

# PROPOSED REFORMS TO THE AUSTRALIAN INCOME TAX SYSTEM

SUPPORTING MATERIAL FOR AN APPEARANCE BEFORE THE  
SENATE ECONOMICS LEGISLATION COMMITTEE

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# Macchiavelli's *The Prince* wasn't about tax reform in Australia – but he might well have been



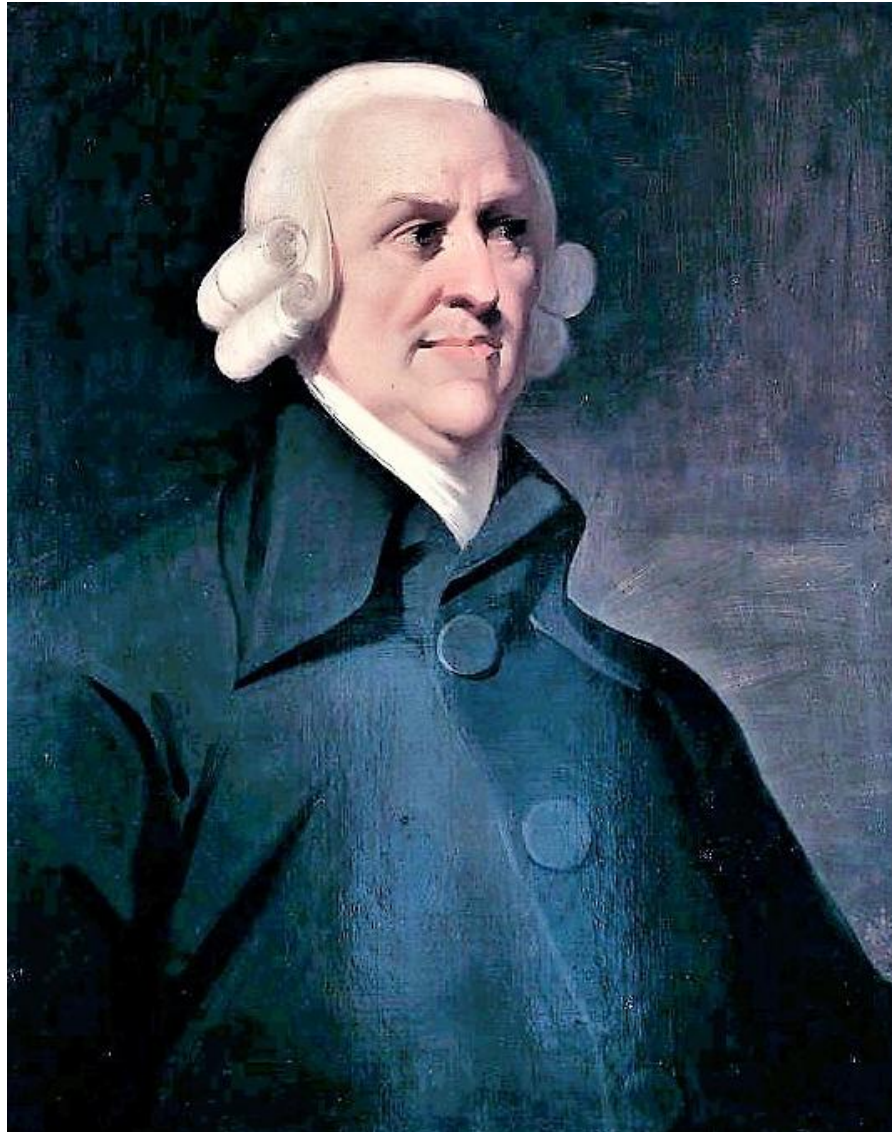
“There is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things – for the reformer has enemies in all those who profit by the old order, and only lukewarm defenders in all those who would profit by the new order”

– Niccolò Machiavelli, *The Prince*, 1532, p. 21

# The tax changes in the Budget raise, and respond to, some very fundamental questions about how our tax system should operate ...

- ❑ The tax changes proposed in the 2026-27 Budget address a fundamental question: why should people earning the same income in a given year, but in different ways, pay different amounts of tax on that same income?
  - in particular, why should someone who earns (say) \$100,000 in wages or salaries (or interest) pay more tax on that income than someone who earns \$100,000 in capital gains, rent, trust distributions or business income?
- ❑ There are some reasons why, in some circumstances, some people earning a given amount of income in a particular year *should* pay less tax on that income than others ...
  - as a capital-importing nation we cannot completely ignore how other nations tax different types of income
  - there may be legitimate reasons for the tax system to encourage some kinds of economic behaviour and discourage others (as we do with, for example, taxes on alcohol and tobacco consumption)
  - some people's incomes fluctuate markedly from year to year
- ❑ ... but that doesn't mean that the judgements implicit in differential tax treatment of different types of income should never change from time to time
  - nor that considerations of equity – fairness as between different individuals in both different and similar circumstances – and revenue requirements shouldn't be considered in making such judgements
- ❑ For the most part, the tax changes proposed in the Budget get the answers to these questions right
  - although there have been some legitimate issues raised in public debate to which the Government should give due consideration

... questions about which no less an authority than Adam Smith had very clear views



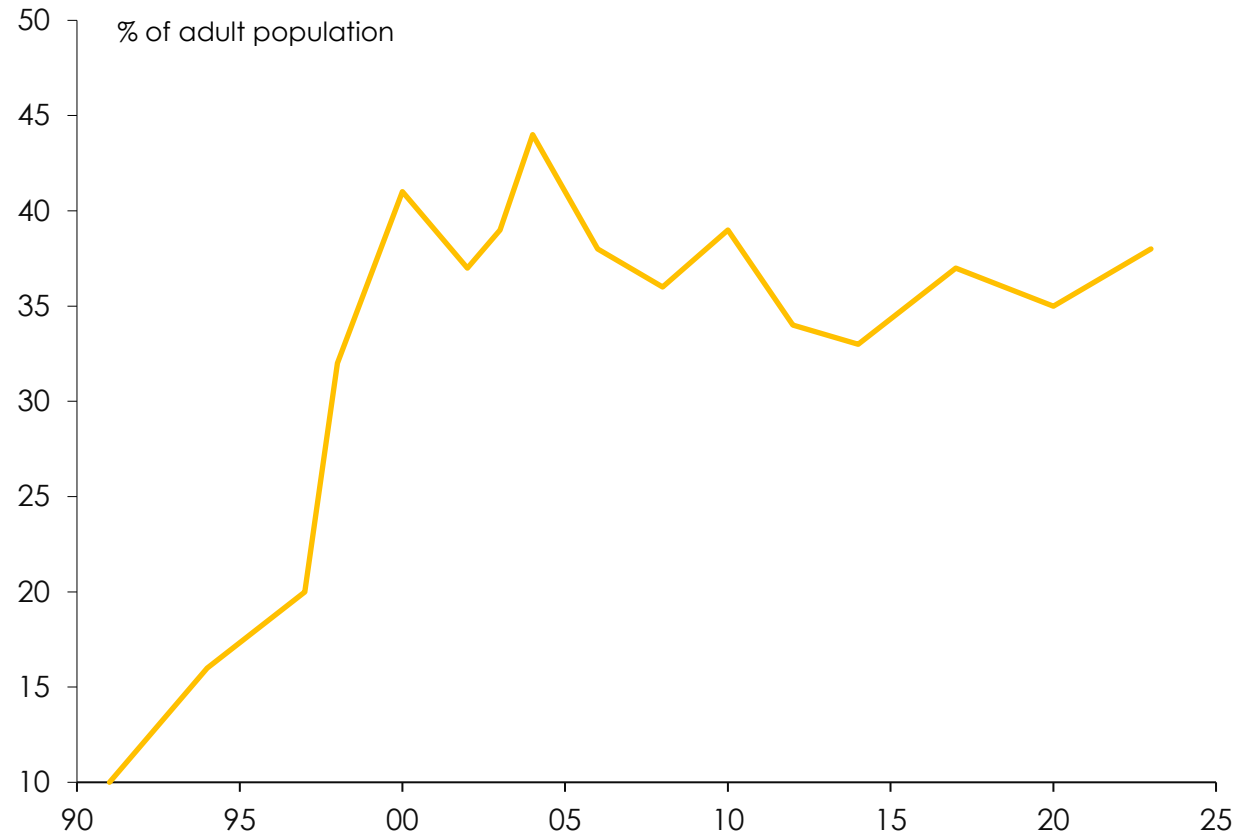
“The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state”

“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”

– *The Wealth of Nations*, 1776, [Book V, Chapter 2](#)

# The 50% CGT discount was supposed to turn Australia into a nation of shareholders and entrepreneurs: it didn't

## Direct shareholders as a percentage of the adult population



**The proportion of the adult population who own shares directly has fallen from a peak of 44% in 2004 to 38% in 2024**

Sources: ASX, [Australian Investor Study 2023](#); and ABS, [Labour Force, Australia](#), April 2026.

