

Federal Budget & Financial Markets Update

20 May 2026

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Welcome



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2026 Federal Budget: Tax reform



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Budget 2026

Brief overview

- Trusts – MASSIVE changes
- Negative gearing quarantined, great ...
but now only available for newly built homes
- CGT – indexation is coming, minimum 30% tax, two sets of rules, yuck




Budget 2026

No change

- SMSF – no new changes
- GST – no changes
- Main residence exemption from tax – no change
- Tax rates – nothing really yet – next election promise?

Income tax rates

2025-26 thresholds (A\$)	Rate	2026-27 thresholds (A\$)	Rate
0 – 18,200	Nil	0 – 18,200	Nil
18,201 – 45,000	16c	18,201 – 45,000	15c
45,001 – 135,000	30c	45,001 – 135,000	30c
135,001 – 190,000	37c	135,001 – 190,000	37c
>190,001	45c	>190,001	45c



- Exclude 2% Medicare levy
- Plus - Working Australian Tax Offset - \$250 in 2027-28

Tax Reform – Why?

- Strengthen the economy
 - Fuel security, housing, productivity
 - More sustainable budget
- Build Australia's resilience
 - Global energy crisis, climbing cost of living, national debt approaching \$1trillion
- Cannot tax workers more – now targeting the “wealthy” with assets
- Tackle intergenerational inequity

Tax Reform — discretionary trusts

30% minimum tax

Tax Reform — discretionary trusts - 30% minimum tax

Tax policy objective – “The Government will introduce a 30% minimum tax on discretionary trusts to improve the fairness of the tax system and help fund new tax cuts for workers”

- **Rule 1** – From 1 July 2028, trustees will pay a minimum 30 percent on the taxable income [net income] of the discretionary trust.
- **Rule 2** – Beneficiaries will receive non-refundable credits for the tax payable by the trustee, *therefore will individual beneficiaries effective tax rate be minimum 30%?*
- **Rule 2A** - Corporate beneficiaries will not receive non-refundable credits for the tax payable by the trustee, *RESULT double taxation?*

Source: Budget Paper No2, page 22, [2029/30 - A\$4.47 b]

Tax Reform — discretionary trusts - 30% minimum tax

- **Rule 3** – The Government will provide expanded rollover relief for three years from 1 July 2027 to support small business and others that wish to restructure out of discretionary trusts into another entity type, such as a company or a fixed trust.
- Be wary of State taxes such as stamp duty and land tax especially if property involved

Source: Budget Paper No2, page 22, [2029/30 - A\$4.47 b]

Tax Reform – 30% minimum tax – discretionary trusts

- **Rule 4A** – The above rules, do not apply to
 - Fixed trusts (unit trusts)
 - Widely held trusts (including fixed testamentary trusts)
 - Complying superannuation funds
 - Special disability trusts
 - Deceased estates
 - Charitable trusts
 - ? Public Ancillary Funds ?
- *Source: Budget Paper No2, page 22, [2029/30 - A\$4.47 b]*

Tax Reform – 30% minimum tax – discretionary trusts

- **Rule 4B** – The above rules, do not apply to some types of income
 - Primary production income
 - Certain income derived by vulnerable minors
 - Amounts to which non-resident withholding tax applies
 - Income from assets of discretionary testamentary trust existing at the date of the announcement dated 12 May 2026, *but future discretionary testamentary trusts will now pay 30% - is this a new death tax?*
 - *Many wills in Australia may have to change*
- Source: Budget Paper No2, page 22, [2029/30 - A\$4.47 b]

Tax Reform – Trust Taxation

Example – Distribution to individuals

Currently:

Trust profit \$200k

Distribute to adults - \$100k ea

Marginal tax rates

Tax paid is \$22,790 ea

Total tax is \$45,580



Note: Tax paid includes 2% Medicare levy

Tax Reform – Trust Taxation

Example – Proposed – Trustee pays income tax at minimum 30%

Currently:

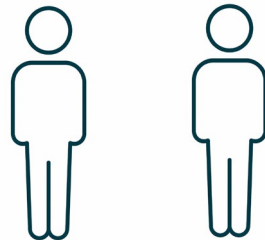
Trust profit \$200k

Distribute to adults - \$100k ea

Marginal tax rates

Tax paid is \$22,790 ea

Total tax is \$45,580



Proposed:

Trust profit \$200k

TRUSTEE pays tax \$60k

Distribute to adults
\$100,000 ea

NON REFUNDABLE CREDITS

Total tax paid is \$60,000

Note: Tax paid includes 2% Medicare levy

Tax Reform – Trust Taxation

Example – Are bucket/beneficiary companies dead?
Minimum 30% tax & no credits

Currently:

