Submission to the

Senate Standing Committee

In Regard to

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

Dealing with Changes to Capital Gains Tax
& Property Negative Gearing

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Quick Summation

In this submission we have provided significant comment and analysis to support a request to members of the Senate to take a position against changes that would put tenants at risk of higher rents due to less investor activity and the general community into a sense of concern and panic over unnecessary changes to Negative Gearing and Capital Gains Tax.

Instead I would ask you to send the Legislation back for review and consultation on a better, more immediate and financially more astute solution.

The one common ground in the housing debate is the undisputable fac that we need to have more affordable housing and the only solution to that problem is to ***build more affordable new housing*** units.

The Government has said that it has tried everything, but that is not the case. There is one simple, fast and genuine solution to this issue and that is to **REMOVE GST FROM NEW HOUSING**

This option is a simple act of Parliament to move the construction of new residential property to the GST Free status. In doing so every new build will immediately become 10% cheaper and new multi dwelling construction will become 6-8% more affordable as that is the average GST element in the sale price.

Given many first home buyers chose to build, this would have lasting benefit in this sector making the cost of an average home $35-50,000 less expensive and creating a powerful incentive for all people to look to build new property to add to the current housing stock, whether for owner occupation or investment, and stimulate job creation and economic activity generally.

Importantly, this real and genuine change will come at no cost to the Federal Government, as GST is passed to the States, and little impact to the State Governments as they are benefiting from above inflation increases to the general GST pool plus they are reaping in substantial additional revenue from Stamp Duty and Land Tax on ever increasing property values.

I urge all Senators to find in their hearts the compassion to spare the community from additional anxiety of change and higher taxation at a time when stress levels from interest rates, fuel prices and general cost of living weigh heavily on their wallets and minds.

This would allow the community time to properly assess the real merits or issues of changes to Capital Gains Tax and Negative Gearing in line with he proposed change date of 1st July 2027. A year of sensible community consultation on an issue of such great importance is duly warranted and expected given the current Governments adamant promises that they would not make any of these changes in their election campaigns.

We request the Senate acts with a determination to ensure efficient, compassionate & responsible legislation and governance.

Introduction

This submission is prepared by Steve Douglas, Executive Chairman of SMATS Group, a leading financial services provider encompassing taxation, mortgage broking, property sales & management, property development and syndicated investment.

Established in 1995, we have seen many changes in the Australian property & taxation landscapes, and with myself starting my accounting career in July 1985 have been witness to the initial introduction of Capital Gains Tax under and indexation system, removal and reinstatement of Negative Gearing and numerous changes to property taxation that have led us to this point in time.

Having formally presented an Annual Australian Budget Review for 22 consecutive year, I have also had detailed knowledge of policy announcements and their eventual impact on the community and investment markets.

It is safe to say that the past efforts from all sides of Government have not yet been able to deal with the real issue of creating consistent, reliable and affordable supply of the property type most need by the community. Property type needs have changed over the years, from the standard house to the downsizer apartment and everywhere in between.

Often we see distortion where what is being built is not always what the market needs, such as in Victoria when a small apartment building boom occurred even though a more liveable option was generally sought. This at times means statistics don't reflect the real position. For example we may build 100,000 units of accommodation, but if that was too many small apartments and not enough larger liveable ones, then "total supply" masks an oversupply situation in one sector and an ongoing undersupply in the other.

As such, we need to be very careful in generalising the property markets and understand one simple truth. The market is the best measure of demand and supply.

We have seen prices in the general Australian property market rise sharply, with the exception of Melbourne where oversupply kept the market soft until recently, driven by lack of new supply in areas where population growth continued to increased steadily. But even within the general numbers, growth is understandably higher in the sectors of demand and softer in the less desirable types and locations.

We often hear population growth as a culprit of house price unaffordability, but in truth it is not the real problem, it just brings to light the lack of genuine ongoing supply to meet natural demand including migration. Indeed population growth is a critical factor in a growing economy and ever increasing tax collection base, so to soften it as a scape goat for property undersupply would be very detrimental from an economic standpoint.

We need to stop blaming and start building, and do everything to encourage new construction. That is the only real and permanent solution that should be considered.

