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RBAFOI-262732

An application was received seeking access to documents as detailed below.

Summary of Request	*Documents since 1 June 2025 about the impact of announced policies, or prospective policies, from Australian political parties on the Australian economy*
Notes/context to any specific documents released:	The documents released are staff level preliminary views prepared as part of routine monitoring of how changes in policy settings can influence the economic outlook.

Briefing: The Expanded Home Guarantee Scheme[1]

The expanded Home Guarantee Scheme (HGS) will come into effect from 1 October 2025. The expanded scheme will have no limits on take-up, no income caps and higher property price caps. External commentators have presented mixed views on the expected magnitude of the scheme's impacts on the housing market. Overall, the expansion in the HGS is likely to contribute to some upward pressure on housing prices and credit growth and to a slight increase in macro-financial risks.

The Home Guarantee Scheme allows first home buyers to purchase a property with a 5 per cent deposit and not pay Lenders Mortgage Insurance.

- The Home Guarantee Scheme (HGS) was first established in 2020. It currently comprises the First Home Guarantee (the bulk of available places), the Regional First Home Buyer Guarantee and the Family Home Guarantee.[1] The HGS allows first home buyer (FHB) owner-occupiers to purchase a property with a 5 per cent deposit without paying Lenders Mortgage Insurance (LMI).[2] The Government provides a guarantee to the lender (of up to 15 per cent of the property value) to allow the home buyer to borrow up to 95 per cent of the property value.[3]
- From 1 October 2025, an expanded version of the HGS will come into effect. The expanded scheme will remove limits on the number of places and income caps, increase property price caps (see Appendix) and simplify access in regional areas. The Regional First Home Buyer Guarantee will be replaced by the First Home Guarantee.
- Previous uptake of the scheme has been strong relative to the number of places available. In 2023/24, around 95 per cent of First Home Guarantee places were taken up, and one-third of FHBs were supported by the HGS.

Figure 2: Take up of Home Guarantee Scheme places by financial year and guarantee type (as at 30 June)

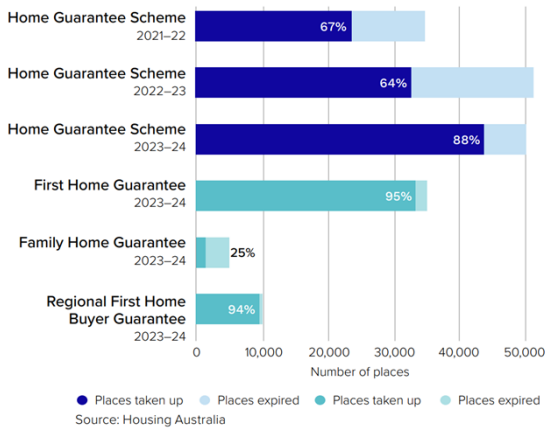
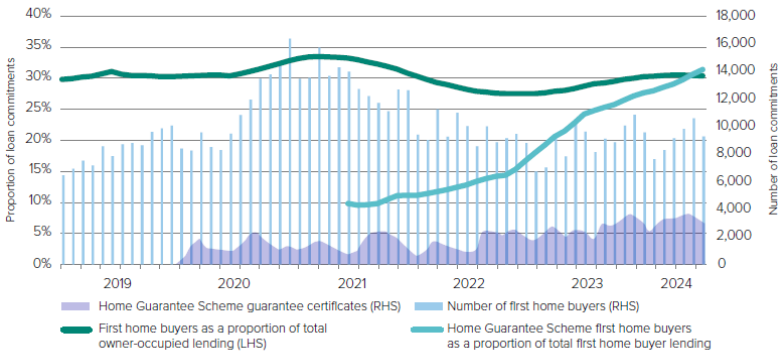


Figure 8: First home buyer owner occupied loan commitments in Australia, Jan 2019–June 2024



Source: HGS Trends and Insights Report 2023-24

- There were 116,039 owner-occupier first home buyer loan commitments in 2024/25, compared to 50,000 HGS places. Data on take-up in 2024/25 are not yet available, though Treasury commentary suggests the First Home Guarantee and Regional First Home Buyer streams are likely to have been almost fully subscribed.[4]

1 This briefing includes contributions from Financial Stability (s22), Domestic Markets (s22) and Economic Analysis departments (s22).

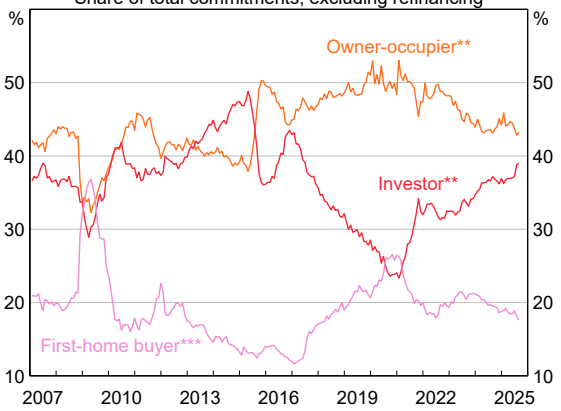
- Media reports suggest that Treasury estimates that the expanded scheme will generate an additional 20,000 guarantees beyond the current annual cap, such that 70,000 borrowers will use the scheme in the first year of expanded access.[5] Lateral Economics estimates that around 95,000 borrowers will use the HGS in the first year, reflecting different channels including substitution from other sources (e.g. LMI, parental guarantees) and a bring-forward of demand.[6]

First home buyers make up around 20 per cent of new housing loans and disproportionately borrow at higher LVRs.

- Nearly three quarters (72 per cent) of FHBs have an LVR at origination of 80 or higher. A relatively high share (33 per cent) of FHBs take out loans at high LVRs above 90. The share of deposit-constrained FHBs (defined as LVR=80) has increased over time (see section below).

Monthly Housing Loan Commitments*

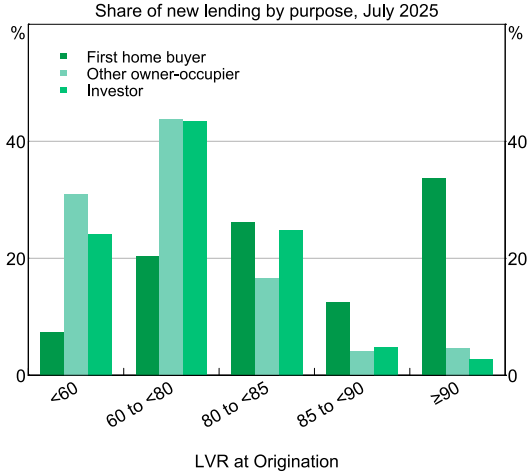
Share of total commitments, excluding refinancing



* Not for external publication. Seasonally adjusted and break-adjusted. Shares may not add to 100 due to method of seasonal adjustment.
** Excluding first-home buyers.
*** Includes estimate of Investor FHB commitments prior to 2019. FHB commitments includes alts & adds and land.
Sources: ABS; APRA; RBA.

Distribution of Loan-to-value Ratios*

Share of new lending by purpose, July 2025

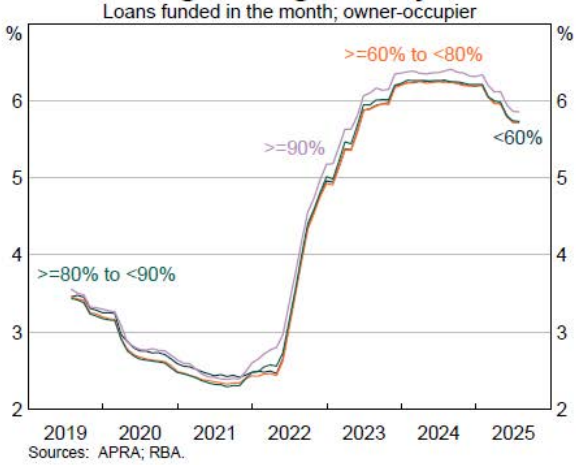


* For the largest bank mortgage lenders; data provided on a 'best endeavours' basis.
Sources: APRA; RBA.

- Interest rates on high-LVR loans tend to be higher than for loans with an LVR below 80, reflecting higher risk weights.
- APRA allows banks that use the standardised approach to credit risk to treat HGS-covered loans as comparable to mortgages with an LVR of 80 per cent, and accordingly apply a lower risk weight of 35 per cent.[7] For comparison, an owner-occupier P&I loan with an LVR of between 90 and 100 covered by LMI would typically attract a risk weight of 55 per cent.
- Some banks note on their websites that HGS-covered loans have interest rates akin to loans with an LVR of 80 or less.[8] Consequently, the expanded scheme could contribute to lower interest rates on FHB loans.

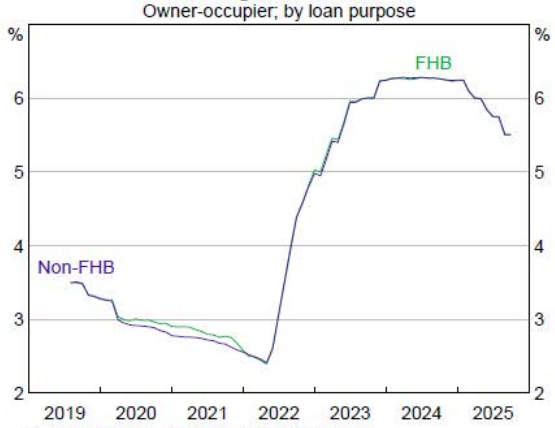
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Housing Lending Rates by LVR
Loans funded in the month; owner-occupier



Sources: APRA; RBA.

Housing Loan Rates*
Owner-occupier; by loan purpose



* Variable-rate housing loans funded in the month.
Sources: APRA; RBA.

The impact on housing demand will depend on various factors.

- The HGS will increase demand for constrained FHBs through several channels (to be discussed in more detail in s22 , forthcoming):

Table 1: Effect of HGS on deposit-constrained FHB borrower behaviour

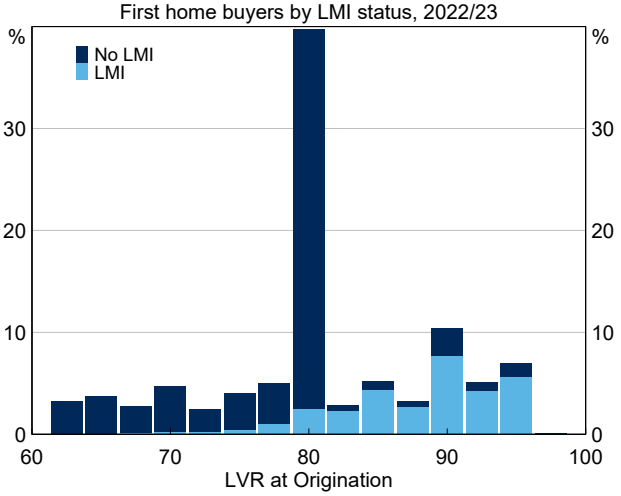
A FHB who previously would have …	**… may now decide to**
Saved for longer to avoid LMI	Bring forward purchase
Taken out a smaller loan to avoid LMI	Take out a larger loan
Taken out LMI	Not take out LMI and either benefit from increased spare cash flow for the same loan size (due to no LMI and lower interest rate), or take out a larger loan
Decided against purchasing	Enter the market
Taken out LVR=80 for liquidity purposes	Take out LVR=80 for liquidity purposes (i.e. no change in behaviour)[a]

a) Securitisation data on offset balances does not suggest that a large number of FHBs are taking out LVR=80 loans for liquidity purposes because on average their offset balances are not larger than borrowers with LVRs < 80.

- Many first home buyers borrow at an LVR of exactly 80 per cent, suggesting a significant share are constrained by or seek to avoid LMI and will increase their loan size as a result of the HGS.
- Borrowing capacity for these borrowers could increase by just under $80,000 on average when taking the serviceability buffer into account (using Securitisation data and assuming FHBs with an LVR of 80 increase their LVR to 95 but remain compliant with the serviceability buffer). This is equivalent to around 11 per cent of the original purchase price, or just under 15 per cent of the original loan size (on average).
- APRA's serviceability buffer only reduces the average maximum loan size by around $25,000 because FHBs tend to be much more likely to be constrained by deposits than serviceability, particularly when interest rates are lower. Very few FHBs are constrained by both deposit and serviceability constraints (see s22 , forthcoming).

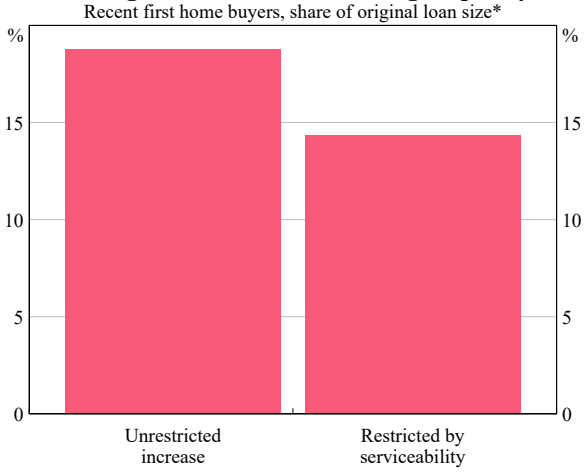
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LVR Distribution
First home buyers by LMI status, 2022/23



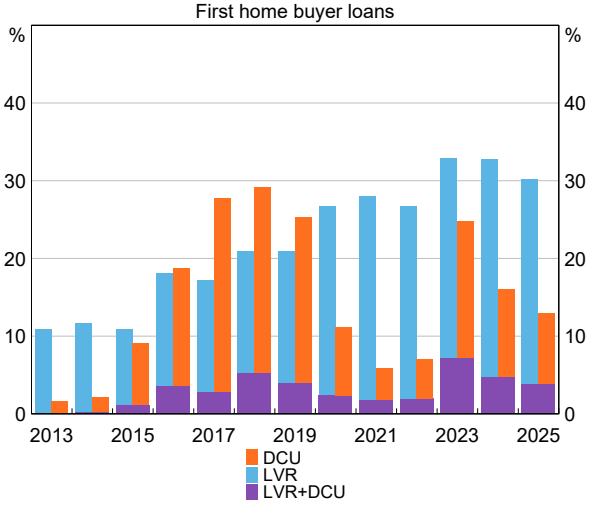
Sources: RBA; Securitisation System.

Average Increase in Borrowing Capacity
Recent first home buyers, share of original loan size*



* Recent first home buyers defined as those who originated their loan in the past two years.
Sources: RBA; Securitisation System.

Share of Constrained Loans
First home buyer loans



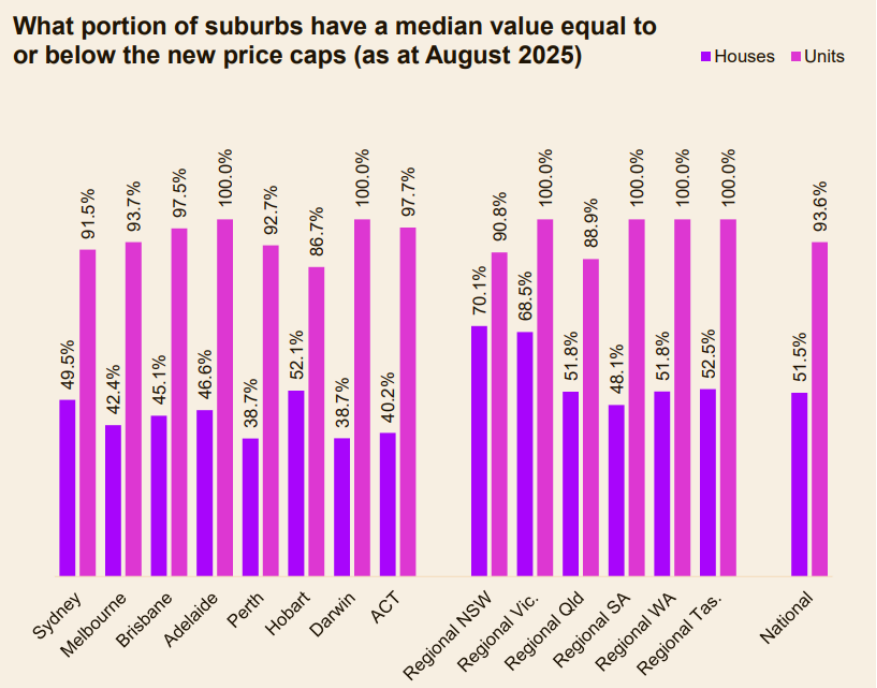
Sources: RBA; Securitisation System.

External commentators and official reports have presented mixed views on the magnitude of the expected impacts of the expanded policy on housing prices.

- External estimates are varied on the effect of the scheme. Most cite upwards pressure from the scheme in combination with cash rate easing though some view that potential increases in the dwelling stock will offset increases in demand over the longer term.
  - Lateral Economics' report for the Insurance Council of Australia estimates that the bring-forward of demand will add to national property price growth by between 3.5 to 6.6 per cent in the first year.[9]
  - HIA's view is that given the scheme affects neither the working-age population nor the number of adults per home, there will be a limited effect on prices. Additionally, they expect that increased FHB demand for new builds will lead to an expansion of the dwelling supply which may also place downward pressure on prices in the medium term.[10]
  - AMP notes that the scheme will have a positive effect on prices in the near term, which may be offset by increased demand for new dwelling construction.[11]
  - Other commentary expects the scheme to have a significant upwards effect on prices when combined with the effect of cash rate easing.[12]

  - Media reports that Treasury forecasts that the impact of the scheme on housing prices will be around 0.5 per cent increase over 6 years. However, this includes supply benefits putting downward pressure on prices from the government's plan to build 55,000 additional affordable and social homes.

- Internally, we are expecting the scheme to boost housing price growth in the near term based on the range of external analysis, and considering the importance of credit availability for housing prices. We will look at a range of sources to try to separate its effect from monetary policy easing.
  - According to Cotality data, the median detached dwelling price falls below the price cap in 52 per cent of suburbs nationally. For high-density dwellings, the share of suburbs increases to 94 per cent.
  - Moving forward, the policy effect could potentially be measured by comparing the price growth of suburbs where the median dwelling price is above and below the price caps of the scheme.



Source: Cotality

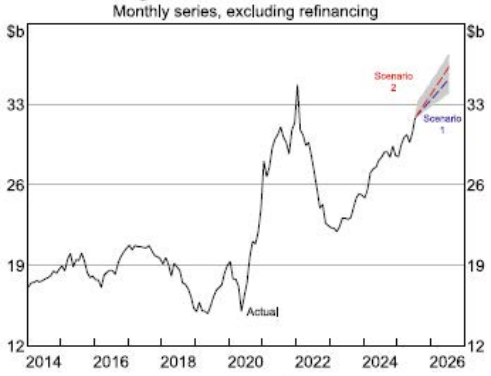
The impact on housing credit growth will depend on developments in the number and average value of new loans.

- As noted above, the expanded HGS will increase demand from deposit-constrained FHBs through several channels and may have indirect effects on demand beyond FHBs. It is difficult to estimate the overall effects on housing credit demand and prices.
- IMS' housing credit scenarios model allows us to evaluate how potential developments in the demand for new housing loans may flow through to growth in housing credit. For example, in a scenario where the number of new housing commitments grows at the same rate as the previous 12 months and the average loan value increases by 6.6 per cent (the upper bound of Lateral Economics' estimate of the additional property price impact of the HGS expansion), annual housing credit growth would increase from 6.1 per cent to 7.5 per cent after one year. In a scenario where housing commitments also increase by 20,000 new loans (beyond the prior 12-month growth rate), housing credit growth reaches 8 per cent. This is close to the previous peak of 8.3 per cent in February 2022.

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Housing Commitments Scenarios*

Monthly series, excluding refinancing

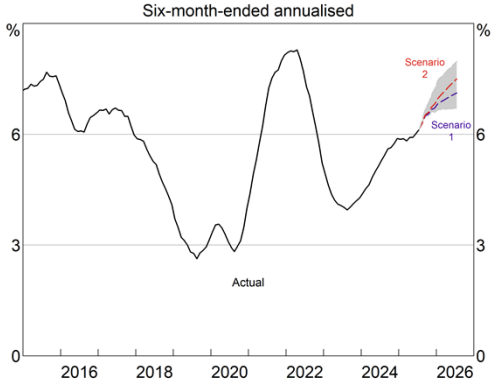


* The lower bound assumes the number of new loans grows at the same rate as the prior 12 months, with no change in average loan value. Scenarios 1 and 2 apply the same loan growth rate but increase the average loan value by 3.5% and 6.6% respectively over 12 months. The upper bound adds 20,000 extra loans on top of the prior 12-month growth rate and increases the average loan value by 6.6%.

Sources: ABS; APRA; RBA.

Housing Credit Growth Scenarios*

Six-month-ended annualised



* The lower bound assumes the number of new loans grows at the same rate as the prior 12 months, with no change in average loan value. Scenarios 1 and 2 apply the same loan growth rate but increase the average loan value by 3.5% and 6.6% respectively over 12 months. The upper bound adds 20,000 extra loans on top of the prior 12-month growth rate and increases the average loan value by 6.6%.

Sources: ABS; APRA; RBA.

Our initial assessment is that the expansion in the HGS is likely to contribute to a slight increase in macro financial risks.

