

# Fact Sheet: Investor Impact of the Announced CGT Changes

## Contents

The CGT Changes Explained .....	1
Who Wins, and Who Loses?.....	3
Case Studies: Impact of the Announced CGT Reforms Across Investor Cohorts.....	4
Assumptions .....	4
Profile 1: 25 Year Old Investing in Australian Shares.....	5
Profile 2: Household of Young Parents Invested in a Balanced Managed Fund .....	5
Profile 3: 35-Year-Old Investing in a High-Growth Managed Fund .....	6
Profile 4: Middle-Aged Australian Building Financial Security for Retirement .....	7
Visual Comparison: Investor Profiles 1-4 .....	7
Profile 5: Student Working Part-Time Investing in an ETF Portfolio .....	8
Profile 6: Approaching Retirement and Relying on Investment Income .....	8
Note: On Transitional Arrangements for Assets Bought Before 1 July 2027.....	9
Comparison with International CGT Rates .....	9
Table 6 - Median 25-34 Year Old Investing \$10,000 over 10 years in the OECD .....	9
Table 7 – Potentially Highest Effective CGT Rate in the OECD .....	12

## The CGT Changes Explained

The Government’s announced reforms replace the existing 50 per cent capital gains tax (CGT) discount for individuals, trusts and partnerships with a system of cost-base indexation and a 30 per cent minimum tax on capital gains. The reforms will apply to gains accruing after 1 July 2027.

Under the current system, taxpayers holding an asset for more than 12 months generally receive a 50 per cent discount on their taxable capital gain. Under the new system, instead of halving the gain, the original purchase price (“cost base”) of the asset will be indexed to inflation using the Consumer Price Index (CPI). Tax will then apply to the remaining “real” gain.

The practical effect of the reform depends heavily on three factors:

1. Inflation rates over the period the asset is held;
2. The investment’s rate of return over the period the asset is held; and
3. The investor’s marginal tax rate in the financial year that the gain is realised.

For lower-return assets where investment returns are close to inflation, some investors may pay less tax than under the current 50 per cent discount system. Treasury's own examples show that an investor earning a 2.5 per cent annual return (equal to inflation in the example) would pay no taxable capital gain under cost-base indexation:

*Assuming 2.5 per cent inflation, an asset is purchased for \$500,000 in July 2027, a holding period of 10 years, and \$100,000 in other income per year.*

*The investor earns a 2.5 per cent annual return. As the investor does not earn a positive return on his investment after inflation, he will not have a taxable capital gain under cost base indexation.*

However, for assets with a higher return, including a large proportion of long-term share market investments, managed funds and business investments, taxable gains will likely become materially larger than under the 50 per cent discount system. Ultimately it is safe to assume that this compromises the vast majority of cases as most individuals invest for the purpose of growing their capital.

Treasury's examples show that an investor earning a 7.5 per cent annual return over 10 years would pay an additional \$58,851 in tax compared to the existing 50 per cent discount framework:

*Assuming 2.5 per cent inflation, an asset is purchased for \$500,000 in July 2027, a holding period of 10 years, and \$100,000 in other income per year.*

*The investor earns a 7.5 per cent annual return. She will have a taxable capital gain of \$390,474 under cost base indexation compared to \$265,258 under the former 50 per cent discount. She will pay an extra \$58,851 in tax due to the reforms.*

The reforms also introduce a 30 per cent minimum tax on capital gains. This minimum tax applies where the tax otherwise payable on a real capital gain would fall below 30 per cent. According to Treasury, this is intended to "reduce the benefit of taxpayers deferring capital gains realisation to years where their marginal tax rates are low".

