



Inquiry into the Operation of the Capital Gains Tax Discount



***Reforming Capital Gains Tax for housing justice and intergenerational
equity***

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1. Introduction

National Shelter welcomes the opportunity to make a submission to the Select Committee on the Operation of the Capital Gains Tax (CGT) Discount.

National Shelter is a non-government peak organisation that aims to improve housing access, affordability, appropriateness, safety and security for people living on lower incomes.

Given our focus and expertise on housing, this submission will focus on the CGT discount and its effects as it relates to housing affordability and its impact on lower income households and inequality in Australia.

Tax treatment of housing assets is one of the main contributors to housing unaffordability across the country.

Capital gains tax discounts, negative gearing (NG), and wide-ranging tax exemptions on principal places of residence (PPOR) significantly contribute to rapidly increasing inequality in Australia by unfairly advantaging established homeowners and property investors compared to prospective first home buyers and people who do not own housing assets.

As such, reform of capital gains tax discount and negative gearing regularly features as a priority for taxation and productivity experts, academics, housing policy professionals,¹ and anyone concerned with social justice and intergenerational equity.

Reform of housing taxation settings is one of National Shelter five key recommendations for a fair, healthy, sustainable housing system:²

- A legislated National Housing and Homelessness Plan
- Recurring investment in a long term, at scale supply pipeline of social and affordable housing
- National minimum standards to support a fair, affordable, quality rental housing system
- A package of tax reform to level the playing field towards first home buyers and away from speculative investment
- The development of a national framework for Inclusionary Zoning

This is described in detail in National Shelter [2025 policy platform](#).³

¹ Peter Martin, “Doing nothing is not an option” – Top Economists Back Planning Reform and Public Housing as Fixes for Australia’s Housing Crisis’ (Poll, Economic Society of Australia National Economic Panel, 49 economists) https://esacentral.org.au/polls-item/56702/housing-reform/?type_fr=902 (reporting that about one-third of economists polled supported tightening negative gearing and capital gains tax concessions as the number one priority of the 14 housing reform options, being building more public housing and easing planning restrictions).

² National Shelter, *2025 National Shelter Policy Platform Priorities* (Report, 7 March 2025) <https://shelter.org.au/wp-content/uploads/2025-National-Shelter-Policy-Platform-Priorities.pdf>.

³ Ibid.

2. Executive Summary

This submission contends that the 50% flat rate capital gains tax discount, in interaction with negative gearing:

1. Is overly generous compared to other methods to account for inflation in the taxation of capital gains
2. Overwhelmingly flows to high income and/or high wealth and/or older households, creating significant wealth and intergenerational equity issues
3. Is artificially inflating residential property prices at the expense of investment in productive asset classes, negatively impacting productivity and household health and wellbeing
4. Is contributing to the level of Australian household debt being one of the highest in the world relative to income and GDP, creating serious prudential and macroeconomic risk.

The CGT discount and related housing taxation policies should be reformed to level the playing field between established homeowners, property investors and prospective first home buyers by:

1. Adjusting the CGT discount downwards to 25%, phased in over five years
2. Restricting tax deductions (quarantining losses) on investment expenses to income from the same asset class and/or restricting the use of negative gearing to newly built residential property
3. Reviewing the CGT and imputed rent exemptions for PPORs
4. Redirecting the general government revenue currently foregone to investment in social and affordable housing – through the HAFF or a similar mechanism - and a fair, affordable, secure private rental housing system in line with National Shelter policy priorities.

The structure of this submission follows the terms of reference of the inquiry.⁴

3. About National Shelter

Since 1975, National Shelter has been a trusted voice working towards a fair housing system through influencing government policy and action. We raise community awareness about housing issues and shed light on the experiences of people living on lower incomes within Australia's housing system.

National Shelter is a member-based organisation, and the Shelter network operates as a federation of housing organisations that forms a strong and collaborative voice ensuring that everybody has a right to a place to call home.

Our objectives

National Shelter's aim is to work towards every Australian resident having access to housing that is:

- affordable — people should not be living in poverty after they have met their housing costs

⁴ Select Committee on the Operation of the Capital Gains Tax Discount, 'Select Committee on the Operation of the Capital Gains Tax Discount' (Parliament of Australia, 4 November 2025)
<https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Operation_of_the_Capital_Gains_Tax_Discount/CapitalGainsTaxDiscount> accessed 18 December 2025.

- adequate — everybody is entitled to housing that meets basic standards of decency and their own basic needs
- secure — people should not live under a threat of loss of home and shelter
- accessible — access to housing should be free from discrimination and conform with universal design principles, at a minimum.
- in the right place — housing should be located close to transport, services and support networks, job opportunities, and social and leisure activities
- able to meet their lifecycle needs — people have different housing needs at different stages of their lives, and housing should be available to meet these changing needs.

National Shelter is 'tenure neutral' - not preferring one form of tenure over another, instead focusing on security, affordability, safety, wellbeing, and accessibility for all as markers of a fair and appropriate housing system.

A unique perspective

As the only national peak body that brings together and considers the interests of tenant organisations, consumers, community housing providers and homelessness services, National Shelter is uniquely placed to reflect the views and ideas from each of these groups to government, in a way that no other organisation or industry body can.

The Shelter Network has 420 organisational members across Australia; from community housing providers, specialist homelessness services, other peak bodies, general and specialist community service organisations, and local government. National Shelter has a deep reach into metropolitan, regional, and rural areas and relationships with experts, industry and consumers across the housing spectrum.

National Shelter develops policy positions based on evidence, research and expertise, including input from our members. The breadth of our positions reflects National Shelter's focus on a healthy housing system and include social and affordable housing, institutional arrangements, private rental reform, infrastructure, planning reform, taxation reform, and First Nations housing.

The Shelter Network plays a key leadership role across Australia, championing the development of a fair, effective and sustainable housing system.

4. Contribution of the capital gains tax (CGT) discount to inequality in Australia, particularly in relation to housing

Based on estimates of the Gini coefficient – the most widely accepted measure of income and wealth distribution - income inequality in Australia is moderately high (0.307 in 2022-23) while wealth inequality is much higher (0.606 - indicating a much greater, unequal concentration of wealth).⁵

Inequality of both incomes and wealth has grown rapidly in Australia over the last decade, as shown by Australian Bureau of Statistics (ABS) data analysed by the Australia Institute.⁶

⁵ Australian Bureau of Statistics, *Income and Wealth Inequality, Australia* (Web Page, 15 September 2025)

<https://www.abs.gov.au/statistics/measuring-what-matters/measuring-what-matters-themes-and-indicators/prosperous/income-and-wealth-inequality>

⁶ David Richardson and Frank Stilwell, *Wealth and Inequality in Australia* (Discussion Paper, The Australia Institute, August 2024) <https://australiainstitute.org.au/wp-content/uploads/2024/08/P1689-Wealth-and-inequality-Updated.pdf> accessed 18 December 2025.

While the highest income quintile earns five times more than the lowest, the top fifth of households own 146 times more wealth than the poorest 20% of households. 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.⁷

Australia's Gini coefficient according to OECD estimates – 0.32 for income, slightly higher than ABS data – is roughly equal to the OECD average, meaning that about half of OECD countries have more equal income and wealth distribution (e.g. Nordic countries) while the other half has less equal income and wealth distribution (e.g. the US and Mexico).⁸

We note two things about the fact that wealth inequality in Australia is slightly lower than the OECD average.

