

WHY WE SHOULD NOT INCREASE CAPITAL GAINS TAX

Robert Carling

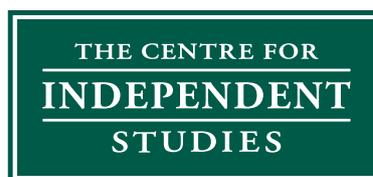




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Policy Paper 64

Contents

page

Executive Summary.....	1
Introduction.....	2
Preliminaries	2
Implications for income and wealth distribution	3
Implications for investment and productivity	4
The rationale for discounting.....	5
Comparison between discounting and indexing for inflation.....	6
Ongoing role of the discount.....	6
Tax revenue considerations.....	7
10 Capital Gains Tax myths.....	8
Conclusion.....	10
Endnotes.....	11

Executive Summary

This paper is an expanded version of a submission to the Senate Select Committee on the Operation of the Capital Gains Tax Discount. The author gave evidence to a Committee hearing on 25 February, 2026.

Although there is much public discussion of the capital gains tax discount, there is no proposal from government on the table for us to respond to — only rumours and speculation — so our comments are broad-ranging and not confined to housing. As well as the submission, there have been three relevant research publications on CGT issued by the CIS in 2009, 2015 and 2019. Perusal of those publications will show that we do not think much of proposals to reduce the CGT discount and as a result increase capital gains tax by a potentially large amount.

If three publications looks like an obsession, we have had a lot to say on the issue because calls for the discount to be cut or eliminated have been a persistent theme of tax policy debate ever since the defeat of the Howard government, which put the 50% discount in place in 1999. Along with superannuation concessions and negative gearing, the discount has been a favourite whipping boy.

Cutting the discount is variously seen as a key plank of tax reform, a revenue-raising measure, the key to lowering house prices, and a solution to intergenerational and vertical inequality. Our submission argues that it is none of those things, or at least not in significant measure, and that the 50% discount is justified.

In brief, we make the following points:

- The principle of taxing nominal capital gains at lower rates than ordinary income is unexceptional and was recognised in Australia's first model of CGT in 1985. The 50% discount in 1999 replaced what was essentially a different form of discount in the 1985 model based on indexing the cost base of assets to CPI inflation combined with an averaging scheme that limited the effect of lumpy capital gains pushing taxpayers into higher tax brackets.
- The pre-1999 arrangements produced a variable discount, but for average rates of return on assets and inflation rates and various asset holding periods it can be

demonstrated that the effective discount often fell in the 30–45% range — and that is leaving aside the additional benefit of averaging. The point is that the 50% discount is not much more generous than the average result of the policy it replaced.

- To those who say the 50% discount over-compensates for inflation, in some cases it does and in some it compensates or even under-compensates, but the key point is that it was never intended solely to compensate for inflation. It was meant to be a general incentive for saving and investment, which is needed now more than ever in view of stagnant productivity.
- On housing, several researchers have estimated that cutting the CGT discount would reduce house prices by a few per cent while increasing rents by a similar amount. These effects are tiny relative to other influences on prices and rents. CGT affects much more in the investment world than housing, so housing considerations should not drive CGT policy.
- The claimed revenue costs of the discount vastly overstate the revenue that could be gained from any reasonable change. The claimed distribution of that revenue cost across income deciles is meaningless. Cutting the CGT discount would barely move the dial on income and wealth distribution.
- Changing the CGT discount on its own is not tax reform, but it could have a place in broad tax reform that substantially reduces marginal rates and reduces the large disparities in the tax treatment of different forms of saving. However, nobody in government is talking about that.

The key conclusion is that there is a very strong case for some form of tax concession for capital gains relative to full marginal rates. This concession should go beyond simply allowing for inflation. While various structures are possible to satisfy this condition, the current 50% discount (and one-third discount for superannuation funds) has the advantage of being simple and well understood. It has been the basis for investment decisions over the past 26 years and is therefore entrenched in the accumulated stock of investments. There is no strong case for changing it.

