# MID YEAR NEWSLETTER – 2026

## 2026-2027 FEDERAL BUDGET REPORT

The tax-related measures announced in the recent federal budget can be categorised into the good, the bad and the very ugly for taxpayers.

Legislation has now passed the lower and upper house providing some certainty around the proposed changes

Positive legislated announcements included:

- Working Australians Tax Offset (WATO) which commences in the 2027-28 financial year and provides a non-refundable tax offset of up to $250 for taxpayers who earn income from employment.
- Introduction of a $1,000 standard deduction for work-related expenses for eligible taxpayers from 1 July 2026. In addition to the standard deduction, eligible taxpayers may still claim deductions for union and professional association fees, and non work-related expenses such as donations and income protection insurance premiums.
- Permanent legislation of the $20k instant asset write-off for small business. Previously, this offset has had to be incorporated into tax legislation annually.
- Loss carry-back provisions have been reintroduced from 2026-27. This provision allows small to medium businesses to carry back a loss in the current year to offset any tax paid in the prior 2 years.

Updated legislation that is likely to have significant negative impact on taxpayers relate to changes in negative gearing and capital gains reforms.

From 1 July 2027, negative gearing for residential property will be limited to investment in new builds. Properties held before the budget announcement (7.30pm AEST 12 May 2026) will be exempt from these changes and will be able to continue to access negative gearing until sold. A property is held or owned at contract date.

Existing arrangements allow losses generated from rental properties to be applied against other taxable income, such as wages or business income.

The new legislation restricts the application of rental losses on existing properties contracted after 12 May 2026 to other rental income, or capital gains from residential property.

If the loss generated exceeds other residential property income, the excess losses will be carried forward to offset qualifying income in later years.

The changes will apply to residential properties held by individuals, partnerships, companies and most trusts from 1 July 2027.

A property purchased between now and 1 July 2027, will be eligible for transitional arrangements whereby pre-budget negative gearing rules will apply for losses generated up until 1 July 2027. After this date, the new more restrictive negative gearing rules will apply.

While Super Funds will be excluded from these measures, legislation passed on 23 June 2026 has abolished the ability of a SMSF to borrow for the purposes of acquiring a residential investment property. This legislation comes into effect with Royal Assent which is expected mid-August.

SMSF borrowing arrangements for residential properties that are already in place are not affected.

SMSF borrowings for business real property also remain unchanged.

A raft of reforms was announced in relation to the taxation of capital gains. These changes will take effect from 1 July 2027 and will apply to individuals, partnerships, trusts, and companies. The treatment of capital gains in SMSF remains unchanged.

Capital Gains Tax (CGT) was introduced on 20 September 1985. Initially, a capital gain was taxed at marginal rates, with an adjustment for gains attributable to inflation. In 1999, the indexation system was replaced by a flat 50% discount for CGT assets held for longer than 12 months by an individual or trust. No discounts were made available to companies.

Any assets held before 20 September 1985, were grandfathered and not subject to capital gains when first sold after this date. These assets are referred to as pre-CGT assets.

Since budget night, legislation has been passed that replaces the 50% discount on capital gains made after 1 July 2027, with an indexation discount and a minimum tax rate of 30%. Further, pre-CGT assets will no longer be grandfathered if sold after 1 July 2027.

If a CGT asset is sold after 1 July, the gain will be divided into 2 portions. Gains that can be attributed to the period between purchase and 30 June 2027 and gains made between 1 July 2027 and sale date.

Pre-CGT assets will only have an assessable capital gain on the portion accrued after 1 July 2027. Any gains made prior to this will continue to be grandfathered.

Assets purchased after the introduction of CGT will remain eligible for the 50% discount for any gains attributed to ownership before 30 June 2027. Gains attained in the period after 1 July 2027 will be discounted via indexation.

Companies will remain ineligible for either discount.

Establishing the value of CGT assets on 1 July 2027, will be critical to determining future tax outcomes.

