Understanding the new Negative gearing rules – from 1 July 2027

Federal Budget 2026

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1.00pm – 2.00pm (AEST) | Thursday, 2 July 2026

Understanding the new Negative gearing rules

Introduction – Nexia 2026 Federal Budget publication

https://nexia.com.au/news/federal-budget-insights/

1. Personal taxation
2. Tax reform – 50% CGT discount
3. Tax reform – Negative gearing
4. Tax reform – 30% minimum tax – Discretionary trusts
5. Business taxation
6. International taxation
7. Summary

Introduction - Nexia tax seminar series in July ‘26 / Aug ‘26

Today	Next time
New Negative gearing – Australian tax rules: from 1 July 2027	• 50% CGT discount removal and CGT indexation – from 1 July 2027 CGT events • 30% minimum tax [from late July ’26 and in two parts] • 30% minimum tax on discretionary trusts – from August ’26 or after legislation is tabled in Parliament

Introduction – Federal Budget tax changes – overview

What date is the next Federal Election?

Say 31 May 2028^, last Federal Election was 3 May 2025

^2028 Federal Election Assumption – While speculation, for the purposes of this seminar, and given the proposed operation date of the above rules from 1 July 2027, we have assumed the Australian Labour Party will win the next Australian Federal Election on or before May 2028 and there will be no changes to these tax rules from say 1 July 2028. Given this 2028 Federal Election Assumption and the presence of some uncertainty, we advise the contents of this seminar is not a substitute for obtaining tax advice based on your personal circumstances.

Nexia Australia – Federal Budget publication

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**	28 May 2026	2026 - yes	1 July 2026	?	
	? 2027	? 2027	2027 – maybe	1 July 2027	?	
				1 July 2028	?	