First, even higher levels of wealth inequality in other countries (e.g. in the USA) does not mean that wealth inequality is not a social and economic problem in Australia. Second, the relative lower level of wealth inequality in Australia is partially explained by relatively high levels of home ownership (noting the slightly less concentrated wealth ownership through people's own homes in Figure 2). This is itself endangered by current housing taxation settings (as discussed in the following sections) as more and more – usually younger – households struggle to purchase their home.

While the Gini coefficient fluctuates yearly, driven by the large income and wealth fluctuations of the richest households (whose assets tend to vary in value based on economic conditions more than poorer, lower income households), long term trends show that **inequality in Australia is becoming greater**.

Figure 1: Wealth inequality in Australia has grown in the last 20 years⁹



[Download data](#)

NOTES:

The Gini coefficient is a measure of inequality ranging in value from zero (complete equality) to one (complete inequality). Negative values for household wealth were adjusted to zero in this analysis.

Source: ABS *Income and wealth survey 2017-18*, with values projected forward to December 2021.

⁷ David Richardson and Frank Stilwell, *Wealth and Inequality in Australia* (Discussion Paper, The Australia Institute, August 2024) <https://australiainstitute.org.au/wp-content/uploads/2024/08/P1689-Wealth-and-inequality-Updated.pdf>

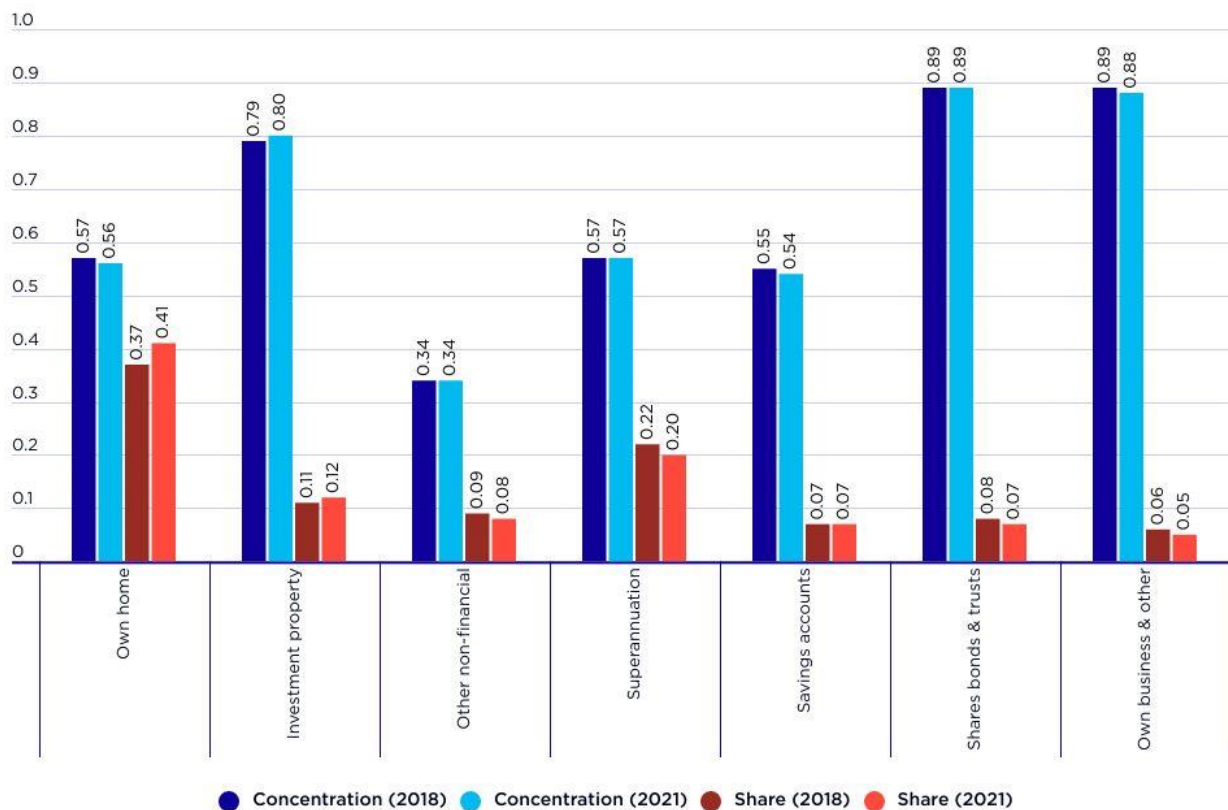
⁸ Australian Institute of Health and Welfare, *International Comparisons of Welfare Data* (Web Page, 2025) <https://www.aihw.gov.au/reports/australias-welfare/international-comparisons-of-welfare-data?utm>

⁹ ACOSS & UNSW, Poverty and Inequality Partnership, *Wealth Inequality: Gini Coefficient* (Web Page) <https://povertyandinequality.acoss.org.au/data/inequality/wealth-inequality-gini-coefficient/>. (povertyandinequality.acoss.org.au)

Why is this relevant to the CGT discount inquiry?

Ownership of assets potentially subject to capital gains tax is even more unequally distributed than the rest of wealth, reflecting the fact that people with lower wealth tend to hold a higher proportion of their wealth in cash/savings account whereas more affluent people tend to hold their wealth in assets.

Figure 2: Distribution of wealth in assets yielding capital gains is highly concentrated¹⁰



[Download data](#)

NOTES: Concentration = a measure of inequality of the distribution of wealth in each asset type across households ranked by overall wealth, ranging from a value of 0 for complete equality to 1.0 for complete inequality. Share = Proportion of overall household wealth held in each asset type, net of associated debt (numbers do not add to 100 due to unallocated debt). 'Other non-financial assets' = consumer durables such as cars.

Source: ABS *Income and wealth survey 2017-18*, with values projected forward to December 2021.

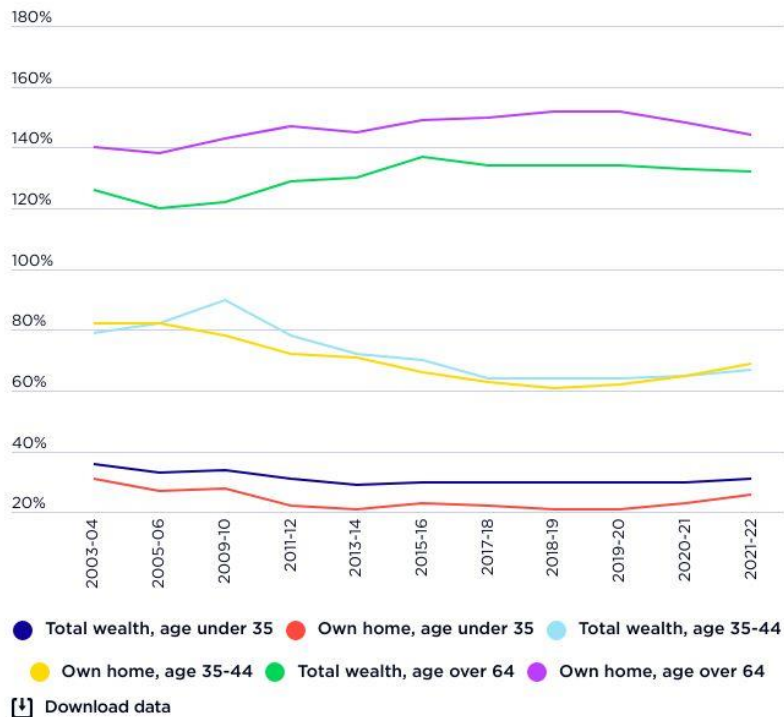
Where it comes to National Shelter's interest and expertise, a large proportion of this unequal distribution – and of this deteriorating trend - can be attributed to housing assets. We note that ownership of investment properties is extremely skewed towards the richest households, challenging the framing of property investors as 'mum and dad' investors earning ordinary incomes and holding ordinary wealth. National Shelter's anecdotal experience is that most Australians 'mums and dads' are more concerned as to whether their children will be able to keep affording putting a roof over their

¹⁰ Penny Dorsch, ACOSS & UNSW, Poverty & Inequality Partnership 'Concentration and share of overall wealth, by asset type, from 2018 to 2021' (Poverty and Inequality, 22 July 2022)

<<https://povertyandinequality.acoss.org.au/data/inequality/concentration-and-share-of-overall-wealth-by-asset-type-from-2018-to-2021/>> accessed 18 December 2025.

head and/or whether they'll ever be able to afford to buy a home than about the welfare of high income, high wealth small-scale property investors.

