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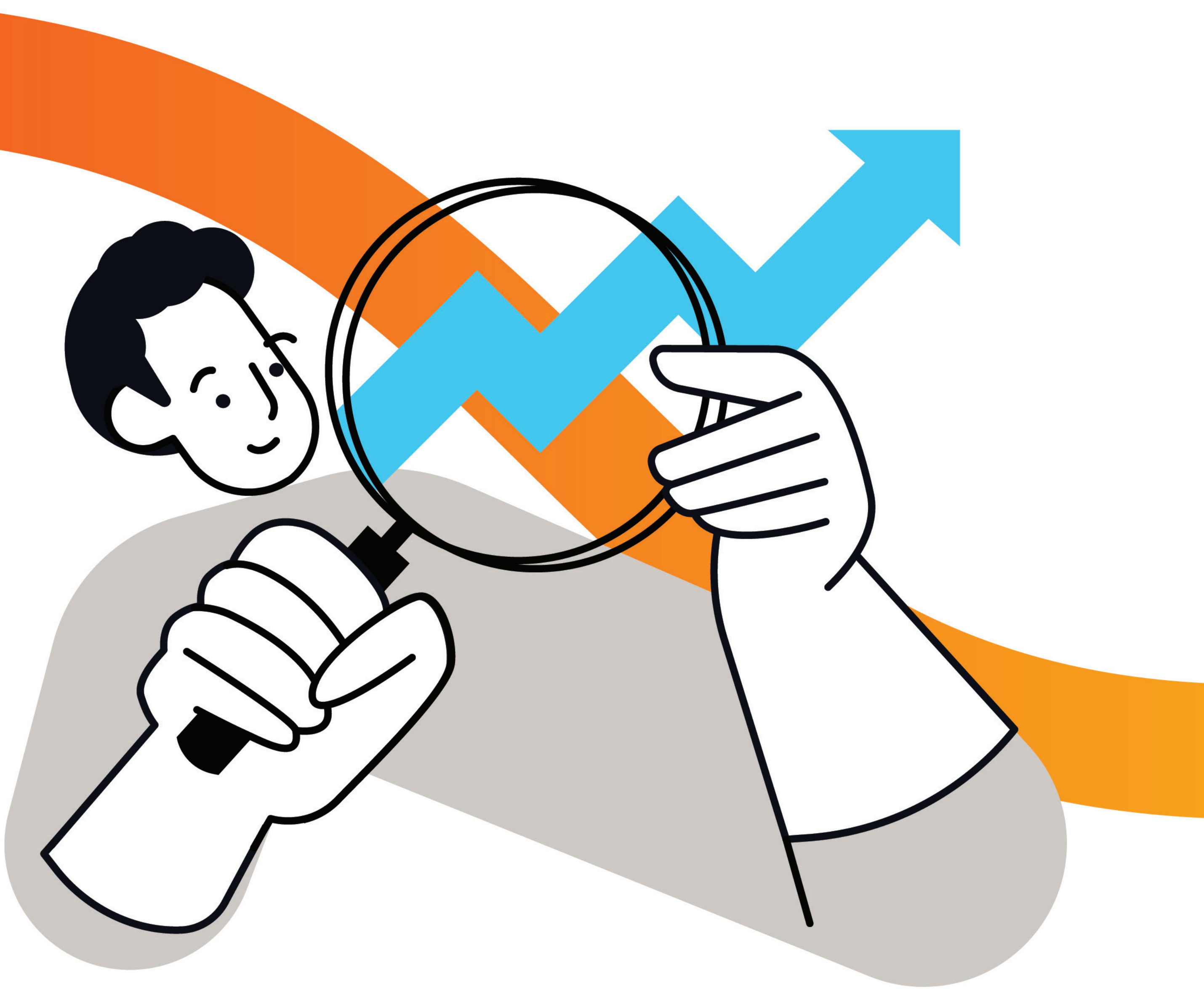

2026 Tax Roadshow

Tax Update - Federal Budget

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Tax policies under 2026-27 Federal Budget

The Albanese Government announced a range of tax and superannuation changes leading up to and during the 2025 Federal Election.

A summary of key tax and superannuation policy announcements impacting individual taxpayers and small to medium-sized enterprises (SMEs) is set out below.

It should be noted that such measures are only proposals and no amending legislation on these changes is currently before the Parliament.

