

Senate Economics Legislation Committee

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

Submitted electronically via: economics.sen@aph.gov.au

9 June 2026

Submission to the Senate Economics Legislation Committee

Wilson Asset Management welcomes the opportunity to respond to the Senate Economics Legislation Committee's inquiry on Treasury Laws Amendment (Tax Reform No. 1) Bill 2026 and Income Tax Rates Amendment (Tax Reform No. 1) Bill 2026 (The Bills) and to assist the Committee on capital gains tax (CGT) reform.

Wilson Asset Management is an Australian investment manager established in 1997, investing \$6 billion on behalf of more than 130,000 retail investors. As the investment manager of nine listed investment companies (LICs) and four unlisted funds, we have deep knowledge of public and private markets, and the role that business investment and the flow of capital play in our economy.

We have spent 29 years working for retail shareholders to support them to build wealth through disciplined, long-term investment. We know what motivates investors: it is the aspiration that the work they put in today will reward them and their families tomorrow. We are therefore pleased to contribute to this critical national conversation by sharing our experience and insights to drive productive investment in the Australian economy and support Australian aspiration.

The Bills in their current form abolish the 50% capital gains tax discount on all investments for individuals, trusts and partnerships, replacing it with CPI cost base indexation and introduce a 30% minimum tax on capital gains from 1 July 2027. They also strip pre-CGT assets of their exempt status from that date. To be clear, Wilson Asset Management has no objection to the tax reform of unproductive assets such as housing. We object to the taxation of productive capital in a manner that discourages investment, entrepreneurship and economic growth. Reforms should not penalise Australians who invest in businesses, support innovation and help grow the economy by increasing productivity. The Government's proposed changes extend far beyond housing and will affect small business owners, entrepreneurs, farmers, retirees and every Australian seeking to build a better financial future.

Our central concern is that the Bills will make Australia a less attractive place to invest, build businesses and a better financial future. The legislation as drafted weakens the principle that Australians who work hard, save consistently and take productive risks should be able to improve their financial position over time. That principle has long underpinned Australia's culture of investment, entrepreneurship and aspiration. It will distort capital allocation, weaken incentives for productive risk-taking, increase uncertainty and raise the cost of capital across the economy. The Bills also leave significant aspects of the future tax treatment of assets subject to ministerial discretion and future determination. Businesses, investors and entrepreneurs require certainty before committing

capital for decades. Without that certainty, confidence is weakened and the cost of capital rises. The technical flaws in the legislation amplify these effects and risk causing lasting damage to productivity, entrepreneurship and long-term economic growth. The Government has published revenue estimates but has not published modelling demonstrating the impact of the reforms on capital formation, business investment, entrepreneurship, productivity, wages or long-term economic growth. The absence of this modelling is particularly concerning given productivity growth remains Australia's most significant long-term economic challenge. Those omissions are critical when assessing legislation that fundamentally changes the taxation of productive capital.

By increasing the tax burden on long-term capital gains while leaving income-producing assets comparatively more attractive, the Bills will, over time, redirect Australian savings away from growth companies, founders, venture capital and productive enterprise, and toward yield-producing assets that generate income. That is the opposite of what a productivity-focused economy requires, and it is the opposite of what the Government says it wants.

The measures will harm the innovation ecosystem, damage small business succession and disproportionately burden family farms and intergenerational business succession. We urge the Committee to recommend that the Bills not be passed in their current form, and that the Government retain the CGT discount for all assets except property.

Successive layers of tax change, each justified individually, accumulate into a structural deterioration of the Australian retirement saver's outcome. Together, these changes to the tax system represent a compounding assault on the after-tax return to saving and investing in this country.

If you have any questions on our submission, please call me on 02 9247 6755 or Chief Financial Officer Jesse Hamilton on 0401 944 807, or email Olivia Harris at olivia@wilsonassetmanagement.com.au.

Yours sincerely,

Geoff Wilson AO
Chairman

1. Capital allocation and productivity consequences

The central economic flaw in these Bills is that they change the allocation of capital across the Australian economy.

The Government has indicated these measures improve economic efficiency and support productivity. However, the legislation provides no evidence that higher taxation of long-term capital gains will increase business investment, innovation, productivity or economic growth. If the Bills proceed, they will increase the effective CGT rate for investors on the top marginal rate from 23.5% to as much as 47%, depending on the asset and holding period, placing Australia alongside Norway and Spain as one of the most punitive capital gains tax jurisdictions in the developed world, well above the United States (23.8%), the United Kingdom (24%) and Singapore and New Zealand (no CGT).

