TULIPWOOD ECONOMICS
Creating value through better public policy

2026/27 FEDERAL BUDGET

MODELLING THE PROPOSED HOUSING TAX CHANGES

Modelling Brief
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Qaive and Tulipwood Economics

Summary of approach

- Qaive and Tulipwood Economics (we) have been commissioned by Master Builders Australia, the Housing Industry Association, the Property Council of Australia and the Real Estate Institute of Australia to model the impact on the housing sector of the Federal Government's proposed changes to negative gearing and the CGT discount. We ensured that our modelling approach accounted by the grandfathering of current arrangements for established housing.
- We also separately modelled the impact of the $2 billion Housing Support Program (HSP) to be delivered to the states and local governments to fund housing enabling infrastructure and improve productivity in the housing sector.
- We then modelled the combined impact of the two policies.
- The analysis adopts the standard "two futures" approach used in policy modelling.
    - A business-as-usual case is established to represent expected housing market and macroeconomic conditions under current policy settings.
    - A policy case is then developed to reflect the proposed tax and spending measures.
    - The measured impact is the difference between these two futures, not the difference between the policy case and a static base year.
- The policy settings are implemented as changes to market incentives rather than as simple accounting adjustments. In that sense, the modelling accounts of behavioural changes by households and businesses to the change in policy settings.
    - The tax measures change the expected after-tax return to residential property investment and therefore alter the user cost of supplying rental housing.
    - The HSP is implemented as a cost-reducing intervention in the dwelling construction sector, reflecting the role of enabling infrastructure and productivity enhancement in unlocking additional housing supply.
- The analysis combines direct fiscal modelling, housing market modelling and economy-wide modelling.
    - The direct tax effects are estimated using a microsimulation model.
    - The resulting financial impacts are translated into user-cost and investment shocks.
    - The shocks are then implemented in QGEM and housing specific ex-post disaggregation to estimate broader effects on dwelling construction, rents, prices and the wider economy.

Results

In summary we found the impact of the tax changes had a negative effect on housing supply and the magnitude of the reduction in supply was almost identical to the Federal Treasury's modelling. The impact of the $2 billion Housing Support Program, while increasing housing supply, did not outweigh the reduction caused from the tax changes due to negative gearing and the CGT discount. The main driver of the impacts were the changes to negative gearing, rather than the changes to the CGT Discount.

The following subsections outline the impacts of the tax changes in isolation, the $2 billion Housing Support Program in isolation, and the combined tax and Housing Support Program. Note that all results in this report are presented as deviations at a point in time from a counterfactual baseline in which the changes are not implemented. For example, the reduction in GDP in 2029/30 in Table 1 of -$561m implies that GDP is $561m lower in 2029/30 than it would otherwise have been in 2029/30 in the absence of the changes to the tax arrangements.

All results are presented as deviations from a counterfactual future in which the proposed changes are not implemented. For example, a GDP deviation in 2029/30 of -$100m should be interpreted as GDP being $100m lower than it would have otherwise been in 2029/30.

Negative gearing and CGT discount

We found:

- A reduction in dwelling starts of 14,032 in four years (compared to the reported Treasury estimated reduction of 35,000 in ten years, or 14,000 in the first four years).
- An increase in rents of 0.49% in 2026/27, rising to 1.62% in 2029/30. On a $600 per week rental, this implies an increase of $153 per year in 2026/27, rising to $421 per year in 2029/30.
- In weekly terms, rents will increase by an additional $3 per week in 2026/27 rising to at least $10 per week above the expected increase in rents in 2029/30as a result of inflation and market-specific supply-demand conditions.
- One reason the increase in rents is muted is that we estimate that landlords will absorb around 60% of the reduction in expected rental income as a result of the changes and pass on only 40% of the reduction to renters in higher rents.
- Our rental increase estimates are around 50% higher than Treasury's estimates in the first year (of around $2 per week), but in 2029/30 the rental increase is five-times the Treasury estimate.
- An economy-wide reduction in GDP of $1,374 million in undiscounted terms (i.e. $1.4 billion) over the four years from 2026/27 to 2029/30. This is caused by a decline in housing investment as a result of the increased tax burden on housing.
- Established home prices are expected to fall slightly by 0.67 percent on average by 2029/30, or by approximately $6,700 on a $1 million home.
- Construction output is expected to decline by $1.9 billion over the four years as a result of the tax changes.
- Construction sector employment is expected to decline by 2,016 FTE workers by 2029/30 (Table 1).

