



Federal Budget 2026-27: What we're watching for our clients

From proposed tax changes and property measures through to broader cost-of-living relief and economic settings, this year's Federal Budget was a big deal for investors relative to recent years.

In this article, we summarise *the key Budget items most relevant to investors*, outline what was announced, and explain what those changes could mean in practice for Australians looking to build, protect and manage their wealth.

Important note: Some of these measures are still proposals and may change before becoming law. Their impact will also depend heavily on individual circumstances, including income, assets, debt, family structure, investment strategy, superannuation position and tax arrangements.

Changes to negative gearing

What it is

The Government has proposed limiting negative gearing for residential property to new builds from 1 July 2027.

Under the current rules, many residential property investors can deduct rental losses against other income, such as salary or business income. This is one of the reasons negatively geared property has been attractive to some higher-income investors. Under the proposed changes,

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investors who buy an established residential property after Budget night, being 7:30pm AEST on 12 May 2026, would no longer be able to deduct losses from that property against wages or other unrelated income. Instead, those losses would generally only be deductible against residential property income or capital gains from residential property. Any unused losses could be carried forward to future years. Properties already held before Budget night are proposed to be exempt, and investors in new builds would still be able to deduct losses against other income.

What it could mean

This could materially change how some investors assess residential property. For investors who rely on the tax refund from negative gearing to make the property affordable, the cash flow equation may look very different for established properties bought under the new rules. A property that appeared manageable under the current system may become harder to hold if losses can no longer reduce income tax each year.

Example scenario

An investor on a higher income buys an established apartment that runs at a \$12,000 annual loss after rent and expenses. Under the current rules, that loss may reduce their taxable income and provide a tax benefit each year. Under the proposed rules, if the property is acquired after Budget night and is not a new build, that \$12,000 loss may not be deductible against their salary. It may instead be carried forward and used against future residential property income or capital gains. The economic loss has not disappeared. The timing of the tax benefit has changed. For some investors, that timing difference could be the difference between a property being comfortable to hold and becoming a cash flow burden.

Changes to capital gains tax

What it is

The Budget proposes replacing the current 50 per cent capital gains tax discount with cost base indexation and a 30 per cent minimum tax on net capital gains from 1 July 2027. Currently, individuals, trusts and partnerships can generally access a 50 per cent CGT discount on eligible assets held for more than 12 months. Under the proposed changes, the discount would be replaced by a system that adjusts the asset's cost base for inflation, with a minimum 30 per cent tax rate applying to net capital gains. The proposed changes would apply to CGT assets held by individuals, trusts and partnerships, including pre-CGT assets, but transitional arrangements would limit the impact by applying the new rules only to gains arising from 1 July 2027 onwards. Gains arising before that date would continue to be dealt with under the existing rules. Investors in new residential properties would be able to choose between the existing 50 per cent CGT discount or the new indexation and minimum tax approach.

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What it could mean

This is potentially one of the most important measures for investors because it affects the after-tax outcome from selling assets. For long-term investors, the current 50 per cent discount is simple and often generous. Replacing it with indexation means the tax system would focus more on the “real” gain after inflation. That may be fairer in principle, but it could also be less favourable in many scenarios, especially where asset growth is well above inflation.

This could affect decisions around:

- when to sell an investment;
- whether to realise gains before or after 1 July 2027;
- how assets are owned;
- how accurate records and valuations are maintained;
- whether investments are better held personally, through superannuation, or another structure.

The key issue is not just the tax rate. It is the increased complexity. Investors may need better records, better advice and more deliberate planning before selling assets. The danger for investors is making a rushed decision just because tax rules are changing. Selling purely to “beat” a proposed tax change can be costly if it disrupts a good long-term strategy, triggers unnecessary tax, creates reinvestment risk or moves money into a less suitable asset.

The better approach is to review holdings through three questions:

1. Would I still want to own this asset if the tax rules were unchanged?
2. Is there a genuine investment reason to sell, or only a tax reason?
3. What is the after-tax outcome of selling now versus later?

That is where advice becomes valuable, because the answer may be very different for two investors holding the same asset.

Example 1

Jane purchases an asset on 1 July 2022 for \$800,000. She sells the asset on 1 July 2032 for \$1,600,000 earning a 7.2% annual return. Using ATO tools, Jane determines that the asset was worth \$1,131,371 at commencement of the new CGT rules (1 July 2027). Under the transitional rules, Jane calculates her taxable capital gain by adding:

- Taxable capital gains of \$165,685 earned before commencement, which is equal to gross capital gains of \$331,371 with the 50% CGT discount; plus
- Taxable capital gains of \$319,958 earned after commencement, which is equal to the gain of \$468,629 less cost base indexation.

