Federal Budget

2026 - 2027

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$268

tax cut
for every Australian taxpayer from 1 July 2026, rising to up to $536 per year from 1 July 2027

$250

Working Australians Tax Offset (WATO)
from FY2028 benefiting over 13 million workers

$20k

instant asset write-off
for small businesses made permanent from 1 July 2026

85,000

companies to benefit
from the re-introduction of loss carry-back

$1,000

instant tax deduction
for work-related expenses from FY2027, benefiting 6.2 million workers

$2b

Local Infrastructure Fund
to support up to 65,000 new homes over the decade

$50m

increased turnover threshold
from 1 July 2028 for companies to benefit from the higher rate, refundable tax offset on their core R&D activities

$2.9b

fuel crisis package
seeing the fuel excise more than halved down to 20.6 cents per litre

CGT and Negative Gearing

The 50 per cent CGT discount to be replaced with cost base indexation and a minimum 30 per cent tax rate from 1 July 2027.

Negative gearing to be limited to new builds from 1 July 2027; properties held before Budget night are unaffected.

$5.9b

to list new medicines
on the PBS

$1.8b

for Medicare Urgent Care Clinics
to make these 137 clinics a permanent feature of the health system

$25b

additional funding
for public hospitals

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Introduction

On Tuesday, 12 May 2026, Treasurer Jim Chalmers handed down the 2026–27 Federal Budget.

The 2026–27 Budget introduces some of the most significant changes to the Australian tax system this century. The key measures include reforms to Capital Gains Tax, negative gearing and the taxation of discretionary trusts. Other significant changes include the introduction of a new tax offset for individual taxpayers and structural changes to business tax concessions including the instant asset write-off, loss carry-back and the R&D incentive regime.

The Budget is set against a challenging global backdrop, with a Middle East conflict and the closure of the Strait of Hormuz having disrupted global oil supply and placed upward pressure on prices. Treasury is forecasting inflation to peak at around 5 per cent in the middle of the year, with GDP growth expected to come in at 1.75 per cent in 2026–27. Unemployment is expected to remain around the mid 4 per cent range, and nominal wages growth is forecast to remain above 3 per cent.

On tax reform, the 50 per cent Capital Gains Tax discount for individuals, trusts and partnerships will be replaced from 1 July 2027 with cost base indexation and a 30 per cent minimum tax rate and will also apply to pre-CGT properties (those acquired before 20 September 1985). Negative gearing for residential property will be limited to new builds from the same date, with properties held at Budget night and eligible new builds quarantined from the changes. From 1 July 2028, discretionary trusts will be subject to a minimum 30 per cent tax rate paid by the trustee.

This analysis examines each of these measures in detail, with a particular focus on the implications for individual taxpayers, investors, trusts and small businesses.

Major Tax Reforms

Winding back the Capital Gains Tax (CGT) discount

From 1 July 2027, the 50% CGT discount will be replaced with cost base indexation for assets held longer than 12 months, and a 30% minimum tax will apply to net capital gains.

Assets purchased and sold before 1 July 2027 will not be affected by the new rules.

The changes will apply broadly to all CGT assets (including pre1985 assets) held by individuals, trusts, and partnerships on 1 July 2027. Under the transitional rules, the CGT discount continues to apply to any gain accruing up to 1 July 2027 and similarly, pre1985 assets remain CGT-exempt for any gains accruing up to 1 July 2027.

In calculating the gains accruing before 1 July 2027, taxpayers can either seek a valuation of the asset as at 1 July 2027 or use a specified apportionment formula that estimates the asset's value on 1 July 2027, based on its growth rate over the total ownership period. Any gain accruing on a post-CGT asset as of 1 July 2027 will not be taxed until the asset is sold.

Indexation is then used to calculate the additional CGT on gains accruing from 1 July 2027 (as if the asset's value at 1 July 2027 was the asset's cost base), which will be taxed at the minimum tax rate of 30%.

Exceptions:
To support new housing supply, investors in new residential properties can choose either the 50% discount or indexation + minimum tax. Income support recipients (including Age Pension recipients) are exempt from the minimum tax.

Superannuation funds also appear to be unaffected by the changes and will retain access to their one third CGT discount.

