Parliamentary
Budget Office

Policy costing

Policy Reform Options for Negative Gearing and Capital Gains Tax		
Person/party requesting the costing:	Senator David Pocock and Senator Jacqui Lambie	
Date costing completed:	6/03/2024	
Expiry date of the costing:	Release of the next economic and fiscal outlook report.	
Status at time of request:	Submitted outside the caretaker period	
	☒ ~~Confidential~~ Approved for public release on 23/04/2024	☐ Not confidential

Summary of proposal:

The proposal has 5 options, which make changes to the capital gains tax (CGT) discount and negative gearing arrangements (which allow losses relating to an investment property to be deducted from non-investment income) for all individuals, trusts, partnerships and superannuation funds, as per the below table. All options would take effect from 1 July 2024.

	Component 1 – Capital gains tax	Component 2 – Negative gearing arrangements
Option 1	Remove the CGT discount for all residential property assets purchased after 1 July 2024, with property assets purchased prior to this date to be grandfathered under existing CGT discount arrangements.	Remove negative gearing arrangements for residential property purchased after 1 July 2024, with homes purchased prior to this date to be grandfathered under existing negative gearing arrangements.
Option 2	Remove the CGT discount for all residential property assets purchased after 1 July 2024, with property assets purchased prior to this date to be grandfathered under existing CGT discount arrangements.	Remove negative gearing arrangements for an investor's second or subsequent investment property interests.
Option 3	As per Options 1 and 2, but provide a 25% CGT discount for new homes built after 1 July 2024, if these homes are held for longer than 3 years.	As per Option 2, but also disallow rental deductions for vacant properties.
Option 4	As per Options 1 and 2, but provide a 50% CGT discount for new homes built after 1 July 2024, if these homes are held for longer than 3 years.	Remove all negative gearing arrangements.
Option 5	No changes to CGT.	As per Option 4, but disallow deductions for vacant properties, and allow negative gearing for new properties purchased or built after 1 July 2024.

Summary of proposal (continued):

For Option 3 and Option 5, vacant properties would not include unoccupied properties that are undergoing construction, or are on the market but yet be rented.

Costing overview

The options in the proposal would be expected to change the fiscal and underlying cash balances by either decreasing by $138 million (Option 1), or increasing by up to $10.6 billion (Option 5) over the 2023-24 Budget forward estimates period. This revenue impact is principally driven by an increase in personal income tax revenue, partially offset by behavioural responses and an increase in departmental expenses. These estimates are uncertain and strongly influenced by behavioural responses to the proposal, which are discussed in more detail below.

The Parliamentary Budget Office (PBO), has determined that the proposed changes in the treatment of rental deductions for vacant homes under Options 3 and 5 would be negligible in the context of the proposal. In general, investors can only claim deductions on properties that are genuinely available for rent, or that will be made available following construction. The PBO is not able to identify vacant properties that would be impacted by this proposal based upon available tax data.

All options would have an impact beyond the 2023-24 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) for these options over the period to 2033-34 is provided at Attachment A.

Table 1: Policy Reform Options for Negative Gearing and Capital Gains Tax – Financial implications ($m)[(a)(b)]

	2023-24	2024-25	2025-26	2026-27	**Total to 2026-27**
Option 1: Grandfather CGT discount and negative gearing for residential property					
Fiscal balance	-	2,225.0	-1,750.0	-613.0	**-138.0**
Underlying cash balance	-	2,225.0	-1,750.0	-613.0	**-138.0**
Option 2: Grandfather CGT discount for property and limit negative gearing to 1 interest					
Fiscal balance	-	565.0	-200.0	137.0	**502.0**
Underlying cash balance	-	565.0	-200.0	137.0	**502.0**
Option 3: Grandfather CGT discount for property (except new builds) and limit negative gearing to 1 interest					
Fiscal balance	-	565.0	-130.0	207.0	**642.0**
Underlying cash balance	-	565.0	-130.0	207.0	**642.0**
Option 4: Grandfather CGT discount for properties (except new builds) and remove negative gearing					
Fiscal balance	-	4,885.0	2,010.0	3,007.0	**9,902.0**
Underlying cash balance	-	4,885.0	2,010.0	3,007.0	**9,902.0**
Option 5: Limit negative gearing to newly constructed properties					
Fiscal balance	-	3,975.0	3,130.0	3,577.0	**10,682.0**
Underlying cash balance	-	3,975.0	3,130.0	3,577.0	**10,682.0**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.
- Indicates nil.