Her total taxable capital gain is \$485,643. This is more than the \$400,000 capital gain that would have been calculated if a 50% discount applied to the gain overall. Assuming a 47% tax rate, the tax on her gain is \$228,252, compared to \$188,000 with a 50% discount.

Example 2

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 30% tax rate.

The tax on Jack's capital gain of \$10,000 is \$1,400, or a tax rate of 14%, excluding the Medicare levy. As this is lower than 30%, Jack pays an additional \$1,600 in tax to bring the tax rate on his capital gain up to 30%. 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.

Proposed changes affecting discretionary trusts

What it is

The Budget proposes introducing a 30 per cent minimum tax on discretionary trusts from 1 July 2028, with some exceptions. Discretionary trusts are commonly used by families, business owners and investors to hold assets and distribute income. One of their advantages has been flexibility. Trustees can often distribute income to different beneficiaries depending on family circumstances and tax positions. Under the proposal, a 30 per cent minimum tax would apply to discretionary trusts. The tax would be paid by the trustee, with most non-corporate beneficiaries receiving non-refundable tax credits for tax already paid by the trustee. The Budget also proposes rollover relief for three years from 1 July 2027 to assist small businesses and others that wish to restructure.

What it could mean

This does not necessarily mean discretionary trusts will stop being useful. Trusts may still be valuable for asset protection, succession planning, family wealth management and business structuring. But it may reduce the tax advantage of distributing income to beneficiaries on lower marginal tax rates. For families and business owners, this could prompt a review of whether the trust is still the right structure, or whether adjustments are needed. In some cases, the answer may be "keep the trust but change how we use it." In others, it may be worth considering whether a company, fixed trust, superannuation strategy or direct ownership structure is more appropriate. The timeline matters. The minimum tax is proposed to begin from 1 July 2028, but the rollover relief window begins from 1 July 2027. That gives some time to plan, but not unlimited time.

Example scenario

A family business owner operates through a discretionary trust and also holds an investment portfolio in that structure. In previous years, the trustee has distributed income between family members based on their circumstances, including adult children and a spouse with a lower taxable income.

Under the proposed minimum tax rules, that flexibility may no longer produce the same tax outcome if trust income is effectively subject to a 30 per cent minimum rate. That does not automatically mean the trust is the wrong structure. It may still provide important benefits around asset protection, succession planning and control of family wealth. But it may change the equation.

The family may need to ask:

- Is the trust still delivering enough non-tax value to justify its use?
- Would a company structure, fixed trust or direct ownership be more appropriate for some assets?
- Should some investments be moved during the proposed rollover relief window?
- Are the estate planning and asset protection benefits more important than the reduced tax flexibility?

The point is not to abandon trusts. It is to make sure the structure is being used for the right reasons, not simply because it worked well under the old rules.

Working Australians Tax Offset

What it is

The Budget includes a new \$250 Working Australians Tax Offset from 1 July 2027, intended to provide tax relief for more than 13 million workers for the 2027-28 income year. This sits alongside the proposed \$1,000 instant tax deduction for the 2026-27 income year.

What it could mean

For most households, this is not a major wealth-building measure on its own. But small improvements in cash flow can still matter. The value is not just the dollar amount. It is what people do with it. For households under pressure, extra tax relief may help cover rising expenses. For others, it may create room to increase regular investment contributions, add to super, reduce debt or rebuild emergency savings.

Investor lens

Small tax savings often disappear into everyday spending unless they are given a job.

A useful way to think about this is:

- if you have high-interest debt, direct the saving there;
- if your emergency fund is thin, rebuild it;
- if your long-term plan is on track, consider investing or super contributions;
- if cash flow is tight, use it to avoid taking on more debt.

The amount may be modest, but behaviour compounds.

Example scenario

A couple receives modest tax relief and simply absorbs it into general spending. Another couple sets up an automatic transfer into their offset account, superannuation or investment plan. The Budget measure is the same. The outcome is different because the behaviour is different.

Cost-of-living measures

What it is

The Budget includes broader cost-of-living measures, including health, housing and household support initiatives. These are designed to ease pressure on household budgets rather than directly change investment rules.

What it could mean

Cost-of-living support matters because investment plans usually fail at the cash flow level before they fail at the investment level. When households are under pressure, they may stop regular investing, reduce super contributions, dip into savings, rely more heavily on credit cards or sell investments at the wrong time. Even modest relief can help people maintain good financial habits.

Example scenario

An investor has a regular monthly investment plan but pauses it every time household bills spike. Another investor has a cash buffer and a more realistic budget, allowing them to keep investing through difficult periods. Over time, the second investor may build more wealth, not because they picked better investments, but because their structure allowed them to stay consistent.