Trust profit \$200k

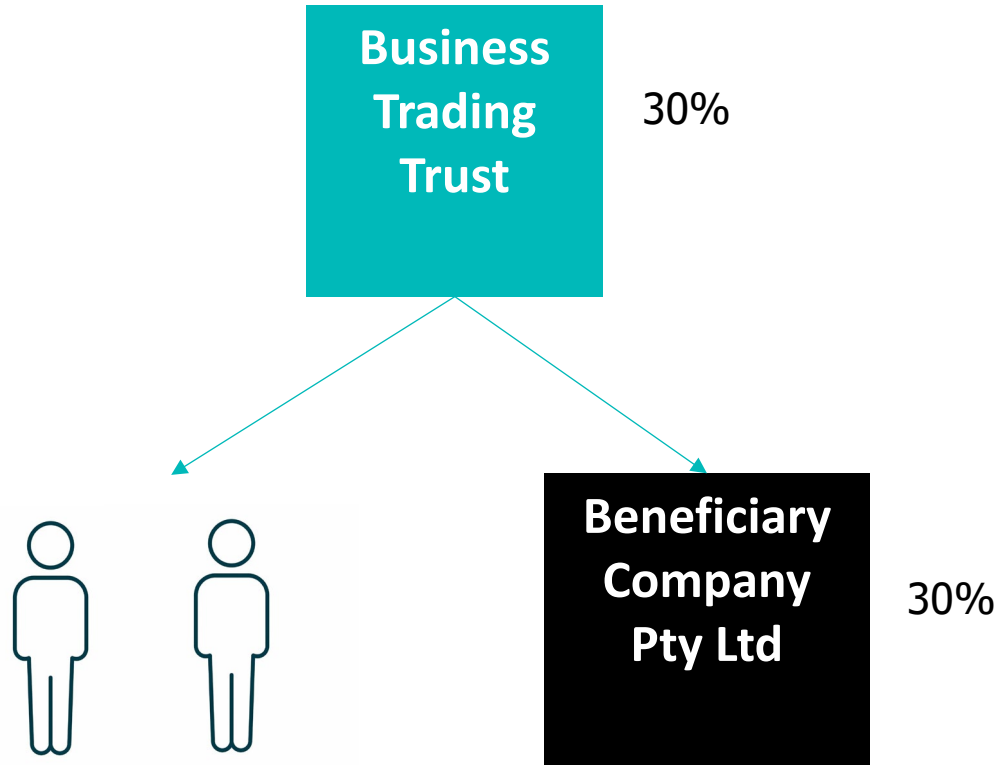
Distribute to adults -
\$100k ea

Marginal rates

Tax paid is \$22,790 ea

Total tax is \$45,580

Note: Tax paid includes 2% Medicare levy



Proposed:

Trust profit \$200k
Tax \$60k

Distribute to P/L \$200k ???
P/L tax \$60k

Corporate beneficiary does
not get credit

Total tax paid is \$120k

Tax Reform – Trust Taxation

Example – Are bucket/beneficiary companies dead?

Double taxation – ATO does not like trusts?

Currently:

Trust profit \$200k

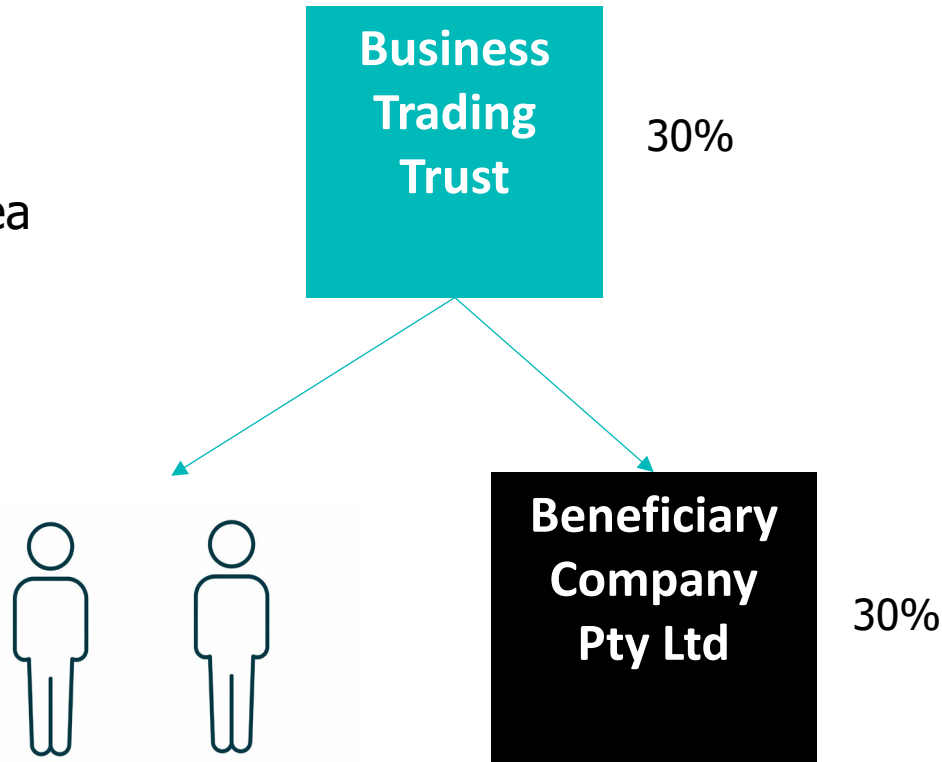
Distribute to adults - \$100k ea

Marginal rates

Tax paid is \$22,790 ea

Total tax is \$45,580

Effective tax rate 22.79%



Proposed:

Trust profit \$200k
Tax \$60k

Distribute to P/L \$200k ???
P/L tax \$60k

Corporate beneficiary does not get credit

Total tax paid is \$120k

Effective tax rate 60%!
or minimum will be 51%

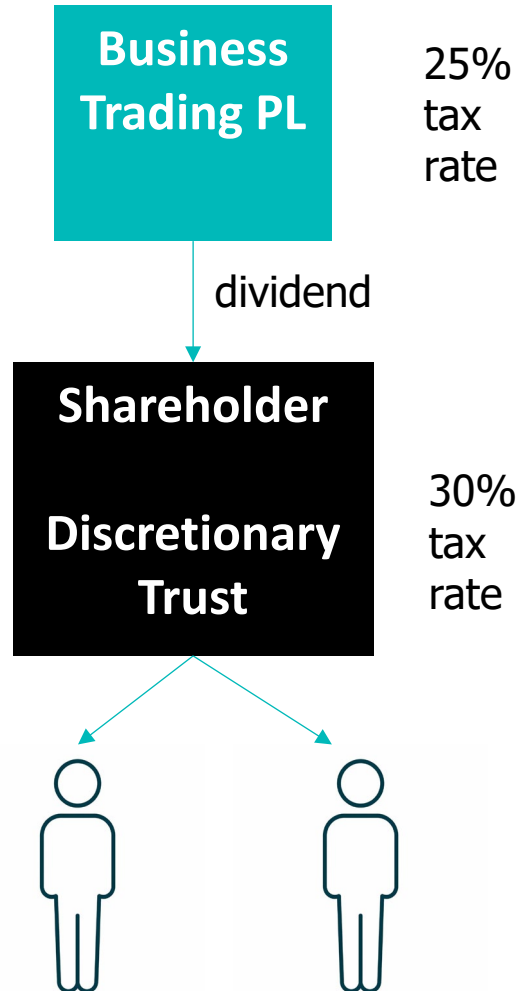
Franking credits exist but taxpayers will not wait to utilise

Tax Reform – Trust as a shareholder

Assume top tax bracket

Currently:

Individual pays 47%



Proposed:

PL profit \$200k
PL tax \$50k

Dividend to trust \$150k plus imp credits
Assessable income = \$200k
Trustee pays tax = \$60k

Distribute to adults \$200K
Tax payable \$94,000
Less nonrefundable credit \$60K
Less imputation credit \$50K,
Refund \$16,000

Total tax paid is \$110K less \$16k
Effective tax rate 47%

Tax Reform – Negative Gearing



Negative Gearing – residential properties

Grace Period

- Existing negatively geared property quarantined/grandfathered
- Applies to residential properties acquired from 12 May 2026
 - New rules from 1 July 2027
- New builds are exempt from the changes
- Can still negative gear shares and commercial property

Tax Reform – Negative Gearing

#	Income tax year	Negative Gearing – what type of taxpayer
1	1 July 2026 to June 2027	No change
2	1 July 2027 to June 2028	Losses from established residential property from 1 July 2027 <ol style="list-style-type: none">1. Not deductible against other assessable income2. Losses – only offset against rental income or capital gains from residential properties (similar to 1985-1987 rules)3. Losses – can be carried forward and offset against residential property income in future years (similar to 1985-1987 rules)

- Source: Budget Paper No2, page 21, [A\$3.6 billion over 5 years (2028-29 - A\$1.35 b / 2029/30 - A\$2.28 b)]

Tax Reform – Negative Gearing

#	Income tax year	Negative Gearing – what type of taxpayer
3	What type of properties?	<ol style="list-style-type: none">1. Above negative gearing changes apply to established residential properties acquired from AEST 7:30pm on 12 May 20262. Properties acquired before AEST 7:30pm on 12 May 2026 (including contracts not settled but exchanged prior to 12 May 2026) will be exempt from the changes until disposed of
4	What exemptions exist	<ol style="list-style-type: none">1. “Eligible new builds” – tax policy2. Properties in widely held trusts, superannuation funds3. Build to rent developments and private investors supporting government housing programmes

- Source: Budget Paper No2, page 21, [A\$3.6 billion over 5 years (2028-29 - A\$1.35 b / 2029/30 - A\$2.28 b)]

Negative gearing

Keep a close eye on definition of new build

Not new builds:

- a freestanding house constructed through a knockdown, rebuild replacing an older smaller freestanding house – not adding to supply and therefore is not a new build, therefore cannot negative gear
- Newly built property which is occupied for more than twelve months before being sold – not a new build

Negative gearing

Long term strategy important

Residential	\$
House cost	\$800,000
Deposit	\$100,000
Borrow	\$700,000
Rent	\$35,000 pa
Interest @ 6%	\$42,000 pa
Insurance, R & T, other	\$6,000 pa
Rental Loss	\$13,000 pa
If at top tax bracket	\$6k refund

5 years losses \$60k to \$65k

C/Fwd in tax return

Property growth, rent increases, loan decreases

Over ten years may make profit – offset C/fwd losses

Right location, right strategy

Higher yield properties become more attractive?

SMSF and commercial properties not impacted by changes

Tax Reform – Capital Gains



Capital Gains Tax

Indexation is coming

- Applies to assets including property and shares held by individuals, partnerships & trusts
- Minimum tax rate of 30% will apply (cannot utilise lower marginal income rates) from 1 July 2027

Tax Reform - 50% CGT discount

#	Income tax year	50% CGT Discount – individuals / trust / partnership
1	1 July 2026 to June 2027	No change to CGT events prior to 30 June 2027, <i>but start planning</i>

A\$3.6 billion over 5 years (2028-29 - A\$1.35 b / 2029/30 - A\$2.28 b)

Source: Budget Paper No2, page 21

#Treasury Factsheet dated 12 May 2026 – "Tax explainer – Negative Gearing and Capital

Gains Tax Reform " accessed (12/5/26) from

<https://budget.gov.au/content/downloads.htm#fact-sheets>

Tax Reform - 50% CGT discount

#	Income tax year	50% CGT Discount – individuals / trust / partnership
2	1/7/27 to 30/6/28	1. CPI Indexation applies to CGT assets held for 12 months and a CGT event on or after 1 July 2027

2. Assets purchased prior to 1 July 2027 and sold after 1 July 2027

If a CGT Asset is held as at 1 July 2027 (and not sold on 1 July 2027)

- Pre 1 July 2027 growth value is subject to 50% CGT discount rule **AND**
- Post 1 July 2027 growth value is subject to CPI indexation (and no Discount)

Valuation rules – choice –

- Seek a valuation of asset as at 1 July 2027, **OR**
- Use an ATO specified apportionment formula that estimates assets value on 1 July 2027 and on growth rate