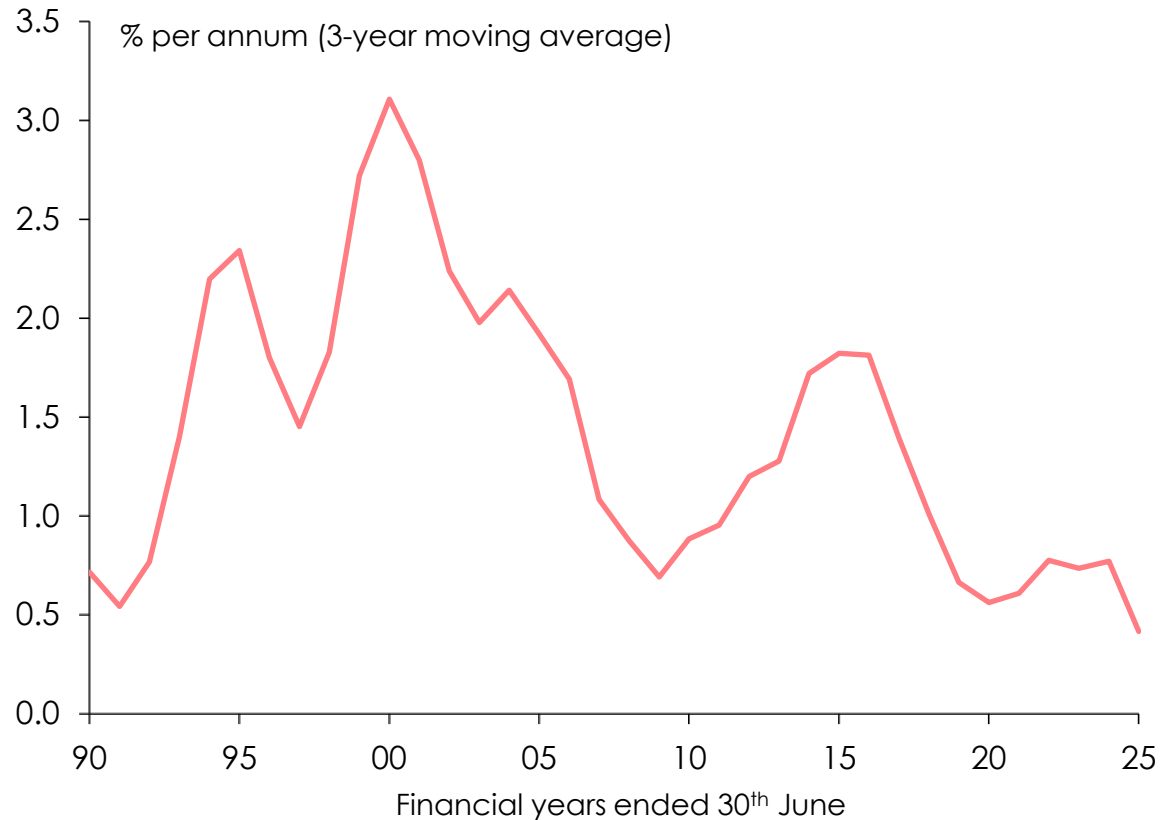
## Owner-managers of businesses as a percentage of the employed population



**The proportion of the employed population who are employers or owner-managers of businesses has fallen from a peak of 20% in 2002 to less than 15% in 2026**

# Nor did the 50% CGT discount trigger a wave of increased productivity growth or higher business investment

## Labour productivity growth



**Labour productivity growth has averaged 1.0% pa since the 50% CGT discount was introduced, compared with 1.6% pa over the previous 15 years when the CPI indexation regime for capital gains was in place**

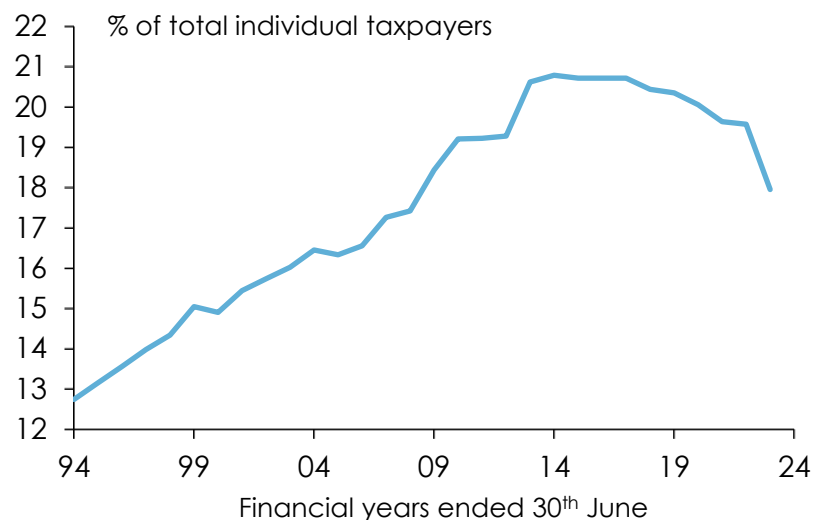
## Business investment



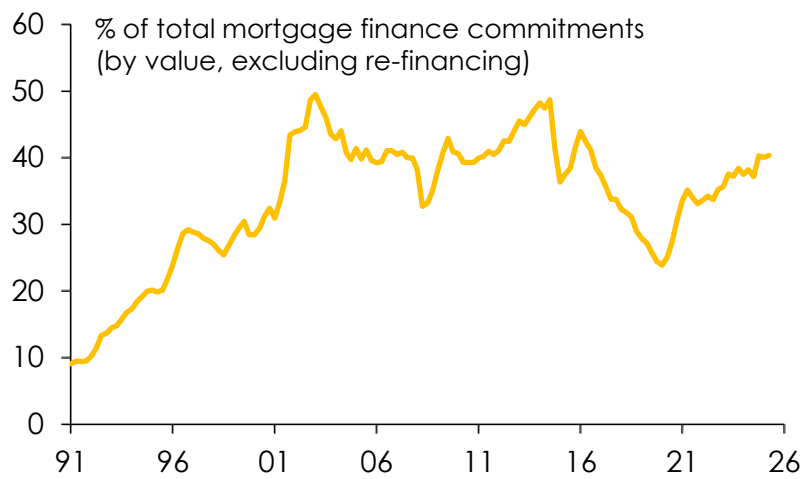
**Non-mining business investment has averaged 3.9% of GDP since the change to the CGT regime in 1999, not appreciably above the 3.1% over the preceding 12 years – despite much lower interest rates during the past 25 years**

