How will investment strategies change under the new tax regime?

How the capital gains tax reforms reshape investment product selection

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ABOUT THE SPEAKER

Chris Brycki

Chris founded Stockspot in 2013 to help everyday Australians invest in low-cost, diversified ETF portfolios.

Stockspot is now Australia's largest online investment adviser, helping over 21,000 clients investing over $1.5 billion.

A LEADING VOICE ON THE CGT REFORMS

A regular columnist in The Australian and a widely quoted commentator, Chris has been one of the most prominent analysts of the capital gains tax changes and what they mean for investors.

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THE AUSTRALIAN

Hi, Chris

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WEALTH > INVESTING

Budget tax reforms risk trapping wealth and killing future growth

WEALTH > INVESTING

Tax reforms could fuel dividend-led market boom at the expense of economic growth

Finance > Money > Investing

'82 per cent more tax': How CGT changes would hit most popular ASX stocks

Aussies who bought the 20 most popular stocks would pay nearly double the amount of tax under Labor's changes to CGT.

WEALTH > INVESTING

Capital gains tax valuation trap could cost investors $500,000

Labor's capital gains tax changes mean doing nothing could cost asset owners who don't read the fine print dearly.

By CHRIS BRYCKI

WHAT ARE THE CHANGES?

What's changing in the CGT reforms

The most significant overhaul of capital gains tax since 1999. This change the relative attractiveness of every type of investment — so where and how clients invest matters more than ever.

50% discount replaced

Cost-base indexation returns. Only the real (above-inflation) gain is taxed, not a flat 50% reduction.

Minimum 30% effective rate

Many capital gains face a minimum effective tax rate of around 30%, regardless of the investor's marginal rate.

Negative gearing narrowed

Negative gearing on housing will be restricted largely to newly built homes.

New CGT applies from 1 July 2027

Apply prospectively to gains accruing on and after that date.

KEY TAKEAWAY The reforms tilt the playing field. Understanding the new rules is the first step to positioning client portfolios well.

RELATIVE ATTRACTIVENESS

Winners and losers under the new regime?

Superannuation	More attractive	Remains highly attractive. Tax of 15% on earnings and 10% on long-term capital gains is unchanged. From 10 August 2026, SMSFs will be unable to enter new LRBAs to purchase non-business real property.
Direct investments outside super	Less attractive	A much higher effective tax burden. Many investors pay at least 30% on gains, with only partial recognition of losses. Some investments are bigger losers than others.
New residential property	Relatively favoured	Existing concessions remain. New builds may look relatively better, though higher investor taxes could soften future demand.
Principal place of residence	More attractive	Stays exempt from capital gains tax. Renovations and improvements look better versus taxable investments.

KEY TAKEAWAY Super and the family home become increasingly favoured; investing outside super becomes less attractive.

OUTSIDE SUPER · PART 1

The diversification penalty

The new rules tax gains and losses on each individual investment, rather than the overall outcome of a portfolio. An investor can pay tax on their winners while getting only limited benefit from investments that underperform inflation.

Diversifying across many holdings can now increase the tax drag, because winners and losers are not netted off.

Direct shares under the indexation model

Portfolio level outcome at 47% marginal tax rate

OUTCOME	CURRENT 50% CGT DISCOUNT SYSTEM	PROPOSED INDEXATION MODEL
Initial investment	$200,000	$200,000
Taxable gains	$154,685	$280,870
Increase in taxable gains	-	+82%
Tax payable	$72,702	$131,009
Effective tax rate on real gain	27%	48%

Based on 20 most popular ASX shares and ETFs purchased by Sharesight users in April 2020.

KEY TAKEAWAY Tax is no longer about your portfolio outcome — it can fall on individual winners even when the overall result is modest.

OUTSIDE SUPER · PART 2

Why structure becomes critical

Unitised investment vehicles can offset gains and losses internally before distributing returns. So the same underlying assets can be taxed very differently depending on the wrapper they sit in.