We strongly encourage CGT asset holders to obtain an independent, formal valuation on or around 1 July 2027. The defensible valuation must reflect market conditions on 1 July, but the report may be completed after this date.

CGT asset classes that will gain benefit from valuations include all pre-CGT assets, property, businesses, intellectual property, collectibles, personal use assets (artwork, rare coins, jewellery, vintage cards, etc.) valued over $10,000 and any other asset that is subject to capital gains for which there is no readily identifiable market value.

Without an independent valuation, a specific apportionment formula will be used to estimate asset values on 1 July 2027. This formula has not been provided to date.

A late inclusion in the legislation may give some relief to small business owners from the new CGT rules. The turnover threshold for the active asset reduction concession has been increased from $2M to $10M from 1 July 2027. The active asset reduction reduces a net capital gain (after discounts) by 50% for eligible entities and assets. No other changes to the small business CGT concessions were made.

A new build exemption is included in the CGT legislation. Investors who buy new builds will be able to choose either the 50% discount and marginal tax rates or indexation and 30% minimum tax rate when they sell the property.

A new build will only qualify if it is a residential property that genuinely adds to housing supply. This includes:

- Dwellings constructed on vacant land, or
- Where existing properties are demolished and replaced with a greater number of dwellings.

Knock-down rebuilds or substantial renovations that do not increase supply will not be eligible.

A new build cannot have previously been sold, unless first owned by the builder and not occupied for more than 12 months.

The CGT Main Residence exemption will remain unchanged.

Income support payment recipients, including age pension recipients, will not be subject to the minimum 30% tax rate on income from capital gains attributed post 1 July 2027.
Trusts have also been targeted in the budget with a proposed minimum tax rate of 30% to be imposed on discretionary trust distributions from 1 July 2028.

This unpopular measure has not yet been introduced to parliament. The following detail is extracted from the budget announcements and similar articles.

The minimum tax rate is only intended to apply to discretionary trusts. It will not change the treatment of income distributed from fixed and widely held trusts where beneficiary entitlements are predetermined, or fixed and potentially spread across a large pool of investors, such as in a managed fund.

Superannuation funds, special disability trusts, deceased estates and charitable trusts will also be exempt.

Trusts are a common vehicle for holding assets and operating businesses which utilise the flexibility and asset protection a trust provides.

Currently, the trustees of discretionary trusts only pay tax in specific circumstances related to beneficiaries who are minors or non-residents or where there is income that has not been distributed to any beneficiary.

Instead, the net income of the trust is distributed to the beneficiaries who include the amount in their assessable income where it is subject to tax at marginal rates.

Under the proposed changes, the Trustee of the Trust will be taxed at 30% on net assessable income. Beneficiaries will still need to record trust distributions in their tax return. Individuals and non-corporate beneficiaries will receive non-refundable tax credits for tax paid by the Trustee. This measure will recognise the tax already paid on the income and as the offset is not refundable, will ensure a minimum tax rate of 30% is paid on the trust income in the hands of a non-corporate beneficiary.

Where a trust receives franked dividends, these will be applied against tax payable by the Trustee.

Corporate beneficiaries will not receive a non-refundable credit for trustee paid tax. This prevents the minimum tax being avoided by cycling income through a 'bucket' company. As the budget paper stands, the trustee of the trust will pay 30% tax on assessable income, and any trust distributions will be taxed again in the hands of a corporate beneficiary, leading to a potential tax rate of either 55% or 60%, depending on if the company qualifies as a Base Rate Entity (BRE).

Income categories that will not be subject to the minimum 30% tax rate include:

- Primary production income
- Certain income relating to vulnerable minors
- Amounts to which non-resident withholding applies
- Income from assets of testamentary trusts existing at the date of the announcement. Post budget announcements have also indicated that further concessions for genuine Testamentary Trusts created after budget night will be included in the legislation.

Primary producers should note that only income directly derived from Primary Production activities will be subject to the exemption. Primary producers may utilise farm assets to generate non-primary production income such as from contracting, rent or interest earnings.

Further, trusts that hold land used by another entity to conduct primary production activities will generally not satisfy the requirements.

