

# Federal Budget 2026-27 — what the major tax changes mean for you

Dear Client,

Last night's Federal Budget contained some of the most sweeping tax reforms Australia has seen in decades. Treasurer Jim Chalmers described it as "the most important and ambitious Budget in decades", with a clear intent to rebalance the tax system so wage earners are not treated substantially differently from those who earn income through assets and investments. We've summarised the key changes most likely to affect you — across capital gains tax, negative gearing and discretionary trusts.

<b>30%</b> <b>Trust minimum tax rate</b> From 1 July 2028	<b>50% □ 0</b> <b>CGT discount removed</b> Indexation + 30% min tax, 1 Jul 2027	<b>NOW</b> <b>Negative gearing trigger</b> 7:30pm, 12 May 2026
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## The big picture — budget overview & economic context

Understanding the backdrop helps explain why these reforms are happening now. The Government faces a challenging global environment while pressing ahead with structural tax reform.

<b>\$31.5B</b> <b>Deficit 2026-27</b> \$2.8B better than MYEFO	<b>1.75%</b> <b>GDP growth 2026-27</b> Slowing from 2.25%	<b>about 5%</b> <b>Inflation forecast</b> Peak mid-2026, 2.5% by Jun 2027	<b>2034-35</b> <b>Return to balance</b> Gross debt peaks around 35.8% of GDP
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Budget aggregates	2025-26	2026-27	2027-28	2028-29
Cash deficit (\$b)	-28.3	-31.5	-31.0	-34.4
Gross debt (\$b)	982	1,051	1,120	1,193
Gross debt (% GDP)	33.1%	34.0%	35.2%	35.8%
Net debt (\$b)	556	616.6	668.8	725.5

### Global backdrop

A US-Iran war has triggered a global oil shock; worst-case scenarios model inflation above 7%. The central forecast avoids recession but assumes gradual improvement from late 2027.

### Inflation

Headline CPI to peak at about 5% through the year to June 2026 on the oil shock, then return to 2.5% by June 2027. Wage growth stays at around 3.25–3.5%.

<b>Unemployment</b>	Expected to rise gradually from 4.25% (June 2026) to 4.5% — low by historical standards. Employment growth of around 1.5% forecast.
<b>Gross debt context</b>	Gross debt is forecast at \$1.051 trillion (34% of GDP) in 2026-27 - but \$173 billion lower than the 2022 PEFO estimate the Government inherited.
<b>Return to balance</b>	The Budget is projected to return to balance in 2034-35 and a surplus of 0.8% of GDP in 2036-37.
<b>Tax-reform rationale</b>	The Treasurer's stated goal: rebalance the tax system so wage earners aren't treated substantially differently from those earning through assets. The trust tax directly funds the \$250 worker offset.

### CONTEXT FOR CLIENTS

These reforms are part of a deliberate revenue strategy — increasing tax on investment structures to fund cost-of-living relief for wage earners. The Government has explicitly linked the discretionary-trust minimum tax (forecast to raise \$4.47 billion in 2029-30 alone) to funding the Working Australians Tax Offset.

