Federal Budget Newsletter

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Key Updates

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Changes to the capital gains tax discount

The current 50% Capital Gains Tax (CGT) discount is proposed to be replaced with cost base indexation for capital gains arising on or after 1 July 2027. The 50% CGT discount will remain on all eligible gains arising before 1 July 2027.

In practice, taxpayers will need to get a valuation of their CGT asset on 1 July 2027 and once disposed, this gain will receive the 50% discount with any further gain taxed under the new rules. If a valuation is not obtained the ATO will be releasing a formula to calculate the gain differential between the old and new system.

A new 30% minimum tax will be levied on all net capital gains. Income support and Age Pension recipients will be exempt from this minimum tax.

This applies to all CGT assets including shares, investment properties, and business assets held by individuals, trusts and partnerships. CGT assets with pre-CGT status will also be caught under the minimum tax provisions for gains above the 1 July 2027 values.

At this stage, there appears to be no change to CGT for superannuation funds who will continue to receive the 33.3% discount and will not be subject to the minimum tax.

Investors in new residential properties will be able to choose between the 50% CGT discount or cost base indexation to minimise capital gains tax on sale.

The Small Business CGT Concessions remain available.

Changes to negative gearing

Negative gearing occurs when the costs of owning an investment property exceed the rental income it generates. Currently, this net loss can be deducted against other income, including salary or wages, reducing an individual's overall tax bill.

This is proposed to be grandfathered for existing investment properties so the ability to offset losses from a current negatively geared investment property against other income continues unchanged for as long as you hold that property.

For established residential properties acquired after 7:30pm AEST on 12 May 2026, rental losses from those properties will only be deductible against rental income or capital gains from this or other residential properties. Excess losses are carried forward but cannot reduce other income. Executed contracts to purchase established residential properties before 7:30pm on 12 May 2026, including those not yet settled, are covered by the grandfathering provisions. This will commence from the 2027-28 financial year onwards.

Newly constructed properties are exempt from the changes. Where you purchase a new build that adds to Australia's housing supply, negative gearing deductions remain fully available.

These changes do not apply to other CGT assets including commercial property and shares. Established residential properties acquired through Superannuation funds and widely held trusts will continue under the current rules.

Changes to the taxation of trust distributions

From 1 July 2028, trustees of discretionary trusts will be required to pay a minimum tax of 30% on the taxable income of the trust. Beneficiaries other than corporate beneficiaries will receive non-refundable credits for the tax paid by the trustee. Corporate beneficiaries will not receive the credit meaning that they will be double taxed (a total of 55% or 60% tax). This disincentive will effectively stop affected trusts from distributing to companies from the 2029 financial year onwards.

Fixed trusts, widely held trusts, complying superannuation funds, special disability trusts, deceased estates, and charitable trusts are not subject to the measure. A number of exclusions apply to certain types of income, including primary production income.

Income from assets already in testamentary trusts is excluded from the measure but income from assets transferred to testamentary trusts from 12 May 2026 are not. This may impact estate planning considerations for many people.

The practical effect is a significant increase in the tax cost of distributing trust income to beneficiaries who pay tax at a combined rate below 30%. Where a beneficiary's actual tax liability is less than the credit received, the excess is not refunded.

The Budget confirms expanded rollover relief for three years from 1 July 2027 to support businesses and individuals wishing to restructure out of discretionary trusts into another entity type before the minimum tax takes effect.

We will be looking at this opportunity to restructure if applicable once the legislation is released.

$1,000 instant tax deduction

From 1 July 2026, eligible Australian taxpayers who earn income from work will be able to claim a flat $1,000 deduction for work-related expenses without the need to keep receipts or itemise individual costs. This is a choice so individuals can decide whether the flat deduction or actual expenses provides a better tax outcome.

Eligible tax residents include those individuals who earn income from work, including wages, salaries and sole trader business income.

Charitable donations, union and professional association membership fees and other non-work deductions can still be claimed on top of the $1,000 flat deduction.

$250 working Australians tax offset

A proposed permanent non-refundable working Australians Tax Offset of up to $250 for Australians who earn income from work - including wages, salaries, and the business income of sole traders. This offset is due to come into effect from the 2027–28 financial year onwards.

