4.30 Spartan Partners cautioned that abolishing the capital gains tax discount would remove the mechanism that ensures only real capital gains are taxed and 'would penalise long term savings across all asset classes and not just property'.³¹

Return to the Keating model of inflation adjustment

- 4.31 Some inquiry participants argued the CPI indexation model that existed prior to the introduction of the CGTD in 1999 could be reintroduced.³²
- 4.32 National Shelter pointed out the CGTD overcompensates property investors for inflationary gains:

²⁹ Mr Hamish Gamble, National Economic Research Officer, AMWU, *Committee Hansard*, 23 February 2026, p. 38.

³⁰ Mr Walker, Think Forward, *Committee Hansard*, 23 February 2026, p. 36.

³¹ Spartan Partners, *Submission 69*, [p. 4].

³² See, for example, Tenants Union of NSW, *Submission 52*, [p. 9]; Mr Bill Kelty, Private capacity, *Committee Hansard*, 23 February 2026, p. 7; Dr Kathryn James, Private capacity, *Committee Hansard*, 23 February 2026, p. 49; Ms Lee, Oxfam Australia, *Committee Hansard*, 23 February 2026, p. 58; Mr Robert Carling, Senior Fellow, Centre for Independent Studies (CIS), *Committee Hansard*, 25 February 2026, p. 48.

Since inflation targeting was introduced by the Reserve Bank of Australia, yearly inflation has averaged about 2.5%. At this rate of inflation, it takes about 16 years for an asset to increase in price—in nominal terms—by 50%. But the average holding period for residential property is around 10.5 years, including owner occupied properties, which are usually held for longer than investment dwellings.

The median holding period for investors is 8.8 years (which means that half sell before that and half after). This is the most relevant data point as averages are skewed up by long term, buy-and-hold investors. It means that property investors are undertaxed compared to methods assessing net capital gains through direct indexation for inflation.³³

4.33 Mr Kohler agreed the CGTD is 'extremely generous' compared to the indexation model it replaced.³⁴ It overcompensates property investors as a 15 per cent discount would have sufficed to adjust for inflation and simplify the capital gains tax system.³⁵

4.34 Senior Fellow at the Centre for Independent Studies (CIS), Mr Robert Carling, disagreed with that assessment, stating that the indexation model:

...produced a variable discount, but, for average rates of return on assets and inflation rates and various asset holding periods, it can be demonstrated that the effective discount often fell in the 30 to 45 per cent range, and that is leaving aside the additional benefit of averaging that was available at the time. So the point is that the 50 per cent discount, although it sounds enormous, is actually not much more generous than the average result of the policy it replaced.³⁶

4.35 According to NSW Treasury, the inflationary environment has changed in the decades since the CGTD was introduced:

In the 15 years leading up to the September 1998 quarter, average annual inflation was 4.4 per cent, which is notably higher than the average of 2.7 per cent over the 15 years to September 2025. This trend makes the case for a flat 50 per cent discount as a proxy for inflation protection less compelling, by providing overcompensation for investors.³⁷

4.36 Simplification was one of the reasons for introducing the CGTD. NSW Treasury suggested technological advances since the introduction of the CGTD in 1999 mean that 'the rationale for retaining a flat 50 per cent discount for assets held

³³ National Shelter, *Submission 32*, p. 14.

³⁴ Mr Kohler, Private capacity, *Committee Hansard*, 23 February 2026, p. 11.

³⁵ Mr Kohler, Private capacity, *Committee Hansard*, 23 February 2026, p. 12.

³⁶ Mr Carling, CIS, *Committee Hansard*, 25 February 2026, p. 41.

³⁷ NSW Treasury, *Submission 31*, p. 7.

longer than a year, rather than using an inflation index that would more accurately reflect the holding period, has become less compelling'.³⁸

4.37 The Chief Executive Officer of the e61 Institute, Mr Michael Brennan, suggested that even at the time it was in place the indexation method probably was not that complicated to administer. He made a distinction between 'conceptual simplicity and administrative simplicity'. In his view, the CGTD is 'conceptually very simple' and may not be much more administratively complex than the indexation method it replaced.³⁹

4.38 Dr Henry agreed '[t]he indexation arrangements were not difficult to administer'. He explained:

...the Australian Bureau of Statistics publishes the consumer price index, and that provides all the numbers you need. All you needed under indexation for capital gains tax purposes, was the original purchase cost. If you needed any subsequent additions, alterations that added value to it, you just applied the consumer price index going forward to the time of sale. That's not complicated.⁴⁰

4.39 Mr William Day from the Australian Taxation Office (ATO) confirmed that the indexation method is administratively straightforward to apply.⁴¹ His colleague, Ms Macfarlane, added the ATO:

...provide[s] guidance and a range of calculators and things to taxpayers to assist with that. With indexation, it does depend on when you acquired the asset and the particular date. So that may require taxpayers to maintain additional records.⁴²

4.40 The Housing Industry Association prefers the existing tax arrangements and warned the pre-1999 indexation method was an imperfect system which 'traded conceptual precision for administrative complexity, with limited transparency for taxpayers and policymakers'. The CPI indexation method:

...required tracking inflation adjustments over long holding periods and produced uneven outcomes across assets and taxpayers. Moreover, indexation did not eliminate distortions entirely, particularly where marginal tax rates were high or where inflation diverged from asset-specific price movements.⁴³

³⁸ NSW Treasury, *Submission 31*, p. 7.

³⁹ Mr Brennan, e61 Institute, *Committee Hansard*, 25 February 2026, p. 6.

⁴⁰ Dr Henry, Private capacity, *Committee Hansard*, 25 February 2026, p. 27.

⁴¹ Mr William Day, Deputy Commissioner, Policy, Analysis and Legislation, Australian Taxation Office (ATO), *Committee Hansard*, 24 February 2026, p. 29.

⁴² Ms Kasey Macfarlane, Assistant Commissioner, Technical Leadership and Advice, Public and Private Guidance, Advocacy and Disputes, ATO, *Committee Hansard*, 24 February 2026, p. 29.

⁴³ HIA, *Submission 60 – Attachment 1*, p. 16.

4.41 Mr Carling, from CIS, spoke about the complexity of the indexation method for people who had invested in shares, especially if they 'participated in dividend reinvestment plans. They ended up with a long stream of small holdings. They had to do the calculations for each one based on quarterly CPIs'.⁴⁴

Treat capital gains tax different for housing

4.42 Some inquiry participants proposed that the CGTD be used to encourage investment in new housing supply. For example, the Australia Institute suggested restricting the CGTD 'to investors who buy new dwellings'. Doing so:

...would mean that any investor who was considering buying a newly constructed dwelling would not be put off by the change in the CGT discount. In fact, investors who wanted to continue to invest in residential housing would be encouraged to buy new dwellings, which could lead to an increase in demand for newly built dwellings.⁴⁵

4.43 Mr David Montani agreed with the economic logic of imposing a more favourable CGTD on new houses compared to established ones to change investor behaviour. He was uncertain about how effective that would be in practice as other factors, such as the supply of new housing, might not sufficiently meet that demand.⁴⁶

4.44 Urban Taskforce Australia saw the CGTD as important for maintaining rental supply and suggested 'reducing incentives for investors in new housing is madness'. It recognised Australia is experiencing a 'housing supply crisis' and submitted that the:

...current uniform treatment of all housing stock distorts investment decisions, inflating prices for existing dwellings while failing to channel sufficient private capital towards new construction and more housing supply.

Government policy should encourage investors to develop new stock, rather than competing for existing residential properties.⁴⁷

4.45 To correct this imbalance, Urban Taskforce Australia suggested raising capital gains tax concessions for investors in new housing and lowering those concessions for investors in existing housing. Doing so 'would encourage more capital to go towards new dwelling construction and urban renewal'.⁴⁸

4.46 The NSW Treasury evaluated the proposal to target the CGTD exclusively at new housing supply to encourage construction. It found:

⁴⁴ Mr Carling, CIS, *Committee Hansard*, 25 February 2026, p. 48.

⁴⁵ The Australia Institute, *Submission 35*, p. 19.

⁴⁶ Mr Montani, Private capacity, *Committee Hansard*, 24 February 2026, p. 45.

⁴⁷ Urban Taskforce Australia, *Submission 63*, p. 2.

⁴⁸ Urban Taskforce Australia, *Submission 63*, p. 2.

While this may help moderate demand and support affordability to some extent, its impact on both the number of new homes and the speed with which they are built is likely to be limited. Over the long run, the number of homes in Australia outpaces population growth, as evidenced by a long-run decline in average household size. Nevertheless, in the short-run, the number of homes can fail to keep up with population growth, because of the time taken for construction. Policies addressing structural planning barriers are likely to be much more important in addressing the responsiveness of construction to population increases. Analysis undertaken on similar policy proposals suggests that if the CGT discount were restricted to new homes, investors would be likely to either maintain their preferences for existing properties, driven by other factors such as location or amenities, or reallocate their investments to other asset classes unaffected by the policy.⁴⁹

4.47 Mr Walker, from Think Forward, suggested the CGTD:

...should be consistent across all asset classes, because we don't want to have that distortion where maybe young people decide they're going to be crypto millionaires, for example, because that's still got the discount. So I think that's the starting point, and...if we want to help young people get ahead, then it's helping them be entrepreneurs, start a business or go to university affordably. It's those sorts of investments, as opposed to trying to make speculating on assets more appealing to them.⁵⁰

4.48 The Policy and Advocacy Lead at Oxfam Australia, Ms Josie Lee, warned of tax planning if only housing is reduced, stating that if the rate of the CGTD is not consistent across asset classes:

...investors will just shift to where they can get profits. They'll shift into speculative investment in stocks and other things if they're not in housing, and it's going to distort the market and cause other problems.⁵¹

4.49 The Financial Advice Association of Australia also warned against altering the CGTD rate for existing housing compared to other assets as 'this would create additional complexity and may result in restructuring activity designed to avoid the impact of any differential in the rate'.⁵²

4.50 The HIA argued reducing the CGTD for established housing to prioritise construction would weaken incentives to build new houses as:

New dwellings do not operate independently of the established market. The expected resale value of housing assets, including newly constructed dwellings once they become established, is a critical determinant of development feasibility. Increasing taxation on established housing reduces

⁴⁹ NSW Treasury, *Submission 31*, p. 8.

⁵⁰ Mr Walker, Think Forward, *Committee Hansard*, 23 February 2026, p. 34.

⁵¹ Ms Lee, Oxfam Australia, *Committee Hansard*, 23 February 2026, p. 57.

⁵² Financial Advice Association of Australia, *Submission 45*, [p. 1].

expected terminal values across the market, lowering returns and discouraging investment in new construction.⁵³

Whether to grandfather existing arrangements

4.51 Some inquiry participants discussed the implications of grandfathering existing CGTD arrangements for current investors. Many of them cautioned against retaining the current arrangements as it would worsen intergenerational outcomes by discouraging existing investors from selling assets and realising capital gains.⁵⁴

4.52 While Dr Henry understood why grandfathering the existing CGTD arrangements is politically attractive, he exclaimed he 'hated it' and warned 'everywhere I've seen it done—and I've seen it done in too many places—it's caused all sorts of what used to be referred to as 'unintended consequences'.⁵⁵

4.53 One of those unintended consequences, according to Dr Henry, is the more grandfathering that occurs in the taxation system the more complex it becomes. Dr Henry warned that, as the taxation system becomes more complex, the burden on Australian taxpayers also rises.⁵⁶

4.54 Mr Coates from the Grattan Institute warned that grandfathering the current CGTD arrangements would 'lock in those very generous arrangements for a long period of time'. He argued that would increase intergenerational inequality:

...from an intergenerational perspective, you're pulling up the drawbridge on a very highly concessional set of arrangements that you then keep in place for those two million plus rental property investors that exist in Australia today. That means there are higher tax rates being paid by younger Australians for a long period of time. You don't get the revenue over a long period of time in order to fund the benefits that arise from these reforms, such as lower rates of personal income tax for working Australians or shoring up that long-term position.⁵⁷

4.55 Dr Breunig similarly cautioned:

One of the things we worry about with changing tax rates on things and grandfathering things is that people who benefit from the grandfathering now will not change their behaviour. A lot of tax policies try to get people

⁵³ HIA, *Submission 60*, p. 2; Mr Shane Garrett, Chief Economist, HIA, *Committee Hansard*, 24 February 2026, p. 39.

⁵⁴ See, for example, TTPI, *Submission 15*, [p. 3]; Ms Lee, Oxfam Australia, *Committee Hansard*, 23 February 2026, p. 58; Mr Eslake, Private capacity, *Committee Hansard*, 25 February 2026, pp. 18–19; Dr Ken Henry, Private capacity, *Committee Hansard*, 25 February 2026, p. 25.

⁵⁵ Dr Henry, Private capacity, *Committee Hansard*, 25 February 2026, p. 25.

⁵⁶ Dr Henry, Private capacity, *Committee Hansard*, 25 February 2026, pp. 25–26.

⁵⁷ Mr Coates, Grattan Institute, *Committee Hansard*, 23 February 2026, p. 26. Also see: Dr Breunig, TTPI, *Committee Hansard*, 24 February 2026, pp. 2–3.

