MOORE

Federal Budget 2026-2027
Expert Analysis

May 2026

Overview

The Hon Dr Jim Chalmers MP handed down the 2026-27 Federal Budget at 7:30 pm (AEDT) on 12 May 2026. The budget deficit is forecast to be $31.5 billion in 2026-27 following a couple of years of surpluses.

The key focus areas of this Budget are around easing cost of living pressures, providing affordable housing and healthcare.

INDIVIDUALS

The previously legislated tax cuts will apply from 1 July 2026. The Government has introduced a standard $1,000 deduction for work-related expenses from the 2026-27 income year and the new working Australian tax offset of $250 from the 2027-28 income year.

Negative gearing changes and the denial of the 50% capital gains tax (CGT) discount are some massive changes which need to be factored into any tax planning.
Go to section

TRUSTS

From 1 July 2028, trustees will pay a minimum tax of 30% on the taxable income of discretionary trusts. Beneficiaries, other than corporate beneficiaries, will receive non-refundable credits for the tax payable by the trustee. This is a significant change from the way current trust distributions are taxed.
Go to section

BUSINESSES

The loss carry back will be introduced for most businesses to encourage investment and provide for business resilience. From 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.
Go to section

SMALL BUSINESSES

The $20,000 instant asset tax write-off for small businesses with an aggregated turnover of up to $10 million will become a permanent feature of our tax system.
Go to section

Individuals

In this year's Budget, the Government has prioritised individuals, with a strong emphasis on cost-of-living relief and simpler tax arrangements, alongside significant changes to housing and investment settings. These include measures to streamline personal tax obligations, reforms to negative gearing and capital gains tax, and an extension of the ban on foreign purchases of established homes.

CGT DISCOUNT

As expected, the Government will abolish the current 50% CGT discount and replace it with an inflation-adjusted cost-base indexation regime from 1 July 2027. The new framework will also introduce a minimum tax rate of 30% on realised capital gains, and will broaden the CGT regime to bring pre-1985 assets into scope for disposals occurring from that date.

The reforms will apply to all CGT assets held for more than 12 months by individuals, trusts and partnerships. Importantly, the changes are prospective. Capital gains accrued on existing investments prior to 1 July 2027 will continue to benefit from the 50% discount up to that date, with transitional arrangements ensuring that only gains arising on or after 1 July 2027 are subject to the new rules.

Capital gains on pre-1985 assets realised before 1 July 2027 will remain exempt from CGT.

NEW RESIDENTIAL PROPERTY EXCEPTION

An exception will apply for new residential builds. Investors in newly constructed residential properties will be able to choose between applying the existing 50% CGT discount or adopting the new indexation method together with the minimum tax rate. Recipients of income support payments, including Age Pension recipients, will be exempt from the minimum tax. This concession is intended to preserve incentives for new housing construction.

OUR THOUGHTS:

As expected, a very controversial change that was extensively speculated upon prior to Budget night. Whilst we do not disagree with the 50% discount being undone, the current economic climate and in particular the housing crisis in Australia means a potentially good tax change may be lost to the chorus of "boos".

MINIMUM TAX ON CAPITAL GAINS

Limited detail has been provided on the operation of the proposed 30% minimum tax, which will apply after indexation has been calculated. The Budget Papers indicate that the measure is designed to reduce incentives to defer asset disposals for tax reasons and to ensure capital gains are taxed more consistently with lifetime incomes. Income support recipients, including pensioners, will be excluded from the minimum rate. Further clarification will be needed on how the minimum tax will interact with carried-forward capital losses and with losses from other income-producing activities in the same income year.

NEGATIVE GEARING LIMITED TO NEW BUILDS

From 1 July 2027, tax deductions for negatively geared residential property investments will be restricted to newly constructed dwellings, with transitional relief for established properties held prior to that date. Under the proposed changes, net rental losses from existing (non-new) residential investment properties will be deductible only against rental income or capital gains from residential property, with any excess losses carried forward to offset future residential property income. Investment properties owned as at Budget night (7:30 pm AEST on 12 May 2026) will be grandfathered – the new restrictions will not apply to these existing holdings until they are sold. The Budget announcements do not indicate any cap on the number of properties that an investor may negatively gear under the revised rules.