Individual tax rate changes

The legislated individual tax rates or the next two financial years will be as outlined below:

Individual income tax rates - from 1 July 2026

Income Range	Marginal Rate
Between $0 and $18,200	0%
Between $18,201 and $45,000	15%
Between $45,001 and $135,000	30%
Between $135,001 and $190,000	37%
Greater than $190,001	45%

Individual income tax rates - from 1 July 2027

Income Range	Marginal Rate
Between $0 and $18,200	0%
Between $18,201 and $45,000	14%
Between $45,001 and $135,000	30%
Between $135,001 and $190,000	37%
Greater than $190,001	45%

Medicare levy low-income threshold changes

The Medicare levy low-income thresholds have been increased by 2.9% from 1 July 2025 to provide relief for low-income individuals and families. The threshold for singles increases to $28,011, and the family threshold increases to $47,238.

	2024-2025	2025-2026
Singles	$27,222	$28,011
Families	$45,907	$47,238
Singles seniors & pensioners	$43,020	$44,268
Family seniors & pensioners	$59,886	$61,623
Family additional child or student	$4,216	$4,338

Cut to the private health insurance rebate for seniors

The federal government has announced its intention to reduce the higher rebate for Private Health Insurance for people 65 and over from 1 April 2027. Under this proposal, the rebate would be standardised across all age groups.

If implemented, this change could significantly increase out-of-pocket premium costs for older Australians.

Changes to the fringe benefits tax exemption for electric vehicles

First introduced in 2022, battery electric vehicles provided through novated lease or salary packaging arrangements have been fully exempt from Fringe Benefits Tax (FBT). This will be wound back as follows:

- Up to 31 March 2027: Full FBT exemption remains in place for all eligible EVs.
- From 1 April 2027: Full exemption only applies to EVs priced at $75,000 or less. EVs above $75,000 but below the Luxury Car Tax threshold will receive a reduced 25% FBT discount.
- From 1 April 2029: The 25% FBT discount applies to all EVs below the Luxury Car Tax threshold.

Existing arrangements are expected to be excluded, however until the legislation is available this cannot be confirmed.

Instant asset write-off

The $20,000 instant asset write-off has been confirmed as a permanent feature of the tax system for small businesses with annual turnover of less than $10 million, from 1 July 2026.

The write-off applies on a per-asset basis, allowing eligible businesses to immediately deduct the full cost of assets under the threshold in the year they are first used or installed.

Loss carry-back for companies

From 1 July 2026, companies with aggregated annual global turnover of less than $1 billion will be able to carry back a tax loss and offset it against tax paid in either of the two previous financial years.

If your company paid tax in 2024–25 or 2025–26 and subsequently incurs a loss in 2026–27 or later, a cash refund may be available. The carry-back applies to revenue losses only and is limited by your company's franking account balance.

Loss refundability for start-up companies

From 1 July 2028, small start-up companies with annual turnover under $10 million that incur a tax loss in their first two years of operation will be able to convert that loss into a refundable tax offset, capped at the value of FBT and withholding tax on wages paid to Australian employees.

It is unclear how this will impact on franking account balances once the companies become profitable.

R&D tax incentive

From 1 July 2028, the R&D Tax Incentive available to companies is being reformed. The offset rates for core R&D expenditure increase by 4.5 percentage points.

The intensity threshold drops from 2% to 1.5% and the turnover threshold for the refundable offset rises from $20 million to $50 million. However, supporting R&D expenditure will no longer be eligible. The minimum expenditure threshold increases from $20,000 to $50,000.

Superannuation

The superannuation sector has escaped major changes in the budget announcements. The changes to negative gearing and CGT do not apply to superannuation funds. However, there are several changes in superannuation that have already been legislated.

From 1 July 2026, if your total superannuation balance across all funds exceeds $3 million, the earnings attributable to the portion above that threshold will be subject to an additional 15% tax, effectively doubling the tax rate on those earnings from 15% to 30%. This legislation received Royal Assent on 13 March 2026 and is now law. The tax is calculated on the fund's adjusted taxable income. An earlier proposal to include unrealised gains was removed before the legislation passed.

The transfer balance cap (the maximum amount you can hold in a tax-free retirement phase pension) increases from $2.0 million to $2.1 million from 1 July 2026. The concessional contributions cap for 2027 is $32,500 and the non-concessional contribution cap is $130,000.

From 1 July 2026, employers are required to pay superannuation contributions at the same time as wages, rather than quarterly. Payroll systems will need to be updated before the changeover date, and contributions must reach the employee's fund within seven business days of each pay date.

Foreign purchases of established dwellings ban extended

The temporary ban on foreign purchases of established residential dwellings has been extended to 30 June 2029. Existing exemptions, including for permanent residents and New Zealand citizens continue to apply. For most clients, this will have no direct impact.

Disclaimer: Unless otherwise noted, the measures set out above are announcements only. There is no guarantee that they will be legislated. We will keep you up to date with key developments in this space.

Please contact our office if you wish to discuss the Federal Budget further on 08 8241 8444.