Behavioural response to proposals

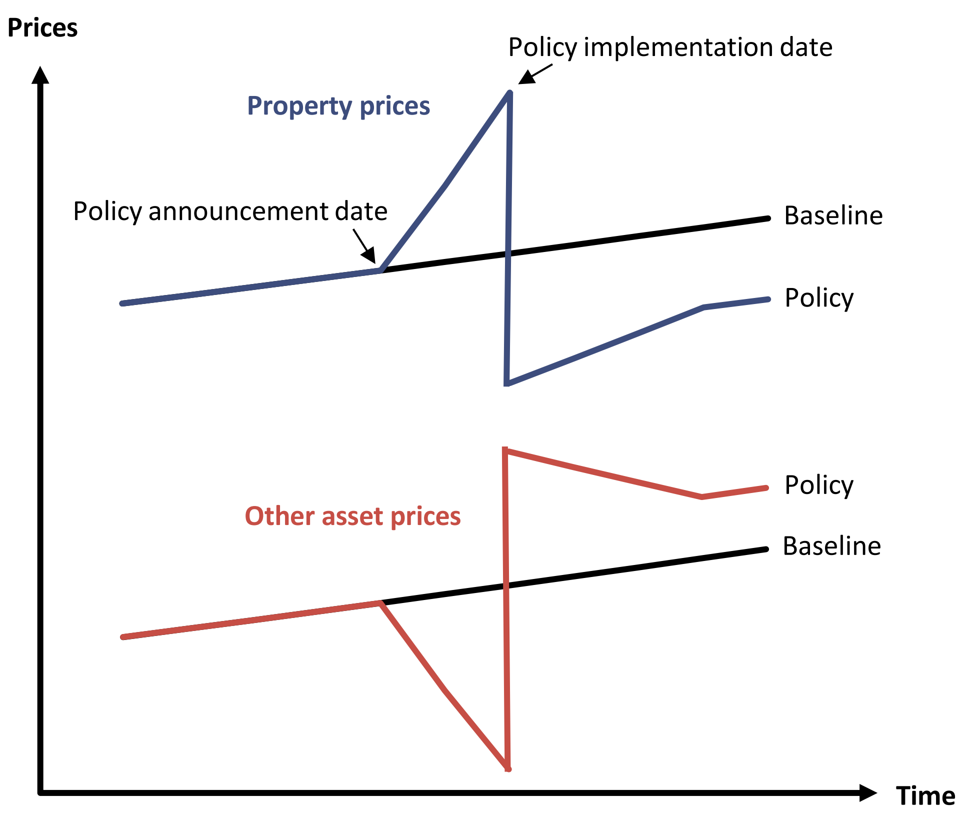
The fiscal impact of the proposed options over the forward estimates period are partly driven by increased CGT revenue due to the significant bring-forward of sales and purchases by investors seeking to avoid being affected by Component 2 of the proposal. This impact is positive in 2024-25, but negative from 2025-26 to 2027-28, such that the total impact over the medium term is close to zero.

The PBO has included this behavioural response based on the gap between when this policy is being considered (March 2024), and when it would take effect (1 July 2024). Changes to the assumed announcement or implementation dates would alter the magnitude of this behavioural response.

Given the likely substantial impact on relative asset prices from Component 1 of this policy, the PBO has also factored in a high-level behavioural response in the costing estimates. This further reduces the estimated financial impact of the proposals.

Immediately after the policy start date, investor housing demand would be likely to fall, reflecting that potential property investors would have brought forward their purchases or would otherwise switch their investment towards other assets. Property prices would decline, while other asset prices, such as those of Australian shares, would increase. Over time, asset prices would be expected to return to their baseline growth levels, although there would likely be a permanent level shift in asset holdings, as shown in Figure 1. This reflects that the CGT discount would now heavily favour shares ahead of real estate assets.

Figure 1: Illustrative changes in property and other asset prices around policy implementation date



Any decline in property prices would be tempered somewhat by the demand for owner-occupied housing, which is likely to be relatively stable since these properties are not subject to capital gains tax. While the decline in property values will allow investors to finance mortgages with lower interest payments, this would be offset by the decrease in capital gains on investment property, such that the overall rate of return for investors would likely still be lower than its pre-policy level.