Tax Reform - 50% CGT discount

#	Income tax year	50% CGT Discount – individuals / trust / partnership
3	1 July 2027 to June 2028 CGT event re “new residential properties”	Choose 1. 50% CGT Discount, or 2. CPI Indexation applies to CGT assets held for 12 months and and 30% minimum tax

CGT Changes

Summary - complicated

	Pre 1 July 2027	Post 1 July 2027
Pre CGT assets	Exempt	CPI indexation from 1/7/27, minimum 30% tax rate
Post 20 Sep 1985 assets	50% discount still applies	50% discount at 1/7/27 plus CPI indexation, min 30% tax rate
Post 1 July 2027 assets		CPI indexation, min 30% tax rate
Carve out new residential properties post 1 July 2027		Choose 50% CGT discount, or CPI indexation held for 12 months and 30% minimum tax

CGT Changes - Example

Proposed - indexation

Currently

Purchase property	\$1,000,000
Proceeds	\$1,500,000
Gain	\$500,000
Assessable Gain (50% discount)	\$250,000

Proposed

Purchase property	\$1,000,000
10 years INDEXED cost base	\$1,340,000
Proceeds	\$1,500,000
Assessable Gain (at min 30% tax)	\$160,000

vs

Assessable Gain (50% discount)	\$250,000
--------------------------------	-----------

CGT Changes - Jane Example (transitional rules)

Purchase 1 July 2022, CB \$800,000

Proposed

Proceeds 1 July 2032 \$1,600,000

Per ATO tools - value 1/7/27 \$1,131,371

Gross Capital Gain \$1,131,371 less \$800,000

After discount 50% \$165,685

= Assessable gain part 1

CGT Changes - Jane Example (transitional rules)

Purchase 1 July 2022, CB \$800,000

Proposed

Proceeds 1 July 2032 \$1,600,000

Per ATO tools - value 1/7/27 \$1,131,371

Gross Capital Gain \$1,131,371 less \$800,000

After discount 50% \$165,685

= Assessable gain part 1

PLUS INDEXED GROWTH 1/7/27 - 1/7/32

Capital Gain = \$1,600,000 - \$1,131,371

Gross gain \$468,629

Less cost base indexation to 1/7/32 \$148,671

= Assessable gain part 2 \$319,958

CGT Changes - Jane Example (transitional rules)

Purchase 1 July 2022, CB \$800,000

Proposed

Proceeds 1 July 2032	\$1,600,000
Per ATO tools - value 1/7/27	\$1,131,371
Gross CG	\$1,131,371 less \$800,000
Discount 50%	\$165,685

PLUS INDEXED GROWTH 1/7/27 - 1/7/32

CG	\$1,600,000 - \$1,131,371
Gross gain	\$468,629
Less cost base indexation to 1/7/32	\$148,671
	\$319,958

CGT Changes - Jane Example (transitional rules)

Purchase 1 July 2022, CB \$800,000

Proposed

Proceeds 1 July 2032 \$1,600,000

Per ATO tools - value 1/7/27 \$1,131,371

Gross CG \$1,131,371 less \$800,000

Discount 50% **\$165,685**

PLUS INDEXED GROWTH 1/7/27 - 1/7/32

CG \$1,600,000 - \$1,131,371

Gross gain \$468,629

Less cost base indexation to 1/7/32 \$148,671

\$319,958

ASSESSABLE CG \$165,685 + \$319,858 = \$485,643

TAXED AT 47% = \$228,252

Jane Example

Summary

Proposed

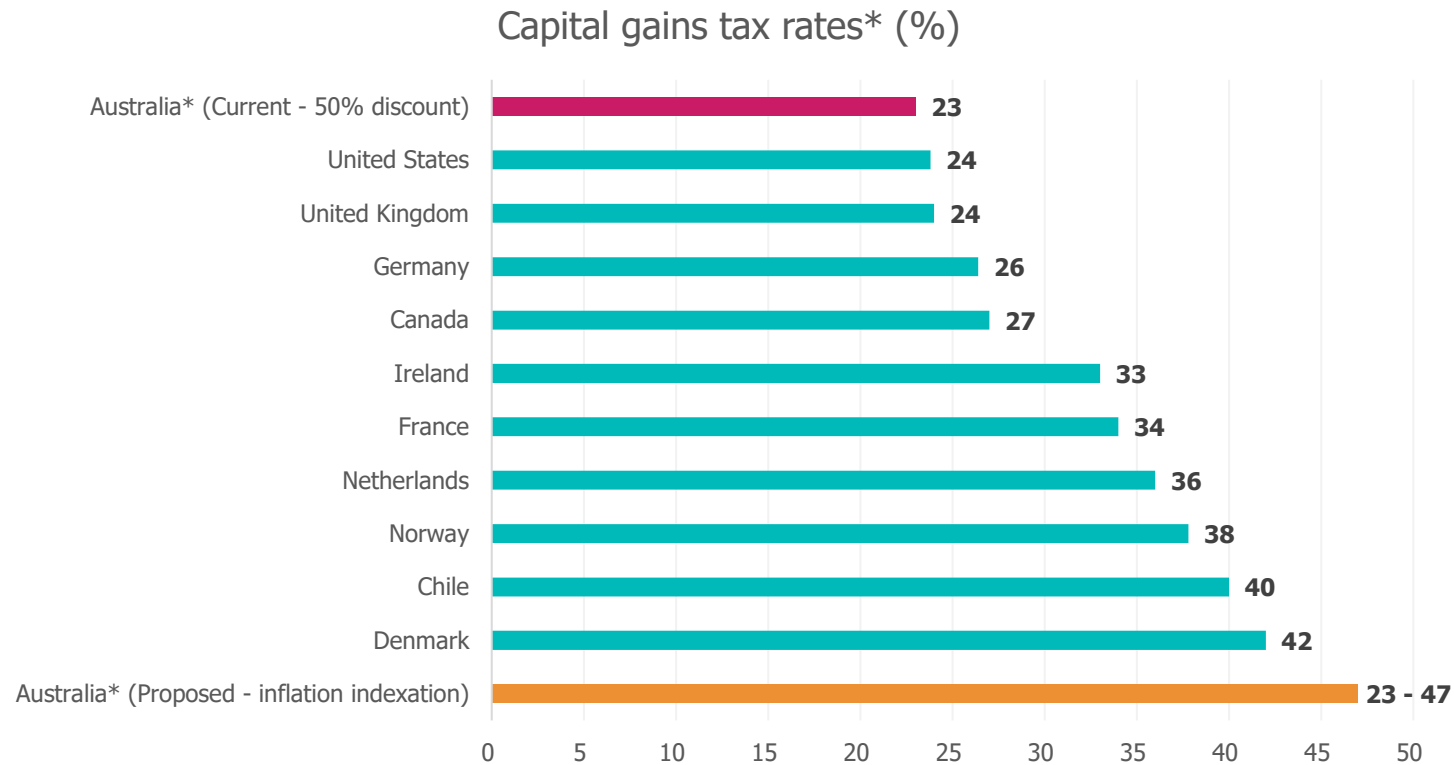
Proceeds 1 July 2032	\$1,600,000
CB 1 July 2022	\$800,000
Assessable CG	\$485,643
Tax @ 47%	\$228,252
Cash remaining after tax	\$1,371,748

