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and accounting

ESV

# 2026 Federal Budget

Our expert analysis with  
David Prichard



# 2026 Federal Budget White Paper

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## 2026 Federal Budget White Paper

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### Introduction

Treasurer Jim Chalmers handed down his fifth budget last night, with the sound bites framed around tax reform, productivity and savings initiatives. Whilst the changes in some areas are significant, the reforms still fall short of what many commentators see as being required.

Despite promises from both the Treasurer and Prime Minister in the run-up to the last Federal election promises have been broken and whether Labor will have this trust issue held against them by the Australian public will only be determined by the result of the next election. By this time, the pot could be sweetened by new, as yet unseen income tax cuts.

The policies announced last night either reflect or closely align to the policies taken to the election in 2019 when Labor lost. The changes to capital gains tax (CGT) discount, negative gearing and the taxation of discretionary trusts are expected to raise significant amounts of additional revenue for the government some of which will be used to provide the Working Australian Tax Offset (WATO).

The Treasurer has not provided any significant immediate cost of living relief measures in this budget presumably with a view to mitigating the inflationary impact of such a course of action.

Given the wide-ranging nature of the proposed changes and the flow on impacts, a significant amount of legislation will be required to progress the proposed changes. Historically, changes of this magnitude would often be watered down by the time that the legislation passes Parliament, however, given the Government's majority it is expected that the majority of the measures will apply with little or no changes.

Whilst the devil is always in the detail, taxpayers may wish to consider how these changes impact their affairs especially where discretionary trusts and capital appreciating assets have been invested in.

**It was a big night in Canberra last night as Treasurer Jim Chalmers handed down his fifth budget.**

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# Personal Tax

## 1

### Working Australians Tax Offset introduced.

### Working Australians Tax Offset (WATO)

With effect from 1 July 2027 a new tax offset will be introduced to provide a permanent annual \$250 tax saving (this will amount to a coffee a week in 2 years' time). The WATO will, however, only be available to taxpayers who derive income from wages and salaries or sole traders.

In simple terms the WATO will increase the effective tax-free threshold for 'income derived from work'. The WATO will impact a taxpayer's liability for the 2027-28 income year onwards.

## 2

### Major changes to CGT.

### \$1,000 – deduction

The previously announced measure provides a deduction for individuals work related expenses with effect from 1 July 2026. The standard deduction is capped at the lesser of \$1,000 and the taxpayer's total assessable labour income.

The standard deduction is reduced dollar-for-dollar by general and specified work-related expense deductions claimed (eg car, capital allowance, and COVID-19 test deductions).

If an individual's total covered deductions exceed \$1,000, the taxpayer will not receive the standard deduction and will instead claim the total amount of work-related expenses incurred for the income year.

The deduction is only available in relation to labour income (think salary and wages). The measure does not increase deductions but simply removes the need to have supporting invoices.

The deduction replaces the existing \$300 no-receipt threshold and the \$150 laundry expense concession.

Some deductions can be claimed separate to and independent of the standard deduction.

## 3

### From 1 July 2027, significant changes to negative gearing will be made.

### Private Healthcare Rebate

In another previously announced measure, the private health insurance rebate will be reduced for those aged 65 and over.

The changes remove the higher age-based private health insurance rebate tiers that currently apply (eg where the oldest person is 65 or over). This effectively makes private healthcare more expensive for older Australians with income levels above the relevant thresholds.

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## Income Tax

No changes were announced to the personal tax rates. The already-legislated tax cuts will apply from 1 July 2026 and 1 July 2027. Resident rates are as noted below.