ETFs

Offsets internally, typically low turnover

Managed funds

Capital gains impacted by redemptions

LICs

Company structure

Direct shares

Can’t offset real losses fully

The question that now matters most: **are you taxed on individual investments, or on the overall portfolio outcome?**

Pooled structures can shelter clients from the diversification penalty that hits direct, individually held investments.

Why income becomes more valuable than growth

Start with $100 of company profit. After paying $30 in company tax, the company has $70 left to either pay out as a dividend or reinvest for growth. Here is what an investor on a 30% tax rate keeps from each.

Paid as a franked dividend	
Dividend received	**$70**
Franking credit for tax paid	**included**
Extra tax at 30% rate	**$0**
Investor keeps	**$70**

Reinvested for capital growth	
Retained profit reinvested	**$70**
Turns into a capital gain	**$70**
30% minimum CGT	**−$21**
Investor keeps	**$49**

From the same $100 of profit, the franked dividend leaves a 30% taxpayer **$21 ahead.**

Illustrative. Assumes franking credits are fully usable and that $70 of retained earnings produces $70 of capital growth.

Those on lower marginal rates will want more income

WHAT AN INVESTOR KEEPS FROM $100 OF PROFIT

Your tax rate	Franked dividend	Capital growth	Advantage
0%	$100	$49	**+$51**
16%	$84	$49	**+$35**
30%	$70	$49	**+$21**
37%	$63	$49	**+$14**
47%	$53	$49	**+$4**

Franked dividend = $70 plus a credit for the $30 company tax already paid. Capital growth = $70 gain minus $21 CGT (with 30% minimum).

IF ENOUGH INVESTORS DO THE SAME

- Investors bid up high-dividend companies
- Boards lift payout ratios to compete
- Less capital is retained for expansion
- Mature large-caps become more attractive
- Growth, startups and small caps fall out of favour

The paradox: *share prices could rise even as less capital flows to innovation and future growth.*

KEY TAKEAWAY The lower the tax rate, the bigger the reward for choosing income. The system quietly nudges everyone toward dividends over growth.

WHAT IT MEANS FOR PRODUCT SELECTION

Three important questions to ask

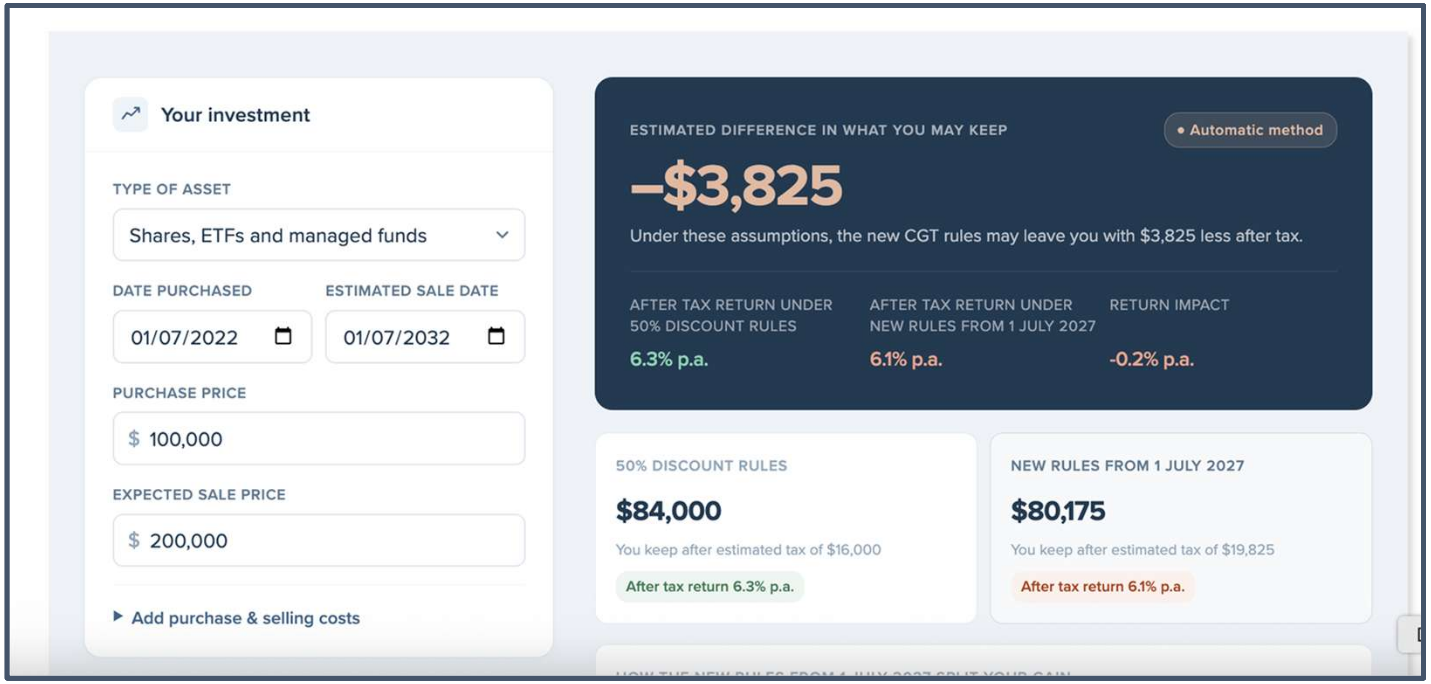
1. **Where is it held?**
   Super and the family home keep their concessions. Investing outside super now carries a materially higher tax burden.

