Wilson
Asset Management

Discussion Paper

The Government's Proposed CGT Will Destroy Efficient Capital Formation in Australia:

How the capital gains tax changes will raise the cost of capital for every listed company outside the largest twenty

June/July 2026

Foreword

Every tax reform should be judged by one simple question: does it direct capital towards building new productive capacity, or away from it? The Treasury Laws Amendment (Tax Reform No. 1) Bill 2026 (the Bill) fails that test. It asks the 7.7 million Australians who own shares directly to make one calculation, and for almost all of them the answer is the same: sell productive Australian businesses and buy mature income-producing ones.

By taxing real capital gains at rates of up to 62.9%, this Bill changes the incentives that drive investment decisions between established companies paying franked dividends and growth companies. It will encourage Australians to sell many of the productive Australian businesses they own outside the ASX Top 20 and concentrate their savings in a small group of large, mature, high-dividend paying companies.

The consequence is profound. Australian savings will be redirected away from productive Australian businesses that create jobs, innovation and productivity, and towards mature companies whose investment case rests primarily on dividend income. The cost of capital for Australian productive Australian businesses will rise, making it harder for them to expand, employ and compete.

Stripped of the politics, this is a structural change to the flow of Australian capital. It encourages Australians to sell the next generation of Australian businesses and concentrate their wealth in yesterday's established winners. In doing so, it risks reducing Australian ownership of Australian enterprise and weakening the productive investment needed to lift productivity and living standards in Australia. Australia's productivity challenge is the defining economic issue of our time. Higher productivity is the only sustainable source of stronger wages, higher living standards and stronger government revenues.

This paper is not a defence of the status quo. Wilson Asset Management has said clearly, in writing and in evidence to the Senate, that we do not oppose capital gains tax reform. We have supported the idea of reform that uses the whole apparatus of the Commonwealth and the states to build a fairer, more coherent system. I gave evidence supporting change to the capital gains arrangements for housing on a revenue-neutral basis, because there is a respectable case that the existing settings, in combination with negative gearing, have pushed too much of the nation's capital into bidding up the price of existing dwellings rather than building new ones.

Unfortunately the Bill does not stop at housing. Instead, it increases the after-tax cost of productive equity capital across virtually every listed Australian business. It captures the shares of every company in Australia, and it does so through a mechanism that compounds with the company tax already paid on corporate profits. The result is a tax on patient, productive, long-term capital that is far heavier than the tax on labour income, and heavier still than the tax on a fully franked dividend. When you tax something more heavily, you get less of it. We will get less productive investment, less risk capital, fewer new companies and a market that concentrates relentlessly into a handful of mature giants.

For this paper we will focus on Australian companies listed on the Australian Securities Exchange (ASX) and excluded unlisted Australian companies.

I have spent forty-six years in markets. I have watched share ownership in this country rise from roughly one Australian in ten to roughly two in five, and I have watched it begin to slip back. I have seen what happens to a market when you change the incentives that govern where capital flows. Capital follows incentives. Change those incentives and capital changes direction. This change will alter the behaviour of every investor. That is not a side effect. It is and will be the whole effect.

What follows is an explanation of how the mechanics work, why they will change behaviour and what that behaviour will do to the cost of capital for the 99% of companies that sit outside the top twenty. It also sets

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out a constructive alternative, a revenue-neutral reform that would serve the productivity agenda the Government says it wants to advance.

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Executive summary

The Treasury Laws Amendment (Tax Reform No. 1) Bill 2026 will, from 1 July 2027, abolish the 50% capital gains tax discount for individuals and trusts and replace it with cost base indexation, subject to a minimum tax of 30% on real capital gains. The Government frames this as ensuring investors are taxed only on their real gains. The reality, once the company tax already paid on corporate earnings is taken into account, is very different.

The central finding

Company profits can reach a shareholder in two ways: as a dividend or as a capital gain when retained earnings lift the share price. The tax system therefore shapes whether companies distribute profits today or reinvest them to build tomorrow's productive capacity.

Under Australia's dividend imputation system, fully franked dividends carry a credit for the company tax already paid, so the total tax on distributed profits equals the shareholder's own marginal rate. Capital gains carry no such credit. The 30% company tax sits underneath the gain, unrelieved, and the new capital gains tax is then applied on top.

The consequence is stark. On the same underlying $10,000 of company profit:

- A retiree or low-income investor pays effectively zero tax if the profit arrives as a fully franked dividend, but 51% if it arrives as a realised capital gain under the new rules.
- A top-rate (47%) investor pays 47% on a fully franked dividend, but 62.9% on a realised capital gain under the new rules. This is up from 46.45% under the current 50% discount.

In other words, the Bill makes capital growth the most heavily taxed form of return available to an Australian investor, more heavily taxed than wages, and far more heavily taxed than franked income. It does this for investors at both ends of the income scale.

Why behaviour will change

Capital follows after-tax returns. Rational investors respond to incentives. When productive capital is taxed more heavily than distributed income, capital naturally shifts away from reinvestment and towards yield. Faced with these settings, capital will flow away from growth and towards franked income. Investors will prefer large, mature companies that pay high, fully franked dividends and whose value grows only roughly in line with inflation, because real capital growth is now punished, while franked income is not. That describes the major banks, the large miners and a handful of other index heavyweights. It does not describe the emerging companies, the small and mid-caps and the next generation of Australian businesses that depend on investors being willing to back growth.