Moreover, the precise nature of any changes will only be set out in any enacting legislation which may be delayed or amended by the new Federal Parliament assuming such proposals are progressed as announced.

The key relevant proposed tax and superannuation changes are as follows:

1. CGT 50% Discount replaced with indexation

From 1 July 2027, the 50% CGT discount for individuals, trusts and partnerships will be replaced by CPI cost base indexation for CGT assets held for at least 12 months, together with a 30% minimum tax on net capital gains.

The proposed change applies to all CGT assets – including residential property and shares – held by individuals, partnerships and trusts.

Only gains accruing on or after 1 July 2027 are subject to the new arrangements. Gains accruing before that date will continue to receive the 50% CGT discount.

Recipients of means-tested income support payments (e.g. Age Pension, JobSeeker) will be exempt from the minimum tax in any financial year in which they receive such a payment.

Investors in eligible new builds may choose either the 50% CGT discount or the new indexation/minimum tax arrangements on sale.

<u>How cost base indexation works</u>

Indexation is calculated using the Consumer Price Index (CPI), consistent with the approach in place to calculate tax on capital gains between 1985 and 1999.

Indexation reduces the nominal capital gain by the inflation component, so that only 'real' gains are taxed.

The ATO will provide guidance and tools to assist taxpayers in calculating the indexed cost base.

<u>How the 30% minimum tax on capital gains works</u>

A 30% minimum tax applies to real capital gains accruing from 1 July 2027. The tax has no effect until the gain is realised.

The minimum tax will not affect taxpayers whose capital gains are already taxed at 30% or higher.

However, the minimum 30% tax rate reduces the benefit of taxpayers deferring realisation of capital gains to years in which their marginal tax rate would be less than that rate.

<u>Transitional arrangements – CGT</u>

For assets purchased and sold before 1 July 2027 there are no change to existing arrangements.

By contrast, assets purchased after 1 July 2027 are wholly subject to the new arrangements (including indexation and the minimum 30% tax on realised gains).

For assets owned before 1 July 2027 and which are sold after that date it will be necessary to calculate the capital gain on the following basis:

- The 50% CGT discount applies to gains accrued up to 1 July 2027 (i.e. the difference between cost base and the asset's 'value' at 1 July 2027); and
- Indexation and the 30% minimum tax apply to gains accruing from 1 July 2027 (using the asset's 'value' at 1 July 2027 as the cost base for the new-regime portion).

An asset's value at 1 July 2027 will be determined by the taxpayer as part of their income tax return in the year of disposal. Taxpayers may either:

- Seek a formal valuation (or use quoted prices for listed assets such as shares); or
- Use an ATO-approved apportionment formula that estimates the value on 1 July 2027 based on growth over the holding period.

A capital gain on a pre-CGT acquired asset will continue to exempt to the extent that the capital gain on such an asset accrued before 1 July 2027 with the effect that the new arrangements will only apply to gains on such assets which accrue on or after 1 July 2027 based on the asset's value as at 30 June 2027.

<u>New build CGT exemption</u>

Investors in eligible new residential properties may choose either the 50% CGT discount or the indexation/minimum tax arrangements when they sell the property.

Such properties are referred to as being a 'new build' the meaning of which is clarified in the commentary on the new proposed negative gearing measures discussed below, (but which would appear to refer to a dwelling which has led to an increase in housing supply).

<u>Other exemptions</u>

Main residence: the main residence CGT exemption is unchanged.

Small business CGT concessions: all four concessions are unchanged.

Qualifying affordable housing: the existing 60% CGT discount is fully retained.

Early-stage and start-up businesses: the Government will consult on the interaction of the CGT reforms with investment incentives for this sector.

It would also anecdotally appear that the one third CGT discount currently available to a complying superannuation fund such as an SMSF will continue to be available, (but the Federal Government has not yet expressly confirmed the retention of the CGT discount for such super funds in any media release or publication).

<u>Examples:</u>

Example 1 – Cost base indexation (shares)

Zoe purchases shares for $100 on 1 July 2027 and sells them on 1 July 2032 for $125, a nominal gain of $25 (4.6% annual return). As the shares were purchased after 1 July 2027, her capital gains are subject to cost base indexation.

With inflation of 2.5% per year, ATO tools show that the indexed cost base of the shares is $113. Zoe's taxable capital gain is reduced from $25 to $12 under cost base indexation – slightly less than the $13 taxable gain that would have applied under the 50% discount, meaning she pays slightly less tax.

