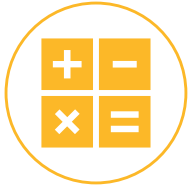


2026-27 FEDERAL BUDGET

MAJOR CHANGES REQUIRING
CAREFUL PLANNING



HLB MANN JUDD
ADVISORY AND ACCOUNTING



PERSONAL TAXATION

Personal tax rates: existing cuts for 2026–2027 and 2027–2028 unchanged

In the Budget, the Government did not announce any further changes to the personal tax rates. However, the proposed new \$250 working Australians tax offset (WATO) from 1 July 2027 is expected to 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 (LITO)).

The already-legislated tax cuts announced in the 2025–2026 Budget will apply from 1 July 2026 and 1 July 2027. The resident personal income tax rate for the taxable income bracket from \$18,201 to \$45,000 will reduce from 16% to 15% for the 2026–2027 income year, and then to 14% for the 2027–2028 and later income years. These changes reduce the tax payable for resident taxpayers by up to \$268 from 1 July 2026, rising to up to \$536 from 1 July 2027.

Current rates

The tax rates and income thresholds for residents for 2025–2026 (unchanged) are:

- taxable income up to \$18,200 – nil;
- taxable income of \$18,201 to \$45,000 – nil plus 16% of excess over \$18,200;
- taxable income of \$45,001 to \$135,000 – \$4,288 plus 30% of excess over \$45,000;
- taxable income of \$135,001 to \$190,000 – \$31,288 plus 37% of excess over \$135,000; and
- taxable income of more than \$190,001 – \$51,638 plus 45% of excess over \$190,000.

Rates for 2026–2027

The tax rates and income thresholds for residents for 2026–2027 are:

- taxable income up to \$18,200 – nil;
- taxable income of \$18,201 to \$45,000 – nil plus 15% of excess over \$18,200;
- taxable income of \$45,001 to \$135,000 – \$4,020 plus 30% of excess over \$45,000;
- taxable income of \$135,001 to \$190,000 – \$31,020 plus 37% of excess over \$135,000; and
- taxable income of more than \$190,001 – \$51,370 plus 45% of excess over \$190,000.

Rates for 2027–2028

The tax rates and income thresholds for residents for 2027–2028 are:

- taxable income up to \$18,200 – nil;
- taxable income of \$18,201 to \$45,000 – nil plus 14% of excess over \$18,200;
- taxable income of \$45,001 to \$135,000 – \$3,752 plus 30% of excess over \$45,000;
- taxable income of \$135,001 to \$190,000 – \$30,752 plus 37% of excess over \$135,000; and
- taxable income of more than \$190,001 – \$51,102 plus 45% of excess over \$190,000.

Low income tax offset (unchanged)

No changes were made to the low income tax offset (LITO) in the 2026–2027 Budget.

For completeness, and as a reminder, while the low and middle income tax offset (LMITO) ceased from 1 July 2022, low and middle income taxpayers remain entitled to the LITO.

The maximum amount of the LITO is \$700. The LITO is withdrawn at a rate of 5 cents per dollar between taxable incomes of \$37,500 and \$45,000 and then at a rate of 1.5 cents per dollar between taxable incomes of \$45,000 and \$66,667.

Standard \$1,000 deduction for work-related expenses from 2026–2027

The Budget confirmed that the proposed \$1,000 standard deduction for work-related expenses will apply from the 2026–2027 income year, subject to enacting legislation. The measure, originally announced on 13 April 2025 as part of Labor's 2025 election policy, will provide eligible taxpayers with a simpler way to claim a standard deduction of up to \$1,000 without needing to incur or substantiate work-related expenses covered by the standard deduction.

The draft legislation for this measure proposes to introduce an optional \$1,000 standard deduction for work-related expenses for individuals who are Australian tax residents at any time during the income year and derive "assessable labour income".

Broadly, assessable labour income includes amounts included in assessable income from which PAYG withholding is required, even if no amount is actually withheld, including salary and wages, directors' fees, office-holder payments, certain termination or retirement payments and parental leave pay.

PERSONAL TAXATION cont.

The standard deduction will be capped at the lesser of \$1,000 and the taxpayer's total assessable labour income. It will be reduced dollar-for-dollar by covered work-related deductions claimed, including certain general deductions, car expenses, travel between workplaces, repair deductions, capital allowance deductions, balancing adjustment deductions and COVID-19 test deductions. This ensures taxpayers do not receive a double benefit.