As a result however, some lower-income Australians (including students, part-time workers and Australians transitioning toward retirement) may face substantially higher effective tax rates on investment gains than under the current system. A further Treasury example notes this:

*Jack has a taxable income before capital gains of \$25,000 in 2029–30 and realises a capital gain of \$10,000 on an asset that he purchased in 2027–28. Jack does not receive an income support payment so is not exempt from the minimum tax.*

*The tax on Jack's capital gain of \$10,000 is \$1,400 under the new cost-base indexation method, or a tax rate of 14 per cent (excluding the Medicare levy). As this is lower than 30 per cent, Jack pays an additional \$1,600 in tax to bring the tax rate on his capital gain up to 30 per cent.*

## Who Wins, and Who Loses?

### Investors Who Benefit

Some investors may pay less tax under the newly announced system than under the current 50 per cent CGT discount arrangement. This is the case where:

- Investment returns are relatively low;
- Inflation is relatively high; or
- Assets generating relatively modest investment returns are held for longer periods.

Certain categories of investment also retain preferential treatment:

- The family home remains fully exempt from CGT;
- The four small business CGT concessions remain unchanged;
- The existing 60 per cent affordable housing CGT discount remains;
- Investors in eligible new-build housing may continue accessing the existing 50 per cent CGT discount; and
- Widely held trusts and superannuation funds are excluded from the negative gearing changes.

Recipients of means-tested income support payments, including the Age Pension and JobSeeker, are exempt from the new 30 per cent minimum tax where they receive any payment during the financial year in which the capital gain is realised.

### Investors Who Pay More Tax

Investors with higher real investment returns are more likely to pay substantially higher tax under the new arrangements. This particularly affects:

- Australians investing in growth shares, ETFs and managed funds;
- Younger Australians building wealth outside superannuation through diversified investments;
- Investors relying on investment gains to supplement income later in life;
- Taxpayers who temporarily move into lower income brackets; and
- Long-term investors whose investments materially outperform inflation over time.

Treasury's own modelling states that "over the past 20 years, nominal tax rates on average returns could have been in the order of 20 to 30 per cent for someone on the top marginal tax rate". Under the existing 50 per cent CGT discount, the maximum effective rate was 22.5 per cent.

The new 30 per cent minimum tax will also override the normal operation of the first (0 per cent) and second (14 per cent from 1 July 2027) marginal tax brackets, affecting for example students, part-time workers, carers or Australians easing into retirement.

## Case Studies: Impact of the Announced CGT Reforms Across Investor Cohorts

The following profiles illustrate how the interaction between investment returns, inflation, and marginal tax rates can materially alter CGT outcomes under the proposed framework. They demonstrate that many Australians investing in shares, ETFs and managed funds over the long term are likely to face materially higher effective tax rates than under the existing 50 per cent discount system. The profiles also illustrate how the new 30 per cent minimum tax can increase tax liabilities for Australians on lower incomes.

### Assumptions

Taking the reference points of the Australian Bureau of Statistics CPI Index (used by the ATO for existing tax purposes) at 30 June 2025 (Index: 141.7) and at 30 June 1995 (Index: 64.7), the average annual inflation rate over the past thirty years (measured as the compound annual growth rate) has been approximately **2.6 per cent**. This is about the middle of the RBA's target band of 2-3 per cent. The below research assumes this rate of inflation (2.6 per cent). Note that Treasury forecasts the CPI to average 2.5 per cent from 1 July 2027.

All profile estimates below are based on assets purchased from 1 July 2027. A note is included in this fact sheet on transitional arrangements concerning assets purchased before 1 July 2027.

The marginal tax rate of the second tax bracket will drop to 14 per cent on 1 July 2027. It is assumed to be 14 per cent in every year in the below calculations. The Medicare levy is excluded. The impact of tax credits are excluded.

Incomes based on existing ABS median earnings would likely be higher by 1 July 2027. The estimates below incorporate the effects of bracket creep by applying inflation-indexed estimates of future income levels. The income estimates are therefore likely to understate the actual tax liabilities, particularly as earnings typically increase over an individual's working life to 55 years old (consistent with Profiles 1–5 below).<sup>1</sup>

The international comparisons in Tables 6 and 7 assume sold assets are shares.

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<sup>1</sup> <https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/personal-income-australia/latest-release>

## Profile 1: 25 Year Old Investing in Australian Shares

2025 Australian share market historical return data estimates that Australian shares have returned 9.8 per cent per annum since 1991. Under the existing 50 per cent discount, a taxpayer would effectively be taxed on the 4.9 per cent component (half of the total) of the per annum gain on the value of the asset.

