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# **2026-27** **Federal Budget Report**

MBC Group Services

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# Budget 2026-27: at a glance

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On Tuesday, 12 May 2026, Treasurer Jim Chalmers handed down the 2026-27 Federal Budget, framing the more significant announcements around a broader plan to help young Australians access the property market.

The Government has called this its most ambitious budget in decades. Changes to negative gearing and the capital gains tax discount sit at the centre of it, though the Treasurer acknowledged that housing supply remains the real problem — the tax changes are one piece of a larger puzzle, not the whole answer.

The budget lands against a difficult backdrop. Global fuel price shocks, persistent inflation, rising interest rates and ongoing housing affordability pressures have all shaped what was announced. The impact, if the measures are legislated as proposed, will be felt across a wide cross-section of the community — individual taxpayers, investors, small business owners, farming families and employers among them.

One notable absence: superannuation has been left alone this year.

The detail matters here more than the headlines. Here is what is most relevant to you.

## **Personal tax**

A new \$250 Working Australians Tax Offset applies from 2027-28, on top of the income tax rate cut already legislated. From 1 July 2026, you can also claim a \$1,000 deduction for work-related expenses without receipts.

## **Capital gains tax**

The 50% CGT discount is being replaced from 1 July 2027 with CPI-based indexation and a 30% minimum tax on real gains. Gains already accrued are protected under transitional rules. If you hold significant assets, establishing their value before July 2027 is a priority.

## **Negative gearing**

From 1 July 2027, negative gearing on established residential property is limited to investments held before budget night. New builds retain full negative gearing. Losses on newly purchased established properties will be quarantined against future property income rather than wages.

## **Discretionary trusts**

From 1 July 2028, a minimum 30% tax rate applies to discretionary trust distributions. Primary production income is excluded, which is important for farming families, but non-farming income held in the same trust is caught. Rollover relief is available from 1 July 2027 for those who want to restructure. If you use a family trust, this needs attention well before the implementation date.

## **Business measures**

The \$20,000 instant asset write-off is now permanent for small businesses from 1 July 2026. Companies can carry losses back against tax paid in prior years to generate a cash refund. Early-stage start-ups will have access to refundable losses from 2028-29.

## **Health and aged care**

Additional funding for Urgent Care Clinics, \$25 billion for public hospitals, new PBS listings, and NDIS reforms. Private health insurance subsidies for Australians over 65 are being reduced from April 2027.

## **Defence and fuel security**

Defence spending increases by \$53 billion over ten years. A \$14.8 billion fuel security package has been announced, with the existing fuel excise reduction continuing from 1 April 2026.

## **A note on these announcements**

Unless otherwise noted, everything in this document reflects Budget announcements only. There is no guarantee that measures will be legislated as announced, or at all. We will keep you updated as things progress.

## **The MBC Group Services**

# Our team

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The MBC Group Services and MBC Wealth teams are available to help you understand how the budget and any enacted measures might impact you. We can assist you in capitalising on any opportunities or minimise your risk.

As always, the detail is important, so please let us know if we can assist.

# Individuals and families

## A new tax offset

**Start date:** 1 July 2027

The Government will provide a \$250 'Working Australians Tax Offset' from the 2027–28 income year.

The offset will be a permanent feature of the tax system and is aimed at taxpayers who derive income from work, such as employees who receive a salary or wages and sole traders who carry on a business.

The offset increases 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).

### Resources

[New tax cuts for Australian workers](#)

## \$1,000 instant tax deduction for workers

**Start date:** 1 July 2026

During the 2025 federal election campaign, the Labor Party committed to introducing a \$1,000 instant tax deduction for work-related expenses. On 20 April 2026 Treasury released draft legislation on this proposal for public consultation.

The key feature of the proposal is that Australian residents will be able to claim a

standard deduction for work-related expenses from the 2026-27 income year onwards, capped at the lower of \$1,000 and the individual's assessable labour income. The normal substantiation rules would not apply when claiming the standard deduction.

Charitable donations, union dues, and fees for professional association memberships would be deducted above the standard deduction.

