Federal Budget 2026-27: A landing close to home

By Darren Wilson
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On 12 May 2026, the Federal Treasurer of Australia, Hon Dr Jim Chalmers, handed down a Federal Budget for the 2026-27 year, which goes considerably further than the more cautious

incrementalism of recent years.

The backdrop of the Budget forecasts should be considered against the RBA's meeting of 5 May 2026. The RBA stated that inflation picked up materially in the second half of 2025. At that meeting, the RBA decided to increase the cash rate by 25 basis points in a further effort to tame inflation.

In addition, the Budget was framed against a global oil shock from conflict in the Middle East, and the Government's new tax reform agenda.

Growth in the Australian economy is forecast to slow from 2¼ per cent in 2025–26 to 1¾ per cent in 2026–27 before recovering in 2027–28. This recovery assumes that global oil prices begin to decline from the middle of 2026 and largely stabilise from the middle of 2027.

The Budget delivers the most substantial set of tax changes in many years. For business owners, investors and high-net-worth families – the clients we work with every day – the devil really will be in the detail. The announcements, of course, do not yet constitute law and are subject to change.

Business owners and investors will be particularly interested in the following proposed reforms:

Capital Gains Tax (CGT) discount

From 1 July 2027, the 50 per cent CGT discount will be replaced by cost base indexation for assets held for more than 12 months, with a 30 per cent minimum tax on net capital gains.

These changes will apply to all CGT assets, (including the once sacrosanct pre-20 September 1985 CGT assets). Note the measures apply to all CGT assets – including property, shares, and goodwill held by individuals, trusts and partnerships.

Transitional arrangements ensure the changes only apply to gains arising on or after 1 July 2027. The 50 per cent CGT discount will continue to apply to gains arising before 1 July 2027. Capital gains on pre-1985 assets arising before 1 July 2027 will remain exempt from CGT. Investors in new residential properties will be able to choose either the 50 per cent CGT discount, or cost base indexation and the minimum tax. Income support payment recipients, including Age Pension recipients, will be exempt from the minimum tax.

Negative gearing reform

The Government will limit negative gearing for residential property to new builds. From 1 July 2027, losses from established residential properties will only be deductible against rental income or the capital gains from residential properties. Excess losses will be carried forward and will be able to be offset against residential property income/gains in future years.

These changes will apply to established residential properties acquired from 7:30pm (AEST) on 12 May 2026. Properties acquired prior to this time (including contracts entered into but not yet settled) will be exempt from the changes.

Eligible new builds will be exempt from the changes. Properties in widely held trusts and superannuation funds will be excluded, alongside targeted exemptions for build-to-rent developments and private investors supporting government housing.

A 30 per cent minimum tax on discretionary trusts

It was 25 years ago that following the Ralph review, the Government of the time attempted to introduce legislation to broadly tax trusts like companies. This failed measure was known as 'entity taxation'.

In what might be described as the Budget's 'Back to the Future' moment, from 1 July 2028, a 30 per cent minimum tax on discretionary trusts will apply. From 1 July 2028, trustees will pay a minimum tax of 30 per cent on the taxable income of discretionary trusts.

Beneficiaries, other than corporate beneficiaries, will receive non-refundable credits for the tax payable by the trustee. The minimum tax will not apply to other types of trusts such as fixed and widely held trusts (including fixed testamentary 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 discretionary testamentary trusts existing at announcement will also be excluded.

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

Highlights of additional business and investment measures

$20,000 instant asset write-off made permanent for small businesses with turnover up to $10 million from 1 July 2026.

Loss carry back reintroduced from 1 July 2026 for companies with aggregated annual global turnover below $1 billion, limited to revenue losses and capped by franking account balance. Loss refundability for start-ups follows from 1 July 2028 for companies under $10 million turnover in their first two years, capped at fringe benefits tax (FBT) and wage withholding paid.

