Centre for Future Work

Inquiry into Treasury Laws Amendment (Tax Reform No. 1) Bill 2026 and Income Tax Rates Amendment (Tax Reform No.1) Bill 2026

Submission to Senate Economics Legislation Committee

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Centre for Future Work

About the Centre for Future Work

The Centre for Future Work is an independent research and policy centre that conducts and publishes progressive economic and social research to advance understanding of the issues that affect working people. The Centre also develops timely and practical policy proposals to help make the world of work better. Established in 2016, and a stand-alone organisation since 2026, the Centre has a strong track record of producing high-quality research for policy change to improve work and working lives. The Centre works closely with groups committed to the Centre's vision for better work.

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About this submission

This submission was written by Dr Ben Spies-Butcher and Emeritus Professor David Peetz.

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Introduction

Our analysis examines the proposed tax reforms from the perspective of working people. We welcome the changes as a step towards greater fairness and less distortion within the tax system. The changes rebalance taxation between labour and capital incomes, begin to update the tax system to better address growing wealth inequality and reduce incentives for speculative investment, especially in housing.

This submission is set out as follows. The first substantive section sets out the principles for assessment of taxation changes and our overview assessment of the Bill. The section that follows comments on the major aspects of the Bill. The last section provides our more detailed assessment in light of consideration of those major aspects. We do not focus on the details of particular provisions, but rather on the broad principles involved.

Principles and overview

The taxation changes set out in the Bill should be assessed against four broad principles:

1. the tax system should promote economic welfare by incentivising productive activity;
2. the tax system should reduce inequality by levying taxes based on a person's ability to pay;
3. the tax system should treat income from different sources equally and reduce opportunities for tax minimisation, and;
4. the tax system should address growing sources of inequality, particularly from rising wealth.

No single tax law can achieve all these objectives, but the Treasury Laws Amendment (Tax Reform No. 1) Bill 2026 and the related bill being considered by this Committee help achieve these principles through the following broad outcomes:

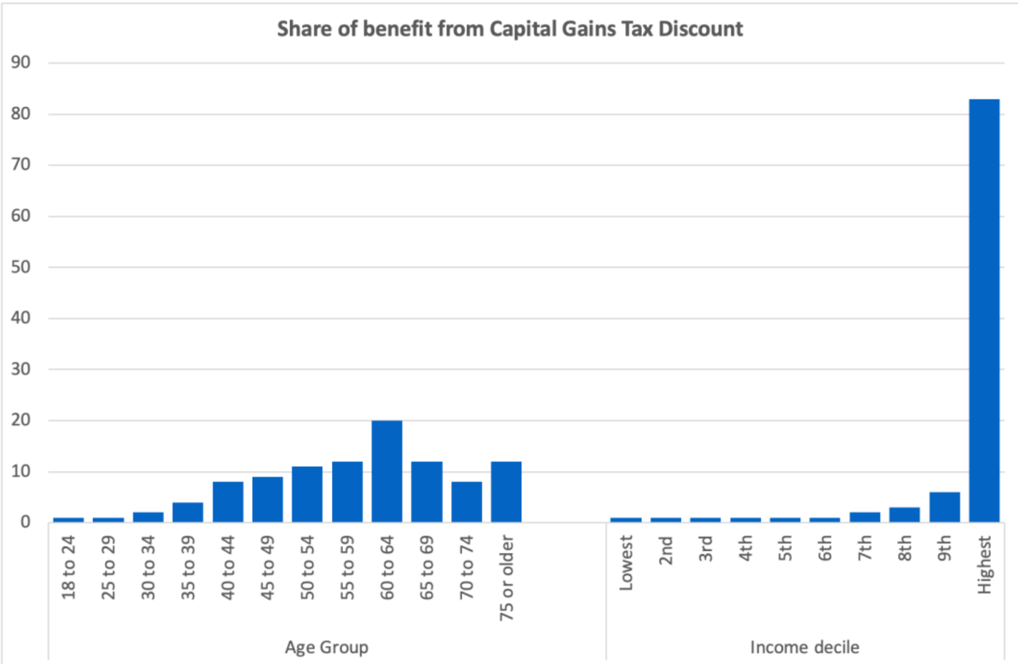
- they achieve greater equality of treatment between income derived from work and income achieved from ownership;
- they promote a better allocation of resources between activities, in particular between speculative investment (especially in housing placing upward pressure on house prices) and investment in productive activities;
- they achieve a more equitable incidence of taxation, by reducing tax paid by people with few resources, and increasing the tax paid by people with more resources
- they reduce the under-taxation of wealth, even though wealth remains very lightly taxed yet is the major source of inequality.