Effective tax rate over 10 years is

28.53% of gross gain

Tax Reform – capital gains tax rates

Challenger chief economist Jonathan Kearns said inflation indexation typically results in higher taxation of capital gains, and would encourage investors to shift towards income stocks paying higher dividends and away from high capital growth stocks.



"While investors will likely pay more tax under indexation, in a period of high inflation, there is some comfort that it provides more insulation from inflation shocks," Kearns said.

Tax is not getting any easier...

"Labor to finally even the playing field for younger Australians by stopping future generations from using the tax loopholes that boomers will be allowed to keep using"

The Betoota Advocate

2026 Federal Budget: Economics overview and other measures



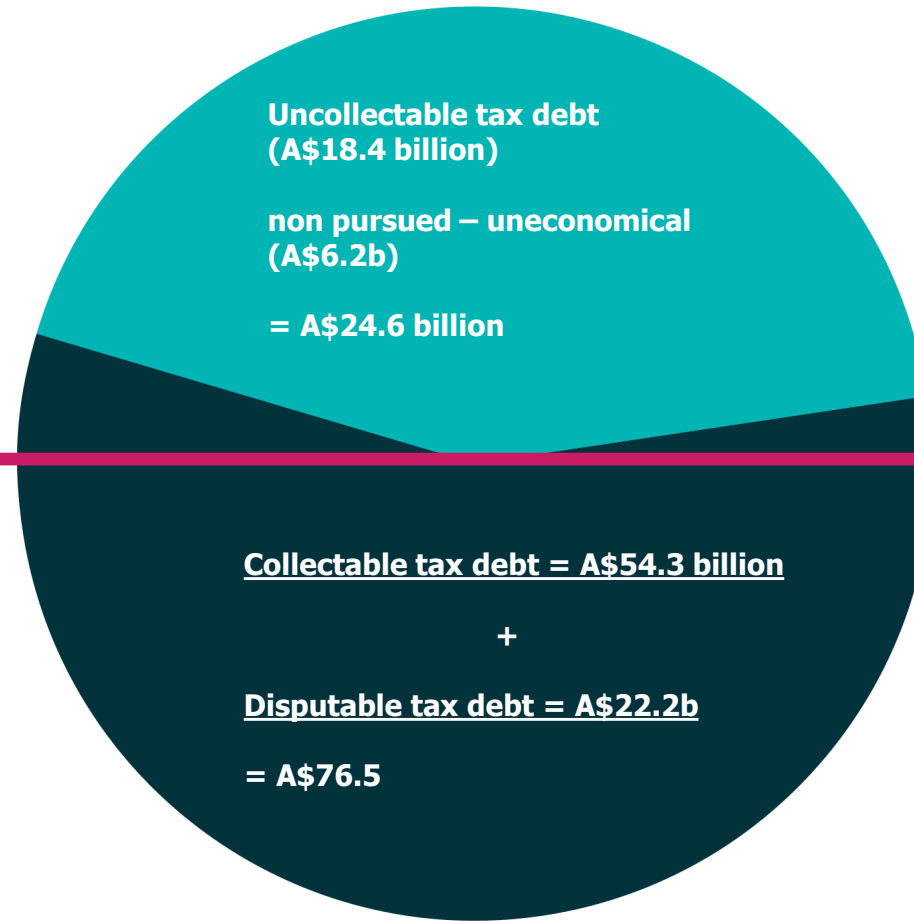
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Federal Budget - Overview of economics

#	Economic indicator	2025-26	2026-27	2027-28
1	Federal Budget Deficit	(A\$ 28.3 billion)	(A\$ 31.5 b)	(A\$ 31.0 b)
2	GDP	2.25%	1.75%	2.25%
3	Inflation	5%	2.5%	2.5%
4	Unemployment	4.25%	4.25%	4.5%
5	Gross Debt	A\$ 982.0 (33.1% of GDP)	A\$ 1.051 trill (34.0% of GDP)	A\$ 1.120 trill (35.2% of GDP)
6	Net Debt	A\$ 556 b (18.8% of GDP)	A\$ 616.6 b (19.9% of GDP)	A\$ 668.8 b (21.0% of GDP)