Taxpayers who have incurred more than \$1,000 in qualifying work-related expenses can instead choose to claim their actual expenditure as a deduction, but will need to substantiate these expenses.

The draft legislation contains some other proposed changes to the tax system, including:

- Depreciating assets primarily used to generate labour income won't qualify for the low-value pooling rules.
- Modified rules will apply to determine the tax impact of the sale of assets used to produce labour income.
- An FBT exemption that currently applies when certain work-related items are provided to employees under a salary packaging arrangement will be removed.

### Resources

[\\$1,000 instant tax deduction to deliver lower, simpler taxes for 6.2 million workers](#)

[Instant tax deduction – exposure draft](#)

## Income tax cuts

**Start date:** 1 July 2026

Legislation has already been passed to reduce the 16% tax rate on taxable income between \$18,201 and \$45,000 to 15%. The rate will then drop to 14% from 1 July 2027.

This was announced in the 2025-26 Federal Budget.

### Resources

[Tax cut calculator](#)

## Medicare levy thresholds increased

**Start date:** 1 July 2025

The Government will increase the Medicare levy low-income thresholds for singles, families, and seniors and pensioners.

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.

## Investors

### Limits on negative gearing

**Start date:** 1 July 2027

The term 'negative gearing' refers to the situation where a rental property owner claims deductions for expenses associated with holding the property that exceed the rental income that is received in the relevant income year.

The loss that is generated from a rental property can typically be offset against other income (including salary, wages and net capital gains) to reduce overall taxable income or create a tax loss that can be carried forward to future years.

However, the parameters around negative gearing for residential property are set to change with the Government announcing that existing negative gearing rules will only be available in connection with new builds from 1 July 2027.

From this date onwards, losses from established residential properties that are acquired from 7:30pm (AEST) on 12 May 2026 will only be deductible against rental income or capital gains from residential properties. Excess losses will be carried forward to be offset against residential property income in future years.

'New builds' are residential properties which genuinely add to supply, such as dwellings constructed on vacant land and situations where existing properties are demolished and replaced with a greater number of dwellings.

Knock-down rebuilds or substantial renovations that do not increase supply will not be treated as new builds.

Properties acquired before 12 May 2026 will be exempt from the changes and the changes won't apply to managed investment trusts or superannuation funds. Also, the changes don't impact on other asset classes such as commercial properties or shares.

#### Resources

[Negative Gearing and Capital Gains Tax Reform](#)

## CGT discount and pre-CGT exemption replaced by indexation and minimum tax rate

**Start date:** 1 July 2027

The CGT discount has enabled individuals, trusts and complying superannuation funds to reduce the taxable capital gain made on disposal of an asset that has been held for more than 12 months. The standard discount rate is 50% for trusts and individuals (although lower discount rates can apply to non-residents and temporary residents in some cases), with a 1/3 discount applying to superannuation funds.

However, from 1 July 2027 the Government is planning to revert to an indexation system based on the Consumer Price Index (CPI), much like the system that applied between 1985 and 1999. Indexation would only be

available for assets that have been held for more than 12 months.

In addition to this, a minimum tax rate of 30% will apply to capital gains that accrue from 1 July 2027. There will be some exceptions to this for recipients of means-tested income support payments (eg, Age Pension, JobSeeker).

Assets acquired before 20 September 1985 (referred to as pre-CGT assets) have historically been exempt from CGT, but this exemption will no longer apply from 1 July 2027.

Transitional rules will limit the impact of these changes for existing investments. The existing CGT discount and exemption for pre-CGT assets will continue to apply the gains that accrued before 1 July 2027. Taxpayers will need to determine the value of existing assets on 1 July 2027 to enable CGT calculations to be undertaken.

The CGT changes apply to all asset classes, including property and shares. The changes will apply to individuals, trusts and assets held by partnerships.

Having said all that, investors in new residential properties will be able to choose to apply either the 50% CGT discount or cost base indexation and the minimum tax.

#### Resources

[Negative Gearing and Capital Gains Tax Reform](#)

# Minimum tax on family trust distributions

**Start date:** 1 July 2028

The Government has announced that a minimum 30% tax rate will apply to distributions made by discretionary trusts.

