

Significant tax reforms for capital gains, negative gearing & taxation of discretionary trusts

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.

To determine the asset's value at this date, taxpayers can either:

- seek a valuation or
- use a specified apportionment formula that estimates the asset's value based on its average return over the holding period (supported by ATO tools).

Capital gains on pre-1985 assets arising before 1 July 2027 will remain exempt from CGT. The current small business CGT concessions will continue unchanged.

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.

Reforming Negative Gearing

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 able to be offset against residential property income 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 until disposed of.
- Properties purchased after 7:30pm (AEST) on 12 May 2026 and before 30 June 2027 may be able to be negatively geared during this period, but not in subsequent years.

It is important to note:

- that the limitation on negative gearing will apply only to net rental losses from residential property.
- Commercial property and other asset classes, such as shares, will remain subject to existing arrangements.

Exempt from the changes:

- Eligible new builds
- properties in widely held trusts and superannuation funds will also be excluded
- targeted exemptions for build-to-rent developments and private investors supporting government housing programs.

Minimum Tax on Discretionary Trusts

From 1 July 2028, trustees will pay a minimum tax of 30% on the taxable income of discretionary trusts. Beneficiaries will still need to declare the income in their tax returns, but beneficiaries, other than corporate beneficiaries, will receive non-refundable credits for the tax payable by the trustee, which can be used to offset current year income tax liabilities.

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. This will provide relief from income tax consequences, including capital gains tax, for those who choose to restructure.

Based on the information currently available, the proposed changes once they come into effect will mean that the use of Corporate Beneficiaries will effectively come to an end.

13 May 2026

\$20,000 Instant Asset Write-off

The \$20,000 instant asset write off will now become a permanent feature of the tax system.

From 1 July 2026 small businesses with annual turnover of less than \$10m will be able to continue to immediately deduct eligible assets costing less than \$20,000.

The \$20,000 threshold applies on a per asset basis, so small business can instantly write off multiple assets (there is no cap on the total amount that can be instantly written off).

Assets valued at \$20,000 or more can continue to be placed into the small business simplified depreciation pool and depreciated at:

- 15% in the first income year and
- 30% each income year thereafter.

The provisions that prevent small businesses from re-entering the simplified depreciation regime for 5 years after opting out will continue to be suspended until 30 June 2027.

Tax Loss Carry Back

- For tax years commencing on or after 1 July 2026, companies with aggregated annual global turnover of less than \$1bn will be able to carry back a tax loss and offset it against tax paid up to two years earlier.
- This measure mirrors the earlier COVID-19 relief provisions, providing improved cash flow through refunds of previously paid tax.
- Loss carry back will apply to revenue losses only and will be limited by a company's franking account balance.

Refundable tax offsets for start-ups

- For tax years commencing on or after 1 July 2028, start-up companies with aggregated annual turnover of less than \$10m 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.

Electric Vehicle FBT Treatment

The government is reducing the FBT concessions available to employers who provide electric vehicles to employees.

From 1 April 2029, a permanent 25% discount on fringe benefits tax (FBT) will be available for all electric cars valued up to and including the fuel-efficient luxury car tax threshold.

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 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.
- 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.

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.

\$1,000 standard work-related deduction

- For the 2026-27 income tax year the Government plans to introduce a standard \$1,000 deduction for work-related expenses will not need to itemise and claim work-related expenses if claiming less than \$1,000. This is designed to simplify the overall tax preparation process.
- 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.

Medicare Levy increase to low-income threshold

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

- 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.
- The family income thresholds will increase by \$4,338 for each dependent child or student, up from \$4,216.



Accountants & Advisors

Extending 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.

R&D Tax Incentive Changes

The Government is reforming the Research and Development Tax Incentive (R&DTI) 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%, enabling more firms that engage in substantial core R&D to qualify for higher offset rates
- Remove eligibility of supporting R&D expenditure for the R&DTI
- Increase the turnover threshold for the highest offset rate from \$20m to \$50m
- For firms below the \$50m 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&DTI expenditure threshold from \$150m to \$200m 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 to be eligible for the R&DTI.

Dynamic PAYG Instalments

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.

Opportunities

While appropriate tax structuring of SME and private family groups has always been important, with the proposed changes announced as part of this years Federal Budget, ensuring that you have the right legal structures has never been more important.

Did the Budget measure up?

While most of the significant reforms around Capital Gains Tax, Negative Gearing and Tax on Discretionary Trust distributions were widely announced prior to Budget night, there are some meaningful aspects announced in the Budget that were not previously announced that are even less favourable to taxpayers.



Chris Dexter, Partner

E cdexter@sw-au.com



Francis Ravida

E fravida@sw-au.com

The material contained in this publication is in the nature of general comment and information only and is not advice. The material should not be relied upon. SW Accountants & Advisors and related entity, or any of its offices, employees or representatives, will not be liable for any loss or damage arising out of or in connection with the material contained in the publication.

sw-au.com

We score it:

0.5/5



*"Buried Beneath the Headlines" -
Australia's potential stays exactly
where this budget left it:
underground and out of sight.*