## Key dates at a glance

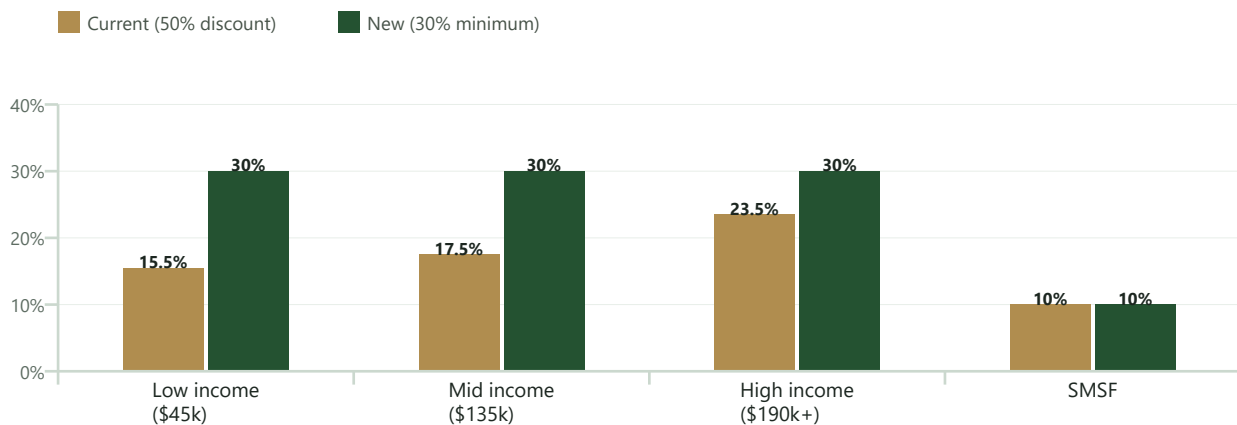


## 1. Capital Gains Tax (CGT)

Changes apply from 1 July 2027

The current 50% CGT discount will be abolished and replaced with CPI cost-base indexation — so only the **real** gain above inflation is taxed. A separate 30% minimum tax floor then applies to that real gain. This is similar to the pre-1999 indexation arrangements, but now with a minimum tax on top.

### Effective tax rate on capital gains: current vs new rules



<b>Applies to</b>	ALL CGT assets for individuals, partnerships and trusts — shares, property, business assets and pre-1985 assets.
<b>How gains split</b>	Pre-1 July 2027 gains keep the old rules (50% discount; pre-CGT exempt). Post-1 July 2027 gains use indexation + the 30% minimum. Assets are valued at 1 July 2027 by valuation or ATO formula.
<b>30% minimum tax</b>	A floor so the effective rate on the real (inflation-adjusted) gain is at least 30%. Clients on marginal rates above 30% are unaffected by the floor.
<b>New builds</b>	Investors in new residential property can elect the current 50% discount OR the new rules on sale — whichever is better.
<b>Super / SMSFs</b>	Fully unaffected — the one-third CGT discount for super funds continues unchanged.
<b>Main residence</b>	The main-residence CGT exemption is unchanged. The four small-business CGT concessions are also preserved.
<b>Exempt persons</b>	Recipients of means-tested income support (Age Pension, JobSeeker etc.) in the year of sale are exempt from the 30% minimum tax.
<b>Pre-CGT assets</b>	CGT-free on the pre-1 July 2027 portion, but gains after that date fall under the new rules — a significant surprise for long-held assets.
<b>Status</b>	PROPOSED — subject to legislation. Not yet law; final legislation may differ.

#### WORKED EXAMPLE

**David** buys an asset in July 2027 for \$500,000. After 10 years at a 5% return and 2.5% inflation, his taxable gain under indexation is \$174,405 versus \$157,224 under the current 50% discount — roughly \$8,075 more tax.

**Ben**, with only a 2.5% return (matching inflation), pays **no** capital gains tax under the new rules — saving \$24,858 versus the current rules. The new system is better for low-return investors.

**WHAT THIS MEANS FOR YOU**

The transition window to 1 July 2027 is critical. Assets sold before that date keep all existing concessions; assets held beyond it will have their gains split. Consider whether to crystallise gains in low-income years before 1 July 2027 — but note the 30% minimum still applies unless you're on income support. SMSF asset-location decisions should also be reviewed.

## 2. Negative Gearing

Trigger: 7:30pm AEST, 12 May 2026

The rules follow a clear three-bucket framework based on property type and acquisition date. Understanding which bucket your property falls into is essential.

<b>Bucket 1 — SAFE</b>	<b>Bucket 2 — AFFECTED</b>	<b>Bucket 3 — UNAFFECTED</b>
Established property already owned at 7:30pm AEST 12 May 2026. No change — ever. Full negative gearing against salary continues, and the existing 50% CGT discount on sale also continues.	Established property acquired after 7:30pm AEST 12 May 2026. From 1 July 2027 net rental losses offset only against residential-property income — not salary. Unused losses carry forward indefinitely.	New builds (any acquisition date). Full negative gearing continues against all income. The investor can choose the 50% CGT discount OR the new indexation rules on sale.