Discretionary trusts (often referred to as family trusts) have become a widely used structure for both investment and business activities. One of the key features of a discretionary trust is that the trustee is typically given the power to decide how to allocate income and capital gains made by the trust across family members and related entities.

This flexibility means that discretionary trusts can be used as an effective tax planning tool in many cases. For example, income distributed to an adult child could potentially be tax-free if the child has no other income and distributions are capped at the tax-free threshold for individuals.

However, the Government has announced that from 1 July 2028 onwards the trustee of a discretionary trust will pay a minimum 30% tax on the taxable income of the trust. Individuals and other non-corporate beneficiaries will receive a non-refundable tax credit for the tax paid by the trustee.

The non-refundable credit will not be available for corporate beneficiaries (often referred to as bucket companies). It seems like the changes are being made partly to discourage trustees from distributing income to corporate beneficiaries.

The Government has indicated that a limited form of rollover relief will be available for

three years from 1 July 2027 for small businesses and others who wish to restructure out of a discretionary trust into a company or fixed trust. The rollover relief might help to minimise CGT and other income tax implications, but broader issues such as stamp duty will need to be carefully considered before any changes to an existing structure are implemented.

The minimum tax will not apply to fixed and widely held 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 that are subject to non-resident withholding tax and income from assets of testamentary trusts existing at 12 May 2026 will also be excluded.

## Resources

[Minimum tax on discretionary trusts](#)

## What the trust changes mean for farming families

Primary production income is excluded from the 30% minimum trust tax. This means that if your discretionary trust holds a farming business and that income is classified as primary production income, it will not be caught by this measure. For many farming families, the trust structure can continue to work as intended for farm income.

However, many farming family trusts also hold non-farming assets such as shares, cash investments, or residential or commercial rental properties. Income from those assets will be subject to the 30% minimum tax. This creates a split situation within the same trust structure, where some income is excluded and some is caught, requiring new levels of administration, tracking and reporting from 1 July 2028.

Three years of rollover relief will be available from 1 July 2027 for those who choose to restructure out of a discretionary trust into a company or fixed trust. For farming families, restructuring requires careful consideration beyond the income tax implications. State-based stamp duty on land transfers, primary production land concessions, and succession planning implications all need to be worked through before any changes to an existing structure are made.

#### **Key point for farming families**

The primary production exclusion protects farm income within your trust, but does not protect other income streams held in the same structure. If your trust holds a mix of farming and non-farming assets, a review of how income is categorised and reported will be required before 1 July 2028. Talk to your adviser now rather than waiting for the implementation date.

## **Pre-1985 farmland: action required before 1 July 2027**

As noted in the CGT section above, the exemption for assets acquired before 20 September 1985 is being removed for gains

that accrue from 1 July 2027. For farming families, this has specific and significant implications.

Multi-generational farming properties acquired before September 1985 have historically been exempt from CGT on disposal. That exemption will no longer apply to gains that accumulate after 1 July 2027. Gains accrued up to that date remain exempt under transitional rules, but any growth in land value from 1 July 2027 onward will be subject to the new CGT regime when the property is eventually sold or transferred.

**What this means in practice:** the value of the property on 1 July 2027 will become the new cost base for CGT purposes going forward. This valuation needs to be established before that date. Farming families with pre-1985 land should arrange a formal property valuation as a priority item in 2026-27 planning. Without it, calculating the future CGT liability on eventual sale or succession will be significantly more difficult.

## **Small business CGT concessions: unchanged and still available**

The 2026-27 Budget has not changed the small business CGT concessions. These concessions are central to most farm succession and exit strategies and their survival intact is the most important positive news for farming families in this budget.

The concessions that remain available include the 15-year active asset exemption (which can eliminate CGT entirely on the sale of a business active for 15 or more

years), the retirement exemption (up to \$500,000 in CGT-free proceeds where the proceeds are paid into superannuation or received after age 55), and the small business rollover (which defers CGT liability). These concessions interact with the new 30% minimum CGT tax introduced by this budget, and the way they operate together will need to be considered as part of any succession or exit planning.

