



Parliamentary
Budget Office

Request for budget analysis

Cost of Negative Gearing and Capital Gains Tax Discount	
Person/party requesting the costing:	Mr Adam Bandt MP, Australian Greens
Date costing completed:	17 June 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
	<input checked="" type="checkbox"/> Confidential – <i>Authorised for public release on 2 July 2024</i> <input type="checkbox"/> Not confidential
<p>Summary of request:</p> <p>This request is seeking budget analysis on the revenue foregone in relation to the cost of negative gearing and the capital gains tax discount. There are 2 components to this request:</p> <ul style="list-style-type: none"> Component 1: Determine the annual value of revenue forgone due to negative gearing (NG) deductions and the capital gains tax (CGT) discount applied to residential investment properties, over the past 10 years and projected into the medium term until 2034-35. Analysis is to include residential properties owned by individuals, trusts, partnerships. Component 2: Provide distributional analysis for the projection period, including the annual tax revenue forgone from NG deductions and the CGT discount for the average residential property investor, and for each income decile. 	

Overview

The requested information is provided at Attachment A.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in preparing this response:

- For a given individual, negative gearing is defined as the total rental expenses of all their rental properties being greater than the total rent for those properties.
- All negative gearing deductions relate to residential properties. This assumption was made as it is not possible to split non-residential from residential properties with the information available.
- On average 38% of reported net capital gains relate to residential property. This is the level reported by the Australian Taxation Office (ATO) Tax Stats in 2021-22.

Methodology

The capital gains tax discount was estimated using the Tax Expenditure and Insights Statement (TEIS) 2023 model for item *E15 – Discount for individuals and trusts*, supplied by the Treasury, and modified with CGT schedule information from public ATO *Taxation statistics 2012-22*. The model was updated with the PBO's projections for net capital gains from the Build Your Own Budget (BYOB) tool.

The negative gearing deduction estimates were determined from publicly available *Taxation statistics 2021-22* and projected forward using a PBO microsimulation model built from the full set of de-identified personal income tax returns data for the 2021-22 income year, provided by the ATO. These were grown over the medium-term using parameters from the 2024-25 Budget.

This microsimulation model was also used to estimate the distributional impacts for negative gearing and the capital gains tax discount over the medium term.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.¹

Data sources

Australian Taxation Office (ATO) 2022, *Taxation statistics 2021–22*, Table 1: Capital gains tax detailed table, ATO, Canberra.

Australian Taxation Office (ATO) 2022, *Taxation statistics 2021–22*, Table 10B: Individuals detailed table, ATO, Canberra.

Commonwealth of Australia, 2024, *2024-25 Budget*, Canberra.

Treasury 2022, *Tax Expenditures and Insights Statement 2022-23*, Commonwealth of Australia, Canberra.

Treasury 2023, *Tax Expenditures and Insights Statement 2023-24*, Commonwealth of Australia, Canberra.

¹ <https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules>

Attachment A – Cost of Negative Gearing and Capital Gains Tax Discount

Table A1: Cost of Negative Gearing and Capital Gains Tax Discount – Estimated annual value of revenue foregone due to negative gearing deductions and capital gains tax discount, 10 years to 2024-35, \$ million

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Tax revenue foregone										
<i>Negative gearing deductions</i>	3,600.0	3,700.0	3,700.0	4,000.0	3,900.0	3,200.0	2,500.0	2,100.0	3,200.0	5,700.0
<i>Capital gains discount applied to residential properties</i>	3,150.0	3,380.0	3,750.0	4,130.0	3,280.0	3,190.0	5,470.0	9,240.0	7,700.0	5,220.0
Total	6,750.0	7,080.0	7,450.0	8,130.0	7,180.0	6,390.0	7,970.0	11,340.0	10,900.0	10,920.0

Table A1: Continued

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35
Tax revenue foregone											
<i>Negative gearing deductions</i>	6,900.0	7,700.0	8,200.0	8,800.0	9,500.0	10,200.0	10,900.0	11,800.0	12,600.0	13,500.0	14,500.0
<i>Capital gains discount applied to residential properties</i>	5,400.0	5,870.0	6,220.0	5,820.0	6,160.0	6,490.0	6,830.0	7,190.0	7,560.0	7,940.0	8,350.0
Total	12,300.0	13,570.0	14,420.0	14,620.0	15,660.0	16,690.0	17,730.0	18,990.0	20,160.0	21,440.0	22,850.0

Table A2: Cost of Negative Gearing and Capital Gains Tax Discount – Estimated annual value of revenue foregone due to capital gains tax discount, by taxable income decile, \$ million

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35
Decile											
1	87.0	69.0	74.0	71.0	80.0	68.0	74.0	81.0	88.0	94.0	102.0
2	37.0	47.0	46.0	43.0	49.0	58.0	64.0	76.0	82.0	91.0	100.0
3	50.0	81.0	80.0	70.0	75.0	90.0	94.0	102.0	111.0	118.0	129.0
4	71.0	109.0	110.0	99.0	107.0	127.0	130.0	143.0	151.0	158.0	170.0
5	79.0	119.0	120.0	105.0	113.0	130.0	132.0	141.0	151.0	159.0	169.0
6	92.0	139.0	136.0	120.0	130.0	151.0	153.0	163.0	175.0	182.0	200.0
7	123.0	177.0	177.0	159.0	172.0	196.0	198.0	215.0	233.0	244.0	262.0
8	194.0	255.0	254.0	232.0	248.0	285.0	292.0	318.0	342.0	366.0	398.0
9	360.0	431.0	452.0	419.0	454.0	497.0	506.0	559.0	591.0	628.0	684.0
10	4,306.0	4,444.0	4,772.0	4,501.0	4,732.0	4,887.0	5,186.0	5,392.0	5,636.0	5,901.0	6,137.0
Total	5,400.0	5,870.0	6,220.0	5,820.0	6,160.0	6,490.0	6,830.0	7,190.0	7,560.0	7,940.0	8,350.0

Table A3: Cost of Negative Gearing and Capital Gains Tax Discount – Estimated annual value of revenue foregone due to negative gearing deductions, by taxable income decile, \$million

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35
Decile											
1	67.0	130.0	164.0	187.0	208.0	232.0	256.0	285.0	312.0	348.0	384.0
2	135.0	164.0	175.0	196.0	220.0	248.0	280.0	316.0	349.0	385.0	424.0
3	176.0	233.0	252.0	276.0	300.0	326.0	353.0	388.0	419.0	459.0	503.0
4	263.0	354.0	390.0	434.0	475.0	521.0	561.0	609.0	648.0	689.0	735.0
5	353.0	426.0	463.0	499.0	534.0	568.0	599.0	639.0	675.0	717.0	762.0
6	430.0	511.0	543.0	577.0	616.0	656.0	694.0	745.0	790.0	840.0	895.0
7	568.0	655.0	689.0	736.0	789.0	841.0	892.0	960.0	1,021.0	1,088.0	1,169.0
8	782.0	884.0	912.0	972.0	1,043.0	1,120.0	1,197.0	1,301.0	1,404.0	1,535.0	1,678.0
9	1,186.0	1,294.0	1,340.0	1,439.0	1,565.0	1,695.0	1,825.0	1,990.0	2,136.0	2,296.0	2,486.0
10	2,940.0	3,051.0	3,273.0	3,485.0	3,748.0	3,994.0	4,243.0	4,567.0	4,845.0	5,143.0	5,464.0
Total	6,900.0	7,700.0	8,200.0	8,800.0	9,500.0	10,200.0	10,900.0	11,800.0	12,600.0	13,500.0	14,500.0