Example 2 – Transitional CGT arrangements (asset held before and after 1 July 2027)

Jane purchases an asset on 1 July 2022 for $800,000 and sells it on 1 July 2032 for $1,600,000 (7.2% annual return).

Using ATO tools, Jane determines the asset value was $1,131,371 at 1 July 2027.

Pre-1 July 2027 gain (50% discount applies): Asset value of $1,131,371 less cost base of $800,000 = $331,371; Gross gain of $331,371 X 50% discount = taxable discounted capital gain of $165,685.

Post-1 July 2027 gain (indexation applies): Capital proceeds of $1,600,000 less asset value of $1,131,371 equals capital gain of $468,629; Nominal gain of $468,629 less cost base indexation = taxable gain of $319,958.

Total taxable capital gain: $485,643 (being the sum of the above $165,685 and $319,958 amounts). This is more than the $400,000 that would have arisen under a straight 50% discount applied to the full gain (being $1,600,000 - $800,000 = . $800,000; $800,000 X 50% discount = $400,000)

At a 47% marginal rate, tax on the gain is $228,252 (compared to $188,000 under the current discount regime).

Note: The transitional arrangements also apply to pre-1985 (legacy) assets. Gains on pre-1985 assets which accrued before 1 July 2027 remain exempt.

Example 3 – Different rates of return

Assumptions: asset purchased for $500,000 on 1 July 2027, 10-year holding period, 2.5% annual inflation, $100,000 in other income per year.

David (5% annual return, similar to longer-term residential real estate returns): Taxable capital gain of $174,405 under cost base indexation vs $157,224 under the 50% discount. Additional tax: $8,075.

Ben (2.5% annual return, i.e. equal to inflation): No positive real return, so no taxable capital gain under cost base indexation. Under the 50% discount his taxable gain would have been $70,021. Tax saving: $24,858.

Kate (7.5% annual return): Taxable capital gain of $390,474 under cost base indexation vs $265,258 under the 50% discount. Additional tax: $58,851.

Example 4 – Minimum tax on capital gains

Jack has $25,000 of taxable income (before capital gains) in 2029–30 and realises a $10,000 capital gain on an asset purchased in 2027–28. Jack does not receive an income support payment.

Without the minimum tax, the tax on Jack's $10,000 capital gain (at his marginal rate) would be $1,400, an effective rate of 14% (excluding Medicare levy). As this is below 30%, Jack pays an additional $1,600 in minimum tax to bring the effective rate up to 30%.

Jack would be exempt from the minimum tax in any year he receives an income support payment.

2. Negative gearing only on new residential properties

From 1 July 2027, losses from 'established' residential investment properties (acquired from 7:30pm AEST 12 May 2026) will only be deductible against other income from residential properties (including capital gains), not against salary/wages or other assessable income.

Excess losses that cannot be offset against residential property income in a given year may be carried forward and offset against residential property income in future years.

The above changes apply to individuals, partnerships, companies and most trusts but not to widely held trusts (e.g., most managed investment trusts) and superannuation funds (including SMSFs).

'New builds are exempt' in which case investors in eligible new residential properties will continue to have full access to negative gearing, (and any rental losses can still be offset against salary/wages and other assessable income).

Properties held at announcement (7:30pm AEST 12 May 2026), including properties under contract which have not yet settled, may continue to be negatively geared until sold. That is, the above changes will be 'grandfathered' so as not apply to negatively geared residential properties where the properties were acquired for CGT purposes before 7:30pm AEST on 12 May 2026.

Transitional arrangements – negative gearing

New builds can continue to be fully negatively geared before and after 1 July 2027.

As discussed, properties held at announcement (including under contract but not yet settled) can continue to be negatively geared in all future years until the property is sold.

However, properties purchased between announcement made on 7:30pm AEST 12 May 2026 and 30 June 2027 may be negatively geared during this period but not from 1 July 2027 onwards.

Properties purchased from 1 July 2027 cannot be negatively geared (unless such a dwelling is an eligible new build).

What qualifies as an eligible new build

A new build is a residential property that genuinely adds to housing supply.

Eligible new builds include:

- Dwellings constructed on previously vacant land; and
- Properties where existing dwellings are demolished and replaced with a greater number of dwellings.