- The HGS will increase the flow of new FHBs with very high LVRs who are more vulnerable to adverse shocks to their income, expenses and home values.
- While FHBs are relatively less likely (on average) to enter 90+ day arrears, their likelihood of entering 90+ day arrears increases as LVR increases (this is the case for both FHBs and other OOs).
- Even though HGS loans are guaranteed (up to 15 per cent of the property value) which shifts some of the risks from households' and banks' balance sheets to the government, the expansion in the scheme could, at the margin, lead to a slight increase in macro financial risks. Highly-leveraged FHBs are more likely to need to pull back on consumption/sell their homes in response to a macro shock; in turn, this could amplify the effects of the shock and make the system slightly more vulnerable to downturns. However, the number of households estimated by Treasury to take on more leverage due to the scheme is not large enough to make these risks material. The increase in risks could be larger to the extent that the scheme leads to higher housing prices that encourages other (non-FHB) borrowers to take on more leverage to keep up.

LMI providers will be impacted by the expected reduction in the volume of new business.

- The LMI industry will likely be significantly impacted by the expansion of the scheme, with volume of new business expected to decline. As mono-line insurers, LMI providers may face difficulties diluting their operating costs in a shrinking industry and exit the market.
- The impacts on lenders from a disrupted LMI market are expected to be contained. Lenders may incur losses on their existing insured loans under a triple shock scenario: loan default, negative equity, and disorderly insurer exit. In such a scenario, lenders would be able to recover part of a bankrupted insurers' assets. In the absence of a sizeable LMI market, lenders may show lower appetite towards high LVR non-eligible loans. For more information, please see s22 (2025).

Economic Analysis, Domestic Markets and Financial Stability Departments
17 September 2025

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Appendix A Property Price Caps under the Expanded HGS

Location	Current Property Price Cap	Property Price Cap effective 1 October 2025
NSW – capital city and regional centre	$900,000	**$1,500,000**
NSW – other	$750,000	**$800,000**
VIC – capital city and regional centre	$800,000	**$950,000**
VIC – other	$650,000	**$650,000**
QLD – capital city and regional centre	$700,000	**$1,000,000**
QLD – other	$550,000	**$700,000**
WA – capital city	$600,000	**$850,000**
WA – other	$450,000	**$600,000**
SA – capital city	$600,000	**$900,000**
SA – other	$450,000	**$500,000**
TAS – capital city	$600,000	**$700,000**
TAS – other	$450,000	**$550,000**
ACT	$750,000	**$1,000,000**
NT	$600,000	**$600,000**
Jervis Bay Territory and Norfolk Island	$550,000	**$550,000**
Christmas Island and Cocos (Keeling) Islands	$400,000	**$400,000**

Source: Housing Australia

Endnotes

[1] See Australian Government Home Guarantee Scheme - Fact Sheet - 1 July 2025. The Family Home Guarantee allows buyers to purchase with a 2 per cent minimum deposit, while the First Home and Regional First Home Buyer Guarantees require a 5 per cent minimum deposit.

[2] Lenders Mortgage Insurance is typically required by lenders for loans with an LVR above 80. The cost of LMI varies based on the borrower's deposit and loan size. For example, online calculators suggest a borrower with a 5% deposit purchasing a property valued at $625,000 (around the median price for properties purchased with HGS loans by joint borrowers in 2023/24) would incur LMI of $24,000.

[3] The HGS guarantee covers up to 15 per cent of the property value (the difference between the actual loan size and a LVR of 80). See Housing Australia FAQs and Key Terms.

[4] See Microsoft Word - Home Guarantee Scheme Expansion - additional analysis.

[5] See: AFR, Real Estate Business, SBS.

[6] Insurance Council LMI report

[7] See Calculation of credit risk weighted assets – frequently asked questions | APRA and Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk

[8] E.g. see Home Guarantee Scheme | Westpac, Regional Australia Bank

[9] See: Home Guarantee Expansion | Insurance Council of Australia/Lateral Economics

[10] See: Housing Industry Association

[11] See: Update on Housing Supply | AMP

[12] See: ABC

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The Australian Government 5% Deposit Scheme – Potential Effects on Housing Prices and Domestic Activity[1]

Purpose: *Document the estimated effect of the Australian Government 5% Deposit Scheme (AG5%DS) in the February 2026 Statement forecasts of housing prices and domestic activity.*

Why this matters: *Housing prices are an important assumption for our economic forecasts. Having an explicit estimate can help with disentangling the various drivers of housing price changes (including the effect of monetary policy on housing price changes, which relates to EC's strategic priority #4 (see D25/218169)).*

Conclusion: *Based on a simple exercise, our central estimate is for the AG5%DS to boost housing prices by 1.8 per cent higher over 2 years, which is within the wide range of external estimates. This estimate requires a range of assumptions and is sensitive to these choices. Our rules-of-thumb suggest that this would boost the level of consumption by a maximum of 0.3 per cent and dwelling investment by 0.7 per cent after 2 years. Consumption increases through both wealth and cash flow effects. The cash flow effect on aggregate consumption is relatively small due to the small number of affected households relative to the population and is offset by these households taking-on larger loan sizes. The longer-term effects of the scheme on the level of housing prices are out of scope for this work, but are likely to be smaller than the estimated response over 2 years as supply has more time to respond and because demand has been brought forward.*

Action: *DAT, HBC and IMS will monitor the effects of the scheme moving forward, including leveraging data from Housing Australia on take-up and borrower characteristics.*

Features of the AG5%DS

On 1 October 2025, the Home Guarantee Scheme was expanded to the Australian Government 5% Deposit Scheme (AG5%DS). This expansion removed caps on the number of places and the income limit for eligibility, as well as raised price limits for eligible properties (see briefing for more info).

The expanded scheme includes several important features for prospective first home buyers entering the market that are useful for the discussion of its impact on prices and activity (Housing Australia):

1. Households can purchase an eligible home (a property below the price cap) at a high LVR without needing to purchase lenders mortgage insurance (LMI).
2. Scheme participants can borrow up to 95 per cent of the value of the home but pay an interest rate closer to having borrowed at an LVR of 80.[2]
3. Eligible households must have saved more than 5 per cent and less than 20 per cent of the value of the property they intend to buy. Purchases at LVRs outside of this range are not eligible for the scheme.[3] Households within this savings range are expected to borrow at the lowest LVR possible (utilise as much of their savings, with a reasonable buffer left over).

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1 I would like to thank s22 for providing helpful comments on this note.

2 APRA determines that the capital risk-weight for bank loans written with a Government guarantee is consistent with the loan having been written at an LVR of 80 (APRA, APS 112).

3 There are some exceptions. Single parents are able to purchase a home under the scheme with a deposit as small as 2 per cent.

How the scheme affects first home buyers

The expanded scheme has the potential to affect activity by altering the behaviour of potential first home buyers as they bring forward their purchases.[4] First home buyers typically borrow at more than 80 per cent LVR and are considered deposit constrained (s22 , 2025).[5] Borrowing at more than 80 per cent LVR in the absence of the scheme incurs higher interest costs and typically requires the household buy LMI or use a parental guarantee. As a result, some first-home buyers delay their purchase to build a larger deposit or purchase a cheaper home (and take on a smaller loan) than they otherwise would have based on their income–typically at 80 per cent LVR.[6]

Estimating the effect on housing prices

Estimating demand brought forward

The calculations for the effect on housing prices used in this note require an estimate of demand brought forward, which are detailed in the appendix. We assume that around 18,700 first-home buyers will utilise the scheme this year that would have otherwise used either LMI or a parental guarantee based on the average number of first home buyers that have used these in recent years. We also assume demand from around 150,000 first home buyers can be brought forward to the present. This is derived from the using the LVR distribution as a guide for the share of first home buyers that are deposit constrained.[7] This results in around 170,000 households who are affected by the scheme in total, although there is considerable uncertainty around this figure.[8]

There are also potential effects beyond demand brought forward that have not been included in this analysis because they are difficult to estimate. The scheme could increase demand to purchase properties among those not eligible for the scheme if they expect strong price growth to result from the scheme.[9] This is likely to be concentrated in suburbs where a larger share of properties are below the price caps and demand from affected first home buyers is the strongest.[10]

Estimate based on rules-of-thumb of the effect of interest rates on housing prices (used in the February 2026 SMP forecast)

4 This is consistent with the stated aim of the scheme to make home ownership more achievable by helping people to buy sooner. See: Home | First Home Buyers

5 Households that borrow below 80 LVR are not considered to be deposit constrained and are likely unaffected by the schemes expansion as accessing the scheme incurs strictly higher costs than their alternative.

6 There are other costs aside from LMI and interest costs that influence households' decision to purchase a home and what home they purchase. For instance, stamp duty can contribute a large share of the upfront cost for purchasing a home. Some jurisdictions such as NSW have exemptions for first home buyers based on property value.

7 This can be viewed as a maximum number of potential households from the current stock of savers (those who have saved more than 5 per cent for a home today). In reality, some of these households would still opt to continue saving or purchase a home at a lower LVR due to aversion to leverage. However, this effect could be offset if they expect housing price growth to be strong, reducing the value of current and future savings in terms of housing quality and incentivising first home buyers to enter the market early.

8 This only includes households who would have intended to buy a house even if the scheme had not been expanded and therefore have already begun saving. Households that would not have entered the market absent the scheme but begin saving in response to its introduction are not included among demand that can be brought forward.

9 For instance, investors can have both demand and supply-side effects. Investors may compete to purchase properties today in order to capture future capital gains, bidding prices higher. At the same time, they may also delay bringing properties to market, reducing on-market supply and leading to tighter housing market conditions.

10 Cotality data suggests that the median house price is below the price cap in 47 per cent of suburbs whereas the median unit is below the cap in 93 per cent.

One estimate for the expected price effect of the scheme can be obtained by treating the scheme as an effective reduction in interest rates and using a rule of thumb for the associated effect on housing prices. This back of the envelope exercise was originally conducted by James Graham (AFR), but slightly different assumptions are applied here. Housing price growth has been shown to increase by 1.4 percentage points in response to a one standard deviation decrease in interest rates (40 bps) (Graham, 2023). This is then scaled by the proportion of total demand affected.

$$Housing\ Price\ Effect = Share\ of\ Demand\ Affected \times (N_{sd} \times 1.4)$$

Where N_{sd} is the number of standard deviations implied by the effective interest rate change. Given users of the scheme pay lower interest rates and avoid LMI costs (translated into a monthly rate), the effect of the scheme can be roughly estimated as:

$$N_{sd} = \frac{\Delta Repayment\ rate}{standard\ dev\ of\ change\ in\ interest\ rates} = ((R_{LVR=90} - R_{LVR=80}) + LMI\ Rate)/0.4$$

Where $R_{LVR=X}$ is the interest rate at the corresponding LVR. The spread between these rates is assumed to be 15 basis points, based on the average spread between owner-occupied loans originated at above or below 80 LVR. The $LMI\ Rate$ is the monthly LMI premium translated into a monthly rate. This is assumed to be 1.4 per cent, therefore $\Delta Repayment\ Rate$ is larger than the James Graham estimate; in total a 1.55 percentage point reduction compared to an upper bound estimate of 1.4 per cent.[11] It also scales the effect by a different share of demand affected, 34 per cent – derived by taking the 170,000 households are affected (maximum demand brought forward plus reallocation in the present) as a share of the total number of housing transactions in a year (around 500,000). In total, this results in a price effect of approximately 1.8 percentage points added to growth, larger than the Graham estimate of 0.5-1 per cent.

$$Housing\ Price\ Effect = 0.34 \times \left(\frac{1.55}{0.4} \times 1.4\right)$$

For its inclusion as forecast judgement, this effect is distributed across the 2-year period from December 2025 to December 2027 with the peak-effects of the scheme occurring in the 3 quarters immediately after the scheme is expanded.

While this method provides a parsimonious estimate, many simplifying assumptions were made. Firstly, there is a wide range of estimates for the effect of interest rates on housing prices. Additionally, the implied reduction in repayment rate assumes that households that bring their demand forward would have always purchased a property in the present such that their alternative to using the scheme was to incur higher interest and LMI costs today. This poses problems as the majority of households that brought forward their purchases would have otherwise continued saving.[12] Additionally, the scale factor for the effect (derived from the proportion of demand affected by the scheme) assumes that all potential future demand is brought into the present where it is likely to be more dispersed. This would imply that a relatively smaller share of demand is added to the market in a given year. This issue is partially resolved by distributing the growth over 2 years as done in the housing price forecasts. There are also other factors that can affect the timing of households' purchase decision such as expectations for future growth and lifecycle choices.

Other estimates

11 LMI costs are usually around 1-2 per cent of the value of the home. Removing the LMI premium on a monthly basis roughly equates to reducing the repayment rate by approximately 1.4 percentage points when translated into a dollar-reduction in monthly costs. However, the LMI premium can vary based on the characteristics of the borrower and the LVR of the loan.

12 A large share of borrowers that bring their demand forward are assumed to have otherwise borrowed at 80 LVR sometime in the future.

Other estimates for the effect on prices vary widely between internal and external work (Table 1). For instance, internal estimates from HALLIE conducted by ER indicate a much smaller effect of around 15 bps (s22 2025). Externally, Treasury expects the scheme expansion to add 0.5 per cent to growth over 6 years (AFR).[13] A commonly-cited Lateral Economics report conducted for the Insurance Council of Australia estimates a far larger effect of 3.5-6.6 per cent added over 2 years (Lateral Economics, 2025).

Table 1: Effect of the AG5%DS on housing prices

Internal and external estimates

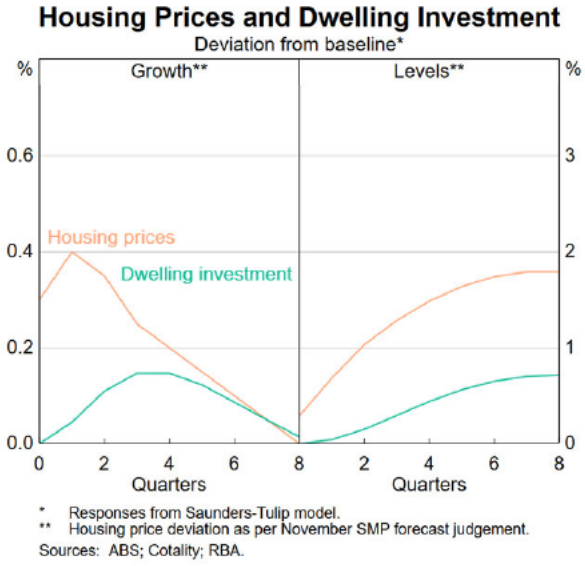
	Estimate	Estimate type	Reference
RBA – DAT	1.8% over 2 years	Back-of-the-envelope	-
RBA – ER	15bps on impact	Modelled	s22 2025
Treasury	0.5% over 6 years	Modelled	AFR
Lateral Economics	3.5-6.6% over 2 years	Modelled	Lateral Economics, 2025
HIA	Negative	Back-of-the-envelope	HIA
AMP	Positive in the near term	Back-of-the-envelope	AMP
James Graham	0.5 -1%	Back-of-the-envelope	AFR

13 This estimate is in the presence of other housing policy that could have downwards effects on housing prices.

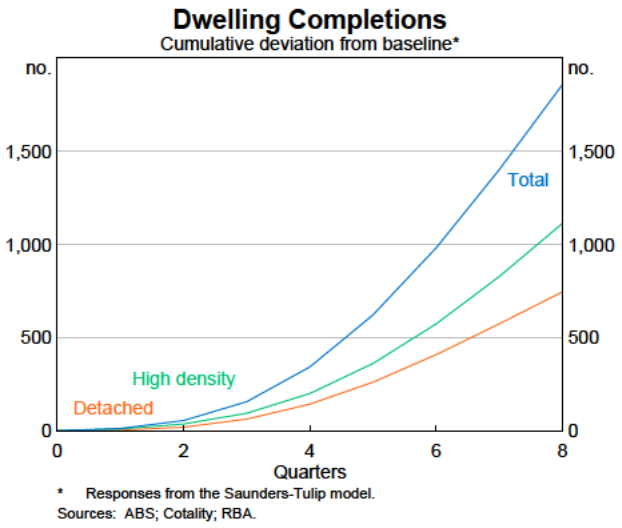
Effects of the scheme on dwelling investment

The response of dwelling investment (and the dwelling stock) forms part of the rationale that the policy is price-neutral in the long-run as an expansion of the supply of dwellings in response to higher prices meets higher demand.[14] Given the assumed 1.8 per cent effect that the scheme will have on housing prices distributed as per the SMP forecast, the Saunders-Tulip model can be used to obtain an effect on dwelling investment (Saunders and Tulip, 2019). This exercise suggests the level of dwelling investment is around 70 basis points higher after 2 years. In terms of additions to the dwelling stock, higher dwelling investment translates to approximately 1860 more dwellings added to the stock (not accounting for demolitions) after a 2-year period, primarily through high density dwellings (Graph 2). This would indicate that that number of additional dwellings supplied in the near term would not be sufficient to offset the effect that bringing demand forward would have on prices.

Graph 1



Graph 2



Effects of the scheme on consumption

Given the effect of more housing demand on prices, the traditional channel of transmission to aggregate activity is through the wealth effect.[15] There is also potentially increased cash flow available for consumption for scheme users.

Wealth effects:

An effect on consumption via household wealth can be roughly approximated using rules of thumb specified in s22 (2024). Given a shock to housing price growth, they estimate the effect on the level of consumption after 2 years to be 0.08 times the size of cumulative deviation in housing prices. From the price effect of 1.8 per cent estimated above, this results in the level of consumption being around 14 basis points higher after 2 years.

Cash flow effects

14 In addition to the dwelling stock response, external commentary has also noted that the bringing-forward of demand will mean that housing price growth is lower in the future.

15 This is because housing price growth resulting from the scheme increases the wealth of households beyond just first home buyers.

Affected households save if they spend a lower amount of their incomes on housing by switching to the scheme. This results in excess income that can be consumed.[16] The saving is different for households that substitute into the scheme from LMI compared with households that bring their demand forward.[17]

Households that bring demand forward:

$$Income\ saved = Deposit\ saving_{20\%} + Median\ Rent - Loan\ Repayments_{scheme}$$

Households that substituted from using LMI:

$$Income\ saved = Loan\ repayments_{no\ scheme} + LMI - Loan\ Repayments_{scheme}$$

Assuming the average household purchases a property valued a $700,000 and borrows at an LVR of 88 (more detail in appendix) savings by affected households equates to an aggregate $2.3b per year. This is approximately 0.16 per cent of household final consumption expenditure per year, assuming all excess income is consumed, which is a strong assumption.

In total, due to combined household wealth and income effects, the upper-bound increase to the level of consumption is expected to be around 0.3 per cent after 2 years.

Conclusion

The expanded Australian Government 5% deposit scheme reduces the upfront costs of purchasing a property for first home buyers. It affects both demand today and encourages future demand to be brought forward. After 2 years, back-of-the-envelope estimates suggest that housing prices will rise by 1.8 per cent, which is expected to provide a small boost to both consumption and dwelling investment. Consumption increases through both household wealth and income saved by participating households, but the total effect is relatively small. Higher prices also do not encourage a significant expansion in the dwelling stock over the 2-year period, although the effects could be larger over the long term.

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6 March 2026

16 Some households may change the home that they purchase as a result of the scheme. Additionally, removing the income test as well as raising the price caps may mean the average scheme-participant purchases a higher priced home than under their alternative scenario. While this has the potential to change the estimate, switching to a more expensive home reduces your saved income as these households are taking on a larger loan size.

17 It is assumed that households who would otherwise be saving are renters.

Appendix 1: Segments of first home buyer demand

The below sets out the groups of first home buyers that existed prior to the current scheme, and how their behaviour might respond. This is partly influenced by work in s22 (forthcoming).

Borrowers with LVR > 90 – scheme users: These households are deposit constrained and the group that accessed the old scheme.

- These households do not alter their behaviour with the introduction of the new scheme, as they are still eligible and households from this group that would use the scheme in the future do not have enough saved at present to demand today.
- This assumption is made given the average user of the previous scheme borrowed at an LVR of 95 and the proportion of borrowers with LVR > 90 matches the number of places in the scheme pre-expansion (Housing Australia HGS Trends and Insights Report 2024-25). We assume that the majority of households that borrowed in this region did so under the scheme.

Borrowers between LVR 80 and 90: These households are deposit constrained and were either not eligible or did not find a place in the old scheme.

- These borrowers are willing to both borrow at a high LVR and are able to bear the costs of LMI. They are constrained by eligibility (income, property price, places) but not LMI.
- These borrowers could substitute into the new scheme, and some that would have fallen into this category in the future bring their purchases forward by borrowing at a higher LVR under the expanded scheme.

Borrowers with LVR = 80: Households who save until they are able to avoid the higher costs associated with high LVR borrowing (LMI and interest rates).

- These borrowers are constrained by both eligibility for the old scheme (either by income, chosen property price or places) and by LMI costs. They may otherwise borrow at a higher LVR if not for these costs.
- Therefore, these households have the potential to bring forward their demand by borrowing at a higher LVR today.
- Among present demand, it is assumed that these households do not access the scheme.[18]

Unconstrained borrowers LVR < 80: Households that are able to save for more than a 20 per cent deposit.

- These households are unconstrained and are able to take on a smaller loan.
- Their behaviour is unchanged as the expanded eligibility of the scheme does not affect constraints on these households. These households do not substitute into the scheme today or through time.

18 Some of these households may access the scheme to purchase a more expensive house than they would have otherwise. It is assumed that they do not change the house that they purchase under this framework.