Introduction

Capital gains tax policy settings have been under scrutiny sporadically since the Howard government lost office in 2007. It was the Howard government that in 1999 had introduced the policy of discounting certain capital gains by 50% for income tax purposes, which attracted criticism from some quarters for its size and thus became a target for revenue raising and tax reform.

The scrutiny of CGT has again intensified since the 2025 federal election with a particular focus on the alleged connection to the rising prices of housing and to intergenerational inequity, which emerged as a theme from the government's economic reform roundtable consultations in August 2025.

Subsequently the Coalition and the Greens combined to form a Senate inquiry into the "operation of the capital gains tax discount", although the Coalition has said that it did so only to secure the Greens' agreement to an inquiry into productivity, not because it was seeking a change in CGT policy. The government did not initiate the inquiry but has latched onto it and put CGT under review in the lead-up to the 2026-27 budget to be tabled in May 2026. The Senate inquiry is to report by March 17.

This paper is an expanded version of the author's submission to the Senate inquiry focusing on the inquiry's terms of reference, incorporating arguments from the author's previous paper *Myth vs Reality: The Case Against Increasing Capital Gains Tax*.

Debate about capital gains tax rarely occurs in isolation. It typically emerges during periods of fiscal pressure, housing market stress, or broader dissatisfaction

with economic performance or income and wealth distribution. In each of these contexts, the CGT discount is often portrayed as a mythical lever that can be pulled to address multiple concerns simultaneously: tax reform, budget repair, housing affordability, intergenerational equity and wealth inequality. However, the economic functions of capital gains taxation are more complex than such claims suggest, and the claims themselves are akin to myths; as outlined in a section below.

Cutting the CGT discount means increasing capital gains tax by a potentially large amount. Reducing the discount from 50% to 33%, 25% or zero, as has been canvassed, would increase tax payable on a given transaction by at least 34%, 50% or 100% respectively — orders of magnitude that would elicit major responses in saving and investing decisions.

A coherent assessment therefore requires stepping back from the current political cycle and examining CGT through the lens of economic efficiency, neutrality, simplicity and long-term productivity. This paper approaches the question of changing the CGT from that broader perspective. It seeks to disentangle commonly-asserted myths from empirical evidence and to assess alternative policy options against clear criteria.

In doing so, it emphasises that a long-standing and internationally conventional policy instrument should not be altered without compelling evidence that the benefits would outweigh the economic and administrative costs.

Preliminaries

There is no single CGT treatment of all entities and assets. The 50% discount applies to assets owned by individuals and trusts for at least 12 months before disposal, except for the principal place of

residence. In contrast, superannuation funds receive a one-third discount, companies receive no discount, the principal place of residence is exempt from CGT and there are various small business exemptions.

The focus here is on the 50% discount, although a change to it could have consequences for other aspects of CGT. The discount means that when the proceeds of the disposal of a taxable asset exceed the cost base (which may be adjusted for various reasons) then the excess is reduced by 50% before being added to the taxpayer's ordinary taxable income. If the proceeds on disposal are less than the cost base, then there is a loss which is not discounted and can only be offset against any other gross (undiscounted) gains or carried forward and offset in the same way in the future.

It is not clear what options for change the Senate inquiry and the government are considering, but broadly speaking they would appear to be no discount at all, a smaller discount, the pre-1999 system of cost basis adjustment for inflation (which was a form of discount by another name) or singling out housing for a different form of CGT from other assets. CGT applies to a wide range of assets, not just housing, and therefore has far-reaching economic consequences beyond housing. It is also unknown whether existing assets would be protected ('grandfathered') from any CGT increase.

As the 50% discount can only be properly assessed against clearly defined alternatives, the choices among the many options for change matter to the outcome of the assessment. If the 50% discount is assessed against a 0% discount, the effects would obviously be greater than if they are assessed against a smaller discount, which would be more realistic. Moving from 50% to no discount would be a radical change as Australia has never had such a regime, and other countries also typically tax capital gains at lower rates than other income. A 0% discount would result in a doubling of CGT payable compared with the 50% discount as the proportion of nominal gain subject to tax would double from 50% to 100%.