The following do NOT qualify as a new build:

- Knock-down rebuilds or substantial renovations that do not increase the number of dwellings;
- A new build that has been previously sold, (unless first owned by the builder and not occupied for more than 12 months before first sale); and
- A property purchased by a subsequent buyer of a new build (i.e., the new-build exemption is not available to second and later purchasers).

Table 2: New build eligibility – examples from 'explainer' factsheet

Eligible new build	**Not an eligible new build**
A newly constructed apartment bought off-the-plan.	An established property that has recently been extended to add additional bedrooms.
A duplex constructed through a knock-down rebuild replacing a single free-standing house (increases supply).	A free-standing house constructed through a knock-down rebuild replacing an older, smaller free-standing house (no increase in supply).
Any residential construction on previously vacant land.	A granny flat built adjacent to an established property that is not eligible for negative gearing.
A newly built property that is occupied for less than 12 months before being first sold.	A newly built property that is occupied for more than 12 months before being sold to a subsequent investor.

Other exemptions

Commercial property and other asset classes (e.g. shares) continue to be subject to existing negative gearing arrangements.

Private investors supporting government housing programs (e.g., by providing affordable housing) are also exempt from the negative gearing changes.

Examples

Example 1 – Impact on an existing property investor (negative gearing and transitional CGT)

Michael owns an investment property purchased before 12 May 2026 that is negatively geared. As the property was held at announcement, he can continue to negatively gear it in all future years until the property is sold.

Michael sells the property two years after the policy commences for $560,000. Using ATO tools, he determines the property's value at 1 July 2027 was $500,000.

Gain before 1 July 2027: 50% CGT discount continues to apply to this portion of the gain.

Gain after 1 July 2027: After adjusting for two years of inflation at 2.5% per year, the taxable capital gain for the post-commencement period is $34,688. This is slightly more than if a 50% discount had applied ($30,000 taxable gain). At a 47% rate, tax on the post-commencement gain is $16,303 (compared to $14,100 under the 50% discount).

Michael does not pay any CGT until he sells the property.

Example 2 – Carrying forward rental losses (future investor in established property)

An investor purchasing an existing property after the announcement on 12 May 2026 can no longer offset rental losses against salary and wages.

Instead, such losses are carried forward to be offset against future residential property income.

Assuming an annual rental loss of $14,810 (roughly the average 2022–23 negative gearing loss for an individual in the top tax bracket, equivalent to a 3.1% rental yield and 5.7% interest rate on a $1 million property):

- For a person with $80,000 of other income: under current rules, the deduction would be worth a tax saving of $4,761. Under the new rules, the loss is carried forward.
- For a person with $210,000 of other income: under current rules, the deduction would be worth a tax saving of $6,961. Under the new rules, the loss is carried forward.

The deferred loss remains available to offset future residential property income (including any capital gain on sale).

The tax value of the future deduction will depend on the taxpayer's other income at the time it is used.

Example 3 – Negative gearing an established property bought after announcement

Yoko earns $100,000 and buys an established residential investment property for $519,000 (including stamp duty) after the policy start date.

She rents it out and sells it ten years later for $814,447.

Years 1–5: Yoko accumulates net rental losses of $22,879, which she carries forward.

Years 6–10: Yoko applies most of her carried-forward losses to reduce positive net rent of $18,079 to zero.

Year of sale: She uses remaining carried-forward losses of $4,800 to reduce her real estate capital gain from $150,084 to $145,284.

Overall, Yoko pays $186 more in nominal tax over the years of her investment compared to previous settings being a minor impact.

Had Yoko bought a new build instead, she would not pay any additional tax, as both negative gearing and the existing CGT discount (or indexation/minimum tax by election) remain available for new builds.

3. Minimum 30% tax for trustees of discretionary trusts

From 1 July 2028, the trustee of a discretionary trust will be required to pay a 30% minimum tax on the taxable income of the trust.

The tax is paid by the trustee (as the trustee controls distributions). Beneficiaries continue to include trust distributions in their income tax returns.

Non-corporate beneficiaries will receive non-refundable tax credits for the minimum tax paid by the trustee, reducing their income tax payable ensuring that the tax paid on that income is not lower than 30% without creating double taxation.

Corporate beneficiaries will not receive credits for the minimum tax paid by the trustee. This prevents the minimum tax being circumvented by recycling income through a 'bucket' company.

Rollover relief will be available for three years from 1 July 2027 to assist small businesses and others wishing to restructure out of a discretionary trust.