Reducing the deposit constraint to 5 per cent from 20 per cent indicates that anyone who has saved for the last 4.5 years (assuming the national time to save a 20 per cent deposit of 5.6 years) is now eligible to purchase a home. With 110,000 first home buyers a year on average, this creates a pipeline of 500,000 potential first home buyers that can be divided in LVR cohorts.[19] This is split into 110,000 first home buyers this year, and 390,000 buyers in the pipeline of savers. In total there are an estimated 170,800 households in the pipeline of savers that can change their behaviour as a result of the schemes expansion – of which 152,100 bring their demand forward.[20]

Table 2: First home buyer behaviour by LVR bucket – current first home buyers

Response to changes in the AG5%DS – share of 110,000 first home buyers

LVR cohort without scheme	Constraints removed by expansion	Change in behaviour	Average share of FHBs 2023-2025	Potential scheme take-up
LVR ≥ 90	None	No change.	33%	-
81 > LVR < 90	Scheme places, income caps.	Substitute into scheme.	17%	18,700
LVR = 80	None	No change.	22%	-
LVR < 80	None	No change	28%	-

Table 33: First home buyer behaviour by LVR bucket – future first home buyers

Response to changes in the AG5%DS – share of 390,000 first home buyer pipeline

LVR cohort without scheme	Constraints removed by expansion	Change in behaviour	Average share of FHBs 2023-2025	Potential scheme take-up (average share * buyer pipeline)
LVR ≥ 90	None	No change.	33%	-
81 > LVR < 90	Scheme places, income caps.	Substitute into scheme.	17%	66,300

19 It is assumed that all households choose to purchase a house under the new property price limits. In reality some will be ineligible for this reason however the median property price is below the capital region price limit in all states (from Cotality data).

20 There may also be households that would never have bought a property for which access to the scheme makes housing affordable. Given this segment is assumed to not have begun saving, they are not able to bring forward their demand into the present.

LVR = 80	LMI, interest costs	No change.	22%	85,800
LVR < 80	None	No change	28%	-

Scheme demand today	Scheme demand brought forward	Total
18,700	152,100	170,800

Appendix 2: Savings by scheme users

Calculating the potential saving uses the following assumptions:

- Households do not change the house that they purchase and purchase the average-priced house for a first home buyer (~$700k).
- All potential households that can bring forward their purchases (152,100) do so today in addition to those that substitute from LMI (18,700).
- Their saving is relative to their behaviour absent the expansion of the scheme.
    - **Demand brought forward:** Monthly housing costs are relative to saving for a 20 per cent deposit on the same house and paying the median rental rate ($2540 per month).[21]
    - **Demand substituted today:** Monthly housing costs are relative to borrowing without assistance from the scheme.
- Given the scheme requires you use all available savings, it is assumed that individual cohorts are uniformly distributed between 95 and 81 LVR if they bought today, or an average LVR of 88.

Households that bring demand forward:

$$Income\ saved = Deposit\ saving_{20\%} + Median\ Rent - Loan\ Repayments_{scheme}$$

$$Income\ saved = 2083 + 2540 - 3482 = 1141$$

Therefore, the average household in this cohort that bring their purchase forward under the scheme saves $1141 in housing costs per month or $13,692 per-year. For the 152,100 affected households , this amounts to 0.154 per cent of consumption over a year.

Households that substituted today from using LMI:

$$Income\ saved = Loan\ repayments_{no\ scheme} + LMI - Loan\ Repayments_{scheme}$$

$$Income\ saved = 3528 + 520 - 3482 = 566$$

Therefore, the average household in the cohort that substitutes today saves $566 per month or $6,792 per year. For the 18,700 households we assume this applies to, this amounts to 0.007 per cent of consumption over a year.

21 I assume a linear savings schedule.

Put together this results in a combined $2.3b of income saved from either switching into the scheme today or substituting through time. Under the strong assumption that all of this were to be consumed, this is 0.16 per cent of annual consumption.

Effects of changes in the Home Guarantee Scheme: insights from HALLIE[1]

I use HALLIE to assess the potential macroeconomic effects of the change in the Home Guarantee Scheme (a reduction in required deposit from 20% to 5%).[2] It is useful to explore such effects in HALLIE as HALLIE captures the higher MPCs of those who the scheme targets. In HALLIE, those who have already saved more than 5% mostly consume the excess savings the scheme change precipitates (because they are wealth-poor and have high MPCs), this additional consumption drives most of the general equilibrium outcomes. Since most of the excess savings is consumed, the expected change in house prices is modest.

Main result: first-home buyers mostly consume the extra savings

In HALLIE, households must pay a cost to change their holdings of illiquid assets. For low-wealth households (i.e. first-home buyers), this cost can be interpreted as their required housing deposit. I model the effects of a decrease in this cost equivalent to a decrease in required deposit from 20% to 5%.

For households who have already saved more than a 5% deposit, the scheme change gives them a choice – they can buy a more expensive house or increase their consumption. The households who benefit from the scheme change are low-wealth households (first-home buyers) and therefore have higher marginal propensities to consume (MPCs) than the rest of the population. As a result, they mostly respond to the scheme change by seeking to purchase a similar house to what they desired before the change, and then consume their additional savings. In aggregate, this results in an *increase in consumption* (Figure 1).

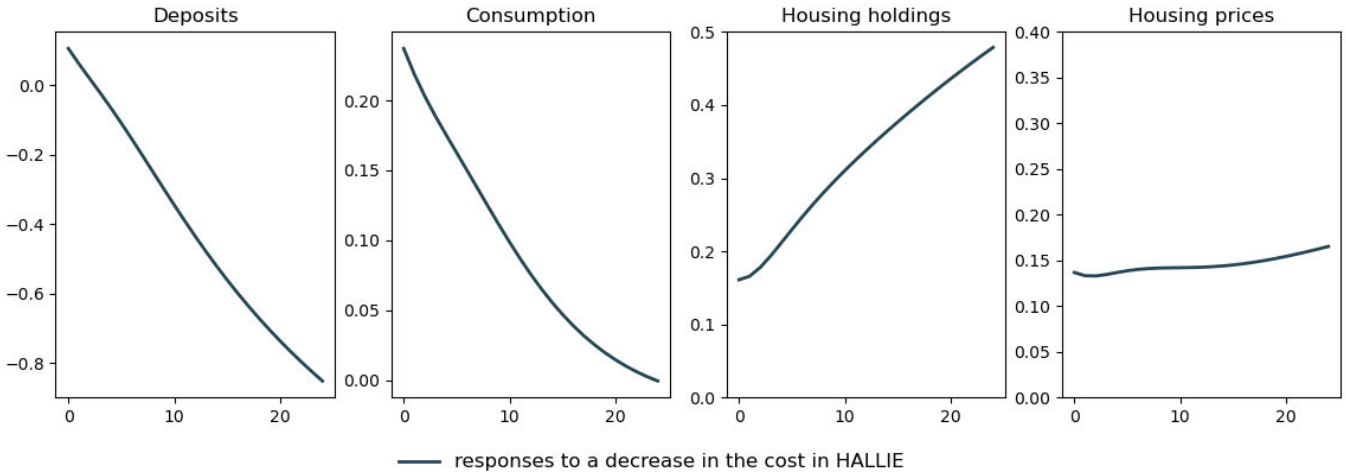


Figure 1. All variables are shown in percentage deviations from the baseline paths. Time is shown on the X-axis in quarters.

With an inelastic housing supply, house prices increase following the scheme change.[3] The scheme change allows first-home buyers to purchase their desired housing earlier, so holdings of housing wealth increase (third panel in Figure 1) and this puts an upward pressure on housing prices.[4] The increase in prices is, however, relatively small (15 bp on impact) and the accumulation of housing wealth occurs slowly over time.

Treasury estimates that the scheme will increase house prices by 50 bp (D25/279937). The advantage of using HALLIE to provide additional insights to existing estimates is that HALLIE captures the high MPCs of low-wealth households, and as such suggests a smaller house price response, which is plausible if these households behave as the model suggests.

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1 I would like to thank s22 for their helpful comments.

2 HALLIE is the RBA's HANK model designed for the Australian economy. See D25/290833 for details.

3 See Appendix for results with an elastic housing supply.

4 If housing supply was completely inelastic, the housing holdings curve would have the same slope as the house prices curve.

Treasury also estimates that 70,000 borrowers will use the scheme in the first year of expanded access (D25/279937). Back of the envelope calculations from HALLIE show an increase of 30,000 homeowners. A smaller estimate in HALLIE is expected as the increase in 'homeowners' accounts for those who will initially be displaced in the housing market by those accessing the scheme. How much of the difference in estimates can be attributed to the different definitions is unknown.

There is some inflationary pressure from the bring-forward in desired purchases interacting with the inelastic housing supply, but it is short-lived and small (see Figure 2).[5] The model's Taylor rule suggests an equivalently modest increase in the cash rate.

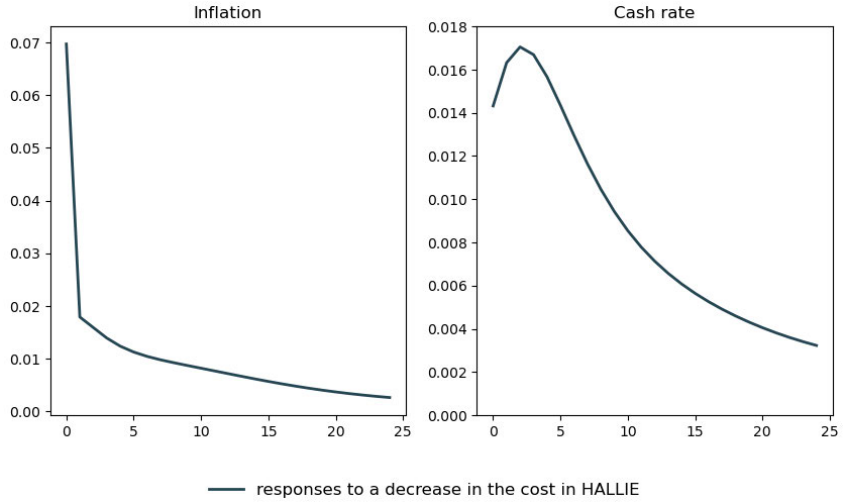


Figure 2. All variables are shown in deviations from the baseline paths. Time is shown on the X-axis in quarters.

s22 / Frameworks and Macroeconomics (FAM) / Economic Research Department
22 October 2025

5 Higher house prices reduce the labour supply of the wealthy, while higher consumption increases labour demand. Wages and inflation, increase as a result.

Appendix

Mechanism in the model: a decrease in the cost of acquiring/selling an asset

In HALLIE, to change the holding of an illiquid asset, which combines housing and superannuation, household pays a cost. This cost has the following functional form:

$$\Phi(\Delta_t, a_{t-1}) = \beta \frac{{\Delta_t}^2}{\chi + (1+r)a_{t-1}}$$

where $\Delta_t = a_t - (1+r)a_{t-1}$ is the change in illiquid wealth, $(1+r)a_{t-1}$ is the current illiquid wealth holdings, β is a constant and χ is the parameter modelled to increase. When a household does not have any wealth, the cost is simply $\beta \frac{{\Delta_t}^2}{\chi}$, so the larger the χ the smaller the cost. For households with substantial wealth holdings χ is small and could be ignored. Therefore, an increase in χ can be interpreted as mostly a decrease in the cost of acquiring initial housing wealth.

The cost is decreased by 4 times to reflect the change in required deposits from 20% to 5% and is modelled as a persistent shock.[6]

Results with elastic housing supply

The extent of an increase in the house prices depends on the elasticity of housing supply. With a more elastic supply of assets (that could also be through higher savings redirected to superannuation and therefore larger investments of super funds in foreign assets), the house prices can even decrease in the first periods following the shock (with an increase in periods further out and to a lesser extent), which is shown by the light green lines in Figure 3. Consumption increase is even larger amid lower house prices, and the accumulation of housing wealth among the wealthy households that is driven by expectations of higher future prices occurs in periods further out.

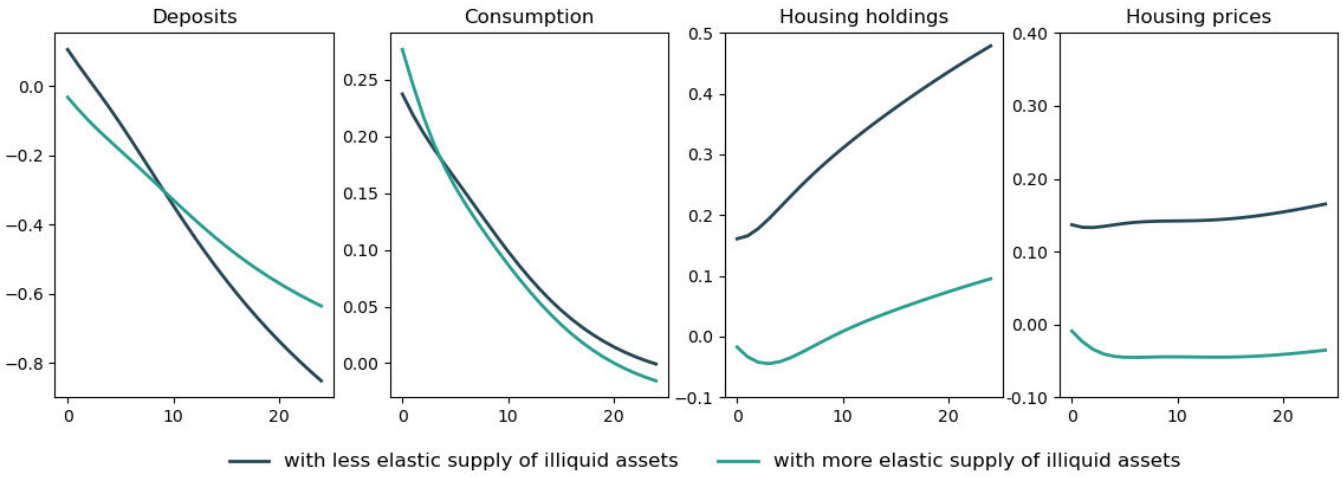


Figure 3. All variables are shown in percentage deviations from the baseline paths. Time is shown on the X-axis in quarters. The dark lines show results for the case with less elastic supply of illiquid assets (which are shown in the main text) and the light green lines for the case with more elastic supply.[7]

6 A permanent increase requires a solution of the transition path between two steady states. Here the shock is quite persistent with a quarterly AR(1) coefficient of 0.9.

7 Financial intermediary collects households' savings in illiquid assets and invests them domestically or abroad. Less elastic supply of assets stands for the case when passing on the increase in illiquid savings abroad is very costly (which is achieved through a large wedge in uncovered interest rate parity that depends on the net foreign investment position).

GDP response: demand effects dominate initially, but supply effects dominate later

Consumption increase puts an upward pressure on GDP and inflation independent of the elasticity of assets' supply, see Figure 4. In the case of higher house prices (less elastic supply), additional pressure from house prices adds to inflation rise and thus the rise in the cash rate, that follows Taylor rule, however, the magnitudes of inflation and cash rate responses are overall small. In subsequent periods GDP decreases as a result of lower consumption, higher savings, and lower aggregate investments. Lower consumption and higher savings in periods further out are accompanied also by lower labour force participation (lower supply capacity) due to wealth effects. Thus firms, to stimulate households to stay in the labour force, pay higher wages. Higher labour costs put a downward pressure on aggregate investments, which contribute largely to the decrease in GDP in later periods.

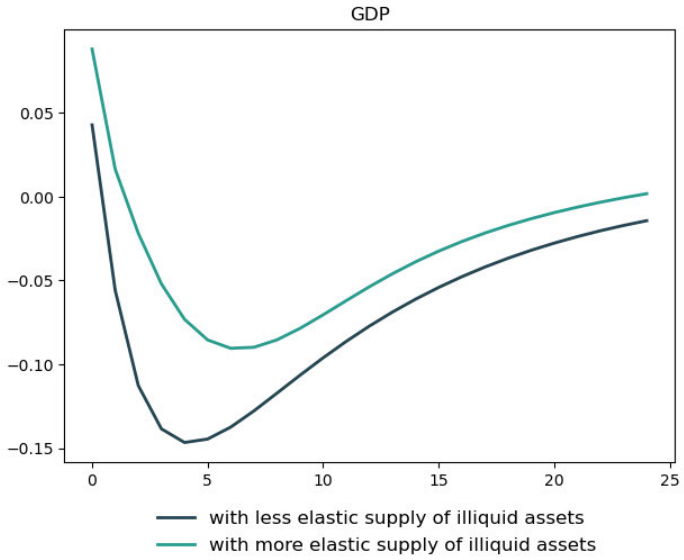


Figure 4. GDP is shown in percentage deviations from the baseline paths. Time is shown on the X-axis in quarters.

Consumption and welfare across the distribution

Consumption increase is concentrated among low-wealth households who consume the liquid wealth which is no longer needed to obtain a housing loan. Those households, who are low-wealth and benefit from the change in the scheme, have high marginal propensities to consume and therefore additional funds are used for consumption rather than additional savings, see Figure 5. This results in an increase in the aggregate consumption.

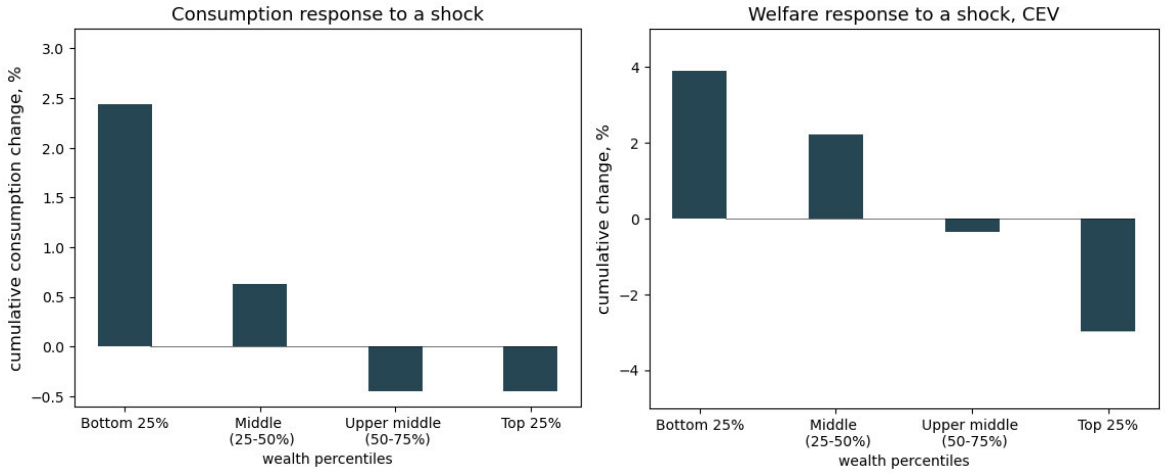


Figure 5. All variables are shown in deviations from the baseline paths and in cumulative terms across wealth distribution. The responses are presented for the case with less elastic supply of illiquid assets.

Other channels that are not well-captured in the results

1. The modelled change in the home deposit requirement is designed to capture how households respond to the change in this constraint. Any subsequent increase in home loan size, and the effects of the resulting larger mortgage repayments are not well captured. That said, given most of the lower deposit requirement is consumed rather than used to increase loan size, this additional complexity is unlikely to change the main results.
2. The default rate on mortgage loans does not change in this exercise. The macroeconomic and financial stability consequences of potentially higher mortgage defaults is beyond the scope of HALLIE.
3. HALLIE does not differentiate between dwelling and non-dwelling investments. DINGO and MARTIN are therefore more suited to assess changes in those investments and reallocation of investments between the sectors.

Evidence on the Impacts of Housing Tax and Regulatory Policies[1]

Purpose: *This note reviews international and domestic examples of housing tax and regulatory policies that reduced incentives for leveraged property purchases. The aim is to inform our understanding of the potential impacts of the Australian negative gearing and capital gains tax reforms announced in the 2026/27 Budget.*

Key judgement: *The evidence suggests that reducing tax concessions for leveraged residential property investments is likely to weaken investor demand, shift activity towards non-targeted segments, and place some downward pressure on housing prices. However, the evidence provides limited guidance on the likely magnitude of these effects in Australia. The most comparable examples do not provide clean estimates of aggregate price, credit or rent effects, largely because they occurred alongside other changes in monetary, fiscal and prudential policies, and broader supply and demand conditions. Each policy also had different design elements.*

Executive summary

The 2026/27 Federal Budget announced significant reforms to the taxation of residential investment properties from 1 July 2027. Negative gearing will be restricted to newly built dwellings, and the 50 per cent capital gains tax (CGT) discount will be replaced with cost base indexation and a minimum 30 per cent tax rate on real capital gains.[2] These reforms are expected to reduce leveraged investor demand for established dwellings by lowering expected after-tax returns and tightening borrowing capacity. External estimates generally agree that this will lead to lower housing prices and credit growth (relative to a baseline of no tax changes) in the near term. However, there is broad disagreement about the likely size of these effects. There are also mixed views on the likely effects on rents, dwelling supply and owner-occupier demand. This note examines historical examples of related policies to infer potential lessons for Australia. I conclude that:

1. **The most comparable reforms point to weaker investor demand but provide little guidance on magnitudes.** Similar reforms in New Zealand and the United Kingdom suggest that reducing tax incentives for leveraged property purchases is followed by weaker investor demand and stronger activity in non-targeted segments, including first-home buyers. There is also suggestive evidence of downward pressure on prices. However, there is a lack of causal empirical work on the most comparable reforms.
2. **Composition effects are likely.** Policies targeted at leveraged investors can change the composition of activity, even when aggregate housing activity is less affected. The UK example saw a shift towards corporate ownership structures and stronger first-home buyer activity. Australian macroprudential policies also saw lenders substitute towards non-targeted mortgage products.
3. **The effect on rents is theoretically more ambiguous and empirically difficult to identify**. The available evidence suggests rents depend heavily on vacancy rates and local supply and demand conditions, rather than investors passing on tax costs to renters.
4. **The strongest causal evidence comes from less directly comparable policies.** Quasi-experimental studies of mortgage interest deduction reforms in Denmark and Finland showed that reducing housing tax subsidies leads to lower housing borrowing and demand at the intensive margin. Evidence on Australian macroprudential policies also showed a reduction in lending to targeted credit segments, though this was consistent with the policy's goal to restrict lending in areas deemed systemically risky.