Under cost-base indexation at an inflation rate of 2.6 per cent, the taxpayer will instead be effectively taxed on the 7 per cent component (more than half of the total) of the per annum gain on the value of the asset.

If a 25 year old Australian on the median income (ABS, Age 25-34: \$63,382) invested \$10,000 in Australian Shares today, assuming a 9.8 per cent rate of return and 2.6 per cent inflation rate, they will pay an additional \$151 in tax after 2 years under the new system, extending to \$1,443 of additional tax after 10 years and \$7,552 after 20 years.

Over 20 years, the effective tax rate on the capital gain has increased from 15 per cent (under the 50 per cent discount) to 28.8 per cent (under cost-base indexation).

**Table 1: The 25 Year Old’s Future CGT Liabilities**

<b>Years after Investing \$10,000</b>	<b>CGT Liability Under Existing 50% Discount Method</b>	<b>CGT Liability Under Cost-Base Indexation Method</b>
<b>Year 2</b> (Capital Gain: \$2,056)	\$308 Effective CGT Rate: 15%	\$459 Effective CGT Rate: 22.3%
<b>Year 10</b> (Capital Gain: \$15,470)	\$2,320 Effective CGT Rate: 15%	\$3,763 Effective CGT Rate: 24.3%
<b>Year 20</b> (Capital Gain: \$54,870)	\$8,231 Effective CGT Rate: 15%	\$15,783 Effective CGT Rate: 28.8%

## Profile 2: Household of Young Parents Invested in a Balanced Managed Fund

It is estimated that 31 per cent of new online investors come from Gen Z<sup>2</sup>. Managed funds are one of the most common entry points for younger Australians beginning to build wealth outside superannuation, enabling them to access professional investment management while minimising fees and risk.

Two 31-year-old parents share the median Australian household income of \$92,856, attributable to one parent. They invest \$40,000 in a managed fund with a balanced growth outlook, returning an average of 6.9 per cent per annum (Based on average five year returns of representative balanced managed funds using publicly available data).

<sup>2</sup> Investment Trends research house: <https://www.moneymanagement.com.au/new-investor-wave-driven-younger-participants/>

Under the new system, the family will pay an additional \$224 in tax after 2 years, extending to \$2,691 after 10 years and \$13,106 after 20 years.

Over 20 years, the effective tax rate on the capital gain has increased from 20 per cent (under the 50 per cent discount) to 31.7 per cent (under cost-base indexation).

**Table 2: The Family’s Future CGT Liabilities**

<b>Years after Investing \$40,000</b>	<b>CGT Liability Under Existing 50% Discount Method</b>	<b>CGT Liability Under Cost- Base Indexation Method</b>
<b>Year 2</b> (Capital Gain: \$5,710)	\$857 Effective CGT Rate: 15%	\$1,081 Effective CGT Rate: 18.9%
<b>Year 10</b> (Capital Gain: \$37,954)	\$5,973 Effective CGT Rate: 15.7%	\$8,664 Effective CGT Rate: 22.8%
<b>Year 20</b> (Capital Gain: \$111,920)	\$22,394 Effective CGT Rate: 20%	\$35,500 Effective CGT Rate: 31.7%

### Profile 3: 35-Year-Old Investing in a High-Growth Managed Fund

Another 35-year-old professional on an above-median income of \$135,000 invests in a high-growth managed fund returning an average of 10.4 per cent per annum. She invests \$60,000.

Under the new system, she will pay an additional \$1,259 in tax after two years, extending to \$14,909 after 10 years and \$66,045 after 20 years.

Over 20 years, the effective tax rate on the capital gain has increased from 22.5 per cent (under the 50 per cent discount) to 40.2 per cent (under cost-base indexation).