Uncertainty

Component 1

The financial implications of this proposal are subject to uncertainties and sensitivities surrounding a number of factors, particularly residential property prices and turnover, but also other asset prices. Behavioural responses to the proposal would be likely to impact the budget through changes in asset prices, affecting capital gains tax revenue from assets that would still be eligible for the discount.

With no changes to asset prices or rents, removing the capital gains tax discount is estimated to reduce the overall rate of return on property investment by between 15% and 30%, depending on factors including lending interest rates, rental yields and property price growth. As such, there would be a strong incentive for investors to change their behaviour in response to the proposal, and there are a number of ways they may do so:

- Investors may bring forward purchases of properties to before the policy implementation date – to take advantage of grandfathering rules.
- Investors may switch from property towards other assets that would remain eligible for the capital gains tax discount, such as Australian shares.
- Investors currently holding property may choose to delay selling.

While the PBO's costing estimates capture some of these behavioural impacts, their magnitude may be significantly different from that assumed here. This would significantly change the revenue raised from Component 1 of the proposal.

Component 2

The financial implications of this proposal are highly sensitive to how individuals – primarily investors, but also other potential buyers of property – would respond to both the proposal and the changing market conditions arising from the proposal. While the PBO has assumed a bring-forward in housing sales from investors seeking to avoid being impacted by the proposal, this is unlikely to reflect the full impact of the proposals on housing sales and purchases. The options under component 2 would reduce the return on investment for landlords such that many would be unlikely to invest given current house prices and rents, which would have a flow on impact to house prices.

The extent to which house prices would fall would be partly influenced by how many renters would be able to switch to owning property. A sizeable fall in house prices would affect both existing investors and owner-occupiers. For example, some property owners may be pushed into negative equity, making it detrimental to sell the property. A sudden decline in house prices may also result in reductions in capital gains and other tax revenues, offsetting the additional revenue raised through the proposal. The PBO has not modelled these effects.

There is also uncertainty as to how the proposal would impact Self-Managed Superannuation Funds (SMSFs). While a small number of SMSFs do hold residential property, including through limited recourse borrowing arrangements (LRBAs), not all SMSFs are taxable (i.e. they are in the accumulation phase), very few of them are in a net loss position, and the extent of rental interest deductions is not identifiable based on existing tax data. Given these uncertainties and the small number of SMSFs affected, the PBO has not included any impact of increased tax revenue from SMSFs in this costing.

Key assumptions

The PBO made the following assumptions in costing this proposal.

Component 1

- Assets affected by the CGT policy changes would be sold over a period of 20 years.
  - 20% of affected assets that would have otherwise been sold in the 1st year following the start date and 10% of affected assets that would otherwise have been sold in the 2nd year, would be brought forward to prior to the start date to avoid additional CGT.
  - This response would be lower for Options 3 and 4, as new properties under this proposal would still be able to claim a partial CGT discount.
- Property investors would adjust their investment portfolios away from housing towards other assets still eligible for the capital gains tax discount, reducing the overall expected tax revenue from the proposal by 20%.
- The total amount of capital gains for investment properties sold within superannuation funds would grow by 2 percentage points more than capital gains for investment properties sold by individuals over the period to 2033-34.
  - This reflects that superannuation assets are expected to grow faster than assets held by individuals, due to further maturity in the system and the increase in the super guarantee to 12% by 2025-26.
- Due to the timing of tax returns, 95% of tax liabilities would be recognised in the year following the relevant capital gains event, with 5% recognised two years after.

Component 2

- For Options 1 to 3, a share of house purchases would be brought forward to take advantage of grandfathering provisions that would apply to assets purchased before the implementation date. This includes:
  - 20% of affected assets that would have been purchased in the 1st year, and 10% of affected assets that would have been purchased in the 2nd year, following the start date.
  - For Options 4 and 5, these bring forward rates would increase to 50% and 25% respectively.
- Individuals would increase the use of alternative mechanisms, such as other tax concessions or deductions, to reduce their tax liabilities. An income elasticity has been used to incorporate this behavioural response.
  - Individuals affected by the negative gearing component are expected to have a taxable income elasticity of 0.2.[1]

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[1] A taxable income elasticity is a measure of the responsiveness of taxable income to changes in tax rates. It measures the proportionate change in declared taxable income resulting from the expected change in their after-tax income. An elasticity of 0.2 means that if an increase in a marginal tax rate would lead to a 1 per cent decrease in the after-tax income, there will actually be a 0.2 per cent decrease in taxable income.