Where this occurs, that income may not qualify for the concessional tax treatment available to eligible primary production activities and could instead be taxed at the higher rates applicable to non-primary production trust income.

Rollover relief will be available to assist businesses to transition out of a discretionary trust structure for 3 years from 1 July 2027. The rollover relief will facilitate restructuring by ensuring there are no income tax consequences when moving out of a trust structure. However, rollovers will necessarily incur increased compliance costs.

The 30% minimum tax rate now applicable to Trust and net Capital Gain income is expected to have significant impact on tax payable.

To illustrate, a taxpayer receiving $45,000 from a trust distribution will have had more tax paid by the trustee on their distribution than an employee who receives $45,000 in wages by approximately $9,750 (based on 2027-28 tax rates). A similar outcome will arise if a taxpayer has net indexed capital gains of $45,000.

We welcome queries from our clients who have concerns regarding the impact the legislated and proposed changes will have on their circumstances.

## 2026 TAX RATES

Individual tax rates will be as follows from 1 July 2026:

| Taxable Income | Tax on Income |
|---|---|
| $0 - $18,200 | $0 |
| $18,201 - $45,000 | 15c per $1 over $18,200 |
| $45,001 - $135,000 | $4,020 + 30c per $1 over $45,000 |
| $135,001 - $190,000 | $31,020 + 37c per $1 over $135,000 |
| $190,001 + | $51,370 + 45c per $1 over $190,000 |

The tax rates in the table do not include the Medicare levy, which is charged at 2% of taxable income.

Please ensure your payroll software has updated to the latest version prior to processing any payroll paid after 1 July 2026.
The company tax rate remains at 25% for Base Rate Entities (BRE's) and 30% for all other companies.

## EMPLOYERS

### PAYDAY SUPER

Payday super commenced on 1 July 2026. To be compliant with Payday super, employers must pay super guarantee contributions so that they are allocated to the employee's superannuation account before the end of the seventh business day after the payday.

The payday is also referred to as the Qualifying Earnings (QE) day.

The payday super rules also apply to independent contractors who are eligible for super guarantee contributions.

Due to the delay between payments being made to the selected clearing house and the contributions being allocated to the employee superannuation account, employers should aim to make superannuation payments at the same time as paying wages.

There is a grace period of 20 days for the payment of the first contribution for new employees or to a new complying super fund for an existing employee.

When payments are not made within 7 days, a superannuation guarantee (SG) charge will be assessed and imposed directly by the ATO. The SG charge is comprised of 4 components:

- Total Super guarantee shortfall.
- Nominal Interest.
- Administrative uplift amount.
- Choice of fund penalty (where applicable).

The SG Charge will be tax deductible; the late penalty charge and general interest charge will not be.

During July 2026, there will be overlapping deadlines, with the contributions for the previous quarter, ending 30 June 2026, having an unchanged deadline of 28 July. We recommend paying the June quarter super as soon as possible. Super paid under payday super will be applied to any amounts outstanding from the June quarter first.

### MINIMUM WAGE INCREASE

For the first full pay period starting on or after 1 July 2026, Australia's National Minimum Wage (for award-free employees) will increase by 6.0%, the minimum wage for employees covered by the Modern Awards will increase by 4.75%.

Employers should check their relevant award to confirm they are correctly paying employees.

**CASUAL EMPLOYEES**

A reminder that the Casual Employment Information Statement (CEIS) needs to be provided to casual employees annually and at certain other times.

The CEIS is available on the Fairwork website. https://www.fairwork.gov.au/sites/default/files/migration/724/casual-employment-information-statement.pdf

**AML/CTF EXPANSION**

The Anti Money Laundering (AML) and Counter-Terrorism Financing (CTF) Act 2006 has been expanded into professions and industries that provide designated services from 1 July 2026.

Accountants, lawyers, real estate professionals, conveyancers and others, are now required to comply with the Act.

