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2026-27 Federal Budget Update: What these major tax shifts mean for you

On 12 May 2026, the Treasurer delivered the 2026-27 Federal Budget. This Budget signals some of the most significant structural changes to the Australian tax landscape in decades, particularly regarding property investment, trust structures, and Capital Gains Tax (CGT).

While many of these measures are scheduled to commence on 1 July 2027, the "grandfathering" rules for property mean that decisions made today will impact your tax position for years to come.

Please see below a summary of the significant legislative changes that may impact your commercial and personal financial position. 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.

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At a Glance: The Key Takeaways

- **Property:** Negative gearing limited for "established" residential properties bought after 12 May 2026.
- **CGT Reform:** The 50% CGT discount is being replaced by "Indexation" from 1 July 2027 (with some exceptions for new builds).
- **Trusts:** A new 30% minimum tax rate for Discretionary Trusts starting 1 July 2028.
- **Individuals:** A new $250 "Working Australians" tax offset and a $1,000 standard deduction for work expenses.
- **Business:** Permanent $20,000 instant asset write-off and the return of "Loss Carry Back" rules.
- **Superannuation:** "Payday Super" starts 1 July 2026; Balances above $3 million to face higher tax from 2026-27 (with CPI indexation).

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1. Negative Gearing Updates – Residential Rental Properties

- **Negative Gearing Restrictions:** From 1 July 2027, if you buy an established residential property after 7:30pm AEST on 12 May 2026, any rental loss will generally not be able to offset your salary, wages or other non-residential income once the rules start. Instead, those losses will be quarantined and carried forward to be used against future residential rental income or capital gains from residential property. The proposed reform includes the following exemptions:
  - Residential rental properties held before 7:30 PM AEST, 12 May 2026 – the property is intended to be grandfathered and should continue under the current treatment until disposed of.

- Eligible new builds of residential properties – intended to remain eligible for full negative gearing benefits.
- Residential properties held by widely held trusts and superannuation funds
- Your main residence will continue to be exempt for CGT purposes.

- **Common questions for negative gearing may include:**

Question 1: If I have an existing primary place of residence and rent it out after budget announcement, can I offset my residential rental losses against my other taxable income?

Yes – as the property was purchased prior to the 12 May 2026, you can still offset residential losses against your other income such as wages.

Question 2: If I buy an existing property from 14 May 2026 in my individual name, can I get the negative gearing benefit?

No – as the property was purchased after 12 May 2026, losses incurred from your residential rental property will be quarantined and only offset against future residential rental income.

Question 3: If I construct a new build intended to be a residential rental, will I be able to use negative gearing?

Yes, as this provides a new supply of residential property, the new quarantined losses rule will not apply to new builds.

Question 4: If I add an extension to a property purchased after 12 May 2026, can I utilise negative gearing benefits?

No, as this is not adding to the current property supply, this is not considered a new build. However, should you subdivide the property, this would be considered a new build and exempt from the new quarantined losses rules.

Scenario: Sarah earns $150,000 and buys an investment property that loses $10,000 p.a. (interest/expenses vs. rent).

- **Under the old rules (Purchased before May 2026):** Sarah offsets the $10,000 loss against her salary. Her taxable income drops to $140,000, saving her roughly $3,900 in tax immediately.

- **Under the new rules (Purchased after May 2026):** Sarah cannot offset the $10,000 loss against her salary. She pays tax on the full $150,000. The $10,000 loss is “carried forward” to future years.

- These negative gearing rules apply only to residential rental properties. Other investments such as, commercial property, margin lending for shares and regular business borrowing remain unchanged.

2. The End of the 50% CGT Discount

- From 1 July 2027, the 50% discount is replaced by "cost base indexation" (adjusting the purchase price for inflation) for assets held longer than 12 months. These changes only apply to capital gains arising on or after 1 July 2027. For pre-CGT assets (generally acquired before 20 September 1985), gains are still disregarded under current law.
- Transitional arrangements - If you invest in a new residential property, you can choose between the old 50% discount or the new indexation method.
- In practical terms, individual investors would no longer automatically halve their capital gain. Instead, the cost of the asset would be adjusted for inflation, so only the real gain after inflation is taxed, subject to a proposed 30% minimum tax on net capital gains.

- **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 (PPR): 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: Mark buys an asset for $500,000 and sells it 5 years later for $700,000 (a $200,000 gain). Inflation over that time was 10%.

- **Under the Old Rules (Sold before July 2027):** Mark gets a 50% discount. He only pays tax on $100,000.

- **Under the New Rules (Sold after July 2027):** Mark uses "Indexation." His $500,000 cost is adjusted by inflation to $550,000. He now pays tax on $150,000 ($700k - $550k).

Whilst these changes are significant, we recommend you speak to your adviser or accountant for the best investment opportunities in all asset classes. If you are likely to dispose of any investments, or considering purchasing new investments – please ensure you discuss this with your adviser first.

