

12 May 2026



Federal Budget Review

2026-27

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Australian Federal Budget 2026–27

Introduction

The Australian Government handed down the **2026–27 Federal Budget on Tuesday, 12 May 2026**. This Budget includes a number of significant changes that may affect individuals, families, retirees and business owners across Australia.

As expected, many of the most notable announcements relate to **taxation**, particularly proposed reforms to **capital gains tax (CGT)** and **negative gearing**. These measures are intended to reshape how investment income is taxed over time and may affect people who own property, shares or other long-term assets.

Importantly, the Budget did **not introduce major changes to the core tax settings for superannuation**. However, it did confirm the commencement of previously announced measures and introduced new rules that will affect certain individuals with very high super balances, as well as changes to how super contributions are paid by employers.

Personal Tax

Personal income tax relief

- From **2026–27**, an **instant \$1,000 tax deduction** will be available for work-related expenses. If you claim up to \$1,000, you will not need to itemise expenses or keep receipts.
- From **2027–28**, a new **\$250 Working Australians Tax Offset (WATO)** will apply automatically when you lodge your tax return. It will offset tax on income earned from work, including wages and the business income of sole traders.
- These measures sit alongside already legislated personal income tax cuts reducing the lowest marginal tax rate from **16% to 15% from 1 July 2026**, and to **14% from 1 July 2027**.

Capital gains tax changes (from 1 July 2027)

From **1 July 2027**, the existing **50% CGT discount** for assets held longer than 12 months will be replaced with **inflation-based cost base indexation**, and a **minimum 30% tax rate** will apply to net capital gains.

These changes apply to **all CGT assets**, including property and shares, and will apply to assets held by individuals, trusts and partnerships (but not companies).

Transitional arrangements for CGT

The Budget includes detailed transitional rules:

- **Assets purchased and sold before 1 July 2027**
No change. Current CGT rules continue to apply.
- **Assets purchased after 1 July 2027**
The new rules apply in full. All capital gains will be calculated using indexed cost bases and subject to the minimum 30% tax.
- **Assets owned before 1 July 2027 and sold after that date**
Gains are effectively split:
 - Gains accrued **up to 1 July 2027** continue to receive the **50% CGT discount**.
 - Gains accrued **from 1 July 2027 onward** are calculated using **cost base indexation** and are subject to the **minimum 30% tax**.
- **Pre-CGT assets (acquired before 20 September 1985)**
Gains accrued before 1 July 2027 remain exempt. Only gains accruing after that date may be subject to the new rules.

Negative gearing changes (from 7.30pm AEST, 12 May 2026)

The Budget limits **negative gearing for residential property to new-build properties**.

From **1 July 2027**, losses from established residential properties will no longer be deductible against your other income. Instead, losses can only be offset against:

- rental income from residential property, or
- capital gains from residential property.

Any excess losses are carried forward for use in future years.

Transitional arrangements for negative gearing

The transitional rules depend on when the property was acquired:

- **Properties held at Budget announcement (including contracts entered into but not yet settled)**
These properties are **grandfathered**. You can continue to negatively gear them under the current rules until the property is sold.
- **Properties purchased between 12 May 2026 and 30 June 2027**
These properties may be negatively geared **up to 30 June 2027**, but **not from 1 July 2027 onward**.

- **Properties purchased from 1 July 2027**
These properties **cannot be negatively geared**.

Exemptions

- **New-build residential properties** can continue to be negatively geared both before and after 1 July 2027.
- Superannuation funds (including SMSFs) and widely held trusts are excluded from these changes.

Minimum tax on discretionary trusts

From 1 July 2028 the Government will introduce a 30% minimum tax rate on the taxable income of discretionary trusts. The tax will be paid by the trustee of the trust as it controls the distributions. Beneficiaries will then need to declare their trust income in their tax return, but beneficiaries, other than corporate beneficiaries, will then receive a non-refundable tax credit for the tax payable by the trustee.

The Government has confirmed the minimum tax will not apply to other types of trusts such as:

- fixed and widely held trusts (including fixed testamentary trusts)
- complying superannuation funds,
- special disability trusts,
- deceased estates, and
- charitable trusts.

Business Tax

Instant asset write-off

- From **1 July 2026**, the **\$20,000 instant asset write-off** becomes a permanent feature for small businesses with turnover under **\$10 million**.
- Assets costing \$20,000 or more continue to be depreciated through the small business pool.

Loss reforms

- From **1 July 2026**, eligible companies can **carry back tax losses** for up to two prior years to offset previously paid tax (subject to franking account limits).
- From **1 July 2028**, eligible small start-up companies (turnover under \$10 million) can access **loss refundability** in their first two years of operation, allowing certain losses to generate a refundable tax offset.

Social Security & Aged Care

Pension Supplement (overseas recipients)

- From **1 July 2025**, the full Pension Supplement can be paid for up to **12 weeks** of temporary overseas absence (previously 6 weeks).
- After 12 weeks, or if a recipient resides permanently overseas, the supplement ceases.

Aged care

- From **1 July 2026**, the Government will fund an additional **5,000 residential aged care places each year**, with a focus on people with limited financial means.
- Home care will be improved under the **Support at Home** program, including:
 - full government funding of personal care services (such as showering and dressing), and
 - faster access to care and improved assessments.

Other Measures

Superannuation

- **Payday Super:** From **1 July 2026**, employers must pay Super Guarantee contributions at the same time as wages, rather than quarterly.
- **Division 296 tax:**
 - From **1 July 2026**, an additional **15% tax** applies to earnings attributable to super balances above **\$3 million**.
 - For balances above **\$10 million**, an additional **25% tax** applies to the relevant portion.

- The tax is assessed to individuals, with the option to pay personally or release funds from super.

Private health insurance

- From **1 April 2027**, the **age-based uplift** for the private health insurance rebate will be removed. All age groups will receive the same rebate percentage.

Electric vehicles and FBT

- From **1 April 2029**, the current full FBT exemption for eligible electric vehicles will end.
- A **25% FBT discount** will apply for eligible electric cars up to the fuel-efficient luxury car tax threshold.
- Transitional rules preserve existing FBT treatment for arrangements entered into before that date.

Conclusions

If all the measures proposed in this budget are passed into law it will be one of the more consequential budgets in recent times.

The CGT changes shift the relative attractiveness of how returns are generated with potential impacts on how investment portfolios are constructed.

The interaction of the CGT changes along with the minimum tax proposed on trust distributions tilt the relative attractiveness in favour of investing via superannuation. For those with high balances, considerations surrounding the withdrawal from superannuation to invest individually, or via a discretionary trust, as a response to Div 296 tax, now need rethinking.

Transition arrangements mean that many of the changes are proposed for 2027 and 2028. This allows time to plan and we expect the legislative path will become clearer over the next six to twelve months.

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