The market consequence

The Australian equity market is worth approximately $3.3 trillion. The ten largest companies account for around $1 trillion of that. Under the new rules, capital will gravitate to the top of the market and the cost of capital for everyone below it will rise sharply. For small companies in particular, the effect verges on existential. As I put it to the Senate, the money will flow to Rio Tinto, BHP and the big banks, and for everything below the top ten or twenty, the cost of capital goes through the roof. That is ultimately a productivity story. Higher capital costs mean fewer projects proceed, fewer companies expand, fewer Australians are employed and lower future living standards.

A better path

Reform should be revenue-neutral and aimed squarely at productivity. If the concern is that the current settings favour speculation in existing housing over productive investment, then reduce the concession for that activity and preserve, or strengthen, the incentive to provide patient, long-term capital to operating Australian businesses. A blanket measure that captures every listed company achieves the opposite of the productivity agenda it claims to serve.

1. What the legislation proposes

On 28 May 2026 the Government introduced the Treasury Laws Amendment (Tax Reform No. 1) Bill 2026 and a companion Bill to give effect to the capital gains tax measures announced in the 2026–27 Budget.[1] The package is the most far-reaching change to Australia's capital gains tax regime since the discount was introduced in 1999.

Three features matter for the analysis in this paper:

1. **Abolition of the 50% discount.** From 1 July 2027, the 50% capital gains tax discount currently available to resident individuals and trusts is removed for gains arising after that date.
2. **Replacement with cost base indexation.** In its place, the cost base of an asset will be indexed to the Consumer Price Index, so that, in principle, only the "real" component of a gain is taxed.
3. **A minimum 30% tax on real gains.** Critically, the indexed real gain is subject to a minimum rate of tax of 30%. This floor is the feature that drives the outcomes set out below, because it applies regardless of how low the investor's own marginal rate may be.

The Government's stated rationale is that the change restores the original intent of the capital gains tax arrangements by ensuring investors pay tax only on their real gains.[2] That framing has a respectable lineage. When capital gains tax was introduced in 1985, gains were indexed to inflation. The 50% discount that replaced indexation in 1999, following the Ralph Review, was a deliberate simplification.[3] There is therefore nothing inherently improper about returning to an indexation model.

Where the Bill goes wrong

The problem is twofold. First, the 30% minimum tax overrides indexation for a very large class of investors, including the retirees and low-income earners for whom the indexation relief is supposed to matter most. This means that the "real gains only" promise is hollow for them. Second, the measure ignores the company tax that has already been paid on the profits that drive a share's value. Once that interaction is considered, the effective tax burden on capital invested in Australian companies becomes punitive.

We have been explicit that we do not object to reform of the capital gains treatment of residential property. When this was put to me directly at the hearing, I confirmed it. Our objection is to the Bill's capture of every share in every listed company, through a mechanism that no one designing a pro-investment, pro-productivity tax system would choose.

2. Why franked income and capital are taxed so differently

To understand the impact of the Bill, you must understand how a company's profit reaches its owners, and how the tax system treats each route.

[1] Treasury Laws Amendment (Tax Reform No. 1) Bill 2026 and Income Tax Rates Amendment (Tax Reform No. 1) Bill 2026, introduced into Parliament on 28 May 2026.

[2] Australian Government, Budget 2026–27, Tax reform measures: replacement of the 50% CGT discount with cost base indexation and a minimum 30% tax on real capital gains from 1 July 2027.

[3] The CGT discount was introduced in 1999 following the Review of Business Taxation (the Ralph Review), replacing the cost base indexation method that had applied since CGT commenced in 1985.

Road one: the dividend and imputation

When a company earns a profit, it pays company tax. This is 30% for most large, listed companies. If it then distributes the after-tax profit as a fully franked dividend, the shareholder receives a franking credit for the tax the company has already paid. The shareholder "grosses up" the dividend to the pre-tax amount, applies their own marginal rate, and subtracts the franking credit.

The elegance of dividend imputation, introduced in 1987, is that it eliminates the double taxation of company profits. The total tax paid on a fully franked dividend (company tax plus shareholder tax, net of the credit), equals exactly the shareholder's own marginal rate. A retiree on a zero marginal rate pays zero. A top-rate investor pays 47%. Nothing falls between the cracks, and nothing is taxed twice.

Road two: the capital gain, where the company tax disappears into the cost base

The second road is retention. Instead of paying the profit out, the company keeps it and reinvests. Those retained earnings lift the value of the business, and therefore the share price. When the shareholder eventually sells, they realise a capital gain.

Here is the asymmetry that the Bill ignores. The profit that lifted the share price was already taxed at 30% at the company level. But a capital gain carries no franking credit. There is no mechanism to recognise the company tax already paid. The company tax becomes a buried, unrelieved cost, and the capital gains tax is then layered on top of it. The same dollar of corporate profit is taxed twice, once on the way in, and again on the way out.