Figure 3: Wealth is disproportionately owned by older, home owning households¹¹



NOTES: Refers to wealth held by households whose reference person is under 35, 35-44 years, and over 64 years respectively. Own-home values are net of associated debt. 'Reference person' is a category defined by the ABS which broadly refers to the highest income-earner in a household.

Source: ABS Surveys of Income and Housing, confidentialised unit record file (CURF), 2003-04 to 2017-18 and projections to December 2021

Unequal distribution of housing related wealth, the amount of wealth stored - largely tax sheltered - into residential property, and the large amounts of wealth transfer (e.g. through rent) occurring between generations and from people who rent their home towards people who own their home and/or investment properties has led some commentators to characterise Australia's housing system as a 'home owner welfare state'.¹²

As highlighted by the figure below produced by the Australia Institute, most capital gains are earned by the very rich. This fact is likely under-represented by the data because it is likely many of the people with incomes under 80k realising capital gains are either retired or high income/wealth individuals who have structured their finances **to have low incomes on paper**.

¹¹ Penny Dorsch, UNSW & ACOSS, Poverty & Inequality Partnership, 'Average wealth of households by age, as a percentage of the average wealth of all (%)' (Poverty and Inequality, 22 July 2022) <<https://povertyandinequality.acoss.org.au/data/inequality/average-wealth-of-households-by-age-as-a-percentage-of-the-average-wealth-of-all/>> accessed 18 December 2025.

¹² Gareth Hutchens and Rhiana Whitson, *Australia is now a "home owners' welfare state", and income inequality is worse than we think* (ABC News, 12 August 2025) <https://www.abc.net.au/news/2025-08-13/australia-is-a-homeowners-welfare-state-making-inequality-worse/105620522>

Figure 4¹³

Most capital gains are earned by the very rich

Breakdown of individuals, wages and realised capital gains earned by total annual income

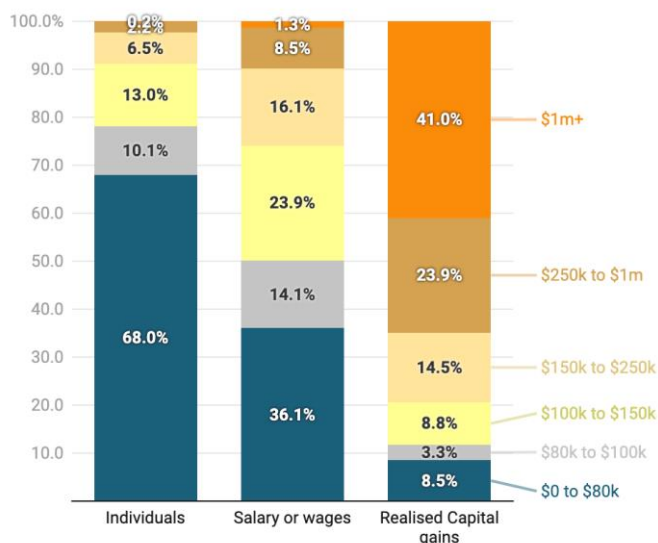


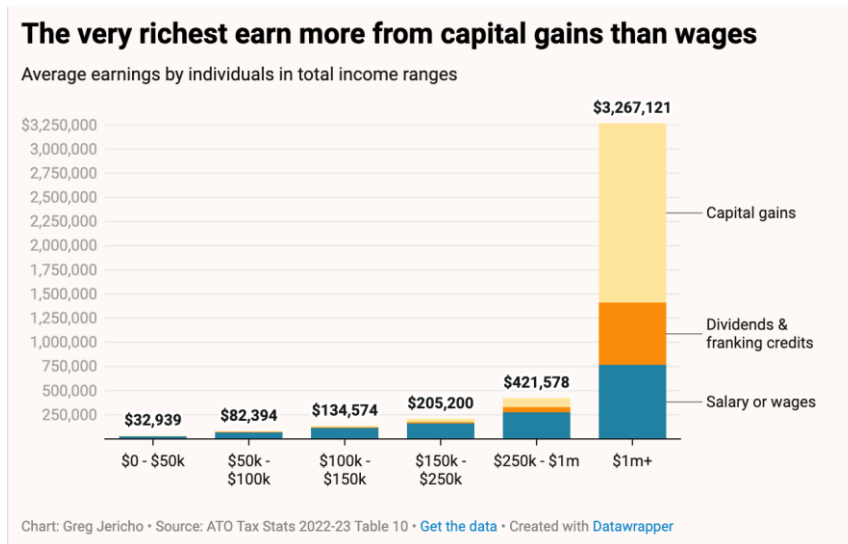
Chart: The Australia Institute · Source: AT Tax Stats 2020-21, Table 10 · Get the data · Created with Datawrapper

This second chart (below) shows that capital gains are overwhelmingly realised by people on very high incomes (above \$150k – with the proportion of income from sources other than salary or wages negligible for people earning less than \$150k of personal income). This is far above the median personal income in 2022-23 (\$58,216) and even the median personal income for males (who are advantaged by the gender pay gap and more likely to be working full time than women) at the peak of their career (45 to 54 years old: \$95,400).¹⁴

¹³ David Richardson, ‘New figures show capital gains now outstrip wages – and yet mostly they go to the rich and untaxed’ (The Australia Institute, 30 September 2024) <<https://australiainstitute.org.au/post/new-figures-show-capital-gains-now-outstrip-wages-and-yet-mostly-they-go-to-the-rich-and-untaxed/>> accessed 18 December 2025.

¹⁴ Australian Bureau of Statistics, *Personal Income in Australia, 2022-23* (Web Page, 14 November 2025) <https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/personal-income-australia/latest-release>

Figure 5¹⁵



The CGT discount interacts with negative gearing to ‘turbocharge’ housing prices and inequality growth

‘Negative gearing’ is a common – rather than legal – term used to describe a situation where expenses associated with an asset are greater than the income produced by the asset. In other words, the asset’s owner is making a loss. In Australia, ‘losses’ made by this investment can be deducted against other income, such as salary and wages, for taxable income purposes. This means that investors who are ‘negatively geared’ on certain assets can reduce their taxable income, and therefore their tax liability.

Another way to look at negative gearing is that, in effect, **people making losses on investments are subsidised by other taxpayers** as part of their gross loss is offset by paying less tax.

How is this relevant to the contribution of the CGT discount to inequality in Australia in general, and to housing inequality in particular?