### Australian tax residents (excluding Medicare)

Taxable Income (\$)	Rates in 2025-26 Tax payable (\$)	Rates in 2026-27 Tax payable (\$)	Rates in 2027-28 Tax payable (\$)
0 - 18,200	Nil	Nil	Nil
18,201 - 45,000	Nil + 16% of excess over \$18,200	Nil + 15% of excess over \$18,200	Nil + 14% of excess over \$18,200
45,001 - 135,000	\$4,288 + 30% of excess over \$45,000	\$4,020 + 30% of excess over \$45,000	\$3,752 + 30% of excess over \$45,000
135,001 - 190,000	\$31,288 + 37% of excess over \$135,000	\$31,020 + 37% of excess over \$135,000	\$30,752 + 37% of excess over \$135,000
Over 190,001	\$51,638 + 45% of excess over \$190,000	\$51,370 + 45% of excess over \$190,000	\$51,102 + 45% of excess over \$190,000

### Foreign residents

Tax rates for foreign residents remain unchanged:

Taxable income (\$)	Rates payable in 2026-27
0 - 135,000	30%
135,001 - 190,000	37%
Over 190,000	45%



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### Capital Gains Tax (CGT)

#### CGT Discount

Major changes have been announced and will impact investors in all asset classes not only property. The changes, as widely predicted remove the 50% discount to be replaced with an inflation-based adjustment mechanism. The new rules will apply from 1 July 2027.

There will be a complex set of transitional measures which are anticipated to apply as follows:

- > Assets acquired pre 12 May 2026 and sold pre 1 July 2027 – no changes.
- > Assets acquired pre 1 July 2027 and sold post 1 July 2027 – grandfathered CGT discount until 30 June 2027 with gains accruing after 1 July 2027 being subject to the new rules.

Taxpayers will have the option of valuing the assets as at 1 July 2027 or having the gain apportioned across the holding period when determining the split of gains subject to the CGT discount and the new rules.

Assets acquired after 1 July 2027 will be wholly under the new rules.

The changes outlined above are subject to an exclusion for investors who buy 'new builds' (residential property). These taxpayers will:

- > Be able to choose between the 50% CGT discount and the indexation / 30% minimum tax when they sell the property; and
- > Continue to have access to negative gearing (see below).

#### Pre-CGT Assets

Since CGT was introduced a grandfathering of assets held before the introduction of the tax has been in place. The changes have now removed that exemption.

The changes mean that gains accruing until 30 June 2027 will remain exempt from CGT and that gains accruing after that date will be subject to the new rules.

Similar to the assets acquired before 1 July 2027 tax payers have the option to value the assets as at 1 July 2027 to determine what gains are excluded.

# CAPITAL GAINS TAX

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### Tax Rate Applicable

In a significant shift in approach, from 1 July 2027 capital gains under the new rules will be subject to a 30% minimum tax rate. The minimum 30% tax charge will still be applied even when a taxpayer has a lower income tax rate.

An example has been provided in the Budget paper documents to how the anticipated minimum tax will apply:

*Jack has a taxable income before capital gains of \$25,000 in 2029–30 and realises a capital gain of \$10,000 on an asset that he purchased in 2027–28. Jack does not receive an income support payment so is not exempt from the minimum tax.*

*The tax on Jack's capital gain of \$10,000 is \$1,400, or a tax rate of 14 percent (excluding the Medicare levy). As this is lower than 30 percent, Jack pays an additional \$1,600 in tax to bring the tax rate on his capital gain up to 30 percent. Jack may have tax offsets available to reduce the minimum tax and would be exempt from the minimum tax if he received an income support payment in that year.*

### Superannuation funds

Treasury has indicated that complying superannuation funds are to continue to receive a CGT discount of 33 1/3% (ie no change in the current rules).



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### Negative Gearing

From 1 July 2027, significant changes to negative gearing (as it is currently viewed) will be made. The focus of the changes is directed towards new housing.

- > Existing properties held (including where a contract is entered into but not yet settled) at Budget time (ie 7:30 pm AEST 12 May 2026) will continue to be negatively geared until they are sold.
- > Properties acquired after Budget night but before 1 July 2027 can be negatively geared until 30 June 2027.
- > Properties acquired after 1 July 2027:
  - Existing properties cannot be negatively geared
  - New builds can continue to be negatively geared.

Treasury papers indicate that “new builds” are residential properties that genuinely add to the supply. This includes:

- > Dwellings on vacant land;
- > Properties where existing dwellings are demolished and replaced with a greater number of dwellings (eg creation of a duplex from an existing single dwelling block).