# Instead, it helped turn Australia into even more of a nation of property speculators than we already were

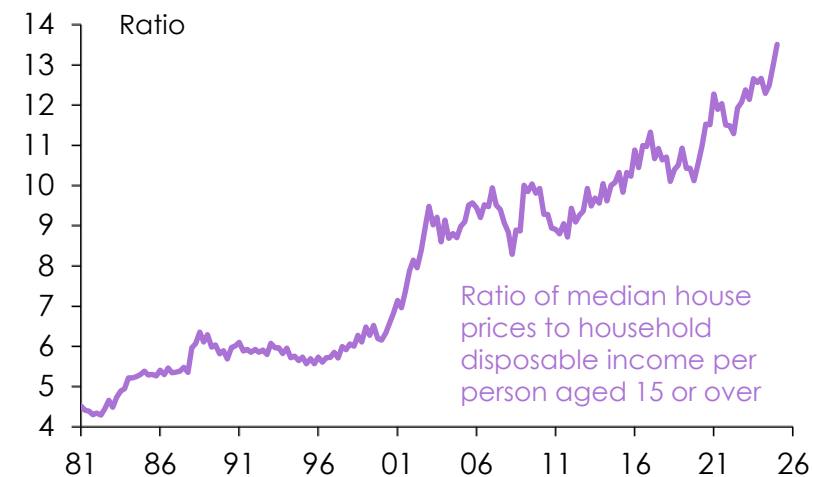
## Taxpayers with rental income



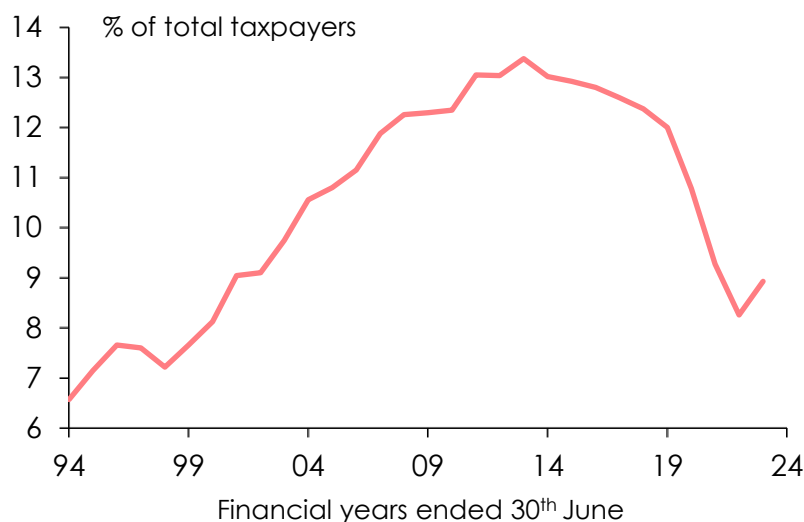
## Investor share of housing finance



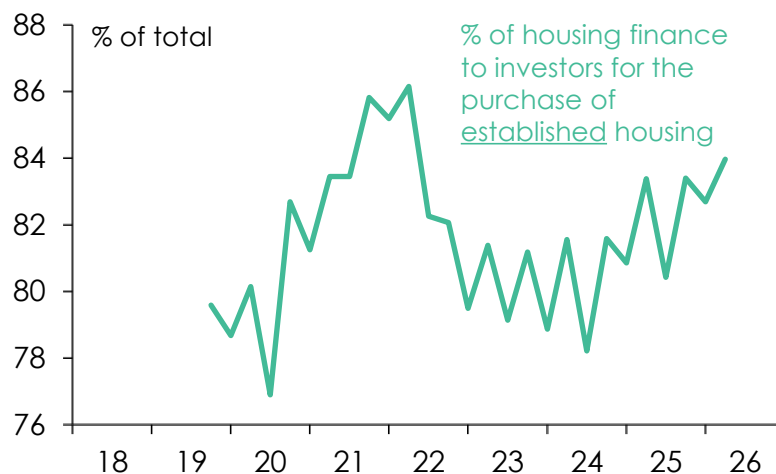
## House price to income ratio



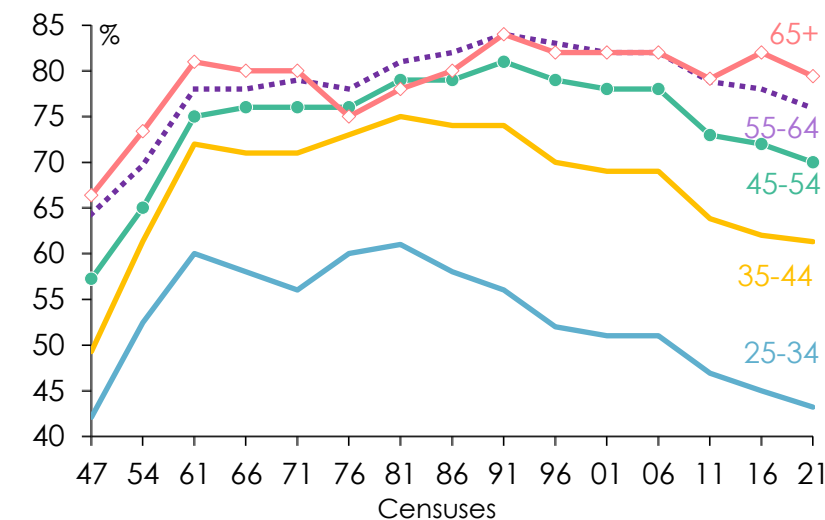
## Taxpayers with rental income losses



## Investor housing finance by purpose

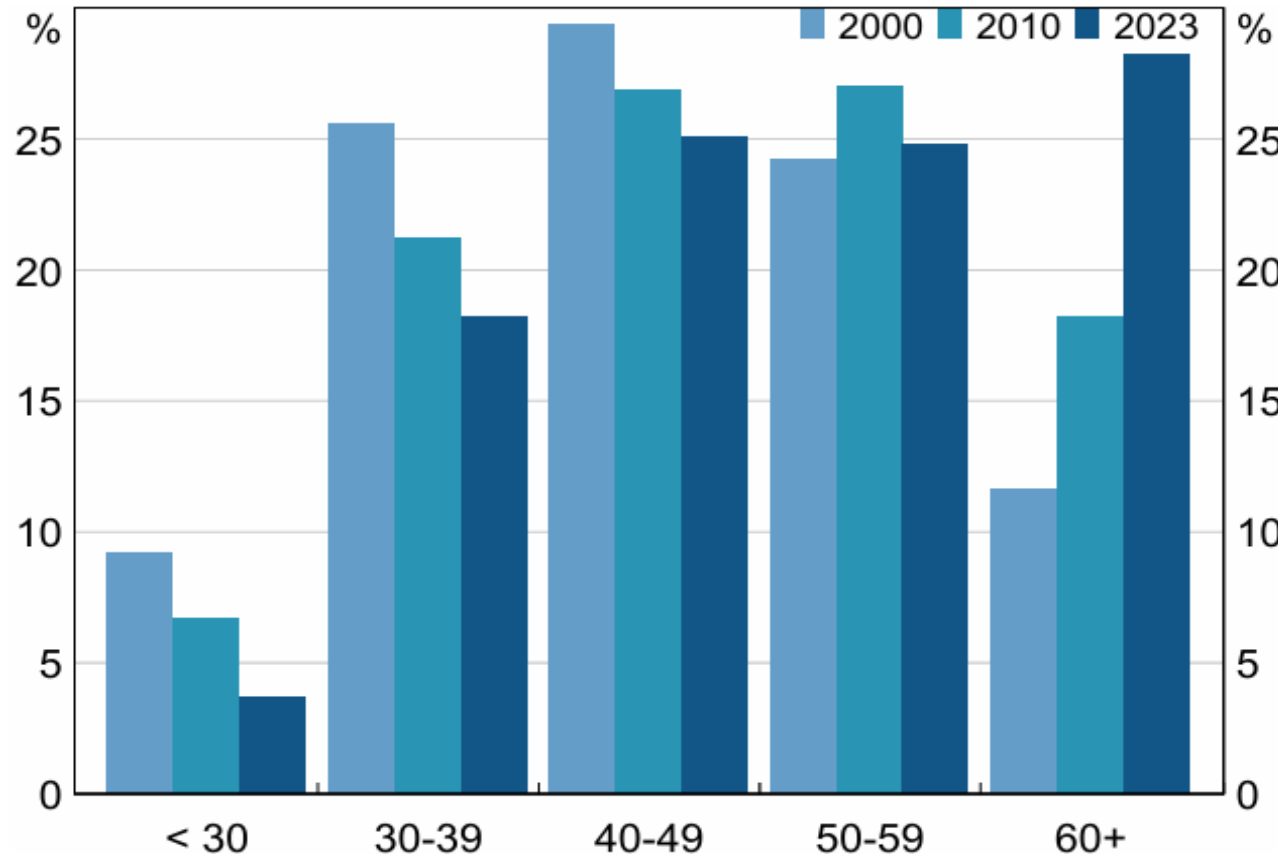


## Home ownership rates by age



# Recently-published RBA research shows that property investors are increasingly likely to be older, and richer, than other Australians