Key elements of the Bill

Capital gains tax

The chart below, from Treasury data, shows how the benefit from the previous capital gains tax discount increased in each age group, until peaking in the 60-64 age group (which obtained a fifth of the benefit). The right-hand side shows that, in practice, over four fifths of the benefit from the discount went to the highest income decile (the top 10%). Those receiving capital gains were primarily the wealthy.

Figure 1: Share of benefit from capital gains tax discount



Source: Treasury, *2025–26 Tax Expenditures and Insights Statement*, Canberra, December 2025.

The capital gains tax discount that had been introduced by a Howard-Costello budget with effect from 1999 is to be abolished from 1 July 2027, mostly replaced by the system that preceded it, in which only real gains (after allowing for inflation) will be taxed, with the addition of a minimum 30% tax rate on those gains (to reduce inequity from deferrals of realisation of gains until taxpayers are on low marginal rates).

The changes to capital gains taxation will reduce the incentive for investors to park their money in unproductive assets that can be expected to grow in value and will reduce incentives to organise income from enterprise to be capitalised into higher asset values rather than be taken as current income. Instead investors will be encouraged to invest in productive activities that generate income streams. This is most clearly shown in housing, where asset values have raced ahead of wages, however, ensuring changes are uniformly applied across asset categories reduces opportunities for future distortions to arise.

The changes have the added advantage of reducing the bias in the tax system in favour of high income earners, for whom capital gains are a high share of income (26% of income for the highest income earners is in the form of capital gains, compared to 1% of income for the majority quintile).[1] The announcement is at least as important for this reason as it is for its impact on the housing market, but it should still lead to a reduction in price pressures on housing, opening up opportunities for younger and middle and lower income households attempting to enter the housing market.

Negative gearing

A similar rationale supports changes to negative gearing (the practice most commonly associated with offsetting rental 'losses' against earned and unearned income). After 1 July 2027, negative gearing will only be available for new properties that genuinely add to the housing supply.

As can be seen from the chart below, though its benefits were not as skewed or distortionary as the capital gains tax discount, negative gearing was most attractive to those who sought low-tax capital gains from increases in the value of rented housing. So, the top 30% of income earners received 70% of the benefit from claiming rental losses.

While negative gearing is currently available for all asset categories, it is most commonly associated with housing investment, where losses are often a planned outcome of leveraged investment models. The interaction of capital gains tax discounts and negative gearing reflects the development of an investment model that allows reorganisation of income across categories and time to reduce taxation. Quarantining how investment losses can be claimed against other investment income reduces opportunities for tax minimisation. Given the ubiquity and availability of credit for housing finance (i.e. mortgage credit), the impacts of these reforms are likely to be concentrated in the housing market.

As a result of these changes, it will become more attractive to invest in income-generating shares (thereby providing finance for corporate investment in machinery and equipment), while investment competing for existing houses will become less attractive. Like the change in the capital gains tax discount, it should also give some downward impetus to house prices and improve opportunities for home ownership.

