Select Committee on the Operation of the Capital Gains Tax Discount

19 December 2025

Introduction

The Real Estate Institute of Australia (REIA) serves as the national peak body representing the real estate profession, advocating for policies that foster a prosperous and sustainable industry since 1924. As the leading voice for real estate professionals, REIA welcomes the opportunity to contribute to the Select Committee on the Operation of the Capital Gains Tax Discount Inquiry. Our submission focuses on its application to housing.

The housing sector is one of the most taxed asset classes in the economy. This high tax burden, combined with industry regulation, has exacerbated the housing affordability crisis. Any changes to the current capital gains tax (CGT) arrangement would add to the supply constraints, increasing pressure on the availability and affordability of private rental accommodation.

Australia is currently facing both a supply and affordability crisis in the housing sector. With high inflation rates and poor housing productivity, it is necessary to consider a holistic view of property-related taxes that primarily result in more homes being built.

Recommendation

REIA recommends that the current capital gains tax settings for housing be maintained.

Efficient Tax Policy and Impact on Housing

An efficient tax policy minimises the distortionary impacts on economic activity. The Henry Review acknowledges that in a constrained housing market, reducing the tax benefits for property investors (such as a CGT discount) could, in the short to medium term, reduce investment and thus "place further pressure on the availability of affordable rental accommodation within the private rental market." The review further recommended that tax changes only be implemented after separate reforms to increase housing supply and affordability, due to the adverse impacts on the housing market.[1]

At present, the supply of new homes continues to lag considerably behind surging demand and strong population growth. The National Housing Supply and Affordability Council has forecasted a supply shortfall of 262,000 relative to the Housing Accord target, which is a larger figure than their forecast in 2024.[2]

[1] The Australian Treasury, *Australia's Future Tax System Review Final Report – Part 2* (2009)
[2] National Housing Supply and Affordability Council, *State of the Housing System* (2025)

Whilst demand-side incentives for first-home buyers are being catered for, higher-than-anticipated inflation figures will result in additional affordability pressures for both first-home buyers and mortgage holders. In a market that is undersupplied and in a period of high inflation, tinkering with CGT is likely to reduce investor participation, which is necessary to ensure the supply of rentals.

Market Stability and Investor Incentives

Around 31 per cent or nearly 3 million households in Australia are renters, with 26 per cent of households renting from private landlords. A critical component of housing policy is the property taxation settings that incentivise private investors to supply these tight markets and ensure rents remain affordable, due to the balanced net return on investment.

Current arrangements around the capital gains tax (CGT) discount should be maintained to boost housing supply by incentivising the building of new homes and keeping rental prices stable through a steady flow of rental stock. If CGT incentives were removed, there is a high probability that property owners would seek to recover the lost capital gain incentives through increased rents, which would then be passed on to tenants in an already constrained rental market.

Industry research on the economic impacts of changes to capital gains tax finds that this will lead to fewer homes being built, leading to knock-on effects by contraction of jobs, higher rents, and reduced GDP output.

Any measures to reduce or eliminate the 50 per cent CGT discount would see smaller volumes of new home building activity. This could mean having over 33,000 fewer new dwelling starts over five years, representing a contraction of new supply of dwellings of up to 3.2%. This would have severe impacts on housing affordability. With renters already spending 24.3% of their income on rent payments[3], a supply shortfall would further exacerbate rental inflation and push first home buyers out of the market.

Conclusion

Property or housing taxes should be reviewed as part of a broader evaluation of housing reform options, encompassing all tax settings and regulatory frameworks across federal, state, and local levels. A well-designed and fair property tax system can significantly improve both economic productivity and labour mobility, whilst creating a housing market that is responsive to the needs of Australians.

Supply-side measures for improving housing affordability should be prioritised first before consideration is given to property tax reforms.

[3] Real Estate Institute of Australia, *Housing Affordability Report* (September Quarter 2025)