

FEDERAL BUDGET MAY 2026

The recent 2026–27 Federal Budget introduced a number of proposed investment and tax reforms that could represent some of the most significant changes to personal and investment taxation in decades. If enacted, these measures are likely to have substantial implications for individual investors, business owners, trusts and family groups.

Below is a summary of key takeaways from the 2026-27 Federal Budget:

- Removal of 50% CGT discount
- Negative gearing scaled back
- Standard \$1,000 deduction for work related expenses
- New working Australians tax offset (WATO)
- Monthly PAYG instalments for small and medium businesses
- Instant Asset write-off \$20,000
- Minimum tax on discretionary trusts
- Loss refundability reforms for businesses and start ups

Capital Gains Tax reforms

Start date: 1 July 2027

The Government announced a significant reshaping of the current CGT rules that will affect individuals, trusts and partnerships.

From 1 July 2027, the Government proposes replacing the 50% CGT discount with cost base indexation, subject to a 30% minimum tax on capital gains. The proposed measures apply to CGT assets held for at least 12 months and would include certain pre-CGT assets, although newly constructed residential properties would be excluded from the regime.

Recipients of means-tested income support (such as the Age Pension or JobSeeker payments) would be exempt from the minimum tax if they have owned the asset for at least 10 years and realise a capital gain during the financial year.

This broadly reflects the indexation regime that applied prior to 1999, where indexation was calculated using CPI in a similar manner to arrangements that applied between 1985 and 1999.

Capital gains accrued on pre-CGT assets before 1 July 2027 would remain exempt from CGT. Only post 1 July 2027 gains may be affected.

Transitional arrangements

Transitional arrangements will limit the impact on existing investments by ensuring the changes only apply to gains arising on or after 1 July 2027. The 50% CGT discount will apply to the difference between the asset's cost base and its value at 1 July 2027. Indexation and the minimum 30% tax will be used to calculate CGT on gains accruing from 1 July 2027. Taxpayers can use an ATO 'specified apportionment formula' or a valuation to determine the asset value at 1 July 2027.

The transitional arrangements provide investors with an opportunity to realise capital gains and be taxed at current rates prior to this date.

For eligible CGT assets (other than new residential properties):

- There will be no changes in arrangements for assets purchased and sold prior to 1 July 2027.
- Assets purchased after 1 July 2027 will be treated wholly under the new arrangements.
- Assets owned prior to 1 July 2027 and sold after 1 July 2027 will be treated under current arrangements on gains made prior to this date, and under the new arrangements for gains made after this date (with no impact until gains are realised).

It is important to note that the main residence CGT exemption and the four small business CGT concessions are not currently proposed to be affected by these changes. Australian superannuation funds also don't appear to be impacted by these changes and will continue to receive the 1/3 CGT discount. However, it is unclear how these changes will impact superannuation funds that hold their assets via trusts.

We recommend that clients review their existing CGT asset portfolios in the lead up to 1 July 2027 and consider obtaining valuations for unlisted investments, commercial properties and their businesses.

Negative gearing changes for residential property investors

Start date: 1 July 2027

The Government has announced that negative gearing for residential property will be limited to investments in newly built housing. The changes will apply to established residential properties acquired from 7:30PM (AEST) on 12 May 2026. Properties acquired before this time (including contracts entered into but not yet settled) and eligible new builds are not affected by these changes.

For the purposes of the reform, a 'new build' is a residential property that genuinely adds to housing supply, being either a dwelling constructed on vacant land or where existing properties

are demolished and then replaced with a greater number of dwellings. Knock-down and rebuild that do not increase housing supply will not be classified as a 'new build'. We will receive more clarification once legislation is released on what will qualify as an 'eligible new build'.

From 1 July 2027, losses relating to existing residential investment properties purchased from 7.30pm AEST 12 May 2026, will only be deductible against rental income from residential property, including capital gains (ie net rental losses will no longer be available to reduce other sources of income such as salary, business income, and other non-property income). Any excess rental losses will be carried forward and applied against residential property income in future years.

New residential properties will remain eligible for negative gearing. Properties held in widely held trusts and superannuation funds, and certain build to rent developments and government supported housing investments, will also be excluded from these changes.

Standard \$1,000 tax deduction for work related expenses

Start date: 1 July 2026

The Government announced, that from 1 July 2026, it will introduce an instant tax deduction of up to \$1,000 for individuals.