A\$101 billion ATO debt book – as at June 2025



Individual tax debt = A\$5.6b

(Collectable tax debt – A\$5.3 billion
 Other tax debt – objection or appeal – A\$0.3b)

Small Business tax debt = A\$37.6b

**(Collectable tax debt – A\$35.9 billion
 Other tax debt – objection or appeal – A\$1.7b)**

Privately owned and wealth groups tax debt = A\$19.7b

**(Collectable tax debt – A\$11.2 billion
 Other tax debt – objection or appeal – A\$8.5)**

Public and Multinational businesses tax debt = A\$11.7b

(Collectable tax debt – A\$1.2 billion
 Other tax debt – objection or appeal – A\$10.5b)

Other – Not-for-profit (A\$1.5b) and SMSF (A\$0.6b)

#Source: Appendix 7, Table 7.12 and Table 7.13 of 2025 ATO Annual Report. <https://www.ato.gov.au/About-ATO/Commitments-and-reporting/Annual-report-and-other-reporting-to-Parliament/Annual-report/>

Nexia Australia – Federal Budget publication

- What date is the next Federal Election – **say 31 May 2028**, last Federal Election was 3 May 2025

Stage 1	Stage 2	Stage 3	Stage 4	Stage 5	Stage 6	Stage 7
Budget Night	? Exposure Draft	Draft Legislation	Act of Parliament	Start Date	Date of Tax Expense	Federal Election
						3 May 2025
12 May '26	? 2026	? 2026	2026 - yes	1 July 2026	?	
	? 2027	? 2027	2027 – maybe	1 July 2027	?	
				1 July 2028	?	

						May 2028 (?)
						3 years from 3 May 2025

Personal taxation

\$1,000 standard deduction – FY 2026/2027

The \$1,000 standard deduction for individuals is proposed to operate as follows:

- a standard deduction of up to \$1,000 for Australian tax residents who earn *assessable labour income, starting on 1 July 2026
- **keep current arrangements** - Taxpayers with more than \$1,000 in genuine work-related expenses may continue to itemise and substantiate their claims in line with existing rules and their standard deduction is reduced to zero.
- **Threshold tests**
 - assessable labour income – salary and wages, director fees [[ED] s25-130(4) of ITAA 1997 (Cth)]
 - First financial year – 1 July 2026 to 30 July 2027
 - Exposure Draft - *Treasury Law Amendment Bill 2026 (Cth)*
 - <https://consult.treasury.gov.au/c2026-757530>
 - *Source: Budget Paper No2, page 19, [A\$2.4 billion over 5 years]*

\$1,000 standard deduction - reductions

First, Reduce the \$1,000 standard deductions by:

- Deduction – s8-1
- **If more than say \$1,000 in deductions, and these deductions are claimed - then standard deduction is irrelevant**
- car expenses – Division 28
- travel between workplaces – s25-100
- depreciation
- repairs to a deprecating asset
- [[Exposure Draft] s25-130(1)(c) - (g) of ITAA 1997 (Cth) refer ED here
- <https://consult.treasury.gov.au/c2026-757530>

\$1,000 standard deduction – additional deductions

Additional deduction – in addition to the \$1,000 standard deduction for individuals are:

- Additional deductions which are permitted are:
 - not in connection with assessable labour income – interest income deductions
 - gifts
 - costs of managing your tax affairs
 - Income protection insurance, personal sickness and accident insurance
 - Payments to membership of union or trade, business or professional association
 - [[ED] s25-130(1)(c) - (g) of ITAA 1997 (Cth)]

\$1,000 standard deduction – example 1.1 of ED

Deductions	2025/26	2026/27 Choice 1	2026/27 Choice 2
A. Work from home	\$200	200	
B. Stationary – work	50	50	
C. Subscription – work	50	50	
D. Travelling – between work	150	150	
E. Gift / donation	50		50
F. Tax agent fees	150		150

Standard Deduction		1,000	*\$550
	\$650		1,000
	-----		-----
Total Deduction	\$650	750	1,200

* \$550 = [\$1,000 standard deduction) **less above deductions \$450 as claimed (item A to item D)**

FBT– transitioning to 25% FBT discount for certain Electronic Vehicles#

- Full fringe benefits tax (FBT) exemption for eligible electric vehicles (EVs) – ends on 31 March 2027
- Revised FBT tax exemption regime from 1 April 2027:

#	FBT Year	FBT treatment of Electronic Vehicle of EV
1	1 April 2026 to 30 March 2027	No change
2	1 April 2027 to 31 March 2029	Full exemption (2 years) - EVs costing <u>A\$75k* or less</u> 25% discount on the FBT payable - EVs costing <u>more than A\$75k* and below LCT threshold</u> (FY 2025/26 is A\$91,387 for Fuel-efficient vehicles).
3	From 1 April 2029	all EVs below the LCT threshold will be subject to a 25% FBT discount.

#Electronic Vehicle or EV – “Zero or low emission vehicle” include a battery electric vehicle or a hydrogen fuel cell electric vehicle (s8A of FBTA 1986)

* assume GST exclusive

- No impact on existing leases
- No impact on import tariffs
- [Nb, Plug-in hybrid EVs (PHEV) ceased to have the FBT exemption from 1 April 2025 – includes EV with combustion engine – section 8A(5) of FBTA 1986]

FBT– transitioning to 25% FBT discount for certain Electronic Vehicles – example

- A\$80,000 EV made available to an employee for the full 2027 FBT Year (1 April 2027 to 31 March 2028)
- Under the statutory method:
 - Base value – A\$80,000
 - Statutory fraction – 20%
 - Taxable value - \$16,000 ($\$80,000 \times 20\%$)
 - Grossed up taxable value (Type 1: 2.0802) = \$33,283
 - FBT otherwise payable at 47% = \$15,643
 - Less 25% discount – \$3,911 ($25\% \times \$15,643$)
 - **FBT payable - \$11,732**

Business taxation

Instant asset write-off <\$20,000

From 1 July 2026, permanent extension of the \$20,000 instant asset write-off [GST exclusive] 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.

