

Opening statement to the Senate Economics Legislation Committee's inquiry into the Treasury Laws Amendment (Tax Reform No. 1) Bill 2026 and the Income Tax Rates Amendment (Tax Reform No. 1) Bill 2026

Saul Eslake, independent economist, 15th June 2026

For the most part I support the tax reforms proposed in the two Bills which are the subject of this inquiry, in particular:

- the proposal to abolish the practice widely known as 'negative gearing', other than for investment in new residential properties;
- the proposal to tax capital gains at full marginal rates, less an allowance for the impact of CPI inflation on the cost base of the assets being taxed, instead of the 50% discount on nominal gains which has applied since 1999; and
- the proposal to subject distributions from discretionary trusts to a 30% minimum tax rate.

However that support isn't unqualified – and I'll return to those qualifications later on.

Fundamentally, the tax reforms proposed in the recent Federal Budget and contained in these two Bills address issues of horizontal and vertical equity. As no less an authority than Adam Smith put it in [*The Wealth of Nations*](#), "the subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state"; and that "it is not very unreasonable that the rich should contribute to the public expense, not only in proportion to their revenue, but something more than in that proportion".

Or, to put it in more contemporary terms, why should people earning a similar amount of income be asked to contribute different proportions of that income to the cost of providing schools, hospitals, policing, aged care and other public services simply because they earn it in different ways?

That's not to say that the income tax system shouldn't be used to encourage some forms of behaviour and discourage others – just as we use indirect taxes, for example, to discourage smoking and excessive alcohol consumption (albeit with mixed results).

There is a valid argument that a nation's tax system should encourage saving, innovation and productive investment. However it's not immediately obvious that it should seek to encourage those categories of economic behaviour any more than it should seek to encourage gainful employment.

Likewise, as a capital-importing nation we can't completely ignore the ways in which the tax systems of other countries – whether they are suppliers of the capital we need, or competitors for the capital we need to fill the gap between what we save and what we invest – treat various forms of income.

However that doesn't mean we must slavishly emulate every aspect of their tax systems – or 'pick and choose' some aspects of other nations' tax systems and ignore others. As an illustration, does it make sense to suggest that we should tax capital gains in the same way or at the same rate as the United States or the United Kingdom do, whilst ignoring the fact that both of those countries also impose what we in Australia like to call 'death duties'? Or the fact that neither the US nor the UK allow what we call 'negative gearing'?

It's far from obvious to me that the way in which capital gains have been taxed in Australia since 1999 have aided the achievement of any worthwhile public policy objectives.

In particular, and contrary to the arguments proffered in support of them at the time those changes were made, the current capital gains tax regime has *not* turned Australia into a 'nation of entrepreneurs and shareholders'. The [proportion of the employed work force who are owner-managers of their own businesses](#) (aka 'entrepreneurs') has fallen by more than 5½ percentage points since the present CGT regime was instituted, while the [proportion of the adult population who are direct shareholders](#) is 3 percentage points lower than it was immediately prior to the introduction of the present system.

Rather, the change to the CGT regime turned Australia into even more of a nation of leveraged property speculators than we already were. And while the significant increase in the proportion of Australians who own investment properties isn't the sole cause – or even the single biggest cause – of the deterioration in housing affordability and the decline in home ownership rates among people aged under 55 since then, it has undoubtedly been a significant contributor to both of those trends.

And with the benefit of hindsight, it's not surprising that the change to the CGT regime in 1999 has produced these outcomes. Because, as a matter of arithmetic, taxing nominal gains at 50% of the marginal rate otherwise applicable only results in lower taxation than taxing real gains at the full marginal rate for assets whose value has increased by more than double the inflation rate – which established houses, ETFs based on the Nasdaq index of US high-tech stocks, and crypto-currencies have done, but which Australian shares haven't, on average over the past 25 years.

Nor did the changes to the CGT regime trigger a surge in productivity-enhancing business investment. [Labour productivity](#) growth averaged 1.8% per annum over the 14 years during which the CGT regime introduced in 1985 was in force, and has averaged 1.0% per annum over the 26 years since then. Growth in [multi-factor productivity](#) has slowed even more – at least in the 'market sectors' of the economy where it can be measured – from 1.4% per annum on average between 1985-86 and 1998-99 to just 0.4% per annum since.

So the evidence suggests, I would say very strongly, that the change to the CGT regime in 1999 have not had *any* positive effects on Australia's economic performance, but rather have, in multiple ways, *detracted* from both economic and social policy objectives.