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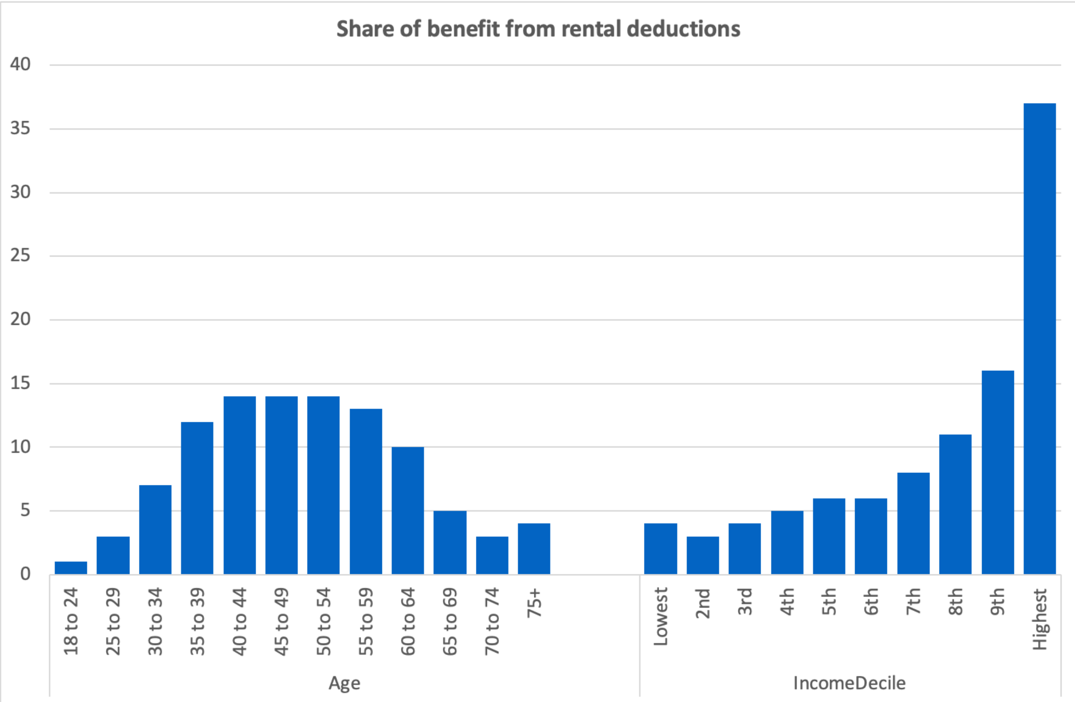
[1] In this case, the 'highest income group' is taxpayers receiving over $1 million per annum, while the 'majority' is those on less than $150,000 per annum. Data from the Australian Tax Office as analysed by the Australia Institute and reported in Matt Liddy, Andie Noonan, Simon Elvery, Margaret Burin and Jessica Riga, 'How everyone is making money, and what it means for their tax', ABC News, 10 May 2026.



Source: Treasury, *2025–26 Tax Expenditures and Insights Statement*, Canberra, December 2025.

Discretionary trusts

The changes to capital gains tax and negative gearing will have significant impacts on who pays tax. The changed tax treatment of discretionary trusts — a minimum tax rate of 30% — will have similar effects. Trusts are commonly used by high income earners to cut tax by enabling income splitting.[2] Some 63% of the benefit of the favourable tax treatment of trusts accrued to the highest 10% of taxpayers.

Tax offset

The introduction of the permanent $250 tax offset for wage and salary owners will be progressively redistributive (it will be worth 0.5% of income for someone on $50,000 per year but only 0.1% for someone on $250,000), and again give a more favourable tax treatment to activities that generate income rather than capital gains. These do not, however, provide benefits to people on low-incomes outside the wage framework, where cost-of-living pressures are acute. We also note the tax offset potentially reduces resources available for government payments and services, which can be an effective mechanism to protect working people from economic risk and increase living standards.

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[2] Matt Grudnoff, 'What are trusts, how do they reduce tax, and what is Labor rumoured to change?', The Point, 6 May 2026.

Overall assessment

To return to the issues raised in our initial overview, we draw the following conclusions.