<u>How the minimum tax works</u>

The trustee continues to determine the trust income that beneficiaries are entitled to each year and beneficiaries continue to be responsible for including those distributions in their income tax returns.

The trustee pays 30% minimum tax on the taxable income of the trust (unless higher rates apply under s. 99A of the ITAA 1936).

Non-corporate beneficiaries will receive non-refundable credits for the tax paid by the trustee (with the effect that any tax credit will be capped to the marginal tax rate (e.g., 14%) of that non-corporate beneficiary who will not be able to obtain a refund of the balance of that credit entitlement (e.g. 16%) as a refund.

To ensure franking credits do not undermine the minimum tax:

- Trustees that receive franked dividends are required to use their franking credits to pay the minimum tax; and
- Corporate beneficiaries receive no credits for tax paid by the trustee, preventing conversion to refundable franking credits.

Trustees are required to calculate, report and pay the minimum tax, and to notify beneficiaries of their entitlements and associated tax credits.

The mechanism for collecting the minimum tax is subject to consultation but is expected to align with established collection mechanisms. Key aspects, including how trustees use franking credits that exceed the minimum tax liability and the rollover relief arrangements, will be finalised following stakeholder consultation.

<u>Rollover relief</u>

Rollover relief will be available to small businesses and others that wish to restructure out of a discretionary trust into another structure (such as a company or a fixed trust).

The relief provides expanded protection from income tax consequences, including CGT. It is proposed to be available for three years from 1 July 2027.

From 1 January 2027, the Australian Small Business and Family Enterprise Ombudsman will be available to assist small businesses understand their restructuring options, and ASIC will put in place specific arrangements to support small businesses that wish to incorporate.

Excluded trusts

The minimum tax regime does not apply to trustees of:

- Fixed and widely held trusts;
- Complying superannuation funds;
- Special disability trusts;
- Deceased estates; and
- Charitable trusts.

Excluded income

The following types of income are also excluded from the proposed regime:

- Primary production income;
- Certain income relating to 'vulnerable minors';
- Amounts subject to non-resident withholding tax; and
- Income from assets of discretionary testamentary trusts existing at the time of announcement.

Impact on small businesses

Around 350,000 active small businesses (less than 15% of all active small businesses) operate through a discretionary trust structure.

Of these, around 40% (140,000) are not expected to pay additional tax or need to restructure in any given year. More than 90% of all small businesses will be unaffected in any given year.

Small businesses can reduce the impact of the minimum tax by paying beneficiaries who work in the business as employees, (as salary and wages payments are not subject to the minimum tax).

Alternatively, small businesses may restructure into a company or a fixed trust. Rollover relief will ensure that no income tax or CGT consequences arise from restructuring.

Small businesses restructuring into a company may benefit from the 25% small business corporate tax rate, (where aggregated annual turnover is under $50 million and no more than 80% of assessable income is passive), simpler retained-earnings mechanisms, and improved access to debt and equity finance.

Restructuring into a fixed trust allows a business to retain a trust structure while providing beneficiaries with more certain entitlements.

Impact on corporate beneficiaries

Corporate beneficiaries will be assessed on trust income to which they are entitled without being able to claim credits for the minimum tax paid by the trustee. This ensures the minimum tax cannot be avoided through 'bucket' companies.

Around 94% of companies did not receive a distribution from a discretionary trust in 2022–23. Of the approximately 80,000 that did, around 83% showed no evidence of business activity, suggesting they operate primarily for tax purposes.

Example 1 – Discretionary trust compared with an ordinary worker

Ying is a youth worker earning $80,000 in 2028–29. Ying pays $15,602 in tax – a marginal rate of 30% (plus Medicare levy) and an average tax rate of 19.5%.

Steven earns $200,000 of investment income through a family discretionary trust. As trustee, Steven splits the $200,000 of taxable income equally among himself and three family members who have no other income ($50,000 each). The family pays $24,008 in total tax after applying the Working Australia Tax Offset (WATO) resulting in an average rate of around 12%.

Without the trust, Steven would have paid $59,602 in tax on $200,000. By using income splitting, Steven has reduced the family's tax liability by $35,594, achieving a rate significantly lower than Ying's despite earning more than twice as much.

With the minimum tax: Steven's trust would pay 30% on the $200,000 of investment income regardless of how it is distributed, bringing the total tax paid on that income to $60,000.

Example 2 – Trust income compared with equivalent wage income

In 2028–29, Angela earns $200,000 as salary and wages. Angela pays $59,352 in tax after applying the WATO – an average tax rate of around 30%.

