**FOI 4335**
**Document 1**

s 22 [redacted]

**From:** Johnson, Shane s 22 [redacted]
**Sent:** Wednesday, 13 May 2026 4:21 PM
**To:** s 22 [redacted]
**Cc:** Gabrielsen, Emma s 22 [redacted] s 22 [redacted]
s 22 [redacted]
**Subject:** RE: Individuals with shares income by age [SEC=OFFICIAL]

OFFICIAL

Thanks s 22 [redacted] please see updated tables below s 22 [redacted]

OFFICIAL

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**From:** s 22 [redacted]
**Sent:** Wednesday, 13 May 2026 4:19 PM
**To:** Johnson, Shane s 22 [redacted]
**Cc:** Gabrielsen, Emma s 22 [redacted] s 22 [redacted]
s 22 [redacted]
**Subject:** FW: Individuals with shares income by age [SEC=OFFICIAL]

OFFICIAL

Hi Shane

Please see below tables updated with franked dividends from trusts for non-primary production as discussed over messages s 22 [redacted]

Thanks

s [redacted]

**Table: Individuals with income from shares by age, 2023-24**

| | Individuals with income from shares | Average Income from shares* | Average Taxable Income of individuals with shares | Average Taxable Income of all taxfilers | Individuals with income from shares as proportion of total individuals with income from shares | Proportion of taxfilers with income from shares |
|---|---|---|---|---|---|---|
| 35 and under | 675,000 | $8,670 | $93,070 | $58,410 | 18% | 11% |
| Older than 35 | 3,071,000 | $25,750 | $113,180 | $90,010 | 82% | 30% |
| Total | 3,746,000 | $22,670 | $109,550 | $78,130 | 100% | 23% |

* Source: personal income tax data for 2023-24. Includes income from franked dividends, unfranked dividends, franking credits, and franked dividends from trusts for non-primary production income. Does not include income from the sale of shares.

s 22 [redacted]

s 22

FOI 4335
Document 2

**From:** Preston, Robb
**Sent:** s 22
**To:** s 22 Berger-Thomson, Laura s 22
s 22
**Cc:** Brown, Diane s 22 Johnson, Shane
s 22 s 22 s 22
Robinson, Marty s 22 ; South, Ian
s 22 s 22
**Subject:** RE: Further international comparisons.docx [SEC=OFFICIAL]

Hi s 22

Have reflected the minor edit to the international comparison table as just discussed.

Cheers

Robb

**Robb Preston** — Assistant Secretary, CBR
Other Individuals Tax Branch
Tax Analysis Division

s 22

# CGT – impacts on investment and international comparisons

**Moving to cost-base indexation (from the CGT discount) reduces distortions to savings and investment**

- The Government's changes to capital gains will achieve a more neutral and fairer treatment of capital gains compared to the fixed 50 per cent CGT discount.
- A key justification for any discount on capital gains is to compensate investors for inflation.
  - An adjustment for indexation achieves this goal more precisely than an arbitrary discount.
- The current system over compensates high-growth investments and under compensates low-growth investments.
  - Correcting this problem can unlock investment that would otherwise be unviable due to distortions in the tax system, while not disincentivising high-return investments.
  - For example, apartments with high rental yields but low capital growth will benefit as their cost base is indexed and, as a result, less income is subject to capital gains tax.
- Under the current tax system, this over compensation of high-growth investments is exacerbated by negative gearing.
- Negative gearing in combination with the 50 per cent CGT discount can result in investment properties being concessionally taxed and in some cases being subsidised instead of being taxed.  These arrangements can drive up house prices, and the subsidy can make unviable investments viable.
- By moving to indexation and restricting negative gearing, the concessions are reduced. This opens up opportunities for owner-occupiers.
- Under the package of reform, investors in shares will also move to indexation arrangements for CGT, ensuring a more consistent tax treatment across assets.
  - In the absence of this, an investor could still effectively access the CGT discount for an investment property – for example, by purchasing it through a company and later realising the capital gain through the sale of the company.
- An investor that generates high returns on shares from capital gains will still prefer shares in that company over other shares that generate lower returns.

