

Federal Budget

2026-27

THE POWER OF BEING UNDERSTOOD
ASSURANCE | TAX | CONSULTING

Insights and analysis into the Australian
Federal Budget delivered on 12 May 2026



Federal Budget

2026-27

Contents

Economic outlook	4
Revamping the R&D tax incentive	8
Sectors	
▪ Health	10
▪ Real estate and construction	13
▪ Agribusiness	14
▪ Innovation, clean energy and technology	16
Businesses	18
Individuals	23
Previous measures	26

Foreword

The 2026–27 Federal Budget, delivered against a volatile economic backdrop that few could have predicted in last December’s *Mid-Year Economic and Fiscal Outlook*, pairs short-term cost-of-living and fuel security relief with a tax reform package the Treasurer described as “the most significant transformation of Australia’s tax system in more than a quarter of a century”.

The tax package, framed by the Government as a rebalancing of the system towards wage earners and future generations, contained the expected measures – curbs on negative gearing and the CGT discount, a minimum tax on discretionary trusts (albeit with unexpected design features for distribution to corporate beneficiaries), as well as the permanent instatement of the \$20,000 instant asset write-off, alongside a number of genuine surprises: taxation of gains accruing on pre CGT assets from 1 July 2027, the reintroduction of loss carry-back, loss refundability for small start-up companies, and substantive reform of the Research and Development Tax Incentive, the latter in response to the *Ambitious Australia: Strategic Examination of Research and Development* finalised in early 2026.

Beyond the tax reform package, the 2026–27 Budget commits substantial new spending. The \$14.8bn **Strengthening Australia’s Fuel Resilience** package provides an immediate response to the prevailing oil shock through a more-than-halved fuel excise, structural expansion of stockholding obligations, a \$7.5bn **Fuel and Fertiliser Security Facility**, and a 20% domestic gas reservation from 1 July 2027. Housing receives a \$2bn **Local Infrastructure Fund** and an extended foreign purchaser ban. Health and aged care attract some of the largest commitments: an additional \$25bn over five years for public hospitals, \$1.8bn to make Medicare Urgent Care Clinics permanent, \$5.9bn for new PBS listings, and \$3.7 bn for aged care. NDIS reforms aim to reduce payment growth by \$37.8bn over four years.

The 2026–27 Budget lands at an awkward moment for Treasurer Jim Chalmers: the Middle East oil shock has pushed forecast headline inflation back to 5% through the year to the June quarter 2026, real GDP growth is expected to slow to 1.75% and the recovery rests on the optimistic assumption that global oil prices begin to decline from mid-2026 and stabilise a year later. The fiscal position is presented as a story of restraint – \$63.8bn in identified savings, an underlying cash deficit of \$31.5bn (1% of GDP), and a projected return to balance in 2034–35 – though gross debt still nudges \$1.05tn.

A return to surplus more than a decade away is a commitment binding no-one, and the major structural reforms in this Budget begin only after the next election. The settings are coherent on paper; whether they survive contact with drafters, consultation, and the political cycle is another matter.



Sam Mohammad
National Head of Tax Services



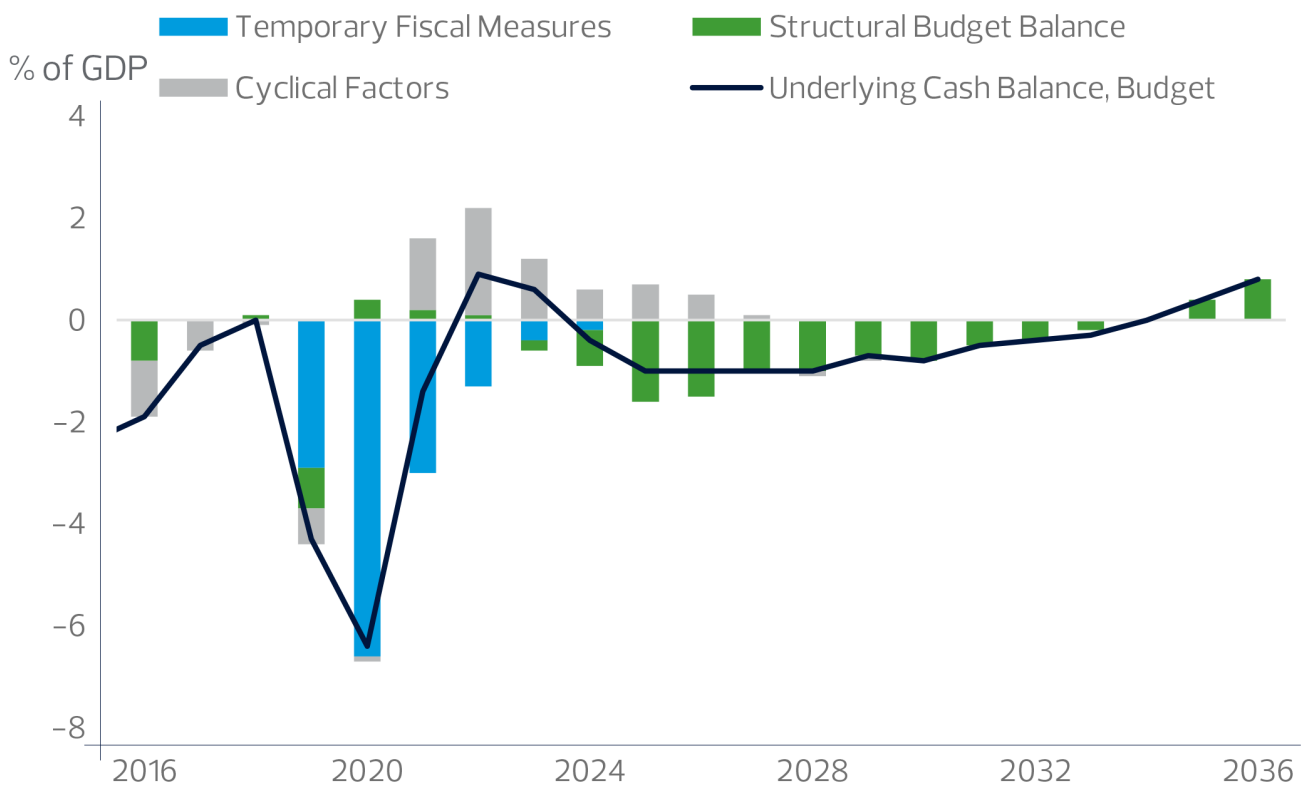
Liam Telford
Partner, Tax Technical

Economic outlook

On the macro front, this Budget is one of the more responsible which we have seen in recent years. It is mildly expansionary without being reckless, there is a clear intent to keep fiscal policy from cutting across the grain of monetary policy, and the cost-of-living measures are sensibly structured. Tax cuts for workers, healthcare support, fuel excise relief and homeowner provisions all work through the system rather than landing as direct cash handouts, which reduces the inflationary sting. Budget inflation forecasts broadly align with the RBA, with the RBA remaining marginally more conservative on GDP. For businesses, the picture is more complicated. There are genuine wins, but also trade-offs and a few measures that sound better than they are.

The fiscal numbers tell a disciplined story. Deficits sit at roughly 1% of GDP across the forward estimates, the position is \$44.9bn stronger than the latest MYEFO position, and gross debt peaks at 35.8% of GDP. The Government has banked \$63.8bn in savings, net policy decisions are positive for the second consecutive update, and average real payments growth of just 1.5% per year is less than half the 30-year average. A return to balance is projected by 2034-35 which, although a long way off, comes on the heels of a trajectory that is credible and the spending restraint should do the real work.

Structural budget balance



Source: Treasury, Macrobond, RSM Australia

Digging under the hood

The household package centres on five rounds of tax cuts that sound headline-grabbing but are actually quite measured. The **\$250 Working Australians Tax Offset** from 2026–27 is permanent and being targeted at labour income, rewards work rather than wealth. The **\$1,000 instant tax deduction** (no receipts needed) is a long-awaited genuine simplification win for 6.2 million workers. Two already legislated rate cuts round out the package, and an average worker will end up a combined \$2,816 better off annually versus 2023–24 settings. Critically, these will flow through the PAYG system rather than arriving as lump sums, dampening inflationary risk. The **more than halving of fuel excise** for three months (\$2.9bn) is blunt but effective when petrol prices are front of mind. The key risk will be political pressure to extend it, as we saw in 2022. On wages, the cumulative \$9,120 lift in the minimum wage over four Annual Wage Reviews is substantial, and the gender pay gap review across five female-dominated award sectors is a welcome structural shift.

Housing is where this Budget makes its boldest and most generational bet. **Negative gearing is being limited to new builds** from July 2027, and the **50% CGT discount will be replaced** by an inflation-based discount with a 30% minimum tax on gains with minor exceptions. Existing holdings are grandfathered, and investors in new builds can still choose the old 50% discount, essential for confidence and for channelling capital towards supply. The Government estimates 75,000 additional owner-occupiers over the decade, which is plausible though the modelling will be contested. The \$2bn Local Infrastructure Fund (up to 65,000 homes) and extended foreign buyer ban complement the income tax changes, but the real test remains construction capacity. Unless productivity in the building sector improves, supply-side subsidies risk feeding into costs rather than completions. These are the kinds of reforms that reshape the system for years to come, but they also carry legislative risk.

For businesses, **loss carry back measures returning permanently** is the standout measure, with up to 85,000 companies getting real cashflow resilience during downturns. The **loss refundability for start-ups** is conceptually sound but modest for very early-stage firms with few employees. The **permanent \$20,000 instant asset write-off** finally removes the annual uncertainty that has plagued this measure for years.