Alternatives that have sometimes been discussed in Australia include the Henry tax review's proposal for a 40% discount, the then Opposition's policy in the 2019 election of halving the discount to 25%, and the pre-1999 system of adjusting the cost base of assets for inflation.

Whatever the alternatives, the criticism of the 50% discount has been heavy on myth and political spin and light on facts and objective analysis.

Implications for income and wealth distribution

Several of the Committee's terms of reference relate to the effect of the discount on after-tax income distribution, asset prices and wealth distribution.

Treasury's Tax Expenditures and Insights Statement¹ indicates that the benefit of the CGT discount (measured as estimated tax revenue forgone) is heavily skewed towards the top two income deciles. However, this is hardly surprising as most assets subject to CGT are owned by higher income earners. If there is a case for the discount, then the uneven distribution of its income effects is unavoidable. Moreover, because individuals' capital gains are lumpy the gains themselves can easily push a taxpayer into the top decile of the distribution in the year of realisation even though they may not normally be in the top decile.

The gains taxpayers receive from the discount should not be expected to be distributed evenly or progressively, because the discount is intended as an economic efficiency measure and does not serve the purpose of a social security or welfare payment.

The effects of taxation on income distribution can only be sensibly considered for the tax system as a whole, not tax by tax. Some taxes (such as the GST and excise duties) are regressive but are accepted because there are other reasons to keep them in the tax system. Likewise for the CGT discount. The tax system as a whole is markedly progressive, and the joint tax/transfer system even more so.

But it should not be accepted that the

CGT itself is regressive. The flip side of the skewed distribution of the benefits of the discount is that the CGT actually paid is also skewed towards the top two income deciles. The CGT is therefore progressive, but a bit less than it would be without the discount.

Another point is that capital gains are not large enough relative to total household income for any form of taxation of capital gains to have any material impact on income distribution. Taxation Statistics produced by the ATO for 2022-23 (latest available) indicate that gross current year capital gains (that is, before the discount) of individual taxpayers were \$84 billion whereas total taxable income was \$1.2 trillion.² That is, gross capital gains were 7% of taxable income, and net capital gains even less. Household gross income from all sources was \$2 trillion.³ The reality is that CGT policy has very little leverage over income distribution either way.

The effect of the CGT discount on asset prices and wealth is difficult to discern from the myriad other influences. While the discount was intended to encourage investment in assets with some risk profile, this does not necessarily mean that it has pushed up asset prices. The prices of shares and business assets are subject to a wide range of influences other than CGT and in many cases are determined in a global market.

In the case of residential real estate, local factors are relatively more important, but there is empirical evidence that tax policies

such as negative gearing and the CGT discount – often blamed for high housing prices – in fact account for very little price growth. Supply constraints have been much more important.⁴

Although there are many determinants of income and wealth inequality, it is worth noting that the summary measures – the Gini coefficients – do not provide clear evidence of a rising trend in inequality since the CGT discount was established in 1999. The ABS measure of the Gini coefficient for income has increased slightly since the late 1980s, but very little since 1999. The HILDA measure has not increased at all.⁵

Wealth inequality is significantly higher than income inequality because asset ownership is more concentrated, as is the case in all countries. The ABS measure of the Gini coefficient for wealth did increase somewhat up to the global financial crisis of 2008-09, but not since; and the HILDA measure has not increased at all.

Both income and wealth inequality were disturbed by the pandemic, with some signs of a decline in income inequality initially followed by an increase, and a decline in wealth inequality.⁶ It is best to see where these measures settle before coming to any conclusions about trends in the post-pandemic environment.

Australia's income inequality is close to the average for OECD countries and wealth inequality is below average.

Implications for investment and productivity

Some of the terms of reference are concerned with productivity and the composition of asset purchases by type.