See Appendix A for detailed case studies.[3]

[1] Thanks to s22 for useful feedback. Microsoft Copilot was used to identify relevant case studies and literature.

[2] See D26/178465 Briefing DM/FS/EA - Negative Gearing and CGT in 2026-27 Budget for further details on the policies.

[3] The case studies are focused on policies relevant to negative gearing rather than the capital gains reforms, as the negative gearing policy is likely to have the largest near-term effect on new investor demand (see Briefing DM/FS/EA). I also exclude tax reforms that are quite different to the negative gearing changes, such as stamp duty and foreign buyer surcharges.

The most comparable reforms suggest that reducing tax subsidies for leveraged housing investment lowers investor demand and housing prices, but aggregate effects are hard to identify.

The most relevant historical examples are policies that restricted investors' ability to offset rental losses against non-property income or to deduct interest costs. These include New Zealand's rental loss ring-fencing and interest deductibility restrictions (2019 and 2021), the UK's restriction of mortgage interest relief for individual landlords (2015), and Australia's temporary restriction of negative gearing (1985-87). While these policies provide useful insights on the direction of impacts, they do not allow for clean estimates of aggregate effects. Each policy was introduced in different institutional settings with different design elements, and often alongside major changes in monetary policy, prudential settings, and other demand and supply conditions.

In New Zealand, residential rental loss ring-fencing began from 2019, which prevented landlords from offsetting residential rental losses against other income. This is most analogous to Australia's negative gearing changes for established dwellings. In 2021, New Zealand also phased out interest deductibility for residential investment properties over a few years. The reforms were followed by a sharp decline in housing prices (of 16 per cent) and investor credit growth (from double digits to near-zero), alongside a steady increase in rents. However, the period also coincided with a sharp tightening in monetary policy (the overnight cash rate increased from 0.25 per cent to 5.5 per cent between 2021 and 2023) and tighter macroprudential restrictions, making it difficult to isolate the effects of the tax changes.[4]

The UK announced restrictions on mortgage interest relief for individual residential landlords in 2015, with interest deductibility gradually withdrawn over four years (from 2017). This was replaced with a basic-rate tax credit. The Joseph Rowntree Foundation (2025) showed that buy-to-let activity slowed materially, with annual real lending growth to this sector estimated to have declined from 25 per cent in 2009-16 to 1 per cent in 2016-22. The share of new buy-to-let mortgages declined from 25 per cent in 2015/16 to 12 per cent by 2024. First-home buyer activity strengthened. These effects are large and suggest the possibility of a persistent negative effect on the attractiveness of buy-to-let investment. However, the policies occurred alongside other fiscal reforms that made the tax environment less favourable for landlords, including a stamp duty surcharge.

Australia temporarily restricted negative gearing between 1985-87. This episode is the closest domestic precedent to the 2026 reforms, but it was short-lived and there appears to be no external evidence on the effects on housing prices and credit. Its main relevance is for assessing impacts on rents, discussed below.

Composition effects are one of the clearer lessons.

There is stronger (mostly descriptive) evidence that policies can change the composition of housing activity. In the UK, the restriction of mortgage interest relief applied to individual landlords but not companies. This encouraged some landlords to incorporate. At the same time, first-home buyer activity strengthened as buy-to-let lending slowed. A similar lesson comes from Australia's 2014 and 2017 macroprudential policies, which targeted investor and interest-only lending. Garvin, Kearney and Rosé (2021) found evidence of reduced growth in the targeted mortgage products, as well as substitution towards non-targeted products.

The effect on rents is theoretically more ambiguous and empirically difficult to identify.

The effect of investor tax changes on rents is ambiguous in theory. A decline in investor demand could reduce the supply of private rental properties. But rental demand could also fall if more households transition from being renters to owner-occupiers due to a fall in prices. Daley and Wood (2016) note that international studies suggest that changes to the taxation of property investments have limited impacts on rents, even over the medium term. They also note that economic theory and empirical research suggest that tax changes primarily affect property (land) prices rather than rents in urban areas where land supply is restricted.

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[4] The period saw many changes in LVR restrictions. In March 2021, LVR restrictions were reinstated to pre-COVID-19 levels. They were tightened further for investors in May (maximum of 5 per cent of new lending at LVRs above 60) and for owner-occupiers in November (a maximum of 10 per cent of new lending at LVRs above 80). LVR restrictions were then progressively eased from June 2023 to December 2025. See Timeline for loan-to-value ratio restrictions - Reserve Bank of New Zealand - Te Pūtea Matua.

In New Zealand, some commentators suggested that removing interest deductibility placed upward pressure on rents. This was cited as one objective for re-introducing interest deductibility for residential investment properties.[5] Australia's 1985-87 negative gearing episode provides a useful case study. At the time, rising rents were cited as one factor for reversing the policy. However, retrospective assessments concluded that rent increases were concentrated in cities with very low vacancy rates (Sydney and Perth). Local supply conditions appeared to drive differences in rent outcomes rather than negative gearing restrictions.

The strongest causal evidence comes from less directly comparable policies.

The strongest causal evidence comes from international examples of mortgage interest deductions that affected different groups of households differently. Gruber, Jensen and Kleven (2021) analysed a major reform that scaled back mortgage interest deductions for middle- and high- income households in Denmark. They found that the mortgage deduction had no effect on homeownership, but a clear effect on housing demand at the intensive margin (inducing homeowners to buy larger and more expensive houses) and on indebtedness. They also provide suggestive evidence that the reduction of the tax subsidy lowered equilibrium housing prices by around 12 per cent. Saarimaa (2010) studied a Finnish reform that reduced the value of mortgage interest deductions for higher-income households. These households reduced their mortgage debt growth compared to lower income groups. While these studies provide useful causal evidence on the effect of housing tax subsidies, they are not direct analogues to Australia's negative gearing reforms. The empirical evidence mainly concerns owner-occupier mortgage borrowing, rather than residential investors' ability to offset rental losses against labour income. The policies also occurred some time ago.

Table 1: Summary of case studies

Country	**Policy details**	**Relevance and impacts**
New Zealand, 2019 & 2021	Rental loss ring-fencing (2019); restrictions on interest deductibility for residential investors (2021); interest deductibility subsequently reinstated (2025)	Closest recent policy comparator. Investor credit and prices weakened, but policy coincided with monetary and prudential tightening.
United Kingdom, 2017	Restrictions on mortgage interest relief for landlords, replaced with tax credit	Medium policy comparability. Buy-to-let lending slowed notably, and first-home buyer activity increased. Coincided with other policies.
Australia, 1985	Restrictions on negative gearing (1985); reversed in 1987	Closest domestic policy precedent. But only in place for a short period and no causal evidence.
United States, 1986	Restrictions on offsetting rental losses against labour income	Medium policy comparability. But part of a big suite of tax reforms; limited evidence on impacts.
Denmark, 1987	Mortgage interest relief reduced for some households	Somewhat limited policy comparability. Strong causal evidence that housing tax subsidies affect housing demand, leverage and aggregate prices.
Finland, 1993	Mortgage interest relief reduced for some households	Somewhat limited policy comparability. Causal evidence that housing tax subsidies affect mortgage debt growth.
Australia, 2014 & 2017	Restrictions on investor and interest-only mortgage lending; removed by 2019	Limited policy comparability as it primarily affected lending supply. Causal evidence showed reductions in lending to targeted segments.

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7 August 2026

[5] See NZ Inland Revenue (2023). The Government's objective for re-introducing interest deductibility was to reduce upward pressure on rents and to tax landlords on rental profits by allowing deductions for all costs. Treasury and HUD considered it unlikely that landlords would pass on the tax changes to lower rents in the short run, as the stock of housing supply is fixed. However, both agreed that re-introducing deductibility could improve rental housing supply and put downward pressure on rents in the long run.

Appendix A Details of individual policies

New Zealand: ring-fencing for rental losses and restriction of interest deductibility for residential property investors, 2019 and 2021

- **What:** From 2019, the New Zealand government introduced ring-fencing for rental losses. Deductions for residential properties could only be applied against income from that property, and not against other income like salary and wages.[6] In March 2021, it restricted interest deductibility for residential investment property.[7] From October 2021, investors who acquired existing residential property were unable to deduct mortgage interest. Interest deductions on loans for properties acquired before March 2021 were phased out over a few years. Investors who acquired newly built properties were exempt. The interest deductibility policy was subsequently reversed.[8] By April 2025, investors could again fully deduct interest up to the value of their rental income. Ring-fencing of rental losses remains in place.
- **Why:** Designed to reduce investor demand for existing housing stock and support first-home buyers by improving housing affordability, while preserving incentives for new construction. The subsequent reversal was intended to reduce upward pressure on rents and make the tax system more consistent.
- **Comparison to Australian negative gearing policies:**
  - New Zealand's introduction of ring-fencing rental losses is most comparable to Australia's negative gearing changes. Its restriction of interest deductibility for residential investment properties in 2021 is stricter than Australia's policies.
  - New Zealand's interest deductibility restrictions had exemptions for newly built dwellings, though its ring-fencing policy does not. Australia's negative gearing policies exempt newly built dwellings.
  - One key difference is New Zealand's policies had significantly less grandfathering. Australia's existing negative gearing policies are grandfathered for properties held prior to the Budget reforms. New Zealand's ring-fencing applied to both existing and new properties and gradually phased out interest deductions for established properties held prior to 2021.
- **Impacts:** The evidence is descriptive rather than causal. Housing prices fell by 16 per cent from late 2021 to early 2023.[9] Investor credit growth fell from around 14 per cent in 2021 to near-zero at the start of 2024.[10] The investor share of new housing lending fell (from around 20-25 per cent to below 20 per cent), while first-home buyer activity increased.[11] Rents steadily increased over the period, though commentators note it's difficult to isolate the impact of the policy from other fundamental demand and supply drivers. The share of high-DTI lending fell across the board. There is no clean ex-post causal empirical work isolating the impacts of the policy. They occurred alongside a sharp tightening in monetary policy (the cash rate was increased from 0.25 per cent to 5.5 per cent between 2021 and 2023) and tighter LVR restrictions.[12]
- **Key lessons:** This is the closest recent analogue to Australia's policy. However, it is informative on channels of transmission of the policy rather than magnitudes. The NZ experience suggests that reforms which reduce incentives for leveraged property purchases tends to weaken investor demand and housing prices. But there are no clean estimates of aggregate price or credit effects given confounding factors.

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[6] NZ Inland Revenue (2019)

[7] NZ Inland Revenue (2021) and NZ Inland Revenue (2021) - fact-sheet on proposed changes to interest deductions. This policy package also included an extension of the "bright-line test" for residential properties from five to ten years, which meant investors needed to pay tax on financial gains if they sold a residential investment property within 10 years of purchase. The bright-line test was subsequently shortened to two years from 2024.

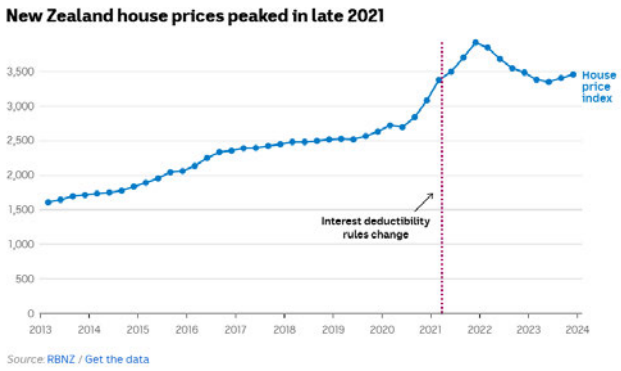
[8] NZ Inland Revenue (2023)

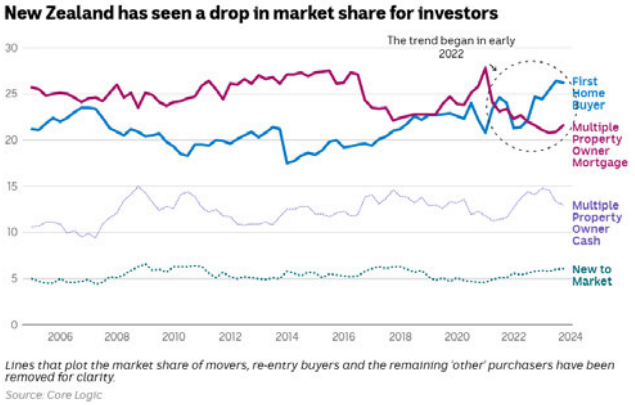
[9] Housing (M10) - Reserve Bank of New Zealand - Te Pūtea Matua

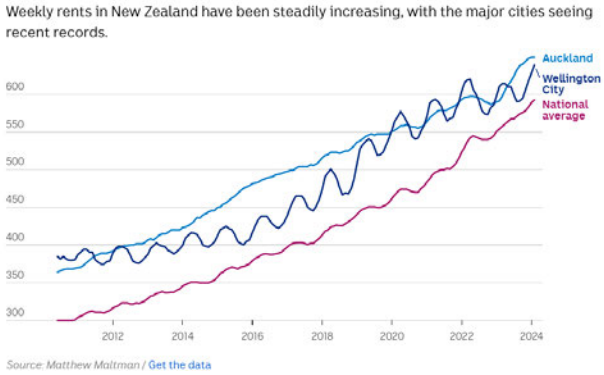
[10] Banks: Assets – Loans by purpose (S31) - Reserve Bank of New Zealand - Te Pūtea Matua

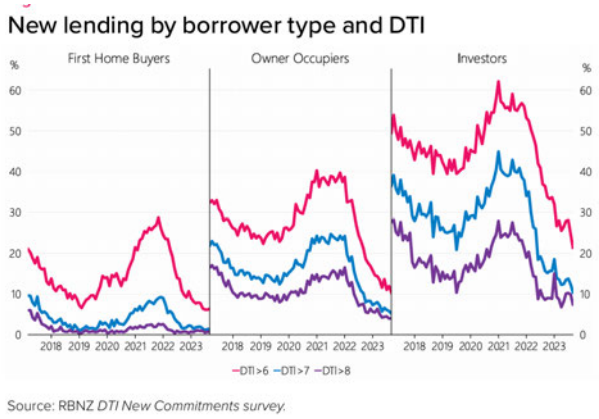
[11] ABC News (2024).

[12] RBNZ - Past monetary policy decisions and RBNZ - Timeline for loan-to-value ratio restrictions.









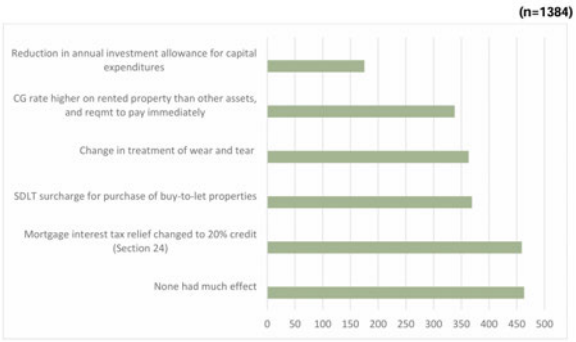
Sources: ABC news and Financial Stability Report November 2023

United Kingdom: restriction of mortgage interest relief restriction for landlords, 2017

- **What:** From 2017 to 2020, the UK phased out full mortgage-interest deductibility for individual landlords and replaced it with a basic-rate 20 per cent tax credit.[13] Landlords were no longer able to deduct finance costs from their property income to arrive at property profits. Instead, they received a basic rate reduction from their income tax liability for their finance costs. The policy did not apply to companies.
- **Why:** To make the tax system fairer and ensure that landlords with higher incomes no longer received the most generous tax treatment.
- **Impacts:** The evidence is descriptive rather than causal.
  - **Landlord profitability declined.** A 2023 Bank of England Bulletin noted that interest rate increases (from 2021) and the removal of mortgage interest tax relief (from 2017) were the largest headwinds on landlord profitability. The mortgage interest tax relief change did not affect basic rate taxpayers but increased the tax bill for higher-rate taxpayers.[14] For a given level of mortgage repayments, higher-rate taxpayers now need more rental income to break even. In a survey of private landlords, Scanlon, Whitehead and Blanc (2021) reported that one-third of landlords identified the restrictions on deductibility of interest payments as the most important factor impacting their business. Of those who identified tax changes as a significant issue, around 40 per cent said they were not proceeding with planned future purchases, while 37 per cent had set rents higher than otherwise.

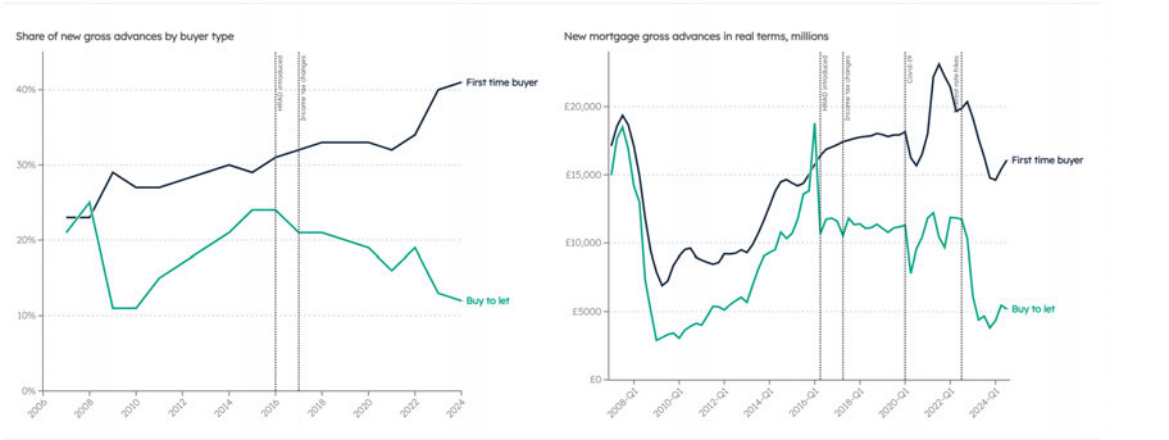
[13] Restricting finance cost relief for individual landlords - GOV.UK
[14] Joseph Rowntree Foundation (2025)

Figure 2.7 Recent tax changes that have had 'significant impact' on operation of landlord business



Source: Scanlon, Whitehead and Blanc (2021)

- **Lending for buy-to-let purposes slowed and first-home buyer activity strengthened**. Restricting mortgage interest relief for landlords reduced the attractiveness of leveraged buy-to-let investment. The Joseph Rowntree Foundation (2025) found that fiscal reforms have dampened demand from private landlords. The changes were followed by a slowing in buy-to-let lending growth, while first-time buyer activity strengthened. New mortgage advances for buy-to-let purposes flatlined from 2016 following the mortgage interest tax relief changes, then declined sharply following interest rate increases in 2022.



Source: Mortgage Lending and Administration Return, FCA, 2025, CPIH series, ONS
In the quarterly series First Time Buyer numbers are four-quarters-to-quarter averages to dampen seasonal effects. Buy-to-let are maintained as actual quarterly series. Prices are adjusted by CPIH.

Source: Joseph Rowntree Foundation (2025)

- **Growth in the UK private rental sector likely slowed.** The Joseph Rowntree Foundation (2025) found a significant relationship between the tax changes and the growth rate of the private rental sector, suggesting that fiscal measures had contributed to a slowing in the sector. Every 1 percentage point increase in the share of rental incomes spent on income tax (for higher rate payers) corresponded with a fall in the rate of growth of the private rental sector by 0.5%. The Bank of England (2023) used landlord property transactions to show that the private rental sector had likely been shrinking since 2021.



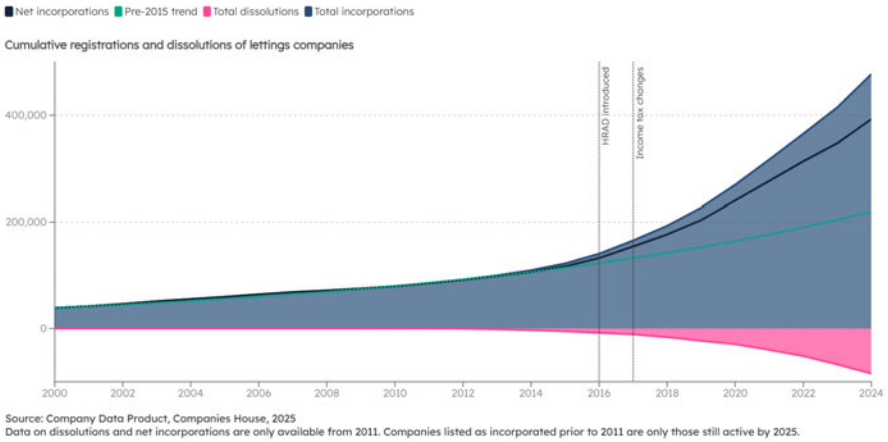
Source: Bank of England (2023)

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- **Activity shifted towards non-targeted segments.** Many landlords reportedly decided to incorporate instead of leaving the market.[15] Joseph Rowntree Foundation (2025) finds a surge in new incorporations of private lettings companies post-2016, from 117,000 in 2015 to 400,000 at the start of 2025 – more than twice as many than if the pre-2016 growth trend had been followed. This shift likely reflects the tax advantage of incorporation, as companies can still deduct mortgage interest as an expense.