In practical terms, taxpayers with covered work-related deductions of less than \$1,000 may claim the standard deduction instead of itemising those expenses, or may claim their actual covered deductions and receive a residual standard deduction so that the combined amount equals up to \$1,000. If an individual's total covered deductions exceed \$1,000, the taxpayer will not receive any standard deduction and will instead claim their actual work-related deductions under the ordinary rules.

The standard deduction will replace the existing \$300 no-receipt threshold and the \$150 laundry expense concession.

The draft legislation provides for some deductions to still be claimed separate to and independent of the standard deduction. These include:

- deductions unconnected with assessable labour income (eg interest income deductions);
- specific deductions such as for gifts or contributions;
- costs of managing tax affairs;
- income protection, personal sickness and accident insurance premiums; and
- union or professional association membership fees.

Capital allowances

Under the proposal, depreciating assets that a taxpayer reasonably expects to use mainly to produce assessable labour income cannot be allocated to a low-value pool from 1 July 2026. Where a balancing adjustment event occurs for a depreciating asset that has been used to produce assessable labour income, a taxpayer who has received the standard deduction for one or more income years overlapping with the asset's effective life may choose to reduce

the balancing adjustment amount by 50%. Related amendments will also address CGT event K7 calculations for depreciating assets used partly for non-taxable purposes.

Interaction with FBT

Where an expense payment fringe benefit is covered by the standard deduction and provided under a salary packaging arrangement, the otherwise deductible rule will not apply to reduce the taxable value. The employer will therefore be assessed on the full taxable value of the benefit, provided no other exemption or reduction otherwise applies.

The exemption for eligible work-related items will be limited to benefits provided outside salary packaging arrangements. The existing restriction on substantially identical items in the same FBT year will be repealed. The FBT amendments will apply to FBT years from 1 April 2027.

New \$250 working Australians tax offset from 1 July 2027

A new working Australians tax offset (WATO) will be introduced to provide a permanent annual \$250 tax offset from 1 July 2027 to all eligible Australian workers 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 income derived from work by nearly \$1,800 to \$19,985 (or up to \$24,985 for workers eligible for the LITO). The Treasurer said this is the largest permanent increase in the effective tax-free threshold since 2012–2013. The offset will apply for income earned from work for the second half of 2027 and will automatically reduce workers' tax liability for the 2027–2028 income year.

The WATO is in addition to the already-legislated tax cuts that apply from 1 July 2026 and 1 July 2027, and the previously-announced \$1,000 instant tax deduction for work-related expenses from the 2026–2027 income year.

The Government believes that the combined benefit to a worker on average earnings of the tax cuts, new tax offset and instant tax deduction will be up to \$2,816 from 2027–2028 (or \$54 per week).

PERSONAL TAXATION cont.

Medicare levy low-income thresholds for 2025–2026

For the 2025–2026 income year, the Medicare levy low-income threshold for singles has been increased to \$28,011 (up from \$27,222 for 2024–2025). For couples with no children, the family income threshold is \$47,238 (up from \$45,907 for 2024–2025). The additional amount of threshold for each dependent child or student is \$4,338 (up from \$4,216).

For single seniors and pensioners eligible for the seniors and pensioners tax offset (SAPTO), the Medicare levy low-income threshold is \$44,268 (up from \$43,020). The family threshold for seniors and pensioners is \$61,623 (up from \$59,886), plus \$4,338 for each dependent child or student.

Private health insurance rebate cut for those aged 65 and over

The Budget confirmed the Government's previous announcement that the private health insurance rebate will be reduced for those aged 65 and over, to match the level paid for those under age 65. The Government has indicated its intention to redirect the savings from this measure into aged care.

In practical terms, the changes will remove the higher age-based private health insurance rebate tiers that currently apply where the oldest person covered by the policy is aged 65–69 or 70 and over.

Under the current rebate percentages applying from 1 April 2026 to 31 March 2027, and the income thresholds applying from 1 July 2026, the base-tier rebate (for singles with income of \$105,000 or less and families with income of \$210,000 or less) is 24.118% for those aged under 65, 28.139% for those aged 65–69, and 32.158% for those aged 70 and over. The announced measure will flatten the higher older-age rebates back to the under-65 rate, with effect from 1 April 2027.