Capital flows toward the highest after-tax risk-adjusted return. By materially increasing the tax burden on capital gains while leaving the taxation of income-producing assets comparatively more attractive, the Bills clearly will alter investor behaviour. Capital will increasingly favour mature yield-producing assets rather than growth-oriented investments whose returns are realised predominantly through future capital appreciation. Currently many of Australia's most successful businesses generate limited income in their formative years. Investors accept risk in exchange for the prospect of long-term capital growth. The proposed tax changes reduce that outcome.

The consequence of this will be a gradual reallocation of capital away from entrepreneurial ventures, growth companies, venture capital, founder-led businesses and long-duration productive investment and toward assets producing immediate taxable income. This outcome is at odds with Australia's stated objective of capital deepening. The Government has produced no evidence that these reforms will increase business investment, productivity or economic growth. The Committee should require this evidence before any vote is taken. Australia is a net importer of capital. Economic growth depends on attracting and retaining investment from both domestic and international sources. Policies that reduce the after-tax return on productive investment increase the risk that capital is directed offshore or not deployed at all. At a time when Australia faces persistent productivity challenges, policy should encourage rather than discourage the formation of risk-bearing capital.

If the Government proceeds with CGT reform, preferential treatment should be retained for long-term investment in Australian operating companies. The Government's stated objective is to improve housing affordability and equity. Neither objective requires higher taxation of investment on productive Australian enterprise. A carve-out for Australian companies would preserve incentives for entrepreneurship, business formation, capital raising and productivity growth while allowing the Government to pursue its broader policy objectives elsewhere.

The Explanatory Memorandum estimates the revenue raised by the reforms. It does not estimate the effect on productivity. It estimates the tax collected. It does not estimate the impact on business formation. It estimates fiscal outcomes. It does not estimate economic outcomes. Those omissions are central to assessing whether the legislation advances Australia's long-term prosperity.

The uncertainty created by the Bills extends beyond the tax rates. Businesses, investors and capital providers require clarity regarding the rules under which they will operate. The legislation leaves important aspects of the future regime subject to an unprecedented amount of ministerial discretion and future determination. As a result, investors cannot fully assess the long-term after-tax return on investment, the future treatment of particular assets or the durability of the policy framework. Uncertainty of this kind increases perceived risk, raises required rates of return and ultimately increases the cost of capital for Australian businesses. This concern is amplified by the unusually broad regulation-making and ministerial powers contained within the framework. Significant aspects of the future tax treatment of assets may be determined after Parliament has passed the legislation. Businesses and investors require certainty before committing capital for decades, yet key elements of the regime remain subject to future determination. That mismatch between investment horizons and policy certainty will inevitably discourage investment.

Harm to small businesses

The proposed CGT changes harm Australian innovation, small business succession and intergenerational farm transfers. Founders, angel investors, employee share scheme participants and venture capital investment managers face effective tax rates approaching 47% on exit. The Government's existing small business concession carve-out does not address the structural harm: it protects approximately 90% of businesses by count, but excludes those that have succeeded most, and its thresholds are not indexed to asset values or inflation. Multi-generational farm succession is especially exposed to the new CGT regime and the extension of trust taxation reforms to farming structures is disconnected from the stated housing policy rationale.

The greatest damage will be borne by the next generation of Australians who are considering whether to build a business. The value of entrepreneurship is inherently uncertain. Those that succeed do so because investors and founders are prepared to accept substantial risk in pursuit of future capital growth. Reducing the after-tax reward for that risk reduces the incentive to take it in the first place.

The long-term losers from these changes are not existing wealth holders. They are future founders, future investors and future generations of Australians seeking to build a better financial future through enterprise.

2. Legislative analysis

Revenue modelling and the lock-in effect

The Explanatory Memorandum does not disclose dynamic revenue modelling or the behavioural elasticity assumptions underlying the Government's \$3.6 billion revenue projection. The Government should publish modelling demonstrating the expected impact of the reforms on business formation; venture capital investment; Australian equity market participation; capital raising by Australian companies; productivity growth; and long-term GDP.

No legislation of this significance should proceed without evidence that it improves the economic outcomes it purports to address. In addition, Treasury should publish dynamic revenue projections, with explicit behavioural

assumptions, including the lock-in elasticity assumed, the capital migration response modelled, the second-round impact on asset values and the offsetting impact on income tax, GST and other Commonwealth revenue from reduced economic activity. The public debate cannot be informed when only static figures are released.