Figure 12: At the start of 2025 there were 3.5x more private limited lettings companies than there were in 2015



Source: Company Data Product, Companies House, 2025
Data on dissolutions and net incorporations are only available from 2011. Companies listed as incorporated prior to 2011 are only those still active by 2025.

Source: Joseph Rowntree Foundation (2025)

- **There appeared to be little discernible impact on rents.** Joseph Rowntree Foundation (2025) observed no discernible impact of tax changes on rents in the years following the tax changes. They suggested that private landlords absorbed the tax changes rather than passing them through to rents.

Figure 16: Following the introduction of tax changes, average rents and average new rents remained relatively flat in real terms



Source: ONS Private Index of Private Rents, Zoopla asking rents series and HomeLet new let rental prices, ONS CPIH index
HomeLet series is actual achieved rents of new tenancies. Zoopla series is asking rents.

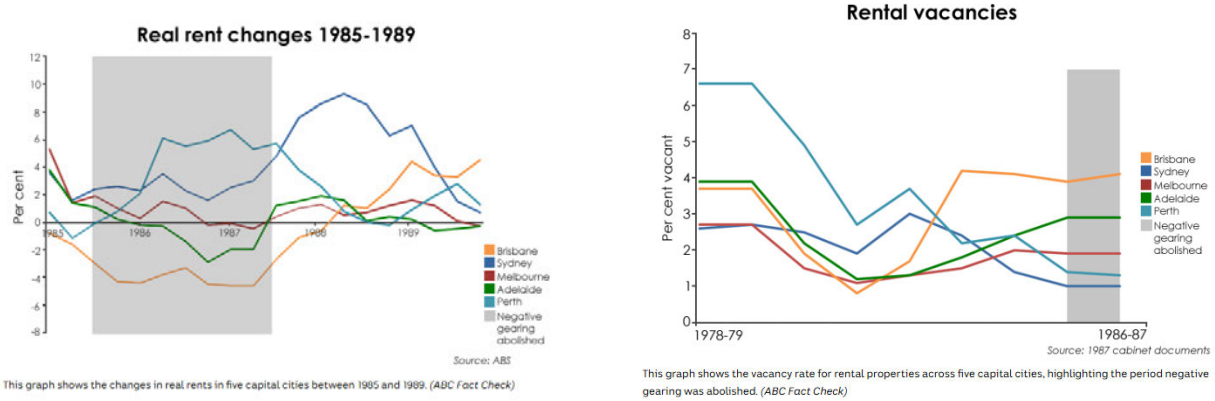
Source: Joseph Rowntree Foundation (2025)

- **Key lessons:** This example provides useful directional evidence on the impacts of mortgage interest relief tax relief reductions on investor buy-to-let lending, first-home buyer activity and rents. However, there is no causal evidence. Identification is difficult because the policy was phased in alongside the 2016 stamp duty surcharge, changes in buy-to-let underwriting standards, Brexit-related uncertainty, COVID shocks, and later sharp increases in interest rates.

[15] See HomeLet (2022). However, other reports suggest there had been an increase in landlords leaving the sector (FT 2025).

Australia: restriction of negative gearing, 1985-87

- **What:** The Australian government briefly abolished negative gearing between 1985–1987. The restrictions affected real estate purchased after July 1985, whereby rental losses were no longer able to be deducted against other income (O'Donnell 2005). Losses could be carried forward to offset against future rental profits. This policy was reversed in 1987.
- **Comparison with 2026 negative gearing policies:** The 1985 negative gearing restrictions are similar to the 2026 policies, though there was no exemption for newly built dwellings. [16]
- **Impacts:** At the time of the policy (and its reversal), commentators noted that it coincided with large increases in rents in Sydney.[17] However, subsequent analysis suggested the removal of negative gearing was not a significant factor in this, as the increase in rents was localised to areas with extremely low vacancy rates (ABC News 2016). Eslake (2013) notes that rents only rose rapidly in Sydney and Perth, where rental vacancy rates were unusually low before the abolition of negative gearing. Similarly, Daley and Wood (2016) note that rent rises in Sydney and Perth were driven by population growth and insufficient residential construction.
- **Key lessons:** While the closest domestic policy precedent, this episode is difficult to interpret because the CGT was introduced round the same time and the negative gearing policy was reversed after only two years. There appears to be no analysis of the impacts of these reforms on housing prices and credit.



Source: ABC News 2016

United States: Tax Reform Act, 1986

- **What:** The Tax Reform Act of 1986 instituted broad tax reforms, including those affecting real estate investment. It introduced passive activity loss rules, which restricted investors' ability to use losses from passive activities (including rental real estate) to offset non-passive income such as wages and salaries.
- **Impacts:** The reforms appeared to materially reduce tax-shelter driven real estate investment. Real estate partnership sales declined by 37 per cent between 1985 and 1988, and by more than 90 per cent between 1985 and 1991.[18] Poterba (1990) observed a pronounced decline in housing construction and a decline in the real price of owner-occupied homes shortly after the scheme.
- **Key lessons:** While there is broad policy comparability of the passive investment rules, limited lessons can be drawn for Australia. The Tax Reform Act included a broad suite of reforms, including changes to depreciation allowances, capital gains tax and marginal tax rates. It is challenging to isolate the impacts of the passive loss rules (and there appears to be no causal work doing so).

[16] The capital gains tax was also introduced in 1985. From 1985 to 1999, an indexation system applied, so that only real gains were taxed. In 1999, a capital gains discount was introduced. A brief history of Australia's tax system | Treasury.gov.au

[17] Impact of Labor's 1985 Negative Gearing Changes — Menzies Research Centre

[18] Tax reform and the housing market in the late 1980s: who knew what, and when did they know it?

Denmark: reduction of mortgage interest deduction, 1987

- **What:** In 1987, Denmark instituted a major tax reform that significantly reduced the subsidy to negative capital income (from mortgages and other borrowing) for taxpayers in the top bracket, reduced it much less for taxpayers in a middle bracket, and raised it slightly for taxpayers in the bottom bracket.[19]
- **Impacts:** Gruber, Jensen and Kleven (2021) found that the mortgage interest deduction had no effect on homeownership, but a clear effect on housing demand at the intensive margin (inducing homeowners to buy larger and more expensive houses) and on increasing indebtedness. They also provide suggestive evidence that the reduction of the tax subsidy lowered equilibrium housing prices by around 12 per cent.
- **Key lessons:** This policy is less directly comparable to negative gearing, occurred some time ago, and the available evidence mainly concerns owner-occupier borrowing. However, it provides an ideal setting for causal analysis and is helpful for thinking about how tax subsidies affect housing prices and debt.

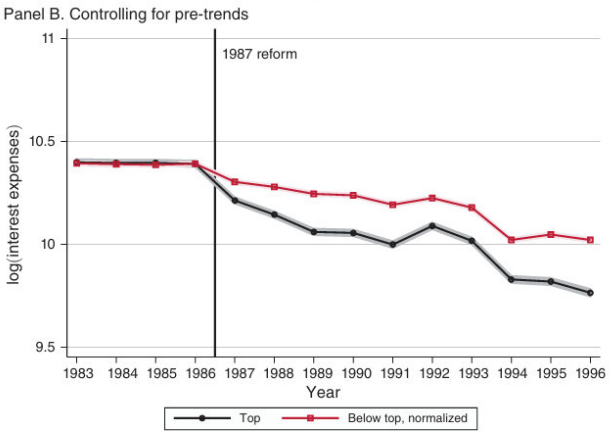


FIGURE 6. EFFECT ON INTEREST EXPENSES

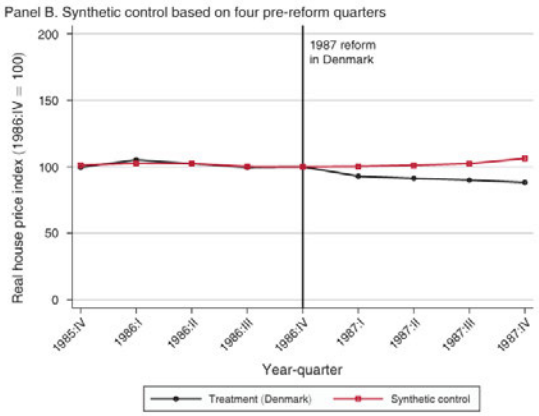


FIGURE 7. EFFECT ON NATIONAL HOUSE PRICES

Source: Gruber, Jensen and Kleven (2021)

Finland: reduction of mortgage interest deductibility for higher-income earners, 1993

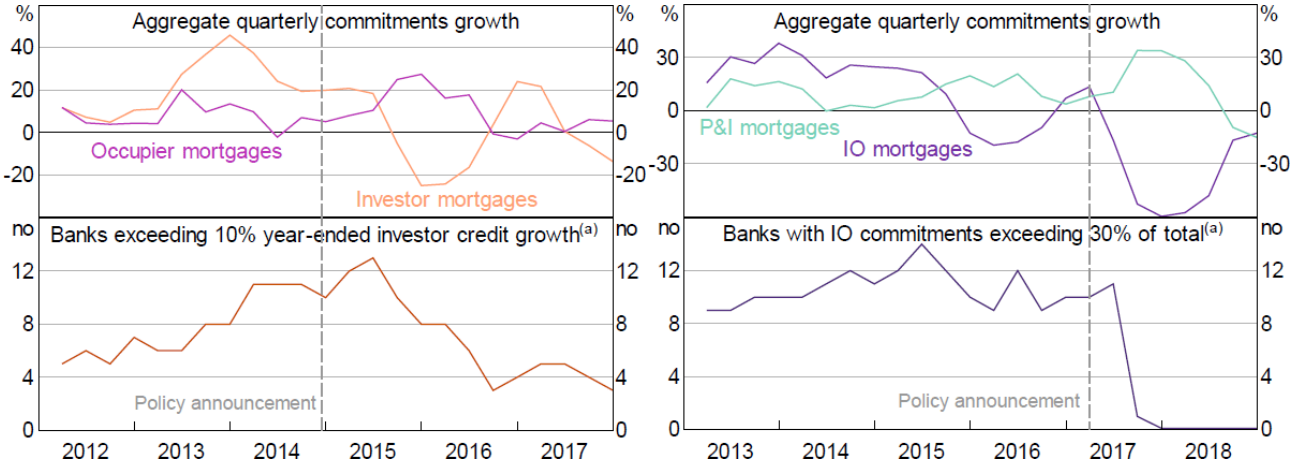
- **What** In 1993, Finland replaced a progressive tax rate on capital income with a flat rate of 25 per cent. This reduced tax relief from mortgage interest deductions for high-income earners, slightly increased the benefit for low-income earners, and had virtually no effect on taxpayers in middle tax brackets.[20]
- **Impacts:** In a differences-in-differences approach, Saarimaa (2010) found that higher-income households with high marginal tax rates reduced their mortgage debt growth compared to lower income groups.
- **Key lessons:** Similar to the Denmark example, somewhat limited policy comparability, but provides an ideal setting for causal analysis.

Australia: macroprudential tightening of higher-risk lending, 2014 and 2017

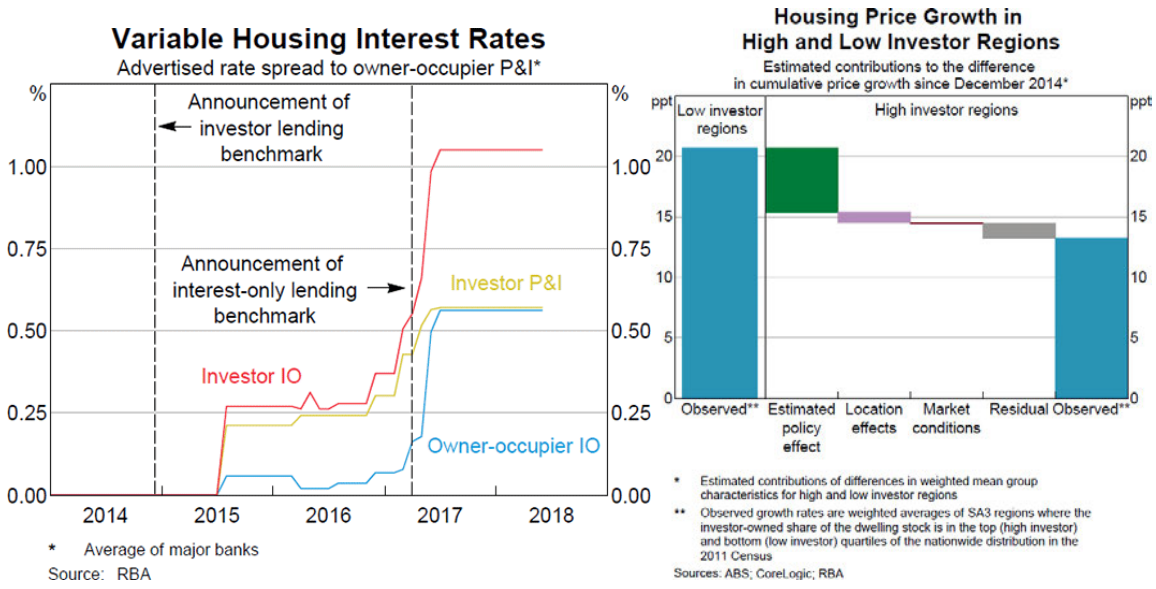
- **What:** Between 2014 and 2017, APRA announced policies to restrict banks' lending in areas considered systemically risky. The first policy (announced in 2014) required each bank to limit year-ended growth in investor housing credit 10 per cent. The second policy (announced in 2017) required each bank to limit new interest-only mortgage lending to 30 per cent of total new housing lending. These policies were reversed by 2019.

[19] Gruber, Jensen and Kleven (2021).
[20] As of 2023, Finland no longer allows mortgage interest for owner-occupier homes to be tax-deductible (Vero Skatt)

- **Impacts:** Banks complied with these policies largely by raising interest rates on the targeted mortgage types. Garvin, Kearney and Rosé (2021) found causal evidence that the policies reduced growth in the targeted mortgage products. Banks cut lending growth in targeted mortgages by around 20 to 40 percentage points within a year of the policy announcements. Large banks substituted into non-targeted mortgage types and sustained overall mortgage growth. RBA (2018) found that the investor policy caused housing price growth to slow more in investor-concentrated regions than in occupier-concentrated regions. The policy was estimated to account for two-thirds of the 7 percentage point difference in average cumulative housing price growth between high- and low-investor regions.
- **Key lessons:** The macroprudential tightening provides a useful historical precedent of a sharp decline in investor credit growth and substitution towards owner-occupier housing lending. It also provides useful quantitative estimates of differential housing price effects between high-investor and low-investor regions. However, the policies are very different, and the macroprudential episode cannot be used as a guide for potential magnitudes of impacts of the 2026 tax reforms. The macroprudential policies restricted the supply of lending from banks, while the tax policy changes impact both demand and supply.



Source: *Garvin, Kearney and Rosé (2021)*



Source: *Assessing the Effects of Housing Lending Policy Measures | Financial Stability Review – October 2018 | RBA*

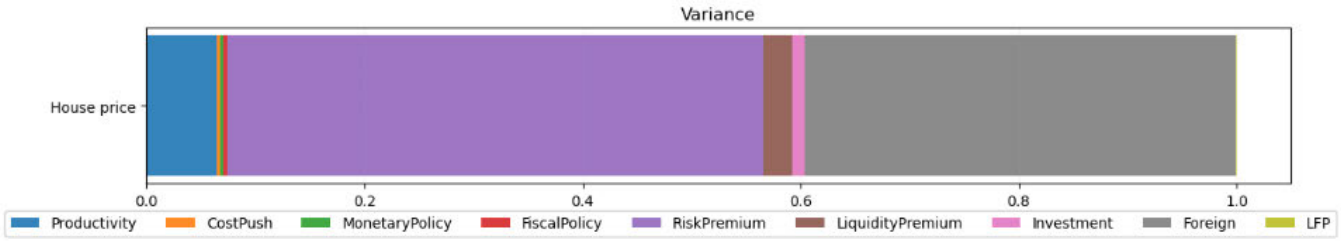
Note ER: Are the effects of policy-driven housing changes different from the effects of historical housing shocks?[1]

This note examines how the changes to capital gains tax and negative gearing introduced in the 2026 Federal Budget may affect inflation. While these measures are likely to reduce incentives to invest in existing housing and place some downward pressure on house prices, HALLIE simulations suggest they could be inflationary in the near-term (even with falling house prices), as by changing the return to housing/saving they encourage households to spend more and save less.

Motivation and Set Up

The 2026 Federal Budget includes proposed changes to capital gains tax and negative gearing that reduce incentives for households to invest in existing housing. While these changes are likely to put downward pressure on house prices, their broader economic effects may differ from those of the factors that have historically driven housing market movements and, therefore, may have different policy implications. Motivated by this, the note focuses on the channels likely to be most operative in response to these policy changes as opposed to the effects of shocks that historically have been the main drivers of house prices.

Accordingly, to put the effects of policy into context, firstly, we assess the key drivers of house prices historically. Graph 1 shows that through the lens of the HALLIE model,[2] house prices have largely been driven by risk premium shocks (purple bar), which reflect changes in risk perceptions of Australian assets.[3] The decomposition suggests that these shocks affected cash rate changes (see Appendix), and in turn, have been a major source of house price fluctuations. Other shocks, while prominent, account jointly for less than half of the variation in house prices.



Graph 1. Historical contribution of various shocks to the dynamics of house prices. Contributions are presented as shares that sum to 1. Policy shocks are the estimated exogenous component of these policies, endogenous changes in policy are driven by the other shocks.

Given the historical importance of risk premium shocks, we use them as a benchmark for comparison. We leverage HALLIE to simulate an increase in capital income taxation that in a stylized way is broadly consistent with the expected impact of the Budget measures on investment returns.[4] We then simulate a risk premium shock calibrated to generate a decline in house prices of a similar magnitude to assess differences in shocks' transmission.[5] In both cases, the cash rate is assumed to remain unchanged from the baseline path.[6]

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[1] We would like to thank s22 and Jonathan Hambur for helpful comments.

[2] Australian HANK model, for more details see s22 (2026).

[3] These shocks are a wedge in the uncovered interest parity condition that ties interest rate differential between countries to the exchange rate dynamics. Empirically, these shocks co-move with global risk perception (Kalemli-Özcan and Varela 2022). The large effects of monetary policy on asset prices are highlighted by, for example, Bauer, Bernanke, Milstein (2023).

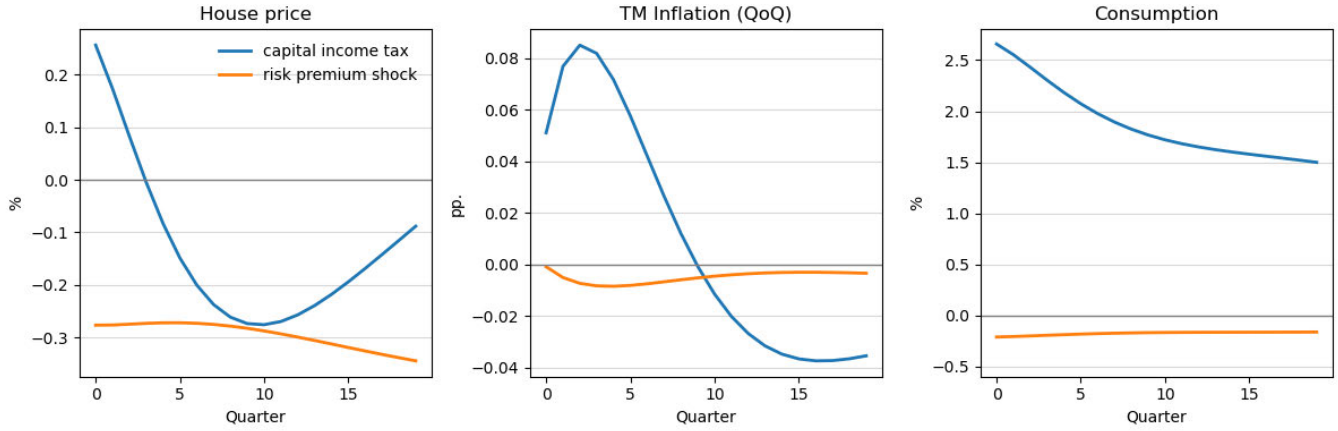
[4] The CGT reform replaces the 50% tax discount by a minimum 30% tax rate on real gains. Assuming that the average marginal income tax rate is 30%, the implied increase in the capital gain tax rate is 1 - (1 - 0.3) / (1 - 0.5 * 0.3)) = 17.6%. In the simulation the capital income tax increases to 17.6% on impact, stays at this level for 10 years and then slowly dies out. These estimates are stylized and should not be interpreted as a precisely calibrated scenario.

