Submission to Inquiry into Treasury Laws Amendment (Tax Reform No. 1) Bill 2026 and a Related Bill

percapita

FIGHTING INEQUALITY IN AUSTRALIA

June 2026

PER CAPITA SUBMISSION TO INQUIRY INTO TREASURY LAWS AMENDMENT (TAX REFORM NO. 1) BILL 2026 AND A RELATED BILL

Per Capita, June 2026

Per Capita is an independent think tank, dedicated to fighting inequality in Australia. We work to build a new vision for Australia, based on fairness, shared prosperity, and social justice.

We welcome the opportunity to make a submission to the Senate Economics Legislation Committee inquiry into the Treasury Laws Amendment (Tax Reform No. 1) Bill 2026 and a related bill.

This legislation is fair, balanced, and should be passed by the Senate

The budget changes will improve equity and housing affordability

The combination of changes to capital gains tax (CGT) and negative gearing will make property investment less lucrative, making it easier for first home buyers to enter the property market. It will have little impact on development activity or rental prices, because capital improvements are tax deductible, and buildings depreciate over time, thus CGT is mostly a tax on growth in land values.[1]

The CGT changes will be partially grandfathered – that is, the 50 per cent discount will apply to past capital gains, but the inflation adjustment will apply to future gains, even on existing assets.[2] This is a sensible arrangement to avoid capital lock-in, while acknowledging that past investments were made based on tax arrangements at that time. The negative gearing changes will be fully grandfathered, which is appropriate because some investors may have taken on significant debt to negatively gear a property. Most investors will become positively geared within 10-15 years once the principal of the loan is mostly repaid.[3]

There will also be a minimum tax rate of 30 per cent on trust distributions, with an exemption for farmers. This will prevent mostly high-wealth Australians from minimising tax by re-arranging their affairs.

As noted in Budget Paper 1, the impact of these changes is heavily concentrated among the highest income earners (Chart 4.5).[4] Importantly, this is not merely because capital gains push investors into higher income tax brackets. One-third of all capital gains are realised by individuals who earn incomes in the highest 1 per cent during their working lives, and more than half of all gains are realised by the highest 10 per cent (Chart 4.10).[5]

[1] Tim Helm, 'Economic Reform Roundtable Submission' (Prosper Australia, July 2025).

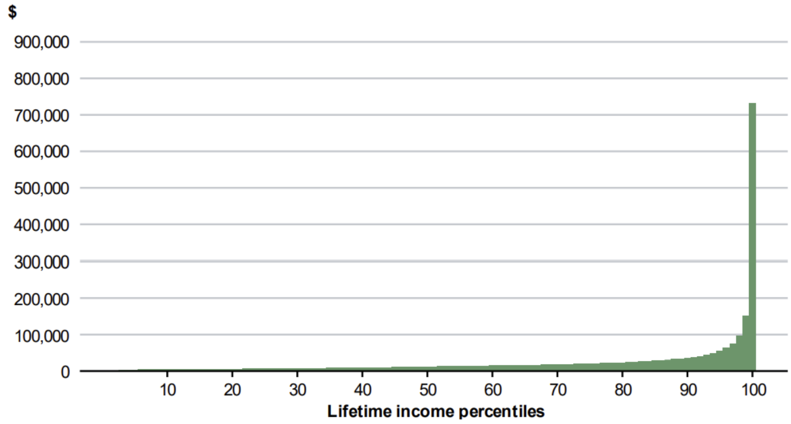
[2] Commonwealth, 'Tax Reform', Budget 2026–27 (Web Page, 2026).

[3] Allegra Spender, *Personal Tax White Paper* (White Paper, March 2026) 54.

[4] Australian Government, *Budget Paper No 1: Budget Strategy and Outlook 2026–27* (2026) Statement 4, 145.

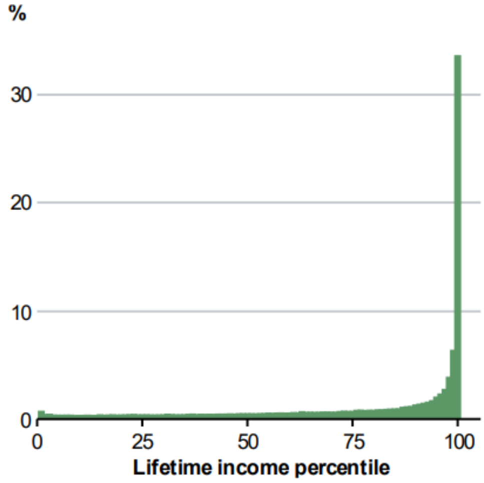
[5] Ibid 150.

Chart 4.5: The combined savings tax benefits are heavily concentrated among the highest earners
Average cumulative tax benefit from the capital gains tax discount, negative gearing and discretionary trusts, between 1999–00 and 2022–23



Note: This analysis follows people aged 35–45 in 1999–00 through to 2022–23. Lifetime income (from which the percentile is derived) is the sum of each individual's total income or loss relative to contemporaneous AWOTE over this period. This chart shows how much tax would have been due over that period if the full nominal value of capital gains were included in taxable income, if rental losses were excluded from the calculation of taxable income, and if each discretionary trust concentrated its annual distributions solely to the person who had the highest lifetime income among its observed beneficiaries. As such, it does not indicate a magnitude of revenue that could be raised from reforms (see *Budget Paper 2: Budget Measures* for expected revenue impacts of these reforms).
Source: ATO and Treasury.

