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2026 Federal Budget: the housing tax shake-up

By Perpetual Private
13 May 2026

You can read Perpetual Wealth's Federal Budget 2026 summary below, or view the video above for our take on cost-of-living measures and inflationary impacts, and considerations for superannuation, trusts and investment portfolios.

It is important to remember that this material relates to proposals which have not yet been legislated, and our analysis contained here should be viewed in that context. We recommend that you do not take any specific action until the government provides greater detail in relevant draft legislation.

Introduction

In his budget speech, Treasurer Jim Chalmers described an economic backdrop of global oil disruption due to war in the Middle East, major structural shifts in energy and technology, productivity challenges, and in particular, intergenerational inequity and housing pressures.

He described this budget as 'ambitious, responsible and reforming', and specifically designed to respond to these issues, by focusing on:

1. Building resilience against global oil shocks.
2. Bolstering Australia's economy and lifting productivity to improve living standards.
3. Making the tax system fairer and stronger for workers, business and future generations.
4. Strengthening the Budget over time to support sustainability and reduce inflation.

Here we examine the key aspects of the budget and how they may affect you as an individual, starting with changes to the tax system.

Taxation

Changes to the Capital Gains Tax (CGT)

Perhaps the most discussed topic in the lead-up to the budget, the Government proposes to make these changes, starting from 1 July **2027**:

- **New rules** – replace the current 50% CGT discount (current rules) with a new cost base indexation, much like the method use between 1985 and 1999. The ATO will explain how to calculate capital gains under these new rules.
- **Minimum tax rate** – introduce a 30% minimum tax rate on capital gains made from 1 July 2027.

What assets will these changes apply to?

These measures will apply to all CGT assets that **individuals, trusts and partnerships** have owned for at least 12 months. This includes assets owned before CGT was introduced (with some limited exemptions).

These proposals won't apply to CGT on assets in superannuation funds (which will keep the one-third discount for assets held for more than 12 months).

Transitional arrangements for assets acquired since CGT was introduced

For these assets (other than new builds), the current rules will apply to gains made up to 1 July 2027, the new rules will apply to gains made after that. This table explains this in more detail:

If you...	then...
buy and sell an asset after 1 July 2027	the new rules apply to all gains
bought and sold the asset before 1 July 2027	the current rules still apply to all gains
bought the asset before 1 July 2027 and sold it after 1 July 2027	• gains made before 1 July 2027 will be treated under the current rules • gains made after 1 July 2027 will be taxed under the new rules.

To determine your asset's value as at 1 July 2027, you will either have to get a valuation at that date, or apply a formula the ATO will provide to estimate the value.

Transitional arrangements for pre-CGT assets

If you…	then…
sold the asset before 1 July 2027	all gains are exempt from CGT
sell the asset after 1 July 2027	• capital gains made before 1 July 2027 are exempt from CGT • capital gains made since 1 July 2027 will be taxed under the new rules.

New builds

If you buy a newly-built residential property you'll be able to choose which CGT rules to apply when you sell it, but any future buyers of that property won't be able to apply the 50% CGT discount.

Exemptions

- the main residence exemption and the small business CGT concessions won't change.
- the 60% CGT discount for qualifying affordable housing won't change.
- If you're receiving means-tested income support payments (such as the Age Pension or JobSeeker) you'll be exempt from the 30% minimum tax.

What this may mean for you

If this legislation is introduced in July 2027, the CGT you'll have to pay will depend on:

- how long you've held the asset, and
- inflation rates during that period.

If inflation has been higher for longer, indexation may reduce the taxable gain; if your assets had strong real growth, then your taxable gains may be higher under the new rules.

If you have pre-CGT assets, only the gains you made before 1 July 2027 will be exempt from CGT. Gains you make after that will have CGT calculated under the new rules. To avoid paying CGT on these assets you might consider selling assets before 1 July 2027, but we would strongly recommend getting expert financial advice before making a decision so you fully understand all the taxation implications.