Properties that have been knocked down and rebuilt or have undergone significant renovations will not be eligible for the concession.

A new build cannot have been previously sold unless first owned by the builder and not occupied for more than 12 months.

The losses incurred on negatively geared properties which cannot be deducted under the new rules are to be carried forward with a view to offsetting against residential property income or gains in future years.

There appears to be no limitation on the number of properties that an investor can negatively gear.

There is currently no indication of how long the concessional treatment for new builds will be retained.

Importantly, the negative gearing changes only apply to residential real estate. Other asset categories such as commercial real estate, shares remain subject to the existing regime.

The changes to negative gearing apply to effectively all taxpayer types except widely held trusts (eg MIT's) and superannuation funds.



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### Trust Taxation

From 1 July 2028, trustees will pay a minimum tax of 30% on the taxable income of discretionary trusts. Initial indications are that the minimum tax will not apply to other types of trusts including fixed and widely held trusts, special disability trusts and deceased estates.

Certain types of income will be excluded from the 30% minimum tax 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.

The 30% minimum tax imposed on trustees will be available to certain beneficiaries in the form of a tax credit, however:

- > The tax credit will not be refundable to the beneficiary where the tax rate of the beneficiary is lower than 30%; and
- > The tax credit will not be available for a corporate beneficiary. This raises the real possibility of corporates that receive a distribution of income from a discretionary trust being taxed at a rate in excess of 50% (the trustee tax 30% plus the applicable corporate tax rate 25% / 30%).

Trustees that receive franked dividends will be required to use the franking credits to pay the minimum tax. As a result, the beneficiaries of the trust will receive the non-refundable credit not the refundable franking credit.

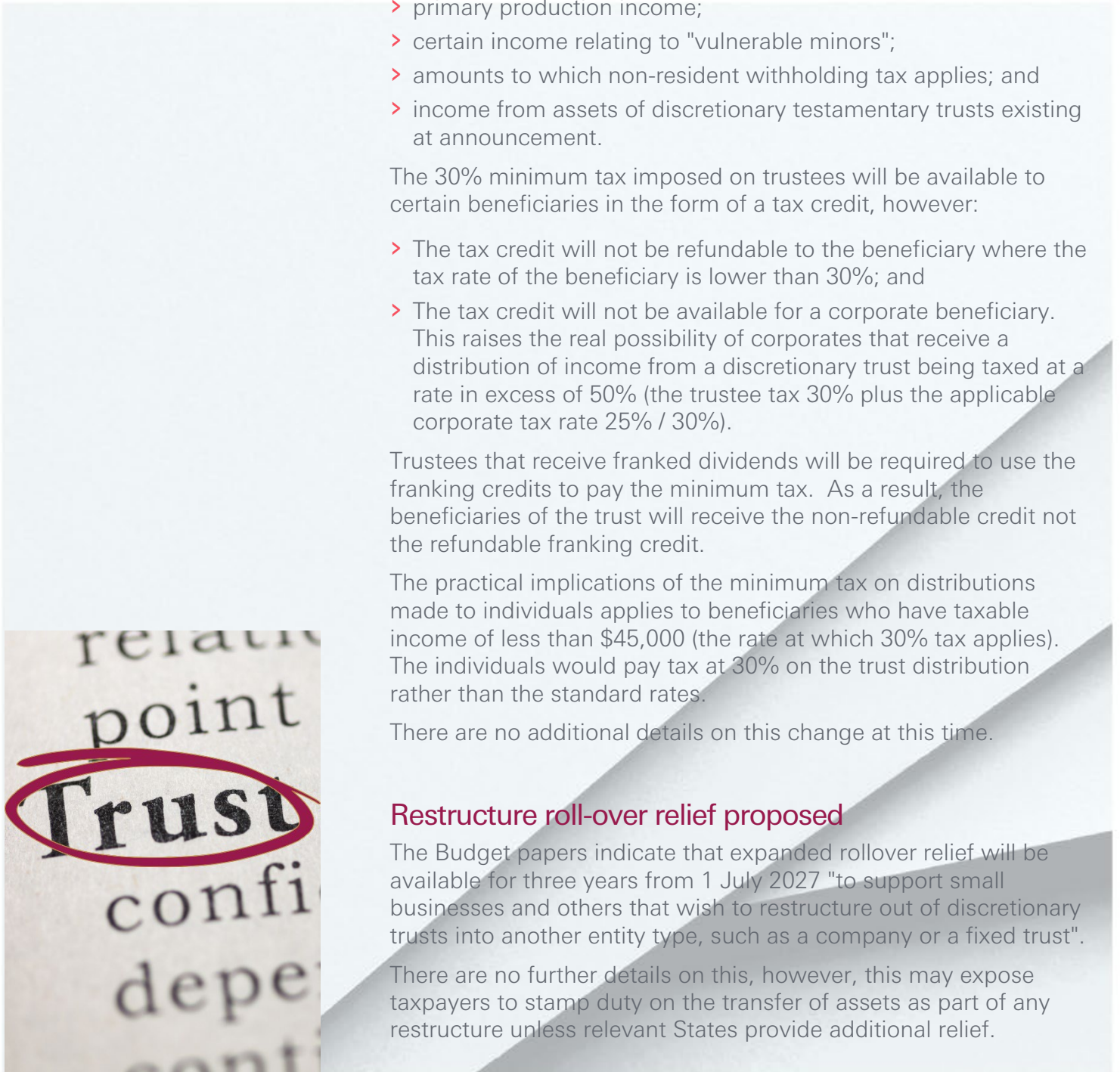
The practical implications of the minimum tax on distributions made to individuals applies to beneficiaries who have taxable income of less than \$45,000 (the rate at which 30% tax applies). The individuals would pay tax at 30% on the trust distribution rather than the standard rates.

