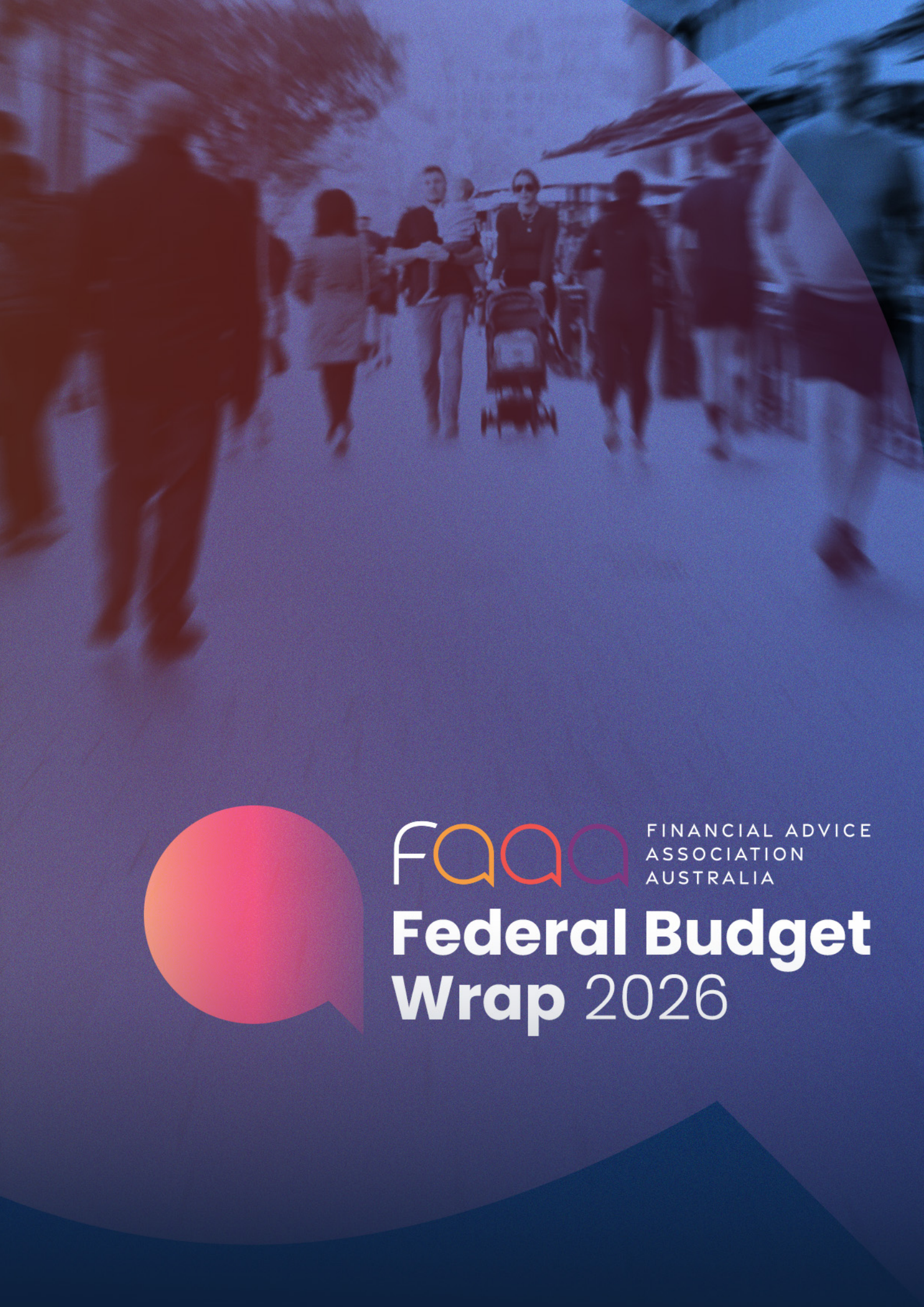




FQAA

FINANCIAL ADVICE
ASSOCIATION
AUSTRALIA

Federal Budget Wrap 2026

Overview

The 2026/27 Federal Budget includes some of the most significant reforms over the last two decades, with very broad implications for financial advisers and their clients. Whilst the key changes have occurred in the areas where they were expected, the nature and scale of the reforms have been substantial. This will generate a lot of work for financial advisers.

