Why we need the CGT Discount

19 December 2025

Overview

Master Builders Australia welcomes the invitation to provide a submission to the inquiry into the operation of the capital gains tax discount.

The current settings around the CGT discount must remain unchanged.

This is because

- Placing restrictions on the CGT discount will result in fewer new homes getting built each year - further reducing our chances of meeting the National Housing Accord's target of 1.2 million new homes over five years.

- Lower volumes of new home building will result in even worse housing affordability outcomes for both aspiring homeowners and those who rent.

- Housing absorbs such a large share of the typical household's budget, increased housing costs erode the buying power of many workers' wages. The incentives for working are blunted, and some people may respond by reducing their weekly hours – or opting not to work at all.

- Higher housing costs also make it more difficult to attract workers to Australia.

- More expensive housing risks aggravating our economy's labour shortages and inflaming wage pressures. Australia would become more expensive for other countries to do business with. Inward investment and our export performance would both suffer.

We welcome the opportunity to discuss any aspects of our submission in greater detail with the Select Committee.

Key questions

Restricting the Capital Gains Tax discount will have implications for new home building activity, housing affordability – and Australia's economic performance overall.

Accordingly, the Select Committee must consider posing three questions.

1. Will restricting the CGT discount result in fewer new homes getting built?

2. Will restricting the CGT discount cause housing affordability to worsen even further?

3. Will restricting the CGT discount damage Australia's economic performance and competitiveness?

The answer to all three questions is 'Yes'.

What will happen if the CGT discount is curtailed?

Restricting the CGT discount will result in fewer new homes getting built every year. As a result, housing affordability will worsen even further – both for renters and aspiring homeowners. This combination of outcomes will permanently reduce economic growth in Australia.

Fewer new homes will get built every year

Right now, Australia is not building enough homes. The National Housing Accord requires our industry to build 1.2 million new homes over the five years to June 2029 – an average of 240,000 homes per year over the Accord's term. The Accord target is ambitious: no five-year period on record has ever delivered 1.2 million new homes.

It hasn't been an encouraging start. During the Accord's first year in 2024-25, work began on less than 180,000 new homes across Australia. The represents a 61,000-home shortfall relative to the pace of home building required of the Accord. It means that an average of 255,000 new homes is required over the Accord's remaining 4 years. Doing so would require new home building in Australia to surge to unprecedented levels – and very soon. While the pipeline of new home building is increasing, it is still far from what's needed to meet the Accord. Latest data indicate that 192,100 new homes received approval over the year to October 2025.