Much of a successful company's value comes from retained earnings that have already been taxed inside the company. Those retained earnings receive no equivalent relief through the capital gains system, unlike distributed profits that receive franking credits. Consider two Australian companies earning exactly the same profit. One distributes every dollar as a fully franked dividend. The other reinvests every dollar into technology, new facilities and employment. Under the new framework, the reinvesting company ultimately generates returns taxed materially more heavily than the distributing company. Tax policy should encourage reinvestment, not discourage it.

Under the current system, the 50% discount exists in large part to compensate for two things at once: the inflation embedded in a nominal gain, and the fact that the gain has already borne company tax. Remove the discount, add a 30% floor, and leave the company tax unrelieved, and you have built a machine for taxing the same profit twice at close to confiscatory combined rates. The next section shows exactly what that looks like in dollars.

3. The worked examples: how capital is taxed at 51% and 62.9%

Take a single, simple case and follow it all the way through:

An Australian invests in a company. The company earns $10,000 of profit attributable to that investment. We will trace what happens to that $10,000 along both roads, for two very different investors: a retiree or young person on a zero marginal rate, and an investor on the top 47% marginal rate. The company tax rate is 30% throughout.

The starting point

Of the $10,000 profit, the company pays $3,000 in company tax. That leaves $7,000. Whether the investor receives that $7,000 as a dividend or sees it reflected as a $7,000 lift in the value of their shares, the company tax of $3,000 has already been paid. The question is what happens next.

The zero-rate investor: income versus capital

Consider a retiree on a zero marginal tax rate, or a young person who has just finished study and has $10,000 to invest and little other income.

On the income road, the $7,000 fully franked dividend is grossed up to $10,000 and taxed at the investor's rate of zero. The $3,000 franking credit is refunded in full. The investor keeps the entire $10,000. The effective tax rate on the company profit is zero.

On the capital road, the company's $7,000 of retained profit lifts the share value by $7,000. The investor sells and realises a $7,000 gain. Under the new rules, the 30% minimum tax applies to that gain regardless of the investor's own low rate: 30% of $7,000 is $2,100. Add the $3,000 of company tax already paid, and the total tax on the original $10,000 of profit is $5,100, which is an effective rate of 51%.

> *So broadly, no matter whether it is the person who pays no income tax or the person who pays 47%, you don't want to make any capital gain. There is, in real terms, zero reason to.*

— Geoff Wilson AO, evidence to the Senate, June 2026

The top-rate (47%) investor: income versus capital

Now consider an investor on the top marginal rate of 47% (45% plus the 2% Medicare levy).

On the income road, the $7,000 fully franked dividend is grossed up to $10,000 and taxed at 47%, which is $4,700. The $3,000 franking credit is subtracted, leaving a top-up of $1,700. The investor keeps $5,300. The total tax, which includes $3,000 company tax plus $1,700 top-up, is $4,700. This is an effective rate of 47%, the same as their wage income.

On the capital road, the $7,000 realised gain is taxed at the full 47% under the new rules. There is no discount, which is $3,290. Add the $3,000 of company tax already paid, and the total tax is $6,290. This is an effective rate of 62.9%.

Under the current system, the 50% discount halves the taxable gain to $3,500, so the capital gains tax is $1,645, and the total, with company tax, is $4,645, or 46.45%. The Bill therefore lifts the effective tax on this investor's capital from 46.45% to 62.9%, an increase of more than sixteen percentage points.

The numbers side by side

Effective total tax on $10,000 of company profit	Fully franked dividend (income)	Capital gain (50% discount)	Capital gain (new rules)
Zero / low-rate investor (e.g. retiree)	0%	30%	51%
Top-rate investor (47% marginal)	47%	46.45%	62.9%

Effective combined company and shareholder tax on $10,000 of company profit, by route to the investor. Company tax 30%; capital gain of $7,000 assumed; new rules apply the 30% minimum tax (low-rate investor) and full marginal rate (top-rate investor).

What the table tells us

Read the table across each row and a single point emerges. For both the retiree on nothing and the executive on the top rate, the new treatment of capital is the most heavily taxed column. Capital growth is taxed more heavily than a franked dividend, and more heavily than wage income.

Read it down the final column, and a second point emerges. The penalty on capital is not confined to the wealthy. The zero-rate investor, who pays nothing on a dividend, pays 51% on a capital gain. The minimum tax ensures the low-income investor cannot escape. This is the opposite of progressivity: it is a flat, heavy toll on capital formation that falls hardest, in proportional terms, on the smallest investors.

Tax policy should not punish reinvestment

Two Australian companies earn exactly the same $100 million profit, and:

- Company A distributes every dollar, while
- Company B reinvests every dollar into factories, software, technology and hiring.

Under the new CGT rules, Company B ultimately generates returns taxed materially more heavily than Company A. Tax policy should not favour distribution over reinvestment.

4. The inflation trap and the lesson of the Ralph Review

The Government argues that indexation cures the inflation problem, so that only real gains are taxed. For the large class of investors caught by the 30% minimum, that promise does not hold. But even on its own terms, the inflation point cuts the other way once you consider what it does to investor behaviour.

Why a big company's "profit" can be no profit at all

Consider a $100 million company. If inflation is running at 3%, then a 3% increase in its value ($3 million), represents no real gain whatsoever. The shareholders are simply standing still in real terms. A company that grows only in line with inflation has, by definition, created no real value; it has merely preserved purchasing power.