**Table 3: The 35 Year Old’s Future CGT Liabilities**

<b>Years after Investing \$60,000</b>	<b>CGT Liability Under Existing 50% Discount Method</b>	<b>CGT Liability Under Cost- Base Indexation Method</b>
<b>Year 2</b> (Capital Gain: \$13,129)	\$2,429 Effective CGT Rate: 18.5%	\$3,688 Effective CGT Rate: 28.1%
<b>Year 10</b> (Capital Gain: \$101,377)	\$21,570 Effective CGT Rate: 21.3%	\$36,479 Effective CGT Rate: 36.0%
<b>Year 20</b> (Capital Gain: \$374,043)	\$84,160 Effective CGT Rate: 22.5%	\$150,205 Effective CGT Rate: 40.2%

## Profile 4: Middle-Aged Australian Building Financial Security for Retirement

A 46-year-old operations manager earns \$135,000 per year and invests \$110,000 into the balanced option from earlier, returning 6.9 per cent per annum (Based on average five year returns of representative balanced managed funds using publicly available data).

Under the new system, he will pay an additional \$761 in tax after two years extending to \$8,999 after 10 years and \$36,042 after 20 years.

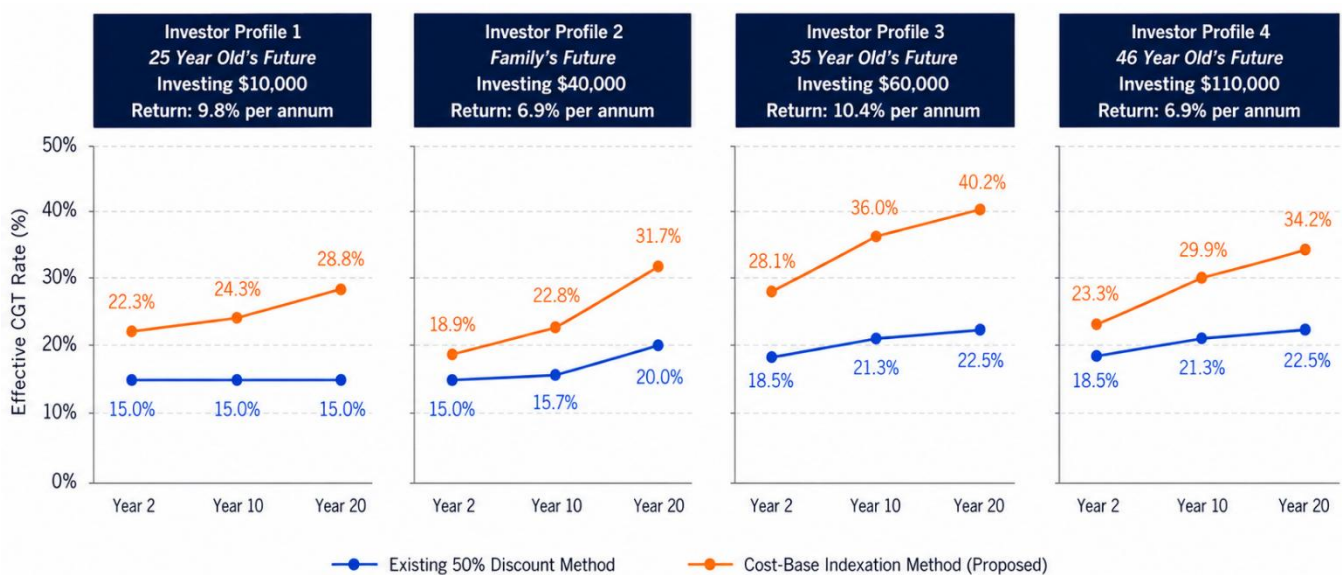
Over 20 years, the effective tax rate on the capital gain has increased from 22.5 per cent (under the 50 per cent discount) to 34.2 per cent (under cost-base indexation).