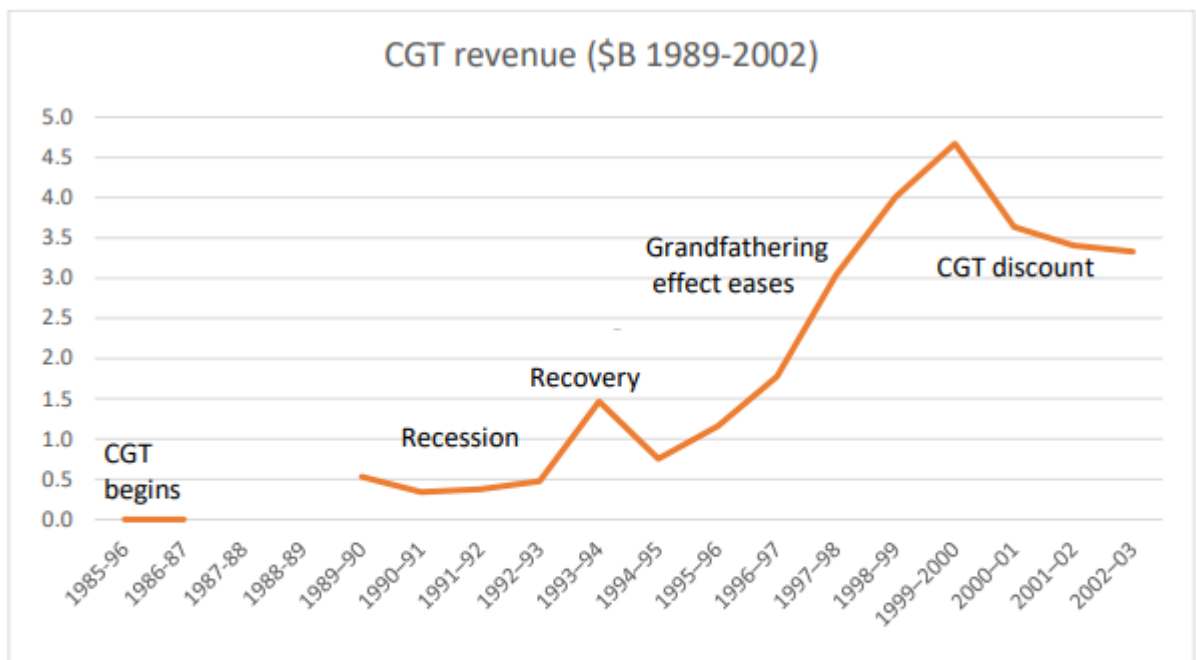
to change their behaviour, and, in fact, the behavioural change here will go in the opposite direction. If I'm saying that, if you already have an investment property, I'm going to give you the 50 per cent capital gains tax discount, that provides a strong incentive not to sell if what I might do is sell my investment property, buy a different investment property and get a lower capital gains tax discount. We want to encourage people to buy and sell housing. If they're holding an asset that is not appropriate for them, we want to encourage them to sell it. We want people to be able to buy assets that make sense for their portfolios and for their risk appetites. This would basically lock those owners in, and you would get fewer sales, going forward. Again, if the change is relatively small, the effect is going to be small. If the change is relatively big, the effect is going to be big.⁵⁸

- 4.56 Mr Matt Grudnoff, from the Australia Institute, suggested the current CGTD should be grandfathered for a period of three to five years. That period would give existing investors sufficient time to choose whether they want to stay in the market or sell their property, make the profit they were expecting to make, and invest their money in a different asset.⁵⁹
- 4.57 Principal Advisor at the Australian Council of Social Services (ACOSS), Dr Peter Davidson, reflected on the experience of grandfathering existing arrangements when the capital gains tax was introduced in 1985. He recalled that policy choice resulted in very little revenue being raised in the medium term due to lock-in effects.⁶⁰

⁵⁸ Dr Breunig, TTPI, *Committee Hansard*, 24 February 2026, p. 2.

⁵⁹ Mr Grudnoff, Australia Institute, *Committee Hansard*, 24 February 2026, p. 58.

⁶⁰ Dr Davidson, ACOSS, *Committee Hansard*, 25 February 2026, p. 11.

Figure 4.1 Revenue from capital gains tax

Sources: ATO (various years), *Taxation statistics – capital gains*. Evans, C (2002), *Taxing Capital Gains: One Step Forwards or Two Steps Back?* *Journal of Australian Taxation* 5(1).

Note: Includes CGT for entities and assets that don't attract the discount (including companies). Sources do not include data for 1987-88 to 1989-90.

Source: ACOSS, *Submission 46.1*, p. 3.

4.58 Mr Wilson disagreed with that assessment of the grandfathering of capital gains tax arrangements and did not remember any 'significant negative consequence' that arose from it. From his perspective, the question of grandfathering 'comes down to trust, effectively. People have invested in a certain way because they believe the operating rules are set in a certain way'. If the taxation rules keep changing, people will lose trust in the system.⁶¹

Reform negative gearing

4.59 Some inquiry participants discussed the interaction between the CGTD and negative gearing.⁶²

4.60 Mr Kohler explained how negative gearing interacts with the CGTD:

⁶¹ Mr Geoff Wilson AO, Private capacity, *Committee Hansard*, 25 February 2026, p. 32. Also see: 005 Mr Geoff Wilson - Discussion Paper, public hearing on 25 February 2026, Sydney, tabled on 25 February 2026, [p. 5].

⁶² See, for example, Oxfam Australia, *Submission 18*, p. 4; Council to Homeless People, *Submission 19*, p. 6; Grounded Community Land Trust Advocacy, *Submission 20*, [pp. 1–2]; Housing for the Aged Action Group (HAAG), *Submission 25*, p. 8; St Vincent de Paul Society, *Submission 30*, p. 1; National Shelter, *Submission 32*, p. 19; Anglicare Australia, *Submission 51*, p. 7; Mr Grudnoff, Australia Institute, *Committee Hansard*, 24 February 2026, p. 58; Mr Thomas Chailloux, Lead Author, National Shelter; and Senior Policy Officer, Shelter NSW, *Committee Hansard*, 25 February 2026, p. 13;

Obviously, negative gearing only applies if, during the course of your ownership of the property, you're losing money and your rent isn't covering the mortgage repayments and the cost of owning a property. Why would you do that? The only reason to do that is because you think you're going to make more money at the end when you sell it. Obviously, negative gearing and the discount on the capital gains tax work together to encourage people to invest in properties that they wouldn't otherwise invest in and also to charge a lower rent than they would otherwise charge. If somebody's negative gearing, they're not charging a rent that's high enough to cover their mortgage. I think some of that possibly comes about because banks are lending more of the value of the property than they usually do. In some cases, you can borrow 90 or 100 per cent of a property. If you do that, you're more likely to be paying out more in your mortgage interest than you're getting in rent. I think the two things do work together.⁶³

4.61 Both ACOSS and the Grattan Institute suggested this arrangement effectively has the tax office providing 'an interest-free loan to negatively geared taxpayers that is only repaid when the property is sold'.⁶⁴

4.62 ACOSS proposed:

...to quarantine annual losses on passive investments in assets attracting capital gains so that they can only be offset against income from the same investment or class of investments. In the case of negatively geared investments, deductions would in effect be delayed until the investment turns a profit—whether from increased annual returns (for example rents or dividends) or sale of the asset.⁶⁵

4.63 Mr Cathal Leslie, an economist, similarly suggested negative gearing 'should be ring-fenced' to make the tax system more progressive and reduce inequality. In his view, it should not apply to labour income as savings income should be treated separately.⁶⁶

4.64 National Shelter proposed:

Another option to provide some tax relief to property investors who are facing genuine losses on their investment would be to allow for losses to be carried on and deducted from rental property income in future financial years. This policy reform option would also have the advantage of disincentivising the churning of properties—which affects people who rent their home—as soon as they become positively geared.⁶⁷

4.65 Mr Montani postulated that the hesitancy to reform negative gearing arrangements may be due to a 'mythologised version of what happened in the

⁶³ Mr Kohler, Private capacity, *Committee Hansard*, 23 February 2026, p. 13.

⁶⁴ Grattan Institute, *Submission 12*, p. 2; ACOSS, *Submission 46*, p. 5.

⁶⁵ ACOSS, *Submission 46*, p. 5.

⁶⁶ Mr Cathal Leslie, Private capacity, *Committee Hansard*, 24 February 2026, p. 17.

⁶⁷ National Shelter, *Submission 32*, p. 19.

mid-80s' when the policy was restricted'. He submitted that 'the evidence from the time indicates that in a couple of cities rents increased, in a couple of others rents went down, while in another rents stayed the same'. In Mr Montani's view, that was probably 'reflective of the general cycle in rents' and not attributable to the change in the negative gearing policy.⁶⁸

- 4.66 Mr Fraser indicated that negative gearing has not achieved its primary aim of increasing rental supply. For that reason, he would support the reform of negative gearing arrangements 'to make the market more affordable and more open for all Australians, including people of modest means'.⁶⁹
- 4.67 The Managing Director of HIA, Mrs Jocelyn Martin, argued against any reform to the existing negative gearing policy as it 'is not a concession. It reflects the basic definition of net income, allowing legitimate costs to be deducted'.⁷⁰

Effect on renters

- 4.68 Inquiry participants reflected on the effect proposed changes to the CGTD would have on the construction of new homes, who gets to own the homes, and the cost of renting a house.
- 4.69 Mr Thomas Chailloux, Senior Policy Officer for National Shelter, expected home ownership to increase by two to five per cent over the next 10–15 years as a result of a reduction in the CGTD rate.⁷¹
- 4.70 Mr James Hall, Senior Advisor for ACOSS, indicated that projected increase in home ownership 'is really significant in the context of a fall in home ownership rates of three to four per cent over the last two decades, particularly for younger people'.⁷²
- 4.71 Mr Leslie argued that, if negative gearing is removed and the CGTD is halved, investors will sell property to owner-occupiers. According to one study he cited, about one in 10 renters would move from renting to owner-occupying under that scenario.⁷³

⁶⁸ Mr Montani, Private capacity, *Committee Hansard*, 24 February 2026, p. 44.

⁶⁹ Mr Fraser, Private capacity, *Committee Hansard*, 24 February 2026, p. 20.

⁷⁰ Mrs Jocelyn Martin, Managing Director, HIA, *Committee Hansard*, 24 February 2026, p. 36.

⁷¹ Mr Thomas Chailloux, Senior Policy Officer, National Shelter; and Shelter NSW, *Committee Hansard*, 25 February 2026, p. 14.

⁷² Mr James Hall, Senior Advisor, ACOSS, *Committee Hansard*, 25 February 2026, p. 14.

⁷³ Mr Leslie, Private capacity, *Committee Hansard*, 24 February 2024, p. 13; Mr Leslie, correction to evidence given at a public hearing on 24 February 2026, received on 11 March 2026.

- 4.72 Chief Economist at CIS, Dr Peter Tulip, pointed to research from the University of Melbourne that estimated the removal of the CGTD would reduce house prices by less than one per cent and increase rents by 1.3 per cent.⁷⁴
- 4.73 Economic modelling conducted by Michael Warlters from the NSW Treasury indicated that reducing the CGTD to 25 per cent and removing negative gearing would, over the long term, increase the owner-occupier share of properties by an estimated 4.7 per cent.⁷⁵
- 4.74 Per Capita Research Associate, Mr Lucas Lewit-Mendes, forecasted there would be no increase in rental prices if there is reform of the CGTD:

In terms of the short-term impact, there may well be some investors who decide to sell their property because they no longer expect there to be as significant gains. If you think about what's going to happen to that property, they will either sell to another investor, in which case you don't have any change in rental supply, or sell to a first home buyer, in which case you have one less rental property but also one less renter. Again, there's no change in the balance of supply and demand.

Over the longer run, there's a question of: if house prices were lower, how would that affect rental supply? We don't think there would be much effect on rents at all. That's because capital improvements—that's building property or renovating property—are actually deductible from capital gains tax. Capital gains tax—the actual tax itself—is really a tax on the gain in land value over time...There's a broad economic literature on why taxes on land values don't affect development activity and don't affect rents, so we don't really expect there to be much, if any, effect on rents over the long run.⁷⁶

- 4.75 Ms Michele O'Neil, from the ACTU, argued the CGTD 'has prevented a whole lot of renters from being able to enter homeownership. That's been the main impact'. If the government were to implement the changes proposed by the ACTU, it would not, in her view, 'reduce the rental stock...[or] push up prices...[but would] give more renters the opportunity to move into homeownership'.⁷⁷
- 4.76 Mr Tim Reardon, from HIA, contended that increased taxation on investors would reduce short-term demand for housing, 'but, with sufficient time, supply is constrained as a consequence of the increase in the tax'.⁷⁸

⁷⁴ Dr Peter Tulip, Chief Economist, CIS, *Committee Hansard*, 25 February 2026, pp. 42–43.

⁷⁵ NSW Treasury, *Submission 31*, p. 8; Michael Warlters, 'The effect of negative gearing and capital gains tax reform on home ownership', *Australian Economic Papers*, vol. 63, no. 3, September 2024, pp. 427–448, <https://doi.org/10.1111%2F1467-8454.12335>.

⁷⁶ Mr Lucas Lewit-Mendes, Research Associate, Per Capita, *Committee Hansard*, 23 February 2026, p. 41.

⁷⁷ Ms Michele O'Neil, President, ACTU, *Committee Hansard*, 23 February 2026, p. 18.

⁷⁸ Mr Tim Reardon, Chief Economist, HIA, *Committee Hansard*, 24 February 2026, p. 38.

4.77 Mr Thomas Walker, from Think Forward, suggested the connection between the CGTD and the supply of new housing is 'overinflated'. He explained:

We're only seeing one in eight property investor loans for building new houses; most of it is just buying up existing properties, which doesn't add to supply... Prosper have this great report where they show that there are up to 100,000 properties just in Melbourne which are vacant or underused, and a lot of those are just sitting there to get the capital gains in the future. If that's no longer so profitable, maybe a lot of those houses will go back into supply for renters. So it actually boosts supply rather than reduces it.⁷⁹

4.78 The Grattan Institute expected that a halving of the CGTD without any reform to negative gearing:

...could decrease the number of new homes being built by about 10,000 over the five years to 2030. That would result in a tiny—less than \$1 per week— increase in median rents across Australian capital cities.⁸⁰

4.79 Several inquiry participants observed that these effects could be ameliorated by increasing investment in social housing.⁸¹

4.80 A contrary view to this point was made by Mrs Denita Wawn, from Master Builders Australia, who argued this would lead to market distortions and inefficiencies, which 'will lead to greater stress in an already stressed system that is challenged by significant supply constraints'.⁸²

⁷⁹ Mr Walker, Think Forward, *Committee Hansard*, 23 February 2026, p. 35. Note: Mrs Fahey elaborated on the research from Prosper Australia as follows: 'With all of the distortions that we have in our tax system, we have an inordinate amount of underutilised existing housing stock, and something that Prosper has long been advocating is that we actually count better...[W]e do a report each year called the *Speculative vacancies* report, where we use water use as a proxy for vacancy and housing in Melbourne and routinely show over 100,000 empty homes or underused homes just in metropolitan Melbourne'. See: *Committee Hansard*, 23 February 2026, p. 35.

