



# Federal budget | May 2026

On Tuesday, 12 May 2026, Treasurer Jim Chalmers handed down the 2026-27 Federal Budget, his 5th Budget. The Treasurer announced major reforms to CGT, negative gearing and the taxation of trusts.

Tax measures include

\* 50% CGT discount abolished - to be replaced with an inflation-adjusted indexation method. (subject to transitional arrangements) for all CGT assets held by individuals, trusts and partnerships for more than 12 months; An exception will apply for new builds of residential properties;

\* CGT minimum 30% rate - will apply on realised gains (including for pre-1985 assets);

\* Minimum 30% tax on discretionary trusts; Negative gearing - to be limited to new builds; Residential properties currently owned at Budget time (7:30 pm AEST 12 May 2026) will be excluded until they are sold;

\* A new \$250 working Australians tax offset (WATO) - will apply to all eligible Australian workers for their income derived from work;

\* \$1,000 standard deduction - confirmed for work-related expenses;

\* \$20K instant asset write-off for small businesses - permanently extended

\* Loss carry-back regime - to be reintroduced for certain businesses and start-ups;

\* FBT exemption for EVs - the full FBT exemption for electric vehicles (EVs) will be phased out and replaced with a temporary \$75,000 threshold;

\* Loss refundability for small start-ups with aggregated annual turnover of less than \$10m that generate a tax loss in their first 2 years;

\* Venture capital tax incentives - the asset size caps will be increased;

\* R&D tax incentive - to be overhauled.

A Budget deficit of \$28.3bn is forecast in 2025-26.

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## MAJOR CGT, TRUSTS & NEGATIVE GEARING REFORMS

### CGT: discount replaced; min 30% tax on net capital gains from 1 July 2027

The Government will replace the current 50% CGT discount method with inflation-adjusted indexation method. 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. Gains accrued on existing investments prior to the start date will retain the 50% discount up to the start date. The changes only apply to gains on existing investments arising on or after 1 July 2027, i.e. 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.

There will be an exception for new builds, i.e. 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.

There is a proposed minimum tax rate of 30% (to be imposed after indexation has been applied).

Complying superannuation funds, including self-managed superannuation funds (SMSFs), will continue to receive a CGT discount percentage of 33 1/3%

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### **Minimum tax of 30% on discretionary trust taxable income from 1 July 2028: new rollover provisions proposed**

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.

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 (i.e. 30%) than they would on the rest of their taxable income (i.e. currently 0% or 16%).

The trustee will have to withhold the tax upon lodgement from distributions and pay that tax to the ATO. Then the beneficiaries (except corporate beneficiaries) will receive a **non-refundable tax credit** for the tax paid by the trustee when they lodge their personal tax returns.

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.

To encourage trusts to be restructured as companies or fixed trusts temporary rollover relief will be available for 3 years from 1 July 2027.

### **Negative gearing: limited to new builds from 1 July 2027, currently owned residential properties excluded**

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.

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 Budget time (i.e. 7:30 pm AEST 12 May 2026), until they are sold.

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## **PERSONAL TAXATION**

### **\$250 working Australians tax offset (WATO) 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.

### **Standard \$1,000 deduction for work-related expenses confirmed from 2026-27**

The measure 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.

Assessable labour income includes amounts included in 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.

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.

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.

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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 (e.g. 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

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.

### Substantiation provisions to be repealed

The standard deduction will replace the existing \$300 no-receipt threshold and the \$150 laundry expense concession, with corresponding provisions and definitions repealed.

The award transport payment substantiation concession and related car expense rule are also proposed to be repealed. This applied if your employer paid you a specific travel allowance under an industrial award that was in force on 29 October 1986. The taxpayer did not need to keep written records if certain conditions were met.

### 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 s 58X FBTA 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.

### Private health insurance rebate cut for those aged 65 and over from 1 April 2027

The Budget confirmed that the private health insurance rebate will be reduced for those aged 65 and over. The Government would return the private health insurance rebate for older Australians to the level paid for those under age 65.

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## BUSINESS TAXATION

### Reintroduction of the loss carry-back regime from 1 July 2026

The Government will reintroduce the loss carry-back regime for most businesses and start-ups. From 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 2 years earlier. Loss carry-back will apply to revenue losses only and will be limited by a company's franking account balance

### 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 \$10m.

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 5 years after opting out will also continue to be suspended until 30 June 2027.