The CGT discount is most often discussed in relation to housing, but it applies to a wide range of assets and housing is not even the main one. Taxation statistics on the composition of current year (gross) capital gains in 2022-23 (latest available, but a representative year) point to real estate transactions accounting for 40% of all CGT events for individual taxpayers and

only 5% for superannuation funds. As 'real estate' includes the non-residential type, the proportions for housing would be even lower. Allowing housing to drive CGT policy would therefore overlook the dominance of other asset types.

One appeal of the CGT discount is its uniformity across asset types. This makes it neutral with respect to the choice of asset purchases. In view of this neutrality, it is odd to refer to the discount "funneling investment into existing housing assets".

The discount may tilt household saving away from interest-earning assets — which are taxed at full marginal rates — towards assets that offer the prospect of capital gains, but that advantage does not apply to existing housing alone and says more about the inappropriate taxation of interest than about the CGT discount.

Nominal interest income is fully taxed at marginal rates, but the inflation component is typically well over half the interest rate earned. Thus, after-tax real interest returns for many taxpayers are often negative.

Whether the CGT discount encourages speculative or productive investment is moot. The difference between 'speculative' and 'productive' is not clear-cut. Buying an asset in the expectation that its value will increase may be considered 'speculative' by some but to others is the very essence of investment. Investment in housing, and even existing housing, should not be

considered 'unproductive'. All forms of housing generate services that people value. Discouraging investment in existing housing and favouring new construction is like dismissing trading in shares and bonds on the secondary market and only valuing new share or bond issues.

To the extent there is pure speculation, it tends to have a short-term focus. It should not be overlooked, therefore, that the CGT discount does not apply if an asset has been held for less than 12 months. Nothing in the design of the discount favours short-term investments relative to long-term ones.

All things considered, it is difficult to make a case that the CGT discount is inimical to productivity growth. To the contrary, investment and innovation are critical to productivity growth, and the CGT discount is meant to encourage investment. Removing or reducing the discount would raise the cost of capital and be detrimental to investment.

The rationale for discounting

The 50% discount adopted in 1999 replaced the system of cost-base indexation for inflation coupled with an averaging provision that allowed taxpayers to average large capital gains to mitigate the effect of large one-off gains pushing the taxpayer into a higher tax bracket. Cost base indexation was a discount by another name, while the averaging provision produced sizeable tax savings for many taxpayers. These facts are rarely mentioned by the critics of the 50% discount.

The change was in part driven by what was seen as the complexity of the indexation and averaging provisions. However, it is important to understand that the discount was not put forward as simply an alternative way of adjusting for inflation.

The Ralph Review of Business Taxation (which recommended the discount) recognised various reasons for discounting capital gains in addition to inflation, such as:

- The disincentive effects of CGT on saving and investment.

- The riskiness of investments giving rise to capital gains.
- The distortionary asset lock-in effect of CGT; and
- The prevalence of lighter CGT burdens in other countries in the context of increased international capital mobility.⁷

Thus, to the extent the 50% discount gave rise to lighter CGT burdens than an indexation system, that result was seen as being justified by these considerations. In the words of the Ralph Review:

The Review's recommendations for CGT are designed to enliven and invigorate the Australian equities markets, to stimulate greater participation by individuals, and to achieve a better allocation of the nation's capital resources.

The rationale for the discount remains today. Indeed, it is needed more than ever considering the weakness of business investment and productivity growth. This

is not to suggest that the discount alone will spark a revival of entrepreneurship, innovation and investment.

The fact that business investment has been weak for a long time even with the discount in place points to the case for another agenda including factors like deregulation to help lift investment.

The housing affordability issue has greater salience today than in 1999, but as discussed above the effect of the discount is easily overstated and Australia has experienced periods of both rapid house price growth, slumps and stagnation in the past under all CGT regimes. As also discussed above, CGT policy should not be driven by housing alone.

Comparison between discounting and indexing for inflation

When alternatives to the discount are discussed, one popular proposal is to revert to the pre-1999 cost basis adjustment for inflation. However, the reality is that this indexation method results in an effective discount that is probably, on average, not much less than the 50 per cent discount.