⁸⁰ Grattan Institute, *Submission 12*, p. 4. Note: Mr Coates explained the 10,000 home estimate 'is essentially being built out of the RBA's housing market model', see: *Committee Hansard*, 23 February 2026, p. 28.

⁸¹ See, for example, Grattan Institute, *Submission 12*, p. 4; Council to Homeless Persons, *Submission 19*, p. 5; HAAG, *Submission 25*, p. 8; UNSW City Futures Research Centre, *Submission 27*, p. 17; St Vincent de Paul Society, *Submission 30*, p. 2; National Shelter, *Submission 32*, p. 21; Everybody's Home, *Submission 41*, p. 2; Anglicare Australia, *Submission 51*, p. 13; Tenants Union of NSW, *Submission 52*, [p. 10]; ACT Shelter, *Submission 55*, pp. 7–9; ACTU, *Submission 66*, p. 3; Mr Ben Moxham, Director, Industrial and Policy, ACTU, *Committee Hansard*, 23 February 2026, p. 18; Mr Coates, Grattan Institute, *Committee Hansard*, 23 February 2026, p. 23 and 28; Mr Gamble, AMWU, *Committee Hansard*, 23 February 2026, p. 44; Dr Davidson, ACOSS, *Committee Hansard*, 25 February 2026, p. 11; Mr Hall, ACOSS, *Committee Hansard*, 25 February 2026, p. 11 and 13; Mr Eslake, Private capacity, *Committee Hansard*, 25 February 2026, p. 20; Dr Mark Zirnsak, Spokesperson, Tax Justice Network Australia, *Committee Hansard*, 23 February 2026, p. 55; Mr Engeler, National Shelter, *Committee Hansard*, 25 February 2026, p. 10.

⁸² Mrs Denita Wawn, Chief Executive Officer, Master Builders Australia (MBA), *Committee Hansard*, 24 February 2026, p. 37.

- 4.81 Mr Andrew Mihno, Head of Policy and Government Relations for the Urban Development Institute of Australia, pointed out the cost of the CGTD as cited by Treasury is revenue foregone and not actual government funds. It is 'simply tax not collected, and that tax not collected is, in basic form, a 'what would be' if behaviour does not change'. He argued that if the CGTD is altered, there will be a change in investor behaviour and the amount of revenue actually generated would be lower than the tax foregone figure.⁸³
- 4.82 Ms Madeline Cooper, a contributor to Think Forward, informed the committee that 'the current system is not working for renters'. She said landlords had told her 'explicitly that it's too expensive for them to provide housing that meets minimum standards'. Ms Cooper suggested the conversation about housing affordability often ignores the needs of renters:

In the focus on housing affordability, the conversation is always about how we can encourage more people to buy, but housing affordability is far more than just people buying. We also need to be able to support and provide a system that gives stable, affordable and healthy homes for the one-third of people who are going to be renting, because some people will rent for their entire lives, and in many nations around the world being a renter for your entire life is very feasible and financially reasonable proposition. But, with the tax system that we have at the moment, the CGT discount, negative gearing and many other factors all combine to mean that the only way to secure your financial security into old age is to get into the property market and become the kind of landlord that allows chocolate tube slime and ceilings to collapse in the middle of the night, which to me just seems manifestly unfair.⁸⁴

- 4.83 A contrary view was articulated by Spartan Partners, which submitted:

In a market where rental demand is strong and government social housing is limited, private investment (encouraged in part by the interaction of CGT and negative gearing) plays a crucial role in housing delivery. Any reform aimed purely at redistributing tax burden must account for the social opportunity cost of reducing private rental stock, especially for lower income cohorts dependent on the market for housing (including those facing disability, caring needs, or domestic violence). Without identifying viable alternatives to fill the resulting supply void, such reforms risk exacerbating the very inequalities they seek to address.⁸⁵

⁸³ Mr Andrew Mihno, Head of Policy and Government Relations, Urban Development Institute Australia, *Committee Hansard*, 25 February 2026, p. 49.

⁸⁴ Ms Madeline Cooper, Private capacity, *Committee Hansard*, 23 February 2026, pp. 32–33.

⁸⁵ Spartan Partners, *Submission 69*, [p. 2].

4.84 Representatives from the property and construction sectors naturally argued changes to the CGTD would affect the supply of new housing, increase property prices and make rents more expensive.⁸⁶

4.85 Mrs Jocelyn Martin, from HIA, suggested that reforming the CGTD would be a 'distraction' from the real causes of the housing crisis. She argued 'Australia does not have a tax concession problem; Australia has a housing supply problem'.⁸⁷

4.86 Mrs Denita Wawn, from Master Builders Australia, similarly pointed out the Australian 'housing market is complex and multifaceted, so there is an absolute risk that pulling one policy lever will adversely impact our capacity to deliver'. She maintained any reduction to tax incentives to invest in housing will lead to a reduction in supply.⁸⁸

4.87 Dr Johnson, from Treasury, presented a more nuanced view:

The impacts of any policy will depend on the policy itself—so what you're deciding to change. First of all, it depends on what you're looking to do. It would depend on the nature of the change and what's going on. In terms of the discount itself, a number of researchers have looked into this and there's quite a bit of research that's available, and these studies typically suggest that changes to the CGT discount, in the range of things that a lot of the submissions have indicated, would typically have a relatively small impact on the housing market.⁸⁹

4.88 Dr Johnson suggested halving the CGTD, or abolishing it, would not affect the underlying demand for housing:

There was a good point made before: we don't want housing just for housing's sake; we want housing as a place for people to live. That desire to have a place for people to live is not changing... Underlying demand is not changing. What may change, from one of these changes is the ownership mix. If you did one of these changes, the demand would still be there, which would support the supply. What may change is the ownership mix. When you look at those studies that have been done, that seems to be the effect; you have very, very small changes in the housing market and potentially changes in the ownership mix.⁹⁰

⁸⁶ See, for example, Mrs Martin, HIA, *Committee Hansard*, 24 February 2026, p. 36; Mrs Wawn, MBA, *Committee Hansard*, 24 February 2026, p. 37

⁸⁷ Mrs Martin, HIA, *Committee Hansard*, 24 February 2026, p. 36.

⁸⁸ Mrs Denita Wawn, MBA, *Committee Hansard*, 24 February 2026, p. 37.

⁸⁹ Dr Johnson, Treasury, *Committee Hansard*, 24 February 2026, p. 31.

⁹⁰ Dr Johnson, Treasury, *Committee Hansard*, 24 February 2026, p. 31.

Broader tax system reform

4.89 Some inquiry participants cautioned against changes to the CGTD without broader reforms to other aspects of the taxation system.⁹¹

4.90 For example, Mr Bill Kelty argued:

The tax system is unfair for very many working people, young people, those caught in poverty traps, and is inefficient for small business.

By itself a change in the Capital Gains Tax Discount is not tax reform unless it is associated with addressing one of these problems. However, in any reformed system it is almost impossible to justify such a high discount.⁹²

4.91 Mr Kelty said the existing tax system is unfair for 'working Australians—those cleaners, those people who are baristas—are paying more and more of the tax burden'.⁹³

4.92 Mr Kelty further argued that tax reform must be approached with care as it 'cannot be simply to fund expenditure and cover up waste and avoid dealing with fundamental problems'.⁹⁴ He said:

The nub of the problem is the tax system for young people. You've got to fix that first. If it is used for that, of course it's reform. But, if it's just used for expenditure, it is sad. Now, it may be a good thing to do. People who like AUKUS might think it's a very good thing. If I want to tax people for AUKUS, I think it's not a bad idea. But let's tax the rich for AUKUS. Don't tax the poor. I don't think it's meaningful by itself. I think ad hoc changes that end up nowhere are not meaningful.

...

An ad hoc tax is just an ad hoc tax, but, in the context of reform for young people, it's got to be part of addressing their concerns. If I can't pay the bills next week—if I'm a young person who has to get a secondary loan and hear, 'Do you feel better because the government has actually reduced the capital gains tax discount?' I'd say: 'Well, it makes no difference to me. I still can't

⁹¹ See, for example, Financial Services Council, *Submission 26*, p. 8; Property Council of Australia, *Submission 33*, [p. 1]; Business Council of Australia, *Submission 80*, [p. 1]; Dr Breunig, TTPI, *Committee Hansard*, 24 February 2026, p. 6; Mr Leslie, Private capacity, *Committee Hansard*, 24 February 2026, p. 17; Mr Fraser, Private capacity, *Committee Hansard*, 24 February 2026, p. 18; Mr Montani, Private capacity, *Committee Hansard*, 24 February 2026, pp. 44–45; Dr Henry, Private capacity, *Committee Hansard*, 25 February 2026, p. 27; Emeritus Professor Hal Pawson, UNSW City Futures Research Centre, *Committee Hansard*, 25 February 2026, p. 35.

⁹² Mr Bill Kelty, Briefing documents 1-9, public hearing on 23 February 2026, Melbourne, tabled on 23 February 2026, [p. 3].

⁹³ Mr Kelty, Private capacity, *Committee Hansard*, 23 February 2026, p. 3.

⁹⁴ Mr Kelty, Briefing documents 1-9, public hearing on 23 February 2026, Melbourne, tabled on 23 February 2026, [p. 3].

pay the bills. I've still got to get into the secondary lending market. I still have to pay 14 per cent, 15 per cent or 21 per cent to pay the bill; thank you'.⁹⁵

4.93 Mr Kelty argued the top marginal income tax rate is too high. In his view:

It creates the industry of avoidance. It is not there to be paid; it is there to be avoided. People go out of their way to avoid it. I go out of my way to avoid it. I think most members of parliament go out of their way to avoid it. It is not there for payment; it is there for avoidance.⁹⁶

4.94 According to Mr Kelty, reducing the top marginal income tax rate would improve the tax system and make for an 'aspirational Australia'. It would encourage people to 'make decisions based on the economic reality of their decision, not the tax advantage of their decision'.⁹⁷

4.95 Mr Kelty maintained the tax system is not working for young people and requires them to carry too much of the burden of government expenditure. This burden was created by the decisions of previous generations and requires reform. He stated:

I think the effective marginal tax rate for young people is cruel. I think it is cruel. I think it is unfair. I think it is a terrible thing to do to a generation because it actually—it's not doing anything to my children because I'm going to pay them...Everybody who's got wealth or accumulated wealth—they're going to pay them. So it's not even for young people; it is for those people who haven't got access to that. They are being asked to carry a load which, by historical standards, is cruel—and imposed by us. It's not just cruel but it's imposed by us. Every one of those things is imposed by us: the GST, the lack of tax indexation, HECS—every one of them. Privatisation has led to higher prices for utilities. The lack of effective financial controls in terms of the finance sector is leading to higher rents. Every one of those is part of the collective decision-making of the past generation—every one of those decisions. They're not made by those people; they're made for those people.⁹⁸

4.96 Mr Kelty called for tax reform to improve intergenerational equity and fairness. He argued:

It's a terrible tax system for young people. It's not just a bad tax system; it's a terrible tax system for young people who are not on the train of dependency from their mothers and fathers. This is a terrible tax system. It's great for my children. My children don't give a stuff about this tax system...it's completely irrelevant to them. Their income transfers from one generation to another. They're okay. It doesn't make any difference.

...

⁹⁵ Mr Kelty, Private capacity, *Committee Hansard*, 23 February 2026, pp. 2–3.

⁹⁶ Mr Kelty, Private capacity, *Committee Hansard*, 23 February 2026, p. 3.

⁹⁷ Mr Kelty, Private capacity, *Committee Hansard*, 23 February 2026, p. 3.

⁹⁸ Mr Kelty, Private capacity, *Committee Hansard*, 23 February 2026, p. 6.

I don't come here saying: 'I'm poor under the tax system. I want changes'. Do nothing for me. Do nothing for my old revolutionary mates. They don't need anything. They need nothing—nothing! I need nothing. These rich people, this generation, we need nothing. We need nothing! Give it to the people who need it. Please give it to them. Please give them a better tax system. That's what we need to do.⁹⁹

4.97 Mr Kelty concluded that now is the time to introduce broader taxation reform:

You have a little chance here to make your mark on the history of this country. It is not just about the capital gains reform. It's getting up and saying in unequivocal terms—unequivocal terms, not terms that people have to debate and discount and wonder what they are really about—that we are on the side of young people. We are on your side. We are going into the parliament to reform the tax system to make your lives better and to give you a better aspiration. That, I think, is the most important message I can leave for you.¹⁰⁰

4.98 Mr Bernie Fraser agreed that broader taxation reform is required as:

...there needs to be some significant cutback in that whole environment that generates this view of housing as a primary investment asset for wealthy people, to revert to the basic purpose of housing. Houses are there to live in, grow up in and even die in.¹⁰¹

4.99 Mr Fraser elaborated that further reform is required as:

...there are coming generations of young people that in lots of ways are missing out and are going to continue to miss out, including, importantly, in the housing sector if the tax concessions remain there to encourage wealthy people to continue to invest in housing and force up prices. It's just going to be a no-go for younger generations, and that's going to add to the disadvantage of those people and create more divisions between different generations and more inequity in the distribution of wealth and property in the country—not something to be encouraged, I wouldn't have thought. It's something that requires courage to do something about.¹⁰²

4.100 In Dr Henry's view, now is the time to pursue broader taxation reform, particularly to assist younger people accessing the property market.¹⁰³

4.101 Mr Kohler supported broader tax reform, particularly to rebalance the taxation of capital compared to labour. He said:

I think the tax system goes too far in preferring capital over labour. Part of the reason for that is, particularly over the last few decades, capital has become very mobile. There's been a shift everywhere towards taxing labour more than capital because capital is so mobile, particularly in the digital age;

⁹⁹ Mr Kelty, Private capacity, *Committee Hansard*, 23 February 2026, p. 8.