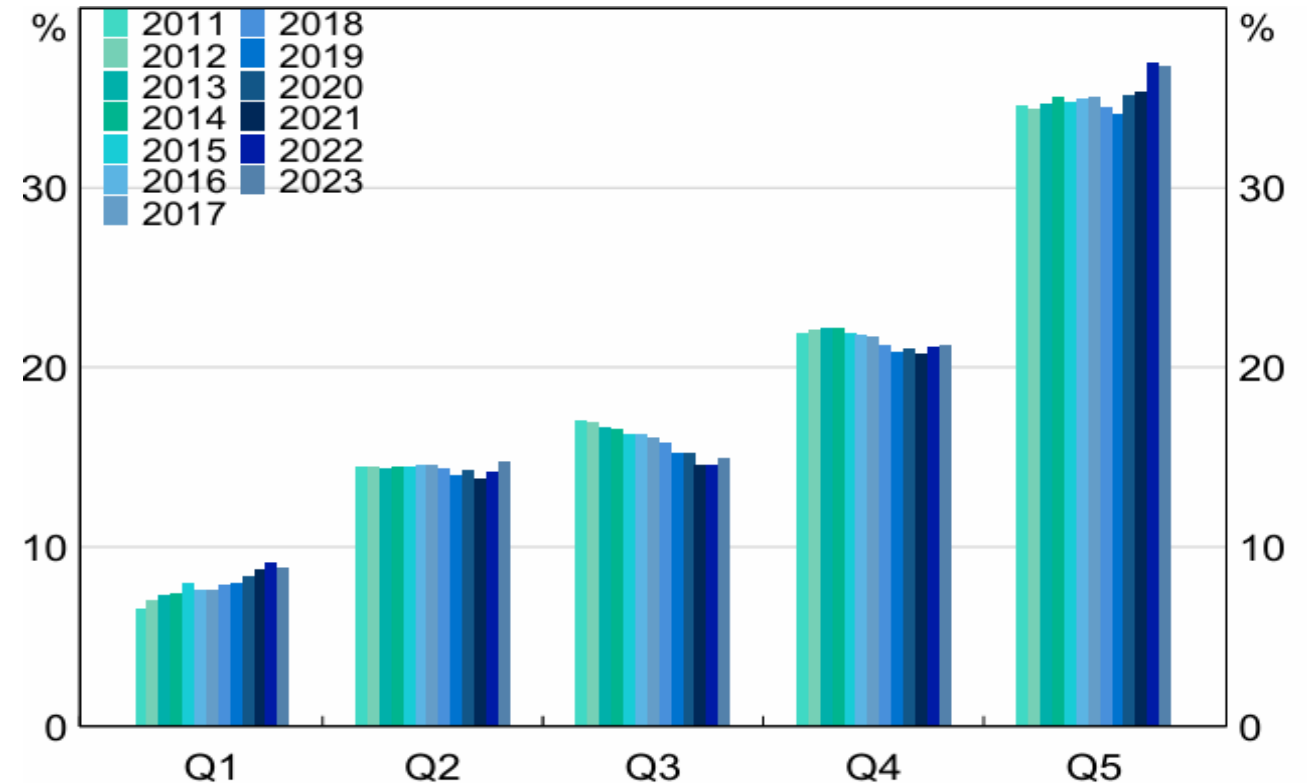
## Housing investors by age group



\* Data prior to 2006 may be subject to a small amount of bias due to demographic data availability.

**People aged 60 and over now account for over 50% of property investors, up from 12% in 1999-2000, while the investor share of younger age cohorts has declined**

## Housing investors by income quintile

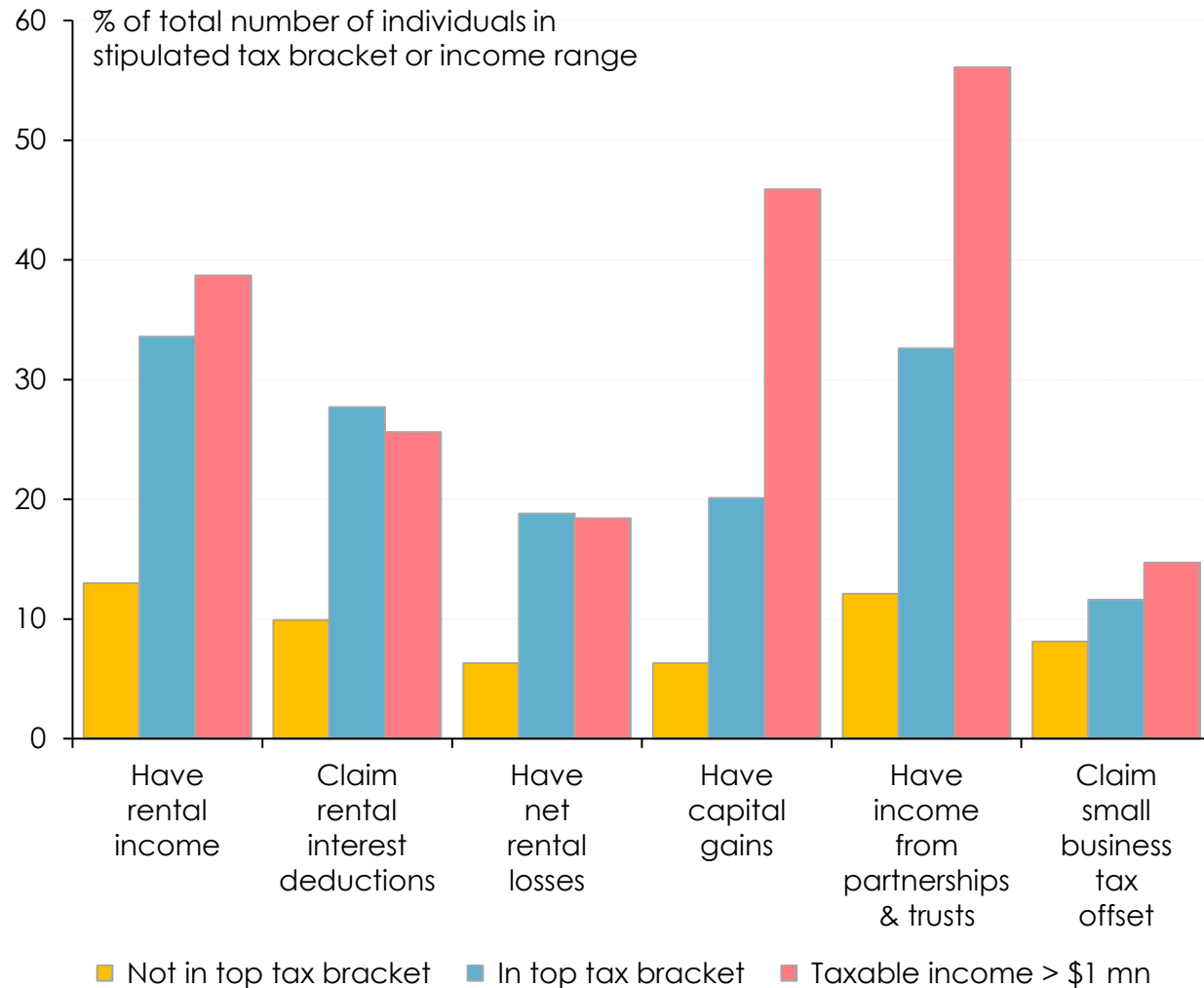


\* Income quintiles are calculated on the full distribution of income tax data (not exclusively investors) and is recalculated each year. Investors with NA or negative income account for a very small share of the population and are not presented on the graph.