### Venture capital tax incentives: asset size caps to be increased from 1 July 2027

The venture capital tax incentives will be expanded to better facilitate venture capital investment and support early stage and growth businesses by global and local investors, including super funds. Certain asset caps will be increased, including the:

- venture capital limited partnership (VCLP) cap on the asset size of the investee business at the time of investment will be increased to \$480m from \$250m;
- 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 \$80m from \$50m;
- 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 \$420m from \$250m; and
- Maximum fund size of ESVCLPs will be increased to \$270m from \$200m.

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The proposed 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) on 12 May 2026.

### **R&D tax incentive overhaul from 1 July 2028**

- 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 (e.g. literature review and equipment maintenance) for the R&DTI;
- Increasing 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
- 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.

### **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 \$10m that generate a tax loss in their first 2 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.

### **FBT exemption for EVs: full exemption to be phased out; temporary \$75,000 threshold proposed**

Proposed changes Details of the changes are as follows (references are to the FBT year, i.e. 1 April to 31 March).

- 2026-27: no change. 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.
- 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 9 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).
- 2027-28 and 2028-29 (i.e. 2 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.
- 2029-30 onwards: all EVs below the luxury car tax threshold will receive a 25% discount on payable FBT. Note that the LCT threshold for 2025-26 is \$91,387. This is reviewed annually

### **Expansion of dynamic 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.

Taxpayers with a demonstrated history of non-compliance will be required to report and pay PAYG instalments monthly.

### **Small business debt helpline extended**

The Government will provide funding over 3 years to extend the Small Business Debt Helpline financial counselling program and the NewAccess for Small Business Owners mental health coaching program to 30 June 2027.

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## SUPERANNUATION

### No major new super measures announced

#### Complying super funds continue to receive 33 1/3% CGT discount

Complying superannuation funds, including self-managed superannuation funds (SMSFs), will not be 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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## OTHER MEASURES

### GloBE (Pillar Two) side-by-side package implementation from 1 January 2026

The Government will amend Australia's global and domestic minimum tax legislation, introduced in 2024, to implement the side-by-side package agreed by the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting on 5 January 2026. The side-by-side package introduces new safe harbours and extends existing transitional measures to reduce the compliance burden for in-scope multinational enterprises (MNEs) by reducing duplication where domestic minimum tax regimes already apply.

### Foreign resident CGT concession: investment in renewables (Proposed to apply from the first day of the next quarter after the Bill receives Royal Assent to 30 June 2030).

From 1 January 2025, the withholding rate for foreign residents disposing all relevant property was increased to 15% and the former \$750,000 threshold was removed, so withholding can apply to all relevant disposals unless the vendor provides a valid ATO clearance certificate or obtains a variation.

To support climate change, a targeted limited-time CGT concession has been announced and will be available for foreign investors disposing of certain renewable energy infrastructure:

### Supervision funding for MIS sector from 2026-27

The Government will strengthen governance requirements, supervision and enforcement in relation to managed investment schemes (MIS), including providing funding to ASIC to enhance its ability to utilise data in its supervision of the MIS sector. The government will provide funding to ASIC, the Office of the Australian Auditing and Assurance Standards Board and Treasury so they can strengthen governance requirements for managed investment schemes.

### Rental income supplement Youth Allowance and ABSTUDY

The Government will provide States and Territories with funding for community housing providers to supplement rental income for social housing for over 4,000 eligible young people, aged 16-24, who are in receipt of the Away from Home rate of Youth Allowance or ABSTUDY and who are at risk of, or experiencing, homelessness.

### Increasing withdrawal limit for estate expenses

The Government will make managing bereavement costs easier for families by increasing the bank account withdrawal limit for deceased persons' estate related expenses from \$15,000 to \$30,000 including funeral expenses and expressly provide for the payment of court filing fees from an account.

### Reducing reporting burden for large proprietary companies

The Government will relieve the reporting burden for large proprietary companies by increasing monetary thresholds from \$50m to \$100m of consolidated revenue and \$25m to \$50m of consolidated gross assets. Australian businesses that cease to meet these new thresholds would no longer need to lodge an annual audited financial report.

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