The **R&D retargeting** toward core experimental activity should reward genuine innovators, but firms currently claiming supporting activities will feel the squeeze. The **30% minimum tax on discretionary trusts** from July 2028 is the most politically charged measure; it will raise roughly \$4.4bn at maturity. Although the three-year rollover relief will help, affected families and small businesses need to start planning now.

On productivity, the **\$10.2bn per year regulatory burden reduction** is ambitious, but roughly half hinges on streamlining environmental approvals and housing reforms areas where delivery depends entirely on state cooperation. The **Single National Market agenda** (payroll tax harmonisation, national occupational licensing) has been promised for decades; if it actually lands, it has the potential to genuinely move the dial on productivity growth by letting labour and capital flow to where they're most needed. The **energy market reforms** allowing household solar and batteries to participate directly in the market for the first time could be transformative for competition and household costs. \$1.5bn for research institutions and \$70m in AI Accelerator grants round out a constructive package.

The Middle East conflict has produced the largest global oil supply disruption on record, and the **\$14.8bn Fuel Resilience Package** is proportionate to the problem. A \$7.5bn Fuel and Fertiliser Security Facility and the \$3.2bn government-controlled fuel reserve which together with an expanded Minimum Stockholding Obligation lifts diesel and jet fuel reserves to 50 days of critical stocks. Together with \$1bn in interest-free loans for manufacturing and logistics businesses, this package addresses both the immediate crunch and the structural vulnerability that allowed it. The **20% domestic gas reservation** from July 2027 will be welcomed by domestic users, though the investment community will want clarity on how it interacts with existing contracts. The broader push, \$1.1bn for low-carbon fuels, permanent EV tax concessions to reduce fuel dependence, and \$55m to shift freight to rail and sea, is about building resilience so the next oil shock hurts less. That is the right instinct.

Healthcare is arguably the spending we should celebrate most. The **additional \$25bn for public hospitals** brings five-year funding to a record \$220.3bn. Making the **137 Medicare Urgent Care Clinics permanent** is one of the clearest wins with almost three million free visits delivered, and four in five Australians within a 20-minute drive by July 2026. The **\$5.9bn in PBS listings** and the cut to the general co-payment (\$25, concessional rate frozen at \$7.70 until 2030) will make a real difference for people managing chronic conditions. These are measures that will reduce long-term fiscal pressure by keeping people out of emergency departments.

The **NDIS reforms** are the single largest consolidation measure, \$37.8bn in savings over four years through tighter eligibility, plan resets and stronger fraud controls. These savings ramp up significantly over the medium term, making them central to the Budget's fiscal credibility. In **aged care**, \$3.7bn funds more beds, more home care and removes some personal care co-contributions. **Paid Parental Leave** rises to six months, the 3-Day Guarantee benefits over 87,500 families, and \$1.2bn continues Closing the Gap commitments.

Defence receives a record additional \$53bn over ten years; significant, but the real test is whether Defence can absorb and execute at this scale. The \$120bn infrastructure pipeline is maintained, with \$8.6bn in new road and rail commitments.

Bottom line

This Budget does more right than wrong. The fiscal discipline is genuine, the cost-of-living measures are designed to work with monetary policy rather than against it, and the housing tax reforms are generational in scope. For businesses, loss carry back and the permanent instant asset write-off are practical wins, but the trust tax, CGT changes and R&D retargeting will create winners and losers, and the details will matter enormously.

The biggest risk will be execution and passage. The savings are back-loaded and the productivity agenda depends on state cooperation that has historically been the weak link. If the reforms land as designed, this Budget will age well. If they stall in Parliament or implementation, the spending commitments will outlast the savings meant to fund them.



Devika Shivadekar
Economist

For businesses, the picture is more complicated. There are genuine wins, but also trade-offs and a few measures that sound better than they are.



Revamping the R&D tax incentive

As anticipated, the Government sought the low hanging fruit in the *Ambitious Australia* report recommendations and announced several sweeping reforms to the Research and Development Tax Incentive (RDTI) regime.

That said, these will only take delayed effect from 1 July 2028, meaning a practical application of the following changes for income years ending on or after 30 June 2029:

- An increase in the refundable R&D tax offset threshold from \$20m to \$50m as widely recommended, but tempering this potentially transformative development by limiting refundability to companies under 10 years old. Access to the higher R&D tax offset will subsequently still be available but it will not be refundable.
- Lifting the R&D expenditure cap from \$150m to \$200m, a move that will benefit only a handful of the largest R&D claimants but could restore some of Australia's international competitiveness with other global R&D jurisdictions and create economic spillover benefits. Notably, this falls short of the recommendation to remove the cap outright in *Ambitious Australia*.
- Funding a 4.5% point increase in the core R&D tax offset rates by removing the eligibility of supporting R&D expenditures. More specifically:
 - The refundable R&D tax premium will increase from 18.5% to 23%, so a refundable R&D tax offset rate of 48% for base rate entities (BREs).
 - Although the refundable R&D threshold now aligns with the BRE threshold, failing the passive income test may give rise to a non-BRE corporate tax rate of 30%, resulting in a refundable R&D rate of 53%.
 - These higher rates will still be available to SMEs after 10 years but will not be refundable.
 - The non-refundable R&D premiums for companies with an aggregated turnover of greater than \$50m will increase to 13% and 21% respectively, with overall R&D tax offsets of 43% and a tiered intensity rate of 51%. By statutory definition, no BRE will now be a lower quantum non-refundable R&D entity, eliminating some complexity.
 - The non-refundable intensity threshold will fall from 2% of total expenses to 1.5%, shifting more R&D expenditure into the higher 51% rate. That said, the retention of the tiered rates maintains that complexity and remains biased towards industry sectors with low non-R&D expenses.

Although the removal of eligibility for supporting expenditure may be unpopular, this will focus the RDTI program on

experimental activities, as the design of the program largely intended. Future ATO concerns will undoubtedly focus on the integrity of claims and ensuring that claimants do not seek to broaden their understanding of the definition of core R&D activities.

- Raising the minimum R&D spend from \$20,000 to \$50,000 for all claimants, with lower spends still eligible only if undertaken with registered service providers (RSPs) or Cooperative Research Centres (CRCs), which was not unexpected. With the \$20,000 lower threshold having been in place for well over a decade, the increase to \$50,000 seems reasonable and will preclude smaller claims where the compliance efforts in practice do outweigh the benefits available. The new threshold is also one-third of the *Ambitious Australia* recommendations, which would have eliminated significantly more legitimate claimants. Whether collaboration vouchers as recommended by *Ambitious Australia* eventuate, or indeed are an appropriate replacement mechanism, will remain to be seen.

Overall, aside from the added integrity aspects surrounding the 10-year rule and the non-eligibility of supporting activities, the proposed amendments will significantly reduce registration and costing compliance efforts and will disincentivise RDTI claims that are disproportionately made up of supporting activities.

Given that the changes are not minimal, the ATO will receive \$2.8m in funding over three years from 2027–28 to support the implementation of these measures. In this vein, it is worthy of note that, regardless of any statutory changes announced, SMEs making RDTI claims will continue to face heightened scrutiny from the ATO, which could reduce the overall positive economic impact of the changes made.

From a wider corporate tax perspective, the reintroduction of the loss carry back rules once again treats tax losses more favourably than excess non-refundable R&D tax offsets. This regime will disincentivise RDTI claims that increase the use of tax losses that could otherwise be carried back and create complexities between the two regimes.

Similarly, the permanent increase in the subdivision 328-D small business entity instant asset write off (IAWO) to \$20,000 will also intensify the consequences of the interaction with the RDTI regime. This legislative interaction is complex and little understood, but where a tangible depreciating asset is immediately used for R&D purposes, the subdivision 328-D IAWO is not available.

Rather, the usual Division 40 decline in value must be included in eligible R&D expenditure, with future declines in value dependent on the use of the asset. In contrast, where a tangible asset is immediately used for a taxable purpose, and at a later date for an R&D purpose, no R&D entitlement exists and the subdivision 328-D IAWO is available. Care should be taken to ensure that IAWO amounts are not included in R&D claims.

Winners

- R&D claimants with aggregated turnover of between \$20m and \$50m, especially those that will be less than 10 years old in FY29.
- R&D claimants with proportionately low spend on supporting R&D activities.
- Large multinationals with annual spend of between \$150m and \$200m.
- Related R&D workforces.

Losers

- Established refundable claimants more than 10 years old at FY29.
- R&D claimants with an annual spend of less than \$50,000.
- R&D claimants with proportionately high spend on supporting R&D activities.

Case studies:

Impact of removing eligibility of supporting R&D activities

Core Co Pty Ltd is a BRE entitled to the refundable R&D tax offset, and has an R&D spend of \$1m on core activities and \$800,000 on supporting activities.

Under the current provisions, there is an R&D tax offset of $\$1.8m \times (25\% + 18.5\%) = \$783,000$.

Under the proposed amendments for FY29 onwards, there will be an R&D tax offset of $\$1m \times (25\% + 23\%) = \$480,000$.

Had the core activities been \$1m and the supporting activities \$300,000, the R&D tax offsets would have been \$565,500 and \$480,000 respectively.

10-year refundable rule

For FY29, AgriCo Pty Ltd is a nine year old company and is a BRE still in tax losses with an R&D spend of \$1m.

An increased R&D tax offset of \$480,000 will arise and will be refundable. However, in the following year FY30, the same level of spend would result in the same quantum of R&D tax offset being \$480,000, but if in excess of tax payable, this would have to be carried forward and used subject to satisfaction of the loss utilisation tests.