GST & Stamp Duty – The Real Enemy of Affordable Housing

Despite recent rhetoric that "investors" are pushing prices up (which is debated later in the submission), there can be no denying that when you add a 10% GST impost on the cost to build a home, and then compound that with a further 4-6% transfer fee or duty, then you are automatically forcing the new supply into an unaffordable zone.

This is further exasperated if the new property buyer is a foreign investor (whom legally must buy new) as most States now charge an additional 7-9% surcharge on top of the GST and normal Stamp Duty of that new construction.

When you understand that the States ulimtately receive the GST collected by the Federal Government, then this amounts to a "double or triple dip" on the new property cost to build.

The below table shows the average cost of construction in Australia from Financial Year 2021 when GST was first introduced, to last year in 2025. The GST component has risen from an initial average range $10,691-$14,745 in 2021 to now be between $35,450-58,641. A huge impost on bringing an essential new home into the market.

GST on Construction
Average Cost Per New House

	FY2001	GST 10%	FY2025	GST 10%
	1		2	
NSW	$ 162,200	$ 14,745	$ 558,326	$ 50,757
VIC	$ 149,300	$ 13,573	$ 589,080	$ 53,553
QLD	$ 139,700	$ 12,700	$ 500,160	$ 45,469
SA	$ 119,000	$ 10,818	$ 389,949	$ 35,450
WA	$ 132,100	$ 12,009	$ 400,000	$ 36,364
TAS	$ 117,600	$ 10,691	$ 480,000	$ 43,636
NT	$ 154,700	$ 14,064		$ -
ACT	$ 153,200	$ 13,927	$ 645,052	$ 58,641
Value of Work 3			$ 81,736,600	$ 7,430,600

Source

1. ABS - Building Approvals, Australia, Mar 2002
2. Openlot 2025 National ABS Housing Data Report
3. ABS - Building Activity Dec 2025

This problem will only continue to worsen as construction costs continue to rise due to labour costs and supply issues so the time to remedy this in now.

When you also consider the normal plight of a home builder is to live in rental accommodation and service debt incurred to pay for the build while they wait patiently for their house to be completed then it makes the need to remove GST even more compelling.

For any home builder, the cost to rent has escalated and interest rates and balance of loan has also lifted. As such very few home builders, especially first home buyers, can afford the current cost of rent and peak mortgage combined during the critical last few months of construction. And to make things worse, there is now a high level of delay an uncertainty as to when they build may even get finalised and allow them access to relieve the burden of rent.

We need new builds, houses or apartments, it is the only way to relive pressure of demand – new supply. But we need affordable new supply, so making GST free for new residential construction would immediately improve the affordability on average $35,450-58,641.

States would be no worse off as escalating house prices are leading to significantly more in Stamp Duty collections than historically achieved as seen below analysing the number of transactions in Australia.

	2024	2025	Portion	Aust Avg Dec 20	Aust Avg Dec 25	Stamp Duty 2020 Val	Stamp Duty 2025
Residential Settlements	686,000	684,000		$825,200	$1,170,400	$28,221,840,000	$40,027,680,000
First Home Buyers (Loans)	116,812	119,407	17.5%	$825,200	$1,170,400	$4,926,732,820	$6,987,697,640
Non First Home Buyers	569,188	564,593	82.5%	$825,200	$1,170,400	$23,295,107,180	$33,039,982,360
Dwelling Approvals	174,128	196,874	28.8%	$825,200	$1,170,400	$8,123,021,240	$11,521,066,480
Investors	125,746	149,423	21.8%	$825,000	$1,170,400	$6,165,192,980	$8,744,233,960
				GST New Dwellings (Est 6% Avg)		$8,621,425,536	$13,825,279,776
				Total Stamp Duty – Est 5% Avg		$28,221,840,000	$40,027,680,000
				Less First Home Buyers			$6,987,697,640
				Less New Dwellings (Est 50% First Home Buyers)			$5,760,533,240
				Less Reduced GST – New Dwelling Est 6% Avg			$13,825,279,776
				Reduced Stamp Duty			$27,279,449,120

Source: PEXA Property Insights,
ABS Building Approvals, Lending Indicators

In summary this demonstrates the scale and proportion of activity in the market with similar transactions year to year in 2024 of 686,000 to 2025 of 684,000. However when we look at the uplift in property average values over the past 5 years, we can see that the Stamp Duty collections have risen sharply from $28.2bn to $40.0bn (based on average duty of 5%).

