FEDERAL BUDGET ANNOUNCEMENT 2026-27

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CAPITAL GAINS TAX - THE END OF THE 50% CGT DISCOUNT

This is perhaps the biggest tax reform since the introduction of GST. From 1 July 2027, the 50% CGT discount will be replaced with cost base indexation for assets held over 12 months, alongside a new 30% minimum tax on net capital gains.

The rules apply to all CGT assets - shares, units, residential and commercial property, goodwill, partnership interests and other private business assets, including pre-1985 assets - not just residential property.

The only meaningful concession is for new residential property, where investors can choose between the existing 50% discount or the new indexation/minimum-tax model. Income support recipients are exempt from the 30% minimum tax.

Existing investments - transitional arrangements

The 50% discount continues to apply to gains arising before 1 July 2027, so we expect many taxpayers will consider bringing forward transactions.

No special relief for start-ups, employee equity or business owners

There is no specific carve-out for start-ups, employee share schemes or business owners. A founder selling shares in a start-up, an employee disposing of ESS shares, or a private business owner selling out may all be affected. Indexation often will not materially assist, particularly where the cost base is low. The small business CGT concessions will become more important than ever, but are technically, not always available, and (other than the 15-year exemption) do not necessarily eliminate the gain.

Pre-CGT assets

Pre-CGT status has long been the "holy grail" of Australian tax. Under the new rules, gains on pre-1985 assets arising before 1 July 2027 remain exempt, but future growth will be brought into the CGT regime. A cost base uplift to market value at 1 July 2027 seems logical, likely requiring valuations.

Non-residents and the 30% minimum tax

Non-residents have not been entitled to the 50% discount since 2012, so the new indexation rules may actually improve their position slightly. The mechanics of the 30% minimum tax remain unclear but it is likely to restrict the ability to use tax losses or the tax-free threshold to shelter capital gains.

NEGATIVE GEARING - RESTRICTED TO ELIGIBLE NEW BUILDS

From 1 July 2027, negative gearing for residential property will be limited to investments in an 'eligible new build'. For established residential properties acquired after 7:30pm AEST on 12 May 2026, investors will no longer be able to deduct net rental losses against salary, wages, business income or other non-property income.

Losses on affected properties will instead be quarantined - only able to be offset against residential rental income or capital gains from residential property. Any excess will carry forward.
Existing investments are fully grandfathered. Properties acquired before 7:30pm AEST on 12 May 2026 (including those under contract before that time, even if settlement is later) will continue under the existing rules until disposal.

The term 'eligible new build' has not been clearly defined. Carve-outs will apply for widely held trusts, superannuation funds, build-to-rent developments and private investors supporting government housing programs.

DISCRETIONARY TRUSTS - A 30% MINIMUM TAX

From 1 July 2028, trustees of discretionary trusts will pay a minimum 30% tax on the trust's taxable income. Beneficiaries (other than corporate beneficiaries) will receive non-refundable credits for the tax paid.

The measure does not apply to fixed trusts, widely held trusts, fixed testamentary trusts, complying super funds, special disability trusts, deceased estates or charitable trusts. Certain income is also excluded, including primary production income, income for vulnerable minors, non-resident withholding income, and income from existing discretionary testamentary trusts.
This significantly alters how small businesses and private individuals structure their affairs. With trust income now taxed at or above the company tax rate, the long-standing tax appeal of trust structures is materially diminished.

The Government will provide expanded rollover relief for three years from 1 July 2027 to help small businesses restructure out of discretionary trusts - a clear signal that taxpayers are expected to move away from trust structures.

Trusts still serve important non-tax purposes - particularly asset protection and flexibility in distribution - so do not be too hasty in unwinding them. We will work with you on a structure-by-structure basis.