#### **Farm succession planning: what has not changed**

Farm Management Deposits, income tax averaging, and immediate deductions for primary production infrastructure (fencing, water facilities, fodder storage, pumps and pipes) remain unchanged. These are longstanding concessions available to primary producers and have not been altered by the 2026-27 Budget. They should continue to be factored into annual tax planning. Discuss your eligibility with your adviser each year as your farm income and asset position changes.

## **Foreign resident CGT concession**

**Start date:** The first day of the next quarter after receiving Royal Assent

The Government will provide a concession in the foreign resident CGT regime for investment in the renewables sector.

The transitional arrangement will apply to foreign investors disposing of certain renewable energy infrastructure assets from the start date until 30 June 2030.

## **Venture capital tax incentives**

**Start date:** 1 July 2027

The Government will expand the scope of existing tax incentives which relate to venture capital limited partnerships and early stage venture capital limited partnerships.

## **Business and employers**

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### **Instant asset write-off**

**Start date:** 1 July 2026

The Government has announced that the cost threshold for the purpose of applying the instant asset write-off for small business entities will be permanently increased to \$20,000 from 1 July 2026.

The instant asset write-off allows eligible small business entities with aggregated turnover of less than \$10 million to claim an immediate deduction for the full cost of depreciating assets which cost less than a specified dollar threshold. While the default threshold is \$1,000, higher temporary thresholds have been implemented on a year-to-year basis since 2015, often leading to confusion and uncertainty.

A permanent increase in the cost threshold to \$20,000 should be welcome news to small business taxpayers who will have a greater level of confidence when it comes to investing in new plant or equipment or upgrading business assets.

In order to qualify for the immediate deduction, the cost of the asset must be less than \$20,000, after subtracting any GST credits that can be claimed.

The cost threshold applies on an asset-by-asset basis, so an immediate deduction could potentially apply to multiple assets that are purchased for less than \$20,000 in a particular income year, even if the aggregated cost of those assets is \$20,000 or more.

Assets that cost \$20,000 or more can continue to be added to a small business pool.

Just a quick reminder, the threshold for the current income year that ends on 30 June 2026 had already been increased to \$20,000.

#### Resources

[Backing small businesses to grow, compete and build resilience](#)

## FBT on electric cars

### Start date: 1 April 2027

On 5 May 2026 the Government announced that the FBT exemption for electric cars would be gradually scaled back over the next few years.

The FBT exemption for electric cars was introduced in the 2022-23 income year as part of a broader initiative to reduce the cost of electric vehicles and increase uptake.

While the exemption has been phased out for plug-in hybrid electric vehicles from 1 April 2025 (with pre-existing arrangements

still qualifying for the exemption in some cases), a full FBT exemption still applies to battery electric vehicles and hydrogen fuel cell electric vehicles that are provided as fringe benefits to employees if certain conditions can be satisfied.

However, the Government is planning to progressively reduce the scope of the FBT exemption on the following basis:

- The FBT exemption will continue to operate in its current form until 31 March 2027.
- From 1 April 2027 to 31 March 2029 the full FBT exemption will only be available if the car costs \$75,000 or less. Electric cars above this threshold but costing less than the luxury car tax (LCT) threshold for fuel-efficient cars will receive a 25% FBT discount.
- From 1 April 2029 all electric cars costing less than the LCT threshold will receive a 25% FBT discount.

The Government indicates that existing lease arrangements won't be impacted by these changes.

When an electric car is provided to an employee and it qualifies for concessional FBT treatment under these measures it will still be necessary for employers to calculate the reportable fringe benefits amount, ignoring the application of the FBT exemption or discount. This can impact on other areas of the tax and social security systems.

#### Resources

[Fairer tax treatment to encourage affordable EVs](#)

## Loss carry back for companies

**Start date:** 1 July 2026

For income years commencing on or after 1 July 2026 the Government will allow companies with aggregated annual global turnover of less than \$1 billion to carry back a tax loss and offset it against tax paid up to two years earlier.