Australian tax resident individuals who derive income from work will be able to claim the \$1,000 tax deduction without incurring the expense. Taxpayers with higher work-related expenses may continue to claim deductions under the existing rules.

Additionally, taxpayers can continue to claim deductions for non work-related expenses, such as donations, union/professional membership fees, income protection insurance etc

New working Australians tax offset (WATO)

Start date: 1 July 2027

From the 2027-2028 income year, individual taxpayers will receive a permanent \$250 working Australian tax offset (WATO) for income derived from work. The offset will apply to income derived from work, including wages and salaries and the business income of sole traders.

The measure will increase the effective tax-free threshold for income derived from work by nearly \$1,800 by reducing the tax rate applying to the \$18,200 to \$45,000 income bracket, from 16% to 15% from 1 July 2026, and from 15% to 14% from 1 July 2027.

Monthly PAYG instalments for small and medium businesses

Start date: 1 July 2027

From 1 July 2027, small and medium sized businesses will be able to opt in to reporting and pay PAYG instalments monthly rather than quarterly, by using ATO-approved calculations embedded in their accounting software to calculate and vary PAYG instalments.

Taxpayers with a demonstrated history of non-compliance will be required to report and pay PAYG instalments monthly.

Instant Asset write-off \$20,000

Start date: 1 July 2026

The Government announced that from 1 July 2026, the \$20,000 instant asset write-off threshold under simplified depreciation will be made permanent, for small businesses with turnover up to \$10 million.

Assets valued at \$20,000 or more can continue to be placed into the small business simplified depreciation pool. The provisions that prevent small businesses from re-entering the simplified depreciation regime for 5 years after opting out will continue to be suspended until 30 June 2027.

The scheme covers both brand new and second-hand depreciating assets, provided they are first used or installed ready for use in the applicable income year.

Minimum tax on discretionary trusts

Start date: 1 July 2028

The Government has proposed that from 1 July 2028, it will introduce a 30% minimum tax on discretionary trusts. Trustees will be subject to a minimum tax rate of 30% on the taxable income of discretionary trusts. Beneficiaries, other than corporate beneficiaries, will receive non-refundable credits for tax paid by the Trustee. The treatment for corporate beneficiaries appears to be different, and we expect clarification and further detail as the measures are passed.

This reform represents a major departure from the long-standing taxation treatment of discretionary trusts, under which trust net income is typically assessed to beneficiaries presently entitled to the income at their respective marginal tax rates.

The measure will not apply to:

Level 4, 55 York Street
Sydney NSW 2000

GPO Box 5360
Sydney NSW 2001

email office@cdtl.com.au
ABN: 86 317 736 260

Liability limited by a scheme approved under Professional Standards Legislation

- Fixed and widely held trusts
- Complying superannuation funds
- Special disability trusts
- Deceased estates
- Charitable trusts

Income categories that fall outside the scope of the intended new rules include:

- Primary production income
- Income relating to vulnerable minors
- Amounts to which non-resident withholding tax applies
- Income from assets of discretionary testamentary trusts existing at announcement

The Government has proposed expanding rollover relief for a three-year period commencing from 1 July 2027 to facilitate the restructuring of discretionary trusts into alternative entities, such as companies or fixed trusts. Clients considering these restructuring strategies should also carefully consider potential stamp duty implications, particularly where land-rich entities are involved.

Loss refundability reforms for businesses and start ups

Start date: 1 July 2026 and 1 July 2028

From 1 July 2026, companies with aggregated global turnover of less than \$1 billion will be able to carry back tax losses and offset them against tax paid up to two years earlier. The measure will apply to revenue losses only and will be limited by a company's franking account balance.

From 1 July 2028, eligible start-up companies with aggregated annual turnover of less than \$10 million will be able to access a refundable tax offset for losses incurred in their first 2 years of operation. However, the offset will be limited to the value of FBT and withholding tax on wages, in respect of Australian employees in the loss year.

Please note that the Federal Budget announcements are currently proposals only and have not yet been enacted into law. These measures remain subject to the legislative process, and further amendments may occur before they are passed by Parliament.

Clients should not act solely on this summary and should seek tailored professional advice before making investment, restructuring or tax decisions.

Should you have any questions, please feel free to contact our office on 0402 277282 (Carl) and 0412 404128 (Tina).