Steven (from Example 1 above) earns the same $200,000 through a discretionary trust. Before the minimum tax, through income splitting Steven's family pays only $24,008 in total tax on that income.

With the minimum tax: Steven's trust would pay 30% on the $200,000 of investment income regardless of distribution arrangements, bringing the total tax paid on Steven's trust income of $60,000 to approximately the same level as Angela's tax on her wage income.

Example 3 – Comparing tax outcomes across different business structures

In 2028–29, Kurt and Loretta each earn $300,000 operating small businesses.

Loretta provides services through a company. She pays herself a salary of $100,000 as an employee and retains the remaining $200,000 profit in the company (taxed at the 25% small business rate). Total tax paid is $72,002.

Kurt provides services through a family discretionary trust. The trust pays Kurt a salary of $100,000, leaving $200,000 of taxable income. Kurt distributes $50,000 to each of four extended family members who have no other income, while retaining the money in the trust. Total tax paid before minimum tax: $42,010.

With the minimum tax: the trust would pay 30% on the $200,000 not paid as wages, regardless of the distribution arrangements. Overall tax paid: $86,002 – more than Loretta's total, and more than Kurt would pay operating through a company applying the small business tax rate of 25%.

4. New $250 WATO for workers

The Federal Government will deliver a new tax cut for every working Australian taxpayer by permanently introducing a $250 Working Australians Tax Offset (WATO) from the 2027–28 income tax year.

The WATO will provide 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 effectively 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). This is the largest permanent increase in the effective tax-free threshold since 2012–13.

The proposed new tax offset is in addition to the tax cuts for every Australian taxpayer that will come into effect on 1 July 2026 and 1 July 2027, and the $1,000 instant tax deduction.

5. No change to current or legislated marginal tax rates

As anticipated, the Federal Government did not announce any further changes to the marginal tax rates applicable to resident individuals for the year ended 30 June 2027 or 30 June 2028.

Accordingly, the personal tax rates that have applied to resident individual taxpayers since the year ended 30 June 2025 will continue to apply for the year ended 30 June 2026.

There has also not been any change to the legislated personal tax cuts for low income earners which is legislated to apply from the year ended 30 June 2027.

A summary of the transition in tax rates for the 2025-26, 2026-27 and 2027-29 year are set out below:

Taxable Income (TI)	2025-26	2026-27	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%
$190,001+	45%	45%	45%

- Accordingly, the legislated marginal tax rates for resident individual taxpayers for the years ended 30 June 2027 and 30 June 2028 are as follows:

Resident Individual Tax Rates for 2026-27 year

Taxable Income (TI)	Tax Payable
$0 - $18,200	Nil
$18,201 - $45,000	Nil + 15% of excess over $18,200
$45,001 - $135,000	$4,020 + 30% of excess over $45,000
$135,001 - $190,000	$31,020 + 37% of excess over $135,000
$190,001+	$51,370 + 45% of excess over $190,000

Resident Individual Tax Rates for 2027-28 onwards

Taxable Income (TI)	Tax Payable
$0 - $18,200	Nil
$18,201 - $45,000	Nil + 14% of excess over $18,200
$45,001 - $135,000	$3,752 + 30% of excess over $45,000
$135,001 - $190,000	$30,752 + 37% of excess over $135,000
$190,001+	$51,102 + 45% of excess over $190,000

Non-resident Individual Tax Rates for 2026-27 year

- Similarly, there have been no changes to the personal tax rates that apply to non-resident individual taxpayers that applied from the year ended 30 June 2026 and will continue to apply to the year ended 30 June 2027:

Taxable Income (TI)	Tax Payable
$0 - $135,000	30%
$135,001 - $190,000	$40,500 + 37% of excess over $135,000
$190,001+	$60,850 + 45% of excess over $190,000

Working holiday makers tax rates for 2026-27 year

Finally, there have been no changes to the tax rates for working holiday makers for the 2026-27 year as set out in the table below.

Taxable Income (TI)	Tax Payable
$0 - $45,000	15% for each dollar
$45,001 - $135,000	$6,750 + 30% of excess over $45,000
$135,001 - $190,000	$33,750 + 37% of excess over $120,000
$190,000+	$54,100 + 45% of excess over $180,000

6. $1,000 standard deduction for work-related expenses

The Federal Government will introduce an instant tax deduction of up to $1,000 from the 2026–27 income tax year to make the tax system simpler while also delivering more cost-of-living relief.