[5] Given the shocks imply different house price dynamics, our preferred specification was to calibrate the risk premium shock to match the magnitude of the decline in house prices at the trough (i.e. after eight quarters), rather than the full house price path. Fully replicating the latter would require risk premium shock dynamics that are inconsistent with historical experience.

[6] While historically the cash rate was driven by risk premium shocks, for this exercise we offset any movements induced by these shocks with monetary policy shocks to keep the cash rate on its baseline path.

Results

Graph 2 shows that changes to capital income taxation imply more inflationary pressures in the near-term than an equivalent decline in house prices caused by a risk premium shock. These inflationary pressures stem from the elevated consumption response to the policy changes. Since savings become a less attractive option to households, they disinvest and consume more in line with the intertemporal substitution channel (see Appendix for the response of savings). The consumption response is amplified through the second-round effects which increase firms' labour demand and households' labour income (and the response is largest among the wealthiest households, see Appendix). By contrast, a risk premium shock puts downward pressure on consumption through the wealth effect, as the resulting decline in house prices reduces households' wealth.[7] It is worth noting that the overall effect on house prices from the policy changes is moderate (-0.3%),[8] though the exercise is intended to focus on the transmission channels rather than explain house price forecasts, which are driven by a variety of factors.



Graph 2. The graph presents impulse responses to the capital income tax change and the risk premium shock. All responses are shown in percentage deviations from the baseline.

Limitations

(a) The simulations assume that the increase in capital income tax is long-lasting but not permanent. As a result, they do not capture the full adjustment to a new long-run equilibrium. Also, the calibration is intended to be illustrative and does not attempt to replicate or quantify the precise path implied by the policy changes.

(b) HALLIE explains house prices through economic fundamentals such as rents and interest rates. It does not necessarily capture shifts in market sentiment ('animal spirits') or financial frictions (such as intermediaries borrowing constraints), which can also play an important role in house price movements and amplify house price dynamics.[9]

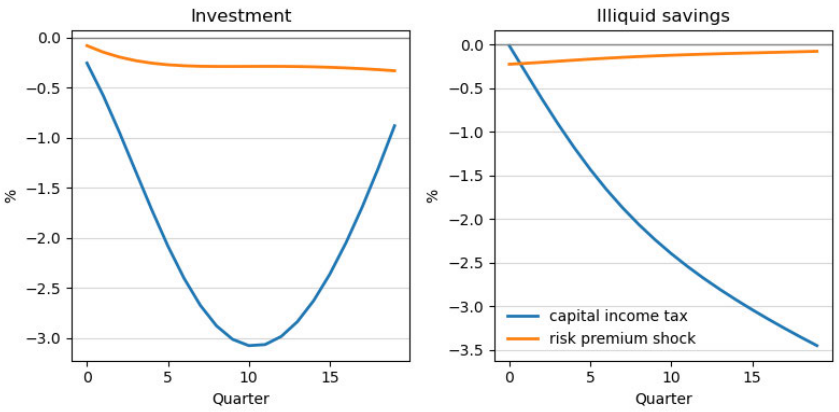
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Frameworks and Macroeconomics
Economic Research Department
22 July 2026

[7] The wealth effect is also operative in the case of a capital income tax change but is dominated by the intertemporal substitution channel.

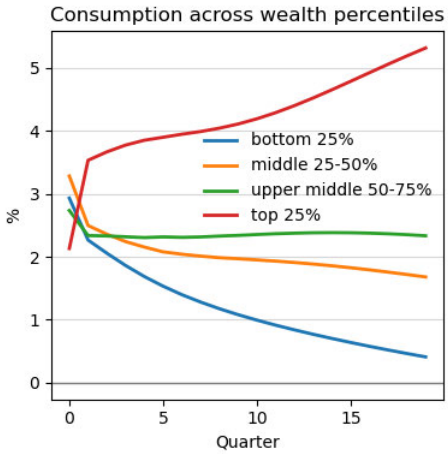
[8] We also note that the initial effect on house prices is positive, driven by a temporary rise in demand for rental housing associated with the overall increase in demand (see the response of consumption). However, these effects are short-lived and are soon outweighed by the downward pressure resulting from dissaving (see Graph 3 in Appendix).

[9] See D26/178465 for external estimates of the effects of proposed policy changes.

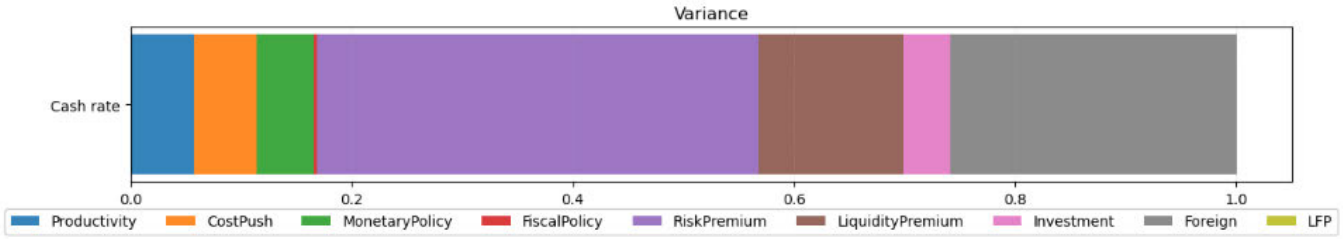
Appendix



Graph 3. The graph presents the impulse responses to the capital income tax change and the risk premium shock. All responses are shown in percentage deviations from the baseline.



Graph 4. The graph presents the impulse responses of average consumption across wealth percentiles to the capital income tax change. All responses are shown in percentage deviations from the baseline.



Graph 5. Historical contribution of various shocks to the dynamics of the cash rate. Contributions are presented as shares that sum to 1. Policy shocks are the estimated exogenous component of these policies, endogenous changes in policy are driven by the other shocks.

Note DM: Changes to Limited Recourse Borrowing Arrangements for Self-managed Super Funds[1]

From 10 August, self-managed super funds (SMSFs) will be prohibited from borrowing through Limited Recourse Borrowing Arrangements (LRBAs) to invest in residential housing. Overall, we assess the likely impacts of this policy change as limited, given the small share of the residential lending market represented by SMSFs. Nonetheless, industry has indicated that this segment of the market has an outsized impact on new residential construction, which might pose a downside risk to the RBA's dwelling investment forecasts.

What are LRBAs?

SMSFs can borrow money under LRBAs.[2] Under LRBAs, an SMSF trustee obtains a loan to purchase a single asset (or a collection of identical assets, such as a tranche of shares in the same company) and holds that asset in a separate trust until the loan is paid off. The trust structure of the LRBA means that the other assets in the SMSF are protected if the loan defaults.

The key benefits of using LRBAs are that:

- any income from the asset (such as rent) is taxed at 15 per cent, rather than at the owner's marginal tax rate, and
- capital gains tax from any future sale may be discounted due to the fund's tax status.

These benefits are partly offset by SMSF set-up costs (estimated to be between $2,000 and $5,000), annual compliance and audit fees of around $4,500, and higher interest rates (Yard 2026).

Properties purchased through an LRBA cannot be used as a place of residence by the SMSF beneficiary or any related parties (e.g. family members or anyone with ties to the trustee), and properties cannot be purchased from a member, trustee or related party of the fund (SMSF Australia, 2026).

The 2014 Financial System Inquiry (FSI) recommended a ban on the use of LRBAs by superannuation funds on financial stability grounds. However, the Government did not proceed with a ban and instead requested that the Council of Financial Regulators (CFR) and Australian Tax Office (ATO) monitor leverage and risk in the superannuation system.[3]

Major Australian banks mostly exited this market in 2016-2018. This likely reflected a combination of factors: the market was relatively small, LRBAs are more complex to originate and administer than standard mortgage products, and the limited recourse structure may have made the risk-adjusted return less attractive. Banks may also have been wary of expanding exposures after the 2014 FSI recommendation. Non-ADIs – which are subject to lower prudential regulatory requirements – have filled this gap and now account for almost 85 per cent of total lending to SMSFs (up from 13 per cent in June 2019).

What is the policy change?

From **10 August 2026,** SMSFs will no longer be allowed to borrow to purchase **residential property** through an LRBA. SMSFs will still be allowed to purchase residential property outright with cash and they will still be able to borrow to purchase commercial property via an LRBA. LRBAs entered into before 10 August 2026 will not be affected due to grandfathering arrangements. The intent of the policy change is to reduce risks to individual investors and their retirement savings, and support first home buyers.

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[1] We would like to thank s22 for their helpful comments on this note.

[2] Data from the ATO indicates that the SMSF sector consists of over 1.2 million members and around 670,000 funds, with assets estimated to be $1.06 trillion at March 2026. LRBAs account for 8 per cent of SMSFs' assets. Data from 2023-2024 indicates that residential property exposure is more concentrated in funds with assets under management of between $200k and $5m.

[3] Since then, 2019 and 2022 reports have been prepared that set out the level of risk that LRBAs (which are almost exclusively utilised by SMSFs) pose to superannuation and broader financial system.

How big is the LRBA market?

The size of the market is contested.

- **Treasury analysis of ATO data indicated that there were 4,300 new LRBAs in 2024 and an average of 4,000 per year over the previous eight years, corresponding to less than 0.5 per cent of new residential housing lending**. Treasury also reported that total borrowing for residential property under LRBAs comprise less than 1 per cent of housing credit outstanding.[4]
- **Using EFS data, we estimate that the stock of residential mortgage lending to SMSFs accounts for 0.5 per cent of total housing lending and 1.6 per cent of total investor lending.** This estimate uses data on the stock of ADI lending to SMSFs for the purchase of residential property (which accounts for less than 0.1 per cent of total housing credit and 0.3 per cent of investor lending), and separate data showing that non-ADIs accounted for 83 per cent of total lending to SMSFs in June 2026.
- **Property industry groups and non-bank lenders have argued that the Treasury estimates materially understate the size of the market**. They also argue that the number of loans understates the potential economic effects because SMSF loans can be an important source of pre-sale demand, which is necessary for development projects to proceed as it unlocks other sources of financing.
    - The Australian Financial Industry Association (AFIA) reported that its 13 non-bank lender members wrote more than 16,000 residential SMSF loans in FY26 (see AFR). These figures do not separate lending for new dwellings from established homes. AFIA stated that its members comprise more than three-quarters of the non-bank lending market.
    - Separately, a group of eight property investment firms stated that they processed more than 4,000 LRBA loans for residential property over the past year (suggesting a larger aggregate figure than Treasury's estimate; AFR report). The Urban Development Institute of Australia (UDIA) also stated that each LRBA can result in two to three homes being built. This is because SMSF sales are typically concentrated at the beginning of a project, often providing around 30 per cent of presales required to secure construction finance.

Implications of the policy change

In the near term, the ban is likely to weigh on housing prices and housing construction, though the magnitude of the impact is uncertain. This reflects uncertainty around the size of the LRBA market, the split of LRBA loans for new versus established housing, and the extent of the flow-on effects to housing prices, credit and construction. The effect will also be difficult to disentangle from other factors currently weighing on the housing market, including higher interest rates, other tax changes, high construction costs, and weak sentiment. Over the medium term, the effect on prices is also unclear as the policy could influence both the demand and supply of housing.

Overall, our assessment is that the **impact of this ban on housing prices is likely to be small** relative to the impact from recent Budget changes to negative gearing and capital gains tax, owing to the small share of mortgages accounted for by SMSFs (particularly with reference to Treasury / ATO figures).

Nonetheless, taking property industry claims at face value suggests the policy change could **pose a downside risk to the outlook for dwelling investment.** Construction industry sources claim that the policy could reduce new construction by 12,000 - 40,000 new homes per year.[5] For context, around 170,000 new homes were completed across Australia in 2025. While lenders and builders have noted signs of some demand being

[4] Public ATO data does not specify the total value of residential property held under current LRBAs but does indicate that the total value of all assets held under LRBAs in 2024 was $80 billion (equivalent to around 3 per cent of housing credit) against $29 billion of debt.

[5] This appears to be based on an estimate of 4,000 – 10,000 SMSF loans for new residential property and two to three homes built for each loan.

brought forward to beat the 10 August deadline, they also expect some existing contracts to be cancelled because of the change. A survey by the Housing Industry Association (HIA) found that builders expected two-thirds of signed contracts for new detached residential property purchased under an LRBA to be cancelled because of changes to legislation.

However, it is difficult to corroborate these figures with official ATO data. In particular, the claim that the policy could reduce new construction by 12,000 - 40,000 new homes per year appears to assume: (a) a higher number of LRBAs than official estimates; (b) that all of these loans are for new builds; and (c) that this lost funding is not replaced by other sources, resulting in a much larger total effect on housing supply.[6] Notably, mention of the ban is yet to emerge as a theme in Bank liaison with homebuilders and lenders. As such, **we believe the estimates cited by industry representatives likely overstate the potential impact of the policy change**.

EA's current forecasts assume that the recent softening in housing market conditions will bring demand for new housing closer to the supply capacity of the industry, resulting in only a small impact on projected dwelling investment. These forecasts do not explicitly account for the impact from this policy change, consistent with the ATO and EFS data which suggest the market is very small. While larger effects from the policy could pose a downside risk to the dwelling investment forecasts, it is worth noting that the RBA's forecast is already low relative to Treasury and model-based estimates that do not account for capacity constraints. We expect that information from liaison and media reporting in the period following the ban will provide greater clarity around the implications for dwelling investment.

s22
Institutional Markets Section
Domestic Markets Department
6 August 2026

[6] In practice, it is possible that some SMSF investors who would have previously purchased a property under an LRBA now do so with cash, or with a standard mortgage. It is also possible that the effects of the policy change are partly or fully offset by investor demand shifting from established housing into new construction in response to their more favourable tax treatment under the changes announced in the Federal Budget; see D26/178465.

EC Memo: Non-housing related implications of Budget tax reforms on activity[1]

The tax law reforms announced in the 2026/27 Federal Budget are expected to primarily affect activity through housing-related effects, with limited evidence of a material impact via other channels. External commentary suggests the overall impact on businesses is like to be broadly neutral, though outcomes will vary across firms. While the WATO and $1,000 instant tax deduction are expected to provide some support to consumption, this is unlikely to fully offset the effect of lower housing wealth. These reforms could also improve capital allocation and productivity over time, but there is significant uncertainty around these effects.

The tax reforms announced in the 2026/27 Budget are expected to primarily affect activity through housing-related effects but may also impact the economy via other channels.

The 2026/27 Federal Budget announced a range of tax reform measures (for Budget overview, see: D26/140872). Key tax changes include:

- **Capital Gains Tax (CGT) –** the 50 per cent CGT discount for individuals, trusts and partnerships replaced with cost-base indexation. This applies to capital gains on CGT assets (including investment property and shares) accrued from 1 July 2027, with real gains taxed at a minimum rate of 30 per cent.
- **Negative Gearing –** full negative gearing limited to newly built dwellings. There are grandfathering arrangements for existing investments.
- **Income Tax –** introduction of a Working Australians Tax Offset (WATO) of up to $250 per year from 1 July 2027 and an automatically applied $1,000 standard deduction for work-related expenses, reducing the amount of taxable income for those eligible.[2]

We anticipate the tax reform will largely affect GDP through its effect on the housing market (via lower housing prices and their effects on household consumption and dwelling investment).[3] However, these reforms may also affect activity via other channels, including business investment and household consumption unrelated to housing wealth effects. This memo explores these non-housing related channels, drawing on conceptual linkages and external commentary.

CGT changes could reduce the incentive to invest in some businesses, but the impact will vary considerably across firms. Some commentary suggests the net effect on businesses is broadly neutral.

Some commentary (ACCI, Professor Richard Holden) has focused on the possibility these changes could discourage business investment by increasing CGT on the sale of businesses. However, the impact is unlikely to be uniform across investments, and in some cases, CGT may be lower than under the previous system.

- Whether the reforms increase or decrease CGT on the sale of a business depends on the size of the nominal capital gain relative to inflation. While some business owners may face higher CGT when selling their business, particularly where the sale price exceeds the inflation-adjusted value of their original investment, others could face lower CGT where a larger share of nominal gain reflects inflation (AFR).
- A business with a low-cost base, such as start-ups with only a laptop, will likely face higher CGT liabilities (PWC, ABC). This is because cost-base indexation provides only a limited buffer where the initial investment is small, and so most gains of the business become taxable.

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[1] I would like to thank s22 for their helpful feedback on this memo. Thank you s22 for their expertise and helpful discussion throughout the drafting.

[2] See Budget 2026–27 Tax Explainer and Standard deduction for work-related expenses (Australian Taxation Office) for more details.

[3] For overview of the negative gearing and CGT reforms impact on housing, see: D26/178465.

  - It is difficult to determine how many businesses with a low-cost base will be adversely affected, but the Government has proposed carve outs for certain start-up investments which could reduce the tax burden for some (Consultation paper: Capital gains tax reforms – arrangements for innovative start-ups).
- Small business concessions will continue to reduce CGT liabilities, and have been extended.
  - The 4 existing concessions for small businesses will remain and the 50 per cent active asset reduction will be extended to businesses with a turnover below $10 million from 1 July 2027, up from the previous $2 million threshold.
  - These CGT concessions operate in addition to the cost-base indexation. This means those that were already eligible could face higher CGT liabilities (all else equal) while others that have become newly eligible under the extended threshold could be better off, depending on their circumstances.
  - There are other proposed policies that are supportive for small businesses, which could help offset greater CGT liabilities for some, including the reintroduction of the loss carry back tax offset for businesses with less than $1 billion turnover and continuation of the $20,000 instant asset write-off for small businesses (CBA).

Overall, it is difficult to quantify the number of businesses expected to be better or worse off under these reforms, and its impact on aggregate business investment. Treasury estimates suggested changes to CGT would have a limited impact on overall investment. However, these estimates were produced prior to the expansion of small business concessions, which are likely to mitigate some of the impact. More broadly, CBA assessed the overall Budget package as being 'broadly neutral' for businesses.

While the WATO and $1,000 instant tax deduction will provide some support for household incomes, it is not expected to fully offset the consumption effects of lower housing wealth.

Changes to negative gearing and CGT are expected to dampen household consumption through lower housing prices and associated wealth effects, and potentially through lower income for some investors. s22 (2026) suggest that the CGT reforms could encourage some households to consume more by making saving less attractive, potentially offsetting some of these effects.

While the WATO and $1,000 instant tax deduction will support disposable income (and therefore consumption) over the forecast horizon, these measures are unlikely to fully offset the drag from lower housing wealth. Government estimates suggest the $1,000 tax deduction should provide 42 per cent of taxpayers with $205 tax savings in 2026/27. Our consumption forecasts have largely incorporated these effects, by conditioning on weaker housing prices and an income forecast derived from budget estimates.

The reforms have not materially impacted equity valuations to date, suggesting any effects from financial assets on activity are likely to be limited.

Another potential transmission channel to activity is via equity prices. Higher effective taxation of capital gains may reduce the attractiveness of equities for investors, placing downward pressure on valuations. Australian equity prices also remain highly exposed to housing market conditions through the financials and real estate sectors. Lower equity prices would increase the cost of capital for businesses limiting their ability to undergo investment (D26/145981) and weigh on household wealth and consumption. However, to date, there has been little evidence that equity prices have reacted materially to the reforms, suggesting any effects on activity via this channel is likely to be limited.

It is possible these reforms effect portfolio allocation, including increasing the attractiveness of income-generating assets and equity investment relative to housing (AFR, *A Brief History of Aus Equity Prices – Macquarie*). This could support equity prices, making the aggregate effect of these reforms more uncertain.

Reforms could improve capital allocation and productivity over time, although the magnitude of any such effects is highly uncertain and there is some divergence in opinion across external commentators.

- Some commentators suggest the reforms could improve productivity by redirecting investment away from speculative assets (e.g. crypto) towards more productive uses of capital.
    - Grattan Institute have argued the previous CGT 50 per cent discount and negative gearing allowances encouraged 'speculative investment' in housing as opposed to other forms of investment.
    - The Australia Institute believe these reforms could reduce tax-induced distortions and encourage more investment decisions to be made on the best risk to reward investment rather than the best after-tax outcome.
    - ANU's Tax and Transfer Policy Institute says indexing capital gains is an improvement because it is less time-dependent and removes the subsidy for short-term speculation in capital assets.
    - ACOSS also notes the reform improves equity between taxation of investment income and wages, supports productive investment over speculation, and should improve investment efficiency, productivity and growth by reducing tax-favoured speculation in assets.
- However, others argue the reforms could discourage investment in higher-growth and higher-risk activities, and dampen innovation.
    - Professor Richard Holden argues (prior to the proposal of carve-outs) because these policies increase CGT most for higher return investments, the reform would discourage productive investment.
- The reforms could also increase uncertainty during the transition period – CPA Australia suggested the policies design increases the complexity of tax law and implementing the legislative changes in tranches risks undermining investment confidence.

Overall, the non-housing effects of the tax reforms on GDP are not easily identifiable, with the policies having varying effects on businesses and consumers depending on individual circumstances. While the reforms may impact activity via several channels, the external commentary and available evidence suggest any effects beyond the established housing market channels are unlikely to materially alter the outlook for domestic activity. DAT will continue to monitor tax policy updates and consider their effects on our outlook for activity.

s22
Senior Analyst
Domestic Activity and Trade
Economic Analysis Department
28 July 2026

Budget 2026/27: NDIS Reform Implications

The 2026/27 Federal Budget announced NDIS reforms that are expected to materially moderate growth in NDIS expenditure and reduce the Government's underlying cash deficit. The impact on public consumption is expected to be limited in the near term, as many of the larger reforms are not expected to take effect until at least 2027/28.