Broadly, a designated service includes:

- Assisting with planning or executing the buying, selling or transferring of real estate.
- Assisting with planning or execution to sell, buy, transfer, establish a company or legal arrangement. A legal arrangement includes a trust, partnership, joint venture or unincorporated association.
- Receiving, holding and controlling a person's money, assets or property.
- Assisting with debt financing (or refinance).
- Restructure of a company or legal arrangement.
- Acting, or arranging for someone to act on behalf of a person in particular positions in a body corporate or legal arrangement.
- Providing a registered office address or principal place of business address.

When a designated service is provided, compliance with the Act will involve disclosures relating to:

- Proof of identity.
- Verification of company ownership structures.
- Disclosure of beneficial owners.
- Identifying sources of funds and wealth.
- Purpose of transactions.
- Business activities and structures.

Existing clients will not be exempt from the increased level of scrutiny if a designated service is provided. While tax preparation is not considered a designated service, other legislation requires similar checks for new clients who engage us to prepare tax returns. This will mean that clients will be asked to provide information, that has not previously been requested for similar engagements, to enable us to comply with the new legislation.

**ATO FOCUS ON HOLIDAY HOMES**

The ATO continues to closely monitor deductions claimed for holiday homes, with data matching and targeted reviews making this an ongoing compliance focus. To help taxpayers understand their risk, the ATO released Taxation Ruling 2026/1 with Practical Compliance Guidelines (PCG 2026/2 and PCG 2026/3) in May 2026. PCG 2026/3 sets out the ATO compliance approach using a simple 'stoplight' framework.

In a 'Green Light' or low risk assessment, the ATO will have no reason to apply compliance resources. At this assessment level, the property is genuinely available for rent at market rates, actively advertised and comprehensive records of bookings, income, expenses and any periods of private use are kept. Any deductions are correctly apportioned between rental and private use.

An 'Amber Light' assessment indicates the taxpayer should take care. The ATO may have cause to apply compliance resources. A property in the amber light range will be available for rent, but there are factors that may limit genuine commercial use. Examples of amber light situations include:

- Charging below-market rent to friends or family.
- Restricting availability during peak periods or not actively marketing the property.

These situations require careful consideration, and deductions may need to be reduced.

A Red Light or high-risk arrangement will give the ATO cause to apply compliance resources. The ATO is unlikely to accept claims where:

- The property is mainly used as a private holiday home.
- Not genuinely available for rent, or
- Only made available under unrealistic conditions such as excessive pricing or unreasonable booking restrictions.

If your holiday home falls into the red zone, the ATO classifies it as a 'leisure facility'. A leisure facility is restricted to claiming deductions direct costs associated directly with guest stays, such as advertising, booking platform commissions and cleaning costs.

Ownership costs, including mortgage interest, council and water rates, body corporate fees, insurance and depreciation are not deductible to a leisure facility.

If you own a holiday home, it is essential to keep detailed records, including rental advertisements, booking calendars, invoices, receipts and evidence of private use. Claiming deductions for periods of private use or failing to apportion expenses correctly is likely to attract ATO attention.

**BENDEL DECISION UPHELD**

The Bendel case relates to the ATO's interpretation that an unpaid present entitlement (UPE) owed by a discretionary trust to a corporate beneficiary is a loan under Division 7A of the tax law.

The unpaid present entitlement arises when a trust distributes profits to a company. Division 7A relates to the expectation of repayment of loans from corporate entities, the minimum repayment terms and penalties if these terms are not met.

The High Court upheld an earlier decision, on appeal from the ATO, that a UPE is not a loan, under Division 7A.

Unfortunately, the practical implications of this landmark decision are not clear at this stage. While existing UPE's that are on complying loan terms must continue to remain on these terms, the ATO has indicated that future UPE's may become subject to other rules which could potentially be more adverse than outcomes arising under Division 7A.

As uncertainty remains, further ATO guidance or legislative reform is expected.

## DEDUCTIBILITY OF ATO INTEREST

From 1 July 2025, ATO General Interest Charges (GIC) or Shortfall Interest Charges (SIC), imposed after this date are not deductible.