<b>Qualifies as a “new build”</b>	A dwelling on previously vacant land; a site where existing dwellings are demolished and replaced with MORE dwellings; or property occupied less than 12 months before its first sale.
<b>Does NOT qualify</b>	Knock-down rebuilds that don't increase dwelling count; granny flats; extensions. And once a new build has been occupied and on-sold, the next purchaser can't access the concessions — the “new build” tag attaches to the first owner only.
<b>Transition window</b>	Properties acquired between Budget night and 30 June 2027 keep the old rules until 30 June 2027, then fall under the new rules from 1 July 2027.
<b>Binding contracts</b>	The contract date (not settlement) is what matters for grandfathering. Contracts signed before 7:30pm 12 May 2026 are fully protected even if not yet settled.
<b>Exempt structures</b>	SMSFs, widely held trusts (most MITs), build-to-rent and government housing programs are carved out entirely.
<b>Status</b>	PROPOSED — subject to legislation. The grandfathering cut-off is firm: 7:30pm AEST, 12 May 2026.

**WHAT THIS MEANS FOR YOU**

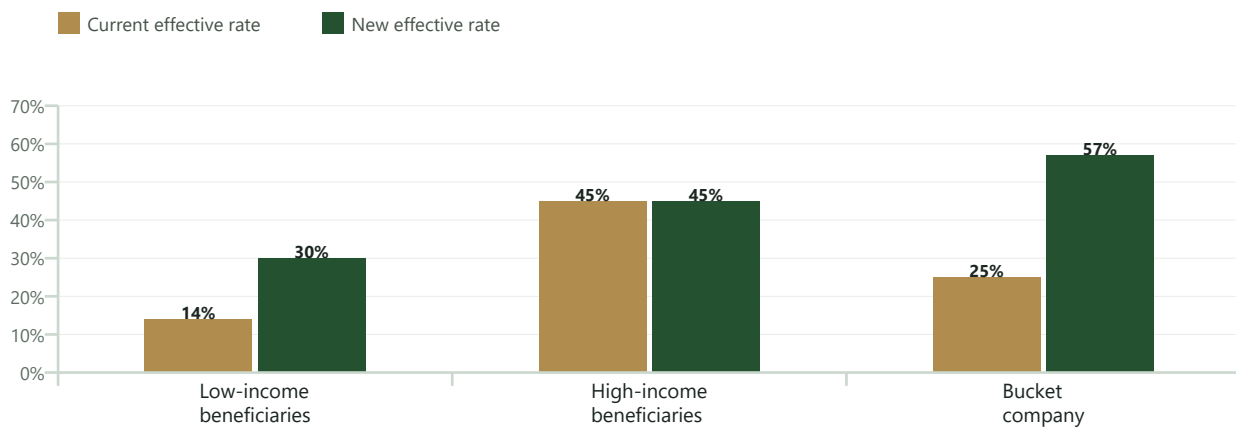
If you're considering an investment property, the tax case for new builds has never been stronger relative to established property. Existing owners — document your ownership date carefully. If you have a contract not yet settled, it's the contract date that protects you, not settlement.

**3. Discretionary Trusts**

30% minimum tax from 1 July 2028

Perhaps the most far-reaching change for families and small-business owners. Around 350,000 active small businesses and 810,000 individual adults (about 5% of all taxpayers) are affected.

**Tax impact by beneficiary type: current vs new rules**



**NOTE ON BUCKET COMPANIES (CONFIRMED)**

Corporate beneficiaries receive no non-refundable credit for the 30% trustee tax, and the company then pays its own corporate tax on the full distribution received. The combined effective rate moves toward 55–60%. This is a deliberate Government decision to end the bucket-company strategy.

<b>Minimum rate</b>	30% tax paid by the trustee on ALL trust taxable income from 1 July 2028 — no grandfathering for existing trusts.
<b>Individual credits</b>	Individual (non-corporate) beneficiaries get non-refundable credits. Those on rates above 30% are effectively no worse off; those below 30% lose the benefit of the lower rate.
<b>Bucket companies</b>	Corporate beneficiaries get no credit — income is double-taxed at a 55–60% combined rate. around 80,000 companies affected.
<b>Exempt structures</b>	Fixed trusts, widely held trusts, SMSFs, special-disability trusts, charitable trusts and deceased estates.

<b>Exempt income</b>	Primary-production income (only that income, not a whole mixed trust), income for vulnerable minors, non-resident withholding, and existing testamentary-trust assets.
<b>Rollover relief</b>	A 3-year CGT-free rollover window from 1 July 2027; ASIC will support incorporation, and a Small Business Ombudsman is available from 1 Jan 2027.
<b>Scale</b>	around 840,000 discretionary trusts; \$142.4 billion distributed in 2023. Revenue raised: \$4.47 billion in 2029-30 alone.
<b>Status</b>	PROPOSED — subject to legislation. No draft legislation yet; consultation expected.