There are no additional details on this change at this time.

### Restructure roll-over relief proposed

The Budget papers indicate that expanded rollover relief will be available for three years from 1 July 2027 "to support small businesses and others that wish to restructure out of discretionary trusts into another entity type, such as a company or a fixed trust".

There are no further details on this, however, this may expose taxpayers to stamp duty on the transfer of assets as part of any restructure unless relevant States provide additional relief.



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# Business Tax

## 1

**Additional funding for the ATO continues to counter fraud.**

## 2

**FBT – EV’s exemption to be phased out.**

## 3

**Venture Capital changes.**

### Loss carry back

The Government will reintroduce the loss carry-back regime with effect from 1 July 2026 utilising a similar mechanism to what was utilised during the COVID pandemic.

Companies with an aggregated global turnover of less than \$1bn will be able to carry back a loss and offset it against tax paid in the prior two income years subject to a limitation by the companies franking account balance.

The carry back is limited to revenue losses only.

### Instant asset write-off for small businesses - permanently extended

The continual annual extending of the instant asset write off is to be replaced with a permanent \$20,000 instant asset write-off for small businesses with a turnover of up to \$10m.

Assets valued at \$20,000 or more can be placed into the small business simplified depreciation pool, with the provisions that prevent small businesses from re-entering the simplified depreciation regime for five years after opting out are suspended until 30 June 2027.

### R & D

The R&D refund is being changed to focus on new or younger businesses. With effect from 1 July 2028, the R&D incentive will:

- > Have an increased turnover threshold for the highest offset rate from \$20m to \$50m;
- > Limit refundability to firms under 10 years of age;
- > Have:
  - An increase to the offset for core R&D expenditure by around 25% to 50%, through a 4.5% percentage point in substantial core R&D offset rates and an increase in maximum R&D expenditure to \$200m;
  - A reduction in the intensity threshold from 2% to 1.5%;
  - An increase in the minimum expenditure threshold to \$50,000.

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### Dynamic tax payments

From 1 July 2027, small and medium businesses will be able to opt into reporting and paying PAYG instalments monthly. This measure is designed to enable these businesses to adjust tax instalments to better reflect the current activity.

This option would appear to require taxpayers to use an ATO approved calculation embedded in accounting software to calculate and vary instalments.

Taxpayers who have a poor compliance history will be required to pay monthly.

