

2026-27 FEDERAL BUDGET UPDATE

What the Changes Mean for You

13 May 2026

1. Individuals and Families

Income Tax Cuts

Start date	1 July 2026
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The following income tax rate reductions have already been legislated and will apply from the 2026-27 income year:

Taxable Income	2025-26 Rate	2026-27 Rate	2027-28 Rate
\$0 - \$18,200	Nil	Nil	Nil
\$18,201 - \$45,000	16%	15%	14%
\$45,001 - \$135,000	30%	30%	30%
\$135,001 - \$190,000	37%	37%	37%
\$190,001+	45%	45%	45%

\$1,000 Instant Tax Deduction for Work-Related Expenses

Start date	1 July 2026 (2026-27 income year)
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From 1 July 2026, Australian tax residents who earn income from work will be able to claim a standard \$1,000 deduction for work-related expenses without needing to keep receipts or itemise individual claims.

Key points to note:

- The deduction is capped at the lower of \$1,000 and your assessable labour income.
- Charitable donations, union fees and professional association memberships can still be claimed on top of this deduction.

- If your actual work-related expenses exceed \$1,000, you can still claim the higher amount but will need to substantiate all expenses.

Example: Practical Impact

Sarah is a teacher earning \$85,000. She spends \$650 on work-related materials but has no receipts. Under the new rules, she can simply claim the \$1,000 standard deduction without any documentation, saving her approximately \$300 in tax compared to claiming nothing.

James is an engineer who spends \$1,800 on tools and professional development. He keeps his receipts and claims the full \$1,800 - he is better off doing this than taking the \$1,000 standard deduction.

Working Australians Tax Offset (\$250)

Start date	2027-28 income year (from 1 July 2027)
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A new permanent \$250 Working Australians Tax Offset (WATO) will apply from the 2027-28 income year for employees and sole traders earning income from work. This effectively increases the tax-free threshold for work income by nearly \$1,800, taking it to \$19,985 (or \$24,985 for those also eligible for the Low Income Tax Offset).

Medicare Levy Low-Income Thresholds Increased

Start date	Retrospective - 1 July 2025
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The Medicare levy low-income thresholds have been increased by 2.9% from 1 July 2025. If your income is below these thresholds, you pay no Medicare levy (or a reduced amount):

Category	Old Threshold	New Threshold
Singles	\$27,222	\$28,011
Families	\$45,907	\$47,238
Single seniors and pensioners	\$43,020	\$44,268
Family - seniors and pensioners	\$59,886	\$61,623

2. Investors - Major Changes to CGT and Negative Gearing

This is the most significant part of this Budget. If you hold investment property or other assets, these changes could have a meaningful impact on your tax position. Please contact us to discuss your specific circumstances.

Negative Gearing Limited to New Builds

Start date	<i>1 July 2027 (properties purchased from 7:30pm AEST 12 May 2026)</i>
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Currently, if your rental property runs at a loss (i.e. expenses exceed rental income), you can offset that loss against your other income such as salary and wages. This is known as negative gearing.

From 1 July 2027, this will only be available for new builds. For established residential properties purchased from 7:30pm AEST on 12 May 2026, losses will only be deductible against other rental income or capital gains from residential property. Any excess losses will be carried forward.

What is grandfathered (protected from these changes):

- Properties you already held as at 7:30pm AEST on 12 May 2026 (including contracts entered into but not yet settled).
- New residential builds - properties that genuinely add to housing supply.
- Properties held through managed investment trusts or superannuation funds.

Example: Negative Gearing - Impact on New Purchases

Lisa currently negatively gears an investment unit she purchased in 2020. Her rental income is \$24,000 p.a. but her expenses (interest, rates, maintenance) total \$32,000, giving her an \$8,000 loss which she currently offsets against her \$120,000 salary.

Lisa's existing property is fully grandfathered and nothing changes for her.

However, if Lisa purchases a second established unit after 12 May 2026, any losses from that property from 1 July 2027 can only be offset against her rental income or property capital gains - not against her salary. If she has no other property income, those losses will carry forward until she has rental income or sells a property.

Capital Gains Tax - 50% Discount Replaced by Indexation

Start date

1 July 2027 (gains accruing from that date)

This is a fundamental change to how capital gains are taxed in Australia.