Table 4: The 46 Year Old's Future CGT Liabilities

Years after Investing \$110,000	CGT Liability Under Existing 50% Discount Method	CGT Liability Under Cost-Base Indexation Method
<b>Year 2</b> (Capital Gain: \$15,704)	\$2,905 Effective CGT Rate: 18.5%	\$3,666 Effective CGT Rate: 23.3%
<b>Year 10</b> (Capital Gain: \$104,373)	\$22,244 Effective CGT Rate: 21.3%	\$31,243 Effective CGT Rate: 29.9%
<b>Year 20</b> (Capital Gain: \$307,779)	\$69,250 Effective CGT Rate: 22.5%	\$105,292 Effective CGT Rate: 34.2%

## Visual Comparison: Investor Profiles 1-4

### Effective CGT Rates Over Time Under Proposed CGT Regime\*



\*Effective CGT Rate is the total CGT paid as a percentage of the gross capital gain. Outcomes based in assumptions as outlined above and under each profile.

## Profile 5: Student Working Part-Time Investing in an ETF Portfolio

A 19-year-old retail worker earns \$20,000 per year while studying at university full-time. Wanting to build their savings, they invest \$15,000 into a diversified ETF portfolio returning an average of 7 per cent per annum, consistent with long-term returns of large Australian and international equity index funds commonly used by retail investors.

After 2 years, the student will pay an additional \$263 in tax solely because of the new minimum tax floor. After 5 years, the student will pay an additional \$772.

Over 20 years, the effective tax rate on the capital gain has increased from 7 per cent (under the 50 per cent discount) to 19.8 per cent (under cost-base indexation).

Table 5: The 19 Year Old Student’s Future CGT Liabilities

<b>Years after Investing \$15,000</b>	<b>CGT Liability Under Existing 50% Discount Method</b>	<b>CGT Liability Under Cost- Base Indexation Method (and minimum 30% tax)</b>
<b>Year 2</b> (Capital Gain: \$2,174)	\$152 Effective CGT Rate: 7%	\$415 Effective CGT Rate: 19.1%
<b>Year 5</b> (Capital Gain: \$6,038)	\$423 Effective CGT Rate: 7%	\$1195 Effective CGT Rate: 19.8%

## Profile 6: Approaching Retirement and Relying on Investment Income

Many Australians voluntarily or involuntarily reduce their working hours as they approach retirement, relying increasingly on investment income and capital gains to supplement part-time earnings before accessing their superannuation or becoming eligible for the Age Pension.

A 53-year-old has involuntarily reduced their hours to part-time work following a redundancy, earning \$30,000 per year from part-time work while relying on long-term investments to help fund living expenses. After years of saving outside superannuation, they realise a capital gain of \$15,000 in real terms (after cost-base indexation) from the sale of investments held for the long term.

Under Australia’s existing capital gains tax system, the investor would ordinarily face an effective tax rate of 7 per cent because of their relatively low taxable income (combined with the 50 per cent discount). However, under the Government’s proposed minimum 30 per cent tax on capital gains, the 53-year-old would be required to pay significant additional tax.

The investor’s tax on the \$15,000 capital gain would increase from \$1,050 under the 50 per cent discount to \$4,500; a tax increase of \$3450, solely because of the new minimum tax floor. The effective tax rate has increased from 7 per cent toward 30 per cent.

## Note: On Transitional Arrangements for Assets Bought Before 1 July 2027

While the above examples apply to assets purchased on or after 1 July 2027, assets owned before that date are subject to transitional arrangements. Under the Government’s proposed framework, gains accrued before 1 July 2027 will continue to receive the existing 50 per cent CGT discount, while gains accruing after 1 July 2027 will instead be taxed under the new cost-base indexation and minimum tax framework.

In effect, existing assets are “split” into two periods for tax purposes:

- Gains accrued before 1 July 2027 remain subject to the existing 50 per cent discount; and
- Gains accrued after 1 July 2027 are calculated using cost-base indexation and the 30 per cent minimum tax framework.