¹⁰⁰ Mr Kelty, Private capacity, *Committee Hansard*, 23 February 2026, p. 7.

¹⁰¹ Mr Fraser, Private capacity, *Committee Hansard*, 24 February 2026, p. 19.

¹⁰² Mr Fraser, Private capacity, *Committee Hansard*, 24 February 2026, p. 24.

¹⁰³ Dr Henry, Private capacity, *Committee Hansard*, 25 February 2026, p. 25.

all these companies can locate themselves anywhere, and rich people tend to be much more mobile now than they have been in the past. There's been a tendency to switch to labour, and that has probably led to inequality because capital income is, by definition, earned by rich people, and labour income is earned by less rich people. That tends to fundamentally lead to inequality. The mobility of capital is not going to change. It means the focus of taxation needs to be on immobile capital, and that brings us to minerals and housing, which can't be moved out of the country. In a big-picture-strategy sense, taxation needs to focus, in my opinion, more on immobile capital.¹⁰⁴

4.102 Spartan Partners called for 'broader structural reforms aimed at enhancing productivity, such as support for business investment, skills development, infrastructure funding, and innovation incentives'. Incorporating those measures would, in its view, 'yield more sustainable and equitable outcomes than piecemeal changes that focus solely on reducing one concession without addressing systemic issues'.¹⁰⁵

4.103 The Property Council of Australia called for 'a holistic review of taxation and regulatory barriers that constrain housing supply', particularly considering the 18 per cent decline in building and construction productivity witnessed over the past decade.¹⁰⁶

4.104 Dr Breunig acknowledged that broad taxation reform is difficult to achieve and provided the following advice:

There is a variety of things that governments can do to take steps in the right direction, but I think it's important to have that pole star that you're going toward, which is this optimal tax system. It's worth thinking a bit about what the process that would get us there might be. A lot of countries have reformed their tax systems through bipartisan agreement and, external to government, setting up some external committee that can recommend a redesign of the tax system and having all the major parties commit to that process in advance. It's worth thinking a little bit about what the process is if we want to do big-ticket reform. Big-ticket reform is hard; there are always going to be winners and losers. With the winners, the amounts are often small. The losers are small in number but the amounts are big. That creates a political economy problem. Overcoming that through bipartisanship and through some process of tax reform is quite important.¹⁰⁷

Eliminate the use of the CGTD by trusts

4.105 As outlined in Chapter 3, discretionary trusts allow taxpayers to reallocate income earned among trust members (generally family members) with lower earnings, and therefore better tax treatment. Submitters argued that, in

¹⁰⁴ Mr Kohler, Private capacity, *Committee Hansard*, 23 February 2026, p. 10.

¹⁰⁵ Spartan Partners, *Submission 69*, [p. 9].

¹⁰⁶ Property Council of Australia, *Submission 33*, [p. 1].

¹⁰⁷ Dr Breunig, TTPI, *Committee Hansard*, 24 February 2026, p. 6.

conjunction with the capital gains tax discount (CGTD) and negative gearing, this allows wealthy property investors to avoid even more tax.

4.106 Mr Matt Nolan, Senior Research Manager, e61 Institute Ltd, noted that trusts are used 'to shift who recognises the capital gain and ...[its] tax treatment'; and that, as such, 'any reform to capital gains does need to take trusts seriously'.¹⁰⁸

4.107 Dr Peter Davidson, from ACOSS, recommended the CGTD be reduced for trusts and superannuation, as well as for individuals, saying:

...capital gains and losses can be streamed to the beneficiaries that can take greatest advantage of them from a tax point of view. [Also] capital gains are not realised for tax purposes when they're attributed to the beneficiary of a discretionary trust. That is not treated as a realisation event, so tax is thereby avoided or delayed.¹⁰⁹

4.108 Mr Brendan Coates, Housing and Economic Security Program Director at the Grattan Institute, noted that any change to the CGTD would drive behavioural change, potentially leading high-income earners into investing through 'a corporate structure or trust', if those vehicles were not subject to the same treatment.¹¹⁰

4.109 Expressing a similar concern, Mr Thomas Walker, Chief Executive Officer at Think Forward, argued that allowing trusts to have 'different rates on capital gains across different asset classes and in different areas', means they will continue to be used for tax avoidance, undermining equity and 'people's trust in the tax system'. Think Forward argued for 'equalisation across all asset classes—across wages, across trusts, across housing, whatever it may be—to make sure that tax avoidance can be minimised where it can be'.¹¹¹

4.110 Dr Kathryn James, from Melbourne Law School, agreed that trusts may exacerbate the inequality impacts of the CGTD but noted it is less about the CGTD and more about the 'ability to engage in tax minimisation through the vehicle':

The quantum of the discount matters to that, but what we also need to have a look at are the rules around trusts, which essentially let those who have access to tax planning choose their effective tax rate when we have people on labour incomes who just have to pay the statutory rate as their effective tax rate.¹¹²

¹⁰⁸ Mr Matt Nolan, Senior Research Manager, e61 Institute Ltd, *Committee Hansard*, 25 February 2026, p. 7.

¹⁰⁹ Dr Davidson, ACOSS, *Committee Hansard*, 25 February 2026, p. 15.

¹¹⁰ Mr Coates, Grattan Institute, *Committee Hansard*, 23 February 2026, pp. 24–25.

¹¹¹ Mr Walker, Think Forward, *Committee Hansard*, 23 February 2026, p. 32.

¹¹² Dr James, Private capacity, *Committee Hansard*, 23 February 2026, p. 47.

4.111 Tax academic Dr Sonali Walpola argued there is a 'compelling case for the complete elimination' of the CGTD for trusts:

In the trusts context, the fact that trusts can claim the discount represents an aggravated case of unfairness. This is because trusts have at their disposal a suite of tax minimisation strategies which undermine equity even before we consider the CGT discount. ... in the context of capital gains, capital gains can be allocated to a beneficiary with capital losses to offset the gain. Capital gains can be distributed to individuals who can take advantage of the CGT discount. These tax minimisation strategies are inherently unfair. They could be described as loopholes. They make a mockery of the tax law. To compound the inequity, these benefits are only enjoyed by economically privileged taxpayers.¹¹³

4.112 It was Dr Walpola's position that trusts should not be able to access even a reduced CGTD. She explained that her work with Dr John Minas has identified that undertaking trust tax reform with the goal of 'increasing equity in the tax system, is something that is achievable'. The result of their research is a proposal for a system of 'entity tax for trusts—that trusts be taxed like companies—with further measures to really address the tax minimisation problems that we've seen in trusts'.¹¹⁴

4.113 Asked if removing the CGTD for trusts would add complexity, Dr Walpola said it would, in fact, 'simplify how to compute the taxation in a trust setting'.¹¹⁵

4.114 The National Foundation for Australian Women (NFAW) recommended that:

Division 6 of Part III of the *Income Tax Assessment Act 1936* should be rewritten to remove the anomalies that arise when a trust makes a capital gain. The rewrite should include a review of the CGT provisions that apply to private discretionary trusts in Sub-Division 104E of the *Income Tax Assessment Act 1997* to tax the value of increases in the value of the assets of the trust.¹¹⁶

Introduce a dual income tax system

4.115 Some inquiry participants suggested further reform of the taxation system could consider the introduction of a dual income tax system, similar to those used in Nordic countries, the Netherlands and Austria.¹¹⁷

4.116 Mr Saul Eslake, an independent economist, explained a dual income tax system taxes labour income on a progressive scale, as Australia does, while also taxing

¹¹³ Dr Walpola, Private capacity, *Committee Hansard*, 24 February 2026, pp. 49–50.

¹¹⁴ Dr Walpola, Private capacity, *Committee Hansard*, 24 February 2026, p. 51.

¹¹⁵ Dr Walpola, Private capacity, *Committee Hansard*, 24 February 2026, p. 51.

¹¹⁶ NFAW, *Submission 17*, p. 3.

¹¹⁷ See, for example, Mr Leslie, *Submission 8*, p. 3; Dr Henry, Private capacity, *Committee Hansard*, 25 February 2026, p. 27.

income from capital under a separate progressive scale.¹¹⁸ He suggested the introduction of this system would probably go further towards reducing inequality in Australia than tinkering with discrete elements of the taxation system, such as the CGTD.¹¹⁹

4.117 Dr Henry noted that a dual income tax system would separate labour income and capital income so that capital income expenses cannot be used to shield labour income from tax.¹²⁰

4.118 Dr Robert Breunig proposed that 'rental income from investment property is the most highly taxed thing in our system'. At the opposite end of the taxation system, owner-occupied housing and superannuation 'are really undertaxed'. Dr Breunig suggested that, in an ideal world, Australia would tax:

...all these savings vehicles equally so that we don't distort the way that people save their money but instead that people save their money based on their own preferences for risk and the time horizon they have.¹²¹

4.119 Dr Kathryn James argued in favour of 'tax[ing] a buck in the same way, irrespective of its source, whether it's from selling your labour or selling a share'. She argued that if:

...the policy goal is to maintain revenue and raise the integrity and progressivity of our tax system, noting that the income tax is the only tax that achieves both these goals, then we should tax real capital gains as they accrue. It's simple and fair, and it reduces tax planning.¹²²

4.120 Dr James suggested any gain in income should be taxable as 'it increases the economic resources of an individual over a period of time'. She said that 'under a pure model, you would tax unrealised gains. You'd tax on an accruals basis'. Dr James recognised:

...there are valid objections to taxing on an accruals basis, all of which have policy answers to them on some level. We obviously developed an approach under the taxation of financial arrangements rules, so there are options to deal with liquidity. You can spread and average out gains and losses over time. That's one of the standard objections to standard taxing on an accruals basis. But a lot of the academic literature is looking towards this. It obviously prevents a lot of tax planning because you don't have the leveraging, you don't have the incentive to bring forward debt and you don't have the

¹¹⁸ Mr Saul Eslake, Private capacity, *Committee Hansard*, 25 February 2026, p. 17.

¹¹⁹ Mr Eslake, Private capacity, *Committee Hansard*, 25 February 2026, p. 21.

¹²⁰ Dr Henry, Private capacity, *Committee Hansard*, 25 February 2026, p. 26.

¹²¹ Dr Robert Breunig, Director, Tax and Transfer Policy Institute, Crawford School of Public Policy, Australian National University, *Committee Hansard*, 24 February 2026, p. 1.

¹²² Dr Kathryn James, Private capacity, *Committee Hansard*, 23 February 2026, p. 46.

incentive to bring forward debt and you don't have the incentive to delay realisation of a gain. In a policy-pure world, that's what we're looking at.¹²³

4.121 Dr James proposed that capital and labour should be taxed at similar rates:

It can't be the case that only people that pay tax progressively in our taxation system are labour earners. That really undermines the progressivity of our system. And I would say that it matters. The only time, across most developed countries, that we've seen economic growth increase and inequality decrease was in the golden age of the welfare state, on the back of a broad-based progressive income tax. Since the 1970s we've unwound that, and we've seen inequality grow ever since, across all developed countries.¹²⁴

4.122 Mr Brendan Coates indicated that ideally the taxation system should 'be invisible to the individual's decisions that they're making'. Such a system would reduce any distortions introduced by different tax rates applying to different assets. In his view, a dual income tax structure would achieve that by applying the same rate of tax to all earnings from all savings vehicles.¹²⁵

4.123 Mr Coates identified the following challenge in introducing such a tax structure:

...the challenge in getting there is that, if we want to go to a dual income tax structure and there are debates about what the optimal level of that tax rate should be—what, essentially, the discount should be from what you're paying on wages and salaries—then tax rates on those savings are that are tax highly concessionally at the moment have to rise. That's the only way it works. If we're going to be able to afford such a system, bring down the tax on, say, term deposits and other assets that are taxed heavily, you need to raise them on those investments that are taxed really concessionally, and that includes capital gains for investment properties in particular.¹²⁶

4.124 Dr Breunig explained Australia has not introduced a dual income tax system because its current arrangements make it politically challenging:

I think partly we don't have one because of this idea of taxing comprehensive income, and a lot of things in our system reflect that. Think about how we do franking credits with corporate tax. We treat corporate tax as a withholding from your personal income tax, and then you rectify that when you file your tax return and you either get a refund or you pay extra tax on that based on your marginal tax rate...Most countries, when they brought in the dual-income tax, got rid of their franking credit system. So you'd have to modify those two things at the same time, and that system is very strongly preferred in Australia...We've done an ad hoc dual-tax

¹²³ Dr James, Private capacity, *Committee Hansard*, 23 February 2026, p. 48.

¹²⁴ Dr James, Private capacity, *Committee Hansard*, 23 February 2026, p. 50.

¹²⁵ Mr Brendan Coates, Housing and Economic Security Program Director, Grattan Institute, *Committee Hansard*, 23 February 2026, p. 26.

¹²⁶ Mr Brendan Coates, Housing and Economic Security Program Director, Grattan Institute, *Committee Hansard*, 23 February 2026, p. 26.

system, but now we've ended up in this world where we have these really crazy tax rate differentials across different savings types.¹²⁷

¹²⁷ Dr Breunig, Tax and Transfer Policy Institute, *Committee Hansard*, 24 February 2026, p. 3.

Chapter 5

Committee's findings

Finding 1

- 5.1 The committee has consistently heard that the current design of the capital gains tax discount results in a degree of concessional treatment relative to labour income which can distort decision making and incentivise tax planning.

Finding 2

- 5.2 The design of the capital gains tax discount has the potential to distort the allocation of investment across the economy, with evidence that existing housing stock makes up a substantial share of capital gains that benefit from the capital gains tax discount.

Finding 3

- 5.3 While there are a number of factors that influence housing markets, there is evidence that the concessions provided by the capital gains tax discount, in combination with negative gearing, have skewed the ownership of housing away from owner-occupiers and towards investors.