						May 2028 (?)
						4 years from 3 May 2025

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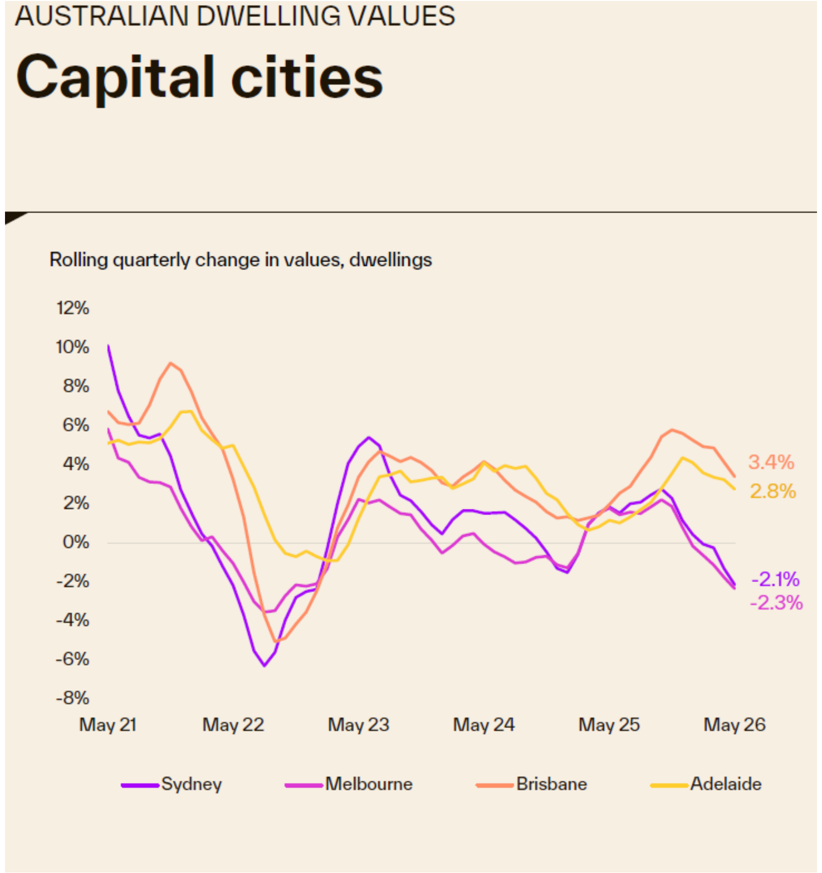
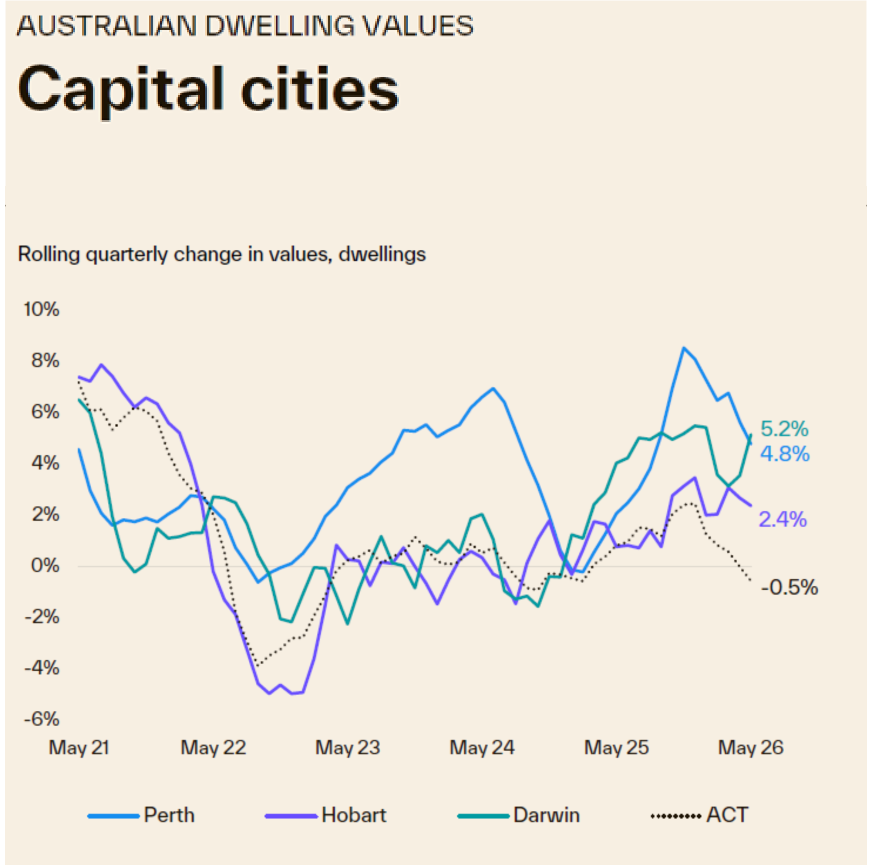
Introduction – Negative gearing – Australia property mkt



Source: Cotality - Monthly Housing Chart Pack – June 2026

https://www.cotality.com/au/resources/downloads/monthly-housing-chart-packC

Introduction – Negative gearing – Australia property mkt



Source: Cotality - Monthly Housing Chart Pack – June 2026

https://www.cotality.com/au/resources/downloads/monthly-housing-chart-packC

Tax reform – Negative gearing

Negative gearing – What is Negative gearing?

“Gearing” simply means borrowing money to invest. A property is **negatively geared** when the costs of holding it — loan interest, rates, insurance, management and repairs — are greater than the rent it earns.

Australia is unusual: that rental loss isn’t locked to the property. It can be deducted from your **other income — including your salary** — lowering the tax you pay.

Rent you collect

−

Deductible costs

=

Net rental loss

→ ***reduces your taxable income***

Negative gearing – How it works — in three steps

1

Borrow and buy

Take out a loan to purchase an income-producing investment property.

2

Rent it out

The property earns rent, but holding costs run higher than that income.

3

Deduct the loss

Claim the net loss on your tax return, cutting tax on your salary and other income.

What you can deduct

- Loan interest
- Council rates
- Insurance
- Management fees
- Repairs
- Depreciation

Loan interest is deductible — principal repayments are not.

