2026/27

Federal Budget

08 6144 3370

www.ultimate-tax.com.au

office@ultimate-tax.com.au

1/2 Walcott St, Mount Lawley 6050

PO Box 554, Mount Lawley WA 6929

Ultimate Tax & Advisory

@ultimate_tax

1. Fundamental reforms to the CGT regime

1.1 Replacing the 50% CGT discount with indexation

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** assets, **including pre-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 accruing on or after 1 July 2027**. The 50% CGT discount will continue to apply to gains that accrued before 1 July 2027.

Capital gains on **pre-CGT assets that accrued before 1 July 2027** will remain exempt from CGT.

Furthermore, investors in **new residential properties** will be able to **choose** either:

- the 50% CGT discount; or
- cost base indexation and the 30% minimum tax.

Income support payment recipients, including Age Pension recipients, will be exempt from the minimum tax.

Assets that are **sold prior to 1 July 2027** will continue to be subject to the existing rules.

1.2 Foreign resident CGT regime

The Government will provide a time-limited, targeted concession in the foreign resident CGT regime for investment in the renewables sector.

The transitional arrangement will apply to foreign investors disposing of certain renewable energyinfrastructure assets from commencement, being the first day of the next quarter after Royal Assent until 30 June 2030.

2. Reforming negative gearing for residential property investments

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 7:30 PM (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 until disposal.

Eligible new builds will be exempt from the changes.

Properties in **superannuation funds** and widely held trusts will be excluded, alongside targeted exemptions for build-to-rent developments and private investors supporting government housing programs.

3. Reforming the taxation of discretionary trusts

The Government will introduce a minimum 30% tax on discretionary trusts.

From **1 July 2028** (i.e., from the 2029 income year), **trustees will pay a minimum tax of 30% on the taxable income of discretionary trusts**. Beneficiaries, other than corporate beneficiaries, will receive non-refundable credits for the tax payable by the trustee.

Under the minimum tax, **corporate beneficiaries** will be assessed based on the trust income to which they are entitled, **without** being able to claim credits for tax payable by the trustee.

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

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 for small businesses and others that wish to restructure out of discretionary trusts into another type of entity, such as a company or fixed trust.

4. Measures impacting individuals

4.1 Introducing a Working Australians Tax Offset

The Government will introduce a $250 Working Australians Tax Offset with effect from the 2028 income year. This new offset will provide a permanent annual tax offset for Australians for their income derived from work such as salary and wages and the business income of sole traders.

4.2 $1,000 Standard Deduction for Work-related Expenses

The Government will introduce a standard tax deduction of up to $1,000 for work-related expenses from the **2027 income year**. Draft legislation and explanatory materials have been released for consultation regarding this measure: *Treasury Laws Amendment Bill 2026: standard deduction for work-related expenses*.

The Draft Bill proposes to amend the tax law to introduce a standard deduction of up to $1,000 for Australian tax residents who earn income from work, starting 1 July 2026. Such taxpayers will not need to itemise or substantiate work-related expenses if they are claiming no more than $1,000.

Individuals who incur work-related expenses greater than the $1,000 maximum standard deduction can continue to claim their deduction 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 standard deduction.

4.3 Previously announced tax cuts in 2027 and 2028

The Budget referenced the Government's previously announced tax cuts (which have already been legislated), as follows:

- The (current) 16% tax rate will be **reduced to 15%** from **1 July 2026**.
- The 15% tax rate will be further **reduced to 14%** from **1 July 2027**.

For reference, the personal income tax rates for the 2026 income year are set out in the following table, along with the tax rates for the 2027 and 2028 income years:

Thresholds	2026 income year	2027 income year	2027 income year
$0 – $18,200	Tax-free	Tax-free	Tax-free
$18,201 – $45,000	16%	**15%**	**14%**
$45,001 – $135,000	30%	30%	30%
$135,001 – $190,000	37%	37%	37%
$190,001+	45%	45%	45%

4.4 Increasing the Medicare levy low-income thresholds

The Government will increase the Medicare levy low-income thresholds for singles, families and seniors and pensioners by 2.9% from **1 July 2025** as follows:

- The threshold for **singles** will be increased from $27,222 to **$28,011**
- The **family** threshold will be increased from $45,907 to **$47,238**
- For **single seniors and pensioners**, the threshold will be increased from $43,020 to **$44,268**
- The **family threshold for seniors and pensioners** will be increased from $59,886 to **$61,623**

For **each dependent child or student**, the **family income thresholds** will increase by a further **$4,338**, up from the previous amount of $4,216.

4.5 Private Health Insurance ('PHI') Rebate

The Government will remove the age-based uplift of the PHI Rebate from 1 April 2027.

Currently, individuals aged 65 and above are entitled to a higher rebate percentage.

5. Measures impacting businesses

5.1 Permanent $20,000 instant asset write-off

From **1 July 2026**, the Government will permanently extend the $20,000 instant asset write-off for small businesses with turnover of less than $10 million.

Assets valued at $20,000 or more can continue to be placed into the small business 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.