Source: Budget Paper No2, page 20, [five years from 2025/26 - A\$815 million]

Tax loss carry back - businesses

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 the tax loss against tax paid up to two years earlier.
 - FY 2026/27 tax loss – carry back to tax paid in FY 2024/25 and FY 2025/26
- Loss carry back will apply to revenue losses only and will be limited by a company's franking account balance.

Source: Budget Paper No2, page 20, [five years from 2025/26 - A\$2.3 billion]

Tax loss refundability – small start up business

For tax years commencing on or after 1 July 2028:

- small start-up companies
- first tax year 1 July 2028 to 30 June 2029
- Annual turnover < A\$10 million
- Generate tax loss in first two years of operation
- Eligible for refundable tax offset
- Offset limited – value of fringe benefits tax and withholding tax on wages in respect of Australian employees in the loss year

Source: Budget Paper No2, page 20, [five years from 2025/26 - A\$410 million]

Research and Development Tax Incentive

The Government is reforming the R&D tax incentive to simplify and better target Government support for business R&D.

From 1 July 2028, the Government will:

- increase the offset for core R&D expenditure by around 25% to 50%, through a 4.5 percentage point increase in core R&D offset rates;
- reduce the intensity threshold from 2% to 1.5%;
- remove eligibility of supporting R&D expenditure for the R&D tax incentive;
- **enable growing firms to retain access to the refundable tax offset for longer by increasing the turnover threshold for the highest offset rate from \$20 million to \$50 million;**

Research and Development Tax Incentive

From 1 July 2028 (cont'd)

- for firms below the \$50 million turnover threshold, maintain older firms' eligibility for the higher offset rate while limiting refundability to firms under 10 years of age;
- **lift the maximum R&D tax incentive expenditure threshold from \$150 million to \$200 million;**
- **improve assurance on smaller claims by lifting the minimum expenditure threshold from \$20,000 to \$50,000, with research activities valued below this amount required to be undertaken with a registered Research Service Provider or Cooperative Research Centre.**

PAYG instalment pilot for small and medium sized businesses

The Australian Taxation Office will expand its pilot of dynamic pay as you go (PAYG) instalment calculation to permit monthly payments.

From 1 July 2027, small and medium businesses will be able to opt in to reporting and paying PAYG instalments monthly and to using an ATO-approved calculation embedded in accounting software to calculate and vary their instalments.

This will support businesses by enabling tax instalments to better reflect real time business activity.

Taxpayers with a demonstrated history of non-compliance will be required to report and pay PAYG instalments monthly.

Nexia Australia – Federal Budget publication

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	? 2027	? 2027	2027 – maybe	1 July 2027	?	
				1 July 2028	?	

						May 2028 (?)
						3 years from 3 May 2025

Investing after Federal Budget



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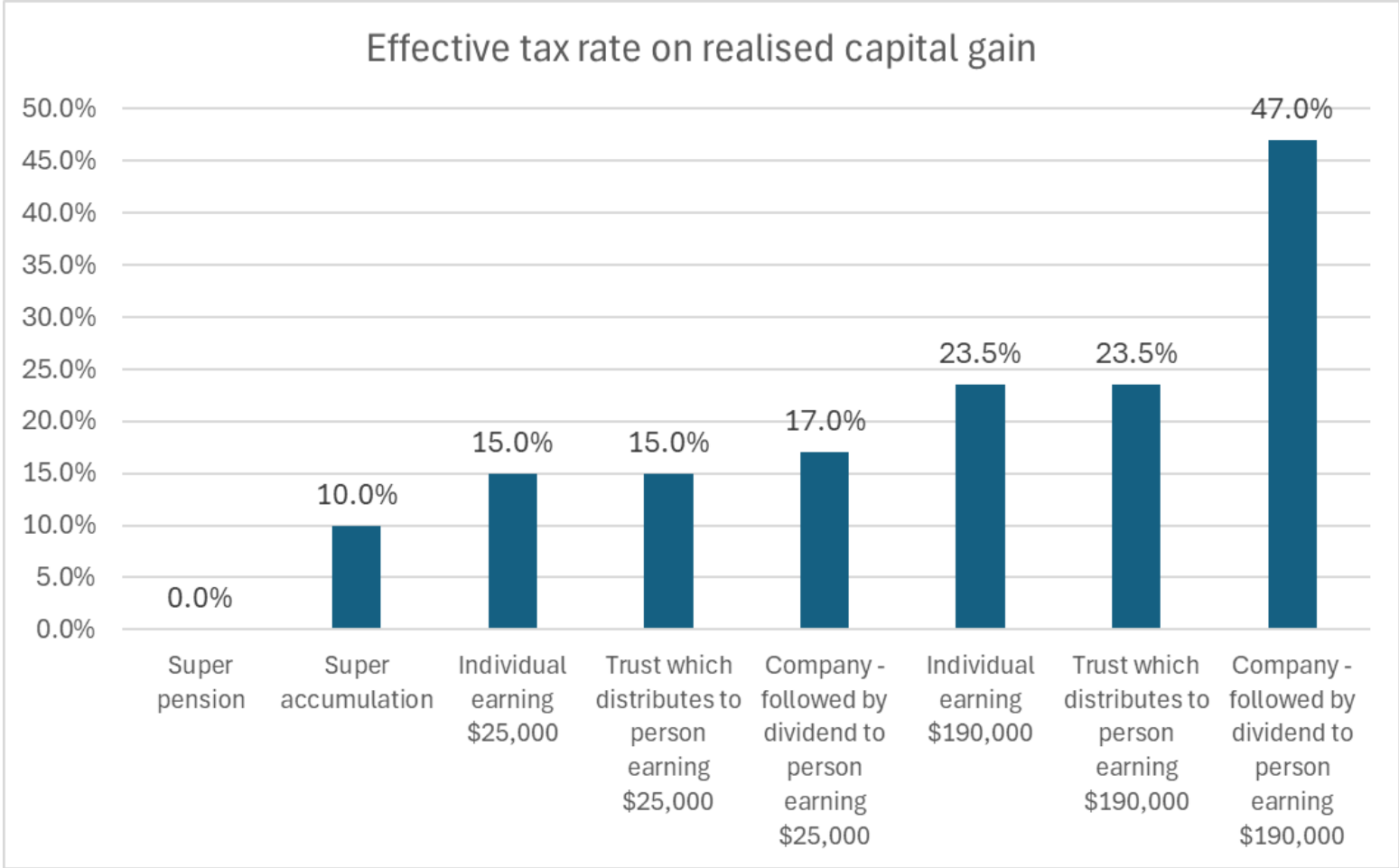
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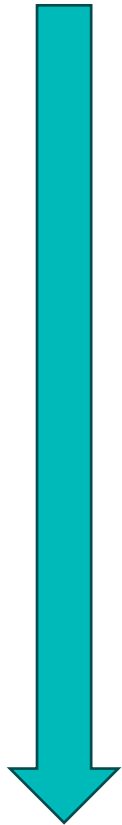
Changes to capital gains tax from 1 July 2027