While ATO interest is not directly deductible, businesses may be able to claim a tax deduction for interest incurred on an external loan, taken out to manage working capital requirements.

## STUDENT LOANS

### CHANGE IN STUDENT LOAN REPAYMENT CALCULATION

Taxpayers with higher education student loans or trade support loans will have their compulsory repayment calculated using marginal rates for the first time when they lodge their 2025-26 tax returns.

| Repayment Income | Loan Repayment Amount |
|---|---|
| $0 - $67,000 | $0 |
| $67,001 - $125,000 | 15c per $1 over $67,000 |
| $125,001 - $179,285 | $8,700 + 17c per $1 over $67,000 |
| $179,286 + | $10% of total repayment income |

Repayment income is calculated by adding the following amounts; taxable income, reportable fringe benefits, net rental or investment loss, reportable super contributions and exempt foreign employment income.

### EXTENDED OVERSEAS TRAVEL AND STUDENT LOANS

If you have a HELP, VSL student loan or AASL apprenticeship loan, you may still have an obligation to make a repayment even if you haven't earned any Australian income.

If you plan to live and work overseas and you have a study or training support loan, you are required to:

- update your contact details and submit an *Overseas travel notification* within 7 days of leaving Australia if you intend to (or already) reside overseas for more than 183 days or more in any 12 months.
- lodge your world-wide income or a non-lodgement advice by 31 October each year.

## FUEL REBATES

A reminder when preparing your June BAS that the fuel rebate was reduced from 1 April 2026 to 30 June 2026, in line with the government reducing the fuel excise levy and removing the road user charge (RUC) to assist in combatting rising fuel costs.

The claim rate for both on-road and off-road use is 20.6 cents/litre for the June quarter.

From 1 July 2026 to 2 August 2026, the claim rate for on-road use is 20.2 cents/litre and 36.6 cents/litre for off-road use. No announcements have been made in relation to rebates after 2 August 2026.

## SUPERANNUATION

### SUPERANNUATION GUARANTEE CONTRIBUTIONS

The Super Guarantee Contribution (SGC) rate remains at 12% for the 2026-27 financial year.

The maximum SGC payable for high income earners will increase to $32,500 (corresponding to gross ordinary times earnings of $270,830).

Superannuation contributions must be reported and paid within 7 days of wages being paid under Payday Super.

### SUPERANNUATION CONTRIBUTION CAPS

The superannuation transfer balance cap and contribution caps have increased for the 2026-27 financial year.

- Concessional contribution cap $32,500
- Non-concessional contributions cap $130,000
- Transfer Balance cap $2.1M

Concessional contributions include employer SGC, salary sacrifice or voluntary contributions for which a deduction is claimed. Concessional contributions are included as taxable income of the super fund.

Non-concessional contributions are made from after-tax proceeds and are not attributed to a super fund's taxable income in the year of contribution.

The transfer balance cap is the lifetime limit on the total amount of superannuation an individual can transfer into a tax-free retirement phase. Amounts above this limit remain in accumulation phase and continue to be taxed.

Eligible taxpayers with a total superannuation balance of less than $500,000 can continue to carry forward the unused part of their concessional contribution cap to future year's for up to 5 years. After 30 June 2026, unused contributions from the 2021 financial year will not be eligible to be made up.

Eligible taxpayers may bring forward up to 3 years of non-concessional contributions. Eligibility will depend on your age and fund balance.

There are criteria that must be met prior to a fund accepting both concessional and non-concessional voluntary contributions. We recommend contacting us before making any voluntary contributions to a super fund to confirm eligibility.

**DIVISION 293 TAX**
Division 293 tax is an additional 15% tax on concessional superannuation contributions for high income earners. The tax applies when Division 293 income and concessional super contributions exceed $250,000 in a financial year.

Division 293 income includes taxable income, reportable fringe benefits, net financial investment losses and rental property losses.

The amount payable is 15% of the concessional contributions, or 15% of the amount of Division 293 income above $250,000, whichever is lower.