Note that after 10 years, the company does not start to fall under the non-refundable provisions; rather the quantum of the refundable offset becomes non-refundable.

Reduction in intensity threshold

MedTechCo Pty Ltd is a non-BRE entitled to the non-refundable R&D tax offset and total expenditure for the year of \$30m. Eligible core R&D expenditure is \$4m (an intensity of 13.33%).

Under current rules, the 2% intensity threshold is \$600,000 so the R&D tax offset = $(\$600,000 \times 38.5\%) + (\$3.4m \times 46.5\%) = \$1.812m$.

Under the proposed amendments, the reduced 1.5% intensity threshold is \$450,000 so the R&D tax offset = $(\$450,000 \times 43\%) + (\$3.55m \times 51\%) = \$2.004m$.

Notably, if MedTechCo had been a BRE between \$20m and \$50m, it would have moved from non-refundable to refundable status due to the increase in the turnover threshold to \$50m.

Increase in R&D expenditure cap

Mining Co spends \$250m in an income year on eligible R&D activities and is eligible for the base tier of the non-refundable R&D tax offset. Under the current provisions, Mining Co can claim a 38.5% R&D tax offset rate on \$150m and an R&D tax offset at the corporate tax rate of 30% on the remaining \$100m = \$87.75m.

Under the proposed amendments for FY29 onwards, Mining Co will be able to claim the increased 43% R&D tax offset rate on \$200m, and an R&D tax offset at the corporate tax rate of 30% on the remaining \$50m = \$101m.

Interaction of RDTI and loss carry back regimes

Loss Co Pty Ltd has tax losses that could be carried back. The company has an option to make an RDTI claim that would result in excess non-refundable R&D tax offsets that would have to be carried forward.

If an RDTI claim was made, increased tax losses would be deducted to offset the notionally deductible R&D expenditure that have been added back. The cash flow benefit of carrying back the tax losses that would be used, may exceed the future benefit of the R&D uplift.

The 2026–27 Budget is centred on major system funding rather than new primary care reform, led by a \$220.3bn five-year hospital funding agreement and \$24.4bn in additional National Health Reform Agreement (NHRA) funding to address structural pressure in the public health system.

Primary care measures focus on access, bulk billing and digital oversight, with \$1.8bn to make 137 Medicare Urgent Care Clinics permanent, \$2.1bn to strengthen Medicare, with further investment in digital health and Medicare integrity likely to increase scrutiny on providers.

Aged care and disability reforms signal a stronger sustainability and compliance agenda, including \$3.7bn for aged care and \$1.7bn for NDIS integrity and provider reform, with significant implications for service delivery, regulation and provider viability.

Overall, the 2026–27 Budget is favourable for the health, disability and ageing sector. While the sector will always seek more, the level of investment and the breadth of initiatives represent a meaningful step forward.

As anticipated, the 2026–27 Budget contains few new primary care measures, with the focus on locking in previously announced reforms and securing a landmark \$220.3bn public hospital funding agreement with the states and territories.

The Government had already pre-announced or front-loaded most of the major primary care spending. Key highlights include:

- **Hospitals** – \$220.3bn over five years from 2026–27 to states and territories for public hospitals, including \$24.4bn in additional *National Health Reform Agreement* funding through a higher funding cap.
- **Urgent Care Clinics** – \$1.8bn over five years (and \$580.2m per year ongoing) to make all 137 Medicare Urgent Care Clinics permanent.
- \$25.3m over three years to establish up to six fully bulk-billing **general practice clinics** in the Central Coast, Newcastle, Lake Macquarie and Hunter regions.
- **Aged care** – More beds, faster access to places and better care for older Australians – \$3.7bn.
- \$745.1m for **Medicare integrity** and digital health infrastructure, including \$598.3m for My Health Record and the new Sharing by Default reforms from 1 July 2026.
- **Medicine and vaccine access** – \$5.9bn over five years for new and amended Pharmaceutical Benefits Scheme listings, including a new respiratory syncytial virus (RSV) vaccine for older Australians.
- **Strengthening Medicare** – \$2.1bn over five years from 2025–26 (and \$599.6m per year ongoing) to ensure all Australians have affordable access to high quality primary and specialist health care services and to increase access to bulk billing.
- **Modernising private health** – \$3bn in savings over four years from removing the age-based *Private Health Insurance Rebate* uplift from April 2027 for those 65 and over.
- **Disability sector, securing the NDIS** – \$1.7bn over five years for integrity, fraud prevention, payment reform and provider regulation; projected reduction in growth of \$37.8bn. The Budget also includes an investment in the *Thriving Kids Program* of \$2bn over five years for early intervention supports for children aged zero to eight with developmental delay and/or autism with low to moderate support needs, as well as their families, carers and kin.

A landmark hospital funding agreement

The *National Health Reform Agreement* (NHRA) is the five-yearly funding agreement between the Commonwealth and the states and territories that governs public hospital funding. The Commonwealth will provide \$220.3bn over five years, including \$24.4bn in additional funding through a higher funding cap, which means significantly more federal money will flow to state-run public hospitals, responding directly to years of calls about chronic hospital underfunding, ambulance ramping, and lengthening surgical waitlists.

Medicare Urgent Care Clinics made permanent

The Budget confirms \$1.8bn over five years, with \$580.2m per year ongoing, to fund all 137 UCCs on a permanent basis.

The permanence of UCCs is welcome news for emergency departments, but general practice has rightly raised concerns about competition for an already-stretched GP workforce.

Other items affecting medical practices

A few additional items warrant attention for medical practice clients:

- The Government is investing \$745.1m to strengthen Medicare integrity, with an anticipated \$820.4m in savings from fraud and non-compliance. This suggests increased billing audits for medical practices.
- From 1 July 2026, My Health Record will share clinical information by default, aiming to reduce duplicate diagnostic testing and save \$146.3m. General Practitioners will have clearer expectations regarding the use of shared records.
- The *Extended Medicare Safety Net* will be capped, resulting in \$43.4m in savings by limiting benefits to 80% of the Schedule fee for certain MBS items – a significant policy change.
- \$3bn in savings are expected over four years by removing the age-based uplift to the *Private Health Insurance Rebate* from 1 April 2027. This will lower rebates for older Australians with private insurance, potentially increasing pressure on the public health system.

Aged care and ageing

- Better care for older Australians – \$565.1m over four years to strengthen regulation, quality, workforce and Information and Communication Technology (ICT) in aged care, with associated cost-recovery reforms.
- Residential aged care supply and equity of access – \$606.5m over four years for new bed supply, capital subsidies and dementia supports.
- Home care reform – \$1.4bn over four years to fully fund personal care and expand access under Support at Home.

NDIS: Budget signals structural reset with sustainability the core focus

The 2026–27 Budget marks a clear turning point for the National Disability Insurance Scheme, confirming the Government's intention to fundamentally reshape the scheme to curb cost growth and preserve long-term viability.

Following the Minister's pre Budget statements, the Government has framed the NDIS as "growing too fast and costing too much," and the Budget reinforces this position through a suite of structural reforms that narrow eligibility, redefine funded supports and strengthen scheme integrity.

A smaller, more tightly targeted scheme

The Government aims to reduce the size of the NDIS to about 600,000 participants by 2030, primarily by tightening eligibility and shifting towards standardised functional assessments. Those with higher functioning will be redirected to new State and Territory-run foundational supports and Thriving Kids programs, which will operate outside the NDIS. However, there is uncertainty and concern among participants, as the details of these alternative supports and their eligibility criteria are yet to be clarified by state and territory governments.

Tighter plans and narrower supports

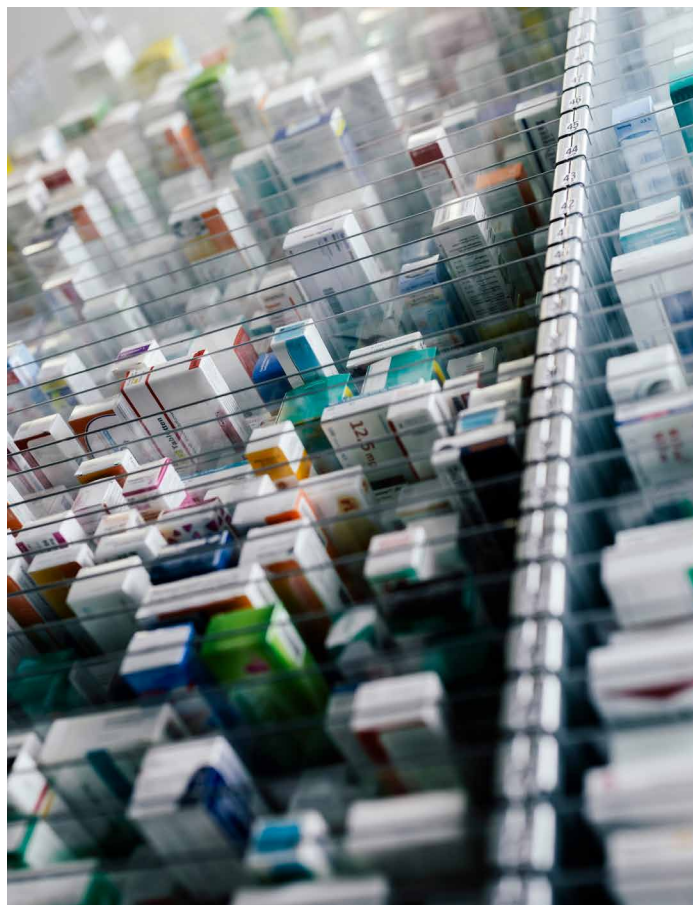
The Budget introduces stricter definitions for "reasonable and necessary" supports under the NDIS, notably reducing funding for social and community participation by about 100 average hours per participant. Overall, these changes aim to limit NDIS expenditure growth to a sustainable rate of 5–6% per year.