No major direct superannuation changes for most Australians

What it is

The Budget did not announce major direct changes to superannuation contribution caps, preservation rules or access rules for most Australians.

However, superannuation remains important in the broader context because other tax settings outside super may become less favourable or more complex.

What it could mean

For many investors, super may become even more valuable as a long-term, tax-effective investment structure. That does not mean every spare dollar should automatically go into super. Super has access restrictions, contribution caps and rules that differ depending on age, income and circumstances. But it does mean investors should review whether they are using super effectively alongside personal investments, property, trusts and cash savings.

Investor lens

The key question is not “Should I invest inside or outside super?”

It is: ***“What money do I need access to before retirement, and what money can I afford to lock away for long-term benefit?”***

That distinction often drives better decisions.

Example scenario

A 45-year-old investor with surplus cash may benefit from additional concessional super contributions, especially if they are on a higher marginal tax rate.

A 35-year-old saving for a home deposit may need more flexibility and should be careful about locking too much away. The same tax environment applies to both, but the right strategy may be completely different.

Division 296 tax

While the Budget did not announce major new superannuation changes for most Australians, the new Division 296 tax is still highly relevant in the 2026-27 financial year. Division 296 is an additional tax applying to individuals with total superannuation balances above \$3 million. It applies from 1 July 2026, with the first affected year being 2026-27. The tax is broadly designed to reduce the concessional tax treatment on earnings attributable to the portion of a person’s super balance above the \$3 million threshold. The ATO has confirmed the measure is now law. In simple terms, if your total super balance is above \$3 million, part of the growth in your super may be subject to an additional 15 per cent tax. This is on top of the tax already paid inside the super fund. The tax is assessed to the individual, not the fund, although people may generally have options around how the liability is paid.

Total super balance	Division 296 tax rate
Up to \$3 million	Nil
Above the large super balance (\$3 million in 2026/27)	15%
Above the very large super balance (\$10 million in 2026/27)	An additional 10% i.e. total Division 296 tax of 25%

What it could mean

For most everyday investors, this will not apply directly. But for higher-balance super members, business owners, SMSF members, farmers, professionals and people approaching retirement with significant super balances, it could become a major planning issue. The most important point is that Division 296 is not just about contributions. It is about total super balance and earnings attributable to the portion above the threshold. That means investment growth, asset valuations, large one-off contributions, business sale proceeds, inheritances, downsizer contributions and SMSF property values may all become relevant.

This may prompt some investors to review:

- whether they should continue adding to super once balances approach or exceed \$3 million;
- whether some future wealth should be held outside super;
- how SMSF assets are valued and reported;
- whether liquidity is available to pay any tax liability;
- how super fits into estate planning and retirement income planning.

Example scenario

A business owner sells part of their business and is considering putting a large amount into super. Their existing super balance is already close to \$3 million.

Before Division 296, the focus may have been largely on contribution caps, tax deductions and retirement planning benefits. Now, they also need to consider whether pushing their balance above \$3 million creates an ongoing additional tax issue. That does not automatically mean contributing to super is the wrong decision. But it does mean the advice needs to compare

super with other structures, such as personal investment, a company, a trust, debt reduction or a mix of strategies. The planning point is simple: once super balances become very large, the question shifts from “how do we get more into super?” to “what is the right balance between super, access, tax, estate planning and flexibility?”

The bigger picture for investors

Taken together, the Budget suggests a broader shift in tax policy. The Government is reducing or reshaping some tax advantages linked to investment assets, especially property, capital gains and discretionary trusts, while providing targeted relief to workers and households. The stated policy direction is to improve fairness, support home ownership and reduce distortions that favour highly leveraged investment in existing housing. The Budget papers also state that reforms to negative gearing and capital gains tax are expected to support an additional 75,000 Australians to become owner occupiers over the next decade. For investors, the Budget is a reminder that tax settings can change. That does not mean tax planning is pointless. It means tax planning should sit underneath a sound investment strategy, not replace one.

The strongest financial plans are usually built around fundamentals:

- appropriate diversification;
- sustainable cash flow;
- sensible debt levels;
- clear investment timeframes;
- tax-aware structures;
- enough flexibility to adapt when rules change.

Final note

We’ll continue digesting the detail of this year’s Federal Budget and what it may mean in practical terms for our clients. As more clarity emerges around the measures and their application, there may be further nuances worth understanding before any decisions are made. This article is intended as a general overview only and does not take into account your personal objectives, financial situation or needs. Budget measures can affect people very differently depending on income, family circumstances, debt, assets, superannuation, ownership structures and future plans. Some of the items discussed are proposals and may change before becoming law.

That is why broad commentary is helpful, but personal advice remains critical. Before making changes to your investment strategy, property plans, superannuation or structures, speak to us about what these measures may mean for your specific circumstances.



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