Negative gearing – A $500,000 rental, year one

Rental income ($400/wk)	**+$20,800**
Loan interest	**($24,800)**
Council & water rates	**($3,200)**
Insurance	**($1,800)**
Property management	**($1,456)**
Repairs & maintenance	**($1,000)**
Depreciation (non-cash)	**($6,000)**
Net rental loss	**($17,456)**

$6,800

Tax saving at a 39% marginal rate

$6,000

Is non-cash depreciation

≈ $4,650

Real out-of-pocket cash cost / year

Capital growth

The pay-off the strategy relies on

Tax softens the blow — but you are still genuinely out of pocket each year.

Negative gearing – Who Benefits Most

The benefit scales with your tax rate

Same loss, bigger refund

A top-bracket investor saves **$4,700** on every $10,000 of loss. Nearly 3× the savings of someone on the lowest rate.

It's why critics say the concession is skewed toward higher earners.

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Negative gearing – Who's actually doing it?

Property interests #	Net rent loss # 2021–22	Net rent neutral or profit # 2021–22	Total individuals # 2021–22
1	688,312	932,351	1,620,663
2	177,357	250,663	428,020
3	52,274	80,064	132,338
4	17,747	29,886	47,663
5	7,024	12,506	19,530
6 or more	6,805	13,172	19,977
TOTAL	**949,519**	**1,318,642**	**2,268,161**

The bigger picture –

*Table 8: Individuals – interest in a rental property, by overall net rent outcome, 2021–22 to 2022–23 income years

***ATO Statistics:**
https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/taxation-statistics/taxation-statistics-previous-editions/taxation-statistics-2022-23/statistics/individuals-statistics#Chart10Individuals

Negative gearing – Who's actually doing it?

Property interests #	Net rent loss # 2022–23	Net rent neutral or profit # 2022–23	Total individuals # 2022–23
1	810,875	812,125	1,623,000
2	208,978	214,423	423,401
3	60,718	68,977	129,695
4	20,602	26,156	46,758
5	8,163	10,674	18,837
6 or more	7,839	11,550	19,389
TOTAL	**1,117,175**	**1,143,905**	**2,261,080**

The bigger picture –

*Table 8: Individuals – interest in a rental property, by overall net rent outcome, 2021–22 to 2022–23 income years

***ATO Statistics:** https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/taxation-statistics/taxation-statistics-previous-editions/taxation-statistics-2022-23/statistics/individuals-statistics#Chart10Individuals

Negative gearing – What does it mean

- Not defined
- Costs associated with income producing investment (such as a residential dwelling) exceed the income derived by a taxpayer
- If a loss arises
- Tax loss can be used to offset income (salary / business / investment income) derived from another source
- Maybe (?) refund of previous income tax paid to the Australian Taxation Office

Tax reform – Negative gearing

- Introduced 12 May 2026 – 2026 Federal Budget

- 10 rules

- No changes to Negative gearing rules – 1 July 2026 to 30 June 2027

- <u>Quarantined</u> – tax losses from "residential dwellings" for the period from 1 July 2027

- <u>Not quarantined</u> – losses from "new residential dwellings" for the period from 1 July 2027

Tax reform – Negative gearing – Purpose?

- Encourage housing supply
- Strong incentive for property investors to take on highly leveraged housing investments
- Taxpayers who have negatively geared properties – say 1.1 million individuals in 2022/23
- With CGT reforms, estimated to increase Cth Govt revenues – A$3.6 billion

Negative gearing– Status of new tax law

The Treasury Laws Amendment (Tax reform No. 1) Bill 2026 (Bill)* is progressing through the Commonwealth Parliament, with Royal Assent expected sometime from 11 August 2026.

12 May 2026

Federal Budget 2026–27:

Announcement tax reform and tax policy changes re:

- Negative gearing,
- CGT and 30% minimum tax, and
- 30% minimum tax on trust income

28 May 2026

Bill introduced into Parliament;

- Negative gearing,
- CGT and 30% minimum tax, and

Referred to Senate Economics Legislation Committee

4 June 2026

Bill passed by the House of Representatives

16 June 2026

Public hearings held by the Senate Economics Legislation Committee

18 - 19 June 2026

Senate Committee report published

Treasurer Press released dated 18 June 2026

Changes to

Small Business CGT Concessions
- existing A$2 mill
- to A$10 million
for 50% reduction