Consider this example. Someone 10 years ago bought shares in one company or a bundle of companies that matched the price performance of the overall market as represented by the ASX200 index. They sold the shares after exactly 10 years. The compound average annual price growth rate was 5.8%. Over the same 10 years the CPI increased by 2.9% a year. With cost base adjustment for inflation and ignoring transaction costs, the effective discount would have been 43%.

The results before transaction costs are similar for an average Sydney home (houses and units) price purchase and holding over that period, but as transaction costs for housing are much higher the actual capital gain would be lower and the effective discount under a cost-base indexation regime would be even higher than in the shares example.

The long-run average real rate of increase in house prices is close to 3% a year. If combined with a 2.5% inflation rate (the mid-point of the RBA target range) the effective discount from indexation is 45%. Since 2000 both real house prices and inflation have been a bit higher and the effective discount has been 40%.

In general, the results are sensitive to the real rate of return and the holding period. To take another example, with a lower inflation rate of 2.5%, a higher 4% real rate of return, a five year holding period and again ignoring transaction costs, the effective discount with indexation would be 35%.

These are of course only averages and examples. The results would be different for other time periods and for any period there would be a wide spread of effective discounts under an indexation regime, well below 50% for high performance investments and well above for poorly performing ones.

But the point is that on average the 50% discount serves the purpose of simplicity and delivering a better — but not much better — after-tax outcome than the indexation method. For high performing investments it delivers a better outcome, and arguably this is an attractive design feature as it provides a built-in incentive for investors to make their assets work harder.

Ongoing role of the discount

Some form of concessional CGT undoubtedly has a role in Australia's future tax mix — that is, concessional relative to full marginal rates of personal income tax — not only to avoid taxing purely inflationary gains but for the other reasons discussed above.

Removing the discount and taxing capital gains (other than short-term) at full marginal rates would be unthinkable because of the damage it would do to saving and investing.

That is not to say the 50% discount is the only possible form of concession. But given that it is well-established and simple, there need to be strong reasons to change it.

If the sole objective were to adjust for inflation, the most precise way to achieve this would be to revert to the pre-1999 indexation system and accept its greater complexity. However, there are many relevant considerations apart from inflation, which on balance favour some degree of concession in the CGT on real gains in addition to the allowance for inflation.

The 50% discount balances all the relevant considerations in a rough but simple way. While housing could be taxed differently from other assets, this would bring another form of complexity and there is no strong case for doing it.

One more complex alternative across all assets would be to allow cost base adjustment so that only real gains are taxable, but in addition allow a discount — much smaller than the current discount — on the real gains.

If the future brings reform that materially changes the tax system, then there might be a stronger case to review CGT. For example, if personal income tax marginal rates across the board were to be significantly reduced, a smaller discount for capital gains may be appropriate. Alternatively, if taxation of all forms of saving and investing were to be reformed to make it more uniform, there may be a case for a smaller discount. This was the context of the Henry tax review recommendation for a 40 per cent discount of interest income and net rent as well as capital gains.⁸

Tax revenue considerations

Revenue effects are relevant as raising extra tax revenue is often the motivation behind proposals to increase CGT. CGT revenue relative to personal income tax revenue actually increased after the 50 per cent discount was introduced, slumped during and after the global financial crisis, and has risen again since.

It is difficult to disentangle the effects of the tax change from asset market movements. However, one reason CGT revenue has on average been stronger after 1999 is that the discount stimulated asset turnover and realisation of capital gains. The lock-in effect of the tax was loosened and gains that would not have been realised under the indexation regime were realised under the discount regime, thereby offsetting any loss of revenue.

This is relevant to consideration of how much extra revenue a harsher CGT would generate. As the removal or a cut in the discount would tighten the lock-in effect, there is potential for a large reduction in turnover and realisation that would be self-defeating from the viewpoint of revenue gain. Even if existing assets were grandfathered, turnover of those assets could still decline if the owners held them for longer to benefit from the grandfathering.