Currently, if you hold an asset for more than 12 months, you can discount the capital gain by 50% before including it in your taxable income. From 1 July 2027, this discount will be replaced with:

- Cost base indexation based on the Consumer Price Index (CPI) - this adjusts your cost base for inflation, so you are only taxed on real gains above inflation.
- A 30% minimum tax rate on net capital gains accrued from 1 July 2027.

Important transitional protections:

- The 50% CGT discount continues to apply to gains that accrued before 1 July 2027.
- Pre-CGT assets (acquired before 20 September 1985) remain exempt for gains accrued before 1 July 2027.
- Investors in new residential properties can choose either the 50% CGT discount or the new indexation/minimum tax approach.
- Recipients of the Age Pension, JobSeeker or other means-tested income support payments are exempt from the 30% minimum tax.

Example: CGT - Impact on Existing Investors

Michael owns an investment property purchased in 2019. He has been told it is worth \$500,000 on 1 July 2027.

He sells the property 2 years later for \$560,000. For the period before 1 July 2027, the 50% CGT discount applies to his earlier gains.

For the \$60,000 gain after 1 July 2027, after indexing his cost base for 2 years of inflation at 2.5% his taxable capital gain from that period works out to approximately \$34,688 - slightly more than the \$30,000 he would have paid under the old 50% discount.

At a 47% tax rate, the difference is roughly \$2,200 in extra tax on the post-July 2027 gain. Michael pays no tax until the property is sold.

Example: CGT - Impact on Share Investors

Anna holds a diversified share portfolio worth \$200,000 on 1 July 2027 (original cost \$80,000). She has a \$120,000 unrealised gain, all of which accrued before 1 July 2027.

If Anna sells her shares after 1 July 2027, she pays tax on the pre-July 2027 gain under current rules (50% discount). For any further gains after 1 July 2027, the new indexation and 30% minimum tax applies.

If Anna is on a 37% marginal tax rate, any new capital gains after 1 July 2027 will effectively be taxed at 37% (her marginal rate is above 30%, so the minimum tax does not add anything further).

Action point: Valuing your assets as at 1 July 2027 will be important. We will assist you with this.

3. Family Trusts - Minimum 30% Tax

Start date

1 July 2028

If you operate a discretionary (family) trust, this change is significant and requires planning now.

From 1 July 2028, the trustee of a discretionary trust will pay a minimum 30% tax on the trust's taxable income, regardless of how income is distributed to beneficiaries. Non-corporate beneficiaries will receive a non-refundable tax credit for the tax paid by the trustee.

Note that corporate beneficiaries (bucket companies) will not be entitled to these credits - the change appears designed to discourage distributions to bucket companies.

Trusts not affected by the minimum tax include:

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

Some types of income are also excluded, including primary production income and income relating to vulnerable minors.

Roll-over relief will be available from 1 July 2027 for three years to allow small businesses and others to restructure out of discretionary trusts into a company or fixed trust, with concessions to minimise CGT consequences. Stamp duty and other costs will still need careful consideration before any restructure.

Example: Family Trust - Comparison Before and After

The Smith family trust generates \$200,000 in business income in the 2028-29 year (after paying \$100,000 in wages to a family member). The trustee currently distributes \$50,000 each to four adult children who have no other income.

Under current rules: the four children pay minimal tax (each receiving \$50,000 is just above the tax-free threshold), with total tax of around \$28,000.

Under the new rules, the trust pays 30% minimum tax: The trust pays \$60,000 in tax. Each member gets a \$15,000 non-refundable credit which exceeds their ~7,000 tax liability, so they pay nothing further. Total tax on the \$200,000 = \$60,000.

By contrast, a company structure paying the 25% small business rate on the same income results in approximately \$50,000 in total tax.

Action point: If you operate through a family trust, contact us now to review whether restructuring before 1 July 2027 makes sense for you.

4. Small Business

\$20,000 Instant Asset Write-Off - Made Permanent

Start date	<i>1 July 2026 (permanent)</i>
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Good news for small businesses. The \$20,000 instant asset write-off has been made permanent for businesses with annual turnover under \$10 million.

This means you can immediately deduct the full cost of any depreciating asset that costs less than \$20,000 (net of GST), rather than depreciating it over time. The threshold applies per asset, so you can purchase multiple assets under \$20,000 in the same year and claim an immediate deduction for each.

Example: Instant Asset Write-Off

Riverside Cafe (turnover \$800,000) purchases a new commercial coffee machine for \$12,500 and a point-of-sale system for \$8,800 in the 2026-27 year.