Three broad exclusions from the proposed negative gearing restrictions are outlined:

- residential properties owned at Budget time (7:30 pm AEST on 12 May 2026) – these will remain fully eligible for negative gearing until sold;
- eligible new builds of residential premises (ensuring that negative gearing benefits incentivise additional housing supply) – no specific duration for this new-build exemption has been indicated; and
- properties held in widely held trusts or superannuation funds – these are excluded, with targeted exemptions for build-to-rent developments and private investors supporting Government housing programs.

EXTENDING THE BAN ON FOREIGN PURCHASES OF ESTABLISHED DWELLINGS

The Government will extend the temporary ban on foreign purchases of established residential dwellings by two years and three months until 30 June 2029. The ban was originally implemented for two years from 1 April 2025. The extension of the ban will mean Australians will be able to buy homes that would have otherwise been bought by foreign persons, while encouraging foreign persons to boost Australia's housing supply.

OUR THOUGHTS:

The Budget Papers are silent on whether these changes only impact individuals or all entities that are negatively geared.

Whilst we hope this does not impact rental prices (like it did in the 80s) and increase cost of living pressures further, these changes are in line with other jurisdictions such as the UK where rental losses are quarantined.

EXISTING TAX CUTS UNCHANGED

The already-legislated tax cuts announced in the 2025–2026 Budget will apply from 1 July 2026 and 1 July 2027.

LOW INCOME TAX OFFSET UNCHANGED

No changes were made to the $700 low income tax offset (LITO) in the Budget.

$1,000 DEDUCTION FOR WORK-RELATED EXPENSES

The Budget confirms that an optional $1,000 standard deduction for work-related expenses will be introduced from the 2026–27 income year.

The standard deduction will be capped at the lesser of $1,000 and the taxpayer's total assessable labour income for the year.

In practical terms, taxpayers with covered work-related deductions totalling less than $1,000 may opt to claim the flat $1,000 standard deduction in lieu of itemising those expenses, or they may claim their actual covered deductions and receive a residual standard deduction so that the combined total equals $1,000. If a taxpayer's total covered deductions exceed $1,000, no standard deduction will be available; instead, the taxpayer will claim their actual work-related expenses under the ordinary rules.

NEW $250 WORKING AUSTRALIAN'S TAX OFFSET

Introduced to provide a permanent annual $250 tax offset from 1 July 2027 to all eligible Australian workers for their income derived from work (such as wages and salaries and the business income of sole traders).

NO NEW SUPERANNUATION CHANGES

The Budget did not include the announcement of any new, significant superannuation measures.

However, the superannuation system is already facing substantial change ahead of the commencement of several previously legislated measures from 1 July 2026, including:

- the payday super reforms, which will require employers to pay Superannuation Guarantee (SG) contributions within seven business days of an employee's payday; and
- the introduction of Division 296, applying an additional tax regime to individuals with total superannuation balances exceeding $3 million.

Taxpayers who expect to be affected by Division 296 and are considering withdrawing funds from superannuation will now also need to take into account the proposed changes to the CGT discount in the Budget, particularly as those assets may be subject to different tax outcomes once held outside the superannuation environment.

Trusts

The biggest tax changes to trusts in decades

INTRODUCING A MINIMUM TAX ON DISCRETIONARY TRUSTS

Trustees will pay a minimum tax of 30% on the taxable income of discretionary trusts.

Beneficiaries, other than corporate beneficiaries, will receive non-refundable credits for the tax payable by the trustee.

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.

Individuals and other non-corporate beneficiaries will receive non-refundable tax credits for the tax payable by the trustee, which reduces their income tax payable. This recognises the tax already paid, while ensuring the tax paid on that income is not lower than 30%.

This measure will apply from 1 July 2028.

RESTRUCTURING OPPORTUNITIES

The Government has announced an 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.