Australian individual residents who earn assessable labour income (e.g., salary and wages as an employee) from which PAYG tax has been withheld will be eligible to claim an instant tax deduction and will not need to itemise and claim work-related expenses of up to $1,000.

However, if an individual's assessable labour income is less than $1,000 the amount of the standard deduction will be capped to that lower amount.

Where individuals deriving such income incur work-related expenses which are greater than the instant tax deduction threshold of $1,000 they can continue to claim these 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.

This measure delivers on the Government's election commitment made during the 2025 Federal Election.

Further details on the proposed $1,000 standard deduction are set out in exposure draft legislation entitled ' *Treasury Laws Amendment Bill 2026: standard deduction for work related expenses*' which Treasury issued on 20 April 2026.

7. Increase to Medicare Levy low income thresholds for 2026-27

Relief from the Medicare levy is available for certain low-income earners.

Firstly, the Medicare levy is not payable where the individual's taxable income is below an applicable income threshold for singles, families and pensioners for the relevant income year (which is known as the Medicare levy exemption).

Secondly, the Medicare levy is phased in where an individual's taxable income falls within a certain range of taxable income in which case the individual is liable to 10% of the excess over the exemption threshold for each of the above categories of taxpayer (which is known as the Medicare levy reduction).

Accordingly, the Federal Government confirmed in the 2026-27 Federal Budget that it will increase the Medicare levy low-income thresholds for singles, families, and seniors and pensioners by 2.9 per cent from 1 July 2025, (in accordance with long standing practice), to ensure that low-income individuals and families remain exempt from paying the Medicare levy despite inflationary pressures.

The taxable income threshold that applies in determining whether an individual is eligible for the Medicare levy exemption is shown in the Table below:

	2024-25	**2025-26**
Singles	$27,222	$28,011
Families	$45,907	$47,238
Pensioners (Single)	$43,020	$44,268
Pensioners (Families)	$59,886	$61,623

The threshold for singles will be increased from $27,222 to $28,011 whilst the family threshold will be increased from $45,907 to $47,238.

For single seniors and pensioners, the threshold will likewise be increased from $43,020 to $44,268 and 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 which applied for the year ended 30 June 2025.

Amending legislation enacting the above changes (and eligibility for the Medicare levy reduction) will issue imminently.

8. Over 65's Private Health Insurance rebate reduced

An incentive for the cost of private health insurance premiums is available either in the form of a refundable tax rebate or by direct payment or reduced health insurance premiums (under the *Private Health Insurance Act 2007*) if a resident individual is eligible for the offset under Subdivision 61-G of the ITAA 1997.

To be eligible for the tax offset, the following two conditions must be satisfied:

- The individual, (or the individual's employer if providing a fringe benefit), must pay a premium in respect of a 'complying health insurance policy' (i.e., a policy that provides private patient hospital cover, general extras cover or a combination thereof); and
- The premium must be paid in the same income year that it is claimed as an offset.

The amount of the rebate is:

- Determined by the age of the oldest person covered by the policy; and

- Is means tested according to the taxpayer's and their spouse's 'income for surcharge purposes' (as defined above).

However, the Federal Government 26 – 27 Federal Budget that it will remove the age-based uplift of the Private Health Insurance (PHI) Rebate so that it no longer provides additional rebate entitlements to individuals aged over 65 from 1 April 2027.

The Federal Government has stated that the savings from this measure will be invested in the aged care sector to deliver more residential aged care beds and improve affordability and access to home care supports.

To illustrate the impact of the proposed change the incremental PHI rebate will no longer provide incrementally greater benefit to those individuals who would have been included in the age 65 to 69 age category or those aged 70 or over albeit using current PHI rebate entitlements.

PHI income test that applies from 1 July 2026 to 30 June 2027				
Singles **Families**	**≤$101,000** **≤$202,000**	**$101,001-118,000** **$202,001-236,000**	**$118,001-158,000** **$236,001-316,000**	**≥$158,001** **≥$316,001**
Rate of rebate based on age where premium paid between 1 July 2026 and 31 March 2027				
	Standard	**Tier 1**	**Tier 2**	**Tier 3**
< Age 65	24.118%	16.097%	8.038%	0%
Age 65-69	28.139%	20.098%	12.058%	0%
Age 70+	32.158%	24.118%	16.079%	0%
Rate of rebate based on age where premium paid between 1 April 2027 and 30 June 2027 under proposed changes				
	Standard	**Tier 1**	**Tier 2**	**Tier 3**
Age 65+	24.118%	16.097%	8.038%	0%

9. $20,000 Instant Asset Write Off permanently extended

The Federal Government has announced that it will permanently legislate the $20,000 instant asset write-off for eligible small business entities from the year ended 30 June 2027 onwards.