In this year's Federal Budget Wrap we have focused our attention on these key tax changes and other key reforms that are most relevant to financial advisers and their clients.

While these changes are not yet law, the government is expected to introduce enabling legislation as quickly as possible.

Taxation

CAPITAL GAINS TAX ARRANGEMENTS

From 1 July 2027, the 50 per cent CGT discount will be replaced by cost base indexation for assets held for more than 12 months, with a 30 per cent minimum tax on net capital gains. These changes will apply to all CGT assets, including pre-1985 CGT assets, held by individuals, trusts and partnerships.

Transitional arrangements will limit the impact on existing investments 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. Capital gains on pre-1985 assets arising before 1 July 2027 will remain exempt from CGT. Establishing the value of assets at 1 July 2027 will be a critical exercise.

To maintain incentives for new housing supply, investors in new residential properties will be able to choose either the 50 per cent 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 rate.

NEGATIVE GEARING

The Government will limit negative gearing for residential property to new builds. From 1 July 2027, losses from established residential properties acquired from 7:30PM (AEST) on 12 May 2026 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.

These changes will apply to established residential properties acquired from 7:30PM (AEST) on 12 May 2026. Properties acquired before this (including contracts entered into but not yet settled) will be exempt from the changes until disposed of.

Eligible new builds will be exempt from the changes, ensuring the benefits of negative gearing are directed to investment that increases the housing stock. Properties in widely held trusts and superannuation funds will also be exempt, alongside targeted exemptions for build-to-rent developments and private investors supporting government housing programs.

TAXATION ON DISCRETIONARY TRUSTS

The Government will introduce a 30 per cent minimum tax on discretionary trusts. From 1 July 2028, trustees will pay a minimum tax of 30 per cent on the taxable income of discretionary trusts. Beneficiaries, other than corporate beneficiaries, will receive non-refundable credits for the tax payable by the trustee, which can be used to offset current year income tax liabilities.

The tax will be paid by the trustee as it is the trustee that controls distributions. Beneficiaries will still need to declare the income in their tax returns.

The introduction of a minimum tax on discretionary trusts will reduce incentives for complex tax structuring and protect the integrity of the tax base. To support adjustment, expanded rollover relief will apply for three years from 1 July 2027 to assist small businesses and other taxpayers to restructure out of discretionary trusts into companies or fixed trusts. This will provide relief from income tax consequences, including capital gains tax, for those who choose to restructure.

From 1 January 2027, the Australian Small Business and Family Enterprise Ombudsman will be available to assist small business understand the options available to them and where they can get further advice. Specific arrangements will be put in place by the Australian Securities and Investments Commission (ASIC) to support small businesses that wish to incorporate and access benefits such as the 25 per cent small business tax rate.

The minimum tax rate 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. Some types of

income such as primary production income of farms, 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 will also be excluded.

The Government will provide expanded rollover relief 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.

\$1,000 INSTANT TAX DEDUCTION

The Government will introduce an instant tax deduction of up to \$1,000 from the 2026–27 income tax year. Australian tax residents who earn income from work will be eligible for the instant tax deduction and will not need to itemise and claim work-related expenses if claiming less than \$1,000.

Individuals who incur work-related expenses greater than the instant tax deduction can continue to claim their 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.

WORKING AUSTRALIANS TAX OFFSET (WATO)

The Government will introduce a \$250 Working Australians Tax Offset from the 2027–28 income tax year. This will be 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 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).

MEDICARE LEVY LOW-INCOME THRESHOLDS

The Government will increase the Medicare levy low-income thresholds for singles, families, and seniors and pensioners by 2.9 per cent from 1 July 2025, continuing to exempt low-income individuals and families from paying the Medicare levy.

- 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.

INSTANT ASSET WRITE-OFF

From 1 July 2026, the Government will permanently extend the \$20,000 instant asset write-off for small businesses with turnover up to \$10 million. Assets valued at \$20,000 or more can continue to be placed into the small business simplified depreciation pool. 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.