The main residence exemption and the small business CGT concessions remain unaffected by these changes.

Click here to read the Treasury fact sheet for more information.

Major Tax Reforms

Negative Gearing for residential property to be limited to new builds

Under current tax settings, losses from a rental property can be used to reduce other forms of taxable income (e.g. salary and wages).

From 1 July 2027, net rental losses from established residential properties will only be deductible against rental income or capital gains from residential properties.

Excess losses will be carried forward and able to be offset against residential property income and capital gains in future years.

Further, eligible new builds will be exempt from the changes, meaning that net rental losses on such properties continue to be deductible against other income.

The changes will apply as follows:

- If, as at 7:30pm on 12 May 2026, you already own (or have contracted to buy) a property that is negatively geared, the changes will not apply to you.
- If you purchase an existing (non-new) property after that time, negative gearing ceases to be available after 1 July 2027.
- If you purchase an eligible newly built property, negative gearing will continue to be available after 1 July 2027.

The changes will apply to individuals, partnerships, companies and most trusts. Properties in widely held trusts and superannuation funds (including SMSFs) will be excluded from the changes.

Changes to negative gearing will only apply to residential property. Commercial property and other asset classes, such as shares, will remain subject to existing arrangements.

Eligible new builds include newly constructed apartments, dwellings constructed on vacant land, and existing properties that have been demolished and replaced with a greater number of dwellings.

Knock-down rebuilds, substantially renovated properties, granny flats and new properties that have been occupied for more than 12 months will not qualify as eligible new builds.

Click here to read the Treasury fact sheet for more information.

Major Tax Reforms

Minimum Tax on Discretionary Trusts

From 1 July 2028, a minimum tax of 30% will apply to the taxable income of discretionary trusts and will be payable by the trustee.

The minimum tax applies only to discretionary trusts and does not apply to fixed trusts or widely held trusts (including fixed testamentary trusts), complying superannuation funds, special disability trusts, deceased estates, or charitable trusts.

Distributions to non-corporate beneficiaries (i.e. individuals) will receive nonrefundable tax credits for tax paid by the trustee.

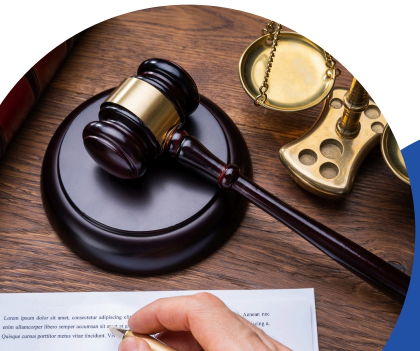
Where a trustee already distributes income to non-corporate beneficiaries taxed at 30% or higher, there will be no increase in overall tax paid under the new measures. Salary and wage payments to employees are not subject to the minimum tax.

Trustees receiving franked dividends will also be required to apply franking credits to meet the 30% minimum tax. However, the Government has yet to provide details regarding the treatment of excess franking credits by the trustee.

Corporate beneficiaries will be assessed on their trust income entitlement but will not receive the nonrefundable credits for tax paid by the trustee. This prevents the minimum tax from being avoided with use of a bucket company.

Certain types of income are excluded, including primary production income, income subject to non-resident withholding tax, specified income relating to vulnerable minors, and income derived from assets of discretionary testamentary trusts in existence at 7:30pm on 12 May 2026.

Expanded rollover relief will be available from 1 July 2027 for a period of three years to facilitate restructuring from discretionary trusts (for example, to a company or fixed trust), covering income tax consequences including capital gains tax.



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For Individuals

Working Australians Tax Offset (WATO)

The government will introduce a $250 permanent annual tax offset for income derived from work, including wages, salaries and the business income of sole traders from 1 July 2027.

The tax offset translates to an effective increase of the tax-free threshold by nearly $1,800 and will be calculated automatically upon lodgement of the tax return.

$1,000 Instant Tax Deduction

An instant tax deduction will be made available to Australian tax residents who claim less than $1,000 in work-related expenses against their employment income in the 2026/27 financial year and onwards.

The main appeal of the $1,000 instant deduction is that no receipts or itemisations are required. Where a taxpayer's work-related expenses are expected to exceed $1,000, records should be maintained so that these expenses may be itemised and claimed in the usual manner.

