16 February 2026

Committee Secretary
Select Committee on the Operation of the Capital Gains Tax Discount
PO Box 6100
Parliament House
Canberra ACT 2600

Email: CGTD.Sen@aph.gov.au seniorclerk.committees.sen@aph.gov.au

Dear Committee Secretary,

Submission: Select Committee on Operation of Capital Gains Discount

Thank you for the opportunity to provide comments on Operation of Capital Gains Discount (**CGT Inquiry**).

About UDIA National

The Urban Development Institute of Australia (UDIA) National is the housing development industry's most broadly representative peak body with over 2,000 member organisations - spanning top tier global enterprises, professionals, small to large-scale & institutional developers as well as local governments.

UDIA's members, deliver new homes across the continuum, including the majority of affordable housing.

The Development and Construction industry is 10.5% of GDP ($269.7bn) & 9% of fulltime employment. Each housing dollar supports 40+ sectors and generates $2.90 in the wider economy.

Overview

Taxes are **up to 50%** of housing costs. We need to broaden the tax base to *reduce* tax costs and maintain the capital gains tax discount to promote rental affordability & supply.

Policy on investment directly impacts house rental supply and rental affordability. It is recognised by experts that renters are currently experiencing some of the most acute pressure in the housing system.

The only real answer that improves access to home ownership and affordable rental, is housing supply boosting initiatives. We are simply not building enough homes. The lack of land supply, slow planning approvals, restrictive development controls and high construction costs are choking new supply. None of this is caused by CGT rules.

Industry supports genuine, economy wide tax reform that reduces property costs, improves productivity and growth. This means stimulating faster approvals, enabling infrastructure funding and a stable, tax regime that encourages long term investment in rental housing.

Tax and CGT Impacts

Taxes, statutory charges and levies add as much as 50% to the cost of new housing – ie: $50,000 of every $100,000, is taken as taxes, fees & charges which are predominantly State/Territory taxes.

In a housing affordability and supply crisis, this is an obvious area for significant reform and Government should be careful not to make changes that remove initiatives that encourage supply.

It is critical that the **Federal Government incentivise the States & Territories** in the short term to:

1. **halt any further increase in property based taxes** including developer contributions, stamp duty, land tax and other fees and charges.

2. **actively strip away taxes holding back affordability** – such as reducing development fees and charges, reducing stamp duty thresholds to ease rates on median priced housing.

It is clear however, that lasting, long term property tax reform for affordability needs to involve:

1. **Strategic review of all Federal and State/Territory property related taxes** to ***reduce*** **the burden** on property prices *rather than merely swapping one tax burden for another*.

2. **Acknowledging that the capital gains tax discount is a feature of all investment types that also supports passive investment in rental property to maintain supply**, and is a simple, fair taxing of gains.

In the case of the capital gains tax discount, any change to the existing approach will mean significant compromises on outcomes that risk rental supply, increased rents & skewed investment.

We need to focus on genuine housing supply, & removing roadblocks noted above.

The CGT discount for investment, including rental property, is actually supporting supply by encouraging investment in rental housing for ordinary Australians including specific initiatives to stimulate affordable housing for low-income families.

Capital Gains Tax Discount

Capital gains tax (**CGT**) discount reduces any capital gain on disposal of any investment asset by 50% if it is held for at least 12 months by an Australian citizen. The discount is only for domestic investors and cannot be accessed by international investors. The CGT discount is also increased to 60% for affordable housing rentals to incentivise the market for more affordable homes.

The discount was created to recognise that part of a capital gain is due to inflation and should not be taxed. It is Government revenue foregone, not money paid out. Government effectively forgoes receiving taxes.

It applies to all manner of investments from rental properties & shares to collectibles, where the intention is to hold the asset rather than actively trade the asset as a business. It does not apply to companies.

Any significant change to the capital gains discount, will impact the supply of rental housing and will undermine efforts to improve housing affordability.

Australian families rely on the same supply of housing for access to rental property and home ownership. Measures to constrain one form of housing over another, only restricts supply that ends up bleeding into higher rents and/or prices for both markets.

For example, shortages of land for new dwellings drives up prices and ordinary Australians are forced to rent for longer, at higher rates, inevitably pushing more into social and affordable housing that suffers the same scarcity. Equally, measures that discourage rental property over home ownership inevitably result in renters competing for ever decreasing rental supply as rental demand increases, pushing up rentals and eventually bleeding into higher property prices as higher rents re-establish competition for scarce supply.