LOSS REFUNDABILITY FOR BUSINESSES AND START-UPS

The Government will provide tax relief to businesses and start-ups by reforming the treatment of tax losses.

For tax years commencing on or after 1 July 2026, companies with 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. Loss carry back will apply to revenue losses only and will be limited by a company's franking account balance.

The Government will also 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.

Aged Care

RESIDENTIAL AGED CARE

The Government will provide \$606.5 million over four years from 2026–27 (and an additional \$3.0 billion from 2030–31 to 2035–36) to respond to the Residential Aged Care Accommodation Pricing Review. Funding includes:

- \$348.4 million over four years from 2026–27 (and an additional \$2.7 billion from 2030–31 to 2035–36) to introduce capital subsidies for residential aged care providers, including: \$30.00 per supported resident per day upon commencement of newly constructed homes, payable for up to 25 years.
- \$15.00 per supported resident per day upon commencement of significantly expanded homes, payable for up to 15 years.
- \$224.3 million over four years from 2026–27 (and an additional \$317.5 million from 2030–31 to 2035–36) for dementia care supports, including the expansion of the Hospital to Aged Care Dementia Support program from 11 to 20 locations nationally and up to 20 additional Specialist Dementia Care Program units.
- \$33.8 million over four years from 2026–27 to allow greater flexibility in how room prices are set.

The Government has also provisioned \$1.1 billion to be held in the Contingency Reserve for future spending to increase the Accommodation Supplement and introduce an additional payment for high supported resident ratios, subject to finalising implementation details.

SUPPORT AT HOME PROGRAM

The Government will provide \$1.4 billion over four years from 2026–27 (and \$377.3 million per year ongoing) to improve affordability and access to home care supports, including:

- \$1.0 billion over four years from 2026–27 (and \$336.8 million per year ongoing) to ensure the service type 'personal care' (including showering) is fully funded by the government for all care recipients in the Support at Home program.
- \$389.8 million over four years from 2026–27 (and \$40.5 million per year ongoing) to implement Support at Home program refinements, including to assessments, hardship applications and the end-of-life pathway, and to bring forward the release of Support at Home program places in 2026–27.

Managed Investment Schemes

GOVERNANCE AND OVERSIGHT

The Government will provide \$17.8 million over four years from 2026–27 (and \$1.4 million per year ongoing) to strengthen governance requirements, supervision and enforcement in relation to managed investment schemes, including:

- \$10.3 million in 2026–27 for ASIC to enhance its ability to utilise data in its supervision of the managed investment scheme sector.
- \$7.6 million over four years from 2026–27 (and \$1.4 million per year ongoing) for ASIC, the Office of the Australian Auditing and Assurance Standards Board and the Treasury to strengthen governance requirements for managed investment schemes.
- Consulting publicly on new data collection powers in relation to managed investment schemes.

ASIC will partially meet the cost of this measure through cost recovery.

Social security & health care supports

PRIVATE HEALTH INSURANCE REBATE

The Government will remove the age-based uplift of the Private Health Insurance Rebate (the PHI Rebate) from 1 April 2027.

PHARMACEUTICAL BENEFITS SCHEME

The Government will provide \$5.9 billion over five years from 2025–26 for new and amended listings on the Pharmaceutical Benefits Scheme (PBS) and Repatriation Pharmaceutical Benefits Scheme.

Regulators & Government agencies

BOOSTING PRODUCTIVITY – BETTER REGULATION

The Government will provide \$198.1 million over two years from 2026–27 to boost productivity through streamlining regulatory systems and secure access to data. Funding includes:

- \$136.1 million over two years from 2026–27 to complete the second tranche of stabilisation and uplift of Australia’s business registers, including synchronising director information with the Australian Charities and Not-for Profits Commission’s Charities Register, linking Director IDs to the Companies Register, uplifting Australian Business Number (ABN) authentication and completing the transition of ABN and superannuation lookup functions to the Australian Taxation Office.
- \$62.0 million over two years from 2026–27 to extend the operation and participation in the Consumer Data Right to continue supporting Australian consumers and businesses and to explore the potential to enable taxpayers to share certain ATO-held data through the Consumer Data Right.