In the Australian Government’s own words – in Treasury ‘Tax White Paper’:

While making a loss on an investment property or shares might initially seem counterintuitive, some people are willing to do this in the expectation that the capital gain (sale price minus cost of asset) when they sell the asset will more than offset that loss.¹⁶

Because the 50% CGT discount is far greater than the inflation it is supposed to account for – it takes 16 years for an asset to increase in nominal value by 50% at 2.5% inflation p.a. - investors are encouraged to invest in assets for a short to medium period of time and/or increasing rapidly in real

¹⁵ David Richardson, ‘New figures show capital gains now outstrip wages – and yet mostly they go to the rich and untaxed’ (The Australia Institute, 30 September 2024) <<https://australiainstitute.org.au/post/new-figures-show-capital-gains-now-outstrip-wages-and-yet-mostly-they-go-to-the-rich-and-untaxed/>> accessed 18 December 2025.

¹⁶ Australian Treasury, *Tax White Paper – Negative gearing* (Web Page) <https://treasury.gov.au/review/tax-white-paper/negative-gearing>

terms (such as housing) even as they ‘make a loss’ - because they expect to offset part of this loss through reduced tax liability (negative gearing) and make a large (and under taxed) capital gains at a later stage.

We also note that the definition of ‘expenses’ associated with an asset is very broad; allowing people investing in housing to deduct not only the interest they pay on their mortgage, but also other ordinary expenses such as advertising for tenants, body corporate fees, cleaning, gardening, and even other taxes such as council rates and land tax (partially shifting state and local government taxes costs from high income individuals to the Australian Government).

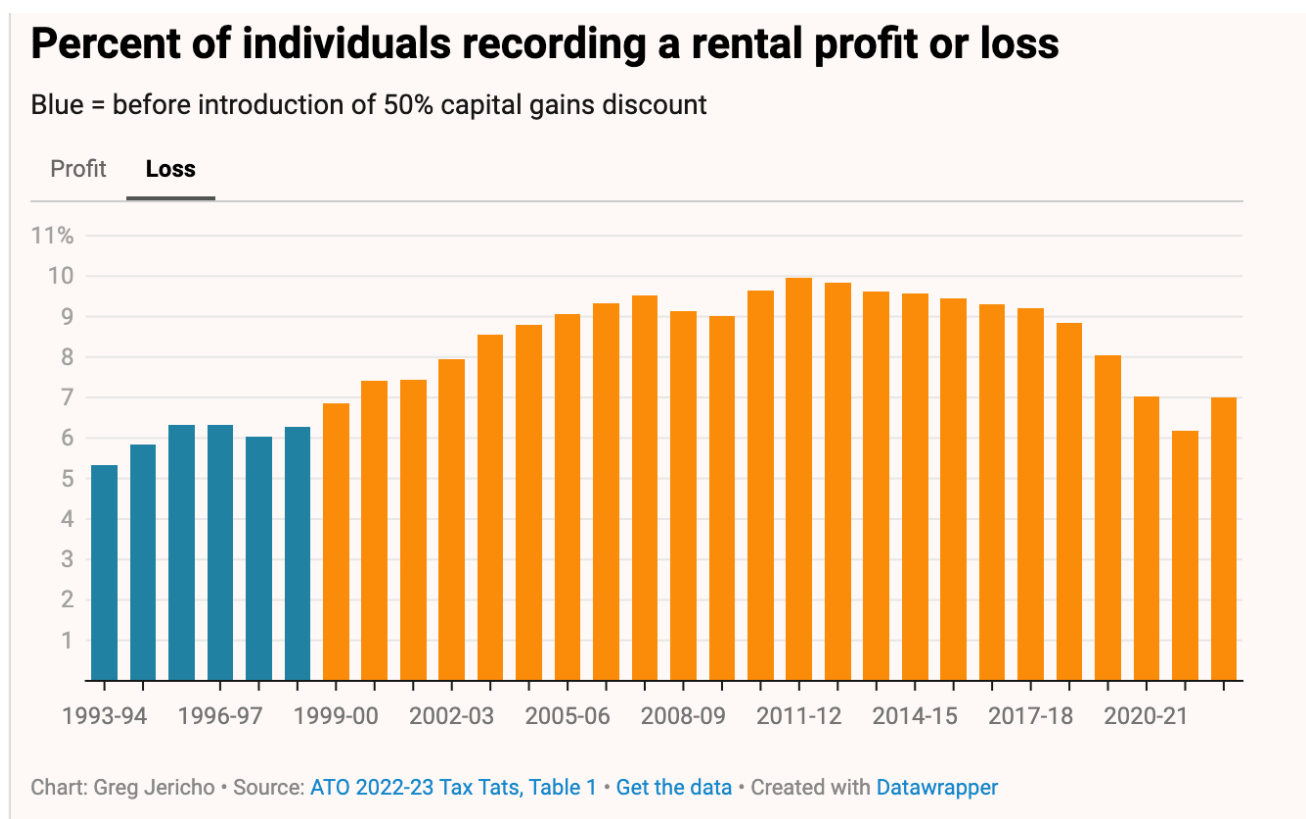
Capital expenses, including capital works, improvements and substantial renovations (which usually increase the value of housing assets by far more than they cost) can also be deducted.

Negative gearing and the CGT discount therefore represent an incredibly strong incentive for people to invest in housing, particularly those with other relatively high sources of income. This has been turbocharging both housing asset prices and wealth inequality.

This explanation of investor behaviour is strongly supported by data.

First, the percentage of individuals recording a rental loss has increased consistently and significantly since the introduction of the CGT discount. It is likely that the slightly lower percentage of rental investors recording a loss around 2008-2010 (the Global Financial Crisis) and 2020-2022 (COVID-19 triggered financial downturn and very low interest rates) represents that ***in more challenging economic conditions, less people record rental losses*** because they cannot afford to do so while waiting for significant untaxed capital gains.

Figure 6¹⁷



¹⁷ Greg Jericho, ‘Capital gains for the rich and persistent gender pay gaps: what we can learn from the ATO’s annual tax statistics’ (The Guardian, 2 July 2025) <<https://www.theguardian.com/business/grogonomics/2025/jul/03/capital-gains-for-the-rich-and-persistent-gender-pay-gaps-what-we-can-learn-from-the-atos-annual-tax-statistics>> accessed 18 December 2025.

Second, the higher the income people earn, the more likely they are to negatively gear. Data highlighting how common it is to have a negatively geared property depending on people's occupation clearly invalidates the idea that 'mum and dad' (i.e. people earning ordinary incomes) investors are the most common beneficiaries of this policy.