MAJOR R&D TAX INCENTIVE REFORMS FROM 1 JULY 2028

Reforms to the R&D Tax Incentive (R&DTI) commence on 1 July 2028, narrowing the regime to genuine core R&D:

- Supporting R&D expenditure will no longer be eligible. Only expenditure directly referable to core R&D activities will be supported - a meaningful narrowing of the regime.
- The premium component of the offset will increase by 4.5 percentage points (refundable rises from 18.5% to 23%; non-refundable rises from 8.5% to 13% below the intensity threshold, and from 16.5% to 21% above it).
- The R&D intensity threshold will reduce from 2% to 1.5%, giving more businesses access to higher offset rates.
- The turnover threshold for the highest offset rate will increase from $20m to $50m, but refundability will be limited to companies under 10 years old.
- The maximum R&DTI expenditure cap will increase from $150m to $200m.
- The minimum expenditure threshold will increase from $20,000 to $50,000 (with smaller claims only eligible if undertaken with a registered Research Service Provider or CRC).

The reforms favour growing SMEs with substantive core R&D, but the removal of supporting expenditure and higher thresholds will reduce claim values for others. Review your R&D activities and supporting records well before commencement.

ELECTRIC VEHICLE FBT CONCESSIONS SCALED BACK

From 1 April 2029, a permanent 25% FBT discount applies to electric cars valued up to the fuel-efficient LCT threshold (currently $91,387), delivered via a 15% statutory formula rate. Transitional rules apply:

- Eligible electric cars will retain the FBT discount rate in place when the arrangement started. Care should be taken when varying existing arrangements, as changes may constitute a new arrangement.
- Electric cars valued up to $75,000 and provided before 1 April 2029 will continue to receive the full FBT exemption (0% statutory rate).
- Electric cars valued above $75,000 (up to the LCT threshold) provided between 1 April 2027 and 1 April 2029 will receive the 25% discount.

Reportable fringe benefit amounts are still calculated as if the 20% rate applied. Employers offering EVs through salary packaging or novated leases should review vehicle values and FBT treatment now.

LOSS CARRY-BACK RETURNS, PLUS A NEW START-UP LOSS OFFSET

For income years from 1 July 2026, companies with aggregated annual global turnover under $1 billion will be able to carry back a revenue loss and offset it against tax paid up to two years earlier (capped by the company's franking account balance). This should provide useful cash flow relief for companies hit by cyclical conditions or customer insolvency.

Separately, from 1 July 2028, 'small start-up companies' with turnover under $10 million that incur losses in their first two years will be able to convert those losses into a refundable tax offset, capped at the FBT and PAYG withholding paid on Australian employees in that year.

$20,000 INSTANT ASSET WRITE-OFF MADE PERMANENT

From 1 July 2026, the $20,000 instant asset write-off for small businesses with turnover up to $10 million will be made permanent. Assets costing $20,000 or more continue to fall into the simplified depreciation pool, giving small businesses a more stable basis for purchasing decisions.

$1,000 INSTANT TAX DEDUCTION

From 1 July 2026, Australian tax residents earning work income can claim a minimum $1,000 deduction for work-related expenses without keeping receipts. Around 6.2 million taxpayers are expected to save an average of $205 a year. Higher actual expenses can still be claimed under the existing substantiation rules.

$250 WORKING AUSTRALIANS TAX OFFSET (WATO)

From the 2027-28 income year, a new permanent tax offset of up to $250 will apply to work income - wages, salary and sole trader business income - benefiting more than 13 million workers and lifting the effective tax-free threshold for work income to $19,985 (or $24,985 with the LITO).

Together with the $1,000 instant deduction, the WATO provides modest relief given there is no indexation of income tax thresholds. The focus on work income is consistent with the rest of the Budget - directing relief to employees and sole traders while narrowing benefits from investment income and income splitting.

OTHER COST-OF-LIVING RELIEF

An additional $2.55 billion has been allocated to extend cuts to fuel excise and heavy road user charges. A $150 energy rebate continues for households and small businesses. A $2 billion housing infrastructure package is also forecast to help 75,000 young Australians buy their first home.

