

Capital gains discounts were meant to usher in an Australia of 'shareholders' – not property speculators

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If pre-budget rumours and press speculation are to be taken with less than the usual grain of salt, the Budget which Treasurer Jim Chalmers will present on the evening of May 12th will contain some genuine, meaningful tax reform. Not nearly as much, to be sure, as [Allegra Spender](#) or [Mike Baird and Anna Bligh](#) have called before – but nonetheless, a welcome change from the masterly inactivity which has characterized Australia's taxation system for most of this century thus far.

Specifically, apparently informed reports indicate that the Albanese Government will finally make changes to the excessively generous capital gains tax (CGT) regime introduced by the Howard Government in 1999 – as Labor promised it would do if it won the 2016 or 2019 elections, but at which it has since baulked.

The 50% discount (relative to what would otherwise be paid) on capital gains was recommended by the [Review of Business Taxation](#) conducted by then prominent business leader John Ralph in 1998. He said that this would turn Australia into “a nation of shareholders and entrepreneurs”. 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.

Instead, it turned Australia into 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).

The 50% CGT discount come at a substantial cost to the Federal Government, in terms of revenue foregone – rising from 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](#)).

But it has also had serious consequences for the Australian 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 1999 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.

Defenders of the 50% CGT discount argue that this increased investor activity has increased the supply of rental housing – and that, without it, rents would have risen by even more than they actually have.

But more than 80% of the money lent for the purchase of investment properties has been for the purchase of 'established' housing – that is, houses and apartments we've already got – as opposed to new housing. And when investors buy housing that already exists, they increase the *demand* for rental housing – by out-bidding a prospective home-owner – by exactly the same amount as they increase the supply of it.

So while Angus Taylor, Tim Wilson and other defenders of the 50% CGT discount are right in saying that "if you tax something more, you'll get less of it", that's actually an argument in favour of making the CGT regime less generous – at least to investors in established housing. Because if we had less of that, housing would be more affordable for prospective home-buyers than otherwise, resulting in a higher proportion of the population owning their own homes and thus reducing the demand for rental accommodation – by as much as less investment in established housing would reduce the supply of it.

And really, if we are serious about wanting to make it easier for Australians – and especially younger Australians – to own their own homes, what's not to like about that?