International evidence is unambiguous. Following the 1986 United States Tax Reform Act, which repealed the long-term capital gains exclusion that had previously allowed taxpayers to exclude 60% of their long-term capital gains and subjected capital gains to the same maximum marginal income tax rate of 28% as ordinary income, realised capital gains in the early 1990s were materially lower in real terms than a decade earlier, despite substantial economic growth over that period. One Joint Economic Committee analysis found that the 28% rate produced approximately 43% fewer realised gains than would have been expected under the prior 20% rate, concluding the higher rate yielded no additional revenue for the US Treasury.¹ Following the United Kingdom's October 2024 CGT rate increases, HMRC data showed receipts fell by approximately 8.4% the following year, despite the higher statutory rates.²

CGT sits at the most elastic end of the revenue relationship because realisations are discretionary. Investors choose when, where and whether to crystallise gains. At effective rates approaching 47%, the contraction in the tax base through lock-in, asset migration and substitution is likely to exceed any increase in the statutory rate. The Committee should require Treasury to publish its dynamic revenue projection, with explicit behavioural assumptions and elasticity disclosure to be thoroughly reviewed, before the legislation is passed.

The structural flaw in asset-level indexation

Treasury's budget modelling shows that for ASX shares held for 10 years, 56% of the nominal gain represented inflation, meaning the prior 50% CGT discount was insufficient even to compensate shareholders for inflation alone.³ Indexation corrects this, but it does so at the cost of removing the only mechanisms in the prior regime that addressed lock-in, lumpiness and the risk premium on productive capital. The indexation model which has been reintroduced without the previous CGT averaging system it previously accompanied, is structurally inferior to the discount it replaces.

More importantly, asset-level indexation applied without a portfolio netting mechanism creates a structural tax asymmetry for diversified retail investors. Where a stock rises in nominal terms by less than the rate of inflation, the inflationary shortfall cannot be used to offset real gains on other portfolio holdings. The investor is taxed on real gains from outperforming holdings while receiving no relief for real inflationary losses on underperforming ones.

¹ *Compendium of Studies on Tax Policy and the Economy*, Joint Economic Committee, Congress of the United States, S. Prt. 105-69, December 1998, pp. 18–20.

[https://www.jec.senate.gov/reports/105th%20Congress/Compendium%20of%20Staff%20Studies%20on%20Tax%20Policy%20and%20the%20Economy%20\(1700\).pdf](https://www.jec.senate.gov/reports/105th%20Congress/Compendium%20of%20Staff%20Studies%20on%20Tax%20Policy%20and%20the%20Economy%20(1700).pdf)

² HM Revenue and Customs, Tax and NICs Receipts for the UK, January 2026, The National Archives. As cited and analysed in Evelyn Partners, Press Release: "Capital Gains Tax receipts for 2025 fall 8.4% to £13.65 billion," 22 January 2026. [evelyn.com/press-centre/all-press-releases/capital-gains-tax-receipts-for-2025-fall-84-to-1365-billion](https://www.evelyn.com/press-centre/all-press-releases/capital-gains-tax-receipts-for-2025-fall-84-to-1365-billion)

³ Australian Government, Negative Gearing and Capital Gains Tax Reform Factsheet, Budget 2026–27, Table 1, p. 3. The "Discount for CPI" column represents the average inflation share of the nominal gain over the holding period.

This asymmetry compounds with portfolio size and volatility. Treasury's single-asset modelling does not capture it. The Government has not indicated whether a portfolio netting mechanism will be introduced.

A further consequence of the lack of portfolio netting mechanism is the structural effect on the ownership of Australian companies. Without portfolio netting, direct retail shareholders in individual ASX securities face a systematic tax disadvantage relative to investors holding equivalent exposure through an exchange traded fund (ETF), listed investment company (LIC) or managed fund. The rational response to that asymmetry is to move from direct ownership into pooled structures. The largest ETF providers operating in Australia are not Australian institutions but rather offshore asset managers.

A tax regime that accelerates the shift from direct retail ownership of Australian companies to offshore-managed passive funds does not serve the national interest of keeping Australian productive assets in Australian hands, nor the younger Australians who want to be genuine owners of the companies they invest in. It also does not serve the goal of ensuring Australian businesses remain accountable to Australian shareholders. The Government should indicate whether it has modelled the extent of this shift before the legislation is passed.