This is precisely why the original 1985 capital gains tax regime indexed the cost base, and why the Ralph Review in 1999 built a discount in its place: to avoid taxing inflation as though it were income. A capital gains tax that ignores inflation is a tax on holding assets through a period of rising prices, whether any real wealth has been created or not.

The perverse incentive this creates

Here is the behavioural sting. If real capital growth is heavily taxed but franked income is not, the rational investor stops wanting real growth at all. They want a company whose value merely tracks inflation, leaving little taxable real gain, and which pays out its earnings as a large, fully franked dividend that is taxed only at the investor's own marginal rate.

In other words, the tax system would actively steer capital towards companies that do not grow in real terms and away from companies that do. For an economy with a productivity problem, it is hard to imagine a more counter-productive signal. We would be using the tax code to reward stagnation and penalise growth.

5. How investors will actually respond

Tax changes of this magnitude do not leave behaviour untouched. They fundamentally alter where investors allocate capital. They reshape it comprehensively. When asked at the hearing whether this would change behaviour, my answer was unequivocal: 100%, and on an enormous scale. Every investor in the country would re-examine their portfolio through a new lens, and the conclusions they would reach all point in the same direction.

The flight to franked income

Because distributed profits receive the benefit of dividend imputation while retained earnings ultimately face significantly heavier effective taxation through capital gains, investors will increasingly favour yield over reinvestment. That changes the allocation of capital across the Australian economy.

The flight to size

Investors will also favour the largest companies, for two reasons that reinforce each other. First, the big, mature companies, like the major banks and the large resource houses, are precisely the ones that pay high, reliable, fully franked dividends. Second, their scale means their growth tends to track the broad economy and inflation rather than racing ahead of it, which under the new rules is now a feature rather than a defect, because it minimises taxable real capital gains. The combination is potent. The companies that best fit the post-reform tax-optimal profile (high franked yield, low real growth, large and stable), are concentrated in the top handful of names on the exchange. Capital will follow the incentive.

The ASX Top 20 already yields 5.0% on average, against 3.0% for the index excluding its top 20 constituents. That gap is driven by exactly the sectors the Bill rewards: oil and gas (7.3%), Utilities (5.6%), Real Estate Investment Trusts (5.1%), Materials (4.9), Banks & Financials (4.4%), Industrials (4.2%) and Communications (4.1%) all sit above the broader market average yield of 3.6%. These are the sectors that already anchor the top of the index, and the ones towards which the Bill will direct an even larger share of Australia's investable capital. This is illustrated in the tables on the next page, sourced from Bloomberg.

ASX average dividend yields	
Top 20	5.0%
Top50	3.2%
ASX100	3.0%
ASX200	3.6%
XJO ex top 20	3.0%

Source: Bloomberg, June 2026

Sector / Company	Div Yield
Oil & Gas	7.3%
WDS Woodside Energy	7.6%
STO Santos	7.0%
Utilities	5.6%
ORG Origin Energy	5.7%
APA APA Group	5.6%
REITs	5.1%
SGP Stockland	5.9%
VCX Vicinity Centres	4.8%
SCG Scentre Group	4.8%
Materials	4.9%
FMG Fortescue	6.2%
BSL BlueScope Steel	5.6%
RIO Rio Tinto	4.0%
BHP BHP	3.7%
Banks & Financials	4.4%
ANZ ANZ	4.8%
QBE QBE Insurance	4.7%
NAB NAB	4.5%
WBC Westpac	4.5%
MPL Medibank Private	3.9%
IAG IAG	3.8%
Industrials	4.2%
TCL Transurban	4.5%
QAN Qantas	3.9%
Comms	4.1%
TLS Telstra	4.1%
Top 20 Average	5.0%

Source: Bloomberg, June 2026

The flight from growth and from small companies

The mirror image of this is a flight away from growth. Emerging companies, small and mid-caps, and any business whose investment case rests on capital appreciation rather than dividend yield, become tax-disadvantaged almost by definition. They typically pay little or no dividend because they reinvest to grow; their return to shareholders comes as capital gain, which is the most heavily taxed outcome under the Bill. As I told the Senate, the measure would mean almost the end of small companies as a destination for patient capital.

> *Effectively, all the money will go to Rio, BHP, the big banks, the top ten companies. That is where all the money will go. And anyone below that, the cost of capital goes through the roof.*
>
> — Geoff Wilson AO, evidence to the Senate, June 2026

Likely Beneficiaries	Likely Disadvantaged
Major banks	Small and micro-cap companies
REITs/property trusts	Early-stage growth companies
Large energy companies	Technology companies
Mature infrastructure businesses	Emerging industrial companies
High-franked dividend payers	Businesses that reinvest earnings

The tax system would reward companies that distribute profits today while penalising companies that reinvest profits to expand productive capacity. That is the opposite of what an economy facing a productivity challenge should encourage.

Why productive capital is different

Australia's productivity challenge is fundamentally a capital allocation challenge. Every dollar invested in productive businesses increases future wages, output and living standards. Every tax reform should therefore be judged by whether it encourages capital to flow towards productive investment or away from it. The CGT changes fail that test because they increase the after-tax cost of exactly the capital Australia most needs.

Productive capital is different from passive asset ownership. It is the capital that funds new equipment, technology, research, factories, software, exploration, expansion and employment. It is the capital that allows a business to take risk today in the hope of creating greater economic value tomorrow.