- Around 5% of the tax impact from policy changes would occur in-year, with 90% occurring in the following financial year, and 5% two financial years afterward.
- The tax rates applying to additional taxable income under the policy would reflect tax settings as they were at 2023-24 Mid-Year Economic and Fiscal Outlook (MYEFO).
- For the purposes of identifying properties impacted under Option 1, around 7% of the existing stock of investment properties would be sold each year.[2]

Methodology

Component 1

- Total capital gains subject to the proposal were projected forward using the Australian Taxation Office's capital gains tax schedule data from 2013-14 to 2021-22 and projections for net capital gains for individuals across the period to 2033-34.
  - The proportion of total property gains subject to the proposal was estimated based on the expected selling patterns for residential investors, as discussed in Key Assumptions.
- The expected additional tax revenue from removing the capital gains tax discount was calculated by multiplying the estimated change in net capital gains from property investment by the average marginal tax rates for affected individuals (or 15% for affected superannuation funds).
- An adjustment was made for the behavioural assumptions outlined above and to account for the grandfathering of investment properties purchased before the policy start date.

Component 2

- Rental property schedules and income tax data from 2021-22 were used to estimate the baseline amount that negative gearing decreases taxable income for individuals over the period to 2033-34.
- For Options 1 to 3, these amounts were adjusted to separate out the proportion of deductions that would be impacted by the proposals, either because they were newly purchased or because they were second or subsequent investment properties.
- Amounts were further adjusted to account for the bring forward impact of behavioural responses, and the ongoing reduction in taxable incomes as per the above assumptions.
- Deductions that were no longer eligible were multiplied by a modelled average marginal tax rate to estimate the increase in revenue.

Behavioural bring-forward

- The CGT impact of home purchases or sales brought forward as a result of the policy was estimated by multiplying the number of purchases by an estimated average capital gain on real estate sales, and a calculated average marginal tax rate on capital gains.

Departmental expenses

- Departmental expenses were estimated based on similar previous measures.

[2] This is informed by findings from Bandeira, Malakellis and Warlters (2022), who estimate that the median holding period for investment properties in NSW is around 9 years.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[3]

Data sources

The Australian Taxation Office provided individuals income tax return data, CGT schedule data and rental property schedule data as at 2021-22.

The Treasury provided economic parameters, capital gains tax and rental income forecasts as at the 2023-24 MYEFO.

Bandeira, Malakellis and Warlters, 2022, *Holding periods of residential property buyers in NSW*. NSW Government.

Klemm, A., Liu, L., Mylonas, V. and Wingender, P., 2018, *Are Elasticities of Taxable Income Rising?*, International Monetary Fund.

[3] https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules

Attachment A – Policy Reform Options for Negative Gearing and Capital Gains Tax – financial implications

Table A1: Policy Reform Options for Negative Gearing and Capital Gains Tax – Option 1 -Grandfather CGT discount and negative gearing for residential property – Fiscal and underlying cash balances ($m)[(a)]

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	Total to 2026-27	Total to 2033-34
Tax revenue													
Administered tax													
Component 1 – Remove CGT discount for all property purchased after the start date	-	-	-	*310.0*	*660.0*	*1,040.0*	*1,460.0*	*1,920.0*	*2,400.0*	*2,920.0*	*3,480.0*	***310.0***	***14,190.0***
Component 2 - Remove negative gearing for newly purchased homes	-	*20.0*	*410.0*	*760.0*	*1,200.0*	*1,660.0*	*2,120.0*	*2,600.0*	*3,110.0*	*3,630.0*	*4,180.0*	***1,190.0***	***19,690.0***
Behavioural bring-forward of home sales and asset price changes	-	*2,220.0*	*-2,150.0*	*-1,680.0*	*-890.0*	*-800.0*	*-740.0*	*-670.0*	*-580.0*	*-480.0*	*-370.0*	***-1,610.0***	***-6,140.0***
Total – tax revenue	-	**2,240.0**	**-1,740.0**	**-610.0**	**970.0**	**1,900.0**	**2,840.0**	**3,850.0**	**4,930.0**	**6,070.0**	**7,290.0**	**-110.0**	**27,740.0**
Expenses													
Departmental													
Departmental costs	-	*-15.0*	*-10.0*	*-3.0*	*-3.1*	*-3.2*	*-3.2*	*-3.3*	*-3.4*	*-3.5*	*-3.6*	***-28.0***	***-51.3***
Total – expenses	-	**-15.0**	**-10.0**	**-3.0**	**-3.1**	**-3.2**	**-3.2**	**-3.3**	**-3.4**	**-3.5**	**-3.6**	**-28.0**	**-51.3**
Total (excluding PDI)	-	**2,225.0**	**-1,750.0**	**-613.0**	**966.9**	**1,896.8**	**2,836.8**	**3,846.7**	**4,926.6**	**6,066.5**	**7,286.4**	**-138.0**	**27,688.7**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