Integrity, compliance and commissioning reforms accelerate

The Government is intensifying efforts to reduce fraud and strengthen oversight within the NDIS, as outlined in the latest Budget. Key reforms include rolling out mandatory digital claiming, expanding compulsory provider registration, and moving towards panel-based or commissioned purchasing for higher-risk supports such as Supported Independent Living, Support Coordination, and Plan Management. These changes mark a major shift in how NDIS supports are delivered and funded.

Implications for the sector

The Budget signals a period of uncertainty for NDIS participants, families and advocates, as reassessments and transition arrangements are developed with States and Territories. Providers, meanwhile, face a clear shift towards market consolidation, increased financial pressures and more complex regulations. The government's key challenge will be implementing reforms that ensure continuity of care, uphold market stability and maintain participant confidence during these significant changes.



What this means for NDIS businesses

NDIS providers should prepare for:

- **Slower revenue growth** as participant numbers stabilise or decline and average plan values tighten.
- **Higher compliance and operating costs**, driven by mandatory registration, digital claiming and expanded reporting obligations.
- **Greater scrutiny of service models**, particularly for Supported Independent Living (SIL), Support Coordination and Plan Management, as commissioning and procurement settings evolve.
- **Market consolidation**, with scale, strong governance and financial resilience becoming increasingly important.
- **Reduced certainty in demand forecasting**, as eligibility reforms and foundational supports are progressively implemented.
- **State and Territory funding opportunities**, as commissioning arrangements become announced.

Providers that proactively strengthen financial discipline, governance, systems and workforce capability will be better positioned to navigate the next phase of NDIS reform.

In summary

The 2026–27 Budget delivers substantial investment across hospitals, aged care, medicines and disability, but offers limited new structural reform for primary care. While the permanent funding of Medicare Urgent Care Clinics, additional hospital funding and stronger Medicare investment will provide welcome relief across the system, the Budget also sharpens the focus on sustainability, integrity and compliance. For providers in the health, ageing and disability sectors, the message is clear: funding is increasing in priority areas, but so too are expectations around governance, workforce capability, financial resilience and service delivery reform.

Winners

- Public hospitals and state and territory governments (\$220.3bn over five years)
- Patients accessing the 137 permanently funded Medicare Urgent Care Clinics
- Patients accessing new PBS listings, including older Australians eligible for the new RSV vaccine

Losers

- Private health insurance policyholders aged 65+ from 1 April 2027 (age-based rebate uplift removed)
- General practice (no structural funding reform, no workforce planning agency, no consultation rebate restructure)



Sector *Real estate and construction*

Investor focus now shifts to new residential builds.

Previously, the Government has set a goal of building 1.2 million homes over five years from 1 July 2024. Currently, the nation may be up to 100,000 homes behind target and it is in this context that the Budget has been constructed.

The centrepiece of the Government's home building agenda in the 2026–27 Budget is the establishment of a \$2bn investment fund designed to accelerate the delivery of 65,000 new homes nationwide through the funding of infrastructure, such as roads and utilities to open up new lots.

For those in industry, the Government is providing the following support:

- \$75.1m over four years for a new, modern skills assessment for Trades Recognition Australia to facilitate the integration of occupational licensing, including in priority trades such as electricians and plumbers.
- \$105.9m over four years to modernise environmental information, data and digital systems (including AI) to improve user experience and enable simpler and faster environmental approvals for infrastructure projects.
- \$26.4m over four years to work with states and territories to fast-track environmental approvals in priority areas including housing.
- \$42.7m over four years to provide Standards Australia with ongoing grants to provide free public read-only access to standards referenced in Commonwealth and state and territory legislation. This measure is stated as saving small businesses and tradies up to \$1,600 per year.
- Abolishing 457 nuisance tariffs, including some inputs into the construction industry, with effect from 1 July 2026.

Whilst much of the attention is focussed on the impacts of the proposed changes to negative gearing and capital gains tax discounts, investors in new residential properties will have preferential treatment from 1 July 2027, retaining negative gearing as well as access to the 50% CGT discount. The Government considers that these changes will support an estimated 75,000 homeowners over the next decade.

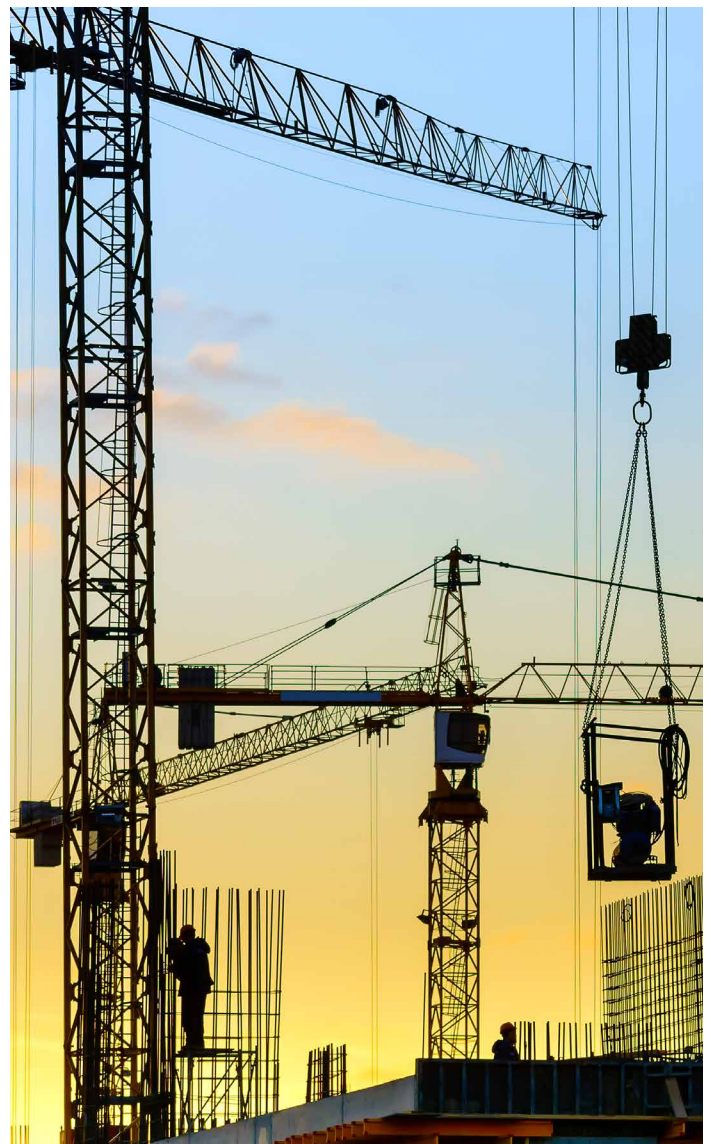
Lastly, bans on foreign investors purchasing established homes have been extended until mid-2029, meaning that any foreign investment will need to be directed toward new dwellings.

It is clear that the carve-outs directed towards the construction of new residential dwellings are aimed at influencing capital investment from existing residential stock to new residential stock. This would seem beneficial to new property developers, depending upon the way that the measures are implemented. The change in settings may result in house price uncertainty, if investors start to exit the market prior to changes in the CGT concessions.

For those providers of infrastructure projects, the Government states that it is maintaining a rolling infrastructure pipeline of more than \$120bn over 10 years, including \$8.6bn for new and ongoing projects of national significance. The largest new investment is \$3.8bn directed towards Victoria's Suburban Rail Loop East, enabling more transport and homes in the right places and reducing congestion, with a further \$1.75bn in equity for the Australian Rail Track Corporation to upgrade Australia's rail freight network.

Winners

- Home builders, developers and those in civil construction should see opportunities from potential new investment in large scale infrastructure projects and through the carve-outs being directed toward new residential accommodation.



- **Structuring of business operations requires a rethink with permanent introduction of loss carry back.**
- **Pre CGT farmland now subject to capital gains tax from 1 July 2027.**
- **Succession planning and intergenerational transfer of wealth just became more complex and costly.**

The agricultural sector is heading toward complexity and additional tax costs as tax reform will reshape the landscape for business structuring and intergenerational transfer of wealth via family trusts.

Taxation of family trusts

Family trusts are a heavily used structure throughout the agricultural sector. Under the 2026–27 Budget, the introduction of a minimum 30% tax on trust income will apply from 1 July 2028 with a carve-out for primary production income; however, most modern agricultural businesses operate with multiple landholding trusts for asset protection and succession planning purposes.

Where landholding trusts lease property to related trading entities, any net rental profit will be subject to a minimum 30% tax. This reduces the tax efficiency of common operating structures used across the sector and may increase the overall tax burden on inter-entity arrangements.

Loss carry back for corporate structures

Agricultural businesses operating through companies will have increased flexibility to manage seasonal volatility with the introduction of a two year loss carry back measure.

Where a company incurs a loss in the 2026–27 income year, that loss can be carried back up to two years earlier to generate a refund of previously paid tax. This provides a cash flow benefit during downturns and helps mitigate the financial impact of events such as drought or commodity price fluctuations. This measure is a positive outcome for corporatised agricultural businesses, improving resilience in periods of income volatility.

Impact on succession planning

Succession planning in the agricultural sector has historically relied heavily on family trusts, primarily due to their flexibility in separating ownership from management and control across generations.

The introduction of increased taxes on trust income will disproportionately impact agricultural businesses that are asset rich but cash flow constrained. In particular, these entities may face increased exposure to capital gains tax when transitioning high-value farmland to the next generation, complicating traditional succession strategies.