Chart 4.10: Capital gains typically flow to those with high lifetime income
Share of net capital gains income



Note: Capital gains are pooled over 2016–17 to 2022–23. Includes individuals aged 34–82 at the time of their capital gain.
Source: ATO and Treasury.

The revenue raised will help fund a $250 Working Australians Tax Offset (WATO), effectively raising the tax-free threshold from $18,200 to $19,985.[6] This is highly progressive, because low-income earners will receive more money as a share of their income.

The indexation of capital gains tax is a sensible, yet modest, change

The original purpose of the CGT discount was to compensate investors for inflation, which erodes the real value of savings over time. Some discount is justified to ensure investors are only taxed on their real increase in purchasing power.

Under the government's proposed changes, the 50 per cent CGT discount will be replaced with an inflation adjustment, reflecting the original intent of the discount. Treasury analysis found that this will increase the average tax rate on capital gains by just two percentage points, from 19.3 per cent to 21.4 per cent over the next decade.[7]

Post-budget commentary has raised concerns about the application of the changes to shares, rather than just property, and possible impacts on business investment.[8]

In fact, for many investors, the changes may even reduce tax paid on capital gains. Consider the typical share investor:

- An asset is held for 10 years;
- The inflation rate is 3 per cent (the average over the past 10 years); and
- The investor earns the S&P/ASX 200 average capital growth of 5.1 per cent a year, excluding dividends.

[6] Ibid 163.

[7] John Kehoe, 'Chalmers Answers CGT Outcry: Average Rate to Rise Just 2pc' (Australian Financial Review, online, 18 May 2026).

[8] Luke Kinsella, 'Do Labor's Tax Changes Make Shares Uninvestable? We Ran the Numbers' (Australian Financial Review, online, 27 May 2026).

For this typical investor, the new arrangements give them an effective discount of 54 per cent, *a more generous* treatment than the fixed 50 per cent discount. This leads to a tax rate of 21.4 per cent for an investor in the 47 per cent top marginal income tax bracket.[9]

In contrast, the 50 per cent discount on CGT has overcompensated property investors for inflation over the past 20 years. Only 38 per cent of property price growth can be attributed to inflation, for properties held for 10 years.[10] Therefore, in practice, the 50 per cent discount favoured property over shares, while the new arrangements are neutral between the two investment options. This suggests the CGT changes may encourage more investment in shares relative to existing property.

There is a case for incentivising innovation and entrepreneurship

There is a case for government intervention to encourage innovation and entrepreneurship, because new ideas are a public good. It should be noted that startups and small businesses are already eligible for various CGT concessions and exemptions. For example, there is a 10-year exemption on CGT for investments held as shares in early stage innovation companies (ESICs), such as startups, with high growth potential.[11] The budget is also funding a more generous refundable research and development credit.[12]

However, there is room for discussion as to whether these incentives are sufficient and proportionate to the potential societal gains. The government should review the potential case for further concessions or exemptions for investment in entrepreneurial activity, whether through the CGT system or other tax settings.

Some commentators have argued that the 50 per cent discount should be retained for all share investment, to support more productive investment.[13] As outlined above, those previous arrangements might actually be less generous on average.

There are various arguments for and against differential treatment between shares and existing property. On one hand, investment in property is mostly speculation on increases in land values, which does not contribute to innovation or productivity. On the other hand, taxing property and share gains at the same rate ensures investors can make investment decisions based on their own personal risk-reward trade-off, rather than preferential tax treatment. Additionally, as pointed out by taxation academic Miranda Stewart, while taxpayers share in the upside of successful business through higher taxes to pay for public services, they also share in the downside via deductions for business and capital losses.[14] Treasury advice also noted that applying different tax rates for property and shares could lead to tax minimisation, such as purchasing a property through a company, although such cases may be uncommon.[15]

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[9] Kehoe (n 7).

[10] Australian Government, *Budget Paper No 1: Budget Strategy and Outlook 2026–27* (2026) Statement 4, 149.

[11] Treasury, 'Tax Incentives for Early Stage Investors' (Web Page).

[12] Australian Taxation Office, 'Tax Reform – Better Targeting the Research and Development Tax Incentive' (Web Page, 2026).

[13] Kehoe (n 7).

[14] Miranda Stewart, 'Allegra Spender Should Back, Not Block, CGT Reform' (Australian Financial Review, online, 1 June 2026).

[15] John Kehoe, 'Investors Dispute Treasury's CGT Analysis' (Australian Financial Review, online, 19 May 2026).

The Ministerial powers in the Bill are reasonable and proportionate

The Bill gives the Minister authority to make decisions on specific aspects of the legislation, such as the types of income support payments that may be excluded from paying the minimum 30 per cent tax rate on capital gains. Concerns have been raised by The Greens about these provisions.[16]

While Ministers should not be given disproportionate powers in delegated legislation, ministerial authority provides flexibility to make small changes as new circumstances arise, and Australia has a robust process to review delegated legislation – for example, the Senate may disallow delegated legislation if it violates the natural justice considerations. The key parameters of the budget changes are set in legislation and will not be subject to ministerial discretion. The Bill should not be blocked on account of these provisions.

[16] Josh Butler, 'Budget Tax Changes' (The Guardian, online, 3 June 2026).