Parliamentary Budget Office

ECR-2025-3414

Phase out negative gearing and CGT tax concessions for property investors with more than one investment property	
Party:	Australian Greens

Summary of proposal:

The proposal would modify the capital gains tax (CGT) discount and negative gearing arrangements as follows:

- Negative gearing would be removed for all assets, excluding the first investment property held by an entity that was acquired before the start date.
- The 50% CGT discount would be removed for investment properties, excluding the first investment property held by an entity that was acquired before the start date.
  - For all other assets that are not investment properties, the 50% CGT discount would be replaced by indexation of the cost base.

The proposal would start on 1 July 2025.

Additional information (based on further advice provided):

- The changes to negative gearing would apply to individuals, partnerships, trusts and companies.
  - Deductions would be restricted to the same class of asset in which the losses were incurred. The value of investment property related losses could not be used to reduce income earned through other means such as wage and salary income.
  - Investors would not be able to carry forward within-year losses to either offset future rental gains or offset the ultimate capital gain when the asset is sold.
- The changes to CGT would apply to individuals, partnerships and trusts.
  - For all other assets that are not investment properties, where an asset is held for 12 months or more, the asset's cost base would be indexed by changes in the consumer price index (CPI) as part of calculating the capital gain at the time of sale.

Costing overview

The proposal would be expected to increase the fiscal and underlying cash balances by around $5.8 billion over the 2025-26 Budget forward estimates period (see Table 1). This impact reflects an increase in tax revenue and an increase in departmental expenses.

These estimates are highly uncertain and heavily influenced by behavioural responses to the proposal, which are discussed in more detail below.

The proposal would be expected to have an impact beyond the 2025-26 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2035-36 is provided at Attachment A.

Table 1: Phase out negative gearing and CGT tax concessions for property investors with more than one investment property – Financial implications ($m)[(a)(b)]

	2025-26	2026-27	2027-28	2028-29	Total to 2028-29
Fiscal balance	74.6	1,548.7	1,673.9	2,548.8	**5,846.0**
Underlying cash balance	74.6	1,548.7	1,673.9	2,548.8	**5,846.0**

(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.

Behavioural responses to proposal

We have not allowed for a behavioural response prior to the start date of the costing (for example buying and selling property to take advantage of the previous arrangements).[1] Given the start date of the proposal is 1 July 2025, we expect that any bring forward response would be negligible. Changes to the start date of the proposal may introduce a behavioural response.

The fiscal impact of the proposal, following introduction, is affected by behavioural responses that would lead to changes in tax revenue.

The changes to CGT lead to different tax treatments for property and non-property assets. Many properties would no longer receive any discount, while other assets would continue to receive a largely similar discount through CPI indexation. We anticipate that the differential treatment of property and non-property assets would lead to a decline in investor demand for housing, with an unclear longer-term impact on residential property prices.

Behavioural responses may differ in the short- and long-term.

Immediately after the proposal start date, investor housing demand would be likely to fall, reflecting that some potential property investors would switch their investment towards other asset types. Average property prices would decline, however 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. Ultimately the price of housing is dictated by the supply of housing and dwelling demand (a function of population and household density), such that the longer-term impact on house prices is likely to be a function of whether these tax changes result in greater or lower supply of housing.

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, including the following:

- Some investors may restructure their tax affairs to continue receiving the current tax treatment, such as through a Self-Managed Superannuation Fund (SMSF).
- Some investors may switch from property towards other assets that have an alternate tax treatment.
- Some investors currently holding property may choose to delay selling.
- Some investors may increase rents to compensate for the impact of the proposal on their investment return.

While investor housing demand may initially fall, these and other behavioural responses would act to partly offset the impact over time. This would bring the level of rental investment to a new

[1] See, for example, the PBO's costing for an alternate proposal related to CGT and negative gearing, which included a significant bring-forward before the starting date.

equilibrium where there is enough supply of rentals for rental yields to return to the same level as in the absence of the proposal.

Similarly, asset prices would be expected to eventually return towards baseline levels, although there may be a permanent shift in the size and composition of asset holdings, including types of dwellings.

In the long run, the proposal shifts the relative incentives towards occupying a dwelling rather than renting it. Assuming owner-occupiers demand different dwellings compared to investors, the supply of new dwellings may be lower under the proposal, as developers shift their target market towards owner-occupiers.

While Parliamentary Budget Office (PBO) costing estimates capture some of these behavioural impacts, their true magnitude may be significantly different from that assumed here. This would significantly change the revenue raised from the proposal.