Figure 7¹⁸

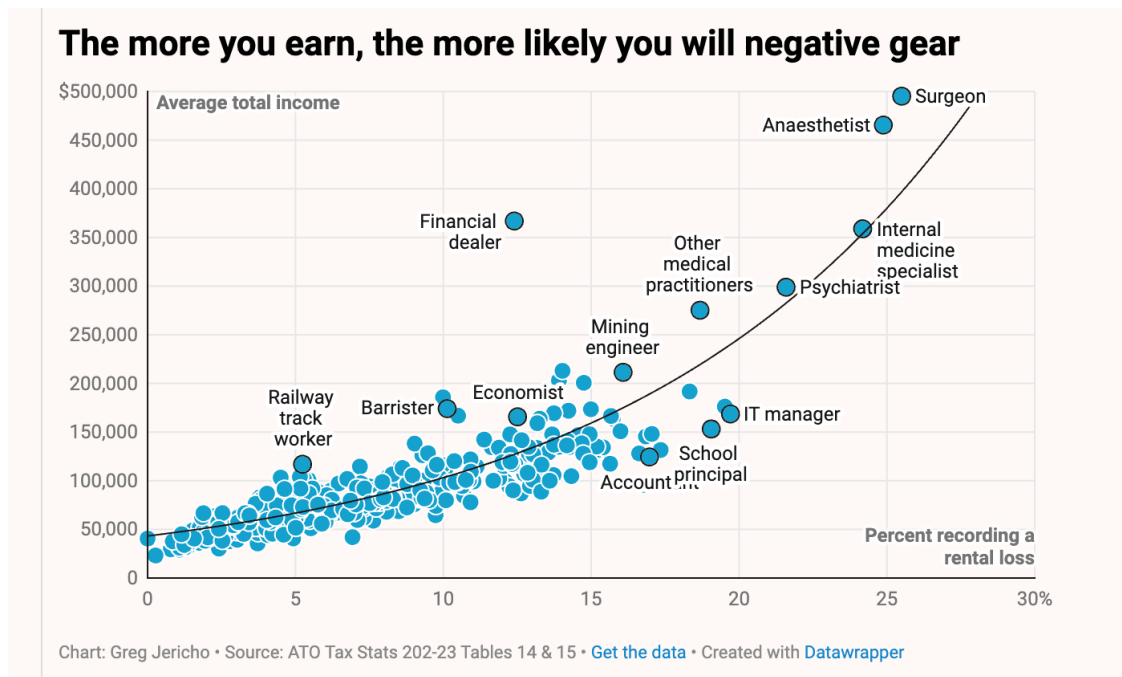
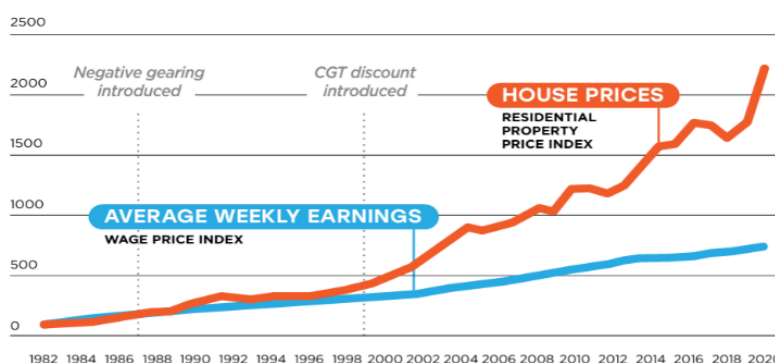


Figure 8: The combined operation of the CGT discount and negative gearing has inflated residential property prices¹⁹

FIGURE 1. Changes in house prices and wages¹⁹



When put into a plainly worded, real-life scenario, the combined operation of the CGT discount and of tax deductions from negatively geared investment properties is extraordinarily unfair. Its contribution to rising inequality and a housing system that extracts wealth from young and/or low-income people to distribute it to high income, wealthy, and/or older people cannot be understated.

¹⁸ Ibid.

¹⁹ Maiy Azize, *Written Off: The high cost of Australia's unfair tax system* (Report, Everybody's Home, January 2024).

Richard earns the average anaesthetist income of \$465,477 per year. They own their home, which they bought before the introduction of the CGT discount – and before house prices became severely unaffordable and decoupled from incomes.

They 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. Because Richard bought the properties with a small deposit, the interest on their mortgage is high, allowing them to make even greater 'losses' by deducting mortgage interest against rental income.

*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 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.

5. the role of the CGT discount in suppressing Australia's productivity potential by funnelling investment into existing housing assets

As discussed above, National Shelter is of the view, supported by evidence, that the CGT discount does indeed encourage investors to funnel investment into existing housing assets over new housing construction or other asset classes. This negatively impacts Australia's productivity potential by encouraging investment in speculative assets, such as residential property, over productive assets such as businesses or infrastructure.

Because it artificially inflates housing prices, effectively locking people on lower incomes and/or younger people from home ownership, and indirectly affecting rent prices, the CGT discount also has a range of **indirect** effects negatively impacting productivity in Australia. This includes but is not limited to:

- 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 businesses 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).

National Shelter notes that beyond negative impact on productivity, the contribution of the CGT discount to rapid and artificial inflation of residential property prices far beyond the fundamentals of the market has led to very high levels of household debt. Australian household debt exceeds **200 per**

cent of net disposable income, placing Australia among the most highly indebted household sectors across advanced economies.²⁰ This ratio is substantially higher than the OECD average and exceeds that of comparable countries such as the United States, the United Kingdom and Canada,²¹ with housing loans accounting for the overwhelming majority of Australian household borrowing.²² The OECD has consistently warned that such elevated debt levels increase household vulnerability to interest rate rises and income shocks, with implications for financial stability and macroeconomic resilience.²³ Because major Australian banks are relatively un-diversified beyond residential mortgages provision, concerns around potential shock contagion to banks are high.

6. how the CGT discount influences the types of assets purchased and whether these classes of investments are productive or speculative

The CGT discount incentivises investment in speculative asset classes over productive ones

Investors tend to be motivated by overall profit over the medium to long term. By taxing only half of capital gains for assets held over 12 months, the CGT discount influences investors to favour asset classes with large, partially untaxed capital gains over productive asset classes which produce income taxed entirely. Assets that are speculative and can be sold for a large, one-off capital gain – such as housing – are particularly advantaged by the CGT discount compared to income producing asset classes, or asset classes where small capital gains are realised regularly.

As discussed above, this includes housing (residential property) but also promotes speculative investment in:

- Land (land banking)
- Shares with high growth potential or high price movements (noting the 12 months rule reduces the potential for short term speculation)
- Cryptocurrency and other alternative investments such as gold (over medium/long rather than short term)
- Collectibles (to a lesser extent)

Conversely – and concerningly – it discourages investment in productive investment such as infrastructure, new construction, businesses, commercial property, and income producing shares.

Interaction with interest rates

Because the CGT discount operates as a flat discount rather than an indexation method, the lower the interest rates/inflation are, the more the 50% discount represents a profit windfall rather than a way to tax the gain in real terms. This also encourages semi-regular, medium-term realisation of capital gains (as capital gains realised before 12 months do not benefit from the discount but assets held over a very long term come progressively closer and closer to being taxed in real terms, i.e. when inflation amounts to equal or more than the 50% discount).

²⁰ Organisation for Economic Co-operation and Development (OECD), *Household Debt* (Data Indicator, 2024)

<https://www.oecd.org/en/data/indicators/household-debt.html>

²¹ OECD, *Household Debt: Debt-to-Income Ratios* (Comparative Data, 2024)

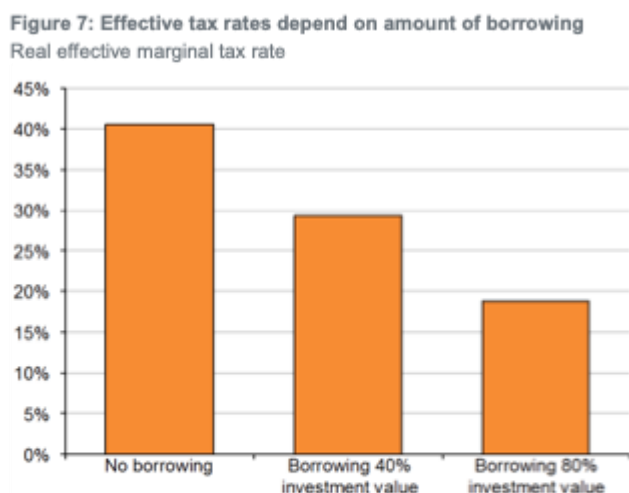
<https://www.oecd.org/en/data/indicators/household-debt.html>

²² OECD, *National Accounts at a Glance 2023: Household Debt* (OECD Publishing, 2023) <https://www.oecd.org/sdd/na/>

²³ OECD, *Financial Stability Risks: Household Indebtedness* (Policy Brief, 2023) <https://www.oecd.org/finance/financial-markets/>

Inflation – and therefore, interest rates – have been at historically low levels in Australia since the introduction of the CGT discount. This makes the flat discount more advantageous than if inflation was higher. Negative gearing, however, makes paying higher interest attractive to investors because they can reduce their tax liability further and for longer.

