



Request for budget analysis

Active asset exemption	
Requestor:	Ms Allegra Spender MP, Independent Member for Wentworth
Date analysis completed:	22 October 2026 <i>Authorised for public release on 28 October 2026</i>
Expiry date of the analysis:	Release of the next economic and fiscal outlook report
<p>Summary of proposal:</p> <p>The proposal would replace the proposed Innovative Business Capital Gains Tax Concession (IBCC), assuming it would otherwise commence, with one of the following options:</p> <ul style="list-style-type: none"> • Option 1: Exclude all active assets from the indexation method for calculating CGT, allowing owners, employees and investors to retain a 40% CGT discount on capital gains from these assets. • Option 2: As per Option 1 but with a 35% CGT discount. <p>The definition of active assets is in line with the current ATO definition, including shares and share options. Unlike the small business CGT concession, there are no income thresholds or holding limits and no requirement to pass an “80% test”.</p> <p>Transition arrangements (grandfathering) would mirror the Budget proposal for cost base indexation. The 50% capital gains discount would remain for gains made prior to 1 July 2027.</p> <p>The policy would commence from 1 July 2027.</p>	

Overview

This request for budget analysis was prepared on the basis of information specified by the requestor and does not constitute a PBO policy costing. The Innovative Business Capital Gains Tax Concession (IBCC) does not form part of the Budget 2026-27 baseline, on which the PBO is required by legislation to base costings. The request asks that the PBO assume that the policy is costed against a baseline that includes the IBCC.

This proposal would increase the fiscal and cash balances by between \$590 million and \$910 million over the 2026-27 Budget forward estimates period (see Table 1). This reflects an increase in capital gains tax collections from the abolition of the IBCC, and reduced concessions from the CGT discount.

The proposal would be expected to have an impact beyond the 2026-27 Budget forward estimates period. A breakdown of the financial implications, including separate public debt interest (PDI) tables, over the period to 2036-37 is provided at Attachment A.

Table 1: Active asset exemption – Financial implications^{(a)(b)(c)}

	2026- 27 \$m	2027- 28 \$m	2028- 29 \$m	2029- 30 \$m	Total to 2029- 30 \$m
Option 1: 40% CGT discount for active businesses					
Fiscal and underlying cash balance	-	-	190.0	400.0	590.0
Option 2: 35% CGT discount for active businesses					
Fiscal and underlying cash balance	-	-	290.0	620.0	910.0

(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.

(c) Financial implications were rounded consistent with the PBO's rounding rules.

- Indicates nil.

Uncertainties

There are considerable uncertainties around modelling capital gains and CGT due to a lack of available data.¹ Our approach required several simplifying assumptions, particularly around the share of affected businesses, which may or may not hold if this policy was to be implemented. Different shares would lead to significantly different fiscal impacts. Capital gains analysis is also highly sensitive to the assumed rate of return on assets.

Comprehensive data on active and passive assets, and when gains from these assets are realised, are not available. For this reason, we have identified companies that source the majority of their income from active sources. We have used these companies to estimate the gains eligible for this proposal.

This approach is similar to the base rate entity passive income test, which is used to determine eligibility for the 25% company tax rate.²

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in analysing this proposal:

- All historic capital gains were assumed to benefit from the 50% CGT discount.
- The consumer price index (CPI) is assumed to grow at 2.5%, the midpoint of the Reserve Bank of Australia's target band.
- The average nominal return on capital is assumed to be 4.7% per year, consistent with the average rate of nominal GDP growth in the Budget projections over the medium term.³
- The average tax rate for investors is estimated to be 31.6%.
- Approximately 50% of capital gains were assumed to relate to shares, as opposed to other assets.

¹ In historical tax return data, tax-filers have self-assessed whether their capital gains are eligible for the 50% discount (or additional concessions such as the small business CGT concession). This discounted gain is what investors report on their tax return as part of their taxable income and makes it hard to determine who has accessed the concession using historic data.

² [Base rate entity company tax rate](#), Australian Taxation Office

³ We note that some businesses will earn returns above this rate, while others will earn lower or even negative returns.

- Approximately 43% of the net capital gains which accrue to companies are attributable to active companies. Around 16% were attributed to active companies with turnover less than \$50 million.
- Capital gains tax is assumed to be paid on assessment, in the financial year following realisation of the gain.

Methodology

Capital gains were projected forward over the medium term using historical data on capital gains for individuals.