Division 293 tax is notified as a separate assessment and may be paid from funds released from your super fund (with ATO permission).

**EXCESS CONTRIBUTIONS TO A SUPER FUND**
Excess contributions tax applies when concessional contributions caps are exceeded.

The excess contributions are included in personal assessable income and taxed at the relevant marginal rate. A 15% offset is also provided to recognise tax paid by the super fund.

85% of the excess concessional contributions may be withdrawn from the super fund or it can be left in the fund where the excess amount will count towards the non-concessional contribution cap.

If the non-concessional superannuation cap is exceeded, and there is no opportunity to bring forward contributions, there are two options available. The first is to withdraw 100% of the excess amount and 85% of the associated earnings. The earnings are included in individual assessable income and taxed at marginal rates with a 15% offset available.

If the excess non-concessional contributions are left in the super fund, they are taxed at 47%. Generally, funds will be released from the super fund to pay this obligation.

**SMSF PENSION WITHDRAWALS**
There are no changes in the minimum pension drawdown rates for the 2026-2027 financial year. Account based pensions are calculated as a percentage of the member account balance on 1 July 2026.

- SMSF pension withdrawal rates

| Age | Percentage factor |
|---|---|
| Under 65 | 4.0% |
| 65 - 74 | 5.0% |
| 75 - 79 | 6.0% |
| 80 - 84 | 7.0% |
| 85 - 89 | 9.0% |
| 90 - 94 | 11.0% |
| 95 or more | 14.0% |

Account balances will be finalised on completion of the 2025-26 SMSF tax returns and minimum drawdown requirements will be included with the signing documents.

**FINALISING 2026**

**SINGLE TOUCH PAYROLL FINALISATION**
STP finalisation is to be made via your payroll software prior to 14 July 2026, unless you employ closely held employees (non-arm's length), which are due for finalisation by 30 September.

**TAXABLE PAYMENTS ANNUAL REPORT (TPAR)**
Amounts paid to subcontractors are reported via the TPAR. TPAR's need to be lodged with the ATO prior to 28 August 2026 if your business provides services in building and construction, cleaning, courier, road freight, information technology (IT) or security, investigation and surveillance.

**SUPER GUARANTEE CONTRIBUTIONS**
As previously mentioned, with the transition to payday super, we recommend payment of employee super obligations for the June quarter as soon as possible.

**STOCKTAKES AND STOCK COUNTS**
If you are a business that carries trading stock, perform a stocktake, write off any damaged or obsolete stock and determine the value of the stock on hand on 30 June.

Primary producers should complete a livestock count, including offspring at foot.

**DEBTORS**
Review debtor balances, flag any potential bad debts for follow up and write off any confirmed bad debts.

**ODOMETER READINGS**
Record odometer readings for vehicles that have mixed business and private use.

**VALUATIONS OF REAL ESTATE HELD BY SMSF**
Organise an appraiser or valuer to conduct the annual valuation of super fund real estate assets. The appraisal or valuation must include a detailed description of the property, up-to-date comparative sales evidence to support the suggested value and market rent rates achievable for the property.

**STAFF UPDATES**

We would like to congratulate Emma and Casey Semler on their marriage in February.

Lindsey Maxwell, and her husband John, welcomed a baby boy in March. We also bid farewell to Lindsey and John who have left the region to be closer to family.

Ahmad Sahil joined us as an assistant accountant. Ahmad is combining work with tertiary studies as he completes the final year of a Bachelor of Business.

We have recently welcomed Cecilie Feigh to the admin team. Cecilie has settled in Naracoorte from Denmark.

**OFFICES**

**NARACOORTE**
66 Smith Street,
NARACOORTE SA 5271
PH: 08 8762 3644
FAX: 08 8762 1354
EMAIL: admin@mottfinnis.com.au

**BORDERTOWN**
Tuesdays by appointment
SAL Building
22 Binnie Street,
BORDERTOWN SA 5268
(Documents may be dropped off or collected from the Bordertown office during regular business hours)