Federal Budget May 2026

The government handed down its Federal Budget for 2026-27 on Tuesday 12 May 2026. As expected, the 2026–27 Federal Budget proposes a series of significant tax reforms, with changes to capital gains tax (CGT) and negative gearing. This year's Federal Budget also includes a mix of measures that impact tax, housing, investments and everyday costs.

The proposals include:

- Replacement of the 50% CGT discount with inflation-adjusted indexation from 1 July 2027.
- The introduction of a minimum 30% tax rate on realised capital gains accruing from 1 July 2027.
- Negative gearing restricted to new build properties.
- Minimum 30% tax on discretionary trusts from 1 July 2028.

No major tax changes were announced for superannuation. While these changes are not yet law, the government is expected to introduce enabling legislation as quickly as possible.

Personal Taxation

Reforming Capital Gains Tax

From 1 July 2027, the 50% CGT discount will be replaced by cost base indexation for assets held for more than 12 months, with a 30% minimum tax on net capital gains. These changes will apply to all CGT assets, including pre-1985 CGT assets, held by individuals, trusts and partnerships.

Transitional arrangements will limit the impact on existing investments by ensuring the changes only apply to gains arising on or after 1 July 2027. The 50% 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 but be caught under the new provisions for any gains after 1 July 2027. Establishing the value of assets on 1 July 2027 will be a critical exercise.

To maintain incentives for new housing supply, investors in new residential properties will be able to choose either the 50% 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 rate.

The introduction of a minimum 30% tax rate on capital gains means the strategy of selling CGT assets in a year when an individual has reduced or has no other assessable income, such as after retirement, may no longer be as tax effective unless the individual will also qualify for an income support payment, such as a part Age Pension.

Reforming Negative Gearing

The government has announced it 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 are able to be offset against residential property income in future years. These changes will apply to established residential properties acquired from 12 May 2026. Properties acquired before this (including contracts entered into but not yet settled) will be exempt from the changes until disposed of.

New builds can continue to be negatively geared before and after 1 July 2027. New build residential properties include dwellings constructed on vacant land, or where existing properties are demolished and replaced with a greater number of dwellings.

Introducing a minimum tax on discretionary trusts

The Government will introduce a 30% minimum tax rate on the taxable income of discretionary trusts. The tax will be paid by the trustee of the trust as it controls the distributions. Beneficiaries will then need to declare their trust income in their tax return, but beneficiaries, other than corporate beneficiaries, will then receive a non-refundable tax credit for the tax payable by the trustee.

Trustees will be required to calculate, report and pay the minimum tax, as well as to notify beneficiaries of their entitlements and associated tax credits.

To ensure the use of refundable franking credits does not undermine the minimum tax, the Government also confirmed: • trustees that receive franked dividends will be required to use their franking credits to pay the minimum tax; and • corporate beneficiaries will not receive non-refundable credits for tax payable by the trustee, to avoid them converting these to refundable franking credits to avoid the minimum tax.

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.

Working Australians Tax Offset

The Government will introduce a $250 Working Australians Tax Offset (WATO) from the 2027– 28 income tax year. This will be a permanent annual tax offset for Australians for their income derived from work, such as wages and salaries and the business income of sole traders, from 1 July 2027. The WATO will increase the effective tax-free threshold for income derived from work by nearly $1,800 to $19,985 (or up to $24,985 for workers eligible for the Low Income Tax Offset).

Introducing a $1,000 Instant Tax Deduction

The Government will introduce an instant tax deduction of up to $1,000 from the 2026– 27 income tax year. Australian tax residents who earn income from work will be eligible for the instant tax deduction and will not need to itemise and claim work-related expenses if claiming less than $1,000. Individuals who incur work-related expenses greater than the instant tax deduction can continue to claim their deductions in the usual way. Charitable donations, union and professional association membership fees and other non-work-related deductions can still be itemised separately and claimed on top of the instant tax deduction.

Social security

Services Australia – additional resourcing

The Government will provide additional funding of $2.2 billion over five years from 2025–26 to improve the way Services Australia delivers services to the Australian community, including: • $1.7 billion over two years from 2026–27 for frontline staff to help manage claims and maintain service standards and to continue emergency response capability • $26.5 million over three years from 2025–26 to improve the functionality, availability and security of the myGov platform • $19.8 million in 2025–26 for planning, feasibility assessment and proof-of-concept activities for the Services

Australia long-term ICT architecture strategy. The Government will evaluate future staffing needs for Services Australia alongside ongoing improvements to myGov service delivery.

Private Health Insurance Rebate

The Government will remove the age-based uplift of the Private health insurance rebate (the PHI Rebate) from 1 April 2027. From 1 April 2027, all ages will receive the same lower rebate, however the rebate percentages that will apply are not yet known.

Pharmaceutical Benefits Scheme

The Government will provide $5.9 billion over five years from 2025–26 for new and amended listings on the Pharmaceutical Benefits Scheme (PBS) and Repatriation Pharmaceutical Benefits Scheme.

Aged Care

Residential Aged Care

The Government will provide additional funding to increase the number of aged care beds by 5,000 each year, principally for those with limited financial means, incentivised through building subsidies and an increase and restructure of the Accommodation Supplement and to protect equity of access for supported residents. In addition, additional funding will be provided for dementia care supports, including the expansion of the Hospital to Aged Care Dementia Support program.

Improving Access to Home Care

The Government will provide $1.4 billion over four years from 2026–27 (and $377.3 million per year ongoing) to improve affordability and access to home care supports, including:

• $1.0 billion over four years from 2026–27 (and $336.8 million per year ongoing) to ensure the service type ‘personal care’ (including showering) is fully funded by the government for all care recipients in the Support at Home program.

• $389.8 million over four years from 2026–27 (and $40.5 million per year ongoing) to implement Support at Home program refinements, including assessments, hardship applications and the end-of-life pathway, and to bring forward the release of Support at Home program places in 2026–27.

Where to from here?

We hope you have found this useful. Many of the measures announced in the Federal Budget need to be passed as law to take effect.

We will continue to keep you informed as to whether these proposed Budget changes are actually adopted. If you have any questions or wish to discuss anything please call us on 03 9544 1004.

All the best,

Andrew Shaw BBus, Grad Dip SIA, CFP
Principal Shaw Financial Planning Pty Ltd
ACN 603 130 963, ABN 80603130963
Authorised Representatives

Suite 30, 1 Ricketts Road Mount Waverley VIC 3149
T 03 9544 1004

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Licensee Details
Alliance Wealth Pty Ltd ABN 93 161 647 007 | **AFSL** 449221 **W:** www.centrepointalliance.com.au