OUR THOUGHTS:

The Government has stated that “some businesses use trust structures rather than operating as a company. In some cases, this involves very complex business structures involving multiple trusts and companies. While discretionary trusts can provide tax benefits, businesses operating through trust structures often miss out on the benefits of corporate structures”.

This is the most significant change to the taxation of trusts in many years and it is not surprising given the various anti avoidance provisions the ATO have been trying to apply mostly, unsuccessfully. However, what makes these changes distinct from corporate taxation is making the tax payable by the trustee a non-refundable tax offset - this does not align the taxation of trusts to companies where franking credits are refundable. Common sense would suggest any tax paid on behalf of the beneficiary should be a refundable tax offset.

The concept of allowing taxpayers an income tax efficient rollover to change structures is welcome. However, the main issue with any restructure is stamp duty and unless a similar exemption is provided from stamp duty, the rollover for income tax purposes may become a moot point.

These changes will not be simply a 'rich people problem', most small business owners and family businesses have a trust structure in place so this will have a wide impact. As they say, the devil will be in the detail.

Businesses

Outside of structuring changes, not much to see here for businesses that has not already been announced pre-budget or discussed in previous years.

FBT AND EVS

Initial policy designed to encourage the rapid uptake of electric vehicles are being tapered, with the Government announcing a transition from the current FBT exemption toward a permanent discounted FBT treatment. From 1 April 2029, eligible electric cars valued up to and including the fuel-efficient luxury car tax threshold will receive a permanent 25% FBT discount, implemented through a 15% statutory formula rate, compared with the standard 20% rate for most other cars. Eligible electric cars valued up to and including $75,000 that are provided before 1 April 2029 will continue to receive FBT-free treatment. Electric cars above $75,000 provided between 1 April 2027 and 1 April 2029 can receive the 25% discount.

LOSS CARRY-BACK TO THE FUTURE

Loss carry-back rules will be reintroduced for tax years commencing on or after 1 July 2026 for companies with aggregated annual global turnover of less than $1 billion. The rules are broadly similar to previous loss carry-back rules, allowing eligible companies to carry back revenue losses and offset them against tax paid up to two years earlier, subject to the company's franking account balance. From tax years commencing on or after 1 July 2028, start-up companies with aggregated annual turnover of less than $10 million will also be able to use tax losses generated in their first two years of operation to generate a refundable tax offset, subject to limits.

INSTANT ASSET WRITE-OFF

From 1 July 2026, a permanent extension is planned to the $20,000 instant asset write-off for small businesses with annual turnover of up to $10 million. Assets valued at $20,000 or more will continue to be added to the small business simplified depreciation pool and depreciated over time. The Budget also continues the suspension of the rule that prevents businesses from re-entering the simplified depreciation regime for five years after opting out, with that suspension continuing until 30 June 2027.

SKILLED MIGRATION

The Budget keeps the permanent Migration Program at 185,000 places, with over 70% allocated to the Skilled stream. It also reforms the points test to better select younger, higher-skilled migrants. This is important for businesses facing labour shortages, especially in critical sectors such as construction, infrastructure, care, and trades.

OUR THOUGHTS:

We did question why the instant asset write-off was not made permanent in our response to last year's Budget and common sense has prevailed. The FBT concession for EVs was very generous and was introduced to encourage their uptake. They continue to be a focal point especially in the current geopolitical climate and will enjoy long-term tax concessions over their fossil fuel counterparts.

New start-up businesses will benefit from hiring locally and receiving important cash back while in the early stages of their life cycle.

Businesses: Multinationals

News for multinationals indicating Australia's Pillar Two rules will be aligned with other implementing jurisdictions through the side-by-side package, reducing cross-border differences in the framework.

GLOBAL ANTI-BASE EROSION RULES (PILLAR TWO) SIDE-BY-SIDE PACKAGE IMPLEMENTATION

The Budget confirms further BEPS Pillar Two / Global Anti-Base Erosion (GLoBE) changes for large multinational groups, with the Government amending Australia's global and domestic minimum tax legislation.

