Opinion

Business-friendly budget may not offset CGT hit

There is a lot for the business community to like, but the capital gains tax change risks penalising both passive and productive capital.

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May 13, 2026 – 11.31am

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Our treasurer is a distance runner and, true to form, he handed down a marathon of a budget [https://www.afr.com/politics/federal/budget-2026-explained-everything-to-know-20260508-p5zv5i] on Tuesday.

Budgets are only the starting gun of policy intention, with the long run of work on legislation and implementation to follow.

Treasurer Jim Chalmers and Prime Minister Anthony Albanese promoting the budget on Wednesday. **Dominic Lorrimer**

There is a lot for the business community to like, but work yet to do to lift policy toward peak performance.

This budget sets forth the most ambitious economic reform agenda [https://www.afr.com/link/follow-20180101-p5zuti] in well over a decade.

It arrives a year after an election campaign that was roundly criticised by the business community for the small-target strategies of both major parties.
Amid the hurdles of sclerotic productivity, inflation risk and geopolitical uncertainty, spectators who meet this budget with complaints of broken promises are standing in the way of the leading pack. If not now, when?

The decision to tackle the runaway costs of the NDIS was overdue, but that does not make it any less difficult. This initial effort is to be commended, with hopes that further reform will give the community the NDIS that it deserves. In purely fiscal terms, taming the NDIS paves the way to restoring confidence in long-term fiscal sustainability.

In part because of NDIS reform, the direction of travel on budget aggregates is now broadly neutral. This is essential for the battle against inflation.

Shredding a bit more expenditure would be helpful, but the underlying cash balance has improved marginally and the design of cost-of-living relief measures is vastly improved.

The size of government, as proxied by expenditure, is now projected to remain at about 1 percentage point of gross domestic product more than the Coalition's last pre-COVID budget.

The inflation fight is running alongside efforts to boost productivity by lowering the cost of doing business.

Measures like eliminating charges to access mandatory standards and removing nuisance tariffs represent the sort of modest progress often required in regulatory reform.

More interesting is the $200 million in new funding – provided to the Australian Competition and Consumer Commission, Australian Taxation Office and the Australian Securities and Investments Commission – to cut regulatory compliance costs.

Bigger again is the announced streamlining of occupational licences and faster, easier recognition of the qualification of skilled migrants [https://www.afr.com/policy/economy/migration-forecast-upgraded-as-labor-revamps-skilled-visa-test-20260508-p5zv3b], which, if implemented well, should boost labour force supply and mobility.

"The absence of a big funding carrot for states to improve payroll tax administration, or accelerate the very crucial task of speeding up planning and zoning approvals, is a gap in this budget."

My favourite business measure in the budget was an announced intention for states to streamline payroll tax administration, by far the wooden spoon of all business taxes in terms of time wasted on compliance.

But the government has not responded to Policy Institute Australia's call to increase the $900 million Productivity Fund, which pays the states to undertake reform. The absence of a big funding carrot for states to improve payroll tax administration, or accelerate the very crucial task of speeding up planning and zoning approvals, is a gap in this budget.

Holding the government to account on red tape reduction will be an ongoing task for the business community. This is where policy engagement can yield real results.

Analysis: Editor-in-chief James Chessell and Senior Chanticleer columnist James Thomson discuss the impact of the budget on business and the Australian economy.

This brings us to the changes in capital gains tax [https://www.afr.com/policy/tax-and-super/budget-2026-capital-gains-changes-explained-20260507-p5zuuc] that have sections of the business community roaring. Interesting to note that the pitch for CGT reform from participants at Allegra Spender's Tax Forum last August revolved more around reversing a decline in income tax progressivity, rather than on shifting the mix of housing stock ownership.

Analysis by the e61 Institute's Greg Kaplan powerfully demonstrated how the CGT discount had become a distortionary incentive for individuals to generate income from generously-taxed passive investment, to the detriment of pursuing employment-generated income that maximises the value of human capital and therefore productive efficiency.