The 30% minimum tax on capital gains means there's less or no benefit in selling assets in years when your income is low, although if your marginal tax rate is above 30% you may have to pay a top-up tax.

It's a good time to get advice about how you split your investments between growth and income assets, because the new CGT rules may change your investment objectives.

Negative gearing

Negative gearing occurs when the costs of owning an asset are higher than the income it generates. Currently, you can claim this net loss as a tax deduction against *all* your other sources of income.

In this budget the Government is proposing to limit negative gearing to new builds from 1 July 2027. After that, rental losses on existing residential investment properties bought after 7:30 pm on the last Budget night (12 May 2026) will be 'quarantined' so you only offset them against other *residential property* income (including capital gains).

If you have excess losses you can carry them forward to offset residential property income in future years. This ensures that you can still claim a deduction in the future for things like maintenance costs.

Who these changes apply to

These changes will apply to individuals, partnerships, companies and most trusts. Widely held trusts (for example, most managed investment trusts) and superannuation funds (including SMSFs) will be excluded.

Transitional arrangements for negative gearing

For established residential properties:

Properties…	**can….**
held at 7.30pm on the 12 of May 2026 (including where a contract has been entered into but not yet settled)	be negatively geared in future years until sold.
bought between 13 May 2026 and 30 June 2027	be negatively geared up to 1 July 2027.
bought from 1 July 2027	not be negatively geared.

Exemptions for new builds

New builds can be negatively geared both before and after 1 July 2027. This means that if you make a rental loss on a new build you can still use that loss to reduce your taxable income (including salary and wages).

A 'new build' is defined as a residential property that genuinely adds to housing stock, and includes:

- dwellings built on vacant land, or
- existing properties demolished and replaced with a greater number of dwellings.

Knock-down rebuilds or substantial renovations that don't increase supply will not be eligible. A new build can't have been previously sold, unless the first owner was the builder and it hasn't been occupied for more than 12 months.

Later buyers won't receive the 50% CGT discount or negative gearing for the property (similar to stamp duty exemptions in some states).

Other exemptions

Changes to negative gearing will **only apply to residential property**. Commercial property and other asset classes, such as shares, keep the existing arrangements.

Other exemptions will be available for private investors who support government housing programs (e.g. by providing affordable housing).

What this may mean for you

If these changes are legislated, then if you buy an existing residential property from 13 May 2026 onwards, you won't be able to use negative gearing. This could reduce your after-tax cash flow and change your expected breakeven holding costs. We recommend you consult a financial adviser for a new projection or modelling to ensure you can afford to service your property loan.

As negative gearing will only apply to new property developments, this change may influence your choice between buying a new property rather than an established one.

Timing matters: the grandfathering approach could create different results for existing holdings versus future purchases. We recommend not acting until the Government confirms the start dates and transition rules, and again, seek expert financial advice before making any decision.

Discretionary trust tax

From 1 July **2028**, the Government is proposing to introduce a 30% minimum tax rate on distributions from discretionary trusts. This aims to curb income splitting and align trust tax with the corporate tax rate.

The trustee will pay a minimum 30% tax on the trust's taxable income (with some exclusions). Non-corporate beneficiaries will receive non-refundable tax credits for the tax the trustee has paid.

Other exemptions

This tax won't apply to other types of trusts such as:

- complying superannuation funds
- fixed and widely held trusts
- special disability trusts
- charitable trusts

- deceased estates.

Some types of income will also be excluded, including:

- primary production income
- some income relating to vulnerable minors
- amounts subject to non-resident withholding tax
- income from assets of discretionary testamentary trusts that existed at the date of the announcement.

What this may mean for you

If you're a beneficiary receiving distributions from a discretionary trust, this income will be taxed at a minimum of 30%. This will reduce the benefit of splitting income to beneficiaries on lower marginal tax rates.