The only answer to allow greater rental and home ownership (without accelerating cost and prices), is by building more housing supply. Changing investment rules to discourage rental investment will undermine supply.

The Australian rental housing market relies almost exclusively on private investors. Investors **provide rental supply for 3.28 million everyday Australian families** at a rental far lower than commercial rental investments.

83.1% of all housing rental supply comes from private investors with only **9.7%** from Government and around **4.6%** from other sources. The remainder is community housing.

BTR is also a necessary part of a diverse housing rental market, but the small BTR supply means it is no substitute for private investors. At the moment, BTR is almost exclusively a product of medium to high density housing in the premium end of the rental market. Currently, BTR typically requires higher commercial gross rental yields than (uncommercial) private rental yields & offers services unavailable in private rentals to provide value in support of the increased rental.

The latest **key ATO statistics from 2022-2023** on rental housing show:

- There are **3.28 million rental properties.** That means 3.28 million Australian families rely on rentals.
- **The majority of rental properties** (**61%**) are owned by **people earning less than $100,000 pa**
- **Circa 437,096** of all rental properties are owned by **people earning between $18,200 - $50,000 pa**
- **Circa 657,437** of all rental properties are owned by **people earning between $50,000 - $100,000 pa**

It has been argued that a 50% CGT discount overcompensates sellers for inflation. Arguments have also been made to remove or reduce the discount to discourage investment so that investors do not compete with homeowners.

This is a "false economy" - Discouraging rental investment does not improve affordability for potential homeowners. It also makes rental affordability worse given we are in the midst of a housing supply crisis.

Where removing the discount is meant to discourage rental investment, it will reduce rental property supply and accelerate rents. This will then increase property prices in any event as the demand supply gap widens.

It was noted by Ken Henry in *"Australia's Future tax system"* (2009), that *"reducing net rental loss and capital gains concessions may, in the short term, reduce residential property investment. In a market facing supply constraints, these reforms could place further pressure on the availability of affordable rental accommodation… These reforms therefore should only be adopted following reforms to the supply of housing and reforms to housing assistance."*.

Irrespective of the motivation, any change to capital gains will change investment/divestment decisions which will adversely impact existing housing/affordable supply, rental prices and ordinary Australian investors.

Changing capital gains discount deductions will not translate those deductions into revenue. It is not a real "saving" – Changed investor behaviour will limit revenues (reduced disposals/redeployed future funding).

This has been noted by the Parliamentary Budget Office (2026), - changed taxpayer behaviour *"adds additional layers of volatility on top of an already variable asset-market".* It regards these calculations as *"highly volatile"*.

Labor's 2019 election proposal was to halve the discount (25%) and grandfather existing investments including property. Applying changes across the board reduces skewing of investment to other assets, and grandfathering removes immediate impacts on investments, but it will discourage disposal & investment in rental property. It will also (now), directly and adversely impact the affordable housing supply incentive.

It has been recently noted by Economic experts that a 25% change would be too low and would be overtaken by annual inflationary increases.

Alternatively, a smaller reduction to (say) 40% will minimise those impacts but will still have an impact on existing and future rental investment (and also still remove the affordable housing supply incentive in the process).

Even swapping rates for new vs existing property will have an impact on property decisions for existing and future rental supply. Given there is no way to guarantee increased rental supply in the current market, it will invariably adversely impact Australian families trying to rent a house.

While arguably, the 60% CGT incentive for affordable housing could be maintained, it raises the issue that we should be trying to encourage all rental investment given the housing crisis and that the true focus should be on measures that boost housing supply across the board.

Critically, there are no changes that reduce the CGT discount without impacting investor behaviour adversely across shares, rental property and other passive capital investments.

It is absolutely critical to identify why we want to change the CGT discount and if any part of it relates to encouraging home ownership, the only reasonable approach is to refocus effort and funds on more, broader measures for housing supply.

Equally, any change to capital gains tax discounts would need to be done across the entire investment landscape, not simply property, or there will be an exaggerated skew of investment. We have not considered here, the adverse impacts on other investments also used by Australian's to save for their retirement such as shares.

UDIA is keen to discuss these issues with you at your earliest convenience.

Please call Andrew Mihno, Head of Policy and Government Relations on 0406 45 45 49, to arrange our meeting.

Yours sincerely

Oscar Stanley
UDIA National President