Electric Vehicle FBT

The following transactional arrangement will be put in place from 1 April 2027: A permanent 25 per cent discount on FBT will be available for all eligible electric cars valued up to and including the fuel-efficient luxury car tax threshold, implemented through a 15 per cent rate in the FBT statutory formula. The following transitional arrangements will be put in place:

- All eligible electric cars will retain the FBT discount rate that was in place when the arrangement commenced;

- All eligible electric cars valued up to and including $75,000 that are provided before 1 April 2029 will continue to be eligible for a 100 per cent discount on FBT, implemented through a 0 per cent rate in the FBT statutory formula; and

- Eligible electric cars valued above $75,000 and up to and including the fuel-efficient luxury car tax threshold, that are provided between 1 April 2027 and 1 April 2029, will be eligible for a 25 per cent discount on FBT, implemented through a 15 per cent rate in the FBT statutory formula.

The existing 20 per cent statutory rate will continue to apply for all other cars, including electric cars costing more than the fuel-efficient luxury car tax threshold. Reportable fringe benefits will continue to be determined for eligible electric cars as if a 20 per cent FBT statutory formula rate or cost basis method applied.

Research and Development (R&D) Tax Incentive recalibrated from 1 July 2028: core (premium component) R&D offset rates lifted by 4.5 percentage points and various additional measures.

Venture capital incentives expanded from 1 July 2027 – certain investee size caps lifted.

Monthly pay as you go (PAYG) and dynamic instalments. From 1 July 2027, businesses will be able to opt in to monthly PAYG instalments, with taxpayers that have a history of non-compliance required to move to monthly reporting and payment. To support this change, the Government will:

- allow businesses to voluntarily opt in to monthly PAYG instalments from 1 July 2027, and
- expand access to the ATO's dynamic PAYG instalments pilot, enabling instalments to be calculated more accurately using ATO-approved functionality within business accounting software.

Foreign investment
The Government will amend Australia's global and domestic minimum tax legislation, introduced in 2024, to implement the side-by-side package agreed by the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting on 5 January 2026.

Medicare low-income thresholds
The Government will increase the Medicare levy low-income thresholds for singles, families, and seniors and pensioners by 2.9 per cent from 1 July 2025.

ATO compliance activities

The ATO will undertake additional targeted compliance activities over the two years from 2026–27 to further address fraud in the system, including in relation to the Research and Development Tax Incentive.

Individual instant tax deduction

Australian tax residents who earn income from work will be eligible for the instant tax deduction and will not need to itemise work-related expenses if claiming less than $1,000.

A new $250 Working Australians Tax Offset (WATO).

From the 2027-28 income year, every worker (including sole-trader business income) will receive a permanent $250 offset. In practical terms, this is broadly equivalent to increasing the tax-free threshold on work income by roughly $1,800 (and potentially higher once other offsets, such as the Low Income Tax Offset are taken into account).

Notable exclusions

As ever, what is absent is as informative as what is present. The Budget is silent on:

- Previously announced changes to Division 7A (which remain unenacted);
- Trust income re-write;
- Rollover relief review

In summary

For business owners and high-net-worth individuals, this is the most consequential Budget for tax planning for many years. Property investors, discretionary trust beneficiaries and asset-rich families all face a finite window between now and 1 July 2027 (and, for the trust measure, 1 July 2028) to model, plan and where appropriate, restructure.

Taxpayers will also look to pre-existing CGT free restructure mechanisms available. For many private business owners caught in a web of complex Division 7A issues (tax on loan accounts) as a result of the ATO's controversial interpretation of Division 7A measures, at first glance we can see a place for consideration of re-structuring from trusts to companies in light of the budget measures (subject to those measures becoming law and evaluating 'the devil in the Budget's detail').

If you would like further details regarding any of these announcements, or to discuss the implications for your particular circumstances, please contact your **Fordham representative.**

The Federal Budget papers can be found at **https://budget.gov.au**