2. **How is it structured?**
   Pooled vehicles — ETFs, managed funds, LICs, super — can net gains and losses internally and sidestep the diversification penalty.

3. **Income or growth?**
   After tax, franked income can beat capital growth on an identical pre-tax return. Weigh the income tilt against true diversification.

HOW STOCKSPOT HELPS

Try our CGT change calculator - over 100,000 have already calculated their potential impact



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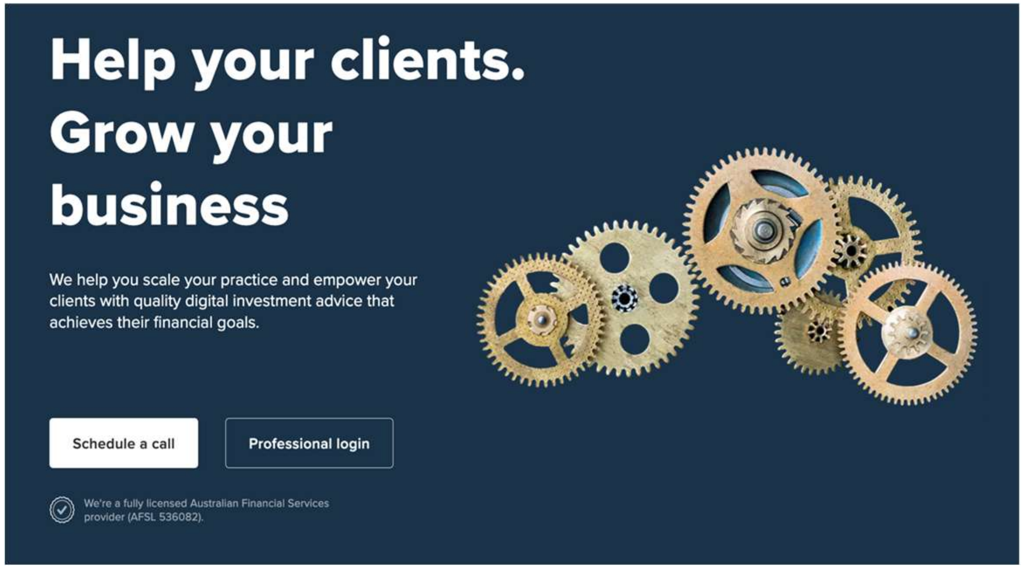

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