Table A2: Policy Reform Options for Negative Gearing and Capital Gains Tax – Option 1 -Grandfather CGT discount and negative gearing for residential property – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	Total to 2026-27	Total to 2033-34
Fiscal balance	-	*50.0*	*70.0*	*10.0*	*20.0*	*90.0*	*210.0*	*370.0*	*600.0*	*890.0*	*1,250.0*	***130.0***	***3,560.0***
Underlying cash balance	-	*40.0*	*60.0*	*20.0*	*20.0*	*80.0*	*190.0*	*340.0*	*560.0*	*840.0*	*1,180.0*	***120.0***	***3,330.0***

(a) As this table is presented as a memorandum item, these figures are not reflected in the above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[4].

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

[4] Online budget glossary – Parliament of Australia (aph.gov.au)

Table A3: Policy Reform Options for Negative Gearing and Capital Gains Tax – Option 2 - Grandfather CGT discount for property and limit negative gearing to 1 interest – Fiscal and underlying cash balances ($m)[(a)]

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	Total to 2026-27	Total to 2033-34
Tax revenue													
Administered tax													
Component 1 - Remove CGT discount for all property purchased after the start date	-	-	-	*310.0*	*660.0*	*1,040.0*	*1,460.0*	*1,920.0*	*2,400.0*	*2,920.0*	*3,480.0*	***310.0***	***14,190.0***
Component 2 - Remove negative gearing for secondary investment properties	-	*50.0*	*910.0*	*850.0*	*880.0*	*920.0*	*970.0*	*1,020.0*	*1,070.0*	*1,130.0*	*1,190.0*	***1,810.0***	***8,990.0***
Behavioural bring-forward of home sales and asset price changes	-	*530.0*	*-1,100.0*	*-1,020.0*	*-860.0*	*-800.0*	*-740.0*	*-670.0*	*-580.0*	*-480.0*	*-370.0*	***-1,590.0***	***-6,090.0***
Total – tax revenue	-	**580.0**	**-190.0**	**140.0**	**680.0**	**1,160.0**	**1,690.0**	**2,270.0**	**2,890.0**	**3,570.0**	**4,300.0**	**530.0**	**17,090.0**
Expenses													
Departmental													
Departmental costs	-	*-15.0*	*-10.0*	*-3.0*	*-3.1*	*-3.2*	*-3.2*	*-3.3*	*-3.4*	*-3.5*	*-3.6*	***-28.0***	***-51.3***
Total – expenses	-	**-15.0**	**-10.0**	**-3.0**	**-3.1**	**-3.2**	**-3.2**	**-3.3**	**-3.4**	**-3.5**	**-3.6**	**-28.0**	**-51.3**
Total (excluding PDI)	-	**565.0**	**-200.0**	**137.0**	**676.9**	**1,156.8**	**1,686.8**	**2,266.7**	**2,886.6**	**3,566.5**	**4,296.4**	**502.0**	**17,038.7**

(a)A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

Table A4: Policy Reform Options for Negative Gearing and Capital Gains Tax – Option 2 - Grandfather CGT discount for property and limit negative gearing to 1 interest – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	Total to 2026-27	Total to 2033-34
Fiscal balance	-	*13.0*	*22.0*	*22.0*	*42.0*	*88.0*	*159.0*	*260.0*	*394.0*	*565.0*	*779.0*	***57.0***	***2,344.0***
Underlying cash balance	-	*11.0*	*21.0*	*22.0*	*39.0*	*79.0*	*146.0*	*242.0*	*370.0*	*535.0*	*740.0*	***54.0***	***2,205.0***

(a) As this table is presented as a memorandum item, these figures are not reflected in the above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary.