Table 1 - Impact of Negative Gearing and CGT changes, Central case

	2026/27	2027/28	2028/29	2029/30
GDP ($m)	-$121	-$278	-$414	-$561
GDP (%)	-0.00	-0.01	-0.01	-0.02
Construction output ($m)	-$266	-$463	-$551	-$623
Construction employment (FTE)	-882	-1,523	-1,798	-2,016
Impact on government revenue ($m)	-$36	$611	$1,036	$1,472
New dwelling starts				
Detached	-1,221	-2,271	-2,878	-3,446
Non detached	-513	-964	-1,237	-1,502
Total	-1,734	-3,235	-4,115	-4,948
New home prices (%)	-0.05	-0.10	-0.13	-0.16
Established home prices (%)	-0.20	-0.40	-0.54	-0.67
Rental price (%)	0.49	0.97	1.29	1.62
Rent component of CPI (%)	0.03	0.06	0.08	0.10
Aggregate rent change ($m)	$387	$789	$1,087	$1,406
Dwellings - value of work done ($m)	-$891	-$1,663	-$2,115	-$2,543
Alterations and additions - value of work done ($m)	-$149	-$279	-$354	-$426

Source: Qaive and Tulipwood estimates

$2 billion Housing Support Program

We found the impact of the $2 billion boost for infrastructure had a positive effect on housing supply. Specifically, we found:

- An increase in dwelling starts of 5,291 in four years (compared to the increase reported in the Budget of 65,000 in ten years, or 26,000 in the first four years).
    - While the methodological approach behind the reported increase of 65,000 dwellings in the budget papers is unclear, we believe our implementation of the impact of the subsidy is generous. In the real world there are supply constraints to automatically expanding housing supply, such as land availability, regulatory constraints and labour force constraints.
    - There is little detail provided on the exact mechanisms behind the Housing Support Program, and the downside risk is that, in operation, it is a simple financial transfer between levels of government with no impact on levels of housing output. Moreover, Budget Paper 1 (p.158) assumes that: "As part of this initiative, further planning, zoning and productivity reforms will be required of states and territories." Accordingly, our estimate should be treated as the maximum impact of the infrastructure boost.
- A marginal reduction in rents of 0.04% in 2026/27, rising to 0.09% in 2029/30. On a $600 per week rental, this implies a very small reduction of $12.26 *per year* in 2026/27, rising to $28.86 *per year* in 2029/30.
- In weekly terms, rents will fall marginally on average by less than $1 per week.
- An economy-wide increase in GDP of $509 million in undiscounted terms over the four years from 2026/27 to 2029/30.

- Established home prices are expected to fall marginally by less than $1,000 on average by 2029/30 for a $1 million home.
- Construction output is expected to increase by $723 million over the four-year period from 2026/27 to 2029/30 as a result of the fiscal boost.
- Construction employment is expected to increase by 2,365 FTE workers over the four-year period (Table 2).