### Loss refundability

In a bid to support start-ups, a loss refundability measure will be introduced with effect from 1 July 2028 for small start-up companies.

Start-up companies with aggregated annual turnover of less than \$10m that generate a tax loss in their first two years will be able to utilise the loss to generate a refundable tax offset capped at the value of fringe benefits tax and withholding tax on wages paid in respect of Australian employees in the loss year.

### FBT – EV's exemption to be phased out

The previously announced FBT concession has been taken up in greater numbers than initially envisaged - so now requires scaling back.

There will be no changes for the 2026/27 year, however:

- > 2027/28 and 2028/29 EV's costing more than \$75,000 but less than the luxury car threshold will receive a 25% discount. The full discount for EV's costing less than \$75,000 will continue.
- > 2029/30 all EV's costing less than the luxury car threshold will receive a 25% discount on FBT payable.

### ATO Funding

Additional funding will be given to the ATO to continue its compliance activities whilst an additional \$86m will be provided to assist the ATO counter fraud and modernise the detection and prevention of fraud in tax and super systems.



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### Pillar 2 Changes

To take effect from 1 July 2026, the Government will amend Australia's global and domestic minimum tax legislation to implement the side-by-side package agreed by the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting ("BEPS").

The side-by-side package introduces new safe harbours and extends existing transitional measures to reduce the compliance burden by reducing duplication where domestic minimum tax regimes already applies. This ensures Australia's global minimum tax rules remains consistent with other implementing jurisdictions.

### Venture Capital Changes

The venture capital tax incentives will be expanded to support early stage and growth businesses. From 1 July 2027, certain asset caps will be changed (the asset size of the investee business):

- > Venture capital limited partnership (VCLP) cap increased to \$480m;
- > Early stage venture capital limited partnership (ESVCLP) cap increased to \$80m;
- > ESVCLP tax incentive cap increased to \$420m; and
- > Maximum fund size of ESVCLPs increased to \$270m.

The proposed increases will apply to new and existing funds and certain other investments.



VENTURE CAPITAL

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### ESV Services

At ESV, we know how important your business is to you. We'll work closely with you on the parts of your company that matter most, taking a client-focused, hands-on approach to all of your business and accounting needs.

Coming from a range of business and financial backgrounds globally, our Partners have extensive experience working alongside businesses of all shapes and sizes. These include some of the world's largest organisations and multinationals to fast-paced start-ups and successful family businesses.

This breadth of experience – coupled with their specialist knowledge in a wide range of accounting and business services – allows our partners to take a proactive approach to all your needs, no matter how challenging.

Our services include:

- > Audit & Assurance
  - Process and systems improvement
  - Fraud and risk management
  - Due diligence
- > Business Advisory
  - M&A assistance
  - Budgeting and cash flow forecasting
  - Investment / property modelling
  - Family Office management
  - Governance, risk and compliance management solutions
  - Outsourced CFO / CFO support
  - Succession and estate planning
- > Taxation
  - Tax structuring & transactional advice
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  - Strategic tax planning
  - Outsourced Tax Director
- > ESG
- > Process improvement
- > Director services
- > Not for profit
- > Doing business in Australia



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### Your Budget Expert



"Understanding tax consequences can have a significant impact on your business and cash flow."

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David is a market leader in providing taxation services to businesses, family groups and high net wealth individuals. He has over 25 years' experience in the provision of taxation services including time at the 'Big 4' accounting firms in the UK and Australia and an 'in-house' stint at one of Australia's largest FMCG companies.

His specialist services include Corporate and Family Groups, Private Client Services, Tax Consolidations, Trusts, Structuring and Restructuring, International Tax including Thin Capitalisation, Due diligence for Mergers and Acquisitions and IPO, Tax Governance and Risk Management, Taxation of Financial Arrangements, Tax Controversy, Capital Gains Tax and Tax Training. David also acts for a number of clients in the role of 'Outsourced Tax Director' to provide specialist tax advice when a team needs it most.

David has extensive experience working with clients in a wide variety of industries including manufacturing and distribution, FMCG, IT and technology, professional services, energy, resources and property.