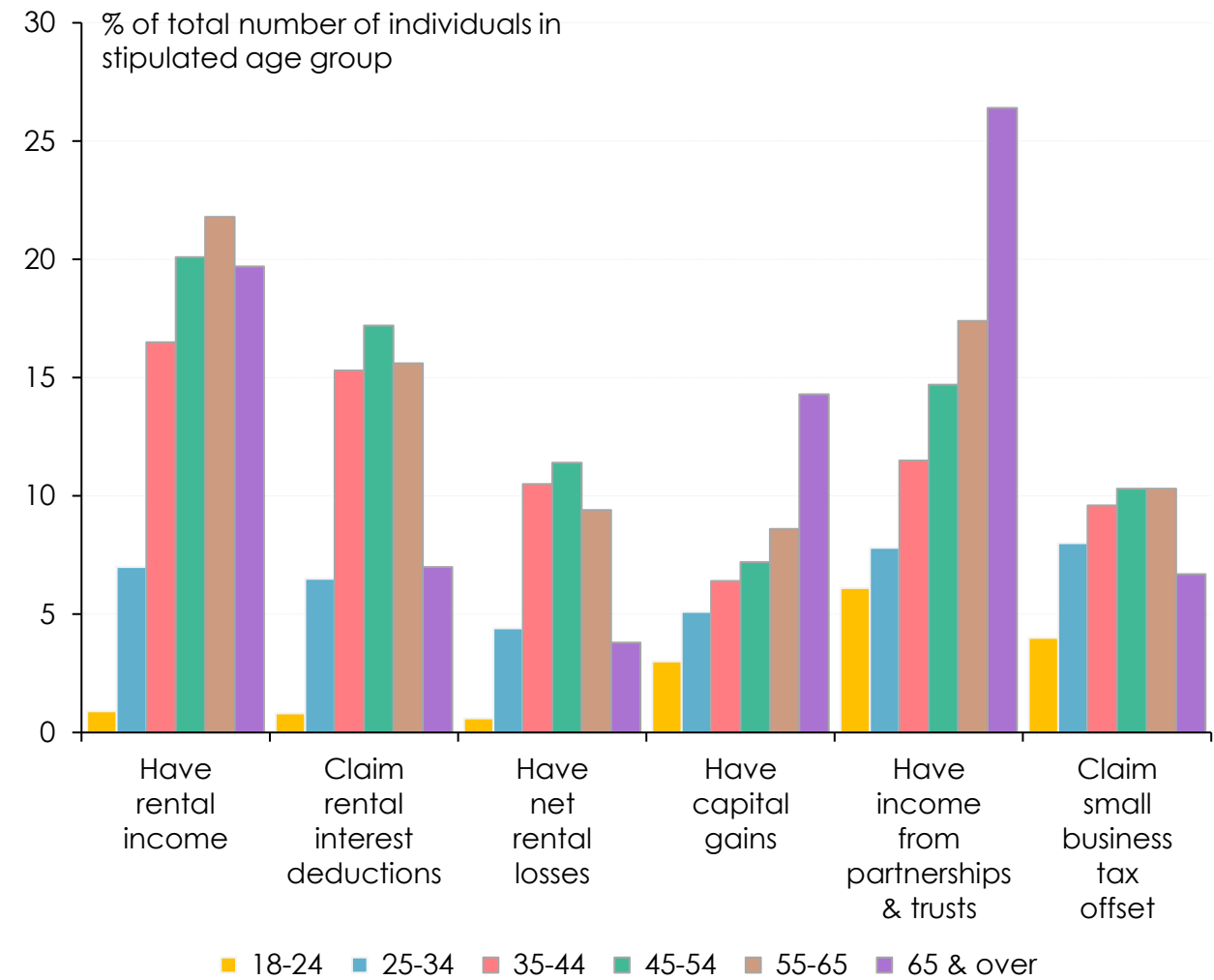
**People in the highest income quintile account for almost 40% of all residential property investors – a share which has increased since 1999-2000**

# The categories of income affected by the tax changes in the Budget disproportionately benefit wealthier and older individuals

## Selected features of individual income tax returns by taxable income, 2022-23



## Selected features of individual income tax returns by age group, 2022-23

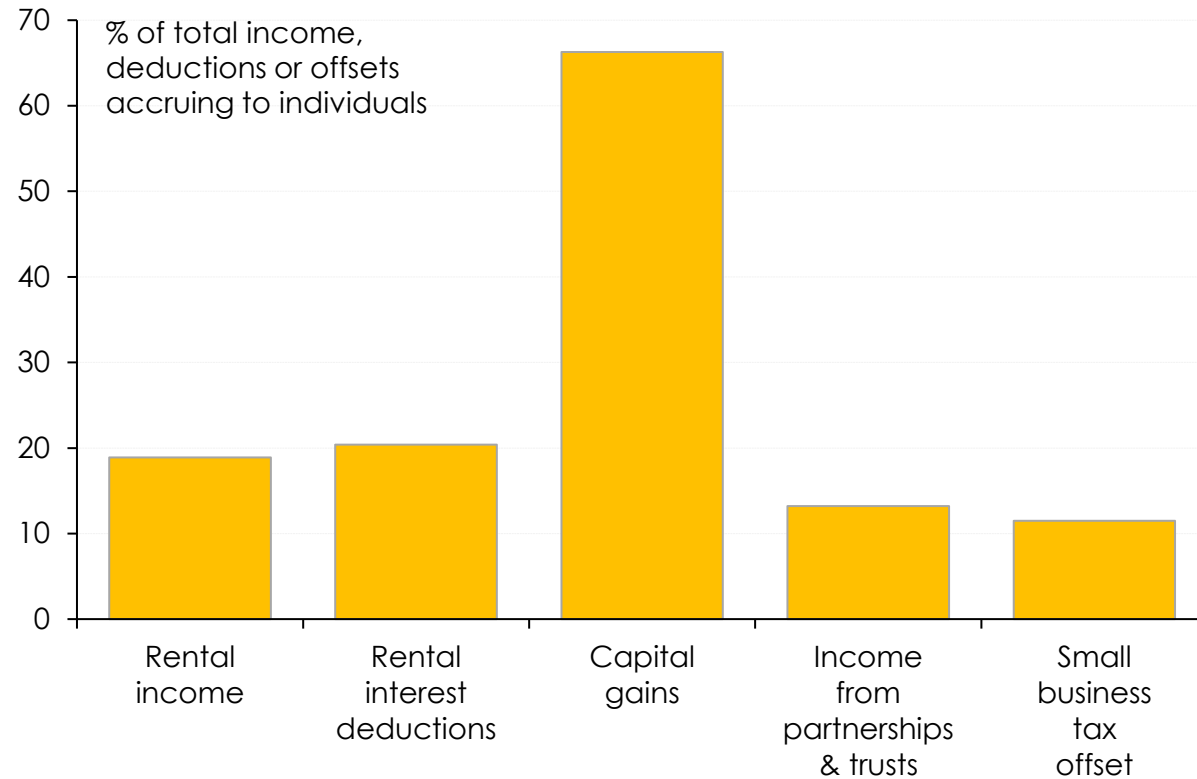


Note: The top tax threshold in 2022-23 was \$180,000. Distributions from partnerships and trusts excludes primary production trusts.

Source: Australian Taxation Office, [Taxation Statistics 2022-23](#), Tables 4 and 3A.

# The categories of income affected by the tax changes in the Budget – in particular capital gains – disproportionately benefit high income earners

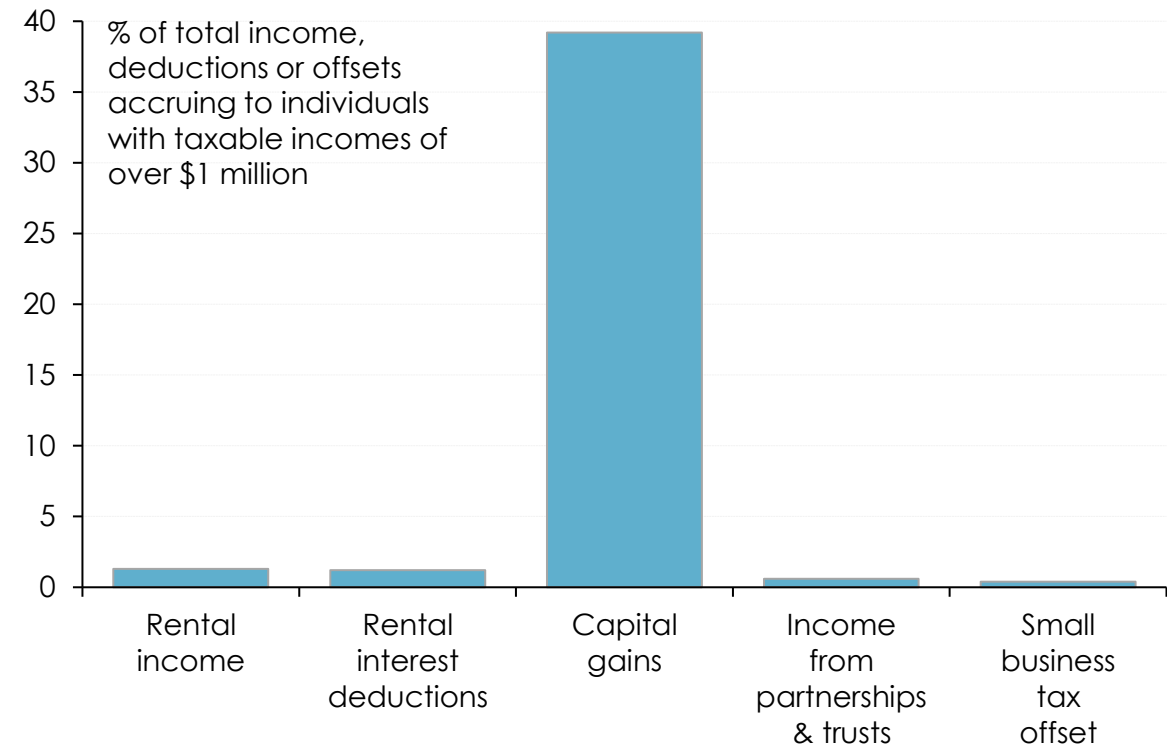
## Shares of selected categories of income, deductions and offsets accruing to individuals in the top tax bracket, 2022-23