No further major changes to Negative gearing rules

26 June 2026

Introduced into Senate – 23 June 2026

Green amendments dated 24 June 2026

- *LBRA – Aug '26

Passed by Senate – 25 June 2026

Senate amendments passed by the Lower House 25 June 2026

Royal Assent – 26 June 2026

Act No 49 of 2026

Later (2nd tranche)

Second tranche of amending legislation — potential carve-outs for new builds

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Negative gearing – Nexia Publication

Nexia publication "Changes to Negative gearing for residential dwellings from 1 July 2027"

https://nexia.com.au/news/changes-to-negative-gearing-for-residential-dwellings-from-1-july-2027/

Tax reform – Negative gearing – 10 rules

Tax reform – Negative gearing – 10 rules

- **Rule 1** – No change to Negative gearing tax losses - period 1 July '26 to 30 June '27

- **Rule 2 - Residential Dwellings** purchased from 12 May '26 to 30 June '27 – tax loss from negatively geared residential dwelling - OK

Tax reform – Negative gearing – Rule 2

- **Rule 3 – Residential dwelling purchased on or after 12 May '26 - tax loss is not deductible – period 1 July '27 to 30 June '28 (section 26-155)**

Tax reform – Negative gearing – Rule 2 & Rule 3

New rules apply

Budget night
7:30 pm AEST on 12 May 2026

1 July 2027

Residential dwelling acquired on or before 12 May 2026

A. Tax losses deductible

Residential dwelling acquired on or after 12 May 2026

B. Tax losses deductible

Residential dwelling acquired on or after 12 May 2026

C. No tax losses deductible

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Tax reform – Negative gearing – 10 rules

- **What type of taxpayers -** Rule 3 – applies to individuals, trusts and partnership

- **Rule 4** – Main residence owned on 12 May 2026 and subsequently rented, a tax losses is deductible

Tax reform – Negative gearing – 10 rules

- **Rule 5** – Tax losses – only offset against rental income or capital gains from residential dwellings (s26-155(6)

- **Rule 6** – Tax losses – can be carried forward and offset against residential dwelling income in future years

- **Rule 7** – above Negative gearing rule in Rule 2 – applies to a **“residential dwelling”** ownership. Commercial property / share portfolio and other investment ownership are not included in rules

^ New Residential Dwelling – per s26-155(2) and s26-160(4) of ITAA 1997, definition by way of legislative instrument

#Source: Budget Paper No2, page 21

#Treasury Factsheet dated 12 May 2026 – "Tax explainer – Negative gearing and Capital Gains Tax reform " page 2, accessed (12/5/26) from https://budget.gov.au/content/downloads.htm#fact-sheets

Tax reform – Negative gearing – 10 rules

- **Exemption rule A** - **Rule 8** – **Residential dwelling** 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 the disposal of the **residential dwelling** (s260-155)

  - **Rule 8A** – ^Vacant residential land held at AEST 7:30pm on 12 May 2026 is exempt from the changes
  - **Rule 8B** – ^Land where a residential dwelling is being built or constructed to be built and the completion of the construction occurs after AEST 7:30pm on 12 May 2026 is exempt

^ New Residential Dwelling – per s26-155(2) and s26-160(4) of ITAA 1997, definition by way of legislative instrument

#Source: Budget Paper No2, page 21

#Treasury Factsheet dated 12 May 2026 – "Tax explainer – Negative gearing and Capital Gains Tax reform " page 2, accessed (12/5/26) from https://budget.gov.au/content/downloads.htm#fact-sheets

Tax reform – Negative gearing – 10 rules

- **Exemption rule B - Rule 9** – Tax Losses from **"New Residential Dwelling"^** are deductible

- **Exemption Rule C - Rule 10** – **Residential Dwellings** owned by widely held trusts*, superannuation funds (including SMSF)*, Build to rent developments# and private investors supporting government affordable housing programmes# and targeted exemption entities per legislative instrument - are exempt from rules
    - Other rule (25/6/26 – Green amendment in Senate [Sheet 3886] – SMSF prohibition for Limited Recourse Borrowing Arrangements – 45 days from 26 June 2026 (s67A(2) of SISA 1993)

^ New Residential Dwelling – per s26-160(4) of ITAA 1997, definition by way of legislative instrument

** s26-155(4)*

#Source: Budget Paper No2, page 21

#Treasury Factsheet dated 12 May 2026 – "Tax explainer – Negative gearing and Capital Gains Tax reform " page 2, accessed (12/5/26) from https://budget.gov.au/content/downloads.htm#fact-sheets

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Rule 2 – Residential dwelling – tax loss not deductible in the period 1 July ‘26 to 30 June ‘27

“Henrietta acquires an established residential dwelling in July 2028.

