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2026-27 Federal Budget Update: What it Means for the Medical Sector

The Federal Budget delivered on 12 May 2026, titled “Resilience and Reform”, arrives during a period of global economic volatility. While the headlines are dominated by the global oil shock and cost-of-living relief, there are several landmark tax and health reforms that will directly impact medical practitioners and practice owners.

The enclosed summary highlights key legislative changes affecting your financial position. Please review these updates, and if you would like to discuss this with your adviser or accountant, please contact our offices at enquiries@walshs.com.au or find out more via our website walshs.com.au.

The key topics discussed below include:

1. Discretionary Family Trusts: Will face a new 30% minimum tax rate from 2028. Therefore, for distributions made to children and retired parents, your tax bill is likely to increase significantly. Note, the tax of 30% is a non-refundable tax offset.
2. Property Strategy Overhaul: Negative gearing will be restricted to new builds from 12 May 2026. Existing properties held will be “grandfathered,” making current holdings more valuable but future investment decisions much more complex.
3. CGT Discount Gone: The 50% CGT discount is being scrapped for an inflation-based model. This may change the exit strategy for your investments and practice goodwill. Under the proposed rules, the CGT calculation will adjust for inflation while also introducing a minimum 30% tax rate.
4. Cash Flow Benefits for Clinics: A permanent $20,000 instant asset write-off and "Loss Carry-Back" provisions offer immediate tax relief for clinic owners and those investing in new medical technology.
5. Lower Personal Tax Rates: Tax rates for the lowest tax bracket is dropping to 15% (and eventually 14%), providing modest relief for high-income earners, alongside a new $1,000 "no-receipts" deduction.

1. Significant Tax Reforms

The Government is moving to a more "sustainable" tax system, which involves a mix of new offsets and structural changes to investment.

- New Working Australians Tax Offset (WATO): From the 2027-28 income year, most practitioners will receive a permanent annual tax offset of up to $250.

- $1,000 Instant Tax Deduction: Starting in 2026-27, the Government is introducing a $1,000 "no-receipts-required" deduction for work-related expenses. While this simplifies tax time, high-earning specialists with significant professional indemnity, CPD, and equipment costs will likely still benefit more from claiming actual expenses if they exceed this threshold.

Whether you are a junior doctor or senior consultant, your work-related expenses will typically exceed $1,000 annually. As a result, most medical professionals are likely to achieve a better tax outcome by continuing to claim actual itemised deductions.

Contents

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What should you do now?

- **Legislated Personal Tax Cuts:** Two further rounds of tax cuts are confirmed. On 1 July 2026, the following were confirmed:
  - Current 16% tax rate to be reduced to 15% from 1 July 2026.
  - The 15% tax rate will be further reduced to 14% from 1 July 2027.

TAXABLE INCOME THRESHOLD	2025-26 INCOME YEAR	2026-27 INCOME YEAR	2027-28 INCOME YEAR
$0 – $18,200	Tax-free	Tax-free	Tax-free
$18,201 – $45,000	16%	15%	14%
$45,001 – $135,000	30%	30%	30%
$135,001 – $190,000	37%	37%	37%
$190,001 and over	45%	45%	45%

Medicare Levy: Note that these rates do not include the ***2% Medicare Levy***, which remains applicable to most medical practitioners.

2. Radical changes to trusts and investment

For many in the medical space who use discretionary (family) trusts for asset protection and income splitting, the Budget introduces a major shift:

- **Minimum Tax on Trusts:** From 1 July 2028, a **minimum tax of 30%** will apply to discretionary trusts. This aims to align trust tax rates more closely with top-tier wage earners. If you currently distribute income to low-income adult children or retired parents, we recommend reviewing your structure before the 2027–28 “rollover relief” period ends. The Budget introduces a rollover relief provision that may allow restructuring opportunities. However, in Queensland, this can often trigger stamp duty, making the restructure less attractive. It is also important to note that this is a non-refundable tax offset, meaning strategies involving bucket companies or low-income beneficiaries may be less effective going forward.
- **Negative Gearing & CGT Reform:** The recent Budget announcements signal the most significant shift in property taxation in decades. Therefore, from 1 July 2027, the landscape for negative gearing will change significantly, with a stronger focus on incentivising new housing supply. The ability to offset investment property losses against your personal salary and wage income (i.e. negative gearing) will be restricted to new residential builds.