Treatment of income from labour and capital

Changes to capital gains tax, negative gearing and trusts address the problem whereby taxes on asset owners have been lower and more easily minimised than taxes on workers with equivalent incomes. A modest tax cut for workers follows the same logic. Income from capital is more unequally distributed than income from labour. The bill thus produces a more equitable treatment of income from labour versus capital.

Efficient allocation of resources and macroeconomic performance

The Bill partly addresses Australia's housing crisis, begins to address some sources of macroeconomic instability and modestly boosts productivity.

The capital gains tax and negative gearing changes should be assessed together, both as a response to distortions in the housing market and in relation to inequalities in the taxation of labour and capital incomes. The two measures currently interact to support leveraged investment models, i.e. debt-financed investment. Highly leveraged housing investments can reduce tax on current high incomes via negative gearing, while entitling the investor to significant capital gains via the capital gains tax deduction. The capital gains can then be realised in the future when the investor's taxable income is lower and thus at a lower marginal tax rate. While available across asset classes, the availability of mortgage debt to fund housing investment potentially concentrates the effect.

The existence of this investment model raises several equity and macroeconomic concerns. It places upward pressure on house prices, raising the cost of living across the community, especially for workers and younger people who are less likely to already own property. Importantly the period since the capital gains tax discount was introduced has not only coincided with an increase in property prices, but also a change in the composition of buyers, from owner occupiers to investors.[3]

The combination of rising house prices and highly geared investment in housing has significantly increased household debt. Household debt has increased steadily, is high by global standards[4], and is dominated by mortgage debt[5]. While mortgage debt is backed by housing assets, household exposure to mortgage debt places many in a precarious position. Worker households disproportionately have significant household debt. Such high household debt creates macroeconomic stability risks and

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[3] Reserve Bank of Australia 2015. Proportion of Investment Housing Relative to Owner-Occupied Housing, Submission to the Inquiry into Home Ownership, https://www.rba.gov.au/publications/submissions/housing-and-housing-finance/inquiry-into-home-ownership/proportion-investment-housing-relative-owner-occ-housing.html

[4] Van Onselen, L. 2025, Australia is the land of the mega mortgage, *MacroBusiness*, https://www.macrobusiness.com.au/2025/02/australia-is-the-land-of-the-mega-mortgage/

[5] Long-term household loans, Australian Bureau of Statistics, Australian National Accounts: Finance and Wealth, Dec 2025, https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-finance-and-wealth/latest-release

positions workers as the ‘shock absorbers’ of the economy through their combined exposure to higher repayments and a weaker labour market caused by the Reserve Bank’s response to inflation.

The proposed changes alone do not correct all these challenges. In particular we note the need to substantially increase investment in social housing and improve tenancy protections in private rental markets to provide secure alternatives to high mortgages. However, the changes do address an important driver of asset inflation. The changes will improve incentives for investment in income producing assets. Investment in income-generating shares (thereby providing finance for corporate investment in machinery and equipment) will become more attractive, while investment in existing housing stock will become less attractive. As one financial adviser said, scaling back negative gearing ‘could nudge people toward investments that actually stack up on their own merits.’[6]

We support the changes to capital gains tax and negative gearing extending across asset categories, rather than being confined to housing. Restricting the changes to housing markets would be misguided as this would create new differentials in how similar activities and income sources are taxed. It is difficult to anticipate how new tax minimisation models will develop. The 1999 changes were not targeted towards the housing market. Nor was it clear inflation and interest rates would consistently decline in coming decades, a shift in the economic environment that favoured leveraged investments targeted to earning income via capital gains. More uniform taxation of investment incomes reduces vulnerabilities to investment models designed to minimise taxation rather than maximise productivity.

We should not be concerned that the removal of the 50% discount in CGT will dampen start-up activity in the small business sector. For one thing, the main incentive effect is likely to be to reduce the incentive for business owners to take all their gains as capital growth instead of income; that is, they are more likely to pay themselves an income from a business. There is no obvious reason why the tax system should subsidise business owners to take the benefits as capital gains rather than income, and there are obvious equity disadvantages.