Both assets cost less than \$20,000, so both qualify for an immediate deduction totalling \$21,300. At a 25% tax rate this delivers a tax saving of \$5,325 in that year, compared to smaller deductions spread over the asset's useful life.

Loss Carry-Back for Companies

Start date	<i>1 July 2026</i>
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Companies with aggregated annual global turnover below \$1 billion can now carry back a revenue tax loss and offset it against tax paid in the two prior income years. Refunds are limited to the company's franking account balance.

This is particularly helpful for businesses that were profitable in prior years but face a difficult trading period - they can generate a cash refund rather than simply carrying the loss forward.

Loss Refundability for Small Start-Up Companies

Start date	<i>1 July 2028</i>
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New start-up companies with turnover under \$10 million that make a tax loss in their first two years of operation will be able to convert that loss into a refundable tax offset. The offset is limited to the FBT and PAYG withholding on wages paid to Australian employees in that year.

PAYG Instalments - Monthly Option

Start date	<i>1 July 2027</i>
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From 1 July 2027, small and medium businesses will be able to opt in to monthly PAYG instalment reporting and payments using ATO-approved calculations built into accounting software. This helps instalments better reflect real business activity and may improve cash flow management.

R&D Tax Incentive - Reformed

Start date	<i>1 July 2028</i>
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The R&D Tax Incentive will be reformed from 1 July 2028. Key changes include:

- Increased offset for core R&D expenditure (by approximately 25-50% via a 4.5 percentage point increase in offset rates).
- Intensity threshold reduced from 2% to 1.5% (more firms can access the higher offset rate).
- Supporting R&D expenditure will no longer qualify.
- Minimum expenditure threshold increased from \$20,000 to \$50,000.
- Maximum expenditure cap lifted from \$150 million to \$200 million.
- Turnover threshold for the refundable offset increased from \$20 million to \$50 million.

5. Electric Cars and FBT

Start date	<i>Phase changes from 1 April 2027 to 1 April 2029</i>
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The full FBT exemption for electric vehicles is being wound back progressively:

Period	EVs up to \$75,000	EVs \$75,001 to LCT threshold
Now to 31 March 2027	Full FBT exemption (0%)	Full FBT exemption (0%)
1 April 2027 to 31 March 2029	Full FBT exemption (0%)	25% FBT discount (15% rate)
From 1 April 2029 (permanent)	25% FBT discount (15% rate)	25% FBT discount (15% rate)

Existing salary packaging arrangements will not be impacted. Employers should note that reportable fringe benefits must still be calculated as if the 20% statutory rate applied, even where the exemption or discount applies.

6. Foreign Purchasers of Established Dwellings

Extended to	<i>30 June 2029</i>
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The ban on foreign persons purchasing established residential dwellings has been extended by a further two years and three months, until 30 June 2029. Limited exceptions continue to apply for investments that increase housing supply.

7. Economic Outlook

Indicator	2026-27	2027-28
GDP Growth (real)	1.75%	2.25%
CPI Inflation	2.5%	2.5%
Unemployment Rate	4.50%	4.50%
Wage Price Index Growth	3.5%	3.5%
Budget Deficit	\$31.5b	\$31.0b

Next Steps - What Should You Do?

Given the scale of changes proposed in this Budget, we recommend reviewing your situation with us as a priority. In particular:

- Property investors - if you are considering purchasing an established investment property, you must have entered a contract prior to 12 May 2026 7.30 pm. For purchases already made, discuss CGT planning strategies with us.
- Family trust clients - the 1 July 2027 to 30 June 2030 rollover relief window is important. We should review your trust structure and assess whether restructuring into a company or fixed trust makes sense before the minimum tax commences on 1 July 2028.
- Employers with electric vehicle novated leases - review any arrangements entered into before the FBT changes apply to understand which discount applies and plan accordingly.
- Small business clients - the permanent \$20,000 instant asset write-off and the new loss carry-back are both available from 1 July 2026. Talk to us about investment timing and tax planning.
- All clients - we recommend a tax planning meeting before 30 June 2026 to take stock of your position before the first tranche of changes takes effect.

Remember, all measures discussed in this update are announcements only at this stage. We will monitor developments as legislation is introduced and keep you informed.

Please do not hesitate to get in touch with our office if you would like to discuss any of these matters.

Kind regards,

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