Uncertainties

Capital Gains Tax

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 likely 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 for residential investment properties is estimated to reduce the overall rate of return by between 15% and 30%, depending on factors including lending interest rates, rental yields and property price growth.

There is uncertainty about the revenue implications of moving from the existing CGT discount toward CPI indexation of the cost base. In the current economic environment, the PBO estimates cost-base indexation would lead to a relatively small reduction in revenue over the forward estimates compared with the 50% discount. However, this estimate is highly sensitive to assumptions around future growth in CPI and asset prices, and the timing of asset purchases and sales.[2]

Negative Gearing

These estimates are particularly sensitive to the following uncertainties:

- Projections for rental incomes, interest rates and asset prices. These factors are highly volatile across years and relatively small changes can significantly change the financial implications.
- The impact of behavioural responses, including how investors and other potential buyers of residential real estate would respond to both the proposal and the changing market conditions arising from the proposal.
  - For instance, some investors may choose to continue to hold onto their first property acquired before the start date, for longer than they otherwise would. These behavioural responses could have a material impact on the revenue raised from the proposal in the years around its implementation and in future years.

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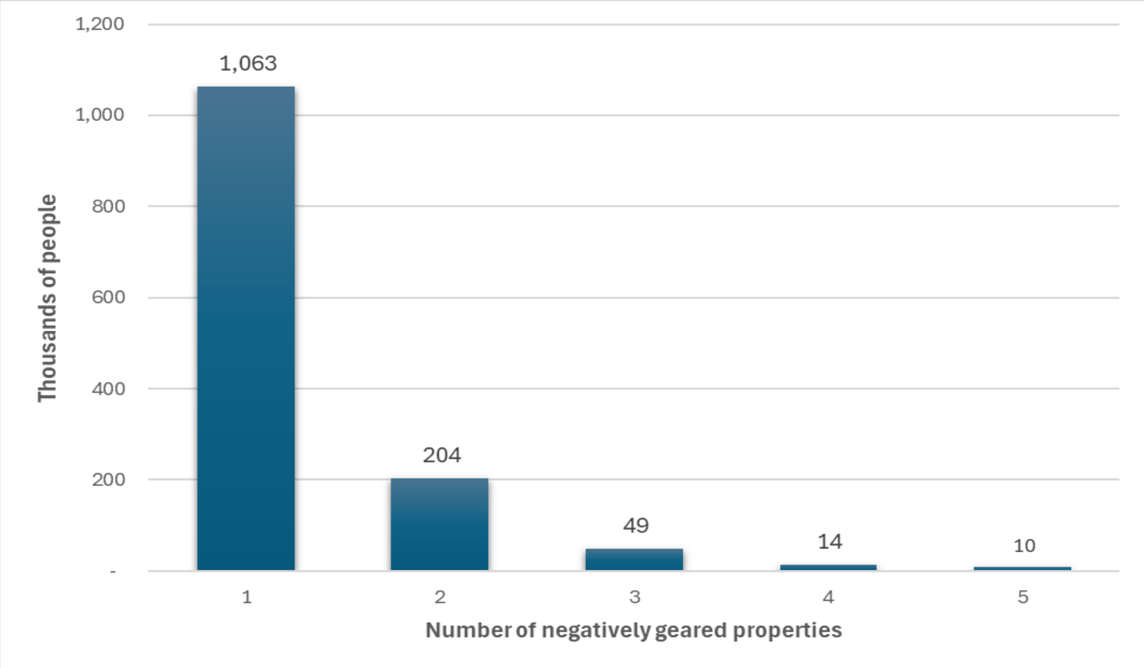
[2] Note that in a scenario where existing capital gains assets grow at 5% (the approximate long-term nominal GDP growth rate) and CPI grows at 2.5% (the middle of the RBA target range), then there would be no difference between the impact of the CGT discount and inflation indexation. As such, the difference between these two arrangements would generally be relatively small and may switch signs from year to year depending on the relative growth of CPI and asset prices.

The negative gearing component of this proposal may reduce the return on investment for landlords making it less likely for them to invest given current house prices and rents. This could have a flow on impact to house prices.[3]

Due to grandfathering of the first residential investment property acquired before the start date, the majority of existing negatively geared property investors would not be affected by the proposal. As shown in Figure 1, relatively few investors hold more than one negatively geared property. As such, it is unlikely that this impact would be substantial.