Non-corporate beneficiaries will receive non-refundable tax credits for tax the trustee has paid. If a beneficiary's marginal tax rate is over 30% they will pay top-up tax up to their marginal rate.

Corporate beneficiaries won't receive credits. This aims to prevent trusts paying income to companies taxed at 25% to bypass the minimum tax.

Small business write-off to be made permanent

From 1 July **2026**, the Government proposes to permanently extend the $20,000 instant asset write-off. Small businesses with an aggregated turnover of less than $10 million can deduct the full cost of eligible depreciating assets costing less than $20,000.

What this means for you

If legislated, eligible small businesses will be able to continue to deduct the full cost of depreciating assets under $20,000 (instead of claiming deductions over multiple years).

This may improve short-term cash flow and reduce taxable income in the year you buy the asset, which is particularly important if you expect a higher income in a year.

Instant tax deduction – $1,000

From 1 July **2026**, if you earn an income from work you'll be able to claim a new standard $1,000 instant deduction for work-related expenses, without needing to provide any receipts.

What this means for you

If legislated, you could claim up to a $1,000 deduction for work-related expenses without needing receipts. Your actual tax saving will depend on your marginal tax rate: if you're paying a lower rate you may get a smaller benefit.

To claim deductions over $1,000 you will still need to provide evidence of all your work-related expenses.

Working Australians Tax Offset (WATO)

From 1 July **2027**, the Government is proposing to introduce a $250 Working Australian Tax Offset which will provide a permanent annual tax offset of up to $250 for income earners.

When you lodge your tax return, the ATO will apply this automatically to income earned from employment or operating a business.

What this may mean for you

If legislated, you may receive an income tax offset that reduces your tax.

Increasing Medicare levy low-income thresholds

From 1 July **2025**, the Government is proposing to increase the Medicare levy low-income thresholds by 2.9% for singles, families and seniors and pensioners.

What this may mean for you

If your income is below the new Medicare levy low-income threshold, you won't have to pay the Medicare levy if this legislation passes.

Superannuation

There were no new tax or policy changes to superannuation balances, contributions or benefits in this budget.

The only announcement about superannuation was the *performance test*. The Government will start public consultation on options to strengthen the superannuation performance test to remove barriers to investment and ensure it remains fit for purpose.

NDIS payment reductions

The Government has proposed broad reforms to make the National Disability Insurance Scheme (NDIS) sustainable and reduce non-compliant payments. It will aim to:

- slow NDIS cost growth
- address provider viability challenges, variable quality and poor outcomes for some participants
- set clearer eligibility requirements to determine scheme access.

What this may mean for you

If you're receiving NDIS payments you may receive lower plan budgets at review, or face tighter approval criteria for supports. This could reduce funded services and increase your out-of-pocket costs, which may in turn affect the longevity of your portfolio.

You may also see changes in how providers are paid and how claims are processed (including stronger integrity checks). This could affect service availability, wait times, and administrative requirements.

In conclusion

This budget addresses some deep structural aspects of the taxation system that have had some unforeseen effects over several decades. The Government is attempting to unwind tax systems that have benefitted many, but potentially at a cost to others.

Changes like these are always complex and can take time to implement and be fully understood. Some of the changes, especially those to Capital Gains Tax and negative gearing, could have a large impact on many people who have invested in property to take advantage of these schemes.

Now is the time for expert financial advice

If you think your investments may be affected by these changes, we strongly urge you to seek expert advice from your financial adviser before making any decision to sell or buy assets, especially property.

It's a good time to pause and review – to look at existing structures, investments and long term plans and check they're still doing what they're meant to do in a world with fewer tax concessions.

While it's tempting to focus on these immediate changes, a financial adviser can show you the entire picture. Above all, avoid making rushed decisions to buy or sell before any of the cutoff dates described here without first getting advice.

Unless stated otherwise, this summary covers Federal Budget proposals that have not yet been legislated, and the material provided should be viewed within that context. You should not take any specific action to address

these matters until the government provides greater clarity in draft legislation.

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