

Opening statement to a public hearing of the Senate Select Committee on the Operation of the Capital Gains Tax Discount

Saul Eslake - 25th February 2026

The 50% discount on (nominal) capital gains for income tax purposes was instituted by the Howard Government in 1999 – to replace the arrangements instituted by the Hawke Government in 1985 whereby capital gains on assets held for more than 12 months were taxed at full marginal rates less an allowance for the impact of CPI inflation on the purchase price of those assets – upon the recommendation of the [Review of Business Taxation](#) chaired by leading businessman John Ralph.

Ralph argued that this change would turn Australia into a “nation of entrepreneurs and shareholders”.

It didn't:

- the proportion of the adult population who own shares (according to the [ASX Australian Investor Study](#)) has dropped from 41% in 1998 to 38% as of 2023 (having fallen to as low as 33% in 2014);
- while the proportion of the employed workforce who are owner-managers of independent enterprises (according to the [ABS](#)) has fallen from just under 20% in 1999 to 15.3% as of last year.

Rather, what the change to the CGT regime resulted in was Australia becoming even more of a nation of property speculators than we already were:

- the proportion of taxpayers reporting rental property income to the [Tax Office](#) rose from 14.3% in 1997-98 to a peak of 20.8% in 2013-14, and at 18.0% in 2022-23 is still above the level prior to the introduction of the 50% CGT discount.

In particular, the change to the CGT regime in 1999 effectively converted negative gearing from a strategy which had been, up until then, principally about *deferring* tax (until the investment property was sold, and subject to CGT at the taxpayer's full marginal rate, less the allowance for CPI inflation), to one which thereafter became about both *deferring* and *permanently reducing* tax (by converting wage and salary income taxable in the year in which it is earned, at the full marginal rate, into capital gains taxable when the investment is sold, at half the full marginal rate).

Not surprisingly, therefore, the proportion of property investors who were negatively geared rose from 50.3% in 1997-98 to a peak of 70.4% in 2007-08, before falling away over the following 14 years as interest rates declined to record lows (which made it much more difficult to be negatively geared).

And this in turn had profound consequences both for the Federal Budget -

- revenue foregone as a result of the CGT discount has risen from \$860 million in 2000-01 (according to the [2001 Tax Expenditures Statement](#)) to \$21.8 billion in 2025-26 (according to the [2025-26 Tax Expenditures and Insights Statement](#));

- or from 1.1% of total personal income tax collections in 2000-01 to 6.1% of total personal income tax collections in 2025-26;
- [Treasury analysis](#) indicates that 83% of the benefits from the CGT discount accrue to people in the top 10% of taxable income.

and for the housing market:

- the share of loans for housing taken out by investors rose from 26.4% in 1998-99 to 42.7% in 2003-04, fell back to 32.4% (during the GFC), climbed again to a peak of 44.5% in 2014-15, fell again to a low of 25.4% in 2020-21 (during Covid), and has since recovered to 40.0% in the first half of 2025-26;
- over the 25 years since the change to the CGT regime, the share of housing loans taken out by investors has averaged 35.7%, 9.2 percentage points above the investor share in 1998-99.

It's important to note that nearly 82% of all housing finance commitments to investors (since the commencement of the current ABS [Lending indicators](#) series in the September quarter of 2019) is for the purchase of *established* housing – that is, housing which *already exists*. Contrary to oft-made assertions, purchases of established housing by investors do *nothing* to increase the *net* supply of rental housing – because, by out-bidding prospective owner-occupier purchasers, investors who purchase established dwellings are effectively increasing the *demand* for rental housing by the same amount as they are increasing the [gross] supply of it.

Hence any reduction in the CGT discount, or reversion to the CGT regime which applied between 1985 and 1999, if applied only to investors purchasing established dwellings, would *not* have any material impact on the supply of rental housing, or on rents.

It probably is the case that reducing the CGT discount, or reverting to the pre-1999 CGT regime, for investors in established housing would reduce the volume of investment in established housing. But that would be a Good Thing: because it would, in turn, reduce an important source of upward pressure on residential property prices, and it would reduce a significant source of competition for aspiring home-buyers seeking to purchase established properties. To the extent that it did reduce the number of established properties available for rental, it would reduce the demand for such properties for rental by a similar proportion – and thus would have no impact on the level of rents.

If the current CGT discount were to be retained for investors who purchased *new* dwellings (as only about 18% of investors currently do), or were to be reduced by less than the discount for investors purchasing established properties, it is possible that more investment could be directed towards the construction or purchase of new dwellings. And that would also be a Good Thing, because it would likely increase the supply of dwellings for rent.

Again contrary to oft-made assertions, it is 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 is not a 'cost-plus' business: rents are largely determined by the interaction between the supply of and demand for rental housing (as proxied by vacancy rates). Landlords do not typically pass on increases or decreases in interest rates to tenants in the form of increases or reductions in rents: there is no reason to think they would be any more likely to do so with changes to the CGT discount. Indeed, raising rents in order to recoup the impact of less generous tax treatment would seem to defeat the whole purpose of 'negative gearing' – which is to incur losses that can be used to reduce the amount of tax payable on other income.

None of the foregoing is to suggest that reducing the CGT discount, or reverting to the pre-1999 CGT regime, is any kind of 'silver bullet' that will, on its own, 'solve' Australia's growing housing affordability problems. It won't. It will still be essential to increase the supply of housing, both for owner-occupiers and renters, through changes to zoning and planning regulations, reductions in taxes on charges on new dwelling construction, sustained increases in housing industry productivity, and higher levels of public and private investment in social and affordable rental housing. But reducing the volume of private investment in established housing – which reducing the CGT discount would do – will certainly help.

One alternative to simply reducing the CGT discount or reverting to the pre-1999 regime which is worthy of consideration is the adoption of a [dual](#) or schedular system of income taxation similar to that used in the Nordic countries, the Netherlands and Austria. Under such systems, labour income (ie wages and salaries) is taxed on a progressive scale as at present in Australia, while income from capital (investment or 'passive' income) is taxed under a separate scale which could be either at a flat rate (as in Norway and Iceland, at 22%) or at progressive rates (as in Sweden, Denmark, Finland and Austria), but with no tax-free threshold and with a 'Chinese wall' between labour and capital income (ie no offsetting of income or deductible expenses on one side against the other).

As the ANU Crawford School's [Tax and Transfer Policy Institute](#) has argued, "a dual income tax system is more efficient, simpler and fairer than the existing (regressive) tax treatment of savings". They note that among its attractions are that "it has already been successfully implemented in other countries" and that "it is possible to move towards this system in stages".