Non-work-related deductions (such as charitable donations and professional membership fees) can still be claimed on top of the instant tax deduction.

Temporary reduction of fuel excise and heavy vehicle road user charge

For 3 months from 1 April 2026, the excise and excise-equivalent customs duty rates (excise rates) are temporarily reduced by 60.9% - equivalent to a 32 cent per litre reduction in petrol and diesel.

The road user charge for heavy vehicles has also been reduced from 32.4 cents per litre to zero for three months.

For Individuals

Resident rates and thresholds

The 2026-27 and 2027-28 tax rates and income thresholds for residents are as follows as previously legislated:

Taxable Income ($)	2025 - 2026	2026 - 2027	2027 - 2028
0 - 18,200	Nil	Nil	Nil
18,201 - 45,000	Nil + 16% of excess over 18,200	Nil + 15% of excess over 18,200	Nil + 14% of excess over 18,200
45,001 - 135,000	4,288 + 30% of excess over 45,000	4,020 + 30% of excess over 45,000	3,752 + 30% of excess over 45,000
135,001 - 190,000	31,288 + 37% of excess over 135,000	31,020 + 37% of excess over 135,000	30,752 + 37% of excess over 135,000
190,001 +	51,638 + 45% of excess over 190,000	51,370 + 45% of excess over 190,000	51,102 + 45% of excess over 190,000

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For Individuals

Low Income Tax Offset (unchanged)

No changes were made to the low income tax offset (LITO) in the 2026-27 Budget.

Low and middle income taxpayers will remain entitled to an offset as detailed below:

Taxable Income (TI)	Amount of offset ($)
0 - 37,500	700
37,501 - 45,000	700 - [(TI - 37,500) X 5%]
45,001 - 66,667	325 - [(TI - 45,000) X 1.5%]
66,668 +	Nil

The maximum amount of the LITO available to taxpayers is $700. The amount is reduced by 5 cents per dollar for taxable incomes between $37,500 and $45,000 and then by 1.5 cents per dollar between taxable incomes of $45,001 and $66,667.

Removal of age-based uplift to Private Health Insurance (PHI) Rebate

From 1 April 2027, individuals over 65 will no longer benefit from the higher rate of PHI rebate currently available to older Australians. The measure is aimed at improving intergenerational equity and simplifying the PHI rebate scheme.

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For Individuals

Medicare levy low-income thresholds for 2026-27

For the 2025-26 income year, the Medicare levy low-income threshold for singles has been increased to $28,011 (up from $27,222 in 2024/25). For couples with no children, the family income threshold is $47,238 (up from $45,907 in 2024/25). The amount of threshold is increased by $4,338 for each dependent child or student (up from $4,216).

For single seniors and pensioners, the Medicare levy low-income threshold is now $44,268 (up from $43,020). The family threshold for seniors and pensioners is $61,623 (up from $59,886) plus $4,338 for each dependent child or student.

	2024 - 2025 Low income threshold	**2024 - 2025 Full Medicare Levy (2%)**	**2025 - 2026 Low income threshold**	**2025 - 2026 Full Medicare Levy (2%)**
Singles	$27,222	$34,027	$28,011	$35,014
Single seniors and pensioners	$43,020	$53,775	$44,268	$55,335
Families (not eligible for SAPTO)	$45,907 (plus $4,216 for each dependant)	$57,383 (plus $5,270 for each dependant)	$47,238 (plus $4,338 for each dependant)	$59,047 (plus $5,422 for each dependant)
Families (senior and pensioner)	$59,886 (plus $4,216 for each dependant)	$74,857 (plus $5,270 for each dependant)	$61,623 (plus $4,338 for each dependant)	$77,028 (plus $5,422 for each dependant)

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Business Taxpayers

Permanent $20k Instant Asset Write-Off

The $20,000 instant asset write-off threshold has now been permanently extended.

This measure still only applies to small businesses with an aggregated annual turnover of less than $10 million who have opted into simpler depreciation rules. Consistent with existing treatment, eligible assets exceeding the $20,000 cost limit cannot be immediately expensed and must be placed in the small business depreciation pool which is depreciated at 15% in the first year (irrespective of date) and 30% each income year thereafter. The threshold continues to be applied on a per asset basis.