Concerns about the impact of the capital gains tax changes appear to be more notable in relation to small businesses. However, ‘start-ups’ that experience substantial growth represent only a very small proportion of small businesses. We also note the Budget included specific tax changes targeted towards start-up businesses, and a number of exemptions or special conditions for small business remain. It should also be acknowledged that small businesses report fewer barriers to general business activities or performance than do medium and large businesses.[7] ‘Government regulations and compliance’ was one matter that small businesses were less likely to identify as hampering their activities or performance than larger businesses. The biggest concern for small business was uncertainty about economic conditions. Those issues that were considerably more important for small

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[6] Michael Horan, partner and financial planner, CA Financial Services Group, quoted in ‘What financial experts are saying about the budget’, Australian Financial Review, 12 May 2026, https://www.afr.com/wealth/personal-finance/what-financial-experts-are-saying-about-the-budget-20260511-p5zvmm

[7] The proportion of businesses citing ‘Government regulations and compliance’ as a factor hampering general business activities or performance was 12.7% amongst those with 0-4 employees, 16.1% with 5-19 employees, 24.7% with 20-199 employees and 19.3% for those with 200 or more employees. ABS Cat No 8167.0 Characteristics of Australian Business, 2021-22.

and medium-sized businesses than large businesses were internet access, unpaid accounts, access to capital, lack of demand and profit margins.

Other data collected by the ABS in that study showed that small businesses were much less likely than larger businesses (by a factor of three or four) to: use key performance indicators; have a written strategic plan; use predictive analysis to plan business activities; train staff in supply chain practices; carry out quality and other assurance processes; have a digital business strategy; actively collect or analyse data to make informed decisions; or actively seek out digital technologies to improve business processes. Large businesses were roughly three times as likely as small businesses to increase their use of digital technologies, increase the ICT capabilities of their employees, increase expenditure on ICT and provide structured training for their employees. So larger businesses were also roughly twice as likely as small businesses to say that their productivity had increased in the previous year. [8] Meanwhile, other ABS data show that the employment share of firms with less than 20 employees fell from 47.1% in 2009-10 to 41.5% in 2022-23. The greatest part of this decline was a drop in employment in what are sometimes called 'micro' businesses (the subset of small businesses that have 4 or fewer employees), from 28.8% to 23.4%.[9] While claims about 'small businesses' ability to generate jobs are frequently presented as justification for tax incentives, regulatory policies and other government programs that favour the small business sector',[10] the idea of small businesses, as startups or otherwise, being the engine of productivity and employment growth is not supported by this evidence.

Equity

The net effect of the changes to trusts (costing $4.5 billion in 2029-30) and the comparably expensive tax offset ($3b in 2028-29, and $3.3b in 2029-30), will be to benefit lower and middle-income earners, at the expense of high-income earners. The capital gains tax and negative gearing changes will strengthen the progressivity of the changes in the Bill.

As prices and interest rates rise, the Bill helps share fiscal costs more fairly. Changes to capital gains tax, negative gearing and trusts address decades of rising inequality, where asset values have risen faster than wages while taxes on asset owners have failed to keep up. A modest tax cut for workers follows the same logic. We welcome the principles embedded in the proposed tax offset; that it is targeted to labour income and the lowest tax rate, and that its benefit is effectively capped, limiting its fiscal cost over time. However, we express some caution over any assumption that tax changes need to be revenue neutral. Ensuring the tax system can deliver quality public services, income support and public insurance is essential to advancing living standards and protecting working people from economic insecurity. Tax cuts should therefore be assessed against the benefits workers might otherwise receive from public provision.