The ability to carry back a loss will only apply to tax losses (not capital losses) and will be limited by the company's franking account balance.

## Loss refunds for small start-up companies

**Start date:** 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.

## PAYG instalments

**Start date:** 1 July 2027

The Government will provide funding to the ATO to expand its pilot of dynamic PAYG instalment calculations.

From 1 July 2027, small and medium businesses will be able to opt in to reporting and paying PAYG instalments monthly and will be able to use an ATO-approved

calculation that is embedded in accounting software to calculate and vary instalments.

## R&D tax incentive

**Start date:** 1 July 2028

The Government will reform the Research and Development (R&D) Tax Incentive which provides a tax offset for eligible companies that undertake R&D activities.

While the Government is planning to increase the tax offset rate for core R&D expenditure, supporting R&D expenditure will no longer qualify and the minimum amount of expenditure that must be incurred in an income year to qualify for the offset will be increased from \$20,000 to \$50,000 (with some limited exceptions).

## Minimum tax for multinationals

**Start date:** 1 January 2026

The Government will amend Australia's global and domestic minimum tax legislation as part of broader reforms to the international corporate tax system.

# Government and regulators

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## Protecting the tax system against fraud

**Start date:** 1 July 2026

The Government will provide \$86.3 million over four years to help detect and prevent fraud in the tax system.

The Government will also strengthen the ATO's ability to combat fraud by tax agents and other intermediaries. The ATO will be given powers to pause the recovery of tax debts of taxpayers who are victims of fraud by tax intermediaries, and waive those debts in appropriate circumstances, and to recover the debts from the tax intermediaries.

The ATO will undertake additional targeted compliance activities to further address fraud in the system, including in relation to the R&D Tax Incentive.

# The economy

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## Global tensions

The conflict in the Middle East has triggered substantial economic and energy disruptions across the world, driving global inflation higher, global growth lower, and compounding uncertainty and volatility. The impacts on the Australian economy will be felt for some time.

## Growth

Higher inflation is expected to impact on growth in real incomes and household consumption.

As a result, growth in the Australian economy is forecast to slow from 2.25% in 2025-26 to 1.75% in 2026-27.

Growth in the Australian economy is expected to increase to 2.25% in 2027-28.

## More deficits to come

The budget deficit for 2026-27 is forecast to be \$31.5 billion, which represents an improvement of \$2.8 billion compared to the Mid-Year Economic and Fiscal Outlook (MYEFO).

The budget is projected to return to balance in 2034-35 and a surplus of 0.8% of GDP in 2036-37.

## Debt

Gross debt is estimated to reach \$1,051 billion (that's over \$1 trillion) at 30 June 2027. This represents 34% of GDP.

This figure is expected to increase to \$1,249 billion (35.6% of GDP) at 30 June 2030.

Net debt in 2026-27 is expected to be 19.9% of GDP.

Interest payments on Australian Government Securities are estimated to be \$27.7 billion in 2026-27, increasing to \$40.4 billion by 2029-30.

## Employment

The unemployment rate has been broadly stable over the last year and is expected to remain relatively low by historical standards.

The unemployment rate is expected to rise gradually from 4.25% in the June quarter 2026 to 4.5% in the June quarter 2027.

Employment is forecast to grow by 1.5% through the year to the June quarter 2026 and the June quarter 2027 and 1.75% through the year to the June quarter 2028.

## Wages

The Wage Price Index is forecast to grow by 3.25% through the year to the June quarter 2026, before increasing to 3.5% through the year to the June quarter 2027 and the June quarter 2028.

The recent increase in inflation is expected to result in a decline in real wages over 2025-26. Real wages are forecast to grow again in 2026-27 and 2027-28 as inflationary pressures ease.

## Inflation

Headline inflation is forecast to be 5% through the year to the June quarter 2026.

Headline inflation is forecast to decline to 2.5% by the June quarter 2027, but this is

based on the assumption that global oil prices will ease over 2026-27, which remains to be seen.

**Resources**

[Budget Paper No. 1](#)