Parliamentary
Budget Office

End Tax Breaks for Property Investors	
Party:	Australian Greens

Summary of proposal:

The proposal has 3 components that would modify the capital gains tax (CGT) discount and negative gearing arrangements.

Component 1 – Replace the CGT discount with an indexation method.

- This component would remove the 50% discount on capital gains realised by individuals on assets held for 12 months or more. Instead, an 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.

Component 2 – End negative gearing for prospective investment properties.

- This component would remove negative gearing arrangements (which allow deductions for investment losses to be made against non-investment income) for all non-business investment properties purchased by individuals, funds, trusts and companies, with assets purchased prior to the start date of this policy either grandfathered or subject to Component 3 below.
  - 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.
  - Those affected would not be able to carry forward within-year losses to offset future rental gains, nor to offset the ultimate capital gain when the asset is sold.

Component 3 – Phase out negative gearing for existing investment properties.

- This component would phase out negative gearing deductions for individuals, funds, trusts and companies with more than one investment property purchased before 1 July 2022. In 2022-23 the proportion of negative gearing deductions allowed for an investor's second (or more) investment property would be 80%. This percentage would decrease by 20% each year until it reaches zero in 2026-27.

All components would have effect from 1 July 2022.

Costing overview

This proposal would be expected to increase the fiscal and underlying cash balances by around $12.7 billion over the 2022-23 Budget forward estimates period. This impact primarily reflects an increase in revenue and also includes an increase in departmental expenses of $26 million over this period.

This proposal would have an ongoing impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2032-33 is provided at Attachment A.

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 even relatively small changes can significantly change the financial implications.
- The impact of behavioural responses. For instance, some investors may aim to take advantage of the grandfathering provisions or the availability of the CGT discount. 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.

Table 1: Financial implications ($m)[(a)(b)]

	2022-23	2023-24	2024-25	2025-26	**Total to 2025-26**
Fiscal balance	787.0	1,977.0	4,523.0	5,380.0	**12,667.0**
Underlying cash balance	787.0	1,977.0	4,523.0	5,380.0	**12,667.0**

(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.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- Assets affected by the CGT policy changes would be sold over a maximum period of 20 years.[1]
- The sale of 20% of affected assets that would have otherwise been sold in the first year following the start date would be brought forward to prior to the start date to avoid additional CGT.
- The purchase of 20% of affected assets that would have been purchased in the first year following the implementation date and 10% of affected assets that would have been purchased in the second year following the start date would be brought forward to prior to the implementation date.
  - This would allow those taxpayers to take advantage of the grandfathering provisions that would apply to assets purchased before the implementation date.
- Individuals would adjust their investment strategies in response to this component, such as investing in assets with higher yields and lower capital gains, or investing in other concessionally-taxed vehicles, reducing the revenue impact by around 20% in aggregate.

Methodology

Component 1

The financial impacts for this component were derived by:

- Calculating the expected additional revenue collection from removing the CGT discount for individuals.

[1] The asset holding time profile assumptions have been based on an examination of ATO rental income schedules, the Australian Bureau of Statistics (ABS) *Survey of Income and Housing*, and the 2012 *Australian Share Ownership Study*, conducted by the Australian Securities Exchange.

- Subtracting the revenue forgone by indexing the asset's cost base for increases in the consumer price index (CPI).

The amount of assessable income from capital gains was estimated for each year from 2022-23 to 2032-33, based on current revenue estimates and projections of CGT.

An average marginal tax rate for individuals reporting net capital gains was estimated based on historical tax data, expected future income growth and announced future changes to tax rates.

The revenue foregone by introducing indexation was calculated by indexing the cost base by CPI and applying the relevant tax rate.

Components 2 and 3

The costing of these components was based on a 16% sample of de-identified personal income tax returns for 2018-19, as well as tax schedules for partnerships, trusts and superannuation funds (including self-managed superannuation funds).

- The data were used to estimate the baseline amount by which negative gearing would be expected to decrease taxable income for individuals and funds, including through distributions from partnerships and trusts, over the period to 2032-33.
- This amount was adjusted so that it did not include the proportion of deductions that would be covered by the grandfathering provisions. It was further reduced by the bring forward impact of the behavioural responses.
- For Component 3, the proportion of the properties that are an investor's second (or more) investment property was calculated based on current ownership profiles. This proportion was multiplied by the percentage of ineligible deductions (based on the grandfathering profile) and the baseline amount of negative gearing (minus behavioural effects).

This costing takes account of the timing of tax collections.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[2]

[2] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Attachment A – End Tax Breaks for Property Investors – financial implications

Table A1: End Tax Breaks for Property Investors – Fiscal and underlying cash balances ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Revenue													
Component 1 - Replace the CGT discount with the indexation method	*790.0*	*1,230.0*	*2,440.0*	*2,380.0*	*2,490.0*	*2,760.0*	*2,930.0*	*3,150.0*	*3,380.0*	*3,630.0*	*4,030.0*	***6,840.0***	***29,210.0***
Component 2 - End negative gearing for prospective investment properties	*10.0*	*640.0*	*1,850.0*	*2,730.0*	*3,580.0*	*4,320.0*	*5,070.0*	*5,800.0*	*6,540.0*	*7,250.0*	*7,970.0*	***5,230.0***	***45,760.0***
Component 3 - Phase out negative gearing for existing investment properties	-	*116.0*	*235.0*	*272.0*	*300.0*	*306.0*	*251.0*	*205.0*	*168.0*	*136.0*	*109.0*	***623.0***	***2,098.0***
Total – revenue	**800.0**	**1,986.0**	**4,525.0**	**5,382.0**	**6,370.0**	**7,386.0**	**8,251.0**	**9,155.0**	**10,088.0**	**11,016.0**	**12,109.0**	**12,693.0**	**77,068.0**
Expenses													
Departmental													
ATO	*-13.0*	*-9.0*	*-2.0*	*-2.0*	*-2.0*	*-2.0*	*-2.0*	*-2.0*	*-2.0*	*-2.0*	*-2.0*	***-26.0***	***-40.0***
Total – expenses	**-13.0**	**-9.0**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-26.0**	**-40.0**
Total (excluding PDI)	**787.0**	**1,977.0**	**4,523.0**	**5,380.0**	**6,368.0**	**7,384.0**	**8,249.0**	**9,153.0**	**10,086.0**	**11,014.0**	**12,107.0**	**12,667.0**	**77,028.0**

(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.

\- Indicates nil.

Table A2: End Tax Breaks for Property Investors – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Fiscal balance	*10.0*	*40.0*	*120.0*	*230.0*	*370.0*	*560.0*	*790.0*	*1,080.0*	*1,410.0*	*1,820.0*	*2,300.0*	***400.0***	***8,730.0***
Underlying cash balance	*10.0*	*40.0*	*110.0*	*220.0*	*360.0*	*540.0*	*770.0*	*1,040.0*	*1,370.0*	*1,770.0*	*2,240.0*	***380.0***	***8,470.0***

(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[3].

(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.

[3] Online budget glossary – Parliament of Australia (aph.gov.au)