Some examples to share:

Example 1: I currently live in my home (principal place of residence – PPR) which I purchased more than 12 months ago. If I decide to move out and rent it out, can I still negative gear it?

Response 1: Yes. Because you owned the property prior to the Budget Night announcement, the property is grandfathered. The date it becomes an investment property does not trigger the new rules; the date of acquisition is the deciding factor.

Example 2: If I buy an existing property on 13 May 2026 in my individual name, can I claim negative gearing benefits?

Response 2: No, under the proposed rules, any established property purchased after the Budget announcement will no longer be eligible for negative gearing. Any rental losses will likely be 'quarantined' and carried forward to offset future rental income or capital gains from that property, rather than reducing your taxable income.

Example 3: What counts as a new build? Does a major renovation or extension count?

Response 3: The logic of this policy is to increase the total number of dwellings in Australia.

- **Included:** Building a new home on vacant land, purchasing a "house and land" package, or buying a developer's stock that has never been lived in.
- **Included (Sub-divisions):** If you own a large block and build a second dwelling (granny flat or subdivided townhouse) in the backyard, that new dwelling counts as new supply and is eligible.
- **Excluded:** Upgrades, extensions, or "flipping" an existing house. If the footprint of the property remains a single existing dwelling, it does not meet the "new supply" criteria.

What Remains Unchanged? (The Exemptions)

It is important to note that these restrictions are specific to residential real estate. The following investment activities appear to retain their current deductibility status under the original rules:

- **Shares and ETFs:** If you borrow to invest in a portfolio of shares or Exchange Traded Funds (ETFs) with the expectation of receiving dividends, the interest remains deductible against your other income.
- **Commercial Property:** The new rules are targeted at the housing crisis. Investments in warehouses, retail shops, and office spaces are currently unaffected and can still be negatively geared.
- **Margin Lending:** Borrowing against your share portfolio (margin lending) remains deductible where the funds are used to produce assessable income (dividends).
- **General Business Borrowing:** Borrowing for the purpose of starting or expanding a business remains subject to existing tax laws, therefore, interest is generally deductible if it relates to earning assessable income for the business.

Capital Gains Tax (CGT) Discount

The 50% CGT discount will be replaced with a discount based on inflation (plus a minimum 30% tax on gains) from 1 July 2027. This may materially alter your long-term property investment strategy.

This represents a shift in strategy for long-term property and share investors. However, it is vital to note that these changes are targeted. The following asset classes and structures are specifically excluded or remain under existing rules:

- **Superannuation Funds:** Investments held inside superannuation funds (including SMSFs) are not affected by the change and will not be subject to the new indexing/minimum tax rules.
- **The Main Residence (PPOR):** Your family home remains entirely exempt from Capital Gains Tax under the Principal Place of Residence provisions.
- **Widely Held Trusts & Managed Investment Trusts (MITs):** Assets held within these specific institutional structures are excluded from these specific new measures to ensure market stability for large-scale investment.
- **Small Business CGT Concessions:** The four existing Small Business Concessions (15-year exemption, 50% active asset reduction, retirement exemption, and rollover) remain in place. These continue to be the most powerful tools for business owners to reduce or eliminate CGT.
- **Pre-CGT Assets:** Assets acquired before 20 September 1985 remain outside the CGT system. While the new rules apply to gains accrued in the future on modern assets, truly "grandfathered" pre-1985 assets maintain their exempt status.

Scenario: Dr. James is a Private Consultant earning $450,000. He currently distributes $100,000 of investment income through a family trust to his retired parents and uses negative gearing on two established apartments.

- **Trust Impact:** Under the new rules (post-2028), James's trust will be hit with a 30% minimum tax. If his parents were previously in a 0% or 19% bracket, the family will pay significantly more tax on that $100k.
- **Negative Gearing:** Because James bought his apartments before the 2026 Budget, his negative gearing is "grandfathered." He can still deduct those losses against his high surgical income. If he buys another established property next month, however, those losses will be "trapped" within his property portfolio.

Whilst these changes are significant and represent a major shift in the Australian tax landscape, we feel there are still broad-based investment opportunities available across all asset classes. Tax is only one component of a successful investment strategy; the underlying quality and growth potential of the asset remain paramount.