3. Taxation of Discretionary Trusts

In a significant move for family groups, the Government will introduce a minimum 30% tax on the taxable income of discretionary trusts effective 1 July 2028. If you distribute to a bucket company, children or retired parents, your tax bill is likely to increase significantly. It is important to note for individuals that the 30% tax credits received are a non-refundable offset. This measure is aimed at improving the fairness of the tax system and helping fund new tax cuts for workers.

- **Restructure Relief:** Small businesses will have a 3-year window (from July 2027) to restructure out of discretionary trusts into companies or fixed trusts with expanded rollover relief.

- **Exclusions:** This will not apply to fixed trusts, complying super funds, or deceased estates

- **Income excluded from the calculation:** The 30% minimum tax is not meant to apply to certain income streams, including:
  - Primary production income
  - Certain income relating to vulnerable minors
  - Amounts subject to non-resident withholding tax
  - Income from assets of discretionary testamentary trusts that existed at the announcement date

Scenario: The ABC Family Trust distributes $50,000 in profit to a stay-at-home spouse with no other income.

- **Currently:** The spouse pays tax at individual marginal rates (roughly $6,500 tax, including Medicare).

- **From 1 July 2028:** The Trustee must pay a minimum 30% tax ($15,000).

4. Impact on Individuals

- **Standard Deduction**: From 1 July 2026, you can claim a $1,000 standard deduction for work-related expenses without needing to track every receipt. You can still claim union fees, professional association membership fees and donations on top of this.
- **Working Australians Tax Offset:** A permanent $250
- **Legislated Tax Cuts:** The 16% tax rate drops to 15% from 1 July 2026.

5. Supporting Small Business

- **Instant Asset Write-Off:** The $20,000 threshold for assets is now permanent for businesses with turnover under $10 million.
- **Loss Carry Back:** If your company (turnover under $1 billion) makes a loss, you may be able to "carry it back" to get a refund of tax paid in the previous two years. This is a vital liquidity tool for businesses facing a downturn.

Scenario: A small Pty Ltd company paid $30,000 in tax in 2025. In 2026, the company experiences a downturn and records a $100,000 loss.

- **Under Normal Rules:** The company would pay $0 tax in 2026 and carry the loss forward to offset future profits.

- **Under "Loss Carry Back":** The company can apply that 2026 loss against the 2025 profit and get the **$30,000 tax it already paid refunded in cash** from the ATO.

FBT & Electric Cars: While the 100% FBT exemption for EVs will begin to phase down from April 2027, a permanent 25% discount will remain for cars under the luxury car tax threshold.

6. Previously Announced Superannuation Measures

1. THE "PAYDAY SUPER" RULE

Commences: 1 July 2026 The Superannuation Guarantee (SG) legislation has been redesigned to align super payments with your payroll cycle.

- **The Change:** You must pay staff superannuation at the same time salary and wages are paid, rather than the old quarterly system.
- **Penalty Update:** The Superannuation Guarantee Charge (SGC) framework has been updated with stricter penalties for late or missed payments.
- **Practice Impact:** This will require a significant adjustment to practice cash flow management. We recommend reviewing your bookkeeping software and cash reserves well before July 2026 to ensure compliance.

Scenario: Amira runs a business with 10 employees. Currently, she pays $15,000 in super every quarter.

• **Under Old Rules:** Amira could hold that $15,000 in her business offset account for three months, helping with practice cash flow.

• **Under New Rules (1 July 2026):** Amira must pay the super portion every fortnight (or whenever she runs payroll). While the total cost is the same, the **timing** changes.

2. DIVISION 296: NEW TAX ON BALANCES OVER $3M

Commences: 2026–27 Income Year The Government has reduced the tax concessions available to high-wealth individuals (often referred to as the "Better Targeted Superannuation Concession").

- **Thresholds & Rates:**
  - **Balances below $3M:** Remain taxed at the concessional 15%.
  - **Balances between $3M and $10M:** An additional 15% tax applies, bringing the total to 30%.
  - **Balances above $10M:** An additional 10% tax on the top tier, bringing the total to 40%.
- **Indexation:** Unlike the original proposal, these thresholds will now be indexed to CPI annually, which is a positive win for individuals in mid-career who are building their retirement savings.

Scenario: Robert is a businessman with $4.2 million in his SMSF.

• **The Impact:** From the 2026-27 year, Robert will face a 30% tax rate on the earnings of the $1.2 million portion that exceeds the $3M cap.

• **Strategy:** Because the thresholds are now indexed, the "real" value of his $3M cap will be protected against inflation. However, Robert should meet with us to discuss whether it remains tax-effective to keep excessive non-concessional contributions within the super environment or if alternative structures (like investment companies) are now more attractive.

3. LOW INCOME SUPER TAX OFFSET (LISTO) REFRESH

Commences: 2027–28 Income Year This measure is designed to support lower-income earners.

- **Threshold Increase:** The eligibility threshold will rise from $37,000 to $45,000 (aligning with the new 2027–28 tax brackets).
- **Payment Increase:** The maximum LISTO amount increases from $500 to $810, reflecting the increase in the SG rate to 12%.
- **Business Impact:** This helps your lower-paid staff build their retirement savings more effectively without any direct cost to the practice, as it is a government-funded offset.

How should you react?

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.