Finding 4

- 5.4 The benefits of the capital gains tax discount are also unequally distributed, with implications for income and wealth inequality and intergenerational inequality.

Chair's additional comments

- 1.1 Australia's tax system is broken.
- 1.2 Its treatment of income generated by buying and selling assets is far more generous than its treatment of income generated by working. The capital gains tax discount (CGTD) plays a significant role in this fundamentally unfair discrepancy.
- 1.3 Dr Ken Henry explained this to the committee most succinctly:

Rental property investments are primarily, under Australian tax law, a vehicle for sheltering wage and salary income from tax.¹
- 1.4 Since the CGTD was introduced in 1999, the median home price has grown from four to eight times the median income.² When the CGTD commenced, 57 per cent of 30 to 34-year-olds owned property. Now that figure is 50 per cent.³
- 1.5 More and more young people are facing the prospect of never owning their home. Australia is in a nationwide crisis of housing unaffordability which the CGTD has played a pivotal role in creating.
- 1.6 Lending for investment into housing is at record highs—\$43 billion in the last three months alone.⁴ Over the past five years, 92 per cent of this lending has gone into the pool of existing housing, doing nothing to benefit society or improve national productivity. Only 8 per cent of investor lending has gone towards building new homes, compared with 20 per cent of lending for owner-occupiers being for new housing.⁵
- 1.7 If left unchanged, our tax system will continue to inflate house prices. It will also continue to signal to Australians that the best way to earn income is to buy and sell assets, while the worst way to get ahead is by working for wages or salary.

¹ Dr Ken Henry, Private capacity, *Committee Hansard*, 25 February 2026, p. 23.

² ACOSS, *Homes for living, not wealth creation—Tax and expenditure reforms to improve housing affordability and equity*, March 2025, p. 17.

³ Australian Institute of Health and Welfare, *Home ownership: Home ownership by age group*, [Home ownership by age group | Home ownership | Housing data](#) (accessed 17 March 2026).

⁴ Australian Bureau of Statistics, *Investment loans reach record high—Media release*, 12 November 2025, [Investment loans reach record high | Australian Bureau of Statistics](#) (accessed 17 March 2026).

⁵ These statistics are from analysis of five years, from the December 2020 quarter to September 2025, inclusive, of data collected by the Australian Bureau of Statistics. Please see: Australian Bureau of Statistics, *Lending indicators*, [Lending indicators | Australian Bureau of Statistics](#) (accessed 17 March 2026).

- 1.8 All witnesses to this inquiry—apart from some representatives of the property industry and the Centre for Independent Studies—argued the CGTD needs reform.
- 1.9 The committee received overwhelming evidence that reining in the CGTD is necessary. However, it was also the view of many submitters and witnesses that reining in the CGTD would not of itself be sufficient to satisfactorily respond to the housing crisis, distortion of investment decisions, and intergenerational inequality.
- 1.10 While the CGTD should be substantially reined in, broader tax reform is undoubtedly needed.
- 1.11 The CGTD is driving economic inequality between those who own assets and those who don't. This manifests in intergenerational unfairness because older people are more likely to own assets whereas young people are more likely to work to generate income.
- 1.12 As former Australian Council of Trade Unions (ACTU) Secretary Bill Kelty told the inquiry:
It's not just a bad tax system; it's a terrible tax system for young people.⁶
- 1.13 At the heart of this 'terrible tax system for young people' is the most unfair tax break in the entire Commonwealth tax code: the CGTD.
- 1.14 Treasury analysis shows people aged under 35 received a paltry 4 per cent of the benefit, while 75 per cent went to those aged over 50.⁷ It also advantages men over women, with 58 per cent of the benefit going to men.⁸
- 1.15 The CGTD means that if you go to work as a teacher, a bartender or software developer you pay double the amount of tax than someone who received the same amount of money taking advantage of soaring property prices by buying and selling investment properties.
- 1.16 It means that someone who speculates on housing pays a lower rate of tax than the carpenters, plumbers and electricians who actually build the houses.
- 1.17 The CGTD, combined with negative gearing, has turbocharged the housing crisis by giving property investors a massive tax break that makes it easier for an investor to buy their 7th house, or their 70th, than for a renter to buy their first home.

⁶ Mr Bill Kelty, Private capacity, *Committee Hansard*, 23 February 2026, p. 8.

⁷ Department of the Treasury, *2025–26 Tax Expenditures and Insights Statement*, Chart Data, Chart 2.8. This is available at: [2025–26 Tax Expenditures and Insights Statement | Treasury.gov.au](https://www.treasury.gov.au) (accessed 17 March 2026).

⁸ Department of the Treasury, *2025–26 Tax Expenditures and Insights Statement*, pp. 20.

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- 1.18 The CGTD encourages speculation in existing housing, increasing house prices and disincentivising investment in more productive parts of the economy.
- 1.19 Over the next decade, the CGTD is projected to cost the budget a quarter of a trillion dollars, largely flowing to wealthier, older Australians.⁹
- 1.20 This financial year, the top 1 per cent of income earners, those with incomes above \$362 900, will get a staggering 59 per cent of the benefit from the CGTD.¹⁰
- 1.21 Witnesses overwhelmingly agreed that reforming the CGTD and negative gearing would help with housing affordability and shift the ownership of housing away from investors and back towards renters who want to own their own home.
- 1.22 Former Organisation for Economic Co-operation and Development (OECD) economist, Cathal Leslie, cited research that indicated even marginally reducing the CGTD could see an additional 700 000 renters able to buy a home.¹¹
- 1.23 Many leading economists, including Bernie Fraser and Saul Eslake, argued that removing the CGTD was likely to put significant downward pressure on house prices—above the 1 per cent impact cited by some witnesses to the inquiry.¹² NSW Treasury stated a 1 per cent impact 'represents a material injection of demand ... highlighting the scale of the concession compared to market turnover'.¹³
- 1.24 Substantially reining in the CGTD and negative gearing is a critical step toward restoring fairness to the tax system, giving young people a fairer go, and repairing the housing market.
- 1.25 This inquiry heard calls for the CGTD to be reformed from voices as diverse as the Business Council of Australia, the union movement, civil society and leading economists and academics across the political spectrum.
- 1.26 The 48th Parliament can help repair the social contract, and lessen the likelihood that young people's opportunities in life are determined primarily by their

⁹ Parliamentary Budget Office, *Response to Request for Budget Analysis*, p. 5. This is available here: [Operation of the CGT discount](#) (accessed 17 March 2026).

¹⁰ Parliamentary Budget Office, *Response to Request for Budget Analysis*, p. 3.

¹¹ 2023 NSW Treasury modelling found that abolishing negative gearing and halving the CGTD would increase home ownership by 4.7 per cent (please see: [The effect of negative gearing and capital gains tax reform on home ownership](#)), which Mr Cathal Leslie submitted to the inquiry represented approximately 1 in 10 renters transitioning to home ownership (please see: [Updated information for the committee - Cathal Leslie.pdf](#)). The latest Census data shows there were 7 046 796 people renting in Australia in 2021.

¹² Mr Bernie Fraser, Private capacity, *Committee Hansard*, 24 February 2026, pp. 21 and 22; and Mr Saul Eslake, Private capacity, *Committee Hansard*, 25 February 2026, p. 21.

¹³ NSW Treasury, *Submission 31*, p. 2.

parents' relationship to land and wealth, rather than their hard work, innovation and creativity.

1.27 Bill Kelty made a heartfelt plea to the committee:

I need the parliament of this country to unequivocally stand up and say that they're on the side of young people.¹⁴

1.28 The Australian Greens agree. This report provides parliament with a historic opportunity to pass genuinely ambitious and progressive tax reform, including reforms to the CGTD, negative gearing, and the tax treatment of trusts.

1.29 The only limits are Labor's ambition and courage.

Australian Greens' findings

1.30 The Australian Greens make the following findings:

- (a) the CGTD contributes significantly to income and wealth inequality;
- (b) the CGTD contributes significantly to intergenerational inequality;
- (c) the CGTD has skewed the ownership of housing away from owner-occupiers and towards investors;
- (d) the CGTD, in combination with negative gearing, has contributed to house price inflation;
- (e) the CGTD, in combination with negative gearing, encourages investment into existing housing stock and discourages investment into more productive parts of the economy;
- (f) the overwhelming majority of the benefit of the CGTD flows to Australia's highest income earners;
- (g) three quarters of the benefit of the CGTD flows to older Australians, with young Australians receiving almost none of the benefit;
- (h) the majority of the benefit of the CGTD flows to men;
- (i) the CGTD contributes to income from labour being taxed at higher rates than income from capital investment; and
- (j) the CGTD incentivises speculation on existing housing assets over productive investments.

Australian Greens' recommendations

1.31 The Australian Greens make the following recommendations:

Recommendation 1

1.32 The capital gains tax discount must be substantially reined in across all asset classes so that unearned income from owning assets is taxed as closely as possible as earned income from going to work each day. Young working

¹⁴ Mr Bill Kelty, Private capacity, *Committee Hansard*, 23 February 2026, p. 2.

Australians should not have to pay double the amount of tax as someone earning the same income buying and selling investment properties.

Recommendation 2

1.33 The capital gains discount should be abolished entirely on investment property sales. The combination of negative gearing and the capital gains tax discount has driven rampant property speculation and inflated house prices over the last 26 years. This interaction has been cataclysmic for housing affordability. These tax arrangements must be significantly overhauled so that investing in existing housing is no longer the most attractive investment destination for Australians with savings.

Recommendation 3

1.34 Grandfathering changes would exacerbate poor intergenerational outcomes. To ensure a significant release of housing is made available for renters to buy, hard limits and a phase out of existing arrangements must be part of any negative gearing and capital gains tax reforms.

Recommendation 4

1.35 Wealthy and financially sophisticated investors are holding on to property until they are receiving large amounts of tax-free superannuation income to minimise the capital gains tax they pay. This has now become an established practice. Any reforms must include measures that will end this practice. Options could include income averaging for the time that the asset was held or through a dual tax system that quarantines income from assets from income from working.

Recommendation 5

1.36 To ensure opportunistic property investors do not feel emboldened to increase rents as a result of these reforms, limits on rent increases (both frequency and amount) must be introduced nationwide alongside a significant increase in renters' rights. Additionally, part of the revenue raised through taxation changes must be allocated to large scale, direct investment in public housing.

Recommendation 6

1.37 The recent growth in trusts and self-managed superannuation funds (SMSFs) represent a growing popularity of tax minimisation strategies and must be addressed. Taxing the first dollar of disbursed trust income and limiting trusts' use of capital gains tax breaks must be considered. Improving public disclosures on the activities and holdings of trusts and SMSFs should also be implemented.

Recommendation 7

1.38 Reining in the capital gains tax discount for individuals and trusts is necessary, but not sufficient, to correct the unfairness in our tax system and its treatment of wealth compared to work. Broad based tax reform has to shift the tax base away from income from working and onto income derived from owning and selling assets.

Recommendation 8

1.39 Any reforms to taxing unearned income must be calibrated to support productive investments that improve society, and that discourage speculative activity.

**Senator Nick McKim
Chair**

Labor Senators' additional comments

- 1.1 This inquiry has focused on the operation of the capital gains tax discount, and heard evidence about its impacts on investment, economic and housing market outcomes, and revenue and tax distributional outcomes.
- 1.2 The inquiry also highlighted the importance of intergenerational equity in tax policy. Younger Australians increasingly face different economic circumstances to previous generations, particularly in relation to housing and wealth accumulation.
- 1.3 The committee also heard evidence about the broader role tax settings can play in influencing the allocation of capital across the economy and the extent to which investment flows toward the most productive opportunities.
- 1.4 The Government already has a significant tax reform agenda that is focused on delivering a fairer, simpler and more sustainable tax system and helping Australian workers earn more, keep more of what they earn, and retire with more. This includes:
 - delivering three tax cuts for every single Australian taxpayer, with new personal income tax cuts to take effect on 1 July 2026 and 1 July 2027, adding to the first round of tax cuts that commenced on 1 July 2024;
 - boosting the low-income superannuation tax offset (LISTO) to help deliver a more dignified retirement to 1.3 million Australians, while also better targeting tax concession on large superannuation balances over \$3 million; and
 - committing to implement a \$1 000 instant tax deduction from 2026–27, which taxpayers will be able to claim instead of individual work-related expenses, without the need to keep receipts.
- 1.5 The committee heard consistently that housing outcomes are shaped by a range of structural factors, with housing supply playing a central role in determining long-term affordability. Planning systems, infrastructure provision, and construction capacity influence the ability of the housing market to respond to demand. Tax policy should therefore be considered as one element within a broader housing policy framework.
- 1.6 Housing is one of the defining challenges in our economy. In response, the Government has placed a strong emphasis on policies that increase housing supply and improve the responsiveness of the housing market. The Government's \$45 billion housing plan is focused on building more homes, backing first home buyers, and supporting renters, including:
 - the National Housing Accord, a joint Commonwealth, state and territory government target to build 1.2 million homes by 30 June 2029;

- delivering 55 000 social and affordable homes, including through the Housing Australia Future Fund, and investing \$1.2b in crisis and transitional housing;
 - delivering 80 000 more high-quality, long-lease rentals through our Build to Rent tax cuts;
 - increasing Commonwealth Rent Assistance by more than 50 per cent; and
 - getting a better deal for renters by rolling out stronger tenancy protections and standards with our state and territory counterparts.
- 1.7 More than 520 000 homes have been built nationwide since the Government came to office and momentum is building. More than 6 000 social and affordable homes have been completed under the Government's investments, with 24 000 more in planning and construction.
- 1.8 Any future tax reforms should be guided by the principles that were agreed at the Economic Reform Roundtable in August 2025:
- delivering a fair go for working people and young people, including in intergenerational equity terms;
 - affordable, responsible ways to incentivise business investment; and
 - making the system simpler and more sustainable.
- 1.9 The work of this committee and the evidence it has heard should be considered, alongside other advice and analysis, as part of the Government's ongoing consideration of tax policy and potential future reforms in the context of future budgets.