The 2026/27 Federal Budget announced reforms to the NDIS that are expected to materially moderate growth in NDIS expenditure, with most changes occurring from 2028/29 onwards

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Around 75 per cent of the projected reduction in spending is not expected until 2028/29, outside the Bank's current forecast horizon.

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NDIS changes are expected to have a limited impact on public consumption profile over the forecast horizon, though may pose some upside risk further out

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Analyst, Domestic Activity and Trade
Economic Analysis Department
13 July 2026

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RESERVE BANK OF AUSTRALIA

The Net Zero Plan & Treasury Modelling

Key messages and implications for the Bank's forecast

s22

30 October 2025

[TRIM No.]

Overview

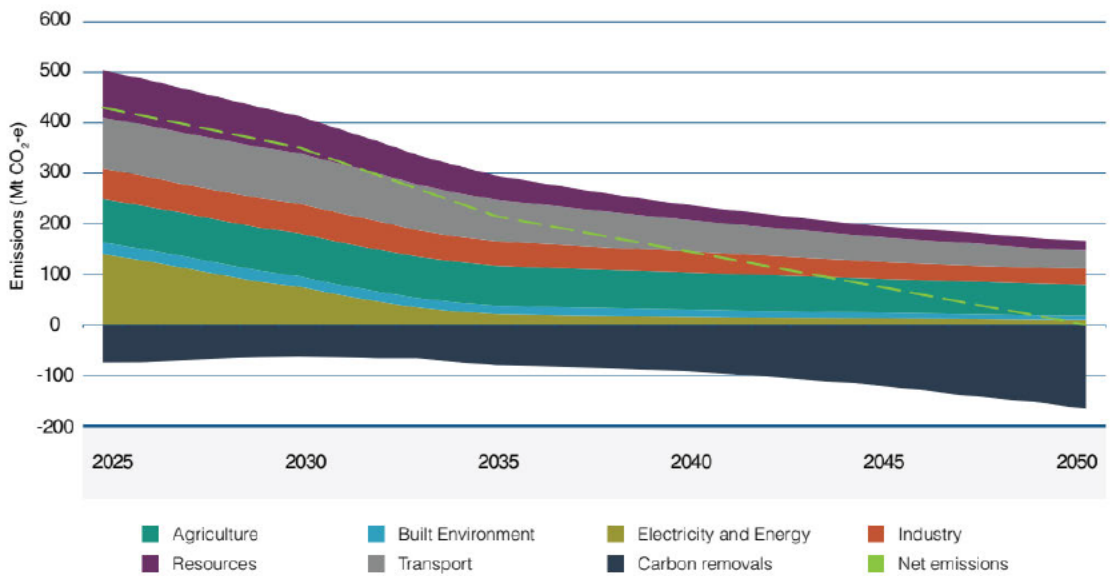
1. **The Net Zero Plan and the new 2035 emissions reduction target**
2. **Treasury's macroeconomic analysis**
3. **Considerations for the Bank's forecasts**

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What is the Net Zero Plan?

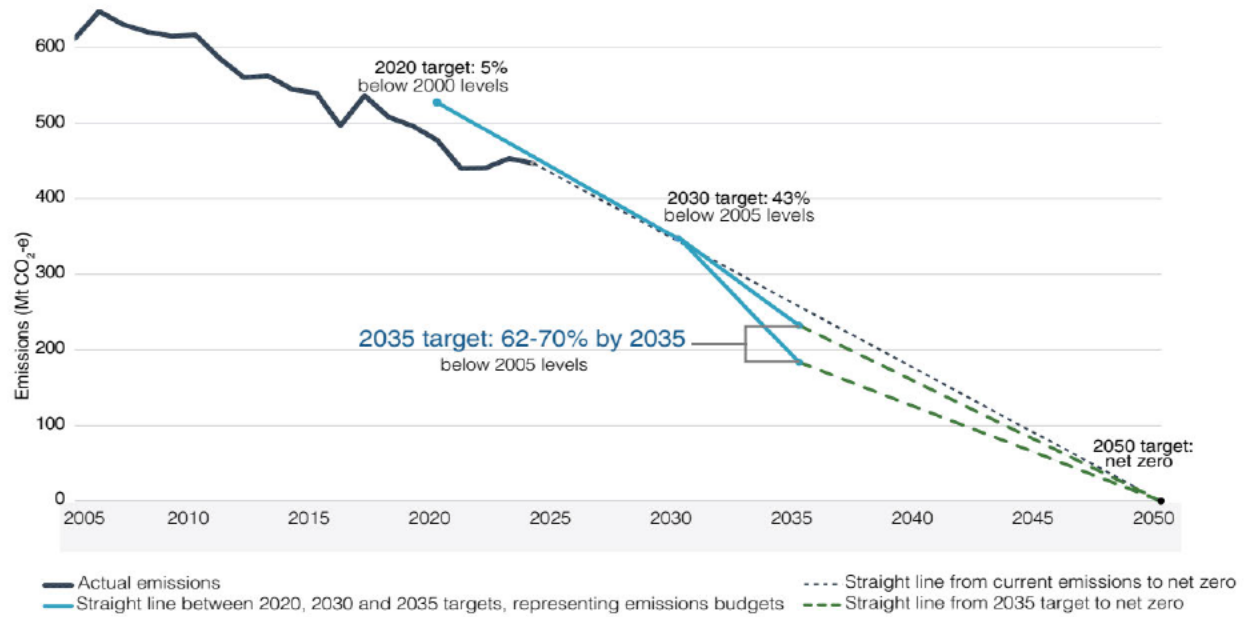
Australian Government's planned actions to reduce emissions to net zero by 2050.

Figure 5.1: Projected emissions under Treasury Baseline Scenario, by sector



The new 2035 emissions reduction target

Figure 4.1: Australia's emissions reduction targets and progress[1]



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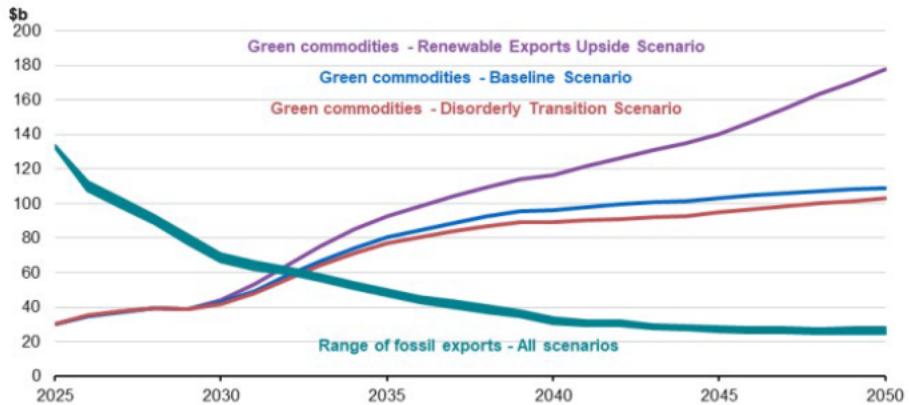
Treasury's Macroeconomic Analysis

- Treasury modelling suggests a permanent and ongoing decline in fossil exports

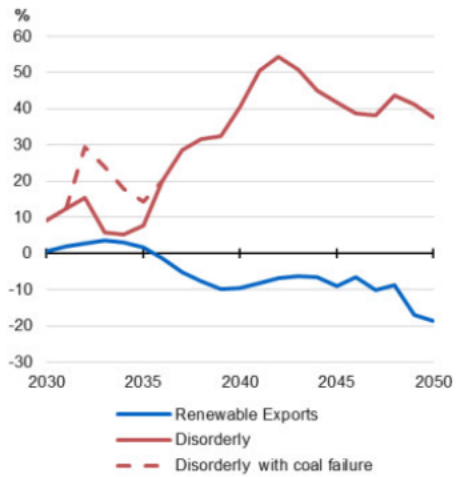
- In the Renewables Exports Scenario, green exports offset this decline by the 2040s, but in the Baseline only offset about 2/3rds of the loss

- Wholesale prices decline by 10% in the Baseline due to cheap renewables and increase significantly due in the Disorderly Transition due to reliance on natural gas

Commodity exports across transition scenarios



Wholesale electricity prices relative to the Baseline Scenario



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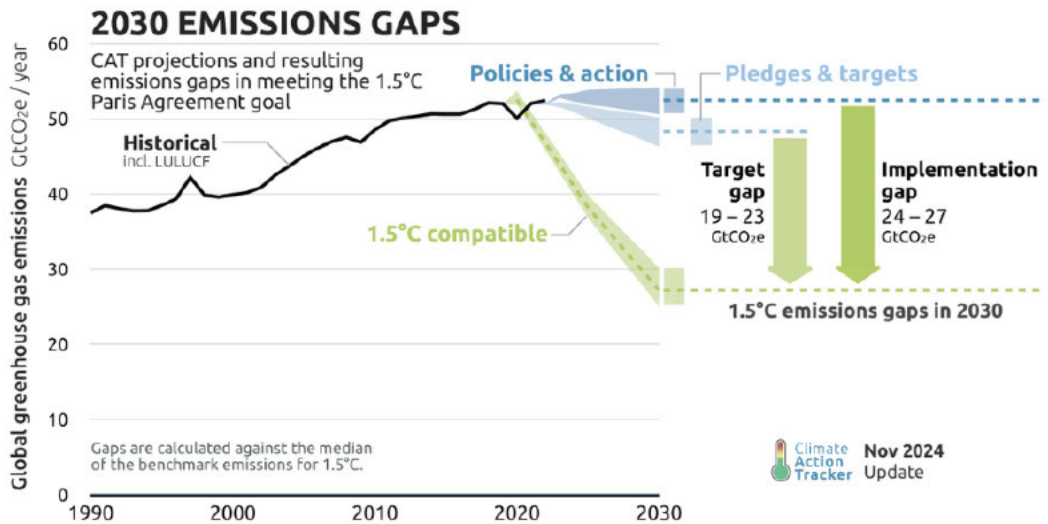
Caveats

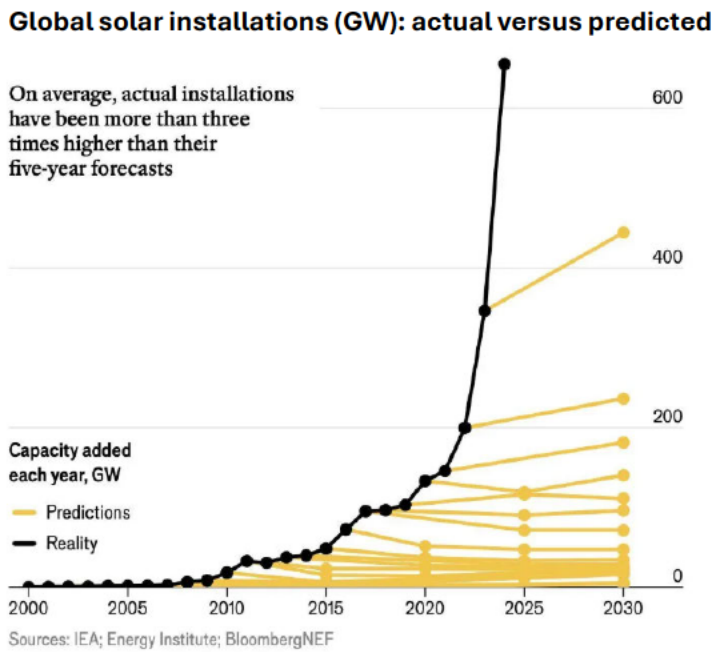
1. The global economy is so far not achieving Paris targets, implying higher external fossil fuel demand than modelled.

2. Energy system modelling consistently underestimates clean technology adoption and improvement.

3. Green export path and level are very uncertain (see recent RBA Bulletin on critical minerals for detailed discussion).

4. Long-term fiscal appetite to support the transition is not considered.



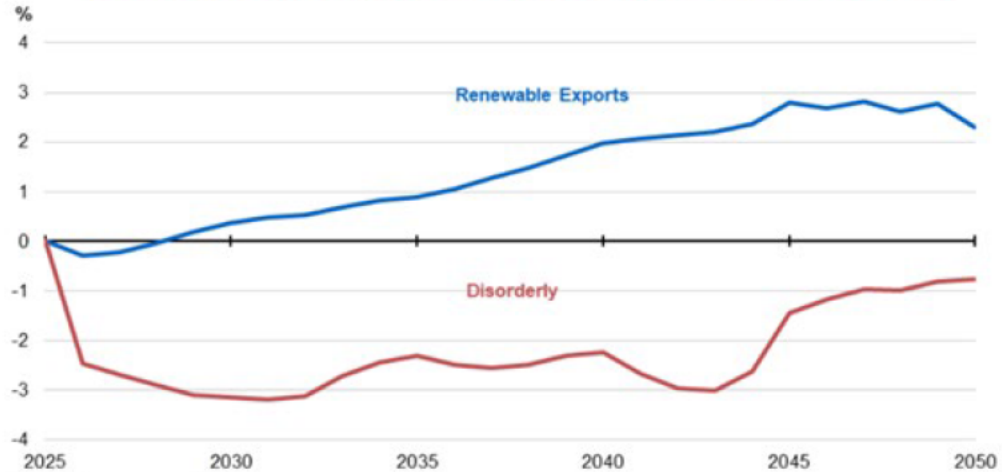


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Considerations for the Bank's forecasts

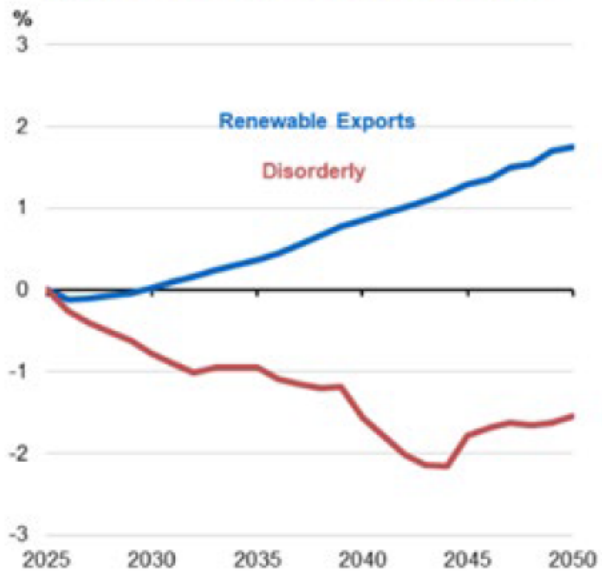
- No material implications for the Bank's economic forecasts to 2027 (forecast horizon ends December 2027).
- Treasury's baseline and upside net zero scenarios show rising renewable investment between 2025 and 2050; the Bank's forecasts also factor in increasing renewable investment.
- No material impact on the Bank's public demand forecasts.
- Treasury's scenarios (including the baseline) show a decline in nominal resource exports from 2025, which differs from the Bank's forecast of flat growth.

Chart 4.6: Investment, per cent deviation from the Baseline Scenario



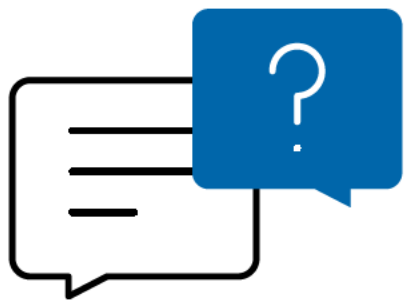
Source: Treasury modelling.

Chart 4.2: Real GDP, per cent deviation from Baseline Scenario



Source: Treasury modelling.

Q&A



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RESERVE BANK OF AUSTRALIA

Briefing: The Net Zero Plan[1]

Key Takeaways

***What is it**: The Net Zero Plan outlines the Australian Government's planned actions to reduce emissions to net zero by 2050 and sets an interim 2035 emissions reduction target. Treasury's modelling of the macroeconomic impacts of the transition to lower emissions was also released.*

***Why do we care**: The macroeconomic effects of the economy-wide transition is important context for monetary policy and a potential source of financial stability risk.*

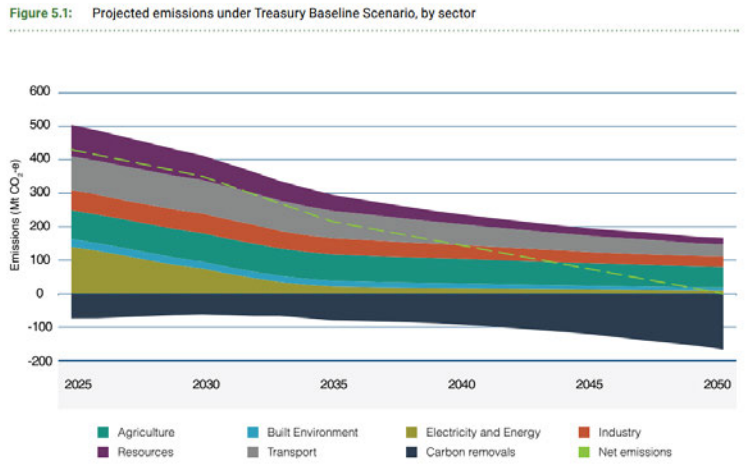
***Key findings**: The Plan includes few additions to the suite of existing policies. However, further policy actions are anticipated as achieving the 2035 target requires an acceleration in the deployment of clean energy. Treasury's analysis shows a major shift in Australia's commodity export sector and the potential disinflationary impacts for Australian households via electrification over coming decades. High level narratives, like a pick-up in renewables investment, are already included in the Bank's forecasts to 2027.*

What is the Net Zero Plan?

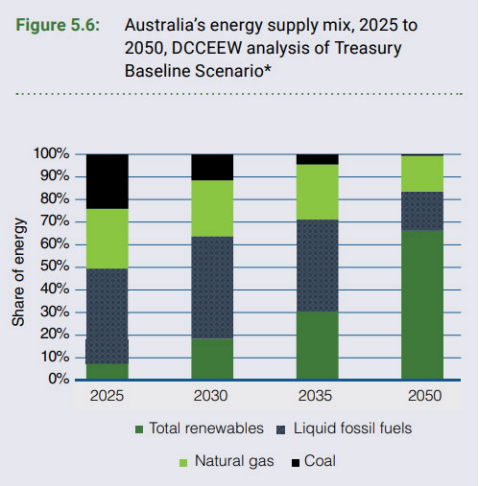
The Net Zero Plan ('the Plan') sets out how Australia can transition to net zero emissions by 2050 and the actions being taken by the Australian Government to achieve this goal. The Government has also set an interim 2035 emissions reduction target of 62 – 70 per cent from 2005 levels.

Alongside the Plan**, a set of sectoral plans outline key actions** across the agriculture, built environment, electricity and energy, industry, resources and transport sectors, all of which need to reduce emissions to achieve climate targets (Graph 1). Over the next decade rapid decarbonisation is expected in the electricity and energy sector, where there are mature, readily available decarbonisation technologies. The increased supply of renewable energy will then enable other sectors (e.g. the built environment, transport) to decarbonise. Carbon removals will be needed to offset residual emissions out to 2050.

Graph 1



Graph 2



s22

1 We would like to thank s22 and Jeremy Lawson for their helpful suggestions and comments in preparing this note.

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RESERVE BANK OF AUSTRALIA

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Treasury's Macroeconomic Analysis

Treasury's macroeconomic modelling of the Net Zero Plan has also been published. This assumes that the global economy will efficiently achieve emissions reductions consistent with maintaining mean temperature increases of 2 degrees Celsius by 2100. For the domestic portion, Treasury uses in-house models for the macroeconomy, electricity markets, resource markets, and household expenditures to outline three scenarios:

1) The **Baseline Scenario** outlines an efficient domestic decarbonization pathway that sees Australia achieving emissions reductions of 43 per cent from 2005 levels by 2030, 65 per cent by 2035, and Net Zero by 2050 through existing policies and the efficient usage of likely new technologies.

2) The **Renewable Exports Upside Scenario** is equivalent to the Baseline Scenario but considers potential benefits from exporting clean technology products such as green iron, green ammonia, and critical minerals. GDP and wage levels are highest in this scenario owing to elevated external demand and associated investment.

3) The **Disorderly Transition Scenario** keeps existing climate policies in place but does not set a credible emissions reductions target. It assumes minimal emissions reductions through the 2030s and steep reductions in the 2040s to achieve Net Zero in 2050. In this scenario, policy uncertainty, elevated cost of capital, and higher energy costs depress real GDP, investment, and wages relative to the baseline scenario.

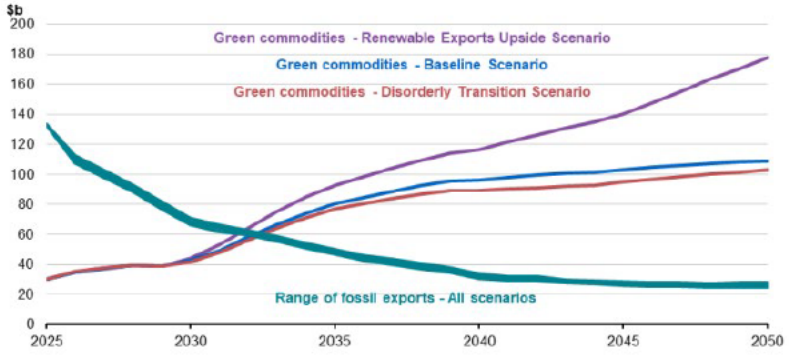
Table 1 – Wage and GDP levels relative to the Baseline Scenario

	Renewable Exports Upside Scenario		Disorderly Transition Scenario	
	2035	2050	2035	2050
Real wages	0.8%	1.6%	-1.6%	-2.5%
Real GDP per capita	0.4%	1.7%	-0.9%	-1.6%

The Treasury analysis suggests a substantive reordering of Australia's commodity export sector (Graph 3)**.** In a 2 degree scenario, fossil fuel exports are expected to already have entered a state of permanent decline. Meanwhile, green exports do not take off until the end of decade and in the long run only compensate for around two-thirds of the expected decline in fossil fuel exports in the Baseline and Disorderly Transition Scenarios. Even in the upside scenario, green commodity exports do not compensate for the loss of fossil fuels until the 2040s.