That distinction matters because capital is not fixed. Governments sometimes speak as though investment capital is a permanent pool that can be taxed more heavily without changing behaviour. In reality, capital is dynamic. It can be retained, distributed, redirected, delayed, moved offshore or invested into different asset classes. Investors do not simply ask whether an investment may generate a return. They ask whether the expected return is sufficient after tax, after risk and after time. Capital follows incentives. Investors follow after-tax returns.

This is why the new CGT rules matter beyond the immediate impact on individual taxpayers. A higher effective tax rate on capital gains does not merely change the amount of tax paid after an investment succeeds, it changes the calculation before the investment is made. It raises the return hurdle for backing Australian businesses, particularly those that reinvest profits for long-term growth rather than distributing earnings in the short term.

That is particularly important for companies whose value is created through retained earnings. A business that reinvests profit into new productive capacity has already paid company tax on those earnings. If the resulting increase in value is later taxed more heavily through the capital gains system, the tax system risks penalising the very behaviour that drives productivity: reinvestment, compounding and long-term capital formation.

Tax policy should not favour distribution over reinvestment as we illustrated, nor should it assume that productive capital will remain in Australia regardless of the tax treatment. Capital is internationally mobile. Australian companies compete for funding against opportunities in the United States, Europe, Asia and other developed markets. Australian start-ups compete against overseas start-ups. Australian listed companies compete against global equities. Australian venture capital and growth companies compete against jurisdictions that actively design tax systems to attract risk capital.

This is why governments around the world compete for capital. They understand that investment is not merely a private financial decision. It is the foundation for higher productivity, stronger businesses, better jobs and higher future wages. Countries that make themselves attractive to productive capital increase their ability to fund growth. Countries that make themselves less attractive risk watching that capital flow elsewhere.

The Government's consultation on the Innovative Business CGT Concession implicitly recognises this principle. If start-ups and innovative businesses require specific CGT treatment to attract investment, then the broader policy question is unavoidable: why should Australia increase the tax burden on productive investment in the first place?

A narrow concession may help some businesses at the margin, but it does not solve the broader problem. Productive capital is not confined to businesses that meet a particular age limit, turnover cap or innovation test. It includes listed companies funding expansion, family businesses preparing for succession, farms investing in productivity, biotechnology companies with long commercialisation cycles, industrial companies building capacity and fund managers allocating capital to Australian enterprise.

The central issue is therefore not whether one category of start-up receives partial relief. The central issue is whether Australia's tax system encourages capital to flow towards productive businesses, or away from them. A tax system designed for productivity would recognise that capital gains are often the reward for long-term risk, patience and reinvestment. It would distinguish between passive gains and gains created by building productive capacity. It would avoid increasing the cost of equity capital at a time when Australia needs more investment, not less.

Capital follows incentives. If the incentive is to distribute rather than reinvest, investors will respond. If the incentive is to favour passive assets over productive enterprise, capital will respond. If the incentive is to deploy capital offshore where after-tax returns are more attractive, global investors will respond. Australia cannot tax productive capital as though it has nowhere else to go.

6. The rising cost of capital below the top twenty

The behavioural shift described above has a direct and measurable consequence: the cost of capital. When investors will only willingly hold a narrow band of large, high-yield companies, the supply of capital available to everyone else contracts. And when the supply of capital to a company falls, its cost of capital rises. This is the mechanism by which a tax change in Canberra becomes a higher hurdle rate in every boardroom outside the index's top tier.

The shape of the market

The Australian equity market is worth approximately $3.3 trillion. The ten largest companies account for roughly $1 trillion of that, which is close to a third of the entire market in ten names. Below them sit hundreds of listed companies, including the emerging and mid-sized businesses that are the engine room of future productivity growth. The Bill will direct the flow of capital towards the $1 trillion at the top and away from the $2.3 trillion below it.

Segment of the Australian equity market	Approx. value	Effect of the Bill
Top 10 companies (banks, large miners)	~$1.0 trillion	Capital flows in
Everything below the top 10–20	~$2.3 trillion	Cost of capital rises
Total Australian equity market	~$3.3 trillion	Concentration intensifies

Approximate market structure. Figures are indicative and reflect the orders of magnitude cited in evidence to the Senate.

Why a higher cost of capital matters

The cost of capital is the rate of return a company must clear before an investment is worth making. When it rises, projects that would have created jobs and output no longer stack up. Capital expenditure is deferred or cancelled, or expansion plans shrink. Companies that might have listed and grown on the public market instead stay private, stay small or never start. The flow of new entrants, which are the initial public offerings that refresh the market and the economy, slows to a trickle, because the exit on which growth investors rely is now taxed at up to 62.9%. The cost of capital is ultimately the price of productivity. Every increase means fewer investments satisfy required returns. Projects are delayed, employment growth slows and innovation becomes harder to finance.

The damage is heaviest precisely where the productivity upside is greatest. Small and emerging companies are where new ideas are commercialised and where the productivity frontier is pushed outward. Raising their cost of capital is a direct tax on the future productive base of the economy. This is the very thing the country can least afford to suppress.