Cost base reset for pre-CGT farmland

Long-held farmland acquired prior to 20 September 1985 will be brought into the modern tax regime through a reset of the cost base to market value as at 30 June 2027.

This measure effectively exposes future capital growth to CGT from the 2027–28 income year onwards. While the reset protects accumulated value to that date, it materially changes the succession planning discussion, particularly how intergenerational transfers are structured and how future gains are managed.

Fuel and fertiliser security package

A multi-billion fuel and fertiliser security package is intended to strengthen Australia's domestic supply chains, improving access to critical agricultural inputs while reducing reliance on volatile global markets.

In the context of heightened geopolitical tensions, including instability impacting global energy markets, this initiative reduces the risk of supply disruptions and price volatility flowing through to farm input costs. This is particularly important for the agricultural sector, where fuel and fertiliser represents significant and often unavoidable operating expenses.

The package will be delivered through government-backed financing facilities, expanded strategic fuel reserves, and targeted investment in storage and distribution infrastructure.

These measures are expected to improve availability and reliability of supply, particularly during peak production periods. For agricultural businesses, greater supply chain resilience provides increased confidence that critical inputs will be available when required, reducing operational risk in an environment where global logistics, shipping routes, and commodity markets remain highly sensitive to external disruptions.

Losers

- Agricultural businesses that have pre CGT farmland.
- Recently completed succession plans will require review for any unintended consequences and tax inequality.

Case study:

A common structure in the agriculture sector is a landholding trust deriving lease income from an operating farm, with income distributed to retired parents to fund their retirement.

Under current rates, \$100,000 of lease income distributed to two retirees with no other income results in total tax of around \$11,076 (approximately \$5,538 each after applying the low income tax offset, and before medicare levy), leaving roughly \$88,924 available for living expenses.

Under the proposed trust minimum tax rules, and due to lease income not being carved out as primary production income, the same income is effectively taxed at 30% at the trust level. While a non-refundable offset flows through to the individual, it would not be fully utilised leaving after-tax cash available to the retired parents of approximately \$70,000.

This equates to a reduction of nearly \$19,000 per annum from the same income stream, materially impacting retirement funding for families using trusts as part of genuine succession arrangements.



From a sector perspective, considering wider research innovation direct funding sources (separate from indirect RDTI funding) this was a Budget resulting in more losers than winners.

Australia is currently ranked 74th of out 146 nations in Harvard University's 2024 Economic Complexity Index (ECI). Countries that export a broad mix of sophisticated goods tend to score higher, suggesting deeper productive knowledge and higher levels of innovation. Australia's ranking has fallen 10 places since 2019.

Depending on the outcomes, despite, or coupled with, the proposed revamp to the flagship RDTI regime, the 2026–27 Budget otherwise unfortunately seems set to continue this downwards trajectory with a substantial reduction in direct funding support for research and innovation. Adding the substantive changes to capital gains tax rules, arresting this decline will be challenging.

Agricultural innovation

Innovative agribusinesses will face a tougher funding environment under the 2026–27 Budget proposals with uncommitted funds across multiple agricultural grant programs being redirected toward other priorities in the Agriculture, Fisheries and Forestry portfolio.

The hardest hit is the Future Drought Fund, where funding will be reduced by \$52m over four years from 2026–27, plus \$13m per year ongoing. Existing contracted projects will likely remain unaffected with the cut affecting pipeline support for future drought resilience initiatives.

Other casualties will include:

- the Pest and Disease Preparedness and Response Programs
- the Wine Tourism and Cellar Door Grant
- the Accelerated Adoption of Wood Processing Innovation Grant
- other innovation and trade related funding programs.

Together, these represent cuts of a further \$104.6m in savings over five years from 2025–26. The practical consequence of these changes is fewer or smaller future funding rounds, narrower eligibility and increased competition for funding in what was already a highly competitive field.

Losers

- Innovators and researchers relying on direct grant funding

Research

This Budget seeks to reshape the innovation and research funding landscape by reallocating and reducing support rather than expanding it. An uplift of \$508.5m over four years has been allocated to the Medical Research Future Fund (MRFF) disbursements, with planned growth from \$650m in 2025–26 to \$1bn annually from 2030–31. However, this uplift is not immediately available, with funding to be held in the Contingency Reserve until the National Health and Medical Research Strategy is finalised, creating timing uncertainty for prospective applicants.

One program's gain is often another's loss. The MRFF's win is achieved at the cost of Australia's Economic Accelerator (AEA), a popular program among Australia's universities which provided strong support for industry collaboration and research commercialisation. No further AEA rounds will proceed, including those that had already been advertised, representing a funding cut of \$800.1m over five years.

Clean energy

Similarly, support for the development and deployment of clean energy innovation is diminished. The Budget prioritises the reallocation and reduction of existing clean energy funding, including loss of funding from:

- the Battery Breakthrough Initiative, originally designed to support domestic battery manufacturing
- the Solar Sunshot program, designed to strengthen Australia's solar PV supply chain
- Hydrogen Headstart Round 2, designed to underwrite domestic hydrogen production.

These programs are administered by the Australian Renewable Energy Agency (ARENA) and were originally funded under the \$19.7bn Future Made in Australia – Renewable Energy Superpower package announced in the 2024–25 Budget. They were designed to support domestic renewable energy industries, strengthen local manufacturing capability and accelerate decarbonisation.

The cuts represent a total reduction of \$1.3bn over 10 years (from 2026–27). They reflect a moderate but notable recalibration of Australia's clean energy industry support, signalling both a more constrained funding environment for industry participants as well as lower than expected uptake on these targeted programs.

Other industries

Innovators across the landscape of Australia's priority sectors will nervously await clarity on the implications of a reduction in support across grant programs administered by the Department of Industry, Science and Resources (DISR). Funding cuts of \$266.2m over five years imply a smaller future grant pipeline and more contestable funding conditions in an already highly competitive environment.



This Budget seeks to reshape the innovation and research funding landscape by reallocating and reducing support rather than expanding it.

Businesses

Loss carry back and start up refundable tax offset

The 2026–27 Budget has introduced two measures relating to company tax losses:

- **Permanently reintroducing a two-year loss carry back, accessible for companies with an aggregated annual global turnover below \$1bn from tax years commencing on or after 1 July 2026, capped to the company's franking account balance.**
- **The introduction from 1 July 2028 of a refundable tax offset for start-up companies that generate a tax loss in the first two years of operation, accessible for companies with an aggregated annual turnover of less than \$10m and capped to the value of FBT and withholding tax on Australian employee wages in the loss year.**

The loss carry back rule is aimed at previously profitable companies facing a temporary downturn, while the start-up refundable tax offset is targeted at small early-stage companies in their first two years that employ Australian staff.

These measures are about timing and access to cash when businesses need it most. The loss carry back will help eligible companies recover previously paid tax if taxable profits decline, while the start-up refundable tax offset may give some early-stage companies access to a cash tax benefit before they become profitable.

Not all loss-making companies will benefit to the same extent, with the loss carry back limited by the revenue loss, income tax paid in the previous two years, and capped by the franking account balance. For start-ups, the refundable tax offset is limited to the value of FBT and withholding tax on wages paid to Australian employees in the relevant loss year and only applies for the first two years of business.

Loss carry back

For established companies, the proposed reintroduction of the loss carry back is welcome during the current global economic uncertainty and the increased costs imposed on many Australian businesses. If a company has recently paid tax and subsequently experiences a downturn incurring a revenue tax loss, it is currently required to wait for subsequent income years to use that loss, which can be commercially unattractive.

The loss carry back is designed to fix this by allowing eligible companies with an aggregated annual global turnover below \$1bn to offset a tax loss against income tax paid in the

previous two years. However, the loss carry back is limited by the company's franking account balance, so the value of the measure will vary between businesses.

This measure is intended to improve cash flow for the company when it is needed most and will be welcome during the current economic climate.

Start-up refundable tax offset

The start-up refundable tax offset is a new rule allowing early-stage companies to 'cash in' their tax losses prior to paying income tax. Under this measure, the start-up will be able to use its tax loss to generate a refundable tax offset instead. However, the new measure has its limitations and will only be accessible to start-up companies with an aggregated annual turnover below \$10m, will only apply for the first two years of operation, and will be capped to the value of FBT and withholding tax on wages paid to Australian employees in the relevant loss year.

This means the measure is clearly directed at start-ups that are building an Australian workforce. So, while this measure could provide meaningful early-stage support, the amount available will depend on the start-up's workforce profile, not just the size of its loss. The Budget papers estimate the loss carry back will reduce tax receipts by \$2.3bn over five years from 2025–26, while the start-up refundable tax offset will increase administered payments by \$410m over the same period.

There is sensible logic with the introduction of these tax loss measures. The current system can disadvantage new and innovative businesses and make it harder for them to manage temporary economic shocks or invest through their early years. These measures are intended to improve resilience and encourage investment in Australia's newest innovative companies.

As always, the devil will be in the detail. The success of the measures will depend on the level of complexity and how onerous it will be for eligible companies to access.

Overall, these are constructive company tax measures improving the commerciality of tax losses. Whilst the measures do not ultimately overhaul company tax losses or change the corporate tax rate, they do improve the timing and accessibility of tax relief for eligible companies that are under financial pressure or still in their initial stages of operations.

Winners

- Eligible companies that have paid tax in the prior two years and then move into a revenue tax loss position.
- Small start-up companies that generate a tax loss in their first two years of operation and incur FBT or withholding tax on wages for Australian employees.

