

Federal Budget Summary

2026 -27



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Table of Contents

1. Overview.....	3
2. 2026 -27 Financial Outlook	4
3. Personal Income Tax Measures	5
3.1. Personal Income Tax Rates.....	5
3.2. WATO.....	5
3.3. Instant Tax Deduction.....	5
3.4. Capital Gains Tax (CGT) Reform.....	6
3.5. Trusts.....	7
3.6. Negative Gearing.....	7
4. Business Measures.....	8
4.1. Instant Asset Write Off.....	8
4.2. R&D Tax Incentive	9
4.3. Loss Carry Back Measures.....	9
5. Other Tax-Related Budget Measures.....	10
6. Non-Tax Related Budget Measures	10

1. Overview

Treasurer Jim Chalmers delivered what could be considered one of the most significant Federal Budgets we've seen in recent years, against a backdrop of persistent cost-of-living pressures, slowing economic growth and increasing pressure on long-term Government finances.

While much of the public attention has centred on proposed changes to negative gearing and Capital Gains Tax concessions, the more significant reforms lie in the structural changes impacting discretionary trusts, business ownership structures and long-term investment planning for privately owned groups and high net wealth families.

Unlike recent Budgets focused largely on targeted relief measures and incremental tax changes, this Budget signals a broader shift in the Government's approach to the taxation of wealth, capital and private structures. For many business owners and investors, these changes may represent one of the most significant shifts in tax planning and structuring strategies seen in decades.

From our perspective, the real focus for advisors now will be understanding how these reforms impact clients, particularly business owners and those operating within complex family or high net wealth structures.

The Budget includes several measures aimed at supporting business investment and cashflow, including:

- Permanent loss carry-back provisions
- A permanent \$20,000 instant asset write-off
- Start up loss refundability measures
- Changes to the Research & Development Tax Incentive regime

For individuals, the Budget includes a range of targeted cost-of-living and housing initiatives, together with broader tax reforms that may impact long-term investment and wealth planning decisions.

Many of the proposed measures are not scheduled to commence until 2027 or 2028. However, given the scale of the proposed reforms, business owners and investors may benefit from reviewing their existing structures and succession planning strategies well in advance.

A detailed breakdown of the key measures impacting businesses and individuals follows.

2. 2026 -27 Financial Outlook

BIG PICTURE THEMES



Cost of Living Relief



Housing Supply and Affordability



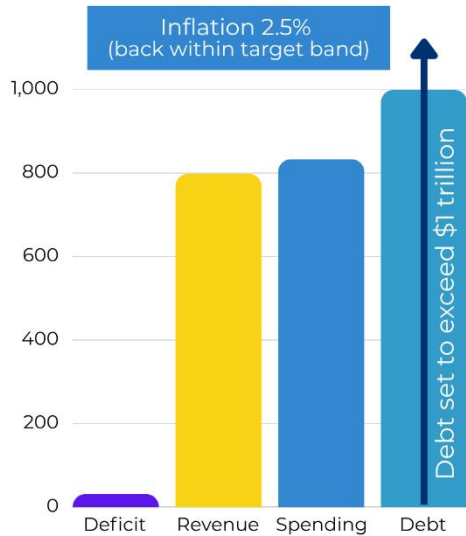
Productivity and Investment



Major Tax Reform



Energy and Fuel Security



PERSONAL TAX

- \$250** Working Australians Tax Offset (from 2027–28)
- \$1000** \$1,000 instant work expense deduction
- +** Additional staged tax cuts continue

PROPERTY & INVESTMENT

<p>CGT Reform</p> <p>Discretionary trusts</p> <ul style="list-style-type: none"> 30% minimum tax from July 2028 <p>Existing properties grandfathered</p>	<p>50% discount removed</p> <p>Negative Gearing</p> <ul style="list-style-type: none"> Limited to new builds only Losses from existing properties quarantined Losses can be carried forward Grandfathering (cut -off)
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PERMANENT \$20,000 INSTANT ASSET WRITE OFF (SMALL BUSINESS)

LOSS CARRY BACK APPLIES TO:

- Companies <\$1b turnover
- Offsets 2 yrs prior profits
- Refund limited by franking account balance

CHANGES TO R & D INCENTIVE

- \$14.8b Fuel Security Package**
- \$53b Defence Investment**
- Infrastructure to support 65k new homes**

COST OF LIVING

- Energy, health and fuel relief
- Cheaper medicines and expanded healthcare funding
- Combined tax and offsets worth up to \$.8k p/a

WHAT THIS MEANS FOR:

Individuals



Lower tax and simplified deductions



Investors face higher tax on gains and property

Businesses



More support for investment and innovation



Increased focus on compliance changes and system reform

Investors



Need to revisit structures (trusts, property, CGT exposure)



Shift toward longer term, yield focused investment strategies

3. Personal Income Tax Measures

3.1. Personal Income Tax Rates

As announced in last year's Federal Budget, we will see changes to the tax rates from 1 July 2026. Starting in July, the current tax rate of 16% will be reduced to 15%, followed by another decrease to 14% in the following year. This will result in a tax saving of \$268 over the 2026/27 tax year and \$536 over the 2027/28 tax year for all taxpayers earning \$45,000 per annum or more.