Figure 1: Number of tax filers with one or more negatively geared rental properties in 2025-26[4]



Businesses may own and operate residential rental properties or own rental property through a partnership or trust. Because businesses deduct their expenses against all business income (regardless of source), there is not sufficient granularity of data to assess how many residential rental properties owned by a profitable business are 'loss-making' assets in isolation from the business' other operations. For this reason, businesses have not been included in this costing.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

- 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.

[3] For example, several major studies have been undertaken on the removal of negative gearing on Australian home prices, with estimates of house price declines ranging from 1% to 4% (see Cho Y, Li SM and Uren L (2022); Daley J and Wood D (2016); Deloitte Access Economics (2019); Klemm, A, Liu, L, Mylonas, V and Wingender P (2018); and Tunny G (2018).)

[4] PBO estimates based on individuals' income tax return and rental property schedule data as at 2022-23 provided by the ATO, and economic parameters and rental income forecasts as at the 2025-26 Budget provided by Treasury.

- Individuals affected by the negative gearing and capital gains tax components are expected to have a taxable income elasticity of 0.2.[5]

- For the purposes of identifying properties, around 7% of the existing stock of investment properties would be sold each year.[6]

Capital Gains Tax

- Around 70% of rental properties acquired prior to the start date are the first residential real estate asset held by an individual.
- Some property investors would adjust their investment portfolios away from housing towards other investment classes, while others would hold their existing single property for longer or restructure their tax affairs, to retain the 50% discount on capital gains. The costing includes an allowance for these factors, reducing the overall expected tax revenue from the proposal by 20%.
- The value of CGT assets, other than residential real estate, would increase in line with nominal GDP. These assets would be sold evenly over a period of 10 years.
- 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 the event.
- Due to data constraints, the impact on partnerships and trusts is excluded from the analysis.

Negative Gearing

- The number of taxpayers with rental income would increase in line with the population of all taxpayers.
  - The ratio of taxpayers with rental income in a profit position to those in a loss position would decrease over the medium term to 0.65 by 2035-36.
- The tax rates applying to additional taxable income under the proposal would reflect tax settings as they were at 2025-26 Budget.
- Around 5% of the tax impact from the proposal changes would occur in-year, with 90% occurring in the following financial year, and 5% two financial years afterward.
- Due to data constraints, the impact on companies, partnerships and trusts is excluded from the analysis.

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[5] 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 a proportional change in the net-of-tax rate (one minus the marginal tax rate). An elasticity of 0.2 means that if an increase in a marginal tax rate leads to a 1 per cent decrease in the net-of-tax rate, there will be a 0.2 per cent decrease in taxable income. See the PBO's glossary of behavioural assumptions for more information.

[6] 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.

Methodology

Capital Gains Tax

- Total capital gains for real estate and other assets subject to the proposal were projected forward using the Australian Taxation Office's rental property schedule and capital gains tax data from 2012-13 to 2022-23.
  – The net capital gains for real estate and other assets for individuals and superannuation funds were projected across the period to 2035-36.
- The proportion of total property and other asset gains subject to the proposal was estimated based on expected selling patterns for investors as discussed in *Key Assumptions.*
- For investment properties, the expected additional tax revenue from removing the capital gains tax discount was calculated. An adjustment was then made for the behavioural assumptions outlined above and to account for the grandfathering of the investor's first investment property acquired before the start date.
- For capital gains assets other than real estate, the total revenue forgone for the CGT discount was estimated for each year from 2025-26 to 2035-36. This was adjusted for indexation of the cost base using historical estimates of growth in business investment and the consumer price index.

Negative Gearing

- Rental property schedules and personal income tax data from 2022-23 were used to estimate the baseline decreases in taxable income resulting from negative gearing over the period to 2035-36.
- These amounts were adjusted to capture the proportion of deductions that would be impacted by the proposal, omitting the first investment property for each investor acquired before the start date.
- Amounts were further adjusted to account for the ongoing reduction in taxable incomes as discussed in *Key Assumptions.*
- Deductions that were no longer eligible were multiplied by a modelled average marginal tax rate to estimate the increase in revenue.

Departmental expenses

- Departmental expenses were estimated based on the resourcing costs involved in supporting the Australian Taxation Office's application of the tax changes, public education and ongoing compliance activities.

Financial implications were rounded consistent with the PBO's rounding rules.[7]

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

Data sources

The Australian Taxation Office provided individuals income tax return data and rental property schedule data as at 2022-23.