A reduction in asset turnover would not only be a revenue issue. It would also militate against the liquidity and capital mobility that make markets more efficient in allocating capital to its best uses.

10 Capital Gains Tax myths

Summing up, this section brings together the misunderstandings, myths and distortions in the conventional narrative on how capital gains tax works, how it compares with the capital gains tax that it replaced in 1999, and the economic consequences of making the capital gains tax burden heavier. The myths and distortions are biasing the public discussion towards increased taxation.

Myth 1: The Howard government halved capital gains tax in 1999

This could only have been true if nominal capital gains had been taxed in full before the 50% discount for individuals and trusts was introduced in September 1999, but this was not the case. In fact, the 50% discount replaced an alternative set of capital gains concessions in the form of indexation of the cost base of assets for CPI inflation combined with an averaging provision that limited the impact of lumpy capital gains pushing taxpayers into higher brackets. The old system was discounting by another name.

Myth 2: The 50% discount is much more generous than the inflation indexing system

In fact, the system that the 50% discount replaced delivered substantial relief to taxpayers – probably the equivalent of about a 40% discount at average rates of inflation and real returns on assets. The averaging provision delivered additional tax relief on top of this effective discount. The previous system resulted in a wide range of effective discounts of nominal gains, smaller at higher real rates of return and larger at lower returns.

Myth 3: The 50% discount was meant only as a simpler allowance for inflation, but it over-compensates.

Simplification was an objective of the discount method, but it was never intended to be only an allowance of inflation. It was meant to serve that purpose but also to provide an incentive for risky, high return investments in Australia in a world of mobile capital. It was expected at the time that in some situations the 50% discount would

result in lower taxation than the indexation and averaging system it replaced, and this was deliberate.

Myth 4: Inflation is lower now than when the 50% discount was introduced, so the discount is over-compensating for inflation.

In fact, inflation in Australia had been low for almost 10 years by the time the 50% discount was introduced in 1999. In the 10 years to 1998/99 it averaged 2.5% and in the last 10 years to 2024/25 it was actually higher at 2.8%. So if anything, inflation presents a case for a bigger discount now than in 1999.

Myth 5: We should go back to the pre-1999 inflation indexation method because it compensates precisely for inflation

It does compensate precisely for inflation, but at the cost of greater complexity than the simple 50% discount. And the discount was never meant to be only compensation for inflation. Those urging the government to go back to the indexation method conveniently forget that the averaging provision was part of those arrangements and provided an additional layer of tax relief.

Myth 6: The 50% discount has caused house prices to soar and cutting the discount is the solution to high prices

Real house prices have risen more rapidly on average since 2000 than at least the 20 years prior, but the econometric evidence from several studies is that capital gains tax changes have contributed little to this outcome and that reducing the discount would not have a material, lasting impact in lowering prices.

Myth 7: A 25% discount is enough

This was the policy of the Labor Opposition at the 2016 and 2019 elections, and some critics of the 50% discount continue to advocate halving the discount now. However, in many instances 25% would not even compensate for the effect of inflation. The way the arithmetic works, moving from a 50% discount to a 25% discount results

in a 50% increase in capital gains tax paid, which would be a huge tax increase.

Myth 8: Capital gains tax policy should be all about housing

In fact, the majority of taxable capital gains is generated from assets other than housing. Housing considerations should not determine capital gains tax policy across the board. Even if a cut in the discount is right for housing, it's not right for other assets. Policy should be trying to encourage business investment, not taxing it more.

Myth 9: The 50% discount is unfair because most of the tax relief goes to high income individuals

This assertion is based on Treasury data on the distribution of CGT concessions across taxable income deciles. But the discount is a policy for economic efficiency, not a social welfare policy. It is hardly surprising that the benefits are skewed towards the taxpayers that own more in assets. Data on capital gains tax actually paid would show the same skew towards higher incomes. And the data on concessions are misleading in that some taxpayers are pushed into the top income decile temporarily due to lumpy capital gains. The effect of taxation on distribution can only be sensibly assessed

for the whole tax system, not for any one tax.