Concentration is a risk, not a virtue

A market that concentrates further into ten names is also a more fragile market. Diversification across a broad base of companies is one of the central protections for ordinary investors and for the superannuation savings of millions of Australians. A tax change that herds capital into a handful of large-cap stocks increases systemic concentration risk at the same time as it suppresses the dynamism of the rest of the market. It is bad for returns and bad for resilience.

7. The hidden beneficiaries: foreign capital and the top twenty

The previous section showed that the Bill would drive the supply of capital towards the twenty largest companies on the exchange and raise the cost of capital for everyone below them. It is worth asking who, in the end, that flow of capital benefits. The answer reframes the policy. The companies at the very top of the market are precisely those whose share registers already have foreign investors, and foreign capital, on an ordinary holding in a listed Australian company, pays no Australian capital gains tax at all. The measure therefore falls on one set of owners and not the other, and it pushes the nation's savings towards the part of the market that Australians own the least.

Foreign investors sit outside the capital gains net entirely

Australia taxes the capital gains of foreign residents only on a narrow category of assets known as taxable Australian property, In essence, Australian real estate and interests in land-rich entities. An ordinary portfolio holding in a widely held listed company that is not land-rich does not fall within that category. When a foreign investor sells shares in BHP, the Commonwealth Bank or CSL at a profit, the gain is simply disregarded for Australian tax purposes.[4]

[4]Under Division 855 of the Income Tax Assessment Act 1997, a foreign resident is subject to Australian capital gains tax only on "taxable Australian property". A portfolio interest, broadly, less than 10%, in a widely held listed company whose assets are not principally Australian

The consequence deserves to be stated plainly. The entire apparatus of this Bill, the abolition of the discount, the 30% floor, and the layering of capital gains tax on top of the company tax already paid, applies to Australian residents and to almost no one else. The investor taxed at up to 62.9% on a realised gain, and steered out of growth and towards the largest income stocks, is by definition the domestic investor. The foreign owner of the very same share bears none of it. Two owners can hold identical shares in the same company and make the same gain; under this Bill one is taxed punitively and the other not at all.

Why this makes the top twenty the policy's beneficiaries

Put the findings together and the beneficiaries of the measure come into focus. The first benefit is the inflow of capital described in the previous section. As domestic investors retreat from growth, from small companies, and from the prospect of a heavily taxed capital gain, they crowd into the large, high-yield, low-real-growth names at the top, supporting their share prices and lowering their cost of capital, while every company below them pays more.

The second benefit accrues to the foreign owners of those same companies. The Bill widens the after-tax return on a top-twenty share in favour of the holder who pays no Australian capital gains tax, the foreign investor, and against the holder who now pays up to 62.9%, the Australian. On the identical security, the offshore owner's relative advantage grows. That is precisely the kind of incentive that shifts a share register further offshore over time, as the owners for whom the after-tax return is highest accumulate, and the domestic owners, taxed out of the position, give way.

This is the uncomfortable corollary of the shrinking shareholder society we have written about elsewhere. A measure presented as making the tax system fairer would, in practice, tax Australians for holding the very companies that foreign investors are free to hold without any Australian capital gains tax, and would hasten the drift of those companies' ownership away from Australian households. None of this is an argument against foreign investment, which Australia needs and from which it benefits. It is an argument against a tax that is levied on Australians alone, while quietly reshaping the ownership of the nation's largest companies in favour of everyone else.

8. The intermediation paradox

There is a further consequence of the Bill that deserves to be stated plainly, including by those of us who would commercially benefit from it.

A leg-up for fund managers

The new rules create two structural advantages for professionally managed investment vehicles over individuals investing directly. The first is a rate arbitrage: a company or certain pooled structures may be taxed on gains at a lower rate than an individual facing the full marginal-rate-plus-minimum regime. The second is the ability to net realised losses against realised gains across a large portfolio. This is something a managed vehicle does as a matter of course, but which an individual holding a handful of stocks can do only clumsily and at the cost of being forced to sell.

Wilson Asset Management manages nine listed investment companies. We charge management and performance fees. On a narrow commercial reading, this Bill is positive for the funds management industry.

> *It seems a strange outcome for a national government to be effectively telling people that they should be using layers and layers of intermediation, that it should penalise people for investing themselves.*

— Geoff Wilson AO, evidence to the Senate, June 2026

real property is not taxable Australian property, so a gain on such shares is disregarded for Australian CGT purposes. See Australian Taxation Office, "Foreign residents and capital gains tax".

The long climb in share ownership and the risk of reversing it

Australia has spent four decades building a culture of direct share ownership, and the Bill puts that progress at risk. The trajectory is worth recalling. In 1991, direct share ownership sat at around 10% of adults. By 1997 it was roughly 20%, and by 1998 around 32%. It then climbed into the low 40s, peaking at around 40 to 41%, before easing back to roughly 38% today.

That surge was driven in large part by the great demutualisations and privatisations of companies, such as CSL, the Commonwealth Bank and Telstra, which brought millions of ordinary Australians directly into the market for the first time. By contrast, the United Kingdom, which did not sustain that pipeline, has seen direct ownership fall from around 30% in 2000 to roughly 18% today. Direct ownership is not guaranteed to rise; it responds to incentives and opportunities. A tax change that makes direct holding markedly less attractive than going through an intermediary risks pushing Australia onto the UK's path.