For the 2028-29 income year Henrietta has assessable income of $50,000 from renting out the residential dwelling as residential accommodation.

For that year, Henrietta has $65,000 in deductions for the residential dwelling, including interest, insurance and strata costs. She can only deduct $50,000, and the remaining $15,000 is carried forward to the next income year.

For the 2029-30 income year, Henrietta has $70,000 in deductions and $52,000 of assessable income from renting out the residential dwelling as residential accommodation.

Henrietta can deduct $52,000, and $33,000 is carried forward to the next income year (comprising the $15,000 carried forward from the 2028-29 income year and $18,000 from the 2029-30 income year).

For the 2030-31 income year, Henrietta has $20,000 in deductions and $72,000 of assessable income from renting out the residential dwelling as residential accommodation, having reduced her mortgage following an inheritance.

She has net rental income from the residential dwelling of $52,000 for this income year and can fully offset the amount of $33,000 that has been carried forward from the previous income year.”

Rule 2 - Negative gearing – meaning of "Residential Dwelling"

- A 'residential dwelling' is a dwelling which is defined as
- A unit of accommodation that:
    - is a building or is contained in a building; and
    - consists wholly or mainly of residential accommodation.

Eg – most detached, semi-detached houses, units, apartments and townhouse

(section 26-160 of ITAA 1997 as further defined in section 118-115)

Negative gearing – meaning of “Residential Dwelling”

- A ‘residential dwelling’ also includes, where available for use by the occupant:
  - land adjacent to the dwelling; and
  - a garage, storeroom or other associated structure.

Negative gearing – what is not a "Residential Dwelling"

- A 'residential dwelling' is not:
  - a Caravan, mobile tiny home or similar mobile structure;
  - a Hotel, motel, inn, hostel, or boarding house;
  - a Student accommodation connected to an educational institution;
  - a Boat or other marine vessels; or
  - ~~Any other class of dwelling excluded by legislative instrument.~~

s160(1) – As amended in Senate – now a close category definition – removal of s160(1)(e) ministerial legislative instrument – was removed from Bill in Senate.

Rule 4A - main residence owned on or before 12 May 2026

Rule 4A – Main residence owned on 12 May 2026 and subsequently rented, tax losses is deductible (s260-155)

"Example 2.4 Ownership interest in an established dwelling pre-12 May 2026

Maya acquired an ownership interest in a residential dwelling prior to 7.30pm (AEST) on 12 May 2026 (Dwelling A).

This dwelling is her main residence and is subject to a home loan for which she pays interest and makes principal repayments.

On 25 August 2029, Maya moves to another city and seeks to rent the apartment. On 1 September 2029, Maya advertises Dwelling A for rent and rents Dwelling A to a tenant.

For the 2029-30 income year, Maya is able to claim deductions, such as interest paid on the loan for Dwelling A, against her assessable income, including her salary and wages, for the period 1 September 2029 to 30 June 2030."

Exemption rule B - Rule 9 – Tax Losses from "New Residential Dwelling" are deductible

- Definition of "new residential dwelling" - per Ministerial legislative instrument
- 18 June 2026 – proposed new legislation after July 2026
- At date of seminar – precise definition is unclear

Exemption rule B - Rule 9 – Tax Losses from "New Residential Dwelling" are deductible

As part of the 12 May 2026 Federal Budget, the Government provided further guidance in its factsheet, noting that:

- residential properties which genuinely add to supply (see Table 2). This will include:
- dwellings constructed on vacant land, or
- where existing properties are demolished and replaced with a greater number of dwellings.
- Knock-down rebuilds or substantial renovations that do not increase supply will not be eligible.
- A new build cannot have been previously sold, unless first owned by the builder and not occupied for more than 12 months.
- Subsequent purchasers of the dwelling will not be able to access the 50 per cent CGT discount or Negative gearing in relation to that dwelling. This is similar to how stamp duty exemptions apply to new builds under some state-based arrangements.