***CGT rates are unlikely to affect savings or investment in the economy***

- OECD research shows the tax on savings generally does not affect how much people save or invest overall in the economy.[1]
  - Instead, evidence suggests that inconsistent taxation of savings, (including both capital gains tax and negative gearing arrangements) can have a strong influence on which assets individuals choose to save through.
  - Where taxation arrangements are consistent, savers and investors will be driven by the best economic opportunities (highest pre-tax return), rather than the tax treatment (including leverage and deductions).
- The Government's approach is consistent with sound economic principles. The OECD have highlighted there is no clear evidence to support favourable treatment of capital gains to promote investment – unlike the need to compensate for inflation – stating current arrangements often undermine equity, introduce economic distortions, and constrain revenue raising potential.
  - Targeted measures are likely to be more effective at encouraging entrepreneurship than broad based capital gains tax relief for all gains. The Government recognises this, which is why the Budget included measures to support loss utilisation and venture capital, and why the Government is consulting with stakeholders on key details of the capital gains tax reforms, including the treatment of early-stage and start-up businesses.
- Changes to the CGT arrangements for individuals is likely to have very little impact on the level of investment in Australian equities.
  - Australian equities are mainly held by superannuation funds and foreign investors and their tax settings are unchanged.
  - Individuals directly hold less than 15 per cent of Australian equities, and will retain a strong incentive to invest in assets that are expected to deliver strong growth.

**CGT rates for top earners are broadly consistent with comparable countries**

- For high income earners, Australia's 47% rate will apply only to real (inflation-adjusted) capital gains. This rate cannot be compared to other countries' tax rates on nominal capital gains.
- Under indexation, the overall tax rate depends on the rate of asset growth and inflation.
- If a high income earner invested in high-growth ASX midcap stocks over the past decade, the top effective tax rate after adjusting for inflation would be 30.7%. This is lower than the top rate in a number of OECD countries including Denmark (42%), Norway (37.8%), and France (34.4-35.4%), as well as California (37.1%), and on par with Spain and Sweden (30%).
- Even if a high income earner managed a 10 per cent capital gain every year for the past decade, the top effective tax rate after adjusting for inflation (36.6%) would have been lower than Denmark, Norway and California, and on par with the Netherlands 36%.

[1] The OECD notes: *"There is little evidence to support the view that capital gains tax relief significantly increases aggregate savings, or that increases in aggregate savings would result in higher domestic investment."*

- For high income earners that achieve capital gains that were three times inflation over a decade, the top effective tax rate (34.6%, assuming 2.5% inflation) would be lower under indexation than a number of countries and on par with Finland and France.
- The table below compares tax rates for top income earners across comparable economies, for key indices.

*Top tax rates on capital gains, by country*

| Rate of return | Australian (at 47% MR) | US (California) | UK | Germany | France | Ireland | Netherlands | Denmark | Canada (Ontario) |
|---|---|---|---|---|---|---|---|---|---|
| 3% | 0% | 37.1% | 24% | 26.4 - 28.6% | 34.4 - 35.4% | 33% | 36% | 42% | 26.8% |
| 5.1% (S&P/ASX 200) | 21.4% | | | | | | | | |
| 7.3% (ASX Midcap) | 30.7 % | | | | | | | | |
| 10% | 36.6% | | | | | | | | |

*Note: For countries with regimes that vary by state, we include rates for the most populous state.*

*The Australian tax rate reflects inflation of around 3 per cent, the average over the past 10 years to 2026. Rate of returns for ASX 200 and S&P 500 are the annual growth rate over 10 years to 2026, not including dividends. Note, these rates of return differ slightly from Table 1 in the NG and CGT explainer, which averaged 20 years worth of capital growth rates on a 10-year hold basis.*

**Treasury estimates indicate that average tax rates on capital gains will modestly increase**

- The impact on top earners does not represent the impact for the typical Australian.
- Under the CGT changes, Treasury estimates the average tax rate on gross capital gains to increase from 19.3% to 21.4% at the end of the medium-term period (2036-37), when the policy is close to maturity.
  - This change is moderate, and brings the tax rate in line with the average rate paid by the average worker.

**How do the Government's changes likely to affect cross-border investments?**

In short, very little.