Case study:

Loss carry back

AusCo Pty Ltd is an Australian company with annual turnover below \$1bn. It was profitable in the two years before the 2026–27 financial year and paid company tax in both years. In the 2026–27 income year, weaker demand and higher fuel costs push the business into a revenue tax loss position.

Under the loss carry back, AusCo Pty Ltd can offset the 2026–27 tax loss against tax paid in those earlier years, capped to AusCo Pty Ltd's current franking account balance. This can improve cash flow at a time when the business is under financial pressure.

Start-up refundable tax offset

StartCo Pty Ltd is a new innovative company with annual turnover below \$10m. It is in its second year of operation in the 2028–29 income year, incurs FBT and withholding tax on wages paid to its Australian employees, but is in a tax loss position while it develops its business.

Under this measure, StartCo Pty Ltd can use its tax loss to generate a refundable tax offset in the 2028–29 income year. The offset will be capped to the value of FBT and withholding tax paid on wages to Australian employees in the loss year. The cash tax refund can provide meaningful support during the early stages of its business.

Major trust reform

- The Government has announced the introduction of a 30% minimum tax on discretionary trusts from 1 July 2028.
- Beneficiaries will continue to be assessed on trust distributions in their own tax returns.
- Individuals and other non-corporate beneficiaries will receive non-refundable tax credits for the tax payable by the trustee. Corporate beneficiaries will not receive credits for the tax paid by the trustee.

The Government has announced a significant reform to the taxation of discretionary trusts through the introduction of a 30% minimum tax on trust taxable income, applying from 1 July 2028.

The trustee is the taxpayer for minimum tax purposes, reflecting the trustee's control over distributions. This represents a fundamental shift from the current system, under which the tax outcome largely depends on the marginal tax rates of beneficiaries to whom income is distributed.

Beneficiaries will still need to declare their trust income in their tax returns, but beneficiaries, other than corporate beneficiaries, will receive non-refundable credits for the tax payable by the trustee. These credits can be used to offset the beneficiary's current year tax liability but cannot generate refunds.

The effect of this mechanism is to ensure that the overall tax paid on trust income is not less than 30%, regardless of how the income is distributed.

A key integrity feature of the measure is its treatment of corporate beneficiaries. Corporate beneficiaries will continue to be assessed on trust distributions they receive but will not receive credits for tax paid by the trustee under the minimum tax regime. This prevents trust income from being channelled through so called 'bucket companies' to access refundable franking credits or to defer tax at the shareholder level.

Where trusts receive franked dividends, trustees will be required to utilise franking credits to meet the minimum tax liability. This ensures that refundable franking credits cannot be used to undermine the effectiveness of the minimum tax.

Exclusions

The minimum tax will not apply to other types of trusts such as fixed and widely held trusts, complying superannuation funds, special disability trusts, deceased estates and charitable trusts.

Some types of income such as primary production income, certain income relating to vulnerable minors, amounts to which non-resident withholding tax applies, and income from assets of testamentary trusts existing at announcement will also be excluded.

Restructure rollover relief

The Government will provide expanded rollover relief for three years from 1 July 2027 to support small business and others that wish to restructure out of discretionary trusts into another entity type, such as a company or a fixed trust.

While rolling a discretionary trust into a company may reduce exposure to the proposed 30% minimum tax, it is important to consider both short-term relief and long-term tax outcomes before considering a rollover.

Losers

- The marginal rate of 30% applies to taxable income in the range of \$45,000 to \$135,000. This means that beneficiaries who have taxable income of less than \$45,000 would end up paying tax at a higher rate on the trust distribution (ie 30%) than they would on the rest of their taxable income (ie currently 0% or 16%).
- Individuals who previously reduced tax by distributing trust income to low or no income family members will lose much of that benefit, as total tax on trust income is effectively lifted to at least 30% regardless of distributions.
- Corporate beneficiaries will not receive credits for the tax paid by the trustee, preventing trust income being cycled through companies to access refundable franking credits or defer tax.
- Businesses using trusts to retain profits at low effective tax rates (rather than paying wages or operating through a company) may face higher tax outcomes compared with company structures, particularly where they would otherwise qualify for the 25% small business company tax rate.

Case study:

Steven earns \$200,000 of annual investment income through a family discretionary trust, where he is the trustee. The trust currently distributes income equally to Steven and three adult family members, each of whom has no other taxable income. The cash is largely retained in the trust to reinvest.

Steven uses the trust for investment flexibility and asset protection, but the structure has also enabled income splitting, significantly reducing the family's overall tax liability.

Position before the minimum tax (current law)

- Trust income: \$200,000
- Distribution: \$50,000 to each of four beneficiaries
- Total tax paid across the family: \$24,008 (based on 2028–29 income year)
- Average tax rate: ~12%

If Steven had earned the same \$200,000 personally (or as wages), he would have paid approximately \$59,600 in tax, with an average tax rate close to 30%.

Outcome:

The discretionary trust achieves a materially lower tax outcome compared with an individual earning the same income.

Position after the minimum tax (from 1 July 2028)

Under the new rules:

- The trustee must pay a minimum tax of 30% on the trust's taxable income.
- Minimum tax payable by the trustee: \$60,000
- Beneficiaries must still include trust distributions in their tax returns.
- Non corporate beneficiaries receive non refundable tax credits for their share of the tax already paid by the trustee.

Outcome:

Regardless of how the income is distributed, the total tax paid on the \$200,000 trust income is brought up to around 30%, broadly aligning Steven's tax outcome with that of a wage earner on the same income.

Foreign CGT

Transitional arrangements infer foreign resident capital gains tax reforms will not apply until 30 June 2030.

Foreign residents have been subject to Australian capital gains tax on their disposal of taxable Australian property since 2006. Taxable Australian property comprises:

- taxable Australian real property (TARP)
- an indirect Australian real property interest (IARPI)
- a mining, quarrying or prospecting right in Australia
- a CGT asset that is used to carry on a business through a permanent establishment in Australia
- or an option or right over one of the above.

Treasury released draft legislation in April 2026 that was announced as 'clarifying' the definition of taxable Australian real property. The proposed statutory definition of 'real property' will expand the definition of TARP to encompass assets that are economically linked to Australian land. This will capture things like long-term leases and licences over land, water rights, and infrastructure installed on land (eg pipelines, cell towers, solar and wind installations). In simple terms, if an asset's value is tied to Australian soil or resources, a foreign investor will be liable to tax on any capital gain from it.

The proposed changes also included a requirement that an IARPI should be tested on an ongoing basis over the 365 days preceding the assets disposal.

The draft legislation that was released for consultation indicates the amendments will apply retrospectively, in theory as far back as 2006 if a taxpayer's amendment period remains open.

The proposed changes were widely criticised by the tax community, primarily on the basis of the retrospective application of the amendments and the onerous requirement of testing the nature of an IARPI over a 365 day period.

The Budget includes an announcement that the Government will provide a time-limited, targeted "concession" in the foreign resident CGT regime for investment in the renewables sector from the first day of the quarter following Royal Assent until 2030. It is not clear what the nature of the "concession" is. Foreign owners of assets that are likely to be impacted by the proposed new definition of real property should closely monitor any clarification of what this "concession" will bestow.

Winners

- Foreign investors – if the concession delays the application of the amended foreign resident CGT until 30 June 2030.

Losers

- Foreign investors – if the concession does not delay the application of the amended foreign resident CGT until 30 June 2030.

ATO fraud funding

The ATO has been allocated an additional \$86.3m over four years from 1 July 2026 and \$9.7m per year ongoing from 2030–31 to deliver Phase 2 of the Counter Fraud Strategy, which builds on the \$187m allocated in the 2024–25 Budget.

The measure is estimated to increase receipts by \$217.8m and increase payments by \$72.9m over the five years from 2025–26.

Continued funding for the strategy is intended to enhance the ATO's ability to detect and prevent fraud in real time, provide additional fraud protections for individuals, and expand live monitoring of fraudulent account access to tax agents, business and for high-risk superannuation changes.

The ATO will be given powers to pause recovery of tax debts of fraud victims, waive those debts in appropriate circumstances, and recover the debts from intermediaries.

Existing garnishee powers will also be expanded to include jointly-held assets in relevant cases. The ATO will undertake additional targeted compliance activities over the two years from 2026–27, including in relation to the R&D Tax Incentive.

Phase 1 of the Counter Fraud Strategy caused teething problems as tax practitioners and Australian taxpayers worked through challenges with MyID and tax agent linking. With those teething issues mostly resolved, further anti-fraud measures should be looked upon favourably.

Winners

- Potential victims of fraud

Instant asset write-off

From 1 July 2026, the Government will permanently extend the \$20,000 IAWO for businesses with a turnover of up to \$10m. The threshold of \$20,000 per asset has effectively been in place since 1 July 2023 and was set to expire on 30 June 2026, with the threshold then reverting back to the \$1,000 threshold.

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 five years after opting out will continue to be suspended until 30 June 2027.

Case study:

John and Mary run a business through a company. The business generated \$50,000 in taxable profits and paid \$12,500 in tax in the 2025–26 income year (at the 25% tax rate).

To help grow the business, they are planning to purchase a new item of plant for \$19,000, new tables and chairs for \$17,000, computers for \$8,000 and tools for \$15,000. As a result of the permanent extension of the \$20,000 IAWO, all these items can be immediately deducted.

Without these new investments, the business would have generated a \$50,000 taxable profit. However, with the IAWO deductions, the business reports a \$9,000 tax loss for the 2026–27 income year, paying no tax. Under the tax loss carry back announcement, they will be able to carry back that tax loss to the previous year's tax paid, generating a \$2,250 tax refund (\$9,000 x 25% tax rate).