Senator Richard Dowling
Deputy Chair

Senator Ellie Whiteaker
Member

Coalition Senators' Dissenting Report

Overview

- 1.1 The Australian Dream is under enormous pressure. After four years of Labor, the dream of home ownership is disappearing for too many Australians.
- 1.2 Labor has delivered housing gimmicks:
 - The Housing Australia Future Fund—which has cost \$11.4 billion but has built only a handful of homes to date
 - 5% deposits which have supercharged house prices at the first home buyer entry level
 - Housing targets which Labor has failed to meet by over 260 000 dwellings over the housing accord period.
- 1.3 The Chair's report is a simplistic and one dimensional analysis of Australian housing policy which sidesteps the biggest factor in the housing system—supply.
- 1.4 Supply of housing has collapsed in Australia as the population has surged. Supply is at the heart of the housing crisis, as repeatedly stated by representatives from the housing sector during the hearings.
- 1.5 The idea that Australia's housing woes could be solved by one tax tweak is as shallow as it is cruel. The "analysis" on pages 26 and 27 of the Chair's report endeavours to pin the whole housing crisis on the CGT discount changes in 1999. If only it was that simple.
- 1.6 Supply is the key. Australia has gone from building 220 000 new dwellings in 2018 to only around 170 000 last year. Labor are already missing their own housing target by as many as 80 000 houses to date, as at end September 2025.
- 1.7 We simply are not building enough homes for our record-high population growth. Australia has among the least housing stock per person in developed economies. The Organisation for Economic Cooperation and Development (OECD) average is nearly 500 houses per 1000 people, but Australia has around 400 houses per 1000 people.
- 1.8 The Coalition believes the current CGT discount is working as intended and should not be changed. It supports more investment, provides an incentive for new construction, and helps boost housing supply.
- 1.9 Proposals to weaken or abolish it would not materially improve housing affordability, would reduce the rental stock supply and raise rents, and discourage investment and new construction.
- 1.10 Abolition of the CGT discount would discourage new construction, undermine supply, and so push housing prices up. It is simple economics.

- 1.11 The real agenda appears to be the attempted replacement of mum-and-dad investors with institutional landlords which is frankly un-Australian.
- 1.12 The Chair's report does not adequately explore the unintended consequences and risk of arbitrage arising from possible changes of the CGT discount, which is a key drawback of its analysis.

Who is affected

- 1.13 According to the Department of the Treasury (Treasury) *2025–26 Tax Expenditures and Insights Statement*, around 830 000 people used the CGT discount for individuals and trusts in 2022–23.¹
- 1.14 Based on Australian Taxation Office (ATO) statistics, up to 2.3 million Australians have an interest in property, owning more than 3.3 million dwellings. Sixty-one per cent of rental properties are owned by individuals earning less than \$100 000 per year.² They could all potentially be affected by any changes to the CGT settings.
- 1.15 These are not rich people, nor institutional landlords. They are nurses, teachers, tradespeople and small business owners.
- 1.16 Moreover, CGT policy has limited leverage over income distribution. Gross capital gains represent only around seven per cent of taxable income—and net capital gains even less—according to ATO statistics and analysis by the Centre for Independent Studies.³
- 1.17 High-income earners pay the majority of Australia's income tax by definition. The top 15 per cent of income earners pay 68 per cent of income tax. It follows that they will receive a larger share of any tax discount.

Illusory revenue gains

- 1.18 According to official Treasury estimates, the foregone revenue from the CGT discount was \$21.8 billion in 2025–26.⁴ However, this revenue is volatile. One-year income data is unrepresentative as capital gains are lumpy, not annual income streams.

¹ Department of the Treasury, [2025–26 Tax Expenditures and Insights Statement](#), 2025, p. 19.

² Australian Taxation Office, [Taxation Statistics 2022–23: Individuals – Table 27](#), updated 26 February 2026 (accessed 17 March 2026).

³ Centre for Independent Studies, [Myth vs Reality: The Case Against Increasing Capital Gains Tax](#), 5 March 2019.

⁴ Treasury, [2025–26 Tax Expenditures and Insights Statement](#), 2025.

- 1.19 In addition, this costing does not capture behavioural aspects. Any changes to this tax setting will lead to asset shifting, delayed sales, tax planning and lower investment. Changes will not necessarily improve the budget position.⁵
- 1.20 For example, in response to Senator Bragg's questions at the CGT inquiry, Australian National University tax expert Dr Robert Breunig stated, assuming that any change to the CGT discount would be grandfathered, that there would be fewer sales of properties held by existing investors due to a 'lock-in effect'. This could make expected tax windfalls from hiking CGT taxes largely illusory.⁶
- 1.21 In the Chair's report, Treasury also talked about the lock-in effect, stating that:
- ...one of the key things that we think about when we're thinking about taxing capital gains is the potential for lock-in effect. Capital gains is taxed on a realisation basis. It can create an incentive for people to hold onto the asset longer;...Because of the lumpiness of these gains, there is an incentive for people to defer realisation until their other income is low.⁷
- 1.22 According to almost all economists who provided evidence to the committee, the only way to raise significant revenue would be to apply the changes retrospectively to existing assets and investors. But such retrospective changes to taxes and laws are rarely done and only in very serious circumstances. They would be unfair to existing taxpayers and investors, who have made long-term financial commitments on the basis of existing policy settings.
- 1.23 Outlook Economics Director, Peter Downes, points out that failure to grandfather a reduced CGT discount would disadvantage the millions of people who purchased property when the CGT discount was 50 per cent.⁸

Housing is already highly taxed

- 1.24 Analysis by the Centre for International Economics (CIE) shows housing as one of the most heavily taxed sectors in Australia, in some cases exceeding taxes on alcohol and tobacco.⁹

⁵ Centre for Independent Studies, [Myth vs Reality: The Case Against Increasing Capital Gains Tax](#), 5 March 2019.

⁶ 014 Tax and Transfer Policy Institute, response to written questions on notice asked in writing by Senator Andrew Bragg on 26 February 2026, received on 2 March 2026.

⁷ Dr Shane Johnson, First Assistant Secretary, Treasury, *Committee Hansard*, 24 February 2026, p. 27; Ms Laura Berger-Thomson, First Assistant Secretary, Treasury, *Committee Hansard*, 24 February 2026, p. 34. Also see: page 74 of the Chair's report.

⁸ John Kehoe, ['Only retrospective CGT change is fair for the young, says tax expert'](#), *Australian Financial Review*, 5 March 2026.

⁹ Housing Industry Association, *Submission 60 – Attachment 1*, p. 6.

- 1.25 Similarly, it has been estimated that taxes, fees and charges, already add up to 50 per cent to the cost of a new home.¹⁰
- 1.26 Australia already has some of the highest taxes globally—both tax rates and tax take. Australia's effective CGT rate sits around the middle of OECD countries. Halving the discount would move Australia toward the top of international capital taxation tables; abolishing it would place Australia among the highest-taxed jurisdictions.¹¹ By contrast, New Zealand does not have a comprehensive capital gains tax.
- 1.27 At the CGT hearings, former Australian Council of Trade Unions (ACTU) Secretary, Bill Kelty, pointed out that reducing the current 50 per cent discount rate in isolation would be 'just another tax increase' that will not help young Australians.¹²

Housing supply is the real issue

- 1.28 Taxing housing more will lead to fewer houses, not more. In a housing supply crisis, we need to be looking to reduce the tax burden across the housing sector to increase the viability and economics of all types of housing.
- 1.29 Australians are living in a housing crisis. Younger Australians are understandably frustrated by high prices and limited availability. However, it is misleading and irresponsible to blame the CGT discount for this crisis. The central issue is the persistent and significant lack of supply of enough homes.
- 1.30 Under the previous Coalition government, dwelling completions averaged approximately 200 000 per year. Under the current government, completions have fallen to average just over 170 000 per annum since June 2024—well below the more than 240 000 dwellings per year required to meet Labor's 1.2 million homes target by mid-2029. Meanwhile, our population has grown by more than 1.6 million people since 2022. We have fewer houses but more people.
- 1.31 The Labor government is wasting \$80 billion on housing programmes which supply fewer houses than the past government. This includes the Housing Australia Future Fund, which has struggled to build more than a few hundred houses with its \$11.4 billion war chest in the past 2.5 years.

¹⁰ Housing Industry Association, '[Housing affordability](#)', 2025 (accessed 17 March 2026).

¹¹ Cathal Leslie, '[Not all capital gains are equal. So tax housing windfalls harder](#)', *Australian Financial Review*, 12 February 2026.

¹² Bill Kelty, '[We have a cruel system for the young, not by chance but by choice](#)', *Australian Financial Review*, 23 February 2026.

- 1.32 The Grattan Institute has estimated that increasing CGT could reduce housing construction by up to 10 000 homes over five years to 2030—further worsening the existing housing supply gaps.¹³
- 1.33 As the Chair's report notes, in his submission to the inquiry, a former Assistant Secretary at the Department of the Treasury, Mr Geoff Francis, said:
- Lack of affordability in the housing market in Australia has mainly been driven by demographic factors such as high population growth and the trend to fewer people per household on the demand side, and supply constraints such as restrictions on land release and usage, rising construction costs and labour shortages on the supply side.¹⁴
- 1.34 Treasury officials confirmed in evidence to the committee that any impacts from reducing the CGT discount on housing supply would be minimal.
- 1.35 In other words, reducing the discount will not generate more housing:
- Senator BRAGG:** Would cutting the discount help build more houses? That's the question. You're the economist.
- Ms Berger-Thomson:** I think Dr Johnson has answered this question. The empirical literature says that the impacts of these things on the housing market are quite small.
- Senator BRAGG:** Effectively, you're saying that the price impact is small and the supply figure is small if you play around with negative gearing or the CGT.
- Dr Johnson:** The research we've seen seems to indicate that, yes.¹⁵

Housing affordability issues will persist

- 1.36 Changing the CGT discount would do little to improve housing affordability. The Grattan Institute has estimated that property prices would likely fall by less than one per cent under such reforms.¹⁶
- 1.37 Former Reserve Bank of Australia official, Dr Peter Tulip, has been clear that taxing landlords reduces incentives to build and increases rents, saying: 'It is disappointing that Canberra thinks tax concessions may be an important part of housing policy. They are a distraction. They have a tiny effect on affordability'.¹⁷

¹³ Grattan Institute, *Submission 12*, p. 4.

¹⁴ Mr Geoff Francis, *Submission 11*, [p. 1]. Also see: page 55 of the Chair's report.

¹⁵ Dr Johnson, Treasury, *Committee Hansard*, 24 February 2026, p. 20; Ms Berger-Thomson, Treasury, *Committee Hansard*, 24 February 2026, p. 20.

¹⁶ Grattan Institute, *Submission 12*, p. 4.

¹⁷ John Kehoe, ['Raising property taxes would reduce home prices but increase rents'](#), *Australian Financial Review*, 25 September 2024.

Dr Tulip also pointed to research from the University of Melbourne that estimated the removal of the CGTD would increase rents by 1.3 per cent.¹⁸

- 1.38 Presenting a CGT discount recalibration as a serious housing policy only highlights how unserious our housing policy debate has become in Australia. It is nothing more than a gimmicky approach to policy formulation.
- 1.39 This is not new information. Back in 2010 the Henry Tax Review warned that reducing rental property concessions in a supply-constrained market could reduce residential property investment and place further pressure on the availability of affordable rental housing.¹⁹ That warning remains even more relevant today in the current severely supply-constrained housing market.
- 1.40 Removing the CGT discount would further cut the supply of social and affordable housing. Right now, investors can claim an extra 10 per cent CGT discount when they use their property for approved affordable housing—on top of the existing 50 per cent discount. Eliminating the discount could reduce this incentive, making affordable and social housing projects less financially viable and reducing future supply.

CGT changes would deter investment

- 1.41 Higher taxes on property investors would deter dwelling investment and make existing housing supply shortages and affordability worse by pushing up rents.
- 1.42 The 50 per cent CGT discount was introduced by the Howard Government following the review led by businessman John Ralph. Its purpose was clear: to encourage long-term savings and investment and simplify capital gains taxation in a world of inflation and volatile asset markets.
- 1.43 The discount replaced the system of indexing gains for inflation. It provides a stable and predictable framework for investment decisions and ensures that taxpayers are not excessively penalised for nominal gains driven by inflation.
- 1.44 As noted earlier in this report, halving the CGT discount would move Australia toward the top of international capital taxation tables; abolishing it would place Australia among the highest-taxed jurisdictions.²⁰
- 1.45 This matters in a world of international capital mobility. Australia already has among the highest personal and corporate income tax rates in the developed world. Recent analysis using Household, Income and Labour Dynamics in Australia (HILDA) data shows Australians are paying the highest average

¹⁸ Dr Peter Tulip, Chief Economist, Centre for Independent Studies, *Committee Hansard*, 25 February 2026, pp. 42–43.

¹⁹ Treasury, [Australia's Future Tax System Review Final Report](#), December 2009, p. 418.

²⁰ Cathal Leslie, '[Not all capital gains are equal. So tax housing windfalls harder](#)', *Australian Financial Review*, 12 February 2026.

income tax rates in more than two decades.²¹ Increasing CGT would further entrench Australia's uncompetitive tax settings.