Year	Australia — direct share ownership	Note
1991	~10%	Before privatisations
1997	~20%	
1998	~32%	Demutualisation era
Peak (2000s)	~40–41%	CSL, CBA, Telstra
Today	~38%	Easing back

Indicative trajectory of direct share ownership in Australia, as cited in evidence to the Senate.

A government genuinely concerned with the fairness of the system should want more Australians owning shares directly in the companies that drive the economy, not fewer. The Bill, by making direct ownership the most heavily taxed way to participate in corporate growth, pushes in the wrong direction.

9. A constructive alternative: directing capital towards productive investment

The objective of tax reform should be to improve the allocation of capital throughout the economy. Australia's long-term prosperity depends on directing more savings towards productive investment rather than passive appreciation of existing assets.

None of this means the current arrangements are beyond improvement. Wilson Asset Management has consistently supported genuine, well-designed reform. The question is whether reform is aimed at the actual problem and designed to avoid collateral damage to productive investment. The Bill, in our view, fails both tests. A better approach is available.

Start from the problem you are trying to solve

Much of the political impetus for change comes from the housing market. The argument runs that the combination of the capital gains tax discount and negative gearing has channelled capital into the speculative purchase of existing dwellings, contributing to the affordability crisis that young Australians in particular are living through. I do not dispute that the primary effect of the 1999 changes, in interaction with negative gearing, was felt in property rather than shares. That is a reasonable reading of the evidence.

But if the problem is concentrated in housing, the remedy should be concentrated there too. Applying a blunt, market-wide instrument to address a problem located in one asset class is the policy equivalent of treating a sprained ankle by immobilising the whole body.

The principle: hold the change revenue-neutral and tilt it towards productivity

At the previous hearing I proposed a simple, coherent alternative. If the goal is to redirect capital away from speculation and towards productive use, then reform should be revenue-neutral and structured so that the concession is reduced for the activity you want less of being speculation in existing property, and preserved or increased for the activity you want more of being patient, long-term equity capital in operating Australian businesses.

This goes to the heart of the productivity debate. As the Treasurer has emphasised, the economy needs patient, deep, long-term capital. Productive investment in operating businesses is exactly that. A reform that lowered the discount on property gains while maintaining or strengthening it for productive business investment would direct capital towards productivity rather than away from it, and could be designed to raise the same revenue as the Bill.

Why a uniform cut achieves nothing useful

It is worth being precise about why a uniform change fails on its own logic. If the 1999 settings drove more money into property than into shares, then cutting the concession by the same amount for both asset classes leaves the relative attractiveness of property versus shares unchanged. The same proportion of capital will continue to flow into property at the expense of shares. The measure will not achieve the rebalancing its proponents want; it will simply tax everyone more while leaving the underlying distortion in place. and, as this paper has shown, inflicting serious collateral damage on the listed company sector.

Reward must follow risk

Underlying all of this is a principle that a sensible tax system cannot ignore: there must be a differentiated treatment of capital that reflects the risk it bears. Someone who goes to work each day earns a salary with relative certainty. Someone who commits risk capital; someone who starts a business, backs an early-stage company, or invests for long-term growth, takes a genuine chance of total loss in exchange for the possibility of reward. That is how markets allocate capital to its most productive uses: greater risk must carry the prospect of greater reward, or the capital simply will not be committed.

This is not an abstract proposition. Business failure carries real and sometimes devastating human consequences for the people who take those risks. A tax system that strips away the reward for risk, while leaving the risk itself untouched, does not make the system fairer. It makes Australians less willing to back one another's ambitions, and the whole economy is poorer for it.

10. Collateral consequences: charity, retirement and the cost of uncertainty

A serious blow to charitable and philanthropic giving

Future Generation made a submission identifying an unintended consequence of the Bill that has received far too little attention: a likely reduction in charitable and philanthropic giving. A great deal of structured giving in Australia is funded by, or closely linked to, the realisation of capital gains and the donation of appreciated assets. By sharply increasing the tax on realised gains, the Bill reduces both the capacity and the incentive to give.

The submission identifies two possible remedies that the Government could implement. These are not remedies requiring years of consultation; they could be affected by a straightforward amendment to the Bill during the current parliamentary process. The amounts at stake are not trivial. The consequence runs to billions of dollars, and the harm to many charitable organisations would be real and immediate. In the middle of a cost-of-living crisis, it would be a poor outcome for legislation to make it harder for charities to do their work. Where the consequence is this serious, it is well worth pausing the relevant provisions until the defect is corrected.

The impact on retirement capital

Many Australians fund their retirement from a combination of income and the measured realisation of capital built up over a working life. The Bill changes the arithmetic of that decision profoundly. A retiree who has accumulated capital in listed shares faces an effective rate of up to 51% on realising it, even though, as a low-rate taxpayer, they pay little or nothing on franked income. The rational response, which is to avoid realising capital and to chase franked yield instead, distorts retirement portfolios towards a narrow band of large-cap income stocks, concentrating risk in exactly the savings Australians can least afford to put in jeopardy.