5.2 Reintroducing 'loss carry back' for companies

The Government will provide tax relief to businesses by reforming the treatment of tax losses.

For tax years commencing on or after **1 July 2026**, companies with aggregated annual global turnover of less than $1 billion will be able to carry back a tax loss and offset it against tax paid up to two years earlier.

Loss carry back will apply to revenue losses only and will be limited to a company's franking account balance.

5.3 Loss refundability for small start-up companies

The Government will introduce loss refundability for small start-up companies.

For tax years commencing on or after **1 July 2028**, start-up companies with aggregated annual turnover of less than $10 million that generate a tax loss in their first two years of operation will be able to utilise the loss to generate a refundable tax offset.

The offset will be limited to the value of fringe benefits tax (FBT) and withholding tax on wages paid in respect of Australian employees in the loss year.

5.4 Dynamic PAYG instalment calculations

The Government will provide $10.9 million to the ATO to expand its pilot of dynamic PAYG instalment calculations and will expand access to monthly payments.

From **1 July 2027**, small and medium businesses will be able to opt in to reporting and paying PAYG instalments monthly and to using an ATO-approved calculation embedded in accounting software to calculate and vary their instalments. This will support businesses by enabling tax instalments to better reflect real time business activity. Taxpayers with a demonstrated history of non-compliance will be required to report and pay PAYG instalments monthly.

5.5 Temporary reduction of fuel excise and heavy vehicle road user charge

The Government has temporarily reduced the excise and excise-equivalent customs duty rates (excise rates) applying to most fuel products and the road user charge for heavy vehicles, for three months from **1 April 2026**.

The excise rates have been reduced by a total of 60.9%, equating to a 32 cent per litre reduction for petrol and diesel. The road user charge for heavy vehicles has also been reduced from 32.4 cents per litre to zero.

5.6 Research and Development ('R&D') Tax Incentives

The Government is reforming the R&D tax incentive to simplify and better target Government support for business R&D. From 1 July 2028, the Government will:

- increase the offset for core R&D expenditure by around 25% to 50%, through a 4.5 percentage point increase in core R&D offset rates;
- reduce the intensity threshold from 2% to 1.5%;
- remove eligibility of supporting R&D expenditure for the R&D tax incentive;
- enable growing firms to retain access to the refundable tax offset for longer by increasing the turnover threshold for the highest offset rate from $20 million to $50 million;
- for firms below the $50 million turnover threshold, maintain older firms' eligibility for the higher offset rate while limiting refundability to firms under 10 years of age;
- lift the maximum R&D tax incentive expenditure threshold from $150 million to $200 million; and
- improve assurance on smaller claims by lifting the minimum expenditure threshold from $20,000 to $50,000, with research activities valued below this amount required to be undertaken with a registered Research Service Provider or Cooperative Research Centre

5.7 Support for Small Business Debt Helpline

The Government will provide $8.2 million over three years from 2025-26 to extend the Small Business Debt Helpline financial counselling program and the NewAccess for Small Business Owners mental health coaching program to 30 June 2027.

6. Reducing the FBT concession for electric cars

From **1 April 2029**, a permanent 25% discount on FBT will be available for all electric cars valued up to and including the fuel-efficient luxury car tax threshold, implemented through a 15% rate in the statutory formula. The following transitional arrangements will apply:

- All eligible electric cars will retain the FBT discount rate that was in place when the arrangement commenced
- All electric cars valued up to and including $75,000 that are provided before 1 April 2029 will continue to be eligible for a 100% discount on FBT, implemented through a 0% rate in the statutory formula
- 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% discount on FBT, implemented through a 15% rate in the FBT statutory formula

The existing 20% 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% FBT statutory formula rate or cost basis method applied.

7. Other budget measures

7.1 Extending the ban on foreign purchases of established dwellings

The Government will extend the temporary ban on foreign purchases of established residential dwellings by two years and three months **until 30 June 2029**. The ban was originally implemented for two years from 1 April 2025.

7.2 Protecting the tax system against fraud

The Government will provide $86.3 million over four years from **1 July 2026** and $9.7 million per year ongoing from 2030-31 to deliver Phase 2 of the Counter Fraud Strategy to modernise the prevention and detection of fraud in the tax and super systems. The proposal will 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 Government will also strengthen the ATO's ability to combat fraud by tax agents and other intermediaries. The ATO will be given powers to pause the recovery of tax debts of taxpayers who are victims of fraud by tax intermediaries, and waive those debts in appropriate circumstances, and to recover the debts from the tax intermediaries. Existing garnishee powers will also be expanded to include jointly held assets in circumstances where such arrangements are being used to frustrate recovery actions.

The Government will also progress further targeted exceptions to tax secrecy and enhancements to tax regulators' information-gathering powers to support integrity, compliance and effective administration of the tax system.

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 R&D tax incentive.

7.3 Global Anti-Base Erosion Rules

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 Inclusion Framework on Base Erosion and Profit Shifting on 5 January 2026.