Graph 3

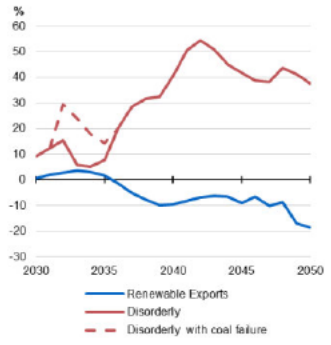
Commodity exports in the transition scenarios



Graph 4

Wholesale electricity prices

Relative to the Baseline Scenario



Wholesale electricity prices are expected to gradually fall. Treasury projects that long-term wholesale electricity prices would fall by 10 per cent below the 10-year real historical price under the Baseline Scenario due to a higher usage of renewable electricity and lower reliance on aging coal facilities, with additional structural price declines under the Renewable Exports Upside Scenario (Graph 4). In contrast, Treasury projects significantly higher prices under the Disorderly Transition Scenario due to much higher use of expensive natural gas.

Treasury analysis also highlights the potential for significant disinflation and lower inflation volatility for Australian households via electrification, estimating that in 2030 a typical household could save up to $4,300 a year by adopting technologies such as solar panels, home batteries, electric heating, and electric vehicles.

Caveats to Treasury's analysis:

1) **Actual emissions have thus far failed to meet the goals set in the Paris agreement**, but all three scenarios assume that the global economy efficiently achieves these goals. Continued slow progress by major emitters could mean that these scenarios underestimate future fossil fuel exports and perhaps overestimate green exports. Higher emissions also imply a higher-than-expected degree of physical risk, which is beyond the scope of the Treasury analysis.

2) **Large-scale modelling efforts have persistently and significantly underestimated cost declines and adoption of clean technologies** (Way et al 2022, Ritchie 2023). This implies that risks to fossil fuel demand and/or prices may be understated while, conversely, the assumed costs of the transition are overstated. Relatedly, these modelling issues underplay the possibility that rapid, S-curve style adoption paths take hold for clean technology.

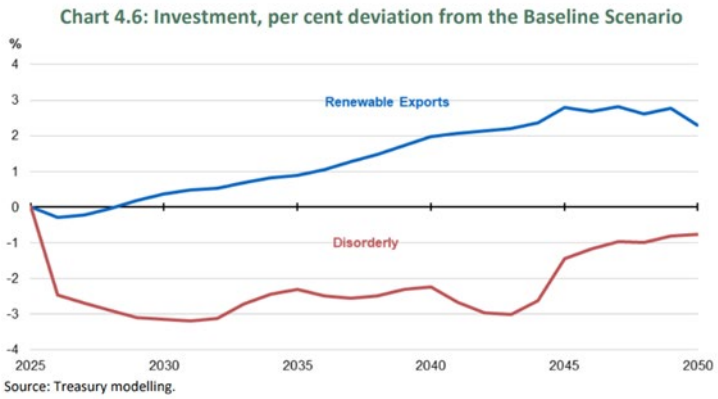
3) **Long-term fiscal appetite to support the transition is not considered.** The subsidy-oriented, risk-offsetting approach of the current plan may not persist over the projection horizon if budgetary pressures take hold or if a future government places lower priority on domestic emissions reductions.

Considerations for the Bank's forecasts

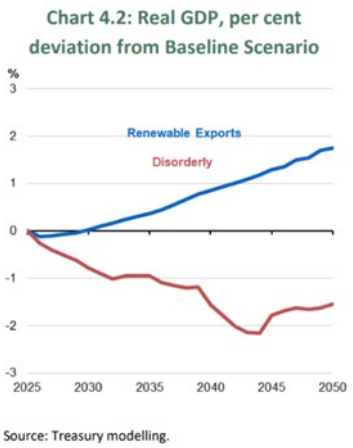
For the most part, the report does not have material implications for the Bank's economic forecasts to 2027. Treasury's net zero scenarios focus on longer-run economic effects of the Government's net zero plan, projecting outcomes to 2035 and 2050. As such, detail on projections over the next three years (the Bank's forecast horizon) is not provided for most macroeconomic variables, with the exception of resource exports. This makes drawing direct comparisons to the Bank's forecasts difficult. Nevertheless, the high-level narratives in this report are broadly consistent with the drivers of the Bank's forecasts. In particular, EA is forecasting a pick-up in business investment from 2026 onwards, driven by growth in renewable energy investment. This strength in renewables investment is consistent with Treasury's baseline and upside net zero scenarios, which show rising renewable energy investment between 2025 and 2050. The Plan also only includes A$3 billion in net new government spending to 2035; this is a very small figure above what is already accounted for in the Bank's public demand profiles (which are based on the last set of government budgets).

One area where the Bank's forecasts differ with the picture presented in Treasury's report is on export values. As discussed above, Treasury's net zero scenarios assume a rapidly decarbonising world and so project a decline in fossil fuel exports from 2025 onwards (which is only slightly offset by a pick-up in green commodity exports in the next few years), while the Bank is forecasting resource export values to remain broadly steady over our forecast horizon to 2027. This probably reflects a combination of differing assumptions around the pace of climate ambition globally, as well as different commodity price projections, with Treasury typically more conservative in its iron ore price assumptions. DAT will confer with its Treasury counterparts to understand differences more fully, and to understand their expectation for how resource export volumes will evolve in the near term.

Graph 5



Graph 6



A key uncertainty is the implications of the Plan for the fiscal stance. While an indication of planned additional public spending over the projection period was given (and was very small), it does not capture all government outlays associated with emissions reduction or implications for government revenues (for instance, from changes in tax receipts or proceeds of green investments made by public investment vehicles like the CEFC). DAT will continue to monitor government budgets to understand implications for the fiscal stance because of this growing category of spending.

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Domestic Activity & Trade and Climate Analysis & Policy
Economics Analysis and International Departments
24 September 2025

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Climate Analysis and Policy Explainer - Future Made in Australia

Purpose: *This note aims to provide an overview of the Future Made in Australia (FMA) policy package, its various components, and its potential impacts on fiscal and investment spending.*

What is FMA?: *FMA is part of a suite of industrial policies, such as the Capacity Investment Scheme and Rewiring the Nation, from the federal government to support Australia's transition to net zero emissions. FMA is focused on developing green/clean industries such as renewable hydrogen and critical minerals that are likely to be crucial to the global transition, and which could potentially fill the gap left from lower demand for Australia's traditional major exports of iron ore, coal, and liquified natural gas (LNG).*

Conclusion: *Direct fiscal expenditures associated with the program are small in the near-term. However, since FMA policies are generally designed to crowd-in private capital, they could provide support for near- and medium-term investment and have a larger impact than headline fiscal numbers alone suggest. The ultimate fiscal impact is uncertain given FMA's reliance on production-based tax incentives, the cost of which will ultimately depend on project execution and global demand for critical minerals and renewable hydrogen.*

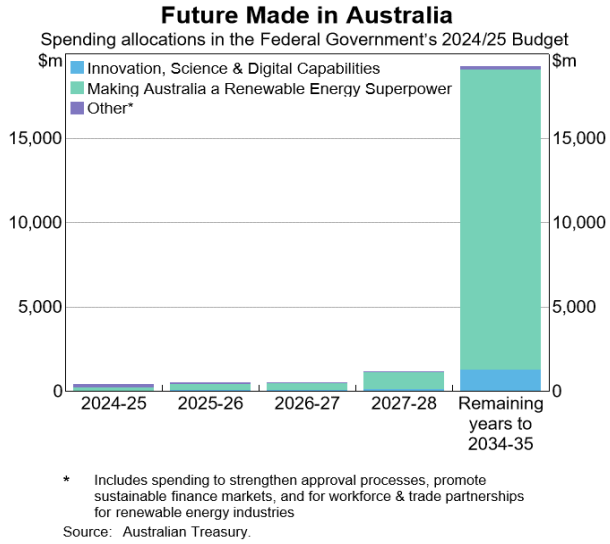
Overview

The Future Made in Australia policy package was announced in the 2024/25 Budget. It committed funding of $22.7 billion over 10 years ($2.6 billion to mid-2028) to 'maximise the economic and industrial benefits of the move to net zero and secure Australia's place in a changing global economic and strategic landscape.' (Australian Government 2024b). The various policy measures are intended to increase private investment in key priority industries' identified by the government. These industries include renewable hydrogen, green metals, low carbon liquid fuels, critical minerals processing and refining, and manufacturing of clean energy technologies.[1,2]

The immediate fiscal expenditure is minimal, but the broader macroeconomic impact could be larger

Since around 90% of the spending associated with FMA will be rolled out from mid-2028 onward (Graph 1), a noticeable direct macroeconomic impact is unlikely in the near-term. And even after mid-2028, projected direct fiscal expenditures associated with the program will be a small share of government expenditures and the overall economy (for context, federal government spending was $798.6 billion in 2024/25 versus a total projected lifecycle cost of $22.7 billion for FMA).

Graph 1



[1] Geoscience Australia defines a critical mineral as 'a metallic or non-metallic element that is essential for the functioning of modern technologies, economies or national security and where there is a risk that its supply chains could be disrupted'.

[2] See RBA Bulletin "The Global Energy Transition and Critical Minerals" for discussion on the global and domestic outlook for critical minerals.

While FMA's direct impact on the fiscal impulse is minimal (at least until 2028), if the policy meets its objectives of crowding in private sector investment into priority areas, the broader macroeconomic impact could be more consequential than the headline numbers suggest. Nevertheless, there are no publicly available estimates as to how much private investment the FMA is expected to bring in.[3]

Policy uncertainty may also adversely affect firm investment intentions and dampen the impact of FMA. For example, one panel survey across 12 OECD countries between 1990 and 2018 found a 10 per cent increase in climate policy uncertainty reduced firm investment by 2-3 per cent, on average, in the same year (NGFS 2024). The Opposition's announcement to scrap its commitment to reaching net zero emissions by 2050 raises the possibility that this fiscal support may be unwound if there is a change in government. Nevertheless, there is little indication that the current government's stance is likely to change.

Heavy reliance on production tax incentives makes estimation of macroeconomic consequences difficult

The vast majority of funding, $19.7 bn of the $22.7 bn total, is allocated to "Making Australia a Renewable Energy Superpower" (Graph 1); $13.7 bn of which is specifically allocated to the production of renewable hydrogen and the refining and processing of critical minerals via production-based tax credits (Graph 2). Each of the tax credits are expected to take effect in mid-2027.

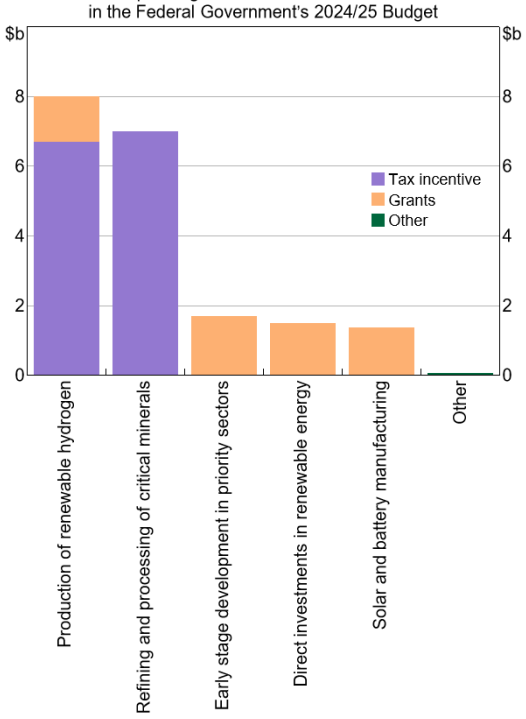
- The *Critical Minerals Production Tax Incentive* is designed to support downstream processing and refining of 31 critical minerals to improve supply chain resilience. Eligible producers can claim a tax offset of up to 10 per cent of production costs for up to ten years between 1 July 2027 and 30 June 2040. The 2024/25 Budget estimated the cost of the program to be $7.0 billion to 30 June 2034 and $1.5 billion per year for the remainder of the life of the program.

- Under the *Hydrogen Production Tax Incentive*, eligible producers can claim a tax offset equivalent to $2 per kilogram of renewable hydrogen for up to 10 years between 1 July 2027 and 30 June 2040.[4] The 2024/25 Budget estimated the cost of the program to be $6.7 billion to 30 June 2034 and $1.2 billion per year for the remainder of the life of the program. Final investment decisions for projects receiving the tax incentive must occur by 1 July 2030.

Graph 2

Making Australia a Renewable Energy Superpower

Spending to June 2034 announced in the Federal Government's 2024/25 Budget



Sources: Australian Treasury; RBA.

Because these are uncapped production-based incentives, estimating their ultimate consequences for fiscal spending, private sector investment, employment and growth is difficult.[5] For example, higher than expected production could materially increase the cost of the incentives to the federal government, but at the same time would generate extra tax revenue from induced economic spillovers and higher employment. Also, the effects of the production incentives need to be evaluated against how much extra production occurs that otherwise would not have (i.e. to quantify the effects of the policy, we need to consider a counterfactual scenario).

[3] For reference, the Clean Energy Finance Corporation (CEFC) data shows that each $1 of public investment through its programs has been associated with around $4.5 of private investment since the CEFC's inception. However, it is difficult to directly tie the influence of such funding mechanisms to an exact level of private investment crowded in. Also, direct comparison between CEFC programs and FMA is difficult given their different funding models.

[4] For hydrogen that is produced at an emission intensity of less than 0.6 kilograms of carbon dioxide equivalent up to the production gate.

[5] The Cheaper Home Batteries Program is an example of how faster than expected uptake can cause affect cost projections. The program, which is slated to run until 2030, used most of its budget $2.3 billion in the six months after its launch in July 2025. Program criteria have since been tightened to broaden access and the program budget has increased to $7.2 billion.

On the other hand, low take-up would lead to lower than projected fiscal costs. This may be the case for the renewable hydrogen incentive; renewable hydrogen production globally has been beset with competitive, technological, and logistical difficulties. Advances in renewable electricity, electric transport, and battery storage have greatly reduced the scope and need for renewable hydrogen, while logistical issues and lack of large offtake agreements have added further challenges. In this context, BP, Fortescue and Origin Energy scaled back plans to develop hydrogen production capacity, each citing costs that were too high for projects to be economically viable. If these issues persist, domestic hydrogen production may be limited even with generous incentives (i.e. the subsidies may never be claimed because there is no production to claim against).

Conclusion

FMA is part of a suite of fiscal and regulatory policies intended to accelerate Australia's transition to net zero and to develop green export industries that can at least somewhat fill the eventual gap left from declining fossil fuel production. Even though many of these policies are still in their infancy or small in scale, since the policies are generally designed to crowd-in private capital, they could have a larger impact than headline fiscal numbers alone suggest.

Furthermore, the extent to which these policies are complementary (e.g. the production of renewable hydrogen is heavily dependent on how successful the Capacity Investment Scheme and Rewiring the Nation are in decarbonizing the grid) or dependent on external factors (e.g. how the pace of the global energy transition drives demand for Australian critical minerals) means that there is a high level of uncertainty as to the ultimate impact of these policies.

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Climate Analysis and Policy
15 April 2026

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Recent Government Policy Changes Affecting Small Businesses

Generated with the help of AI. Potential implications are very tentative and largely reflect external reporting.

2026-27 Budget Policies

Investment incentives and loss relief

The $20,000 instant asset write-off was permanently extended, allowing eligible small businesses (with turnover under $10 million) to immediately deduct eligible assets individually costing less than $20,000.

A **new permanent two-year loss carry-back applies from 2026-27** for eligible companies with turnover up to $1 billion. These companies can use current year tax losses to claim a refund for taxes paid in the prior two years. From 1 July 2028, small start-ups in their first two years of operation will be able to get a refund for tax losses, capped at the value of employment-related tax remittances.

Potential implications: provides some support to business finances and incentivizes fixed asset investment.

Innovation and productivity policies

The Government is **reforming the R&D Tax Incentive** from July 2028, though the changes are mixed. Offset rates for core R&D activities will increase, while R&D supporting expenditure will no longer qualify. Eligibility for the higher, refundable offset will be expanded. From July 2027, venture capital incentives will be broadened.

Potential implications: unclear without further analysis.

Capital gains tax reform

From 1 July 2027, the **50 per cent CGT discount will be replaced by inflation indexation and a minimum 30 per cent tax on real gains**. The change is prospective, with gains accrued before 1 July 2027 retaining the previous treatment.

The four existing small business CGT concessions remain available to eligible businesses.

Potential implications: may influence business succession planning, sale decisions, ownership transfers and restructuring activity.

Discretionary trusts

A minimum tax of 30 per cent will apply to discretionary trusts from 1 July 2028, subject to exceptions. Media reports suggest that around 350,000 small businesses are structured as discretionary trusts, and many distribute profits to a company. Reporting suggests these businesses may need to restructure to avoid being exposed to double taxation. The Government has announced a three-year rollover-relief window from 1 July 2027 for businesses and others that choose to restructure.

Potential implications: businesses operating through trust structures may need to consider ownership, distribution and tax-planning arrangements, and potentially restructure. Industry have noted this could generate substantial compliance, legal and accounting costs during the transition period.

Negative gearing and housing-related spillovers

From 1 July 2027, **negative gearing will be limited to new builds**. Existing arrangements remain unchanged for properties held before Budget night.

Potential implications: possible indirect effects on construction-related businesses, property investment, housing turnover and household demand. Possible indirect effect on SME finance via a reduction in housing prices (which serves as collateral).

Other recent policy changes

Payday Super: more frequent super payments

From 1 July 2026, employers must **pay super guarantee for each payday rather than quarterly**. Contributions generally must reach employees' super funds within seven business days after payday.

Potential implications: earlier cash outflows, less short-term working-capital flexibility, more frequent payroll processing, and transition costs where systems or providers needed updating. Possibly greater demand for credit facilities. These are discussion hypotheses, not measured effects.

Temporary Middle East conflict relief and resilience support

The **Economic Resilience Program provides zero-interest loans** to eligible Australian manufacturing and logistics businesses materially impacted by Middle East conflict-related market disruptions, particularly in freight, fuel, fertiliser and plastics supply chains.

Austrade's temporary **Trade Resilience Service is operating for 12 months from April 2026, offering exporters practical freight, logistics and market intelligence and advice** to manage reduced capacity, higher costs, insurance uncertainty and disrupted shipping routes.

The **ATO has announced temporary administrative flexibility for businesses unable to meet tax obligations due to fuel supply issues**, including more generous payment plans, remission of interest and penalties, PAYG instalment variation support and paused compliance activity where appropriate.

Potential implications: alleviates temporary cash flow pressures arising from the Middle East conflict.

NDIS and specialist disability accommodation (SDA) changes

Various **additional regulation** (mandatory registration for Supported Independent Living (SIL) providers, new practice standards and stronger compliance requirements from 1 July 2026.) New **2026-27 SDA pricing and calculato**r updates may affect project feasibility, rental income and investment returns for SDA developers. The Government is consulting on reforms to eligibility assessment, planning and commissioning of home and living supports, with potential impacts on future SDA demand and participant pipelines.

Potential implications: unclear without further analysis.

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Institutional Markets
Domestic Markets Department

13 August 2026

Sources

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Treasury Ministers, Government and private sector working together to back families and small businesses, 1 April 2026.

Budget small business fact sheet

CGT and trusts small business explainer

Budget tax reform overview

ATO: About Payday Super | ATO: Payday Super law and announcements

Economic Resilience Program |Austrade Trade Resilience Service | Treasury temporary tax system flexibility announcement

NDIS SDA pricing arrangements | NDIS specialist disability accommodation provider guidance | NDIS Commission regulatory reform | Department of Health: NDIS changes

Diary Note: Small Business Finance Advisory Panel

On Monday 17 August 2026, the Reserve Bank hosted the 34th Small Business Finance Advisory Panel[1], which meets annually to discuss financial and economic conditions facing small businesses. Eight small business owners from various states and industries attended. Panellists reported that:

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- *Policy and regulatory settings were a major source of uncertainty, affecting perceptions of the attractiveness of operating in Australia.*

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For a restricted version with attributed comments, please see: D26/289325.

Economic conditions

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Government policy changes are a source of uncertainty for businesses

- Government policy and regulatory uncertainty was affecting business confidence. Several panellists noted that the tax changes announced in the May Federal Budget have resulted in a significant deterioration in small business sentiment, even in instances where the actual impact of the changes will be modest (such as where businesses are covered by small business capital gains tax (CGT) concessions). A few panellists noted that the CGT changes had affected medium-term plans to build and sell their business. Another noted that uncertainty arose from the delivery of policy, not just the content of policy changes.

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[1] Panellists included s45

For more details, see Small Business Finance Advisory Panel | RBA.

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