Table 2 - Impact of $2 billion subsidy for infrastructure headworks, Central case

	2026/27	2027/28	2028/29	2029/30
GDP ($m)	$51	$120	$157	$180
GDP (%)	0.00	0.00	0.01	0.01
Construction output ($m)	$113	$200	$210	$200
Construction employment (FTE)	375	658	684	648
Impact on government revenue ($m)	$15	$36	$46	$53
New dwelling starts				
Detached	519	982	1,094	1,108
Non detached	218	417	471	483
Total	737	1,399	1,565	1,591
New home prices (%)	-0.04	-0.08	-0.09	-0.09
Established home prices (%)	-0.04	-0.08	-0.09	-0.09
Rental price (%)	-0.04	-0.08	-0.09	-0.09
Rent component of CPI (%)	-0.00	-0.00	-0.01	-0.01
Aggregate rent change ($m)	-$31	-$63	-$75	-$80
Dwellings - value of work done ($m)	$379	$719	$804	$817
Alterations and additions - value of work done ($m)	$63	$120	$135	$137

Source: Qaive and Tulipwood estimates

Combining the impacts of the tax changes and the $2 billion infrastructure subsidy

The combined impact is as follows:

- A net reduction in dwelling starts of 8,742 in four years compared to the Treasury's net increase of 30,000 in ten years as reported in the Budget, or an increase of 12,000 new dwellings in the first four years. Our estimate of the net impact of the policy is negative, while the Treasury's estimate of the net impact is positive.
- An increase in rents of 0.46% in 2026/27, rising to 1.53% in 2029/30. On a $600 per week rental, this implies an increase of $142 per year in 2026/27, rising to $477 per year in 2029/30.
- In weekly terms, rents are expected to rise marginally on average by $3 per week in 2026/27 rising to $9 per week in 2029/30.
- An economy-wide reduction in GDP of $864 million over the four years from 2026/27 to 2029/30.
- Established home prices are expected to fall slightly by $2,438 in 2026/27 and by $7,648 on average by 2029/30 based on a $1 million dwelling.

- Construction output falls by $1,180 million (or $1.2 billion) over the four-year period as the impact of the tax changes outweighs the impact of the fiscal subsidy.
- Construction employment falls by 3,854 FTE workers over the four-year period (Table 3).

Table 3 - Combined impact of negative gearing/CGT changes plus the $2 billion subsidy for infrastructure headworks, Central case

	2026/27	2027/28	2028/29	2029/30
GDP ($m)	-$70	-$158	-$256	-$380
GDP (%)	-0.00	-0.01	-0.01	-0.01
Construction output ($m)	-$153	-$263	-$341	-$422
Construction employment (FTE)	-507	-864	-1,114	-1,368
Impact on government revenue ($m)	-$21	$646	$1,082	$1,526
New dwelling starts				
Detached	-702	-1,289	-1,784	-2,338
Non detached	-295	-547	-767	-1,019
Total	-997	-1,836	-2,550	-3,357
New home prices (%)	-0.09	-0.17	-0.22	-0.25
Established home prices (%)	-0.24	-0.48	-0.62	-0.76
Rental price (%)	0.46	0.89	1.20	1.53
Rent component of CPI (%)	0.03	0.05	0.07	0.09
Aggregate rent change ($m)	$356	$726	$1,012	$1,326
Dwellings - value of work done ($m)	-$512	-$944	-$1,311	-$1,725
Alterations and additions - value of work done ($m)	-$86	-$158	-$220	-$289

Source: Qaive and Tulipwood estimates

Summary of methodological approach

- A microsimulation model is used to estimate the direct revenue and taxpayer impacts of the taxation changes.
    - The model is applied to a 2 per cent sample of taxation data.
    - The sample is used to identify affected taxpayers, drawing on reported rental loss and gains, realised capital gains and relevant income-support status.
    - The model is structured to reflect the proposed rules rather than a stylised full abolition of current arrangements (as, for example, done previously by the PBO).
- The negative gearing module implements the proposed treatment of established residential property losses.
    - Losses on affected established residential properties are no longer able to be offset against unrelated income, such as wages or business income.
    - The model allows eligible losses to be quarantined and carried forward for use against future residential property income or residential property capital gains.
    - Grandfathering is applied to properties acquired before the relevant Budget-night cut-off, consistent with the proposed treatment of existing holdings.
    - Eligible new builds are treated separately from established dwellings, reflecting the continued availability of negative gearing for new housing investment.
- The capital gains tax module implements the proposed move from the 50 per cent CGT discount to inflation indexed cost bases and a minimum tax on real gains.
    - Pre-commencement gains are separated from post-commencement gains using the proposed grandfathering approach.
    - The post-commencement gain is calculated on an indexed-cost-base basis, so the tax base is the real gain rather than the nominal gain.
    - The 30 per cent minimum tax is applied to net capital gains, with the carve-out for income support recipients.
    - The module preserves the distinction between the CGT treatment of existing assets and the treatment of future gains after the commencement date.

