



Reforming the Capital Gains Tax discount

Submission to the Senate Select Committee

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We welcome the opportunity to make a submission to the Senate Select Committee on the Operation of the Capital Gains Tax Discount.

Capital gains receive a range of tax advantages

For individuals and unincorporated small businesses, 50 per cent of their capital gains on assets held for more than one year are excluded from taxable income. This means the effective tax rate paid on these gains is half the rate applied to other forms of income. Owner-occupied housing is an exception – capital gains on owner-occupied homes are not taxed at all.

Superannuation funds pay tax on capital gains at 10 per cent (a discount to the 15 per cent they pay on earnings) if assets are held for more than one year.

Large corporations pay tax on their capital gains at the corporate rate, which varies from 25-to-30 per cent depending on firm size, and which is the same rate as their income.¹

Capital gains also receive other less explicit tax advantages compared to recurrent income, because they are taxed on sale rather than as they accrue.

This allows investors to defer paying tax on the capital gains that they accrue, which is akin to the government providing the investor with an interest-free loan. It reduces the effective tax rate paid on gains, with the tax benefit increasing if the asset is held for longer.

The benefits of waiting can be substantial. A person paying the top rate of income tax of 47 cents in the dollar (including the Medicare levy) who times the sale of an investment after 15 years for when they are in the

1. The full company tax rate is 30 per cent and the lower company tax rate is 25 per cent for firms with aggregated turnover of less than \$50 million a year.

lower (30 cents) tax bracket would reduce the annual nominal tax rate on that investment from 28 per cent to 25 per cent.

Investors are also able to choose the time of an asset's sale to minimise taxes on capital gains. They can reduce their tax by selling assets when their income is low, such as after they retire, so they are taxed at a lower marginal rate.²

The flip side of the benefits to waiting is that taxing capital gains can lead to asset lock-in.³ Investors are discouraged from selling assets they have held for a long time, even when it would make economic sense to do so, because they would then pay tax on their accrued gains.⁴ For example, taxpayers tend to wait until retirement, when they face a lower tax rate, to realise capital gains.⁵

Some discount for capital gains is justified

In Australia, taxes on savings income, including capital gains, are levied on nominal returns which include inflation. Because inflationary gains are not 'income' in a true sense, some discount on returns from savings is justified.

Further, it is generally agreed that tax rates on the return from savings, especially long-term savings, should be lower than taxes on income from working.⁶ The impact of taxes on savings compounds over time,

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2. Some Australians, particularly high-income earners, wait until retirement to realise capital gains. Those 65 and older are much more likely to sell assets than those who are younger: Daley et al (2016, Figure 3).
 3. Henry (2010, p. 63).
 4. Daley et al (2016, Figure 2).
 5. Daley et al (ibid, Figure 3).
 6. The optimal tax treatment of savings remains contested. Mirrlees et al (2011) concluded that to avoid bias against savings, only the risk-free component of investment returns need be tax free. However, even that is contested. Other analyses have concluded that even the risk-free return on savings should be taxed, albeit at a lower rate than other income: Banks and Diamond (2010).

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so the impact on future consumption can be much larger than the headline rate of tax, the longer savings are held. It's like compound interest, but in reverse.⁷ Taxes on savings can also reduce incentives to work, given that people work in part to save for the future.

The 50 per cent Capital Gains Tax discount is too generous

The CGT discount is designed to preserve incentives to save and invest. But the 50 per cent discount has overcompensated property investors for inflation over the past 25 years. Since the introduction of the Capital Gains Tax discount in 1999, house prices have grown annually by an average of 6.4 per cent, and the ASX 200 has risen by 4.3 per cent per year on average.⁸ Whereas inflation over this period averaged 2.9 per cent annually.⁹

Taxing capital gains more lightly than most other savings income creates an incentive for investors to choose riskier assets that return more via capital gain. In conjunction with generous rules for deductibility of interest costs (i.e. negative gearing), the tax system creates strong incentives for debt-financed and speculative investments. The interaction of a 50 per cent CGT discount with negative gearing reduces home-ownership. And the discount undermines income tax integrity by creating opportunities for artificial

transactions to reduce income tax.¹⁰ And people with high incomes save almost the same amount regardless of the tax rate.¹¹

Like most tax concessions, the Capital Gains Tax discount largely benefits the wealthy. For example, the wealthiest one fifth of Australians receive nearly 90 per cent of the benefit of the Capital Gains Tax discount.¹² While 95 per cent of people pay similar tax rates for similar incomes, for the top 5 per cent, the amount of tax paid varies hugely, and indeed people on very high incomes can end up with lower rates than those who earn far less.¹³ And the discount is a big reason why older Australians pay a lower tax rate on their income than younger Australians still working.¹⁴

Ultimately, if taxes on savings are lower, then other taxes must be higher, and other taxes typically impose greater economic costs.