Taxpayers will determine the asset’s value at 1 July 2027 either through a valuation or an ATO-approved apportionment formula, subject to confirmation. The ATO provides the following example of Transitional CGT Arrangements:

*Jane purchases an asset on 1 July 2022 for \$800,000. She sells the asset on 1 July 2032 for \$1,600,000 earning a 7.2 per cent annual return. Using ATO tools, Jane determines that the asset was worth \$1,131,371 at commencement of the policy (1 July 2027).*

*Under the transitional rules, Jane calculates her taxable capital gain by adding:*

- *Taxable capital gains of \$165,685 earned before commencement, which is equal to gross capital gains of \$331,371 with the 50 per cent CGT discount; plus*
- *Taxable gains of \$319,958 earned after commencement, which is equal to the gain of \$468,629 less cost base indexation.*

*Her total taxable capital gain is \$485,643. This is more than the \$400,000 that would have been calculated if a 50 per cent discount applied to the gain overall. Assuming a 47 per cent tax rate, the tax on her gain is \$228,252 (compared to \$188,000 with a 50 per cent discount).*

## Comparison with International CGT Rates

### Table 6 - Median 25-34 Year Old Investing \$10,000 over 10 years in the OECD

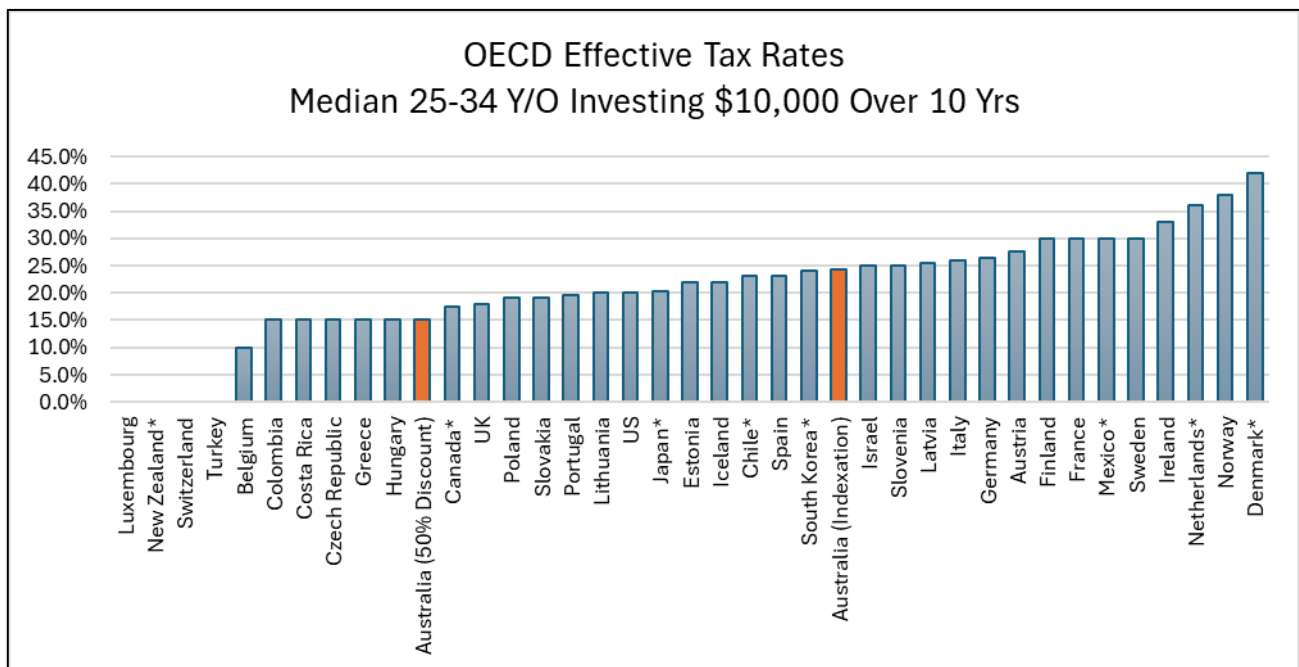
Under Investor Profile 1, a 25-year-old Australian on the median income for 25–34 year olds (\$63,382) investing \$10,000 in shares over 10 years would see Australia fall from having the sixth lowest effective capital gains tax rate in the OECD to the 24th lowest under the proposed cost-base indexation regime (out of 38 countries). That would move

Australia from one of the more competitive CGT regimes in the OECD into the bottom half of international rankings.