This tax package is a sensible response to the macroeconomic context, which shaped a tight fiscal policy. It takes money out of the economy, but from the wealthy, not workers. Given real wages have

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[8] ABS Cat No 8167.0 Characteristics of Australian Business, 2021-22, Canberra, ABS

[9] ABS Cat No 8155.0 Australian Industry

[10] S.J. Davis, J. Haltiwanger, et al. (1996). Small business and job creation: Dissecting the myth and reassessing the facts. Small Business Economics 8(4): 297-315 (p297).

yet to recover post-pandemic,[11] much more dramatically than house prices,[12] it is fair that a greater fiscal share come from capital incomes. The burden of fighting inflation has been borne by workers, either through cutting other spending or increasing their work hours to service rising mortgage payments. Yet interest rate rises do little to reduce the spending of those reliant on investment returns.[13]

Rising rents and house prices, along with other cost of living pressures, are often framed as intergenerational issues. However, many of these inequalities reflect the gradual deepening of market inequalities over time, which impact new entrants more severely than incumbents. Inequalities *within* each successive generation are widening. This has left a small minority of younger people much richer, but is experienced by the majority of younger people as generational inequality. Especially in housing, where secure tenure is tied to ownership, which has become radically more expensive, these inequalities are re-establishing familial wealth as a key determinant of life chances. Addressing these inequalities is vital to ensuring fairness in the future. The focus of the proposed reform, combining generational and class elements, is well designed to respond to these pressures.

Imbalance in taxation

There is presently an imbalance in the tax system, arising from its over-reliance on the taxation of income and associated under-taxation of wealth. Both income and wealth are important for lifetime wellbeing, but the inequality of wealth is much greater than the inequality of income,[14] and the inequality of wealth increased by more between 2007-2017 than the inequality of income.[15] Yet since the abolition of death duties in all Australian jurisdictions, the taxation of wealth in Australia has been extremely light (the main method being taxation of land, including through local government rates which, due to the geographic inequality of land values, are often not progressive in their incidence).[16]

The capital gains tax changes do not impose a new tax on wealth (capital gains is rightly understood as income) but individuals with high wealth and low income, who once financed part of their

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[11] Van Onselen, L. 2025 Australia's real wage depression, *MacroBusiness*, https://www.macrobusiness.com.au/2025/11/australias-real-wage-depression/

[12] Federal Reserve Bank of St Louis 2026. Real residential property prices for Australia, https://fred.stlouisfed.org/series/QAUR628BIS

[13] David Taylor, 'Household spending up in March as fuel costs surge, over-65s lead spending growth, CBA data shows', ABC News, April 16, https://www.abc.net.au/news/2026-04-16/household-spending-rises-in-march-driven-by-fuel-over-65s-cba/106568310; CommBank Cost of Living Insights Report, May 2023, https://www.commbank.com.au/content/dam/caas/newsroom/docs/CommBank%20iQ%20Cost%20of%20Living%20Report%20May%202023.pdf

[14] Australian Institute of Health and Welfare, 'Wellbeing: Financial Wellbeing', Canberra, 2021, https://www.aihw.gov.au/reports-data/indicators/australias-welfare-indicators/financialwellbeing/financial-wellbeing

[15] ibid

[16] A local council in a low value area must tax land (impose rates) at a higher percentage of its value than a local council in a high value area, to obtain the same level of resources.

consumption through realising capital gains, will now face a higher tax on part of that realised value (if it follows from a real increase in the value of that particular asset). Thus wealth-holders will be paying a fairer share of overall taxation.

Principles for assessment of taxation changes

Overall, our assessment of the taxation changes set out in the Bill against the broad principles we identify are as follows:

1. the Bill promotes improved economic welfare. It does this principally by enabling a more economically efficient allocation of resources;

2. the Bill reduces inequality. It does this by rebalancing taxation between income derived from labour and ownership to reflect the greater and rising inequalities of wealth;

3. it reduces inequity in the treatment of income from different sources and reduces opportunities for tax minimisation by applying the changes uniformly across asset categories;

4. it slightly reduces the imbalance in the resource base of the tax system that arises from the over-reliance on the taxation of income and the associated under-reliance on taxation of wealth.

We support the passage of the Bill as an important taxation reform.