Industry concerns

Private Health Australia has said the proposed cut to the rebate will increase the out-of-pocket cost for more than three million people aged 65 and over, including more than 400,000 pensioners with health insurance. The industry body warned that those aged 70 and above with Gold hospital cover could see premiums increase 21% from April 2027, translating to an annual premium increase of about \$807 for an individual and \$1,614 for a couple.

“The combined removal of the CGT discount, limits on negative gearing and a 30% minimum tax on discretionary trust income marks a structural shift that will force a complete rethink of traditional tax planning for those accumulating and preserving their wealth.”

Josh Chye

Partner, Tax Consulting & National Tax Committee Leader / Melbourne



BUSINESS TAXATION

Instant asset write-off for small businesses permanently extended

The Government will permanently extend the \$20,000 instant asset write-off for small businesses with a turnover of up to \$10 million. The current \$20,000 threshold was set to expire on 30 June 2026, with the threshold then reverting to a \$1,000 threshold. However, with this permanent extension, small businesses will have more certainty over asset purchases going forward.

Assets valued \$20,000 or more can continue to be placed into the small business simplified depreciation pool. Pool deductions are broadly 15% in the first year an asset is added to the pool and 30% for later years. The provisions that prevent small businesses from re-entering the simplified depreciation regime for five years after opting out will also continue to be suspended until 30 June 2027.

Reintroduction of the loss carry-back regime

The Government will reintroduce the loss carry-back regime for most businesses and start-ups “to encourage investment and improve resilience through temporary shocks”. From 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 by a company’s franking account balance.

This measure is expected to directly benefit up to 85,000 companies each year.

The loss carry-back was originally introduced as a part of the 2020 Budget and eligible companies could carry back tax losses from the 2019–2020, 2020–2021 and 2021–2022 income years against previously taxed profits from the 2018–2019 income year or later. The 2021 Budget then extended temporary loss carry-back by one year. After that extension, eligible companies could also carry back 2022–2023 tax losses, again against taxed profits from 2018–2019 or later.

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 and withholding tax on wages paid in respect of Australian employees in the loss year.

This measure is expected to support up to 25,000 new businesses each year.

Expansion of dynamic monthly business tax payments from 1 July 2027

As part of its package of measures to reduce red tape, the Government will work with the ATO to expand its pilot of dynamic pay as you go (PAYG) instalment calculations and expand access to monthly business tax payments.

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

Changes to FBT exemption for electric vehicles

The Government has confirmed its proposed changes to the FBT exemption for electric vehicles (EVs).

The changes will be phased in over the next three years until a permanent 25% discount is operating from 1 April 2029 for all eligible EVs. There will be no changes in the current FBT year (ending 31 March 2027). For EVs costing less than \$75,000, there will be no changes until 1 April 2029.

Current law

Car benefits are currently exempt from FBT if the car is a zero or low emissions vehicle, provided the value of the car at the first retail sale was below the luxury car tax threshold for fuel efficient vehicles. This applies to benefits provided on or after 1 July 2022 if the car is first held and used on or after that date.

BUSINESS TAXATION cont.

Broadly speaking, a vehicle is a zero or low emission vehicle if it is a battery electric vehicle or a hydrogen fuel cell electric vehicle. The car also must be a passenger vehicle designed to carry a load of less than one tonne and fewer than nine passengers. Note that plug-in hybrid electric vehicles are not zero or low emission vehicles for the purposes of the FBT definition (subject to some transitional provisions which spanned 1 April 2025).

Proposed changes

Details of the changes are as follows:

- 2026-2027 FBT year: no change.
- 2027-2028 and 2028-2029 FBT years: full discount for EVs costing \$75,000 or less to continue. EVs costing more than \$75,000 but less than the luxury car tax threshold will receive a 25% discount on their payable FBT.
- 2029-2030 FBT year onwards: all EVs below the luxury car tax threshold will receive a 25% discount on payable FBT (rather than the full discount).

The luxury car tax threshold for 2025-2026 is \$91,387. This is reviewed annually (and in a period of higher inflation would be expected to increase).

Eligible EVs will continue to be exempt from import tariffs (ie on an ongoing basis).