*Note: All international comparisons assume the investor is a resident taxpayer of the relevant jurisdiction investing from within that jurisdiction. Where personal income tax rates apply, rates reflect current tax settings applicable to an investor earning the equivalent of the Australian’s median income and do not project future indexation or legislative changes. Investment values and gains have been converted from Australian dollars (AUD) using current exchange rates. Actual tax outcomes may also be affected by applicable deductions, exemptions, carried-forward losses, or other concessions under local tax law.*

<b>Table 6: Median 25-34 Year Old Investing \$10,000 over 10 years in the OECD</b> <i>Ranked by least liability to most</i>		
<b>Country</b>	<b>Effective Rate of CGT</b>	<b>OECD Rank</b>
Luxembourg	0.0%	1
New Zealand*	0.0%	1
Switzerland	0.0%	1
Turkey	0.0%	1
Belgium	10.0%	5
<b>Australia (Existing 50% Discount)</b>	<b>(15.0%)</b>	<b>(6)</b>
Colombia	15.0%	6
Costa Rica	15.0%	6
Czech Republic	15.0%	6
Greece	15.0%	6
Hungary	15.0%	6
Canada*	17.5%	11
UK	18.0%	12
Poland	19.0%	13
Slovakia	19.0%	13
Portugal	19.6%	15
Lithuania	20.0%	16
US	20.0%	16
Japan*	20.3%	18
Estonia	22.0%	19
Iceland	22.0%	19
Chile*	23.0%	21
Spain	23.0%	21
South Korea*	24.0%	23
<b>Australia (New Cost-Base Indexation Method)</b>	<b>24.3%</b>	<b>24</b>

Israel	25.0%	25
Slovenia	25.0%	25
Latvia	25.5%	27
Italy	26.0%	28
Germany	26.4%	29
Austria	27.5%	30
Finland	30.0%	31
France	30.0%	31
Mexico*	30.0%	31
Sweden	30.0%	31
Ireland	33.0%	35
Netherlands*	36.0%	36
Norway	37.8%	37
Denmark*	42.0%	38



\* Country-specific qualification: Where capital gains are taxed through personal income tax systems rather than under a standalone capital gains tax regime, the effective rates incorporate the relevant marginal personal income tax rate under that jurisdiction's domestic tax law. The effective capital gains tax rates marked with an asterisk are subject to specific conditions, including minimum holding periods, investment type, asset class, and whether the investment relates to domestic or foreign assets.

## Table 7 – Potentially Highest Effective CGT Rate in the OECD

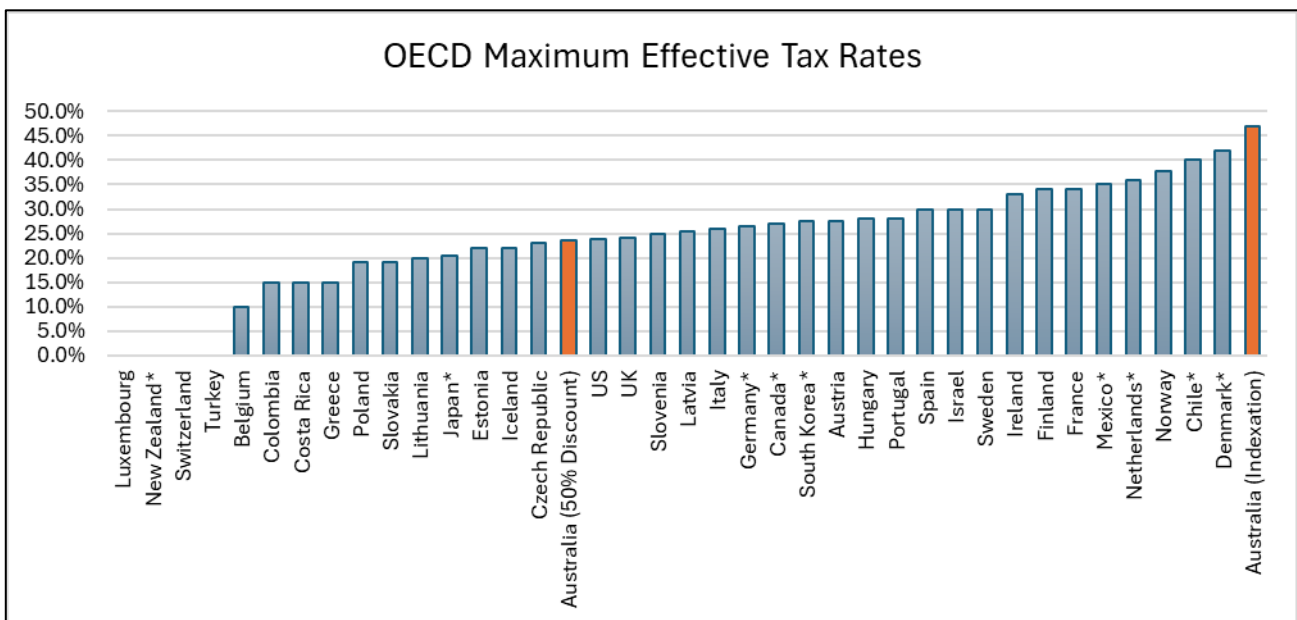
If you instead consider the maximum effective tax rates (in Australia being a capital gain that pushes one’s personal income tax return over \$190,000), Australians potentially face the highest CGT regime in the OECD.