**The 5.3% of individuals in the top tax bracket (in 2022-23) account for much larger shares of incomes that are favourably treated by the tax system (though they also pay 37% of total income tax)**

Note: The top tax threshold in 2022-23 was \$180,000. Distributions from partnerships and trusts excludes primary production trusts.  
Source: Australian Taxation Office, [Taxation Statistics 2022-23](#), Table 4.

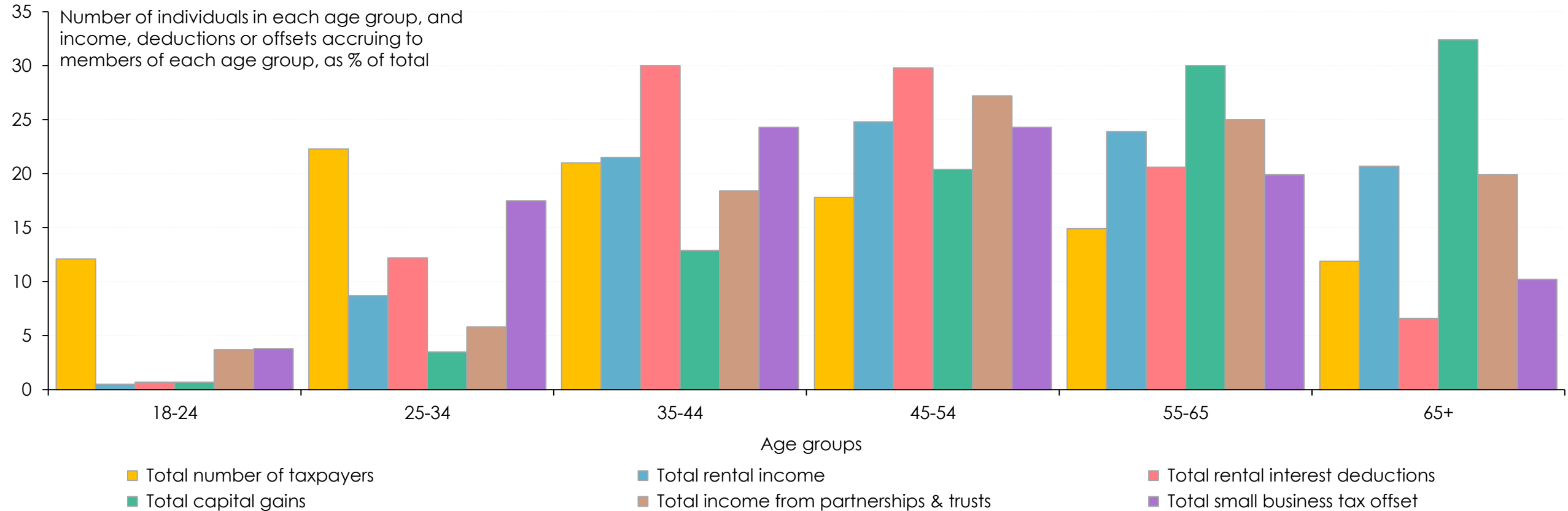
## Shares of selected categories of income, deductions and offsets accruing to individuals with incomes > \$1mn, 2022-23



**The 0.1% of individuals with taxable incomes of over \$1mn (in 2022-23) account for much larger shares of incomes that are favourably treated by the tax system (though they also pay 8.6% of total income tax)**

# The categories of income affected by the tax changes in the Budget – in particular capital gains – disproportionately benefit older taxpayers

Shares of different types of concessionally-taxed income accruing to individuals, by age group, compared with proportion of the total number of individuals in each age group, 2022-23

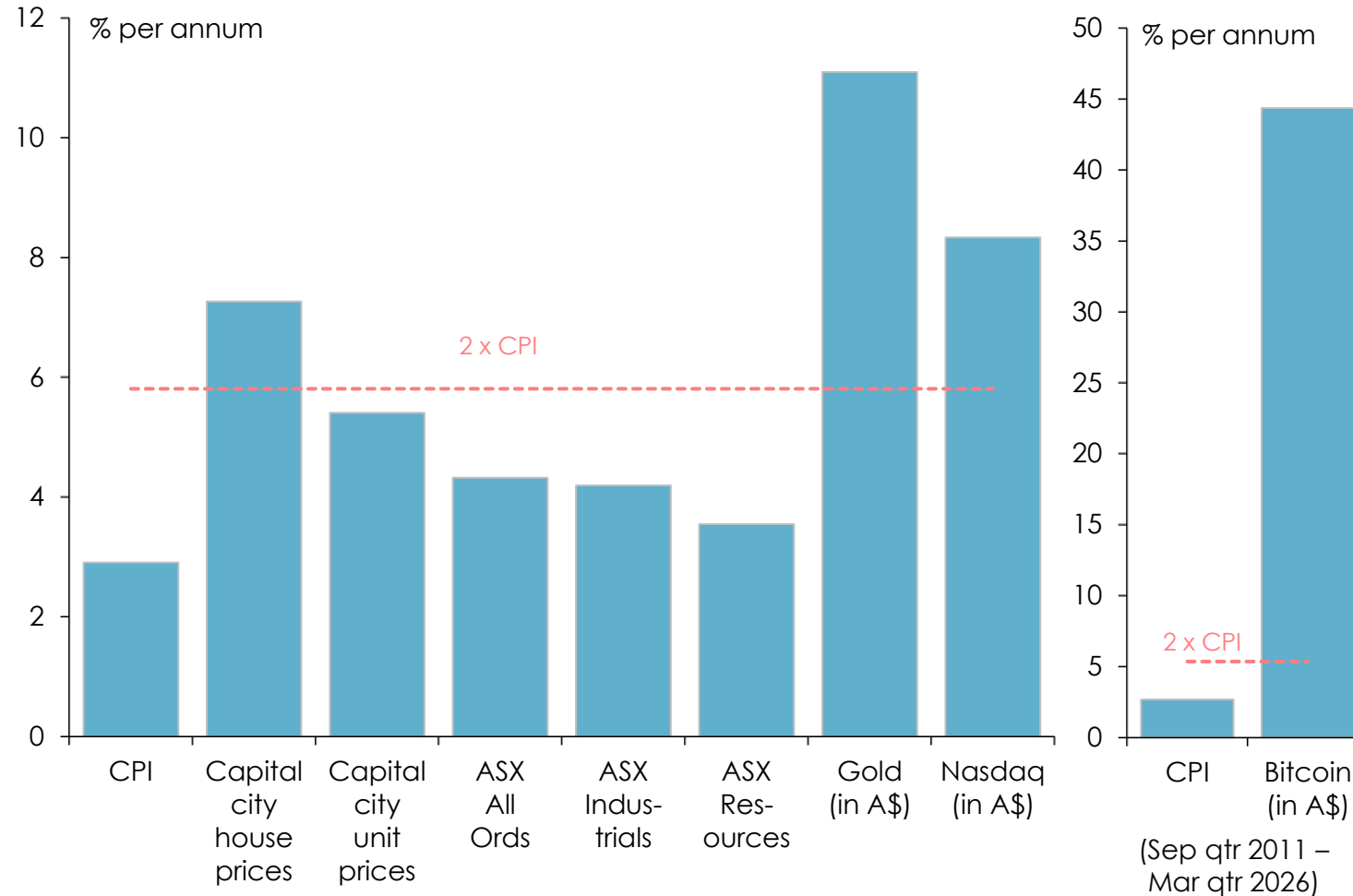


**34½% of individuals filing tax returns are aged 18-34, and they pay 21% of total income tax – but they account for much smaller proportions of the types of income affected by the tax changes proposed in the Budget – whereas people aged 55 and over account for 27% of individuals filing tax returns, but account for 30% of all small business offsets, 45% of total rental income and income from partnerships & trusts, and 62½% of total capital gains**

Note: Distributions from partnerships and trusts excludes primary production trusts. Source: Australian Taxation Office, [Taxation Statistics 2022-23](#), Table 3A.