The cost of uncertainty itself

Finally, there is the cost of the policy process. Investment decisions depend on certainty. If investors cannot get the clarity they need and must pause for one, two or three months while the rules are settled, the demand side of the economy does not pause with them. In housing, for example, demand growth continues regardless, and a pause in investment simply tightens supply further and worsens the very problem the Bill purports to address. Prolonged uncertainty is itself a cost, and it falls on the people with the least capacity to absorb it.

11. Conclusion and recommendations

The case set out in this paper is not a defence of every existing concession, nor an argument against all change. It is an argument against this change, in this form, applied to this part of the economy. The Bill takes a mechanism designed for one problem, being perceived over-investment in existing housing, and applies it indiscriminately to every listed company in the country. In doing so it produces effective tax rates on capital of 51% for the smallest investors and 62.9% for the largest. It makes capital growth the most heavily taxed form of return in the economy, drives capital towards a handful of large, high-yield companies, raises the cost of capital for the nine in ten listed companies below the top tier, threatens the four-decade rise in direct share ownership, and inflicts serious collateral damage on charitable giving and retirement saving. For a nation with a productivity problem, it is precisely the wrong instrument.

Recommendations

1. **Carve productive equity investment out of the measure.** Listed company shares – the capital that funds operating Australian businesses – should not be captured by a measure designed to address housing. At a minimum, retain a meaningful discount for investment in operating businesses.
2. **Make any reform revenue-neutral and productivity-weighted.** Reduce the concession for the activity the Government wants less of (speculation in existing dwellings), and preserve or increase it for the activity it wants more of (patient, long-term business capital).
3. **Recognise the company tax already paid.** Any capital gains regime applied to shares must account for the 30% company tax already borne by corporate profits, rather than layering a second tax on top of it.
4. **Amend the Bill to protect charitable giving.** Adopt the two remedies set out in the Future Generation submission. They are simple, can be implemented by amendment now, and would prevent billions of dollars of harm to the charitable sector.
5. **Provide certainty quickly.** Whatever is decided, resolve it promptly. Prolonged uncertainty is itself a tax on investment and on supply.

Australia has a productivity problem, and the tax system should be part of the solution. Designed well, reform of capital gains tax could help direct capital to its most productive uses. Designed as the Bill is, it does the opposite. We urge the Parliament to think again.

Appendix A: The calculations in full

This appendix sets out the worked examples in Section 3 step by step, for a single $10,000 of pre-tax company profit attributable to an investor's holding. The company tax rate is 30%. The realised capital gain in each case is the $7,000 of after-company-tax profit retained by the company and reflected in the share price.

A.1 Zero / low-rate investor

Step	Income (franked)	Capital (new)
Company profit	$10,000	$10,000
Less company tax at 30%	–$3,000	–$3,000
After-tax amount (dividend / share value uplift)	$7,000	$7,000
Shareholder tax (0% rate; 30% minimum on gain)	$0 (credit refunded)	–$2,100
Total tax paid	**$0**	**$5,100**
Effective tax rate	**0%**	**51%**

A.2 Top-rate (47%) investor

Step	Income (franked)	Capital (current)	Capital (new)
Company profit	$10,000	$10,000	$10,000
Less company tax at 30%	–$3,000	–$3,000	–$3,000
After-tax amount	$7,000	$7,000	$7,000
Taxable gain	n/a	$3,500	$7,000
Shareholder tax at 47% (less franking credit on income)	–$1,700	–$1,645	–$3,290
Total tax paid	**$4,700**	**$4,645**	**$6,290**
Effective tax rate	**47%**	**46.45%**	**62.9%**

[5]Income column: $10,000 grossed-up dividend taxed at 47% = $4,700, less $3,000 franking credit = $1,700 top-up; total tax $4,700. Capital (current): $7,000 gain less 50% discount = $3,500 taxable, taxed at 47% = $1,645; plus $3,000 company tax = $4,645. Capital (new): $7,000 gain taxed at 47% = $3,290; plus $3,000 company tax = $6,290.

[5]Top marginal rate of 45% plus the 2% Medicare levy. Company tax rate of 30% (25% for base rate entities).

About Wilson Asset Management

Wilson Asset Management has a track record of making a difference for more than 130,000 investors and the Australian community for 29 years. As the investment manager for nine leading listed investment companies (LICs): WAM Capital (ASX: WAM), WAM Leaders (ASX: WLE), WAM Global (ASX: WGB), WAM Microcap (ASX: WMI), WAM Income Maximiser (ASX: WMX), WAM Alternative Assets (ASX: WMA), WAM Strategic Value (ASX: WAR), WAM Research (ASX: WAX) and WAM Active (ASX: WAA); and four unlisted funds: Wilson Asset Management Leaders Fund, Wilson Asset Management Founders Fund, Wilson Asset Management Real Assets Fund and Wilson Asset Management Equity Fund, Wilson Asset Management invests $6.0 billion on behalf of more than 130,000 retail and wholesale investors.

Wilson Asset Management created and is the lead supporter of the first LICs to deliver both investment and social returns: Future Generation Australia (ASX: FGX) and Future Generation Global (ASX: FGG), as well as Future Generation Women. Wilson Asset Management advocates and acts on behalf of retail investors, is a member of the global philanthropic Pledge 1% movement, is a significant funder of many Australian charities and provides all team members with $10,000 each year to donate to charities of their choice. All philanthropic investments are made by Wilson Asset Management and not the LIC.

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