Figure 9: Higher levels of leverage allow investors to reduce their effective marginal tax rate²⁴



Notes: Assumes 3 per cent nominal income return, 5 per cent nominal capital gain, 2.5 per cent inflation, 5 per cent interest rate. Only 50 per cent of capital gains income is taxed. All income is taxed at the top 47c tax rate. The property is held for 15 years; all rental returns are reinvested until property is sold.
Source: Grattan analysis.

Since inflation targeting was introduced by the Reserve Bank of Australia, yearly inflation has averaged about 2.5%.²⁵ 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).²⁶ 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.

The combination of the CGT discount, negative gearing, low interest rates and relatively lax prudential requirements incentivises investors to highly leverage to purchase multiple assets on which they expect significant capital gains (i.e. in the case of housing, getting multiple high Loan to Value Ratio – LVR over 80% and/or interest only payments loans to purchase multiple residential property dwellings). This is both a macro-economic concern and one of the factors explaining rapidly rising, unaffordable residential property prices that stifle productivity and supercharge housing and wealth inequality.

²⁴ John Daley and Danielle Wood, *Hot property: negative gearing and capital gains tax reform* (Report No 2016-8, Grattan Institute, April 2016) <https://grattan.edu.au/wp-content/uploads/2016/04/872-Hot-Property.pdf>

²⁵ Australian Bureau of Statistics. (2018, October 31). *70 Years of Inflation in Australia*. ABS. <https://www.abs.gov.au/statistics/research/70-years-inflation-australia>.

²⁶ NSW Treasury, *Holding Periods of Residential Property Buyers in NSW* (Report, April 2022) <https://www.treasury.nsw.gov.au/sites/default/files/2022-04/trp22-13-holding-periods-of-residential-property-buyers-in-nsw.pdf>

Land banking is of particular concern because it stifles housing supply and creates corruption risk

Land banking refers to the practice of buying and holding land in the hope it will go up in price, without planning to undertake construction activity. The fact that the CGT discount makes land banking more attractive should be of particular concern to the Australian Government. This practice undermines governments housing supply objectives by creating incentives for landowners to hold land to make an untaxed capital gain compared to developing the land to produce (taxable) income.

Land banking also has a high potential for corruption and/or negative impact on strategic urban development and land use planning as it rewards landowners whose land is upzoned or rezoned. We note that the higher the proportion of the un-earned value flowing to landowners after rezoning/upzoning (i.e. when development contributions are low overall and/or there are no mandatory inclusionary zoning requirements in place), the higher the incentive for corruption.

While other asset classes are of lesser concern to National Shelter, as a policy peak body focused on the housing system, we note that:

- (a) The CGT discount promotes purchase of speculative rather than productive asset classes, negatively impacting productivity and innovation
- (b) When considered alongside negative gearing, the CGT discount encourages highly leveraged investment (because investors can deduct interest 'expenses' from their taxable income while holding out for a large, untaxed capital gain). This creates a significant macro-economic risk should investors – many of which are unsophisticated households whose only other source of income are salary or wages – have difficulties servicing their loan. We note that the fact Australian households are amongst the most indebted in the world – with average household debt sitting at 211% of disposable income - to be of particular concern.²⁷

The CGT discount also creates additional volatility in investment cycles

The current tax regime rewards investors looking for large capital gains – and therefore volatile assets – rather than assets with underlying productive capacity (that keep producing income with low sensitivity to price movements). This artificially inflates the price of those assets, increasing volatility. The high leverage strategy incentivised by negative gearing reinforces this further. We note that there are prudential and macro-economic stability concerns should house prices decrease and/or a recession causes highly leveraged investors to see reductions in their income from other sources and/or investors fleeing the market *en masse* as they understand they will not realise the capital gains they were holding out for.

7. the distributional effects of the CGT discount

The CGT discount benefits overwhelmingly flow to high income, high wealth households

Data analysis from the International Monetary Fund and the Australia Institute shows that 82% of the capital gains tax discount concession flow to the richest 10% of Australians.²⁸ In 2020-21, calculations

²⁷ Organisation for Economic Co-operation and Development, *Household Debt* (Indicator)

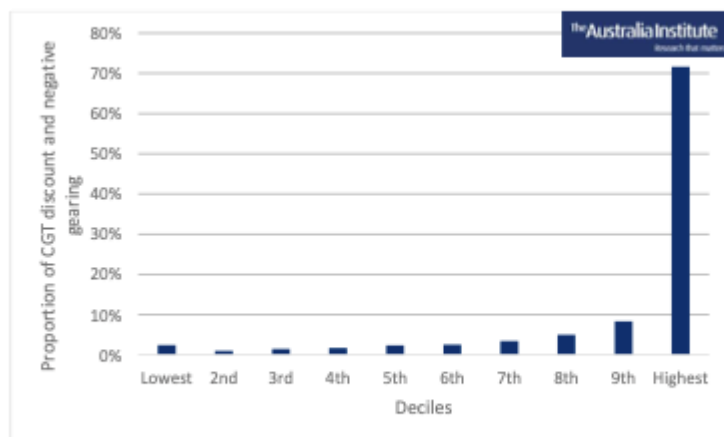
<https://www.oecd.org/en/data/indicators/household-debt.html>

²⁸ *The Australia Institute, Financial Regulatory Framework and Home Ownership: Submission to the Senate Standing Committee on Economics* (Discussion Paper, September 2024) 1 <https://australiainstitute.org.au/wp-content/uploads/2024/10/P1741-Submission-on-home-ownership-pdf-1.pdf>

from the Australia Institute show that over 80% of housing tax concessions flow to the top 20% of income earners.

Figure 10²⁹

Figure 4: Distribution of CGT discount and negative gearing in 2020-21 by income decile



Source: Australian Government Treasury (2024) 2023-24 Tax Expenditure and Insights Statement, <https://treasury.gov.au/publication/p2024-489823> and authors calculations

The CGT discount benefits are unfairly distributed across age groups

Analysis by The Australia Institute based on older data shows that the capital gains tax discount benefit is heavily skewed toward older taxpayers: in 2014-15, those under 30 received around 1.65% of the CGT discount benefit, compared to 56.38% received by those aged 60 and over.³⁰ The situation is likely to have worsened since that time as rates of owner occupied and investor housing ownership have decreased among younger age groups over the last ten years.

8. the use of the CGT discount by trusts

Use of discretionary trusts – including family trusts – where assets are held by one (or more) individual (or a company) with the intention that the benefits of the assets will be distributed to other individuals (as named in the trust deed – usually other family members) allows high wealth, high income individuals to further minimise their tax, contributing to inequality and runaway housing prices.

National Shelter broadly supports the views and recommendations of the Australian Council of Social Service (ACOSS) regarding the efficient operation of a fair tax system.

