2026-27 Federal Budget Measures

Summary of Proposed Changes

Loss Carry Back

To support resilience and investment, the Government has announced that it will permanently reintroduce the loss carry back rules, allowing companies to carry back a tax loss and apply it against income tax paid in earlier income tax years. These provisions were last seen during the COVID years.

Under these provisions, companies with an aggregated global annual turnover less than $1b will be able to carry back income tax losses incurred in the income tax years commencing 1 July 2026 to offset against income tax paid up to two years earlier. The loss carry back will apply to income tax losses only. The amount of the carry back will be limited by the company's franking account balance.

Reporting relief for large propriety companies

The Government has announced it is looking to reduce reporting obligations by raising monetary thresholds for large proprietary companies from $50m to $100m of consolidated revenue and $25m to $50m of consolidated gross assets. As a result, Australian businesses that fall under these amounts will no longer need to lodge an annual audited financial report, directors' report or sustainability report.

Negative Gearing

From 1 July 2027, losses relating to established residential investment properties acquired after 7.30pm (AEST) on 12 May 2026 will no longer be deductible against an individual's broader taxable income. Instead, these losses will be quarantined such that they can only be offset against rental income or capital gains derived from residential properties. Any excess losses will only be carried forward and applied against future residential property income or gains.

As a transitional measure, the established residential properties acquired between 7.30pm (AEST) on 12 May 2026 and 30 June 2027, current negative gearing arrangements will continue to be eligible until 30 June 2027. However, from 1 July 2027, any rental losses attributable to these properties will be subject to the new quarantining rules.

These changes will not apply to the following:

- Eligible new builds.
- Established residential properties acquired before 7.30pm (AEST) on 12 May 2026 up to the point of disposal.
- Properties in widely held trusts (for example, most managed investment trusts).
- Properties in superannuation funds (including SMSFs).

Capital Gains Tax

The Government announced it intends to introduce legislation to amend the Capital Gains Tax (CGT) discount. The current law allows individuals, partners in partnerships, and trusts to discount capital gains realised on the disposal of CGT assets held for more than 12 months by 50 per cent.

Under the proposed legislation, from 1 July 2027, the 50 per cent discount will be replaced by a cost-base indexation method. This method will allow taxpayers to index the cost base of CGT assets held for more than 12 months. Additionally, a 30 per cent minimum tax on net capital gains will apply for capital gains made by individuals, trusts and partners in partnerships.

The changes will apply to all CGT assets, including pre-CGT assets disposed from 1 July 2027. Under the transitional arrangements, the impact on existing investments will be limited by ensuring the changes only apply to gains arising on or after 1 July 2027. The 50 per cent CGT discount will continue to apply to gains arising before 1 July 2027, and capital gains on pre-CGT assets arising before 1 July 2027 will continue to be exempt from CGT. Investors in new residential housing will be able to choose between applying the:

- 50 per cent CGT discount, or
- the cost-base indexation method and 30 per cent minimum tax on the capital gain.

In addition, income support payment recipients, including aged pension recipients, will be exempt from the minimum tax.

Discretionary Trusts

The Government announced it intends to introduce legislation to amend the way in which discretionary trusts are taxed. Under the proposal, trustees of discretionary trusts will be subject to a 30 per cent tax on the taxable income of the trust. Beneficiaries of these trusts, other than corporate beneficiaries, will receive a non-refundable credit for the tax paid by the trustee. These changes are proposed to apply from 1 July 2028.

The Government has also acknowledged that family trusts can be used for non-tax purposes, such as for holding family primary production assets and for estate planning. In light of this, the Government has decided to exclude primary production income, income of vulnerable minors, income which is already subject to the non-resident withholding tax, and income from discretionary testamentary trusts.

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.

These proposals do severely alter the current benefits associated with corporate beneficiaries (‘bucket companies’) as no credit is available with respect to tax paid at the trust level, ultimately resulting in an overall tax rate of such distributions of 55-60%.

To assist small businesses and other taxpayers wanting to move from a discretionary trust structure to an alternative structure, such as a company or fixed trust, rollover relief will be provided for 3 years from 1 July 2027.

$20,000 Instant Asset Write-Off Threshold

As part of the 2026 Federal Budget, the $20,000 instant asset write-off is set to become a permanent tax scheme for small business owners to access.

The instant asset write-off allows eligible small businesses to claim immediate deductions for new or second hand plant and equipment asset purchases such as vehicles, tools and office equipment. The assets must first be used, or installed for use, in the income year you’re claiming for.

The measure applies on a per asset basis, and is available to businesses with aggregated annual turnover of less than $10 million.

$250 Working Australians Tax Offset (WATO)

The Government will deliver new tax cuts for every working Australian taxpayer by introducing a $250 Working Australians Tax Offset (WATO). Over 13 million Australian workers will benefit from the WATO for income earned from 1 July 2027. This is on top of the first round of tax cuts that were rolled out in 2024 and two further tax cuts already coming into effect over the next two years.

The WATO will provide a permanent annual tax offset of up to $250 for income earned by Australian workers from 1 July 2027, increasing the effective tax-free threshold for workers by nearly $1,800 to $19,985 (or up to $24,985 for workers eligible for the Low Income Tax Offset).

The WATO will reduce tax on income from work – helping workers keep more of what they earn. The WATO will be made available via the lodgement of a taxpayers annual return. The WATO will also be available to sole traders running their own businesses.

$1,000 Tax Deduction

The Government is seeking to introduce a $1,000 instant tax deduction for work-related expenses to offset employment income. The instant tax deduction will make tax time simpler with the intention of delivering more cost-of-living relief for workers from the 2026–27 income year. Around 6.2 million workers (42 per cent of taxpayers) will benefit in 2026–27, with an average tax saving of $205.

The instant tax deduction allows employees to reduce their taxable income by up to $1,000 without keeping receipts when they lodge their tax return. Taxpayers claiming more than $1,000 in work-related deductions will still be able to claim and prepare their return in the usual way. Charitable donations, union and professional association membership fees and other non-work related deductions can still be claimed on top of the instant tax deduction.