The Government will also introduce legislation to modernise, simplify and improve regulation in the financial sector. The reforms will:

- reduce unnecessary reporting and disclosure requirements.
- modernise and simplify financial system frameworks.

TAX AND SUPERANNUATION FRAUD MITIGATION

The Government will provide \$86.3 million over four years from 1 July 2026 and \$9.7 million per year ongoing from 2030–31 to deliver Phase 2 of the Counter Fraud Strategy to modernise the prevention and detection of fraud in the tax and super systems.

This proposal will enhance the Australian Taxation Office’s (ATO) ability to detect and prevent fraud in real time, provide additional fraud protections for individuals and expand live monitoring of fraudulent account access to tax agents, business and for high-risk superannuation changes.

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. Existing garnishee powers will also be expanded to include jointly held assets in circumstances where such arrangements are being used to frustrate recovery actions.

The Government will also progress further targeted exceptions to tax secrecy and enhancements to tax regulators’ information-gathering powers to support integrity, compliance and effective administration of the tax system.

The ATO will undertake additional targeted compliance activities over the two years from 2026–27 to further address fraud in the system, including in relation to the Research and Development Tax Incentive.

AUSTRAC

The Government will provide \$117.8 million in 2026–27 to continue implementing reforms to strengthen Australia’s *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*, to enhance detection and disruption of illicit financing; and \$70.0 million in 2026–27 to continue to protect the Australian community from the threats posed by convicted high risk terrorist offenders.

SCAMS FRAMEWORK – COST RECOVERY

The Government will introduce a user charge to recover the cost of operating the SMS Sender ID Register from 2026–27, which is estimated to increase receipts by \$8.6 million over four years from 2026–27 and \$2.2 million per year ongoing from 2030–31.

DIGITAL ID

The Government will provide \$654.3 million over four years from 2026–27 (and \$166.7 million per year ongoing) to maintain the security and reliability of the Australian Government’s Digital ID System. Funding includes:

- \$357.4 million over four years from 2026–27 (and \$92.0 million per year ongoing) to the Australian Taxation Office to maintain operation of myID and the Relationship Authorisation Manager, including implementation of additional security controls and functionality.
- \$135.2 million over four years from 2026–27 (and \$35.2 million per year ongoing) to Services Australia to continue its role as the Australian Government Digital ID System Administrator and maintain the operation of the Digital ID Exchange and myGov LinkID.
- \$98.0 million over four years from 2026–27 (and \$25.5 million per year ongoing) to the Australian Competition and Consumer Commission to continue Digital ID regulatory functions.
- \$30.8 million over four years from 2026–27 (and \$5.7 million per year ongoing) to the Department of Finance to continue policy leadership and governance of the Digital ID program.
- \$22.2 million over four years from 2026–27 (and \$5.7 million per year ongoing) to the Office of the Australian Information Commissioner (OAIC) to continue to

provide privacy oversight under the Digital ID legislation and Identity Verification Service programs.

- \$8.0 million over four years from 2026–27 (and \$2.0 million per year ongoing) to the Department of the Treasury to continue to support the Digital ID Data Standards Chair to develop and maintain data standards.
- \$2.7 million over four years from 2026–27 (and \$0.7 million per year ongoing) to the Australian Security Intelligence Organisation to provide security assessments of entities seeking accreditation or participation in the Australian Government Digital ID System.

SERVICES AUSTRALIA

The Government will provide additional funding of \$2.2 billion over five years from 2025–26 to improve the way Services Australia delivers services to the Australian community, including:

- \$1.7 billion over two years from 2026–27 for frontline staff to help manage claims and maintain service standards and to continue emergency response capability
- \$26.5 million over three years from 2025–26 to improve the functionality, availability and security of the myGov platform
- \$19.8 million in 2025–26 for planning, feasibility assessment and proof-of-concept activities for the Services Australia long-term ICT architecture strategy.

The Government will evaluate future staffing needs for Services Australia alongside ongoing improvements to myGov service delivery.

SUPPORT FOR SMALL BUSINESSES

The Government will provide \$8.2 million over three years from 2025–26 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.