Accordingly, eligible depreciating assets acquired by such small business entities will be immediately deductible where the cost is below $20,000 and the depreciating asset Is used or installed ready for use in the tax year in which such a deduction is claimed.

Assets valued at $20,000 or more can continue to be placed into the small business simplified depreciation pool and additions to the pool will be depreciated at 15% whereas the balance of the pool will be depreciated at a rate of 30%.

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.

10. Loss Carry Back regime reintroduced for 2026 year

The Federal Government will provide tax relief to businesses and start-ups by reintroducing loss carry back rules for companies to encourage investment and sensible risk-taking and to improve their resilience to temporary shocks.

Accordingly, for tax years commencing on or after 1 July 2026, companies with an 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.

Such a loss carry back facility will only apply to revenue losses and will be limited by a company's franking account balance, (presumably in a similar way to the loss carry back rules that were temporarily introduced in response to the COVID-19 pandemic).

Reintroducing loss carry back is estimated to decrease receipts by $2.3 billion over the five years from 2025–26.

11. Cap on asset size under Venture Capital Limited Partnership

The Federal Government will expand current venture capital tax incentives to better facilitate venture capital investment and support early stage and growth businesses to attract both foreign and local investors.

From 1 July 2027:

- The venture capital limited partnership (VCLP) cap on the asset size of the investee business at the time of investment will be increased to $480 million, from $250 million;
- The early stage venture capital limited partnership (ESVCLP) cap on the asset size of the investee business at the time of investment will be increased to $80 million, from $50 million;
- The ESVCLP tax incentive cap on the asset size of the investee business, at which investment returns can be fully tax exempt, will be increased to $420 million from $250 million; and
- The maximum fund size of ESVCLPs will be increased to $270 million from $200 million.

The increases will apply to new and existing funds and to new investments they make, including where funds make further investments in businesses already held. ESVCLPs must remain in compliance with their existing investment plans or seek approval for a replacement plan.

The eligible venture capital investor program will be closed to new applications from 7.30PM (AEST) 12 May 2026.

12. EV FBT Exemption wound back

The Federal Government confirmed in the 2026-27 Federal Budget that a permanent 25 per cent FBT exemption will be available for electric cars valued up to and including the fuel-efficient luxury car tax threshold from 1 April 2029.

Essentially, this one quarter discount will be applied on the basis that the statutory fraction used to calculate the taxable value of such cars will be reduced by one quarter from 20% to 15% in respect of such eligible vehicles.

The following transitional arrangements will be put in place in the interim:

- 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 per cent discount on FBT, implemented through a 0 per cent rate in the FBT statutory formula; and
- 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 per cent discount on FBT, implemented through a 15 per cent rate applying the FBT statutory formula.

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

13. Overhaul of R&D tax incentive

The Federal 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 per cent, through a 4.5 percentage point increase in core R&D offset rates;
- Reduce the intensity threshold from 2 per cent to 1.5 per cent, 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;
- 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&DTI 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 to be eligible for the R&DTI.

The ATO will receive $2.8 million in funding over three years from 2027–28 to support implementation of the measure.

14. Reduction in fuel excise to combat increased cost of petrol and diesel

The Federal 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 3 months from 1 April 2026.

The excise rates have been reduced by a total of 60.9 per cent, equating to a 32 cent per litre reduction for petrol and diesel.

States and Territories have agreed to provide the Commonwealth up to $400 million to enable increased GST revenue to be returned through lower excise, which equates to 5.7 cents per litre of the cut for petrol and diesel.

The road user charge for heavy vehicles has also been reduced from 32.4 cents per litre to zero.

This measure is estimated to decrease receipts by $3.8 billion and decrease payments by $1.3 billion over the five years from 2025–26.

15. Loss refundability for small start-up companies and more dynamic PAYG instalment regime

The Federal 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.

The Federal Government will also provide $10.9 million to the ATO to expand its pilot of dynamic Pay As You Go (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.

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