Under Australia’s current CGT discount system, the maximum effective capital gains tax rate is effectively capped at half the top marginal rate. Under a cost-base indexation model, that cap disappears and the effective rate can rise toward the full top marginal tax rate of 47 per cent (including Medicare levy), depending on investment performance and the rate of inflation.

*Note: Assets below disposed of after a minimum of two years. Where capital gains are taxed through personal income tax systems rather than under a standalone capital gains tax regime, the effective rates incorporate the relevant top marginal personal income tax rate under that jurisdiction’s domestic tax law. All international comparisons assume the investor is a resident taxpayer of the relevant jurisdiction investing from within that jurisdiction. Where personal income tax rates apply, investment values and gains have been converted from Australian dollars (AUD) using current exchange rates. Actual tax outcomes may vary based on currency value and may also be affected by applicable deductions, exemptions, carried-forward losses, or other concessions under local tax law.*

<b>Table 7: Maximum Effective CGT Rate in the OECD</b>		
<i>Ranked by least liability to most</i>		
<b>Country</b>	<b>Maximum Effective Rate</b>	<b>Rank</b>
Luxembourg*	0.0%	1
New Zealand*	0.0%	1
Switzerland	0.0%	1
Turkey	0.0%	1
Belgium	10.0%	5
Colombia	15.0%	6
Costa Rica	15.0%	6
Greece	15.0%	6
Poland	19.0%	9
Slovakia	19.0%	9
Lithuania	20.0%	11
Japan*	20.3%	12
Estonia	22.0%	13
Iceland	22.0%	13
Czech Republic	23.0%	15
<b>Australia (Existing 50% Discount)</b>	<b>(23.5%)</b>	<b>(16)</b>

US	23.8%	16
UK	24.0%	17
Slovenia	25.0%	18
Latvia	25.5%	19
Italy	26.0%	20
Germany*	26.4%	21
Canada*	27.0%	22
South Korea*	27.5%	23
Austria	27.5%	23
Portugal	28.0%	25
Hungary	28.0%	25
Spain	30.0%	27
Sweden	30.0%	27
Israel	30.0%	27
Ireland	33.0%	30
France	34.0%	31
Finland	34.0%	31
Mexico*	35.0%	33
Netherlands*	36.0%	34
Norway	37.8%	35
Chile*	40.0%	36
Denmark*	42.0%	37
<b>Australia (New Cost-Base Indexation Method)</b>	<b>Up to 47.0%</b>	<b>38</b>



\* Country-specific qualification: The effective capital gains tax rates marked with an asterisk are subject to specific conditions, including minimum holding periods, investment type, asset class, and whether the investment relates to domestic or foreign assets.