Pre-CGT assets

Schedule 1 to the Bill provides that from 1 July 2027, all assets cease to be pre-CGT assets, and any gains accruing after that date will be subject to CGT. This is a significant legislative change that was not prominently disclosed in Budget communications. Assets acquired before 20 September 1985 have been legally exempt from CGT for their entire existence. Their holders made investment decisions, often decades ago, on the explicit understanding of the law that no CGT would ever apply.

Stripping pre-CGT status for future gains gives the holder no choice about whether to trigger a CGT event before the change. For illiquid assets such as family farms, unlisted business interests and closely held real property, crystallising gains before 1 July 2027 to escape the new regime may be practically impossible. The Committee should seek specific evidence from the Government on the number of pre-CGT asset holders affected and the average duration of ownership and type of ownership. The Committee should also consider whether a grandfather at cost base or an extended transition period for pre-CGT assets is appropriate.

The deeper consequence is the signal this sends to every investor in Australia. If a government can retrospectively unwind a 40-year exemption, no investment decision can be made with confidence that the rules will hold. The message to the business and investment community is that sovereign commitments made by Australian governments are not permanent; they are subject to revision at any time, going back as far as a future government chooses.

Proportional grandfathering and compliance burden

The Bill's default grandfathering mechanic, time-weighted apportionment, assumes capital gains accrue linearly over time. They do not. A company may be worth \$1 million for years and then \$100 million within months following

a single commercial milestone. Time-apportionment penalises investors in proportion to their patience, not in proportion to when value was actually created.

The Committee should receive Treasury's own estimate of aggregate national compliance costs, which we believe will be material. While market valuation at 1 July 2027 is available as an optional election, it is adequate only for liquid assets. For unlisted businesses, family farms, residential investment properties and private company interests, a defensible retrospective valuation is expensive and prone to audit. The dual-method approach generates compliance costs that are regressive in their distribution, falling disproportionately on mid-market and regional asset holders who are the demographic least able to absorb them, and who are already those most harmed by the underlying CGT change.

The Explanatory Memorandum also states that capital losses are to be "utilised against older capital gains first," removing the investor's existing right to choose which gains losses are applied against. For investors whose assets straddle the 1 July 2027 commencement date, this means losses must be exhausted against the pre-commencement portion of a gain (which remains eligible for the 50% CGT discount) before any losses can reduce the post-commencement portion taxable under the new indexation regime. This means losses are consumed where they produce the least revenue benefit to the taxpayer and the greatest revenue benefit to the Government.

The Committee should consider whether full grandfathering of pre-implementation assets at their cost base, with the new regime applying only to assets acquired on or after 1 July 2027, or market valuation as the default at the implementation date, would better serve the interests of long-term holders of illiquid assets than the time-apportionment mechanic as currently drafted.

3. Recommendation

That the CGT discount be retained for all productive Australian assets, while any housing-related reforms be considered separately.

The abolition of the 50% CGT discount is a fundamental change to a stable, well-functioning feature of the Australian tax system that addresses four distinct economic problems with capital taxation: lock-in, lumpiness, the risk premium on productive capital and international competitiveness. Indexation alone is inferior on every dimension. The decision to abolish the discount should be reversed. To the extent the Government's objective is housing affordability, that objective does not require higher taxation of investment in productive Australian assets.

Conclusion

This legislation represents the most significant structural change to Australia's capital gains tax framework since the discount was introduced following the Ralph Review in 1999. The 50% discount has been a stable, foundational feature of the Australian investment framework for 26 years. Australians who structured their savings, business exits and succession plans around the prior regime should be entitled to expect that those decisions will be honoured. If a 26-year-old policy can be reversed in a single Budget, investors will price in higher policy uncertainty, risk premia will rise and the cost of capital for Australian companies will increase accordingly.

The Ralph Review's explicit conclusion, reached after the most exhaustive examination of Australian business taxation since CGT was introduced, was that a discount was superior to indexation alone. The Government has inverted that conclusion by reinstating indexation and abolishing the discount without engaging with the Review's reasoning.

Wilson Asset Management urges the Committee to recommend that the Legislation not be passed in its current form. The economic consequences of these changes are not complicated. When you tax the returns on risk-bearing capital more heavily, fewer people take risk. Fewer risks taken means fewer companies built, fewer jobs created and a smaller productive economy. That is not economic reform. It is revenue raising at the expense of the productive economy. For Australia, that is the wrong direction.