

Proposed investor tax changes will hurt tenants far more than help them

Tim McIntyre (NEWS)

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ANALYSIS

An embarrassing television appearance from Greens Senator Nick McKim this week showed just how little some politicians know about the reforms they are arguing to put in place.

See, apparently, the best way to bring down house prices, and somehow simultaneously ease pressure on the rental market, is by getting rid of Capital Gains Tax exemptions for property investors, or at least reducing it significantly enough to deter them.

Because if property investors can't get a 50 per cent discount on the tax they pay after selling a property, this will prompt them to sell?

That's the rationale behind the plan.

McKim appeared on the Channel 7 Sunrise program, opposite auctioneer Tom Panos, to discuss reducing the existing CGT discount for investors to 25 per cent.

When Panos made the point that the majority of investors were Aussies with average jobs, such as nurses and school teachers, who owned only one investment property, McKim made the bizarre statement that it was unfair for hard working Australians such as nurses to pay "double the tax" of someone "who sits around at home flipping investment properties".

Perhaps he didn't realise he was backing a plan that would see those nurses pay more tax.

Perhaps he also didn't realise that CGT exemptions were initially put in place partly to stop people from "flipping investment properties".

The current 50 per cent discount on CGT applies only to investors who hold properties longer than a year before selling. People who "flip investment properties" usually buy for cheap, renovate and sell in a short period for a profit.

Let's look at some of the other problems with CGT reforms.

Goodbye rental supply

Once upon a time, the government was responsible for providing much more of the affordable housing stock for renters. Think social housing.

Now, government largely relies on private developers to provide that stock. Development projects don't get off the ground without, you guessed it, investors.

Investors aren't charities and they don't have a responsibility to the Australian taxpayer. Like it or not, if you disincentivise investors, they will stop putting money into those projects. It's not a case of whether they "should" pay more tax, but rather whether they "will". The answer is no.

Rather than create more much-needed rental stock, their withdrawal will mean even fewer options for renters. The result? Rental prices will go through the roof. Perhaps even worse than they have been for several years now.

Tenants can't always just buy properties

McKim argued that the reforms would prompt investors to sell their properties, which would see prices come down and renters could then buy a home instead of renting.

It is true that a big increase in the supply of affordable properties would make it easier for first home buyers to get a home, but it is ignorant to believe that all renters are poised to buy as soon as prices fall.

Did you ever share house when starting out as a uni student or in a trade apprenticeship? Have you ever been a transient worker who has rented while in a location for a short period? Have you worked FIFO for a mining project? Have you been placed as a teacher in a far flung location? Did you need to rent for a number of years while attempting to save a gargantuan 20 per cent deposit for a home purchase, even as savings interest rates were at historic lows?

Think of the times you rented in your past, or in your present. In such periods, were you poised and ready to buy a home in that local area if prices came down by a few per cent?

The Australian adult population is generally divided into relatively equal thirds between mortgage holders, those who have paid off a loan and own their home outright and renters.

Renters need properties to rent. Taking them away will make rents increase.

And don't forget, if prices do come down and rents increase, investors will also be able to buy properties for cheaper and get a higher return. This could mean an environment in which investors can achieve positive cashflow and never have to sell as their properties will pay themselves off.

The billions in revenue is a false number

Economic modelling by the Parliamentary Budget Office has estimated the government will miss out on \$247 billion in tax revenue over the next 10 years if the 50 per cent CGT discount remains in place.

But that assumes that if it wasn't in place, investors would carry on selling assets as normal and paying the much larger tax bills as a result. Highly unlikely.

The probable effect would be that investors would sell off a whole lot of properties before any legislation came into effect (remember, once it's passed by parliament, it will be a year or so before it becomes active).

Once in effect, many investors would then avoid selling properties, which would mean avoiding being taxed on the capital at all.

So the actual revenue would be much smaller than estimated, there would be none to not much of an improvement in affordability (especially as the construction sector falls further behind its building targets) and asking rents would actually increase.