We note the following:

²⁹ Mark Grudnoff, *Rich men and tax concessions: Income and wealth distribution of tax concessions* (Discussion Paper, The Australia Institute and Centre for Social Research and Methods, April 2021) <https://australiainstitute.org.au/wp-content/uploads/2021/04/P911-Income-and-wealth-distribution-of-tax-concessions-Web.pdf> accessed 18 December 2025.

³⁰ The Australia Institute, *Tax Concessions by Age: Briefing Note* (Briefing Paper, December 2020) <https://australiainstitute.org.au/wp-content/uploads/2020/12/TAI-Briefing-Note-Tax-concessions-by-age.pdf>

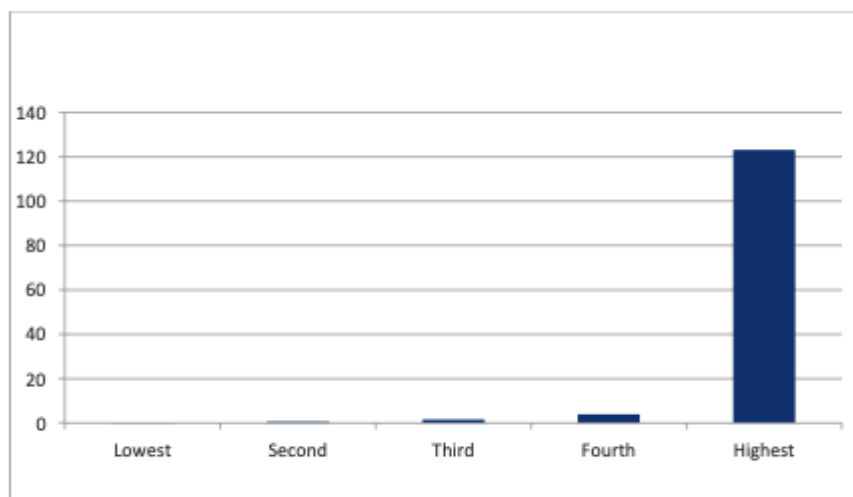
- The huge majority of Australian residents pay personal income tax at their marginal tax rate.
- A small minority of high wealth, high income individuals use trusts to minimise their tax and/or avoid paying tax at their marginal tax rate. This means other taxpayers must pay additional tax to ensure sufficient funding for essential government services. It undermines the integrity of the tax system and further entrenches inequality.

While legitimate reasons for the use of discretionary trusts do exist (e.g. for asset protection from and/or for the benefit of family members with limited capacity for financial management), it follows that the Australian Government should limit opportunities for people to evade or minimise tax through the use of trusts.

Where it relates to CGT, family trusts allow people to strategically attribute capital gains to family members with the lowest marginal tax rate to maximise after-tax profit.

Virtually all wealth held in trust (95%) is held by the wealthiest 20% of households. Conservative estimates from 2015 estimate the taxation revenue loss due to trust from \$2bn to \$3.5bn, costing every other taxpayer an annual average amount of \$202 to \$354.³¹

Figure 2: Value of private trusts by household quintiles (\$'000)



Source: ABS (2015) *Household Income and Wealth, Australia, 2013–14*, Cat no 6523.0, 16 December.

Figure 11

Over half of very high-income individuals (over \$500,000 p.a.) receive some form of trust distribution.³² Given that the main attraction of discretionary trusts is tax minimisation/avoidance, use of the CGT discount by trusts is a major concern.

A fair taxation system requires efficient monitoring and enforcement of tax legislation to minimise tax avoidance. While addressing tax avoidance opportunities is out of the scope of this inquiry, National Shelter recommends that the Australian Government reviews law reform options to minimise tax evasion through income splitting by using family and other discretionary trusts, ‘shell companies’, and self-managed super funds (SMSF).

We propose that CGT discount reform be also applied to trusts as per recommendation 1.

³¹ David Richardson, *Trusts and Tax Avoidance* (Report, 21 July 2017) <https://australiainstitute.org.au/wp-content/uploads/2020/12/P428-Trusts-and-Tax-Avoidance-Richardson-FINAL.pdf>

³² Ibid.

9. whether this tax discount is fulfilling its original intended purpose

While defining the 'original intended purpose' of the CGT discount is complex and contested, some of the main objectives can be summarised as:

- 'Encourage a stronger investment culture amongst Australian households' (as highlighted in the 'Ralph Review')³³
- Simplify the tax treatment of capital gains
- Discourage short term, speculative investment (especially in share markets) to benefit long-term, productive investment.

As discussed in the previous sections, National Shelter considers that the CGT discount is not fulfilling its original intended purpose because the current 50% flat rate discount method is overly generous compared to indexation methods, resulting in under-taxation of capital gains, in particular on residential property, and encouraging speculative investment in residential property at the expense of income producing assets.

Additional CGT discount for the provision of affordable housing

National Shelter considers the additional CGT discount of 10% - bringing the total flat discount rate to 60% of the gain - to be appropriate. We do not seek changes to the 10% additional discount at this stage and support a tax system that encourages the provision of **genuinely affordable** rental housing (e.g. through schemes such as the National Rental Affordability Scheme, which was unfortunately discontinued in 2014, with the final NRAS home winding up in June 2026).³⁴ We note, however, that CGT discounts might not be the most efficient way to expend public funds to support safe, secure, affordable housing, as compared to direct government investment in social and affordable housing and given that small holding, amateur investors are likely to churn properties regularly, undermining the **stability** of the rental housing provided.

10. whether the CGT discount has a role in Australia's future tax mix

National Shelter's position, as established in this submission, is that given that the CGT discount; (a) overwhelmingly flows to high income and high wealth households and individuals, (b) distorts investment decisions towards speculative asset classes and away from productive asset classes, artificially inflating existing residential property prices with no clear public benefit and negative impacts on housing affordability for prospective home buyers and people who do not own their home, equality, wellbeing, and productivity of Australian residents, we are therefore recommending that it does not have a significant role in Australia's future tax mix.

There needs to be, however, a method available to individuals, households and trusts to ensure that fair, adequate taxation is applied on capital gains **in real terms**.

For the sake of simplicity and recognising that taxpayers are familiar with reporting net capital gains using the CGT discount method, we recommend that the CGT discount be adjusted downwards to 25%, phased in over 5 years to avoid arbitration and 'cliff' effects. Over the longer term, the Australian

³³ Commonwealth of Australia, *Review of Business Taxation: A Tax System Redesigned* (Final Report, July 1999) ch 5.

³⁴ Department of Social Services (Cth), *National Rental Affordability Scheme* (Web Page, 22 August 2025)

<https://www.dss.gov.au/national-rental-affordability-scheme>

Government should consider moving back to an indexation method to ensure taxation on real terms capital gains.

Recommendation 1 – Adjust the CGT discount downwards to 25% over five years

The Australian Government to progressively reduce the CGT discount available to individuals and trusts by 5% each year over 5 years until it reaches a maximum of 25%.

Given that it is the **combination of the CGT discount and negative gearing** that allows for both speculative deferral and avoidance of tax, adjustment of the CGT discount should occur concurrently with new restrictions on negative gearing, including (a) limiting tax deductions for expenses (e.g. interest payments on loans) against income received from the same asset class and/or (b) limiting the use of tax deductions to newly built properties as per recommendations 3/3A.

While National Shelter understands that the scope of this inquiry is limited to the CGT discount, we note that the CGT exemption for the PPOR operates in a similar way to incentivise households to undertake improvements to their PPOR in order to increase its value and realise a **fully untaxed** capital gain when they sell it. This also contributes to rapidly rising wealth inequality between established and prospective homeowners and people who rent their home.