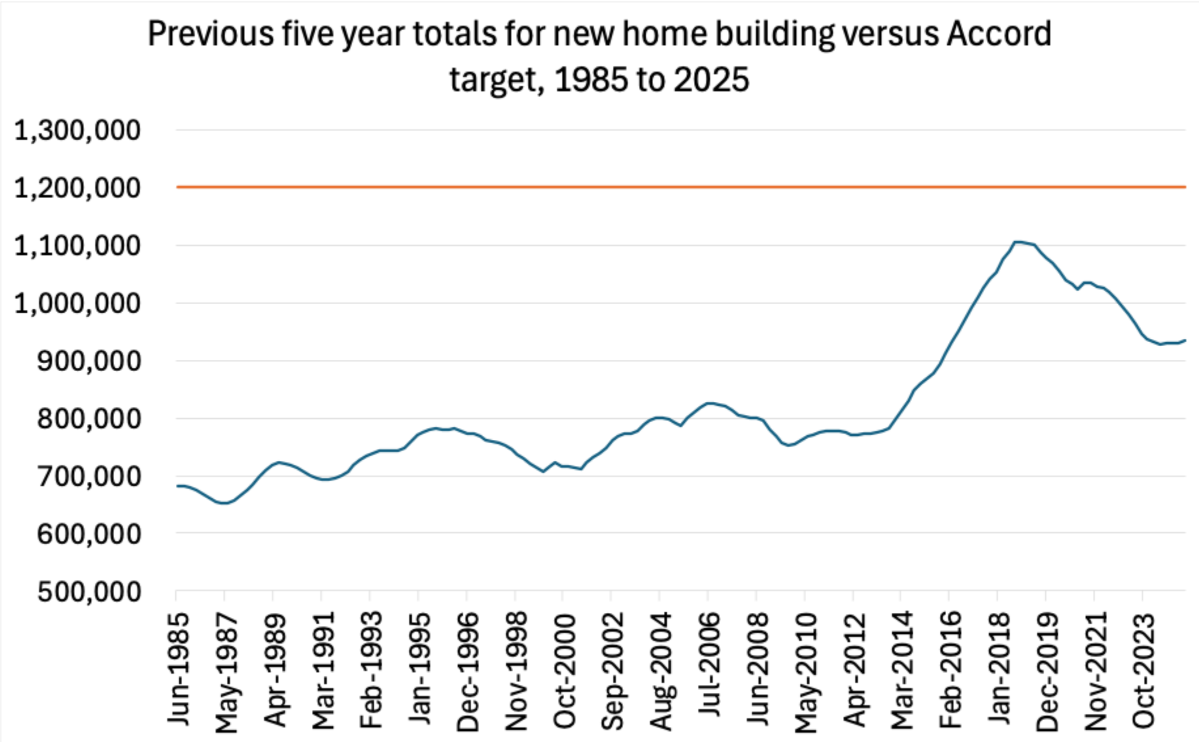
Currently, many residential builders and developers complain that projects they'd like to build lack financial viability. The financial viability of new housing developments is determined by a complicated set of interactions around costs, the timing of payments and receipts, build times and the outlook for interest rates and financing costs over the lifetime of the development. The likely selling price of new homes has a crucial bearing on their financial viability: better sales prices make it more likely that a project will proceed. Because the CGT discount allows investors to pay more for new homes, a larger set of projects makes it into the zone of viability. More new homes end up getting built because of the CGT discount.

Our views on the CGT discount echo those of Ken Henry almost two decades ago. In *Australia's Future Tax System* (2009), Dr Henry warned that

> '…*reducing net rental losses and capital gains tax concessions may in the short term reduce residential property investment. In a market facing supply constraints, these reforms could place further pressure on the availability of affordable rental accommodation within the private rental market. These reforms therefore should only be adopted following reforms to the supply of housing and reforms to housing assistance*'.

Supply constraints were a challenge at the time of Ken Henry's report in 2009. They're far worse today, so any restrictions on the CGT discount would cause rental market conditions to worsen even further.

Delivering new homes in record numbers will require a very favourable mix of economic settings. The chart below shows how a record number of new home starts was achieved over the five years to 2018. Then, a total of 1,105,842 new home starts occurred across Australia – less than 8 per cent short of today's Accord target.



Australia's strong home building performance took place against the backdrop of favourable economic settings. Interest rates were in long-term decline while economic growth was stable. The construction industry's supply chain functioned properly, while labour shortages were the exception rather than the rule. A much more receptive foreign investment framework was also in place at this time, which successfully converted foreign demand into newly built apartments across Australia.

Today's conditions are markedly less favourable than what we had in the 2010s decade.

In our most recent set of forecasts, we projected that about 1,020,000 new homes would commence over the National Housing Accord's term. This would represent a deficit of 180,100 homes over the five years, equivalent to 15 per cent of the target.

None of the eight states and territories is anticipated to meet its target.

These forecasts are predicated on the CGT discount being retained in its current form. Any restrictions on the CGT discount would mean missing the Accord target by an even bigger margin.

Housing affordability will get even worse

As outlined above restricting the CGT discount will reduce the number of new homes built in Australia every year and in turn simply exacerbate the current housing affordability challenge which, recent research shows is at its most difficult on record.