In practice, this is an alignment measure rather than a new standalone tax: it updates Australia's Pillar Two rules so they operate consistently with other jurisdictions that have adopted the global minimum tax framework.

The changes apply from 1 January 2026 and are aimed at ensuring large multinationals remain subject to a coordinated minimum level of tax, while preserving Australia's commitment to the OECD/G20 international corporate tax reform agenda. For affected multinationals, the key impact is continued complexity and compliance under Australia's domestic minimum tax and global minimum tax rules, but with greater international consistency in how those rules interact with equivalent regimes overseas.

OUR THOUGHTS:

These changes may affect multinational tax planning and global minimum tax calculations, particularly for groups with Australian operations or entities within scope of Australia's domestic and global minimum tax rules. The Budget Papers note Australia will amend its Pillar Two legislation to implement the OECD/G20 Inclusive Framework's side-by-side package, with the package applying from 1 January 2026.

As further legislative and administrative detail becomes available, affected multinational groups should consult their tax advisors to assess the impact on these GLoBE calculations, Australian top-up tax positions, disclosures and accounting provisions.

These changes come off the back of negotiations between the US and OECD specifically targeted at US parented groups.

Industries

Research and development incentive changes look to focus growth on technical expertise.

CHANGES TO RESEARCH & DEVELOPMENT TAX INCENTIVES

The Government has announced changes to better target the R&D Tax Incentive from 1 July 2028. The reforms increase support for core R&D activity, including a 4.5 percentage point increase in core R&D offset rates. However, the incentive will be narrowed by removing eligibility for supporting R&D expenditure.

The turnover threshold for the highest offset rate will increase from $20 million to $50 million, with cash refundability limited to businesses under 10 years old. The minimum expenditure threshold will also increase from $20,000 to $50,000.

OUR THOUGHTS:

The Government continues to support innovation and generation of intellectual property in Australia, encouraging investment and keeping Australian knowledge onshore.

About Moore Australia

Moore Australia is a leading network of independent accountants, auditors, and advisors with 600+ professionals across 13 offices nationwide.

As part of Moore Global, the world's 12th largest professional services network, we connect with 37,000+ experts in 116 countries.

Our advisors provide a full suite of services, from Tax Planning and Corporate Finance to ESG, Audit and Forensic Accounting. We support key sectors driving Australia's economy, including Mining, Energy & Renewables, Agribusiness, Health, Tourism, Technology, and Government.

We work alongside Australian and international organisations to prepare for the future—whether that means responding to economic shifts, adapting to regulatory changes, or embracing new opportunities for innovation and growth. Through strategic advice and practical solutions, we help business leaders make informed decisions that strengthen their long-term success.

Our strength lies in our connectedness. By bringing together specialists from across our network, we offer a collaborative approach that ensures you have access to the right expertise at the right time. Our national presence means we can support businesses across Australia, while our international reach provides seamless advice for those expanding into global markets.

For organisations with international ambitions, we provide guidance on cross-border taxation, regulatory compliance, and global expansion strategies. Whether you're an Australian business looking to grow offshore or an international company entering the local market, our team has the expertise and global connections to help you succeed.

In a changing world, you need advisers who are more than just service providers, you need partners who are invested in your success.

That's the Moore difference: More connected. More responsive. More solutions.

For more information, visit **www.moore-australia.com.au**

FIND OUT MORE:

SERVICES

Click here, or scan the QR code.

PEOPLE

Click here, or scan the QR code.

LOCATIONS

Click here, or scan the QR code.

NEWS

Click here, or scan the QR code.

Contact Us

With 600+ staff at offices around the country, we are always near you. Scan the QR code below to find your nearest advisor, or visit our website.

www.moore-australia.com.au

MOORE

An independent member of Moore Global Network Limited – members in principal cities throughout the world.

Liability limited by a scheme approved under Professional Standards Legislation.
The information provided in this document is for general advice only and does not represent, nor intend to be advice. We recommend that prior to taking any action or making any decision, that you consult with an advisor to ensure that individual circumstances are taken into account.

V:13052026.2