The GST element has also risen from $8.6bn to $13,8bn (based on an average GST of 6% included in the transaction price under the margin scheme.

I have also provided a suggestion that the State Governments could make all First Home Buyer ($6.9bn average stamp duty) and new Dwelling ($5.7bn average stamp duty) activity free of Stamp Duty (to further encourage new supply) and even after reducing those Stamp Duty and GST the collection of Stamp Duty would drop to $27.3bn based on the 2025 numbers just $0.9bn less than the $27.2bn total collection based on the 2020 values.

That would be offset by the increasing general GST revenue (over $9bn increase this year in the Budget papers) and send strong signal of real intent and care throughout Australia to help us build our way out of the “crisis” by genuinely creating more affordable new homes.

All in all a much quicker, better, more direct and longer lasting impact than the changes proposed to Negative Gearing and Capital Gains Tax.

Don’t Fix It If It Isn’t Broken

The arguments put forward to change Negative Gearing and Capital Gains Tax are in the main unfounded.

The proposed legislation to change these issues is complex and confusing and unwarranted.

The current laws have worked well for almost four decades and will serve the nation going forward if left unaltered, at least until proper consultation and community involvement can be undertaken.

Some of the arguments are considered below:

Proposition	Rebuttle
FHB are being outbid at auctions by investors	Investor is necessary to provide rental pool, however regardless of that most FHB’s are indeed competing against other FHB’s or other owner occupier entrants.
The CGT discount is a subsidy to the advantage of property investors	The discount is an encouragement to invest in a clear and understandable tax cost environment. Certainty creates stability and we need a solid mix of landlords to provide valuable rental. It is not every year that property investors enjoy gains, with many in Brisbane & Perth having little to no return for most of the period prior to 2022 then have had a “catch up lately. Similarly Melbourne has been poor to no growth (and some in fact losses) over the last 3-5 years. Ironically the removal of the 50% discount and replacement with indexation could result in lower tax cost for investors if we stay in a modest growth, high inflation cycle. However the confusion with create anxiety and have a major impact on overall sentiment which may stop new supply coming into the market generally. It is often forgotten the discount is to encourage investment in a loss making activity in the hope that future growth recovers the investment – with no guarantees that come along with that risk taking.
Negative Gearing is a Subsidy for Landlords	This is a major falsehood. The major benefactor of any negative gearing is often the tenant who has for many decades, benefited from a lower cost to rent as the landlord is under less pressure to increase revenue of the property if the net out of pocket holding costs can in some way reduce their annual tax. Without this we undoubtedly see rents higher. Importantly at the moment another major cost to landlords is rapidly escalating in State Land Tax and this will also be a major factor in rental rates rising in the very near future.

Landlords have lots of properties	Statistics from the ATO how that in FY23 71.8% of property investors only had 1 property, and a further 18.7% had 2. So over 90% of landlords stop at 2 properties. Land Tax & servicing capacity are major factors in this as the system naturally balances these issues out and prevents significant accumulation of property holdings. This 90% is approximately 2m investors that if the Government was wise, could be encouraged to buy another property to help relieve rental pressure.
Remove the CGT discount to tax investors the same as workers	The argument here is flawed as it does not take into account risk. Workers are well rewarded in Australia without risk of their personal capital. I do however agree with the Government that workers are over taxed, evident in the fact that the personal tax revenue in this budget was increased by $33bn this year while the $250 workers offset was costed at $3bn, so a net increase in Personal tax collections of $30bn. Perhals the answer is to reduce personal tax rates rather than increase investor taxes.

In short, the current system is not the problem, ongoing lack of supply is.

So any changes proposed are more likely to worsen then improve and the damage caused may be long and far reaching.

A lack of simplicity causes confusion, confusion feeds concern, concern leads to procrastination, procrastination leads to inactivity, inactivity worsens supply, lower supply puts upwards pressure on rent and values.

The Government could achieve more to reduce the impact of negative gearing but simply having an economic strategy to reduce spending and therefor have a lowering impact on interest rates. Lower interest rates means less expense for landlords, less negative gearing.

Given all the other issued faced right now, it is simply unwise and unmerited to make changes.