The early read is that the change in the CGT discount, if universally applied, is a hit to Australians who own or directly invest in small and medium-sized businesses – as owners, investors or employees paid in equity – where their realised gain at sale compensates for income forgone during the business-building phase. In this way, the change risks penalising both passive and productive capital.

Other business-friendly tax measures were announced, but they may not offset the hit.

The report issued by the Senate's select committee on the operation of the capital gains discount in March makes for instructive reading. The recommendations made by the chair, Greens senator Nick McKim, argue for changes to the CGT discount to be applied to property investment, with little mention of business investment or ownership.

Though the government has indicated the CGT changes will apply from 1 July, 2027, legislation is required.

A focused approach by the business community could open the door to exemptions for Australian operating businesses, just as the government's plan to tax unrealised gains on superannuation balances announced in the 2023 budget were later put on hold.

This is economic reform as it should be – bold ideas, put into the public domain and opened to the community for debate. Long may the race be run.

Federal budget 2026: Opinion & analysis

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- Cathal Leslie | Budget 2026 is intergenerational window dressing [https://www.afr.com/politics/federal/budget-2026-is-intergenerational-window-dressing-20260513-p5zwb6]
- This budget takes from the wealthy - but what's in it for younger generations? [https://www.afr.com/politics/federal/this-budget-takes-from-the-wealthy-but-whats-in-it-for-younger-generations-20260512-p5zw5e]
- Robert Breunig | Australia's most ambitious tax reform in decades deserves support [https://www.afr.com/politics/federal/australia-s-most-ambitious-tax-reform-in-decades-deserves-support-20260512-p5zw5d]
- Our experts give their budget 2026 verdicts [https://www.afr.com/policy/economy/our-experts-give-their-budget-2026-verdicts-20260508-p5zv7g]
- John Kehoe | Chalmers' budget delivers his 'values-based capitalism' [https://www.afr.com/politics/federal/chalmers-budget-delivers-his-values-based-capitalism-20260507-p5zuso]
- Phillip Coorey | This was the day integrity left the building [https://www.afr.com/politics/federal/meritorious-or-otherwise-2026-budget-was-the-day-integrity-left-the-building-20260507-p5zutl]

- Jennifer Hewett | Chalmers’ budget message: Big government knows best [https://www.afr.com/policy/economy/chalmers-2026-budget-message-big-government-knows-best-20260505-p5zu3p]

- Chanticleer | Chalmers’ big squeeze on investors won’t grow Australia [https://www.afr.com/chanticleer/chalmers-big-squeeze-on-investors-won-t-grow-australia-20260508-p5zv4p]

- The AFR View | Labor’s anti-Boomer budget won’t make Australia better off overall [https://www.afr.com/politics/federal/labor-s-anti-boomer-budget-won-t-make-australia-better-off-overall-20260507-p5zuti]

- Joanna Mather | Why this budget will spark a boom in home renovations [https://www.afr.com/politics/federal/why-this-budget-will-spark-a-boom-in-home-renovations-20260507-p5zut7]

- Kos Samaras | This budget is pitched at the under-45s bloc keeping Labor in power [https://www.afr.com/politics/federal/this-budget-is-pitched-at-the-under-45s-bloc-keeping-labor-in-power-20260512-p5zw5j]

- Richard Holden | Sorry Jim, $5 a week for workers won’t create intergenerational equity [https://authoring.platform.ink/wp/wp-admin/post.php?action=ink-redirect-to-story&ffx-id=p5zut3] [https://authoring.platform.ink/wp/wp-admin/post.php?action=ink-redirect-to-story&ffx-id=p5zut3]

- Melissa Bray | Our debt problem is structural – and getting more costly [https://www.afr.com/politics/federal/our-debt-problem-is-structural-and-getting-more-costly-20260507-p5zutb]

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Taylor lashes Chalmers’ budget; Spender raises CGT concerns

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