MAJOR CGT, TRUSTS AND NEGATIVE GEARING REFORMS

CGT discount replaced; minimum 30% tax on net capital gains

As widely anticipated, the Government will replace the current 50% CGT discount with inflation-adjusted indexation from 1 July 2027. The changes will include a minimum tax rate of 30% on realised gains, and the CGT net will be broadened to include pre-1985 assets (for disposals from 1 July 2027).

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

The changes take effect from 1 July 2027 and will be prospective; gains accrued on existing investments prior to the start date will retain the 50% discount up to the start date. Transitional arrangements will ensure the changes only apply to gains arising on or after 1 July 2027. This means 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.

New property assets: option to choose

There will be an exception for new builds. 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.

This is designed to maintain incentives for the construction of new housing.

Proposed minimum tax rate on realised gains

There is little detail on the proposed minimum tax rate of 30% (to be imposed after indexation has been applied). The Budget Papers state that “a minimum tax rate on capital gains will reduce the incentive to hold onto an asset to realise a gain when it’s most tax advantageous and ensure a fair amount of tax is paid on capital gains, in line with lifetime incomes”. Income support recipients, including pensioners, will be exempt from the minimum rate.

It will be interesting to see how the minimum tax rate interacts with carry forward capital loss rules, as well as to those taxpayers with a loss on other income-related activities in the same income year.

Minimum tax of 30% on discretionary trust taxable income from 1 July 2028

From 1 July 2028, 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. 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.

Exclusions for some types of income are also proposed, including:

- 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.

Non-refundable credits for beneficiaries

Beneficiaries, other than corporate beneficiaries, will receive non-refundable credits for the tax payable by the trustee.

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%).

The proposal may potentially bring forward the collection of the new tax from a timing perspective, as the trustee would presumably have to withhold the tax from distributions and pay that tax to the ATO in a more timely manner than having the tax assessed and collected after the beneficiary lodges their tax return.

MAJOR CGT, TRUSTS AND NEGATIVE GEARING REFORMS cont.

Restructure roll-over relief proposed

The Government notes that the number of discretionary trusts has more than doubled over the past 20 years. The Budget states that the minimum tax measures will include 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.

Negative gearing limited to new builds from 2027

The Government proposes to restrict negative gearing deductions 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. Excess losses will be carried forward and able to be offset against residential property income in future years. However, there will be no restrictions affecting investment properties owned at the time of this Budget (7:30 pm AEST on 12 May 2026), until they are sold.

There are a number of broad exemptions, notably for new residential property investments.

There appears to be no limitation on the number of properties that an investor can negatively gear.

Background

Negative gearing occurs when the costs of owning a rental property exceed the rental income it generates, resulting in a net rental loss. These costs can include loan interest, rates, insurance, maintenance and other expenses. The net rental loss can be offset against other income derived by the taxpayer, notably salary and wage income.

Negative gearing can apply to any type of investment (eg shares). However, the Government's proposal will only apply to investment properties used for residential purposes.

Exclusions for certain residential premises

There are three broad exclusions from the proposed negative gearing restrictions:

- residential properties owned at Budget time;
- eligible new builds of residential premise (designed to ensuring the benefits of negative gearing are directed to investment that increases the housing stock) – there is no indication of how long such an exception will run for (eg multiple ownership); and
- properties in widely held trusts and superannuation funds (alongside targeted exemptions for build-to-rent developments and private investors supporting government housing programs).



SUPERANNUATION

No major new super measures announced

The Government did not announce any new major superannuation measures in the Budget.

Nevertheless, the super industry has enough on its plate ahead of the 1 July 2026 start date for the following measures (as already legislated):

- payday super reforms that require employers to pay super guarantee (SG) contributions to employees within seven business days of the employee's payday; and
- the Division 296 regime for superannuation account balances above \$3 million. Note that taxpayers expecting to be impacted by Division 296, and considering whether to withdraw funds from super, will now need to also consider the implications of the proposed changes to the CGT discount in the 2026–2027 Budget for those assets once outside super.

Complying super funds continue to receive CGT discount

Complying superannuation funds, including self managed superannuation funds (SMSFs), are not expected to be directly impacted by the proposed abolition of the 50% CGT discount. Rather, complying super funds (including SMSFs) are expected to continue to receive a CGT discount percentage of 33 1/3%.

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