# The proposed changes to the capital gains tax regime will not make all investors worse off, or 'dis-incentivize' risk-taking investment

Average annual rate of increase in prices of selected assets, June qtr 1999 to March qtr 2026

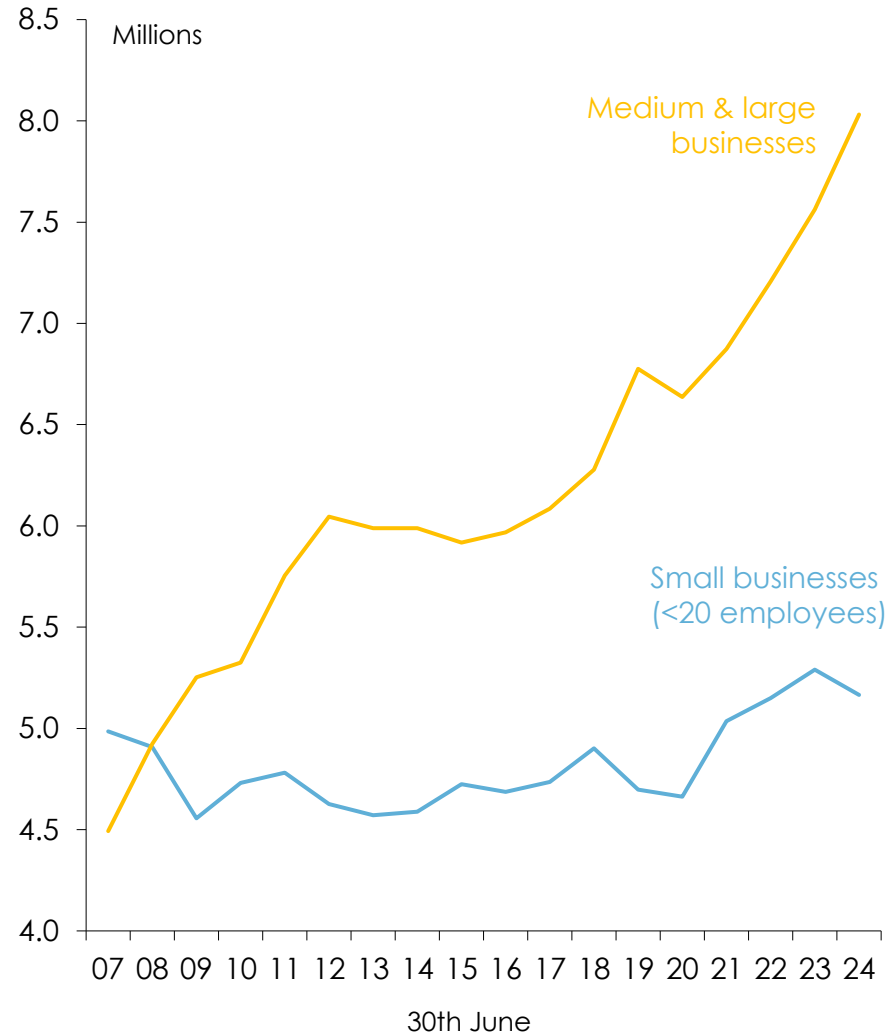


- ❑ The CGT regime which has applied since 1999-2000 (50% discount on tax on nominal gain) is 'more generous' to investors than the 1985-1999 regime (and the one proposed in the Budget) if the price of the asset on which the capital gain is realized has risen at more than twice the CPI inflation rate
  - which over the past 25 years has been the case for houses, gold, stocks listed on the US Nasdaq index and (since 2011) bitcoin
  - but not for units, or ASX-listed shares (in general)
- ❑ It's therefore not true that the proposed changes to the capital gains tax system will make all investors worse off (after tax)
- ❑ What public benefit is there from 'incentivizing' people to invest in established housing, gold, overseas shares, or cryptocurrency?

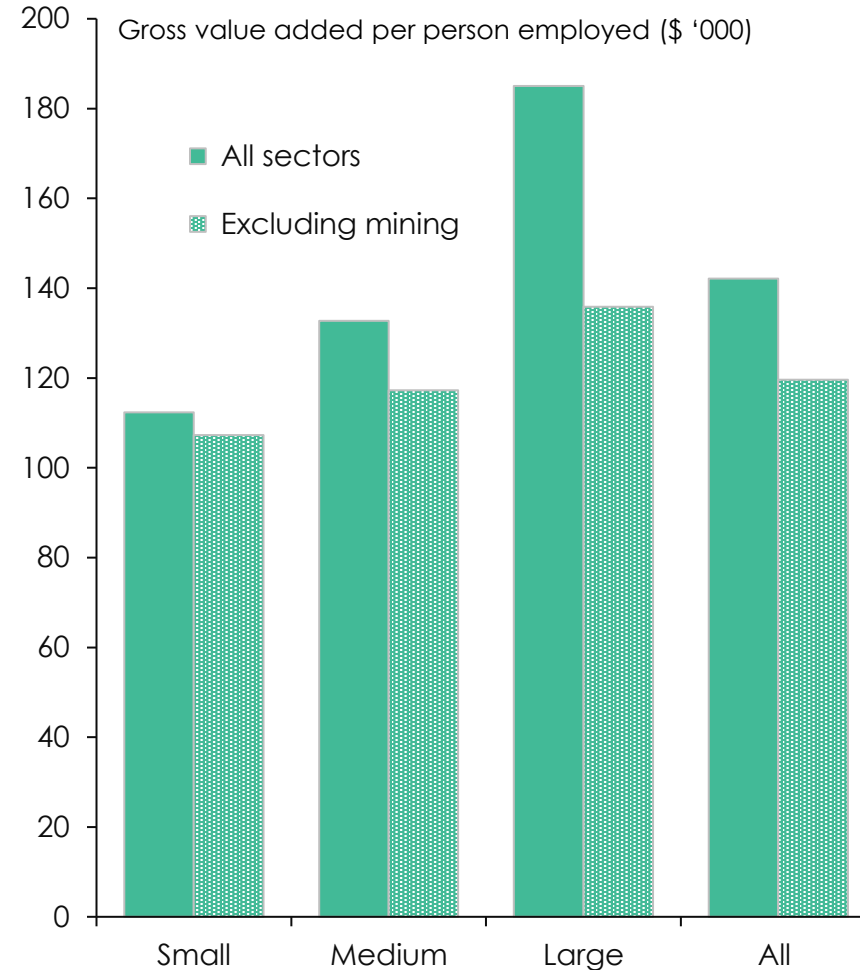
Sources: ABS, [Consumer price index](#), April 2026; Cotality, [CoreLogic indices](#), April 2026; LSEG Datastream.