Income Threshold	Current Tax Rate	Tax Rate 2026/27	Tax Rate 2027/28
\$0 – \$18,200	0%	0%	0%
\$18,201 - \$45,000	16%	15%	14%
\$45,001 - \$135,000	30%	30%	30%
\$135,001 - \$190,000	37%	37%	37%
\$190,000 +	45%	45%	45%

3.2. WATO

From 1 July 2027, the Government will introduce a new Working Australian Tax Offset (WATO), providing eligible Australians with a permanent annual tax offset of \$250.

The offset will apply to income earned from work, including salary and wages and business income earned by sole traders. The measure is intended to increase the effective tax-free threshold by approximately \$1,800, lifting it to around \$19,985 for eligible taxpayers, or up to approximately \$24,985 for individuals also eligible for the Low Income Tax Offset (LITO).

Eligible taxpayers will receive the offset automatically when lodging their income tax return. The WATO will apply in addition to the previously legislated personal income tax cuts commencing from 1 July 2026 and 1 July 2027.

3.3. Instant Tax Deduction

From 1 July 2026, employees will also be able to access a new \$1,000 instant tax deduction for work-related expenses.

The measure will allow eligible taxpayers to claim up to \$1,000 in work-related deductions without the need to retain receipts or substantiate expenses when lodging their tax return. Taxpayers with deductible work-related expenses exceeding \$1,000 will still be able to claim the higher amount under the existing substantiation rules.

Importantly, other eligible deductions, including charitable donations, union fees and professional membership subscriptions, can still be claimed in addition to the \$1,000 instant deduction.

3.4. Capital Gains Tax (CGT) Reform

The Government has announced significant reforms to the Capital Gains Tax (CGT) regime, effective from 1 July 2027.

Under the proposed changes, the current 50% CGT discount for individuals, trusts and partnerships will be replaced with an inflation-indexed cost base method. A new 30% minimum tax rate will also apply to realised capital gains accruing from 1 July 2027.

The reforms will extend CGT to pre-20 September 1985 (pre-CGT) assets, with gains accruing from 1 July 2027 becoming taxable, while gains accrued prior to this date will remain exempt.

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

Transitional arrangements

Transitional rules will apply for assets held prior to 1 July 2027. Assets purchased and sold before that date will continue under the existing rules, while assets acquired after 1 July 2027 will fall entirely under the new regime. Assets held before 1 July 2027 and sold after that date will have gains apportioned between the current and proposed rules.

Taxpayers will be able to determine the value of an asset as at 1 July 2027 either by obtaining a market valuation or by using an ATO-approved apportionment method based on the asset's growth over its holding period. The ATO is expected to provide supporting valuation tools and guidance.

New build exemption

Investors in qualifying new residential developments will be able to choose between continuing to apply the existing 50% CGT discount or using the indexed cost base method with the 30% minimum tax rate.

Eligible developments generally include newly constructed dwellings on vacant land and developments where existing properties are demolished and replaced with a greater number of dwellings. Knock-down rebuilds or substantial renovations that do not increase housing supply will not qualify.

Importantly, the main residence exemption and the four existing small business CGT concessions will remain unchanged.

3.5. Trusts

The Government has announced the introduction of a 30% minimum tax on certain discretionary trust distributions, applying from 1 July 2028. The tax will be collected and remitted by the trustee and will not give rise to a refundable tax credit for beneficiaries.

Corporate beneficiaries are treated differently under the new rules. While they will continue to be assessed on distributions received from trusts, they will not receive credits for tax paid by the trustee under the minimum tax regime. This approach is intended to prevent the use of “bucket companies” to redirect trust income in order to access refundable franking credits or defer tax at the shareholder level.

Excluded trusts and income

A range of trust structures will be excluded from the measure, including fixed trusts, widely held trusts, special disability trusts, fixed testamentary trusts, complying superannuation funds, deceased estates and charitable trusts.

Certain categories of income will also fall outside the scope of the new rules. These include primary production income, income subject to non-resident withholding tax, specified income relating to vulnerable minors, and income derived from assets held by discretionary testamentary trusts as at 12 May 2026.

Rollover relief

To support restructuring, temporary rollover relief will be available for discretionary trusts transitioning into companies or fixed trusts. This relief will apply for a three-year period from 1 July 2027.

Practical implications

The changes are expected to materially impact how discretionary trust distributions are structured. Beneficiaries with non-trust income above \$45,000 are unlikely to be significantly affected, as they are already taxed at or above the proposed minimum rate.

However, beneficiaries with lower personal income may lose access to the tax-free threshold and lower marginal tax rates on trust distributions. As a result, some families may need to reconsider remuneration structures, including the use of salary and wages or franked dividends, to achieve more efficient after-tax outcomes.