- 1.46 Higher capital gains tax discourages investment, reduces risk-taking, slows capital reallocation and ultimately weakens productivity and real wage growth. At a time when living standards are under pressure, such steps should not be taken lightly.
- 1.47 The Tax and Transfer Policy Institute has pointed out that rental income from investment property is the most highly taxed savings vehicle in our system.²² If the CGT discount is removed it will just be another housing tax.
- 1.48 In addition, the Chair's report notes that the Financial Advice Association of Australia also warned against altering the CGTD rate for existing housing compared to other assets as 'this would create additional complexity and may result in restructuring activity designed to avoid the impact of any differential in the rate'.²³

Housing investment is productive

- 1.49 A concerning theme in evidence from union organisations such as the Australian Manufacturing Workers' Union (AMWU) and the ACTU was the claim that investment in housing is somehow 'non-productive' and diverts capital from 'more productive' sectors.²⁴
- 1.50 Apparently there is "good" investment and "bad" investment. The AMWU argues in their submission that 'there are already enough houses available' and 'capital investment into housing means there is less capital available to invest in more productive sectors of Australia's economy'.²⁵
- 1.51 Investment into residential construction generates employment, supports small businesses, expands rental supply and underpins economic activity across supply chains. It also provides people with a place to live: an enduringly important social purpose.
- 1.52 To suggest that housing investment is inherently speculative or socially harmful ignores both economic reality and current housing supply shortages. As the Centre of Independent Studies points out, only providing CGT discount for new

²¹ Roger Wilkins, '[Australians are losing more of their income to tax than in decades, new report shows](#)', *University of Melbourne*, 19 September 2025 (accessed 17 March 2026).

²² Dr Robert Breunig, Director, Tax and Transfer Policy Institute, *Committee Hansard*, 24 February 2026, p. 1.

²³ Financial Advice Association of Australia, *Submission 45*, [p. 1]. Also see page 81 of the Chair's report.

²⁴ Australian Council of Trade Unions, *Submission 66*, p. 8.

²⁵ Australian Manufacturing Workers' Union, *Submission 23*, p. 7.

construction is like 'dismissing trading in shares and bonds on the secondary market and only valuing new share or bond issues'.²⁶

- 1.53 Reducing incentives for individual investors during a housing supply crisis risks worsening the problem the government claims to be attempting to address.

Warped priorities – shifting investment to institutions away from people

- 1.54 It is concerning that organisations advocating for the removal of the CGT discount such as the ACTU have financial interests in industry super funds. Such funds would benefit from a shift away from individual mum and dad landlords, and towards institutional ownership models.

- 1.55 The ACTU owns shares in AustralianSuper and appoints directors to its boards. It also receives directors' fees and maintains partnership and sponsorship arrangements, giving it a direct financial interest.

- 1.56 AustralianSuper, with HESTA, participates in Labor's \$11.4 billion Housing Australia Future Fund through a jointly owned entity called Assemble.²⁷

- 1.57 At the CGT inquiry ACTU President Michele O'Neil, admitted to wanting to reduce the discount for mum and dad investors but keep it for super funds:

Senator BRAGG: Yes, I heard that. Then my questions are: What about the CGT treatment for super funds? Are you also advocating that that should be reduced?

Ms O'Neil: No, that's not our proposal.

Senator BRAGG: Have you, as part of your submission to this committee, declared your interest in superannuation—that the ACTU is a shareholder of at least one super fund?

Ms O'Neil: All of that information is on the public record, so there's nothing that is not on the public record in terms of the ACTU's involvement. We're very proud of our involvement in Australia's superannuation system, and we hide it from no-one.

Senator BRAGG: But you own a super fund, and you're not proposing to reduce concessions on super funds, but you do want to reduce concessions for individual Australians. Do you think people might find it a bit jarring?²⁸

- 1.58 The Association of Superannuation Funds has admitted that they believe Australians would prefer to live in houses owned by institutional investors.²⁹

²⁶ Centre for Independent Studies, *Submission 7*, p. 5.

²⁷ Property Council of Australia, '[AustralianSuper and Hesta back Assemble](#)', 31 July 2024.

²⁸ Ms Michele O'Neil, President, ACTU, *Committee Hansard*, 23 February 2026, p. 20.

²⁹ Mr Ross Clare, Director of Research, Association of Superannuation Funds of Australia, *Senate Economics Legislation Committee Hansard*, 7 August 2024, p. 12. Also see: the Coalition Senators' Dissenting Report to the following committee inquiry: Senate Economics Legislation Committee,

1.59 The Coalition does not support policies that crowd out individual Australians in favour of large institutional landlords such as super funds.

Dissenting report findings

Finding 1

1.60 The supply failure is driving the housing crisis.

Finding 2

1.61 The analysis in the Chair's report does not sustain the argument that reducing the CGT discount would deliver more homes or higher levels of home ownership.

Senator Andrew Bragg
Member

Senator Dave Sharma
Member

Additional comments from Senator David Pocock

- 1.1 In 2019, Labor took a broad suite of policy reform proposals, including reducing the CGT discount to 25 per cent and removing negative gearing to a federal election they expected to win but subsequently lost. As some commentators,¹ stakeholders and a growing number of the Australian Labor Party's own ranks have said,² Labor overlearned the lessons of that election loss and has been shy to pursue meaningful reform of, what many argue, is an overly generous property tax concession regime.
- 1.2 With a record majority in the House of Representatives and a Senate crossbench urging them to do more on housing, now is the time for Labor to pursue that reform. This is a reform I have been pushing for prior to being elected and throughout my first, and now during my second, term as a Senator for the ACT. It's a change people in my community want to see both for the impact it will have in reducing competition for first home buyers seeking to enter the market, but also for the signal it sends about changing how we treat housing from being seen purely as an asset class and vehicle of wealth creation to a fundamental human right all Australians should be able to access.
- 1.3 Changes to property tax settings alone will not solve Australia's deep housing affordability challenges, but they will help when enacted alongside a range of other measures. These include things like fostering a more effective construction workforce training and planning pipeline. As Infrastructure Australia has warned Australia's shortage of construction workers for major projects is set to hit 300,000 by the middle of 2027.³ Master Builders Australia has also underscored this point saying:

Over the next five years, the industry will require more than 500,000 new entrants to replace those retiring and to expand its workforce sufficiently to meet future housing and infrastructure needs.⁴
- 1.4 The rapid, largely unregulated and uncoordinated surge of AI data centre construction in Australia⁵ isn't just putting a strain on our energy and water

¹ John Kehoe and Patrick Durkin, '[Fiddling with CGT won't fix the housing crisis for young buyers](#)', *Australian Financial Review*, 27 February 2026.

² *Australian Financial Review*, '[Keltly is right. It's time for generational CGT and income tax reform](#)', 23 February 2026.

³ Infrastructure Australia, '[2025 Infrastructure Market Capacity Report](#)', 13 November 2025.

⁴ Master Builders Australia, '[Backing apprentices is key to fixing the housing crisis](#)', 15 April 2025 (accessed 17 March 2026).

⁵ Luke Kinsella, '[Data centre investment doubles to \\$2.8b in just months](#)', *Australian Financial Review*, 27 November 2025.

resources,⁶ it's also exacerbating existing construction workforce shortages. With more AI Data Centres now being built than other buildings, it's diverting construction workers away from the much-needed task of delivering new housing supply to feed the voracious AI beast.

- 1.5 While the Albanese Labor Government has made welcome investments towards increasing the supply of crisis, social and affordable housing, especially through the Housing Australia Future Fund (HAFF), solving Australia's housing affordability challenge will require a much greater level of funding. The \$500 million per year floor for the HAFF, which is now in its third and final round, barely touches the sides of unmet demand. As Emeritus Professor of Housing at UNSW City Futures Centre Hal Pawson said, 'While we're building far more than we did from 2000 to 2020, it's still not enough'.⁷ As Professor Pawson and Associate Professor Chris Martin's recent paper highlights:

The projected net increase of 55,000 dwellings by the end of the decade is striking. Yet it pales alongside the estimate that 437,000 households had an "unmet need" for social housing on census night in 2021.⁸

- 1.6 As every government of every political persuasion regularly reminds voters, budgets are about priorities. This next budget needs to prioritise greater investment in new social and affordable housing supply, over and above the commendable investments made to date. And if the Expenditure Review Committee wants to know where to find the revenue to fund such investment, then there's a proposal sitting on the table to levy a 25 per cent tax on gas exports, that has the support of the senate crossbench, ready to implement and raise upwards of \$15 billion in additional revenue annually. Indeed, the reforms proposed here to the capital gains tax discount would itself restore billions in foregone revenue to the budget.
- 1.7 Solving Australia's housing affordability challenges also means not leaving the debate around population and immigration solely to politicians on the right who seek to stoke fear and pursue political gain from fuelling culture wars. We need to have a transparent, measured conversation about Australia's population and migration settings. Better yet, we need a plan that ties those settings to housing, other infrastructure and impacts on the environment that come from urban sprawl. Last term the major parties withheld support both for my private senator's bill to legislate a ten-year National Housing and Homelessness Plan and a senate motion proposing an inquiry into population. We can't keep hoping

⁶ Josh Taylor and Petra Stock, '[Thirsty work: how the rise of massive datacentres strains Australia's drinking water supply](#)', *The Guardian*, 5 December 2025.

⁷ Hal Pawson, '[55,000 extra social housing homes are being built. But a new study shows that boom still falls short](#)', *The Conversation*, 17 February 2026.

⁸ Hal Pawson and Chris Martin, '[The revival of social housing construction in Australia 2020–2030](#)', UNSW City Futures Research Centre, Working Paper, February 2026.

for the best or leaving critical policy debates to an exchange of political talking points.

- 1.8 While commending the committee's work, and the committee chair in particular for negotiating support for this inquiry, and welcoming the committee's findings, in these additional comments I want to take those findings further by proposing specific recommendations.
- 1.9 In 2024, Senator Jacqui Lambie and I asked the Parliamentary Budget Office (PBO) to model six reform options for negative gearing and the capital gains tax discount.⁹ One of the most modest reform options we had costed would save the federal budget \$16 billion in tax concessions not foregone by 2033–34. This option would remove the CGT discount for all residential property assets purchased after 1 July 2024, with property assets purchased prior to this date to be grandfathered under existing CGT discount arrangements, but provide a 25 per cent CGT discount for new homes built after 1 July 2024, if these homes are held for longer than three years and remove negative gearing arrangements for an investor's second or subsequent investment property interests and disallow rental deductions for vacant properties.
- 1.10 As much of the testimony to the committee inquiry highlighted, reform to generous property tax concessions is an important measure for addressing the growing intergenerational equity divide.
- 1.11 As Think Forward highlighted, 'the discount drives inequality between and within generations'.¹⁰
- 1.12 Financial journalist Alan Kohler gets to the heart of the underlying structural problem when he says 'capital and wealth are not taxed enough, and labour is taxed too much, especially now as we enter the new era of AI that replaces labour'.¹¹ Younger generations bear the brunt of the tax on labour but benefit less from the tax concessions on capital.
- 1.13 On the generosity of the capital gains tax discount Mr Kohler notes:

On September 20, 1999, the 14th anniversary of the introduction of the capital gains tax, a 50 per cent discount replaced the previous inflation adjustment.

It was absurdly generous: Inflation in the year to September 1999 was 1.8 per cent. The average holding period for an investment property is eight

⁹ Parliamentary Budget Office, '[Policy Reform Options for Negative Gearing and Capital Gains Tax](#)', *Policy Costing*, 6 March 2024.

¹⁰ Mr Thomas Walker, Chief Executive Officer, Think Forward, *Committee Hansard*, 23 February 2026, p. 29.

¹¹ Alan Kohler, '[Reducing inequality means taxing capital more—including inheritances](#)', *ABC News*, 23 February 2026.

years, so a 50 per cent adjustment was more than three times the previous inflation adjustment.

Even if you take the average inflation rate over the subsequent eight years—3.2 per cent—which is also what the Reserve Bank is currently forecasting for the next three years, the new CGT discount in 1999 was, and still is, twice as generous as it needs to be to offset inflation.¹²

- 1.14 As recent research from the Australian Council of Social Service (ACOSS) so clearly shows, the benefits of the capital gains discount is also distributed unevenly across the country. The electorate Fenner ranks 122nd out of 150 electorates for average capital gains tax discount per taxpayer.¹³
- 1.15 The benefits also accrue primarily to investors, as the Australian Council of Trade Union (ACTU) evidence to the committee highlights. As of September 2025, 82.8 per cent of investor loans were for existing housing and only 12.6 per cent for new builds. Restricting the capital gains tax discount to new builds directly targets this imbalance. Effectively it would enable the redirection of some \$21.79 billion in annual tax expenditure toward genuinely supply-creating investment rather than speculation on existing stock.
- 1.16 Revenue generated from removing the capital gains tax discount on existing housing should be hypothecated toward social and affordable housing construction. This creates not only a social benefit but addresses the supply impact concerns raised in the submissions from the Housing Industry Association and Master Builders Australia. In responding to the objections raised by NSW Treasury, suggesting that investors would either stick with existing properties or shift to other asset classes if the discount were restricted to new builds, I would make the point that this is precisely the behavioural effect desired. We need to proactively use our tax levers to shift speculative capital out of existing housing stock. As Urban Taskforce Australia conceded, the 'current uniform treatment of all housing stock distorts investment decisions, inflating prices for existing dwellings while failing to channel sufficient private capital towards new construction'. Limiting the capital gains tax discount to new builds would channel more private and public (if budget savings are reinvested in new supply) capital to new construction. Restricting the capital gains tax discount to new builds does not reduce the overall generosity of the concession for productive housing investment, it merely redirects it. Investors who genuinely want to use the discount can still access it, simply by investing in new construction rather than competing for existing stock.

¹² Alan Kohler, '[Reducing inequality means taxing capital more—including inheritances](#)', *ABC News*, 23 February 2026.

¹³ Australian Council of Social Service, '[The unfair distribution of the CGT discount by electorate](#)', *Briefing Note*, March 2026.

- 1.17 Restricting the capital gains tax discount to new builds not only moderates existing-home prices but actively creates new housing stock that younger Australians can purchase—making it a positive intergenerational policy rather than merely a punitive one.
- 1.18 While improving intergenerational inequity and making it easier for more Australians, (both young and older) to attain home ownership should be a key focus of any reform, we also need to keep front of mind the roughly one-third of Australians who rent. A big part of the vested interest fear campaigns run around any reforms to property tax concessions is that they will drive up rental prices. This is not a foregone conclusion and depends very much on the settings of the reform.
- 1.19 Per Capita's evidence shows that a property sold by an investor either goes to another investor (no change in rental supply) or to a first home buyer (one fewer rental property but also one fewer renter), and the Grattan Institute's modelling shows median rent increases of less than \$1 per week even if 10 000 fewer homes were built over five years. Restricting the discount to new builds redirects investor incentives toward genuinely new rental supply, and an increase in supply helps put downward pressure on prices.