FOREIGN RESIDENT CGT - BROADENED DEFINITION OF REAL PROPERTY

CGT for foreign residents is governed by Division 855 of the ITAA 1997, which broadly captures real property and indirect interests in real property. Application of these rules has been routinely litigated, most recently in YTL Power Investments Limited v Commissioner of Taxation [2025] FCA 1317, where State-based 'statutory severance' of electricity infrastructure affected the outcome.

Draft legislation released on 10 April 2026 would broaden Division 855 to capture assets with a close economic connection to Australian land or natural resources, introduce a statutory definition of 'real property', and amend the Principal Asset Test so it is satisfied if real property exceeds 50% of total assets at any time over the past 365 days. More foreign resident transactions will fall into the Australian CGT net.

A time-limited transitional concession will apply for foreign investors disposing of certain renewable energy infrastructure assets until 30 June 2030. Controversially, the changes are framed as a clarification of the law with effect from 12 December 2006. The ATO will limit its compliance focus to disposals under review or in the past four years, but this retrospective element will be closely watched.

ATO FRAUD DETECTION AND INTERMEDIARY POWERS EXPANDED

From 1 July 2026, the Government will fund Phase 2 of the ATO's Counter Fraud Strategy, including real-time fraud detection and live monitoring of fraudulent account access. The ATO will also receive new powers to respond to fraud by tax agents and other intermediaries.
Debt recovery garnishee powers will be expanded to jointly held assets where arrangements are being used to frustrate recovery. Related-party funding movements and asset protection steps could now be exposed where there is unpaid tax debt.

The ATO will undertake targeted compliance over two years from 2026-27, including on the R&D Tax Incentive. R&D claimants should expect more reviews and ensure registration, technical evidence, project records, expenditure apportionment and time records are all defensible before lodgement. On a positive note, where a taxpayer is the victim of intermediary fraud, the ATO will be able to pause recovery, waive the debt in appropriate cases and pursue the intermediary instead.

FOREIGN OWNERSHIP OF HOUSING - BAN EXTENDED

The two-year ban on foreign persons (including companies and trusts) purchasing established residential dwellings, originally running from 1 April 2025 to 31 March 2027, will be extended to 30 June 2029. Existing exemptions continue to apply.

SUPERANNUATION

There are no material changes to superannuation rules in this Budget. The Government has flagged a consultation to review and strengthen the super performance test, but nothing has been legislated.

ECONOMIC OUTLOOK

The Government is forecasting economic growth of 1.75% in 2026-27, with inflation expected to peak at around 5% in mid-2026 before returning to the RBA's target band by mid-2027. The deficit sits at $36.8 billion, with $64 billion in savings flagged over the forward estimates.

WHAT'S NOT IN THE BUDGET

This is the biggest Budget in recent memory, but several items remain on the tax agenda for private businesses and their owners:

- Division 7A reform, including any broader legislative response to the Bendel litigation - although the minimum 30% trust tax may indirectly address some of those issues.
- Reform of the tax residency rules for individuals and companies.
- A review of CGT rollovers and demerger rollover relief.
- Reform of the small business CGT concessions and the Small Business Restructure Rollover.
- Further guidance or reform on section 100A and trust reimbursement agreements - again, the new trust taxation rules may indirectly resolve some of these matters.
- Amending the trust loss rules, including known deficiencies in the Family Trust Distribution Tax rules.

NEXT STEPS

Several of these measures - particularly the CGT, negative gearing and trust changes - will have significant implications depending on your circumstances. There may also be value in considering transactions before key commencement dates (notably 1 July 2027).

We recommend scheduling a time to discuss how the Budget affects you before making any investment or structuring decisions.

If you have any questions or would like to schedule an appointment with your accountant, please reach out on 03 9830 1555 or email reception@ksrpartners.com.au.

Kind regards,
KSR Partners