Even though the federal government is striving to narrow the deposit gap for prospective homeowners, the relentless rise in home prices means that those who do succeed in buying a home face a longer and heavier mortgage repayment burden compared with previous generations.

In some ways, they are the lucky ones. Continued escalations in home prices will permanently exclude a growing cohort of our population from ever owning a home. Their housing needs must be met through the private rental market, social housing or by relying on friends or family. For many, the threat of experiencing homelessness is real.

Those renting privately are not immune from the consequences of underbuilding. Because the CGT discount provides an incentive for investors to guide both new and existing homes onto the rental market, curtailing the CGT discount will reduce the future flow of homes onto the rental market. This is likely to exacerbate rental accommodation shortages and amplify rental inflation further. Because households on lower incomes depend on the rental market more intensely than better off households, those most in need are likely to suffer the most as a result.

Australia's economic prospects will dim

Whether Australian living standards improve or worsen over the coming years is difficult to predict. However, we can get a little closer to an answer by thinking about the three ingredients of future economic prosperity.

1. How many workers will we have?

2. How many hours will those workers typically put in each week?

3. How much work will our workers typically get done per hour?

Restricting the CGT discount will deprive us of many of the new homes that we need. In the previous section, we outlined how this will make housing affordability even more difficult for both renters and those wishing to buy their own home.

In this section, we show how curtailing the CGT discount will damage Australia's long-term economic prospects.

When our economy has more workers, more goods and services get produced and living standards improve. However, we are limited in our sources of new workers.

One stream of new workers comes when younger sections of the population become old enough to legally work for the first time. This is a slow process and is reliant on the number of births in Australia over previous years.

It is also possible to find new workers amongst the existing population when those who have been off work for some time return to employment. This can happen when full-time education comes to an end, amongst other routes.

Sourcing workers from overseas through international migration is the most immediate way to increase the size of the workforce in a way that matches the precise needs of the labour market. In recent times, the arrival of migrants from overseas has been the single most significant source of growth in Australia's workforce.

Since the pandemic, most advanced economies have faced labour shortages. This has been good news for migrant workers: the most skilled and sought after are often in a position to pick which economy offers them the best deal. On this score, Australia compares very favourably with nearly every country. However, deteriorating housing affordability risks dissuading migrant workers from Australia. This exacerbates our existing labour shortages and hampers the ability of our workforce to expand in the future.

As well as the size of our workforce, Australia's future economic prosperity will depend on how many hours workers opt to work each week. This increases when part-time workers transition to full-time hours. It could also involve workers who are already employed full time increasing their hours further, perhaps through overtime. Either way, providing the right settings for workers wishing to broaden their work hours expand the scope for economic growth in the future.

Because housing absorbs such a large share of the typical household's budget, increased housing costs erode the buying power of many workers' wages. Combined with high marginal tax rates, the incentives for working additional hours are blunted, and some people may respond by reducing their weekly hours. This is another way in which higher housing costs lead to lower economic growth.

The third ingredient of Australia's future prosperity depends on how much our workers can get done per hour over the years ahead. That's what productivity means – and it has failed to improve for many years. Achieving meaningful gains in living standards over the coming years will depend on how effectively we can resuscitate productivity growth. Several factors influence our productivity performance – and we will need to get all of them to be as supportive as possible.

One source of productivity growth is the arrival of skilled workers from overseas. This is because some of them bring techniques and know how that aren't widely available here yet. But if housing costs are too high, those workers may never arrive. The opportunity for a productivity transfusion is lost.

The same goes for foreign companies: when they set up in Australia, our economy gets to share in the latest global technologies and productivity solutions. But foreign companies' willingness to invest here is affected by our cost competitiveness. As outlined in this submission deteriorating housing affordability contributes to labour shortages, the main source of wage escalations. High labour costs and unaffordable housing makes Australia an expensive place to do business with. Our ability to attract inward investment is undermined and our ability to harness internationally developed productivity improvements suffers.