Recommendation 1

- 1.20 Remove the CGT discount for all residential property assets purchased after 1 July 2026, with property assets purchased prior to this date to be grandfathered under existing CGT discount arrangements, but provide a 25 per cent CGT discount for new homes built after 1 July 2026, if these homes are held for longer than three years. Simultaneously reform trusts so they can not be used as a 'back door' measure to reduce the effective capital gains tax rate.**

Recommendation 2

- 1.21 Remove negative gearing arrangements for an investor's second or subsequent investment property interests and disallow rental deductions for vacant properties from 1 July 2026.**

**Senator David Pocock
Participating Member**

Appendix 1

Submissions and additional information

- 1 Ms Leah Bloomfield
- 2 Greater Western Sydney Advocacy Network
- 3 Name Withheld
- 4 Mr Paul Goard
- 5 B Miles Women's Foundation
- 6 Professor Chris Evans
- 7 Centre for Independent Studies
- 8 Mr Cathal Leslie
- 9 Mr Mike Shellshear
- 10 Mr Michael Bucior
- 11 Mr Geoff Francis
- 12 Grattan Institute
- 13 Australian Nursing and Midwifery Federation (ANMF) - Federal Office
- 14 Working with Women Alliance
- 15 Tax and Transfer Policy Institute
- 16 Justice and Peace Office, Catholic Archdiocese of Sydney
- 17 National Foundation for Australian Women
- 18 Oxfam Australia
- 19 Council to Homeless Persons
- 20 Grounded Community Land Trust Advocacy
- 21 Better Renting
- 22 Planning Institute of Australia
- 23 Associate Professor Kathryn James, Melbourne Law School
- 24 Australian Manufacturing Workers' Union
- 25 Housing for the Aged Action Group
- 26 Financial Services Council
- 27 UNSW City Futures Research Centre
- 28 Think Forward
- 29 e61
- 30 St Vincent de Paul Society
- 31 NSW Treasury
- 32 National Shelter
- 33 Property Council of Australia
- 34 Real Estate Institute of Australia
- 35 The Australia Institute
- 36 Master Builders Australia
- 37 Q Shelter
- 38 AMPLIFY
- 39 Mr Troy Clare

- 40 Mr Glynn Palmer
- 41 Everybody's Home
- 42 Prosper Australia
- 43 Reichstein Foundation
- 44 Australian Housing and Urban Research Institute
- 45 Financial Advice Association of Australia
- 46 Australian Council of Social Service (ACOSS)
 - 46.1 Supplementary to submission 46
- 47 Abundant Housing Network Australia
- 48 Fair Agenda
- 49 Mr Wayne Mayo
- 50 Per Capita
- 51 Anglicare Australia
- 52 Tenants Union of NSW
- 53 Anti-Poverty Week
- 54 Tax Justice Network Australia
- 55 ACT Shelter
- 56 Australian Small Business and Family Enterprise Ombudsman
- 57 Mr Michael Evans
- 58 Mr Robert Findlay
- 59 Prosperity Institute
- 60 Housing Industry Association
- 61 Australian Prudential Regulation Authority
- 62 The Association of Superannuation Funds of Australia
- 63 Urban Taskforce Australia
- 64 Council on the Ageing (COTA) Australia
- 65 Mr Sam Johnson
- 66 Australian Council of Trade Unions
- 67 Name Withheld
- 68 Confidential
- 69 Spartan Partners
- 70 Mr Christopher Smith
- 71 Mr Stephen Robinson
- 72 Dr Sonali Walpola and Dr John Minas
- 73 Mr Josh Commins
- 74 Transitional Community Housing Limited
- 75 Shen Yang
- 76 Hill Wang
- 77 Australian Taxation Office
- 78 Mr Steven Clarke
- 79 Urban Development Institute of Australia
 - 79.1 Supplementary to submission 79
- 80 Business Council of Australia

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- 81 Mr David Howard
 - 82 Mr Cec Woodhouse
 - 83 Ms Loretta Karazinov-Roylance
 - 84 Mr Peter Grimshaw
 - 85 HomeBridge
 - 86 Ms Jacqueline Lee
 - 87 Mr Kent Hopper
 - 88 Mr Mark Lyons
 - 89 Mr Greg Stevenson
 - 90 Name Withheld
 - 91 Ms Jill Robinson
 - 92 Name Withheld
 - 93 The Hon James Guest
 - 94 Confidential
 - 95 Name Withheld
 - 96 Name Withheld
 - 97 Name Withheld

Additional Information

- 1 Parliamentary Library, Operation of the Capital Gains Tax Discount, 12 December 2025.
- 2 Parliamentary Budget Office, Operation of the CGT discount, 9 February 2026 [Updated]
- 3 Mr Cathal Leslie, correction to evidence given at a public hearing on 24 February 2026, received on 11 March 2026

Answer to Question on Notice

- 1 001 ATO, CGT claimed by trusts and companies, asked in writing by Senator McKim on 23 January 2026, received on 6 February 2026
- 2 002 Treasury, CGT properties and trusts, asked in writing by Senator McKim on 21 January 2026, received on 24 February 2026
- 3 003 Tax and Transfer Policy Institute, response to written questions on notice asked in writing by Senator David Pocock on 25 February 2026, received on 25 February 2026
- 4 004 Prosper Australia, response to written questions on notice asked in writing by Senator David Pocock on 25 February 2026, received on 25 February 2026
- 5 005 Centre for Independent Studies, response to written questions on notice asked in writing by Senator David Pocock on 25 February 2026, received on 25 February 2026
- 6 006 e61 Institute, response to written questions on notice asked in writing by Senator David Pocock on 25 February 2026, received on 25 February 2026

- 7 007 Real Estate Institute of Australia, response to written questions on notice asked in writing by Senator David Pocock on 25 February 2026, received on 26 February 2026
- 8 008 Per Capita, response to written questions on notice asked in writing by Senator David Pocock on 25 February 2026, received on 26 February 2026
- 9 009 Think Forward, response to written questions on notice asked in writing by Senator David Pocock on 25 February 2026, received on 26 February 2026
- 10 010 Dr Ken Henry AC, response to written questions on notice asked in writing by Senator Andrew Bragg on 26 February 2026, received on 26 February 2026
- 11 011 Grattan Institute, response to written questions on notice asked in writing by Senator David Pocock on 25 February 2026, received on 27 February 2026
- 12 012 Australian Manufacturing Workers' Union, response to written questions on notice asked in writing by Senator David Pocock on 25 February 2026, received on 26 February 2026
- 13 013 Prosper Australia, Value Capture and Affordable Housing: Insights from Singapore, asked at a public hearing by Senator Richard Dowling on 23 February 2026, received on 2 March 2026
- 14 014 Tax and Transfer Policy Institute, response to written questions on notice asked in writing by Senator Andrew Bragg on 26 February 2026, received on 2 March 2026
- 15 015 e61 Institute, response to written questions on notice asked in writing by Senator Andrew Bragg on 26 February 2026, received on 3 March 2026
- 16 016 Associate Professor Kathryn James, response to question on notice asked at a public hearing by Senator Nick McKim on 23 February 2026, received on 3 March 2026
- 17 017 Mr Bill Kelty, response to written question on notice asked in writing by Senator Andrew Bragg on 26 February 2026, received on 4 March 2026
- 18 018 Ms Diana Hourani, response to written questions on notice asked in writing by Senator Andrew Bragg on 26 February 2026, received on 5 March 2026
- 19 019 Dr Sonali Walpola, response to question on notice asked at a public hearing by Senator Nick McKim on 24 February 2026, received on 5 March 2026
- 20 020 Australian Manufacturing Workers' Union, response to a question on notice asked at a public hearing by Senator Richard Dowling on 23 February 2026, received on 5 March 2026
- 21 021 Productivity Commission, response to written questions on notice asked in writing by Senator Andrew Bragg on 26 February 2026, received on 5 March 2026
- 22 022 Australian Council of Trade Unions, response to written questions on notice asked in writing by Senator David Pocock on 25 February 2026, received on 5 March 2026

- 23 023 Australian Council of Social Service, response to written questions on notice asked in writing by Senator David Pockock on 25 February 2026, received on 5 March 2026
- 24 024 Grattan Institute, response to written questions on notice asked in writing by Senator Andrew Bragg on 26 February 2026, received on 5 March 2026
- 25 025 Master Builders Australia, response to written questions on notice asked in writing by Senator David Pockock on 25 February 2026, received on 6 March 2026
- 26 026 Mr Geoff Wilson AO, response to question on notice asked at a public hearing by Senator Richard Dowling on 25 February 2026, received on 10 March 2026
- 27 027 Mr Geoff Wilson AO, response to questions on notice asked at a public hearing by Senator Nick McKim on 25 February 2026, received on 10 March 2026
- 28 028 Australian Taxation Office, response to questions on notice asked at a public hearing by Senator Nick McKim on 24 February 2026, received on 12 March 2026
- 29 029 Australian Taxation Office, response to questions on notice asked at a public hearing by Senator Andrew Bragg on 24 February 2026, received on 12 March 2026
- 30 030 Australian Taxation Office, response to question on notice asked at a public hearing by Senator David Pockock on 24 February 2026, received on 12 March 2026
- 31 031 Department of the Treasury, response to question on notice asked at a public hearing by Senator Nick McKim on 24 February 2026, received on 12 March 2026
- 32 032 Department of the Treasury, response to written questions on notice asked in writing by Senator Andrew Bragg on 26 February 2026, received on 12 March 2026
- 33 033 Department of the Treasury, response to questions on notice asked at a public hearing by Senator David Pockock on 24 February 2026, received on 12 March 2026

Tabled Documents

- 1 001 Mr Bill Kelty - Briefing documents 1-9, public hearing on 23 February 2026, Melbourne, tabled on 23 February 2026.
- 2 002 Oxfam Australia - The Elephant In The Room report, public hearing on 23 February 2026, Melbourne, tabled on 23 February 2026
- 3 003 Dr Robert Breunig - Graphs on measuring marginal effective tax rates, public hearing on 24 February 2026, Canberra, tabled on 24 February 2026.
- 4 004 e61 Institute - What Are We Discounting For? report, public hearing on 25 February 2026, Sydney, tabled on 25 February 2026
- 5 005 Mr Geoff Wilson AO - Discussion Paper, public hearing on 25 February 2026, Sydney, tabled on 25 February 2026

Appendix 2

Public hearings and witnesses

Monday 23 February 2026
Stamford Plaza Melbourne
Buckingham Room
111 Little Collins Street
Melbourne

Mr Bill Kelty, Private capacity

Mr Alan Kohler, Private capacity

Australian Council of Trade Unions

- Ms Michele O'Neil, President
- Mr Ben Moxham, Director

Grattan Institute

- Mr Brendan Coates, Program Director

Prosper Australia

- Mrs Rayna Fahey, Executive Director

Think Forward

- Mr Thomas Walker, CEO
- Mr Max Stella, Contributor
- Ms Madeline Cooper

Australian Manufacturing Workers' Union

- Mr Hamish Gamble, National Economic Research Officer

Per Capita

- Dr Wesa Chau, Executive Director
- Mr Lucas Lewit-Mendes, Research Associate

Associate Professor Kathryn James, Melbourne Law School, Private capacity

Oxfam Australia

- Ms Josie Lee, Executive Lead
- Mr Rod Goodbun, Executive Lead

Tax Justice Network Australia

- Dr Mark Zirnsak

Tuesday 24 February 2026

Main Committee Room

Parliament House

Canberra

Tax and Transfer Policy Institute

- Dr Robert Breunig, Director

Organisation for Economic Co-operation and Development (VC)

- Ms Diana Hourani, Economist

Mr Cathal Leslie (VC), Private capacity

Mr Bernie Fraser, Private capacity

Department of the Treasury

- Dr Shane Johnson, First Assistant Secretary
- Ms Laura Berger-Thomson, First Assistant Secretary

Australian Taxation Office

- Mr William Day, Deputy Commissioner
- Ms Kasey Macfarlane, Assistant Commissioner
- Ms Sandra Roussel, Assistant Commissioner

Master Builders Australia

- Mrs Denita Wawn, CEO
- Mr Shane Garrett, Chief Economist

Housing Industry Association

- Mr Tim Reardon, Chief Economist

Associate Professor Mark Humphery-Jenner (VC), Private capacity

Mr David Montani, Private capacity

Associate Professor Sonali Walpola, Private capacity

The Australia Institute

- Mr Greg Jericho, Chief Economist
- Mr Matt Grudnoff, Senior Economist

Wednesday 25 February 2026

Stamford Plaza Sydney Airport Hotel

Mascot Ballroom

241 O'Riordan Street

Mascot

e61 Institute

- Mr Michael Brennan, Chief Executive Officer
- Mr Matt Nolan, Senior Research Manager

Australian Council of Social Services

- Dr Peter Davidson, Principal Advisor
- Mr James Hall, Senior Advisor

National Shelter

- Mr John Engeler, Chair
- Mr Thomas Chailloux, Senior Policy Officer

Mr Saul Eslake (via teleconference), Private capacity

Dr Ken Henry AC, Private capacity

Mr Geoff Wilson AO, Private capacity

UNSW City Futures Research Centre

- Emeritus Professor Hal Pawson
- Dr Chris Martin

Centre for Independent Studies

- Dr Peter Tulip, Chief Economist
- Mr Robert Carling, Senior Fellow

Property Council of Australia (via teleconference)

- Mr Mike Zorbas, CEO

Real Estate Institute of Australia

- Mr Jacob Caine, President

Urban Development Institute of Australia

- Mr Andrew Mihno, Head of Policy and Government Relations

Productivity Commission

- Professor Alex Robson, Deputy Chair

Adjournment