Winners

- Small business with turnover of under \$10m can invest with confidence and plan investment decisions.

FBT (EVs)

- Reduction of FBT savings to a 25% discount (from current full exemption for vehicles up to the fuel-efficient LCT threshold)
- Transitional rules through to 31 March 2029
- Grandfathering of existing arrangements.

These new arrangements continue to target support for the shift to electric vehicles, whilst ensuring the sustainability of the FBT reduction in the long term.

With the recent fuel crisis hitting Australia, and a surge in electric vehicle purchases as a result, we may see tax-savvy individuals looking to lock-in novated lease arrangements prior to 1 April 2029, to ensure full FBT exemption can be obtained, adding to existing wait times for electric vehicles.

Following the recent statutory review of the electric car discount, the Government has confirmed in the Budget that it will proceed with its previously announced changes.

Under the proposed reforms, the current full fringe benefits tax exemption for eligible electric vehicles will gradually be scaled back and replaced with a permanent 25% FBT discount on the statutory formula rate from 1 April 2029.

The Government will from 1 July 2027 transition the reforms by:

- providing a full exemption for electric cars valued up to \$75,000 that are provided before 1 April 2029
- providing a 25% discount on FBT for electric cars valued above \$75,000 and up to the fuel-efficient car LCT threshold.

Importantly, the Government has maintained its narrow policy focus on vehicles classified as 'zero or low emissions vehicles', with the discount and exemption applying only to fully electric vehicles. Plug-in hybrid vehicles remain excluded from the revised concession framework, with the exemption for such vehicles having been sunset from 1 April 2025.

These changes represent a clear shift in policy intent. Rather than continuing an open-ended tax incentive, the Government appears to be moving toward a more targeted and fiscally sustainable concession regime. While the retention of a 25% FBT discount preserves some level of support for electric vehicle uptake, the departure from a full exemption will soften the tax advantage of novated leasing arrangements over time.

There may also be a short-term behavioural response ahead of the 1 April 2029 deadline. With fuel price pressures continuing to influence consumer demand and electric vehicle uptake remaining strong, tax-conscious employees and employers may seek to bring forward novated lease arrangements to secure the full exemption while it remains available. This could place further pressure on vehicle supply and delivery timeframes, particularly if demand accelerates closer to the transition date.

Overall, the proposed changes suggest that the Government still supports electric vehicle adoption, but in a more moderated way that balances environmental objectives against long-term cost.

Losers

- Arrangements regarding zero/low emission vehicles (full electric) between \$75,000 and the luxury car tax threshold for fuel efficient vehicles (currently \$91,387 for the year ending 30 June 2026), will receive limited FBT concessional treatment from 1 April 2027 (25% discount applied). Currently, vehicles between this price range are fully exempt from FBT.
- Those not interested in acquiring an electric vehicle will continue to have FBT applied in full.

Case study:

Under existing FBT rules, only low or zero emission vehicles (full electric) below the CT threshold for fuel-efficient vehicles (currently \$91,387 for the year ending 30 June 2026) receive the full FBT exemption. Thus, individuals can, until 1 April 2027, salary sacrifice under a novated lease arrangement for a fully electric vehicle and currently receive full tax savings (ie no additional FBT charges and no income tax on the pre-tax portion salary sacrificed). Under the proposed rules, zero or low emission vehicles (full electric) valued at between \$75,000 and the relevant LCT threshold will only be eligible for a FBT discount of 25% on the statutory formula rate from 1 April 2027. For zero or low emission vehicles (full electric) below the relevant LCT threshold, see below case studies on how the new rules will apply.

Expanded venture capital incentives

The Budget also expands the tax incentives available to partners in venture capital limited partnerships by increasing the asset and fund-sized caps from 1 July 2027 with a view to expanding those incentives to better facilitate venture capital investment and support early stage and growth businesses.

However, the net impact of this reform is expected to be relatively negligible, with a decrease in receipts of \$10m and increase in payments of \$14.7m forecast over the forward estimates period.

Abolition of 497 'nuisance' tariffs

Given the heavy focus on CGT, trusts and negative gearing, it is no surprise that the Government has decided not to make any material changes to indirect taxes. This is despite recommendations from the OECD earlier this year that Australia consider increasing its rate of GST to 15%. Perhaps the most notable change was the abolition of an additional 497 'nuisance' tariffs from 1 July 2026 – importations of certain categories of goods will be duty-free from this date. Examples included in the Budget papers were limited to wine glasses, tyres, air conditioners, margarine and bitumen.

No changes were announced in relation to the temporary reduction to fuel excise on petrol and diesel and the heavy vehicle road user charge. It remains to be seen whether relief will be extended once these measures end on 30 June.

The Government will provide \$7.6m over four years from 2026–27 (and \$0.2m per year ongoing) to expand the Australian Trusted Trader program. This will include implementation of the Approved Exporter Scheme, which will be available to accredited Australian Trusted Trader exporters as an opt in scheme, removing the need to obtain Certificates of Origin to take advantage of tariff reductions under the ASEAN Australia New Zealand Free Trade Area and the Regional Comprehensive Economic Partnership Agreement.

For example, an employee enters into a novated lease arrangement with their employer for a fully electric vehicle on 1 July 2029. The vehicle has a value of \$92,000 (assuming it is below the LCT for the year ending 30 June 2030, and FBT rates remain unchanged).

FBT payable (if no FBT discount available): \$17,989.57
Discounted statutory fraction: 15%
Taxable value: \$13,800
Grossed-up taxable value: \$28,706.76
FBT payable: \$13,492.18

FBT savings (no discount vs partial FBT discount): \$4,497.39
FBT savings loss (under current rules): \$17,989.57

Individuals

New tax cuts for Australian workers, including a *Working Australian Tax Offset (WATO)* of \$250 and a \$1,000 *Instant Tax Deduction*.

WATO and instant tax deduction

A *Working Australian Tax Offset (WATO)* will be introduced to provide a permanent annual \$250 tax offset from 1 July 2027, for Australians for their income derived from work, such as wages and salaries and the business income of sole traders.

The WATO will increase the effective tax-free threshold for those eligible by nearly \$1,800 to \$19,985 (or up to \$24,985 for workers eligible for the low-income tax offset (LITO)).

The WATO will be available automatically when eligible taxpayers lodge their tax return.

The WATO is in addition to the already legislated tax cuts that will apply from 1 July 2026 and 1 July 2027.

The \$1,000 instant tax deduction will be introduced for work-related expenses from 1 July 2026 to offset employment income and allows employees to reduce their taxable income by up to \$1,000 without keeping receipts when they lodge their tax return. Taxpayers claiming more than \$1,000 in work related deductions are still able to do so in the usual way. Deductions such as charitable donations, unions fees, professional association memberships and other non-work-related deductions can be claimed on top of the \$1,000 deduction.

These changes provide further cost-of-living relief, allow Australian workers to keep more of what they earn, and incentivise workforce participation.

An average Australian worker would receive a combined benefit of \$2,496 from the 2027–28 income year from the WATO and three rounds of tax cuts relative to 2023–24, as well as up to \$320 from the instant tax deduction, for a total benefit of \$2,816.

Case study:

Sue is employed as an occupational therapist and Harry is employed as a high school teacher. They both have taxable income of \$90,000 per year, after claiming work-related expense deductions (Sue claims \$400 and Harry claims \$600). As a result of the new decisions announced in this Budget, they will collectively pay \$320 less in tax for the 2026–27 income year and \$820 from 2027–28. Combined with the Government's previously announced tax cuts, Sue and Harry will collectively pay \$5,750 less tax from the 2027–28 income year, compared to 2023–24 tax settings.

Winners

- Salary and wage earners and sole traders

Negative gearing

- From 1 July 2027, negative gearing deductions for residential property investments will be limited to newly constructed residential dwellings.
- Losses from established residential properties will no longer be able to offset other income (eg salary and wages).
- Losses from established residential properties can only be claimed against rental income or capital gains from residential properties.
- Any unused residential property losses must be carried forward to be applied against future residential property income or gains.
- Residential investment properties held prior to 7:30pm AEST on 12 May 2026 will be grandfathered, allowing negative gearing under current rules until the property is sold.
- Investors who invest in new builds will be able to utilise the existing negative gearing rules and choose either the 50% CGT discount or indexation when they sell the property.
- Applies to individuals, partnerships, companies and most trusts. Widely held trusts (for example, most managed investment trusts) and superannuation funds (including SMSFs) are excluded

The Government proposes to restrict negative gearing deductions for residential property investments to newly constructed dwellings from 1 July 2027, with a carve-out for currently owned properties.

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

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

Under the proposed rules, excess losses must from 1 July 2027 be carried forward and offset only against residential property income in future years.

However, existing residential property owners can heave a sigh of relief as grandfathering provisions will apply to owners of existing investment properties as at 7:30pm AEST

on 12 May 2026 until they are sold. Residential investment properties purchased between the announcement and 30 June 2027 may be negatively geared during that period, but not from 1 July 2027.

Investors who invest in new builds will be able to utilise the existing negative gearing rules and choose either the 50% CGT discount or indexation when they sell the property.

New builds are residential properties which **genuinely** add to supply.

The table below helps to illustrate the key differences:

Eligible new build	Not an eligible new build
A newly constructed apartment bought off-the-plan.	An established property that has recently been extended to add additional bedrooms.
A duplex constructed through a knock-down rebuild replacing a single, free-standing house.	A free-standing house constructed through a knock-down rebuild replacing an older, smaller free-standing house.
Any residential construction on previously vacant land.	A granny flat built adjacent to an established property that is not eligible for negative gearing.
A newly built property which is occupied for less than 12 months before being first sold.	A newly built property which is occupied for more than 12 months before being sold to a subsequent investor.