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

Table A5: Policy Reform Options for Negative Gearing and Capital Gains Tax – Option 3 - Grandfather CGT discount for property (except new builds) and limit negative gearing to 1 interest – Fiscal and underlying cash balances ($m)[(a)]

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	**Total to 2026-27**	**Total to 2033-34**
Tax revenue													
Administered tax													
Component 1 - Remove CGT discount for all property purchased after the start date, with a 25% discount for new builds held for 3 years	-	-	-	*310.0*	*550.0*	*820.0*	*1,210.0*	*1,630.0*	*2,080.0*	*2,570.0*	*3,090.0*	***310.0***	***12,260.0***
Component 2 - Remove negative gearing for secondary investment properties	-	*50.0*	*910.0*	*850.0*	*880.0*	*920.0*	*970.0*	*1,020.0*	*1,070.0*	*1,130.0*	*1,190.0*	***1,810.0***	***8,990.0***
Behavioural bring-forward of home sales and asset price changes	-	*530.0*	*-1,030.0*	*-950.0*	*-790.0*	*-730.0*	*-680.0*	*-610.0*	*-530.0*	*-440.0*	*-340.0*	***-1,450.0***	***-5,570.0***
Total – tax revenue	-	**580.0**	**-120.0**	**210.0**	**640.0**	**1,010.0**	**1,500.0**	**2,040.0**	**2,620.0**	**3,260.0**	**3,940.0**	670.0	15,680.0
Expenses													
Departmental													
Departmental costs	-	*-15.0*	*-10.0*	*-3.0*	*-3.1*	*-3.2*	*-3.2*	*-3.3*	*-3.4*	*-3.5*	*-3.6*	***-28.0***	***-51.3***
Total – expenses	-	**-15.0**	**-10.0**	**-3.0**	**-3.1**	**-3.2**	**-3.2**	**-3.3**	**-3.4**	**-3.5**	**-3.6**	-28.0	-51.3
Total (excluding PDI)	-	**565.0**	**-130.0**	**207.0**	**636.9**	**1,006.8**	**1,496.8**	**2,036.7**	**2,616.6**	**3,256.5**	**3,936.4**	**642.0**	**15,628.7**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

Table A6: Policy Reform Options for Negative Gearing and Capital Gains Tax – Option 3 - Grandfather CGT discount for property (except new builds) and limit negative gearing to 1 interest – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	**Total to 2026-27**	**Total to 2033-34**
Fiscal balance	-	*13.0*	*24.0*	*27.0*	*48.0*	*89.0*	*152.0*	*243.0*	*365.0*	*521.0*	*716.0*	***64.0***	***2,198.0***
Underlying cash balance	-	*11.0*	*22.0*	*26.0*	*44.0*	*82.0*	*141.0*	*227.0*	*343.0*	*493.0*	*681.0*	***59.0***	***2,070.0***

(a) As this table is presented as a memorandum item, these figures are not reflected above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary.

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

Table A7: Policy Reform Options for Negative Gearing and Capital Gains Tax – Option 4 - Grandfather CGT discount for properties (except new builds) and remove negative gearing – Fiscal and underlying cash balances ($m)[(a)]

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	**Total to 2026-27**	**Total to 2033-34**
Tax revenue													
Administered tax													
Component 1 - Remove CGT discount for all property purchased after the start date, with a 50% discount for new builds held for 3 years	-	-	-	*310.0*	*550.0*	*800.0*	*1,120.0*	*1,450.0*	*1,790.0*	*2,150.0*	*2,540.0*	***310.0***	***10,710.0***
Component 2 - Remove negative gearing for all residential properties	-	*290.0*	*5,530.0*	*5,170.0*	*5,340.0*	*5,590.0*	*5,850.0*	*6,150.0*	*6,470.0*	*6,830.0*	*7,210.0*	***10,990.0***	***54,430.0***
Behavioural bring-forward of home sales and asset price changes	-	*4,610.0*	*-3,510.0*	*-2,470.0*	*-790.0*	*-670.0*	*-620.0*	*-560.0*	*-480.0*	*-400.0*	*-310.0*	***-1,370.0***	***-5,200.0***
Total – tax revenue	-	**4,900.0**	**2,020.0**	**3,010.0**	**5,100.0**	**5,720.0**	**6,350.0**	**7,040.0**	**7,780.0**	**8,580.0**	**9,440.0**	9,930.0	59,940.0
Expenses													
Departmental													
Departmental costs	-	*-15.0*	*-10.0*	*-3.0*	*-3.1*	*-3.2*	*-3.2*	*-3.3*	*-3.4*	*-3.5*	*-3.6*	***-28.0***	***-51.3***
Total – expenses	-	**-15.0**	**-10.0**	**-3.0**	**-3.1**	**-3.2**	**-3.2**	**-3.3**	**-3.4**	**-3.5**	**-3.6**	-28.0	-51.3
Total (excluding PDI)	-	**4,885.0**	**2,010.0**	**3,007.0**	**5,096.9**	**5,716.8**	**6,346.8**	**7,036.7**	**7,776.6**	**8,576.5**	**9,436.4**	**9,902.0**	**59,888.7**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