The Treasury provided economic parameters, capital gains tax and rental income forecasts as at the 2025-26 Budget.

Australian Bureau of Statistics (2022) *Residential Property Price Indexes: Eight Capital Cities - December 2021*, Australian Bureau of Statistics website, accessed 16 May 2025.

Australian Taxation Office (2024) *Taxation Statistics 2021-22*, Australian Taxation Office website, accessed 16 May 2025.

Bandeira G, Malakellis M and Warlters M (2022) *Holding periods of residential property buyers in NSW*, NSW Treasury website, accessed 16 May 2025.

Cho Y, Li SM and Uren L (2022) *Investment housing tax concessions and welfare: Evidence from Australia*, Crawford School of Public Policy website, accessed 16 May 2025.

Daley J and Wood D (2016) *Hot Property: Negative gearing and capital gains tax reform*, Grattan Institute website, accessed 16 May 2025.

Deloitte Access Economics (2019) *Analysis of changes to negative gearing and capital gains taxation*, The Conversation website, accessed 16 May 2025.

Klemm A, Liu L, Mylonas V and Wingender P (2018) *Are Elasticities of Taxable Income Rising?*, International Monetary Fund website, accessed 16 May 2025.

Tunny G (2018) *Untangling the Debate Over Negative Gearing*, The Centre for Independent Studies website, accessed 16 May 2025.

Commonwealth of Australia (2025) *Pre-election Economic and Fiscal Outlook 2025,* Commonwealth of Australia.

Attachment A – Phase out negative gearing and CGT tax concessions for property investors with more than one investment property – Financial implications

Table A1: Phase out negative gearing and CGT tax concessions for property investors with more than one investment property – Fiscal and underlying cash balances ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Tax revenue													
Capital Gains Tax	*-*	*230.0*	*-60.0*	*410.0*	*1,020.0*	*1,610.0*	*2,190.0*	*3,100.0*	*4,150.0*	*5,040.0*	*5,750.0*	***580.0***	***23,440.0***
Negative Gearing	*90.0*	*1,720.0*	*2,130.0*	*2,500.0*	*2,960.0*	*3,360.0*	*3,880.0*	*4,430.0*	*5,000.0*	*5,660.0*	*6,390.0*	***6,440.0***	***38,120.0***
Behavioural - impact of asset price changes on CGT	*-*	*-391.0*	*-393.0*	*-358.0*	*-337.0*	*-292.0*	*-266.0*	*-256.0*	*-227.0*	*-188.0*	*-142.0*	***-1,142.0***	***-2,850.0***
Total – revenue	**90.0**	**1,559.0**	**1,677.0**	**2,552.0**	**3,643.0**	**4,678.0**	**5,804.0**	**7,274.0**	**8,923.0**	**10,512.0**	**11,998.0**	**5,878.0**	**58,710.0**
Expenses													
Departmental													
Australian Taxation Office	*-15.4*	*-10.3*	*-3.1*	*-3.2*	*-3.3*	*-3.3*	*-3.4*	*-3.5*	*-3.6*	*-3.7*	*-3.8*	***-32.0***	***-56.6***
Total – expenses	**-15.4**	**-10.3**	**-3.1**	**-3.2**	**-3.3**	**-3.3**	**-3.4**	**-3.5**	**-3.6**	**-3.7**	**-3.8**	**-32.0**	**-56.6**
Total (excluding PDI)	**74.6**	**1,548.7**	**1,673.9**	**2,548.8**	**3,639.7**	**4,674.7**	**5,800.6**	**7,270.5**	**8,919.4**	**10,508.3**	**11,994.2**	**5,846.0**	**58,653.4**

(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: Phase out negative gearing and CGT tax concessions for property investors with more than one investment property – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)(c)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	**Total to 2028-29**	**Total to 2035-36**
Fiscal balance	..	*40.0*	*110.0*	*210.0*	*360.0*	*560.0*	*820.0*	*1,150.0*	*1,570.0*	*2,080.0*	*2,690.0*	***360.0***	***9,590.0***
Underlying cash balance	..	*30.0*	*90.0*	*180.0*	*320.0*	*510.0*	*750.0*	*1,070.0*	*1,460.0*	*1,950.0*	*2,540.0*	***300.0***	***8,900.0***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals 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[8].

(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.

.. Not zero but rounded to zero.

[8] [Online budget glossary – Parliamentary Budget Office (pbo.gov.au)]