Because these rules are complex and depend heavily on your specific entity structure, we recommend that you speak with your adviser to review your portfolio. We can help you determine what steps to take now to ensure your long-term wealth strategy remains tax-effective and aligned with the proposed changes.

3. Strengthening Medicare and Hospital Funding

The Budget places a heavy emphasis on public health infrastructure and accessibility:

- **Public Hospital Boost:** A landmark $25 billion additional investment for public hospitals over five years.
- **Medicare Urgent Care Clinics:** The 137 existing clinics are now a **permanent** feature of the health system, with $1.8 billion in ongoing funding.
- **Bulk Billing Targets:** The Government is aiming for 9 out of 10 GP services to be bulk billed by 2030, supported by the $11.4 billion incentive package.

4. Practice Management & Business Incentives

If you own your clinic or are considering a fit-out, take note of these business measures:

- **Permanent $20,000 Instant Asset Write-Off:** From 1 July 2026, small businesses (turnover under $10 million) can immediately deduct eligible assets costing less than $20,000. This is excellent for upgrading medical equipment or IT systems.
- **Loss Carry-Back Reintroduction:** From 2026–27, if your practice makes a tax loss, you may be able to "carry it back" against tax paid in the previous two years to generate a cash refund.
- **Single National Market:** The Government is working with states to harmonise payroll tax administration and allow health practitioners to work to their full scope of practice across state lines.

Scenario: Dr. Priya owns a clinic with 8 consulting rooms and a turnover of $4 million. She needs to upgrade her ultrasound and sterilisation equipment.

- **Instant Asset Write-Off:** Priya buys three new pieces of equipment, each costing $18,500. Because each asset is under the permanent $20,000 limit, she can deduct the full $55,500 immediately in the 2026-27 year.
- **Loss Carry-Back:** If the practice experiences a temporary downturn due to increased local competition and records a tax loss of $20,000 in 2026-27, Priya can "carry back" that loss to 2025-26. If she paid tax at 25% previously, she could receive a $5,000 cash refund from the ATO to help with practice cash flow.
- **The Verdict:** The permanent $20,000 limit provides Priya with the certainty to plan a rolling equipment replacement schedule.

5. Superannuation and Staffing

- **Performance Test Review:** The annual superannuation performance test will be "strengthened" to reduce barriers to investment, which may affect your SMSF or industry fund outcomes. This is being implemented to encourage institutional superannuation investment into major domestic priorities. These priorities include the energy transition, the 'Future Made in Australia' initiative, and affordable housing. By refining these tests, the Government aims to ensure that super funds can invest in long-term, nation-building assets without being unfairly penalised by short-term performance benchmarks.

6. Affordable Healthcare & Medicines

The Budget includes a $5.9 billion investment to lower the cost of healthcare and improve the viability of permanent Medicare services.

- **Cheaper Medicines:** The Government has cut the cost of medicines to their lowest levels in 20 years.
  - **Co-payment Caps:** The maximum general PBS co-payment is now $25.00, while the concessional rate is frozen at $7.70 until 2030.
  - **New PBS Listings:** Over $5.9 billion is allocated for new and amended listings, including treatments for cystic fibrosis, chronic kidney disease, and various cancers.
- **Medicare Urgent Care Clinics:** A $1.8 billion investment makes the 137 Medicare Urgent Care Clinics a permanent feature of the health system, providing free walk-in care.
- **Bulk Billing Incentives:** Following recent reforms, the national GP bulk billing rate has risen to 81.4%. The Government's goal is to ensure 9 out of 10 GP services are bulk billed by 2030.
- **National Immunisation Program (NIP):** $449.3 million is allocated to list the RSV vaccine (Arexvy®) on the NIP for eligible older Australians, making it free at the point of care.

What should you do now?

The broader economic concern remains the $18 billion in additional stimulus injected by this Budget. With inflation still above target, this spending profile risks a 'higher for longer' interest rate environment.

From a tax perspective, the grandfathering provisions relating to CGT and negative gearing mean your decisions today could have significant long-term consequences. Therefore, we strongly recommend speaking to your accountant or adviser before making any purchase or sale decisions.

We are committed to keeping you informed through upcoming webinars and technical briefs; however, individual circumstances require specific care. We encourage you to reach out to your accountant or adviser to discuss how these changes impact your specific roadmap.