#### WORKED EXAMPLE — KURT vs LORETTA

**Kurt** operates via a discretionary trust, distributing \$200,000 to family members with no other income — currently \$42,010 in tax. Under the new rules, with the 30% minimum applied to \$200,000 of trust income, that becomes \$86,002 — more than double.

Operating through a company (like **Loretta**) at the 25% small-business rate results in \$72,002 — significantly less than the trust under the new rules.

#### WHAT THIS MEANS FOR YOU

If you operate through a discretionary trust, a review is now urgent. The rollover-relief window opens 1 July 2027 — but preparation needs to start now. Restructuring into a company may access the 25% small-business rate and franking benefits. For trusts with mixed income, the primary-production carve-out applies only to that specific income — not the whole trust.

## Superannuation updates — key changes from 1 July 2026

#### Div. 296 tax — now operative

Additional tax on super earnings above \$3M TSB (15%) and \$10M (25%). Royal Assent 13 March 2026; operative 1 July 2026, first assessment 30 June 2027. Both thresholds CPI-indexed; an SMSF cost-base reset election is available.

#### Payday Super — 1 July 2026

Super must be paid on every payday (not quarterly), with funds receiving it within 7 business days. A new “Qualifying Earnings” base replaces OTE and now expressly includes all commissions. The Small Business Super Clearing House closes — an alternative is needed.

#### LISTO boost — 1 July 2027

The Low Income Super Tax Offset threshold rises from \$37,000 to \$45,000, and the maximum payment from \$500 to \$810. Around 3.1 million Australians become newly eligible — 60% of them women.

#### Paid Parental Leave

PPL increases from 24 to 26 weeks from 1 July 2026, with the first super-on-PPL contributions paid from July 2026 (about \$3,000 for a parent on full PPL). Important for younger clients’ retirement projections.

## Other changes of note — personal tax, health and housing

<p><b>\$250 Working Australians Tax Offset</b></p> <p>A permanent annual offset for employees and sole traders from 2027-28 (over 13 million workers). It does NOT apply to trust distributions or investment income — only income from work.</p>	<p><b>\$1,000 instant work-expense deduction</b></p> <p>No receipts, from 2026-27. Election-based: claim the \$1,000 flat OR itemise actual expenses — not both. Donations, union fees etc. are still claimable on top. Average benefit about \$205.</p>
<p><b>Income-tax rate cuts (legislated)</b></p> <p>The 16% rate on \$18,201–\$45,000 drops to 15% from 1 July 2026, then 14% from 1 July 2027 (already legislated). Benefits every taxpayer above \$18,200.</p>	<p><b>Private Health Insurance rebate</b></p> <p>The age-based uplift is removed from 1 April 2027 (around 3 million Australians 65+). Net premiums rise about \$240/yr for 65–69 and about \$500/yr for 70+ — up to a 12% rise on top of normal increases.</p>
<p><b>EV salary-packaging FBT</b></p> <p>FBT concessions for electric vehicles reduce from 1 April 2029. Cars acquired before that date are fully grandfathered.</p>	<p><b>Foreign-buyer ban extended</b></p> <p>The ban on foreign purchases of established homes is extended to 30 June 2029 (was due to expire April 2027). Permanent residents and NZ citizens remain exempt.</p>

## Why quality advice has never mattered more

These aren't minor technical adjustments — they represent a fundamental reshaping of how investment income, property and family wealth are taxed in Australia. The interactions are complex, the transition windows are time-sensitive, and the measures are still PROPOSED (not yet law) — so the final legislation may differ. Please talk to us before making any decisions about:

- Selling investment assets before or after 1 July 2027
- Buying an investment property — established versus new build
- Your existing discretionary-trust structure and whether it remains fit for purpose
- Restructuring out of a trust using the rollover-relief window from 1 July 2027
- Superannuation strategy, particularly for balances approaching \$3 million (Div. 296)
- CGT planning before the 1 July 2027 transition date

### We're here to help

If you'd like to understand how any of these changes affect your situation, please get in touch and we'll talk it through — well before the key dates.

**Book a complimentary chat** →