These changes will apply to individuals, partnerships, companies and most trusts. Widely held trusts (for example, most managed investment trusts) and superannuation funds (including SMSFs) are excluded.



CGT

- The current 50% CGT discount will be replaced with cost base indexation for individuals, trusts and partnerships.
- A 30% minimum tax will apply to realised capital gains accruing from 1 July 2027.
- Gains on pre-20 September 1985 (pre-CGT) assets accruing from 1 July 2027 are taxable.
- Transitional rules apply until 1 July 2027.
- Investors in qualifying new builds may choose either the 50% CGT discount or indexation.
- Main residence exemption and the four small business CGT concessions remain unchanged.

The Government has announced significant capital gains tax (CGT) reforms, with effect from 1 July 2027.

As widely anticipated in the lead up to the Budget, the existing 50% CGT discount will be replaced with an inflation indexed cost base regime. In addition, a minimum tax rate of 30% will also be introduced for realised capital gains.

The current 50% CGT discount was introduced in 1999, allowing taxpayers to reduce their taxable capital gain by 50% rather than adjusting for inflation.

A somewhat unexpected measure is the CGT regime has been effectively extended to include pre-CGT assets which are disposed of post 1 July 2027. Prior to 1 July 2027, assets acquired before 20 September 1985 (pre-CGT assets) are generally exempt from CGT in Australia when sold.

These changes will apply to CGT assets held for more than 12 months by individuals, trusts and partnerships.

Case study:

Harry buys an existing residential investment property for \$600,000 on 1 July 2027, rents it out and sells it five years later for \$815,000. Over the first two years that he owns the property, he has net rental losses and accumulates \$12,000 of carry forward losses.

In the following three years, Harry applies most of these carried forward losses to reduce his positive net rent over this period from \$10,000 to zero.

In the year he sells the property, he can use the remaining \$2000 of carried forward tax losses to reduce his indexed capital gain from the sale of the property.

If Harry had bought a newly built property instead, he would be able to negatively gear the losses each year and the existing capital gains tax discount would still be available for this property.

Winners

- Existing residential property owners

Timing and transitional arrangements

For eligible CGT assets, other than new residential properties, the transitional rules apply, being:

- 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 proposed arrangements.
- Assets owned prior to 1 July 2027 and sold after 1 July 2027 will be treated under current arrangements for the portion of gains which accrued prior to this date, and gains which accrue from 1 July 2027 will be subject to the proposed arrangements.

Indexation and the minimum tax rate of 30% will be used to calculate the CGT on gains accruing from 1 July 2027.

An asset's value on 1 July 2027 will be determined by taxpayers as part of their tax return in the year the asset is realised. 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 asset's holding period.

The ATO will provide tools to support and estimate the asset value for taxpayers.

These transitional arrangements also apply to pre-CGT assets. However, gains on pre-CGT assets which accrued before 1 July 2027 will continue to be exempt.

New build exemption

Investors in new builds will be able to choose either the 50% CGT discount or indexation with the minimum tax when they sell the property.

New builds are residential properties and include:

- dwellings constructed on vacant land or
- where existing properties are demolished and replaced with a greater number of dwellings.

Knock-down rebuilds or substantial renovations that do not increase supply will not be eligible.

A new build cannot have been previously sold, unless first owned by the builder and not occupied for more than 12 months.

Subsequent purchasers of the dwelling will not be able to access the 50% CGT discount.

Other exemptions

The main residence will continue to be exempt for CGT purposes.

Winners

- Taxpayers who are planning to sell CGT assets before 1 July 2027.
- Taxpayers who are planning to purchase or sell their main residence.
- Investors planning to invest in new residential properties.

Case study:

CGT – Indexation

Travis purchased an asset in March 1995 for \$150,000. The asset was sold in March 2025 for \$750,000. According to the ATO table, the CPI for the relevant periods is as follows:

- March 1995 quarter – 114.7
- March 2025 quarter – 140.7

The discount on the capital gain for assets held for more than 12 months is 50%. The capital gain for Travis under the proposed indexation method could be as follows:

Description	Amount (\$)	Period	Indexation factor
Proceeds – Sale of Property	750,000	March 2025	140.7
Cost Base	150,000	March 1995	114.7
Cost Base – Indexation	184,050		
Profit – Indexation	565,950		
Profit – Discount	300,000		
Increase in profit under the proposed method	265,950		

Minimum tax on capital gains

Jenny has a taxable income before capital gains of \$25,000 in 2029–30 and realises a capital gain of \$10,000 on an asset that she purchased in 2027–28.

The tax on Jenny's capital gain of \$10,000 is \$1,400, or a tax rate of 14% (excluding the Medicare levy). As this is lower than 30%, Jenny pays an additional \$1,600 tax to ensure the tax rate on the capital gain is 30%

Status of previously announced Federal Budget measures

Measure	Summary	Proposed date of effect	Status
Business			
Small Business \$20,000 Instant Asset Write Off (IAWO)	2025–26 Budget announcement to retain the increase in the IAWO cost threshold for small business entities (aggregated turnover of less than \$10m) from \$1,000 to \$20,000 for a further 12 months to cover eligible assets first used, or installed ready for use, between 1 July 2025 and 30 June 2026.	1 July 2025 to 30 June 2026	Enacted
Freezing of draught beer excise and customs duty rates	2025–26 Budget announcement to pause indexation of the excise and customs duty rates on draught beer imported for two years from August 2025 to August 2027.	1 August 2025	Enacted
Increase in Wine Equalisation Tax (WET) producer rebate	With effect from 1 July 2026, eligible wine producers will receive up to an additional \$50,000 under the existing WET producer rebate scheme, with the maximum annual rebate cap increased to \$400,000.	1 July 2026	Enacted
Green Aluminium Production Credits	Commitment of \$2bn to support Australian aluminium smelters to transition to renewable electricity before 2036 via credit contracts payable per tonne of green aluminium produced.	1 July 2028	Department of Industry Science and Resources (DISR) 2025 consultation closed
Abolition of nuisance tariffs	457 'nuisance tariffs' permanently set to zero on a wide range of imported goods, recognising that these tariffs create more administrative compliance cost than revenue generated.	1 July 2024	Enacted
Significant Global Entity (SGE) penalty regime for royalties	Announced in the 2024–25 Budget, a new penalty regime for SGEs found to have 'mischaracterised or undervalued' royalty payments to which royalty withholding would otherwise apply (following withdrawal of measures to deny deductions for intangibles in low-tax jurisdictions).	1 July 2026	Announced / Not yet actioned
Payday Superannuation Guarantee (SG)	Employers will be required to pay employee SG entitlements on the same day that they pay salary and wages.	1 July 2026	Enacted
Denying deductions for ATO interest charges	Denial of deductions for General Interest Charges (GIC) and Shortfall Interest Charges (SIC). Any GIC or SIC that is later remitted will no longer need to be included as assessable income.	1 July 2025	Enacted
Extending the clean building Managed Investment Trust (MIT) withholding tax concession	The Government announced an extension of the 10% clean building MIT withholding tax concession to data centres and warehouses that meet the relevant energy efficiency standard in the 2023–24 Federal Budget, to be effective from 1 July 2025. This measure has been deferred.	1 July 2025	Deferred in 2024–25 Budget / Not yet actioned

Measure	Summary	Proposed date of effect	Status
International			
Changes to foreign resident Capital Gains Tax (CGT) regime	Amendments announced in the 2024–25 Budget to strengthen integrity of the foreign resident CGT regime including: <ul style="list-style-type: none"> clarification on the scope of real property and broadening on the types of assets on which foreign residents are subject to Australian CGT amending the point-in-time principal asset test to a preceding 365-day testing period ATO notification where foreign residents dispose of shares and other membership interests exceeding value of \$50m. 	1 July 2025 (note: proposed retroactive component)	April 2026 Treasury consultation now closed
Foreign Resident CGT withholding	Announced in the 2023–24 Mid-Year Economic and Fiscal Outlook (MYEFO), an increase in the rate from 12.5% to 15% accompanied by a complete removal of the value threshold of \$750,000.	1 January 2025	Enacted
Other			
Income tax cuts for individuals	Income tax cuts reducing the marginal tax rate for the \$18,201 to \$45,000 band by 1% to 15% from 1 July 2026 and a further 1% to 14% from 1 July 2027.	1 July 2026 / 2027	Enacted
Timeframe increased for ATO to hold BAS refunds	Increased timeframe for the ATO to notify a taxpayer of an intention to retain a BAS refund for further investigation from 14 days, to match existing 30-day time limits for non-BAS income tax refunds.	1 July 2025	Enacted
Expansion of Part IVA general anti-avoidance rules in income tax law	Originally announced in the 2023–24 Budget and deferred, an expansion of Part IVA rules to include schemes that either: <ul style="list-style-type: none"> reduce tax paid in Australia by accessing a lower withholding tax rate on income paid to foreign residents or achieve an Australian income tax benefit, even where the dominant purpose was to reduce foreign income tax. 	1 July 2024	Deferred in 2024–25 Budget / Not yet actioned

rsm.com.au

RSM Australia Pty Ltd is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network.

Each member of the RSM network is an independent accounting and consulting firm, each of which practices in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction.

The RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 200 Aldersgate Street, London, EC1A 4HD, United Kingdom. The brand and trademark RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.

© RSM Australia Pty Ltd

Liability limited by a scheme approved under professional standards legislation



Paper from responsible sources