If we are going to make changes, then we could do much better than the proposed legislation before the Senate now, which is extremely confusing and has discretions that are unwarranted and potentially dangerous, undermining the power of the legislature and providing too much latitude for the Treasurer, whomever that may be at the time.

Let’s not replace bad with worse, the country deserves better.

The Law of Unintended Consequences

As with many ideological changes, the purpose and desire of the change often leads to outcomes that were unexpected.

At this time we are facing a similar position where Government intention is the "make housing affordable" yet the outcomes may indeed have the opposite effect, primarily as they are not dealing with the critical supply side of the equation, instead trying to soften demand (that was already softening) on the investor side of the market.

Similarly to 1985 when Capital Gains was introduced and Negative Gearing removed, we may see

Event	Action	Outcome
Introduction of CGT in 1995 with indexation free	Tax capital gains to improve revenue	With a new tax cost, investors became more selective seeking better quality assets to improve returns to maintain similar "after tax gains"
Removal of Negative Gearing Deductions in 1995	Landlords sought higher rents due to no ability to offset	Lack of encouragement to take risk and sensible deduction damaged sentiment and led to the necessary action to reverse the change
Change from Indexation to 50% Discount on Capital Gains in 1999	Investors more content to realise gains at an easy to calculate cost	Higher tax revenues from more regular sales activity led to surplus budgets and Australia becoming Federal Government Net Debt Free in 2006 along with other measures
GST Introduced 1st July 2000	Established property market treated as Input Taxed, residential construction at 10%. Margin scheme applies to Development projects (approx. 6-8% effective GST cost in sale price)	Building cost has risen and so too 10% GST component
Removal 50% Limit of Foreign Sales	PM Rudd looked to assist student accommodation industry by relaxing 50% limit on new property sales to foreign investors	Flood of offshore property developers (mainly into Melbourne) build significant high rise, small room projects and quickly sell off plan to offshore clients. Adds significant rental stock lifting annual Foreign Sales from 5,000 pa historical average to 40,000 plus peak sales in 2016

Removal of 50% Discount for Foreign Investors May 2012	Initially no impact despite predictions (from myself it would slow investment)	No immediate impact as most foreign investors bought off plan and had no awareness of changes. Once commonly known foreign investment plummeted from 40,000 units a year back to 5,000, starting the current supply shortage being experienced today
Imposition of Foreign Buyer Duties	An extra cost wouldn't deter investment	Combined with the CGT Discount removal, this created a massive contraction of foreign investment still soft in the current market when new investment is critically required, especially when you consider foreign investors are content to take risk on off plan projects that need their presales to commence.
Removal of Travel & Depreciation Claims	Remove area of tax abuse and overclaims	Right option to remove rather than higher cost of policing. Lower expenses means less negative gearing so already shifted the game to less advantage to investors.
PPR CGT Exemption Removed if property sold while living out of Australia	Decision to sell for any Australian expat now deferred until eventual return	Contraction of Supply of houses that may have been sold further tightening market and pushing upward price pressure on the market for family style homes
Covid-19 Pandemic from 2020 to early 2022	Australia's borders close, many students forced to leave (especially from Melbourne)	Temporary redistribution of migration softened problem of undersupply for a while, but the catch up (and now normalisation of migration numbers back to traditional averages) has re-highlighted the importance of strong new supply to meet the market requirements.

5% First Home Buyer Scheme introduced	Good policy option to assist FHB when deposit size prohibits entry	Initial caps on scheme mean most FHB's can't find a property to meet their needs in the stipulated price range of the policy, so limited initial activity
5% First Home Buyer scheme caps increased	Better access to houses in the appropriate purchasing bracket	Surge in prices in the established market as competition between first home buyers accelerates and pushes prices in their buying zone higher at a faster pace than expected
Labour Government seeks to build more affordable housing	A$80bn in funding to add important housing stock	Significant delays and "affordable" becomes very expensive. Government now competing for labour in market and as such few houses now being built, so make the situation worse not better

History is a great teacher, but only if you listen, understand and learn from the mistakes.