In addition, the availability of 'negative gearing', the tax treatment of capital gains, and that of trusts, have disproportionately favoured richer and older Australians at the expense of not-so-rich and younger Australians.

Based on the latest available ATO [Taxation Statistics](#) (which are for 2022-23):

- only 13.0% of taxpayers who are *not* in the top tax bracket have rental property investments, compared with 33.6% of those who *are* in the top tax bracket, while only 6.3% of those who aren't in the top tax bracket have net rental losses, as against 18.8% of those who are;
- only 6.3% of taxpayers who are *not* in the top tax bracket receive income in the form of capital gains, compared with 20.1% of those who *are* in the top tax bracket (and 40.6% of those whose income exceeds \$1 million);
- only 12.1% of those who are *not* in the top tax bracket derive income from partnerships or trusts, as against 32.6% of those who *are* in the top tax bracket (and 56.1% of those whose income exceeds \$1 million);
- individuals who *are* in the top tax bracket account for 5.3% of all people filing tax returns – but they account for 18.9% of total rental income, 13.2% of all income from partnerships and trusts, 11.5% of small business tax offsets, and 66.3% of total capital gains.

Looked at by age, just under 35% of individuals filing tax returns are aged 18-34 –

- but fewer than 5% of them have rental income, and they account for only 9% of total rental income reported by all individuals;
- only 4.3% of 18-34 year-olds have capital gains in their income, and they account for only 4.2% of total capital gains;
- only 7.2% of 18-34 year-olds derive income from (non-primary-production) partnerships and trusts, and that income accounts for only 9.5% of total income from (non-primary production) partnerships and trusts; and
- only 6.6% of 18-34 year-olds claim the small business tax offset, and they account for 21.3% of the total small business offsets claimed.

Whereas by contrast, among people aged 55 and over, who account for 27% of individuals filing tax returns (7½ percentage points less than those aged 18-34):

- 19.7% of them have rental income, and that income accounts for 44.6% of the total amount of rental income earned by all individuals;
- 11.1% of them received income in the form of capital gains, and that income accounted for 62.4% of all capital gains;
- 21.4% of them derived income from (non-primary production) partnerships and trusts, and that income accounted for 44.9% of all income from (non-primary production partnerships and trusts); and
- 8.7% of them claimed the small business offset, and those claims accounted for 30.1% of the total amount of small business tax offsets claimed.

In other words, the concessional tax treatment – by comparison with the way that wages and salaries (or interest) are taxed – of income from investment properties, capital gains, partnerships and trusts, and small businesses – provide proportionately much greater benefits to more affluent, and older, Australians, than to less affluent, and younger Australians.

And those benefits have accrued to more affluent and older Australians without producing *any* clear broad benefits in terms of greater entrepreneurship, wider share ownership or faster productivity growth, and whilst contributing to the deterioration in housing affordability and the decline in home ownership.

That's why, for the most part, I support the measures proposed in the two Bills which are the subject of your inquiry.

There are, however, three areas where I believe that some changes to the measures proposed by the Government are warranted:

First, the proposed method of indexing the cost base of assets for CGT purposes doesn't work for assets whose cost base is zero – most obviously, in 'start-up' businesses (including shares in 'start-up' businesses granted to employees). Some other arrangement, perhaps similar to the 'carve-out' proposed for new residential properties but with a graduated discount depending on how long the asset or business has been held, should be considered.

However any such 'carve-out' shouldn't be confined to so-called 'tech' businesses – not just because of the practical difficulty of defining 'tech' in a way that doesn't open multiple opportunities for tax avoidance, but also because there is no compelling public policy reason why an activity which can be defined as 'tech' should enjoy more favourable tax treatment than one which can't.

Second, the proposed minimum tax rate of 30% on all capital gains will mean that taxpayers with capital gains whose total taxable income is below \$45,000 (the current threshold for the 30% marginal rate) in the year in which those gains are realized will pay more tax than someone who derives the same income from other sources – which is surely no less inequitable than the fact that someone who earns, say, \$150,000 in capital gains pays less tax than someone who earns the same amount in the form of wages or salaries (or interest).

Third, given that other taxpayers with volatile incomes – such as farmers, professional sportspeople and entertainers – able to average their incomes over a number of years for tax purposes, it seems *prima facie* unfair that taxpayers who are not regular recipients of capital gains should also be able to average them for tax purposes, as was permitted between 1985 and 1999.

Amendments to the Government's proposals along these three lines would do much to address the legitimate criticisms which have been made of them, without conceding anything to those who are motivated by nothing other than a desire to retain the favourable tax treatment which the income tax system has long afforded them.