The existing 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.

Return of the Loss Carry Back for Companies

A loss carry back will be introduced for income years commencing on or after 1 July 2026. For companies with an aggregated annual turnover of less than $1 billion, tax losses can be carried back and offset against the taxable income from the previous two income tax years. That is, a tax loss incurred in FY 2027 may be applied to reduce taxable income derived in FY2025 or FY2026.

The loss carry back will only apply to revenue losses and is limited by a company's franking account.

Loss Refundability For Small Start-Ups

Start-up companies with aggregated annual turnover of $10 million that generate a loss in their first two years of operation will, from income tax years commencing from 1 July 2028, be able to utilise the loss to generate a new refundable tax offset.

The offset is limited to the value of fringe benefits tax and PAYGW on wages paid in respect of Australian employees in the loss year.

Business Taxpayers

Dynamic PAYG Instalments

From 1 July 2027, small and medium businesses can voluntarily opt in to monthly reporting and payment of PAYG instalments, using an ATO-approved calculation integrated into their accounting software to calculate and vary instalments. This will help instalments better reflect real-time business activity.

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

Better Targeting the R&D Tax Incentive

From 1 July 2028, the Government will make the following changes to the R&D Tax Incentive:

- Core R&D offset rates will rise by 4.5% for all eligible claimants, boosting the benefit by around 25–50%. For instance, a company which had a net benefit of 18.5% from the tax offset will now have a net benefit of 23% (calculated on eligible R&D expenditure).
- Companies can access the highest refundable offset until aggregated turnover reaches $50 million (up from $20 million).
- However, companies more than 10 years old will not be entitled to a refundable offset, regardless of turnover.
- Supporting R&D expenditure will no longer be eligible.
- The minimum R&D spend will increase from $20,000 to $50,000 – projects below $50,000 must be done with a registered Research Service Provider or Cooperative Research Centre to qualify.

For companies over the $50 million turnover threshold:

- The intensity threshold – that is, value of R&D expenditure to total expenditure for an income year – will decrease from 2% to 1.5%, enabling more companies undertaking significant R&D to qualify for higher offset rates.
- The maximum eligible R&D expenditure will rise from $150 million to $200 million.

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Business Taxpayers

Expanding Venture Capital Tax Incentives

From 1 July 2027, expanded venture capital tax incentives will provide increased funding opportunities for start-ups, helping those industries who struggle to obtain traditional finance.

- Higher limits: the cap on the asset size of the investee companies at the time of investment will increase:
  - From $250 million to $480 million for Venture Capital Limited Partnership (VCLP) and,
  - From $50 million to $80 million for Early Stage Venture Capital Limited Partnerships (ESVCLPs).
- Specifically, for ESVCLPs:
  - The existing cap on businesses whose investment returns can be fully tax exempt will increase from $250 million to $420 million.
  - The maximum size of ESVCLP funds will increase from $200 million to $270 million.

The increases will apply to new and existing funds and to new investments they make, including where funds make further investments in businesses already held.

Winding Back Electric Car FBT Concessions

From 1 April 2029 a permanent 25% discount on fringe benefits tax will be applicable to all electric cars valued up to the fuel-efficient luxury car tax threshold ($91,387), marking a significant reduction from the current 100% discount.

By way of transitioning:
- All eligible electric cars will retain the FBT discount rate that was in place when the arrangement commenced;
- All electric cars valued up to and including $75,000 provided before 1 April 2029 will remain eligible for the 100% discount.
- Electric cars valued above $75,000 and up to and including $91,387 that are provided between 1 April 2027 and 1 April 2029 will be eligible for a 25 per cent discount.

The existing 20 per cent statutory rate will continue to apply for all other cars, including electric cars costing more than the fuel-efficient luxury car tax threshold.

Super, Pension and SMSF

No major changes announced

The Government did not announce any new major superannuation measures in the Budget.

However, under legislation already passed, Division 296 will apply a 15% additional tax on super earnings for balances over $3 million from 1 July 2026. It applies a 30% total tax on earnings for portions between $3m-$10m and a 40% total tax for portions over $10m based on realised earnings.

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