Based on similar fairness and productivity grounds, National Shelter supports a review of the CGT exemption for PPOR considering whether limiting the PPOR exemption to people under a certain income threshold or property value threshold is appropriate.

Recommendation 2 – Review the CGT exemption for principal places of residence

Given that the CGT discount makes negative gearing much more attractive to investors, encouraging speculative investment, reform of both policies should be considered together. National Shelter considers that 'losses' incurred through negatively geared properties (or other assets) are not true losses but rather the cost of the speculative investment undertaken. To reduce incentives for speculation and ensure people on high incomes pay their fair share of tax, we recommend that negative gearing be limited to income from the same asset class.

We note that there are other reform options should the Australian Government decide not to adopt this much needed change, such as restricting the scope of expense deductions available, for example by excluding depreciation or putting a cap on the dollar amount of deductions claimed. 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.

We expect reform of the CGT discount and negative gearing to deliver modest reductions in house prices - in the range of 1-3% - and comparable to the effect of a temporary 'over-supply' of dwellings. More importantly, however, we expect these reforms to act as a brake on speculative investment during times of rapid price growth **and** change the composition of buyers by re-balancing the playing field away from investors and back towards home buyers. We expect any reduction in rental stock to be offset by reduced demand for rental stock as any investors exiting the market will sell to another rental provider –who is satisfied with the expected returns on their investment - or a household who

was previously renting. Though threats from property investors – or organisations who purport to represent them – to exit the market are common, research from the Australian Housing and Urban Research Institute (AHURI) shows that in the case of tenancy legislation reform, they are rarely followed through. Analysis of rental bond data and two decades of tenancy legislation reform in NSW and Victoria shows that landlords exits from providing private rental housing are **not correlated** with tenancy legislation changes.³⁵

Recommendation 3 – Restrict deductions for passive investment in assets yielding capital gains in income from the same asset classes (i.e. abolish negative gearing)

While some commentators and members of parliament argue that negative gearing stimulates new housing supply, evidence for this is scarce. Based on September 2025 ABS data, while 40% of loans are taken by property investors, only one in 20 loans is for new builds,³⁶ suggesting that almost the entirety of foregone revenue expended by the Australian Government through negative gearing provisions is subsidising speculation on existing residential property rather than construction.

There are no requirements to ensure that this stated policy rationale of negative gearing – to support private rental supply – is achieved.

National Shelter supports comprehensive reform of negative gearing to level the playing field and rebalance taxation settings away from speculative investment and towards first home buyers. However, should the Australian Government decide to retain some form of negative gearing, we recommend that negative gearing be restricted to newly built properties in order to stimulate investment in new housing rather than existing property. We expect the incentive created by this new distinction to be small and note the administrative burden of higher complexity in the tax system. While our view is that there is limited evidence to justify negative gearing at all, we do recognise that retaining negative gearing for newly built properties might make reform easier to explain to the public and more politically palatable.

Recommendation 3 (Alternative) – Restrict negative gearing to newly built properties from July 1, 2026.

Both options for reform would include a progressive phase out – rather than ‘grandfathering’ - of investments negatively geared before the tax concession ceased to be available. This implementation model guarantees fairness and efficiency while minimising disruption to individual investors who may have made investment decisions based on the previous tax regime and/or the broader market. Once reform of CGT discounts and negative gearing is announced by government, it should be implemented **rapidly**, with progressive phasing in limited to assets already acquired (in the case of CGT) or already negatively geared, to avoid investors ‘gaming the system’ by buying assets before reform commencement dates to lock in tax benefits.

³⁵ Chris Martin et al, ‘Do Tenancy Reforms to Protect Renters Cause Landlords to Exit the Market? No, but Maybe They Should’ *City Futures Research Centre Blog* (28 November 2022) <https://blogs.cityfutures.unsw.edu.au/news/do-tenancy-reforms-protect-renters-cause-landlords-exit-market-no-maybe-they-should>

³⁶ Australian Bureau of Statistics, *Lending indicators, September quarter 2025* (ABS Catalogue No ABS 5607.0, 12 November 2025) <https://www.abs.gov.au/statistics/economy/finance/lending-indicators/latest-release> accessed 18 December 2025.

National Shelter strongly cautions against the politically palatable temptation to exempt the first rental property from negative gearing and CGT reform as this would (a) greatly reduce the impact of the reforms, given that over half of landlords only own one investment property *at a time*³⁷ and (b) create an incentive for high income, high wealth individuals to set up structures – similarly to the current use of trusts discussed in section 8 – to minimise and avoid taxation by obfuscating the true owner of a property.

11. Benefits of reform

Reforming housing tax concessions would increase government’s revenue and temper house price growth

As previously calculated, a 2.5% yearly increase results in a 50% increase in nominal terms after about 16 years, but the average holding period for residential property is about 9 years. A 25% CGT discount to account for inflation is more appropriate for residential properties - as 2.5% yearly increases result in an overall 25% increase after 9 years.

Modelling undertaken by PwC with 2018-19 figures indicates that removing the CGT discount – for all asset classes - would increase Commonwealth budget by over \$6 billion and improve the operating balance by about 0.3% of the GDP, while removing negative gearing would deliver \$5bn of increased revenue and have a similar effect on the operating balance.³⁸

Tempering house prices growth and level of debts of households is also a prudent macroeconomic measure to mitigate the risk of financial crisis outlined in previous sections.

Increased government revenue would allow the Australia Government to redirect fund towards the real solutions to the housing crisis

National Shelter estimates that the fair and modest changes that we propose to the CGT discount and negative gearing have the potential to increase government revenue by well over \$10bn p.a. Redirecting all or part of this increased revenue towards the Housing Australia Future Fund (HAFF) would allow for a rapid (e.g. over three years) increase in funds available for investment in social and affordable housing.

National Shelter’s position is that HAFF capital funding should be quadrupled – to \$40bn of capital funding – as soon as practicable to allow for \$2bn recurrent, stable investment in social and affordable housing. Using numbers from the first three HAFF funding rounds, a \$2bn yearly investment should allow delivery of 80,000 social and affordable homes over 5 years. This would represent a significant contribution to addressing the severe shortage of social housing and start working towards a target of 10% of total housing stock to be social housing, establishing a housing safety net across the country.

³⁷ Australian Bureau of Statistics, *Housing Occupancy and Costs, 2019–20 financial year* (ABS, 25 May 2022) <https://www.abs.gov.au/statistics/people/housing/housing-occupancy-and-costs/latest-release> accessed 18 December 2025.

³⁸ PricewaterhouseCoopers, *What Are the Implications of Changing Housing Tax Benefits?* (Report, February 2016) <https://www.pwc.com.au/tax/assets/tax-reform/tax-reform-negative-gearing-15feb16.pdf>

Reforming the CGT discount and negative gearing, with the additional revenue invested in social and affordable housing, would strengthen affordable, adequate housing supply and curb rising inequality nationwide.

12. Other related matters

We have covered other related matters including negative gearing and the CGT exemption for PPOR in the rest of this submission.

National Shelter thanks the committee for the opportunity to contribute to the inquiry into the operation of the capital gains tax discount.

We remain at the disposal of the select committee to discuss the operation of the CGT discount and related matters and policy options for fair, balanced reform, and would welcome the opportunity to participate in a public hearing as an expert witness.

Inquiry into the Operation of the Capital Gains Tax Discount



Reforming Capital Gains Tax for housing justice and intergenerational equity

December 2025