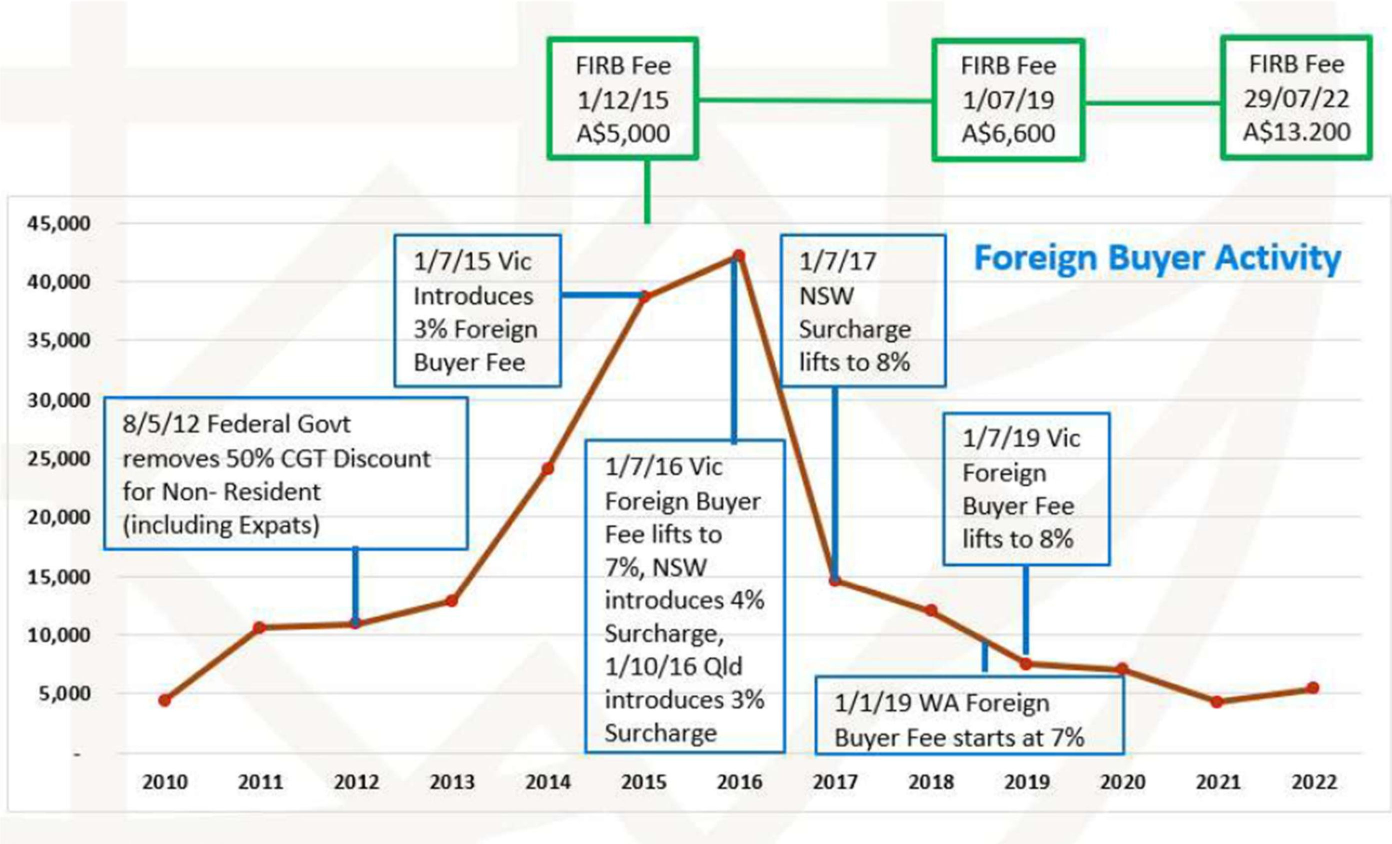
Don't let this moment be one of regret, when it could be one of opportunity.

Don't Let History Repeat – The Foreign Investor Example

In recent times Foreign Investors were the target of Government anx for the problems in the property market and over a number of years have been progressively taxed more and more, by both Federal and State Governments.

The result is less activity of valued new housing stock, which inevitably ended up as rental pool.

This lift then drop off is perhaps a blueprint for what may happen if it is perceived that higher taxes and less respect for the important role of investors in the property market leads to a lower level of activity and tightening of supply.



Source: FIRB Annual Reports

These investors not only provide valuable rental accommodation, but new economic activity through the fact they must buy new.

A final reminder that the only solution is supply, so all leverage of sensible supply should be considered.