Inbound investment

- Foreign residents (be they individuals, companies or investment funds) are not subject to capital gains tax on capital gains made from disposal of non-real property assets in Australia.
  - Instead, they are taxed on that income under the rules of their home jurisdiction
  - This is a long-standing provision (since before at least 2006), consistent with OECD standards, to attract globally mobile investment to Australia
  - The changes announced in the Budget do not change this

- For real property assets, foreign residents are subject to CGT – this is in line with OECD standards
  - Under these rules, each country sets the rates at which CGT applies
  - Australia's rate is 30% for corporates and investment funds, which is consistent with the rate at which Australian companies are taxed on capital gains
  - For non-resident individuals, this is taxed at the non-resident rates (35% or more) and they have not been able to access the 50% CGT discount on assets acquired since 8 May 2012
  - For countries with which Australia has a tax treaty, the treaty partner would be required to provide relief from double taxation for the capital gains tax paid in Australia.

<u>Outbound investment</u>

- In the reciprocal of the tax arrangements on inbound investments, Australian residents investing in overseas non-real property assets generally won't be taxed on capital gains in the country where they've made the capital gain. But they will be taxed on that capital gain in Australia.
  - In this case, the same CGT rules will apply – so the announced changes will also equally apply to these overseas investments and there is no change in *relative* incentives
- For overseas investments in real property, they would generally be taxed in the country where the asset is disposed of. They would also be taxed in Australia, less an offset for the tax paid in the overseas country.
  - The rules apply differently for some corporates where there is a voting right interest (10% shareholding or more)

<u>Taxation of dividends</u>

- Taxation of dividends for foreign investors (including Australians investing overseas) are treated differently to taxation of capital gains and are generally subject to withholding tax
  - Withholding tax rates vary and are usually negotiated between countries in their tax treaties. For many Australian tax treaties, the withholding tax rate is 5% to 15%.
  - For individuals, the income is reported in their tax return as foreign sourced income and taxed at marginal rates, less an offset for any foreign tax paid.

**Will small businesses owners face high rates of tax on their capital gains?**

Small businesses will continue to benefit from CGT concessions that exempt their capital gains in part or in full.

The following exemptions continue unchanged:

<u>The 15-year exemption</u> – As part of stepping down from a business, a taxpayer can completely disregard a gain from assets held for at least 15 years that were "active assets" for at least 7 ½ years.

The 50 per cent active asset reduction – a 50 per cent reduction automatically applies to gains from active assets. This would apply only to the real gain on the asset, after indexation.

The retirement exemption – A taxpayer can disregard up to $500,000 of capital gains over their lifetime, including by paying that amount into superannuation if under 55.

The active asset roll-over concession – A taxpayer can defer a gain made on selling an active asset where they roll over the gain into a replacement asset.

Small businesses are eligible if – the *net value of assets* owned by the taxpayer and related entities do not exceed $6 million, **or** *business turnover* was less than 2 million.

# Additional info

*International comparisons*

| Country/Region | Capital gains tax rates |
|---|---|
| California (USA) | • Federal marginal tax rate 20%<br>• State marginal tax rate 13.3%<br>• NIIT 3.8% |
| United Kingdom | • 24% for 'higher or additional rate' taxpayers i.e., income over £50,271 |
| Ontario (Canada) | • 50% of a capital gain is taxable at your income tax rate, while the remaining half is not taxed.<br>• 33% is the highest federal marginal tax rate; used for income over $258,482<br>• Ontario's provincial rate 13.16%, with a surtax of 20% and 36%, capped at $5,710 and $7,307 respectively<br>• Ontario's total highest tax rate is 53.53% |
| Germany | • Flat 25% tax on capital gains, plus a 5.5% solidarity surcharge and church charge. |
| France | • 30% flat rate, plus 4% for high income earners |
| Denmark | • Capital income from shares up to DKK 79,400 is taxed at 27%<br>• Share income greater is taxed at 42% |
| Norway | • 37.84%<br>• Capital gains from the sale of shares are taxed at a 22% rate multiplied by a factor of 1.72. |
| Sweden | • A flat rate of 30% applies to most investment income, including capital gains |
| Spain | • Capital gains are taxed on a progressive scale, with a top marginal rate of 30% |
| Ireland | • The rate of CGT in Ireland is 33% for most gains – this applies to shares, investment properties and business assets, regardless of how long the asset is held |
| Netherlands | • Investment assets are taxed under a deemed return, which varies by asset class. For savings, investments, debts, the tax rate is 36%. |