Myth 10: The 50% discount is equivalent to \$247 billion of lost tax revenue waiting to be harvested

This figure is based on estimates of tax revenue forgone over 10 years. It is flawed for a number of reasons. Capital gains are volatile and geared to investment market conditions. Any estimate for one year ahead, let alone ten, must be subject to a wide margin of error. Summing annual estimates over 10 years is a technique designed to generate a strikingly large number, whereas annual estimates are more meaningful.

The estimates are for revenue forgone, not for the revenue that would be gained from increased capital gains tax, which would be much less as taxpayers changed their behaviour in response to the tax change. The estimate is based on abolishing the discount completely and taxing 100% of nominal capital gains like ordinary income, but this is not a realistic option. Any change would be much more modest and existing assets grandfathered, so the extra revenue would be small and not enough to fund meaningful income tax cuts.

Conclusion

There is a very strong case for some form of tax concession for capital gains relative to full marginal rates. This concession should go beyond simply allowing for inflation.

While various structures are possible to satisfy this condition, the current 50% discount (and one-third discount for superannuation funds) has the advantage of being simple and well understood and there is no strong case for changing it.

The temptation to buy into the CGT myths and treat CGT as a corrective instrument for housing affordability or perceived intergenerational unfairness should be resisted. Housing outcomes are primarily shaped by land-use regulation, planning constraints, infrastructure provision, credit conditions and underlying demand driven by population growth and household formation.

Adjusting the CGT discount would be a blunt and indirect mechanism for influencing house prices, while imposing broader economy-wide costs. Structural supply-

side reform remains a more effective and targeted response to housing pressures.

Reform proposals must be assessed not on myths, distributional optics or dubious and unreliable revenue estimates, but in terms of their structural impact on the economy and on the financial wellbeing of Australians.

Ultimately, capital gains taxation must balance revenue, equity and efficiency considerations. The current discount achieves that balance in a pragmatic manner. It recognises inflation, risk and lock-in effects without imposing undue complexity.

Unless broader tax reform substantially reduces marginal income tax rates or reshapes the taxation of saving more generally, the case for changing the discount remains weak. Sound tax policy should be grounded in economic reality rather than mythical beliefs or political expediency. And on that basis, the present framework continues to serve Australia well.

Endnotes

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The paper examines Australia's capital gains tax (CGT) discount, focusing on the 50% discount for individuals and trusts introduced in 1999. It argues that there is no strong economic case for reducing or abolishing the discount, despite claims that it contributes to housing unaffordability, inequality or large losses of government revenue. Debate about the discount has intensified ahead of the 2026–27 federal Budget and a Senate inquiry into the discount's operation, to which the author gave evidence. Critics often present the discount as a policy tool that could improve housing affordability, reduce inequality and raise revenue. The paper contends that these claims overstate the policy's impact and ignore the broader economic role of capital gains taxation.

The author notes that CGT applies to many assets beyond housing, meaning changes would affect investment decisions across the economy. He argues that while the benefits of the discount are concentrated among higher-income earners, this reflects the distribution of asset ownership and does not significantly affect overall income inequality. Evidence also suggests the discount has only a small influence on housing prices compared with supply constraints and planning restrictions. The overall conclusion is that some concessional treatment of capital gains is justified and that the current discount remains a simple and effective approach unless broader tax reform occurs.

About the Author



Robert Carling is a Senior Fellow at the Centre for Independent Studies. As an economist, he undertakes research into a wide range of public finance issues and regularly comments in the media on taxation and other budget issues. Before joining the CIS, he was a senior official with the New South Wales Treasury and before that, with the Commonwealth Treasury, the World Bank and the International Monetary Fund.

Related Works

Robert Carling. *Myth vs Reality: The case against increasing Capital Gains Tax*. CIS Policy Paper 18. 2019

Stephen Kirchner. *Reforming Capital Gains Tax: The Myths and Reality behind Australia's Most Misunderstood Tax*. CIS Policy Monograph 103. 2009

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