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Housing Tax Reform Vital for Economic Growth and Productivity

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Australia's housing tax system, laden with inefficiencies, is stifling economic sustainability and productivity, experts argue, urging bold reforms to unlock growth. This article examines how negative gearing and capital gains tax concessions distort the housing market, exacerbate affordability issues, and burden the broader economy.

The current tax framework, particularly negative gearing and the Capital Gains Tax (CGT) discount, heavily favors property investors over first-home buyers, driving up prices and locking young Australians out of the market. The Grattan Institute estimates these policies cost the federal budget $20 billion annually, with 80% of benefits flowing to the top 20% of income earners. "It's a system that rewards speculation over productive investment," said economist Saul Eslake, quoted by The Australian. Negative gearing, which allows investors to deduct property losses from their taxable income, fuels demand for existing homes rather than new construction, contributing little to housing supply. The 50% CGT discount further incentivizes holding properties for profit, reducing turnover and inflating prices.

This distortion hampers economic productivity by diverting capital from innovative sectors like technology and manufacturing. The Reserve Bank of Australia (RBA) notes that high household debt, driven by unaffordable housing, limits consumer spending and business investment. Sydney and Melbourne median home prices, now exceeding $1.2 million, per Domain, force workers to live far from job centers, reducing efficiency and increasing transport costs. The Business Council of Australia (BCA) argues that reforming housing taxes could free up capital for infrastructure and skills development, boosting long-term growth. “We need policies that prioritize wealth creation over wealth preservation,” said BCA chief Jennifer Westacott in a 2025 report.

Critics of the current government’s inaction point to its reluctance to tackle vested interests, leaving taxpayers to subsidize a system that entrenches inequality. While some defend negative gearing as a middle-class benefit, data shows 60% of its advantages go to high-income earners, per the Australian Taxation Office (ATO). Phasing out these concessions, as suggested by the Productivity Commission, could fund tax cuts or infrastructure without inflating deficits. As Australia grapples with a housing crisis, reforming tax policies remains a critical step to restore fairness, drive productivity, and secure a sustainable economic future.