Table A8: Policy Reform Options for Negative Gearing and Capital Gains Tax – Option 4 - Grandfather CGT discount for properties (except new builds) and remove negative gearing – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	**Total to 2026-27**	**Total to 2033-34**
Fiscal balance	-	*110.0*	*280.0*	*410.0*	*620.0*	*910.0*	*1,240.0*	*1,610.0*	*2,040.0*	*2,520.0*	*3,070.0*	***800.0***	***12,810.0***
Underlying cash balance	-	*90.0*	*250.0*	*390.0*	*590.0*	*860.0*	*1,180.0*	*1,540.0*	*1,960.0*	*2,430.0*	*2,970.0*	***730.0***	***12,260.0***

(a) As this table is presented as a memorandum item, these figures are not reflected above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[5].

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

[5] Online budget glossary – Parliament of Australia (aph.gov.au)

Table A9: Policy Reform Options for Negative Gearing and Capital Gains Tax – Option 5 - Limit negative gearing to newly constructed properties – Fiscal and underlying cash balances ($m)[(a)]

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	**Total to 2026-27**	**Total to 2033-34**
Tax revenue													
Administered tax													
Component 2 - Remove negative gearing for all residential properties	-	*290.0*	*5,440.0*	*5,020.0*	*5,110.0*	*5,270.0*	*5,440.0*	*5,640.0*	*5,870.0*	*6,110.0*	*6,380.0*	***10,750.0***	***50,570.0***
Behavioural bring-forward of home sales	-	*3,700.0*	*-2,300.0*	*-1,440.0*	*-70.0*	-	-	-	-	-	-	***-40.0***	***-110.0***
Total – tax revenue	-	**3,990.0**	**3,140.0**	**3,580.0**	**5,040.0**	**5,270.0**	**5,440.0**	**5,640.0**	**5,870.0**	**6,110.0**	**6,380.0**	**10,710.0**	**50,460.0**
Expenses													
Departmental													
Departmental costs	-	*-15.0*	*-10.0*	*-3.0*	*-3.1*	*-3.2*	*-3.2*	*-3.3*	*-3.4*	*-3.5*	*-3.6*	***-28.0***	***-51.3***
Total – expenses	-	**-15.0**	**-10.0**	**-3.0**	**-3.1**	**-3.2**	**-3.2**	**-3.3**	**-3.4**	**-3.5**	**-3.6**	**-28.0**	**-51.3**
Total (excluding PDI)	-	**3,975.0**	**3,130.0**	**3,577.0**	**5,036.9**	**5,266.8**	**5,436.8**	**5,636.7**	**5,866.6**	**6,106.5**	**6,376.4**	**10,682.0**	**50,408.7**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

Table A10: Policy Reform Options for Negative Gearing and Capital Gains Tax – Option 5- Limit negative gearing to newly constructed properties – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	**Total to 2026-27**	**Total to 2033-34**
Fiscal balance	-	*90.0*	*260.0*	*440.0*	*660.0*	*930.0*	*1,230.0*	*1,550.0*	*1,890.0*	*2,270.0*	*2,670.0*	***790.0***	***11,990.0***
Underlying cash balance	-	*80.0*	*230.0*	*400.0*	*620.0*	*880.0*	*1,180.0*	*1,490.0*	*1,830.0*	*2,200.0*	*2,600.0*	***710.0***	***11,510.0***

(a) As this table is presented as a memorandum item, these figures are not reflected above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary.

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.