Negative gearing – 2026 Budget term “New Builds”

Table 2: New builds comparison table

The changes target the benefit of negative gearing to newly constructed properties that genuinely add to housing supply.

Eligible new build	Not an eligible new build
A newly constructed apartment bought off-the-plan.	An established property that has recently been extended to add additional bedrooms.
A duplex constructed through a knock-down rebuild replacing a single, free-standing house.	A free-standing house constructed through a knock-down rebuild replacing an older, smaller free-standing house.
Any residential construction on previously vacant land.	A granny flat built adjacent to an established property that is not eligible for negative gearing.
A newly built property which is occupied for less than 12 months before being first sold.	A newly built property which is occupied for more than 12 months before being sold to a subsequent investor.

“New builds” in 2026 Federal Budget papers, revised term in Bill is “New residential dwelling”

- *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)]*
- *#Treasury Factsheet dated 12 May 2026 – “Tax explainer – Negative gearing and Capital Gains Tax reform " page 6, accessed (12/5/26) from https://budget.gov.au/content/downloads.htm#fact-sheets*

Trust – rule 11 – look through – integrity rule

Rule 11 – **Trust look through rule** for discretionary trust and unit trusts – trust income distribution to beneficiaries retains rental income character and hence beneficiary cant use any losses from interest related borrowing – ie the trust income retains the rental income characterization (section 26-155(7) of ITAA 1997)

Reliance on delegated legislation* – Negative gearing

Aspect deferred to ministerial determination	
CGT and Negative gearing (NG): Definition of **'new residential dwelling'** *- must add to supply' of residential dwelling in Australia [s26-160(4A)]*	s 26-160(4) of ITAA 1997 Remains – from 25/6/26
<u>Other</u>	
Exclusion from NG: For specified residential dwellings for an activity or purpose	s 26-155(2)(c) Remains – from 25/6/26

* Refer – Treasurer Press Release dated 18 June 2026 and Senate {Govt} amendments – AU131 and dated 25/6/26

Reliance on delegated legislation* – Negative Gearing

Aspect deferred to ministerial determination – removed in Senate in June 2026

~~CGT and NG: Additional exclusions from the definition of **'residential dwelling'** *~~ ~~[now closed defined term – s26-160(1)]~~	~~s 26-160(1)(e)~~
Other	
~~Exclusion from NG: For specified additional entity classes*~~ ~~[now closed defined term – s26-160(4)]~~	~~s 26-155(4)(c)~~
~~Exclusion from NG: For specified residential dwellings for business or enterprise*~~	~~s 26-155(2)(d)~~

* Refer – Treasurer Press Release dated 18 June 2026 and Senate {Govt} amendments – AU131 and dated 25/6/26

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What do I do now?

Review your current or planned property or residential dwelling investments and

1. Reviewing your existing residential dwelling portfolio, including the timing of acquisitions.
2. Reviewing the new definition of “residential dwelling” and general concept of residential property, noting commercial properties and industrial properties are excluded from the above rules.
3. Considering how the proposed loss restrictions may impact your after-tax position and cash flow.
4. Assessing whether future investment strategies (including new vs established properties) remain appropriate.
5. Seeking tailored advice before making any investment or restructuring decisions.

Questions

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About the presenter

Brett Young is the National Tax Director at Nexia Australia.

Brett advises and represents Nexia Australia members firms in all areas of Australian tax policy and tax administration matters.

With nearly 35 years in the legal, accounting and tax profession, spanning public practice, including 20 years as a barrister at the NSW Bar, Brett has comprehensive tax advisory experience in all areas of tax in the Australian economy.

Brett is also a conference/webinar presenter and social media commentator.

Brett has dedicated much of his professional life to education of taxation laws to Australian university students, accountants and lawyers.

Brett is a Fellow of CA ANZ, member of the NSW Bar Association and is a Chartered Tax Adviser of The Tax Institute.

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