Translation into housing market shocks

- The direct tax effects are converted into shocks to the cost of supplying residential rental property.
    - The tax changes reduce the after-tax return to affected property investment and therefore increase the effective user cost faced by investors.
    - The user-cost framework is used to distinguish the channels through which the policy affects rents, established dwelling prices and new dwelling prices. In essence, the user-cost framework (based on Poterba, 1984) states that a rational investor will value an investment asset (such as a rental property) at the net present value of the discounted future cash flows after taxes and other costs are subtracted.
- The housing market shocks are calibrated to contemporary evidence and checked against external benchmarks.

  - The calibration draws on recent Budget Paper assumptions and estimates, including Treasury's stated impacts on dwelling prices, dwelling supply and rents.
  - The calibration is also compared with previous Qaive and Tulipwood Economics modelling of related policy settings.

Economy-wide modelling in QGEM

- The direct housing market shocks are implemented in QGEM to estimate economy-wide effects.
  - QGEM is used to trace the implications of changes in investment incentives, construction activity and housing costs through the broader economy.
  - The model captures interactions between dwelling construction, input demand, labour markets, household consumption and broader macroeconomic aggregates.
  - The approach recognises that the housing market is not isolated from the rest of the economy, particularly where construction activity and household costs are affected.
  - The model recognises supply shortages and adjusts prices to clear markets at equilibrium.
- The tax shocks are calibrated to alternative deadweight cost settings derived from the Henry Review.
  - This provides a sensitivity framework around the broader efficiency effects of raising additional taxation revenue through the relevant channels.
  - The use of alternative settings allows the analysis to test whether the qualitative conclusions are sensitive to assumptions about the excess burden of taxation.
- The QGEM results are interpreted as deviations from the business-as-usual path.
  - The model does not forecast the housing market in isolation.
  - It estimates how the economy would differ under the policy settings relative to an otherwise comparable baseline.
  - This distinction is important when interpreting impacts on construction activity, rents, prices and macroeconomic variables.

Infrastructure fund modelling

- The $2 billion Housing Support Program - Local Infrastructure Fund is modelled as a supply-side intervention.
  - The fund is represented as a reduction in the cost of capital inputs in the dwelling construction sector. In this regard, the model assumes that the full $2 billion is passed through to the housing sector for infrastructure investment and enabling capital and supply side adjustments.
  - This reflects the intended role of the fund in reducing infrastructure bottlenecks and supporting the delivery of housing-enabling infrastructure.
  - The modelling therefore treats the fund as lowering the effective cost of delivering new housing rather than as a transfer to households.
  - Note that this scenario is modelled purely as a cost reduction, and we have not taken account of the deadweight cost of raising the funds required. To this

extent, the scenario has the potential to overestimate the positive impacts on macroeconomic indicators such as GDP, however the argument could also be made that the revenue required is raised through the changes to the CGT discount and negative gearing, which are expected to increase tax revenues.

- The expenditure profile is aligned with the Budget Paper payment profile for the broader Boosting Home Ownership measure.
    - The modelling applies the fund through the forward estimates profile rather than treating it as an immediate once-off injection.
    - The profile is used to phase the cost-reduction shock over time in the dwelling construction sector.
- The infrastructure fund scenario is modelled separately before being combined with the tax scenarios.
    - This allows the separate direction and magnitude of the tax and infrastructure channels to be identified.
    - The combined scenario is then calculated as the aggregate effect of the tax policy scenario and the infrastructure fund scenario.