# The plethora of tax preferences enjoyed by small business has done nothing to promote employment, productivity or innovation

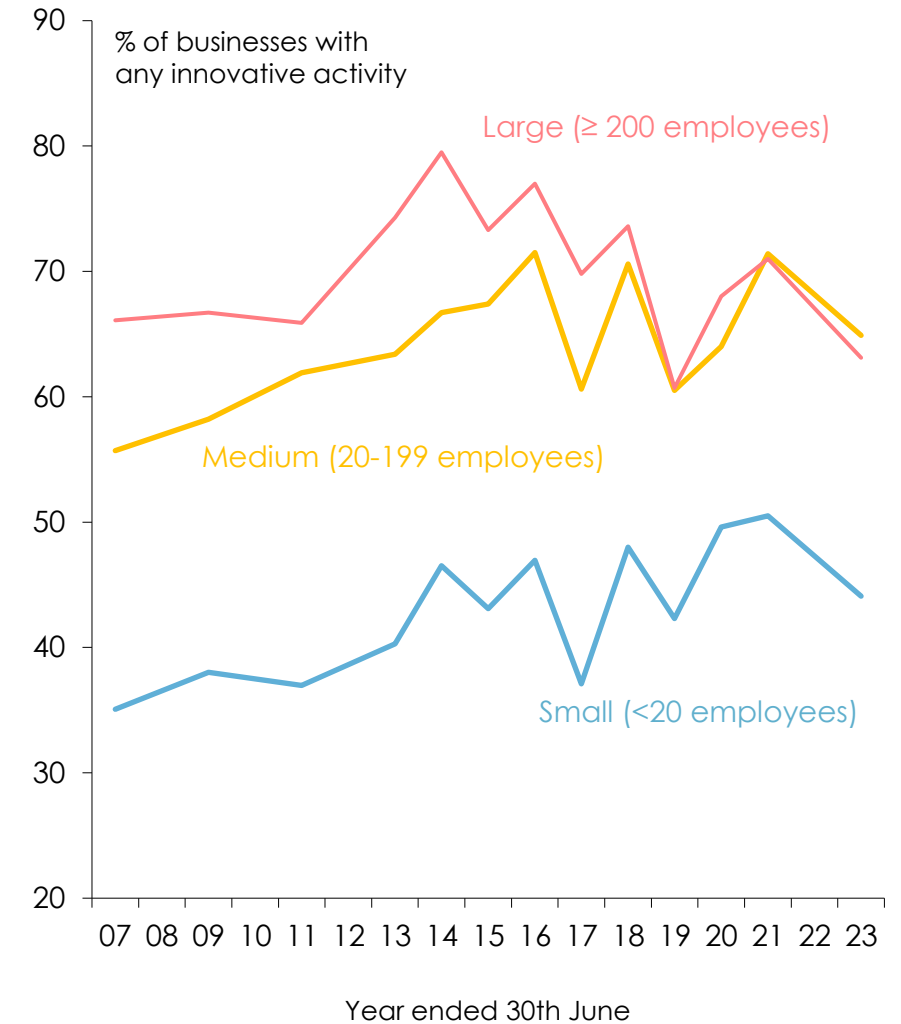
## Employment by business size



## Labour productivity by business size, 2023-24

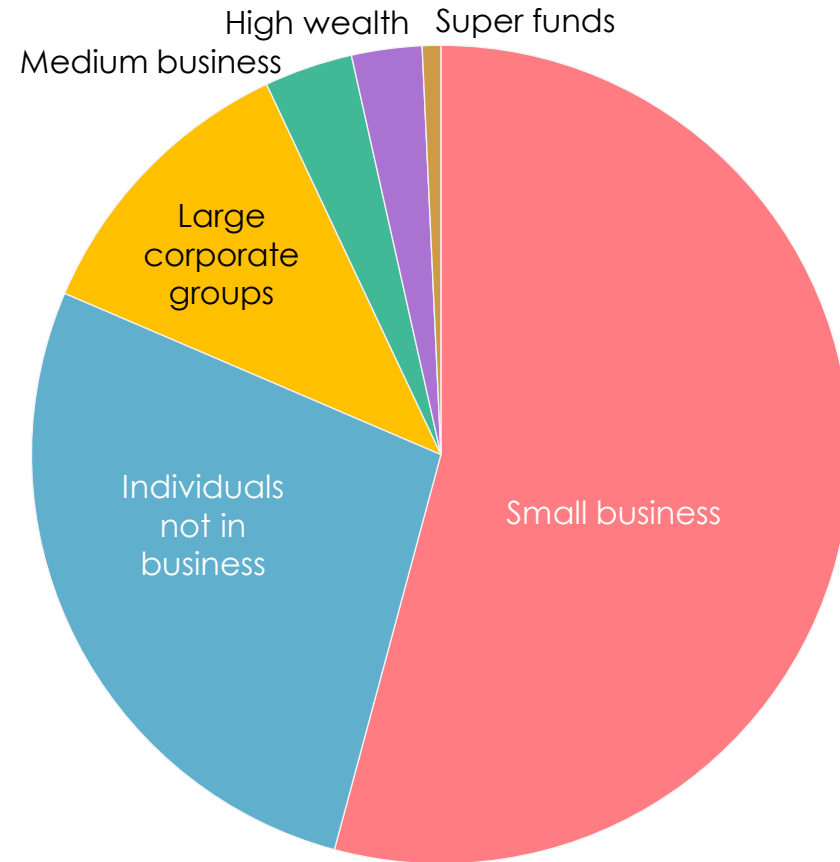


## Innovative activity by business size



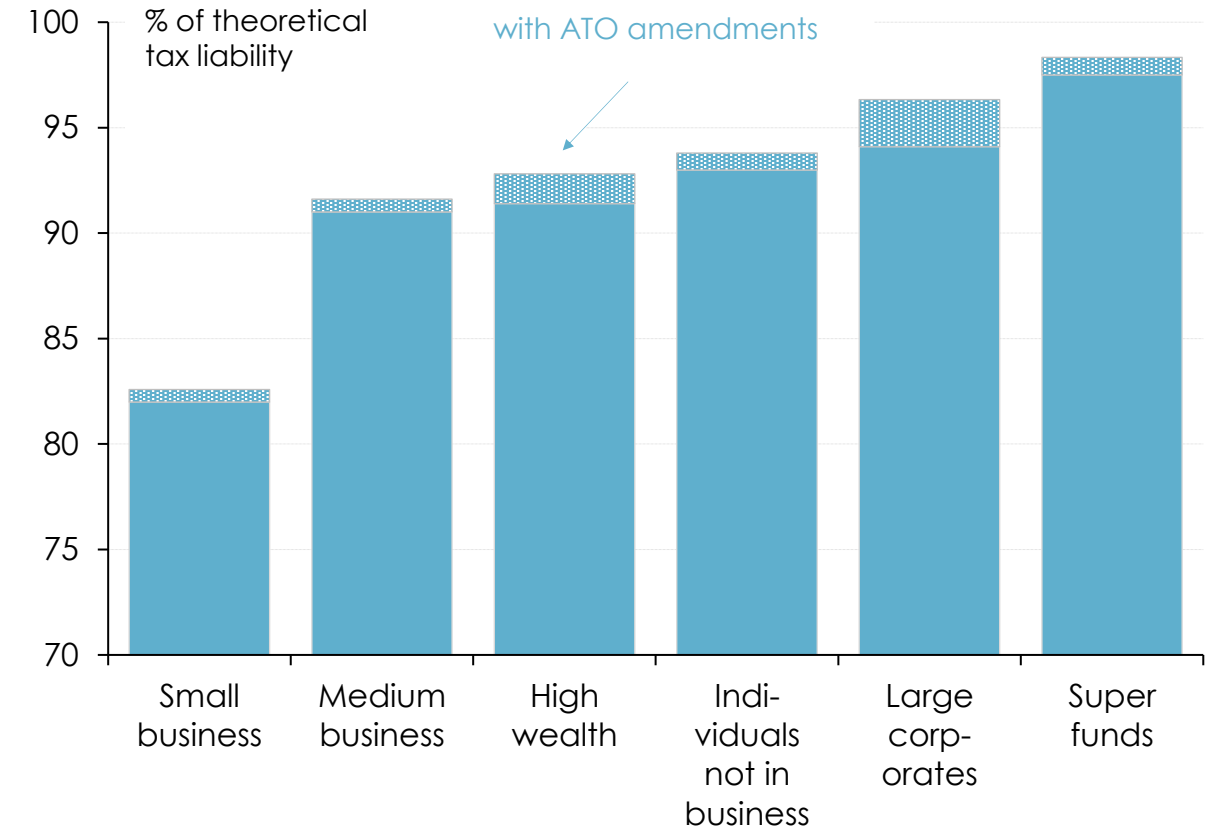
# One thing small business is very good at is not paying the tax which it should

## Personal & company income tax revenue not collected due to non-compliance, 2022-23



Small businesses account for more than half of the personal and company income tax which the ATO doesn't collect due to non-compliance with tax laws

## 2022-23 'tax gaps' by category of taxpayer



Small businesses voluntarily pay only 82% of the tax which they would if they fully complied with the tax law – a much smaller percentage than other taxpayers

## Important information

This document has been prepared by Saul Eslake on behalf of Corinna Economic Advisory Pty Ltd, ABN 165 668 058 69, whose registered office is located at Level 11, 114 William Street, Melbourne, Victoria 3000 Australia.

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