The share of capital gains from active companies was used to estimate the proportion of individuals' capital gains which would be eligible for this proposal.

These net capital gains were used to calculate the estimated cost base and indexation based on the policy in the Budget baseline.

Capital gains tax, under the proposed arrangements, was then calculated using the average tax rate for investors.

Data sources

The Australian Taxation Office provided personal and company income tax return data for the 2021-22, 2022-23 and 2023-24 tax years.

Australian Taxation Office (2026), *Taxation Statistics 2023-24*, accessed 16 October 2026.

Clark (2014), *Capital gains tax: historical trends and forecasting frameworks*, the Treasury.

Commonwealth of Australia (2026) *2026-27 Budget*, Commonwealth of Australia.

Attachment A – Active asset exemption – Financial implications – Budget Analysis

Table A1: Active asset exemption – Option 1: 40% CGT discount for active businesses – Fiscal and underlying cash balances^{(a)(b)}

	2026-27 \$m	2027-28 \$m	2028-29 \$m	2029-30 \$m	2030-31 \$m	2031-32 \$m	2032-33 \$m	2033-34 \$m	2034-35 \$m	2035-36 \$m	2036-37 \$m	Total to 2029-30 \$m	Total to 2036-37 \$m
Revenue/Receipts													
<i>Capital Gains Tax receipts</i>	-	-	190.0	400.0	600.0	780.0	890.0	980.0	1,070.0	1,160.0	1,230.0	590.0	7,300.0
Total (excluding PDI)	-	-	190.0	400.0	600.0	780.0	890.0	980.0	1,070.0	1,160.0	1,230.0	590.0	7,300.0

(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.

(b) Financial implications were rounded consistent with the PBO's rounding rules.

- Indicates nil.

Table A2: Active asset exemption – Option 1: 40% CGT discount for active businesses – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances^{(a)(b)(c)}

	2026-27 \$m	2027-28 \$m	2028-29 \$m	2029-30 \$m	2030-31 \$m	2031-32 \$m	2032-33 \$m	2033-34 \$m	2034-35 \$m	2035-36 \$m	2036-37 \$m	Total to 2029-30 \$m	Total to 2036-37 \$m
Fiscal balance	-	-	5.0	19.0	44.0	78.0	120.0	168.0	223.0	284.0	351.0	24.0	1,292.0
Underlying cash balance	-	-	3.0	15.0	37.0	68.0	108.0	155.0	208.0	267.0	332.0	18.0	1,193.0

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

(c) Financial implications were rounded consistent with the PBO's rounding rules.

- Indicates nil.

Table A3: Active asset exemption – Option 2: 35% CGT discount for active businesses – Fiscal and underlying cash balances^{(a)(b)}

	2026-27 \$m	2027-28 \$m	2028-29 \$m	2029-30 \$m	2030-31 \$m	2031-32 \$m	2032-33 \$m	2033-34 \$m	2034-35 \$m	2035-36 \$m	2036-37 \$m	Total to 2029-30 \$m	Total to 2036-37 \$m
Revenue/Receipts													
<i>Capital Gains Tax receipts</i>	-	-	290.0	620.0	940.0	1,270.0	1,410.0	1,540.0	1,670.0	1,790.0	1,910.0	910.0	11,440.0
Total (excluding PDI)	-	-	290.0	620.0	940.0	1,270.0	1,410.0	1,540.0	1,670.0	1,790.0	1,910.0	910.0	11,440.0

(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.

(b) Financial implications were rounded consistent with the PBO's rounding rules.

- Indicates nil.

Table A4: Active asset exemption – Option 2: 35% CGT discount for active businesses – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances^{(a)(b)(c)}

	2026-27 \$m	2027-28 \$m	2028-29 \$m	2029-30 \$m	2030-31 \$m	2031-32 \$m	2032-33 \$m	2033-34 \$m	2034-35 \$m	2035-36 \$m	2036-37 \$m	Total to 2029-30 \$m	Total to 2036-37 \$m
Fiscal balance	-	-	7.0	29.0	68.0	122.0	189.0	266.0	351.0	446.0	550.0	36.0	2,028.0
Underlying cash balance	-	-	5.0	23.0	57.0	107.0	170.0	244.0	327.0	419.0	521.0	28.0	1,873.0

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

(c) Financial implications were rounded consistent with the PBO's rounding rules.

- Indicates nil.