3.6. Negative Gearing

From 1 July 2027, negative gearing concessions for residential property investments will be restricted to qualifying new residential developments. Under the proposed rules, losses from established residential investment properties will no longer be deductible against other forms of taxable income, including salary and wages. Instead, these losses will be quarantined and may only be offset

against future residential rental income or capital gains from residential property investments. Any unused losses will be carried forward indefinitely until they can be utilised.

Grandfathering arrangements

Importantly, existing residential investment properties held prior to 7:30pm AEST on 12 May 2026 (including properties under contract but not yet settled) will be grandfathered under the current rules until the property is sold.

Properties acquired between the announcement date and 30 June 2027 will continue to qualify for negative gearing deductions during that period. However, from 1 July 2027, the new restrictions will apply unless the property qualifies as a new build.

New build exemption

Qualifying new residential developments will remain eligible for existing negative gearing concessions. Investors in eligible new builds will continue to be able to deduct rental losses against other income sources.

In addition, on disposal, eligible investors will be able to choose between:

- Applying the existing 50% CGT discount, or
- Adopting the proposed indexed cost base and 30% minimum tax regime.

Eligible new builds are limited to developments that genuinely increase housing supply, including:

- Newly constructed dwellings on vacant land, and
- Developments where existing dwellings are demolished and replaced with a greater number of dwellings.

Knock-down rebuilds or substantial renovations that do not increase overall housing supply will not qualify.

The proposed measures will apply to individuals, partnerships, companies and most trusts. Widely held trusts, including most managed investment trusts, and superannuation funds, including SMSFs, will be excluded from the changes.

4. Business Measures

4.1. Instant Asset Write Off

The temporary increase in the instant asset write-off has been made permanent. Small businesses (those with less than \$10M turnover) can immediately write-off assets costing less than \$20,000.

4.2. R&D Tax Incentive

From 1 July 2028, the Government will make several changes to the Research and Development Tax Incentive (RDTI).

The refundable R&D tax offset threshold will increase from \$20 million to \$50 million aggregated turnover, but only companies under 10 years old will still be able to access refunds. Larger or older companies may still receive the offset, but it will no longer be refundable.

The R&D expenditure cap will increase from \$150 million to \$200 million, and the minimum eligible R&D spend will rise from \$20,000 to \$50,000.

The rules will also narrow eligibility by focusing more on core R&D activities, reducing access for supporting activities. Overall, the changes are designed to simplify the regime but may reduce benefits for smaller or lower-intensity R&D claimants.

4.3. Loss Carry Back Measures

The Government has announced the permanent reintroduction of the loss carry back rules to support business cash flow and investment.

From 1 July 2026, eligible companies with annual global turnover of less than \$1 billion will be able to offset current year tax losses against taxable profits from the previous two income years and receive a refund of tax previously paid.

The amount refundable will be capped by the balance available in the company's franking account.

The measure is intended to assist businesses experiencing temporary downturns by improving cash flow during periods of reduced profitability.

Startup support measures

In addition, from 1 July 2028, a new loss carry back regime will apply to eligible startups with annual turnover below \$10 million.

During their first two years of operation, eligible startups in a tax loss position will be able to claim a refundable tax offset equal to the amount of:

- Fringe benefits tax (FBT)
- Pay-as-you-go withholding (PAYGW)
- Paid in relation to Australian employees

The measure is designed to provide additional early-stage cash flow support for growing businesses and startups.

5. Other Tax-Related Budget Measures

In addition to the major tax reforms, the Budget includes a range of targeted measures aimed at refining existing regimes and improving system integrity. Changes to the Fringe Benefits Tax (FBT) treatment of electric vehicles will see the current exemption progressively wound back, with a transition toward a reduced concession over time. This signals a shift from early-stage incentives toward a more sustainable long-term framework.

The Government has also announced enhancements to PAYG instalment calculations and reporting requirements, with a move toward more dynamic and responsive systems. These changes are intended to better align tax payments with actual earnings while reducing administrative complexity over time.

Further support for innovation and investment is reflected in the expansion of venture capital concessions, aimed at encouraging funding for start-ups and emerging businesses. In addition, the Budget continues to focus on strengthening tax system integrity through targeted compliance and anti-fraud measures, alongside ongoing consultation on future refinements to superannuation and broader tax settings.

6. Non-Tax Related Budget Measures

Beyond tax measures, the Budget delivers significant investment across key sectors to address cost-of-living pressures, strengthen essential services, and support long-term economic growth. A major focus remains on healthcare, with substantial additional funding allocated to public hospitals, the Pharmaceutical Benefits Scheme, and broader health system initiatives. Ongoing reforms to the NDIS and aged care systems aim to improve sustainability while maintaining access to critical services.

Cost-of-living relief is supported through a range of targeted measures, including assistance with energy, fuel and healthcare costs. At the same time, the Government continues to prioritise housing supply, with investment in infrastructure to support the development of new homes and initiatives aimed at improving affordability.

Significant funding has also been directed toward energy security and national resilience, including measures to strengthen fuel supply chains and reduce exposure to global shocks. Defence and national security remain key priorities, with increased investment to enhance capability and support Australia's strategic position in the region.

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