The Capital Gains Tax discount should be reformed

The 50 per cent CGT discount for individuals and trusts should be reduced to 25 per cent, with a gradual phase-in over five years (rather than grandfathering). This would better balance competing objectives, and raise about \$6.5 billion a year for the federal budget.¹⁵

The dominant rationale for this reform is the economic and budgetary benefits – money which could be used to shore up the budget, reduce

7. Coates (2025).

8. And in practice, annual capital gains, especially on property, are much larger because investors typically borrow to finance their investment. For example, a property investment made in 1999 where the investor borrowed 80 per cent of the purchase price would have recorded an average annual capital gain of up to 30 per cent.

9. Daley et al (2016); Grattan analysis of PropTrack (2025), ABS (2025), and Yahoo Finance (2025) using a compound annual growth rate. While inflation has spiked over the past three years, expectations are that inflation will return to the RBA's target band by the end of 2026: RBA (2025, Table 3.1).

10. Daley et al (2016, pp. 15–17).

11. Most studies have found that tax incentives for savings have little effect on the *total* amount saved: Daley et al (ibid, p. 15). Savers do tend to switch into whichever investment vehicle pays the least tax, but this switching does not increase overall investment or economic growth.

12. Australian Government (2025, Chart 10).

13. Kaplan et al (2025).

14. Sathanapally (2025, Figure 5).

15. Figures are for the 2025-26 budget year. Curbing negative gearing so that rental losses could no longer be offset against wage and salary income, in line with most developed nations, would boost the budget bottom line by a further \$4.5 billion a year in the long term: Sathanapally et al (2025, p. 52).

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more economically harmful taxes and lower the tax burden on younger Australians, or pay for more support for low-income renters by boosting Rent Assistance.

Property prices would probably fall by less than 1 per cent.¹⁶ And would-be homeowners would win at the expense of investors.¹⁷

This reform would have only a modest impact on the pace of new housing construction, and rents. For example, immediately halving the Capital Gains Tax discount (but not reforming negative gearing) could decrease the number of new homes being built by about 10,000 over the five years to 2030.¹⁸ That would result in a tiny – less than \$1 per week – increase in median rents across Australian capital cities.¹⁹

This impact on housing supply, and rents, could be more than offset if even a small portion of the proceeds from the reforms was used to fund a further boost to Australia's social housing stock,²⁰ or was reinvested in a revitalised National Competition Policy agenda to encourage state and territory governments to lift the pace of housing construction by

16. Grattan has previously estimated that a combined package that halves the CGT discount to 25 per cent and curbs negative gearing would leave property prices 1 per cent lower than otherwise. Updated from Daley et al (2018, pp. 97–98) for growth in total value of housing stock to \$11.5 trillion, and tax concessions on residential property of \$11 billion a year. House prices at the bottom of the market would probably fall by more, since these tax breaks have channelled investors into low-value homes that are lightly taxed under states' progressive land taxes.

17. For example, one recent study estimates that abolishing deductions for negative gearing losses and halving the Capital Gains Tax discount would help more renters to become homeowners, raising the rate of home-ownership by 3 percentage points because they would be bidding against fewer investors at auctions: Warters (2024).

18. The combined impact of halving the Capital Gains Tax discount and curbing negative gearing would reduce housing construction by about 16,500 homes. Sathanapally et al (2025, p. 52).

19. Assumes a 0.6 per cent decline in house prices results in a 0.07 per cent (from Tulip and Saunders (2019)) decline in the housing stock over a five-year period.

20. Sathanapally et al (2025, p. 56).

reforming land-use planning rules and other regulatory barriers to more housing.²¹

Other proposals, such as restricting the Capital Gains Tax discount (and negative gearing) to new properties, applying a different Capital Gains Tax discount to housing vis-a-vis other assets, limiting the dollar value of deductions that can be claimed against personal income tax, or restricting these tax concessions to only one property, would also be improvements on the current regime. But the revenue foregone from offering a more generous tax regime for newly constructed properties would be better spent on a revitalised National Competition Policy regime to reduce regulatory barriers to new housing supply.²² And best-practice tax policy should aim to be neutral in how taxes apply across different investments, and to simplify tax administration.²³

In an ideal world, as envisaged by the Henry Review, tax rates would be consistent across different types of savings – such as via a dual income tax structure with a lower (but consistent) tax rate applied to all savings income – as others have proposed.²⁴ However, under such a model, tax rates on the most-concessionally-taxed savings vehicles would inevitably have to rise.

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21. Coates et al (2025, Chapter 6).

22. Coates et al (ibid, Chapter 6).

23. Daley et al (2016, Chapter 5).

24. Henry (2010); and Breunig et al (2020). Both proposals exclude owner occupied housing.

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