- Superfunds – no change
- Companies – no change (30% or 25% if base rate entity)
- Trusts and individuals
 - **Minimum 30% tax rate on taxable gain**
 - **Taxable gain is after 50% discount for gain attributed to period ending 30 June 2027 and just allowing CPI increases to CGT cost base for period from 1 July 2027**
 - Exception from minimum 30% rate if taxpayer receiving Age Pension or JobSeeker

Changes to capital gains tax – new effective rates on capital gain



Preferential asset / structure to minimise future capital gains tax



- Main residence
- Superfund – sell in pension phase
- Superfund – sell in accumulation phase
- Individual getting part Age Pension
- Individual earning < \$45,000
- Trust which distributes to individual earning < \$45,000
- Company which can defer dividend until shareholder earning < \$45,000
- Trust or individuals in high tax bracket
- Company which then declares dividend to individual on high tax bracket

Negative gearing from 1 July 2027

- Unavailable for established residential properties acquired after 12 May 2026
- Losses can be carried forward to offset future residential property income including capital gains
- Can still negative gear new residential, commercial properties, shares
- Superfunds can also still negatively gear established residential properties purchased after 12 May 2026

Initial Reaction for Investing

- Main residence very attractive
- Superfunds have become relatively more attractive
 - Low rates of tax and Nil in retirement pension phase
 - Can negatively gear established residential
 - First home buyers can withdraw personal voluntary super contributions, salary sacrifice contributions and deemed earnings
- Trusts have lost their preference – 30% non-refundable tax payable by trustee

Tax on superannuation balances exceeding \$3m – Div 296

- Commences 1 July 2026
- Applies if an individual's Total Super Balance exceeds \$3m (indexed)
- Additional 15% tax on the portion of earnings attributable to the assets above \$3m – making it a 30% tax rate on that portion
- Earnings are based on taxable earnings (with adjustments to capital gains)

Tax on superannuation balances exceeding \$3m – Div 296

- Capital gains - only attributable to gains after 30 June 2026
 - Will need to revalue all assets at 30 June 2026 to reset cost base for this purpose only
 - Assets with unrealised losses will also get revalued (downwards) at 30 June 2026

Consider selling assets with capital losses before 30 June 2026 to lock in the capital loss.

Consider taking pension or lump sum from superfund before 30 June 2027 (if allowed) to get below \$3m

Tax on superannuation balances exceeding \$3m – Div 296

Example of additional tax

Total Super Balance	4,000,000
Div 296 cap	3,000,000
Taxable income of superfund (all rent and interest)	200,000
Ordinary tax on superfund earnings	15.0%
Div 296 tax	15.0%
Ordinary superfund tax	30,000
Additional Div 296 tax	7,500
Total superfund tax	37,500

Equity Markets

- Two speed barbell performance: Materials and Banks up, AI disruption weighed on Technology affiliated sectors. Healthcare at 10 year low P/E.
- Inflation is now the main market risk. Higher oil, gas and input costs are increasing the risk that inflation stays elevated for longer. This raises the prospect of interest rates staying higher for longer.
- Australia looks more vulnerable than the US. The US economy remains relatively resilient, supported by structural growth drivers and solid consumer demand. Australia, by contrast, faces a more difficult mix of slowing growth, stubborn inflation and household pressure.

Equity Markets

- Be selective about where risk is taken. Caution is required in areas most exposed to high energy costs and higher interest rates – this includes retailers with large transport costs, steelmakers (BlueScope Steel), aluminium smelters (RIO, S32 and Alumina Ltd) and Australian banks and property trusts.
- Opportunities may lie in selective high quality growth companies like Xero, Seek and REA or businesses that benefit from high inflation (infrastructure where the rates are CPI adjusted, eg, Transurban, Global Listed Infrastructure Funds).

Thank You

