

BUDGET ANALYSIS

2026

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THE ECONOMY AND MARKETS

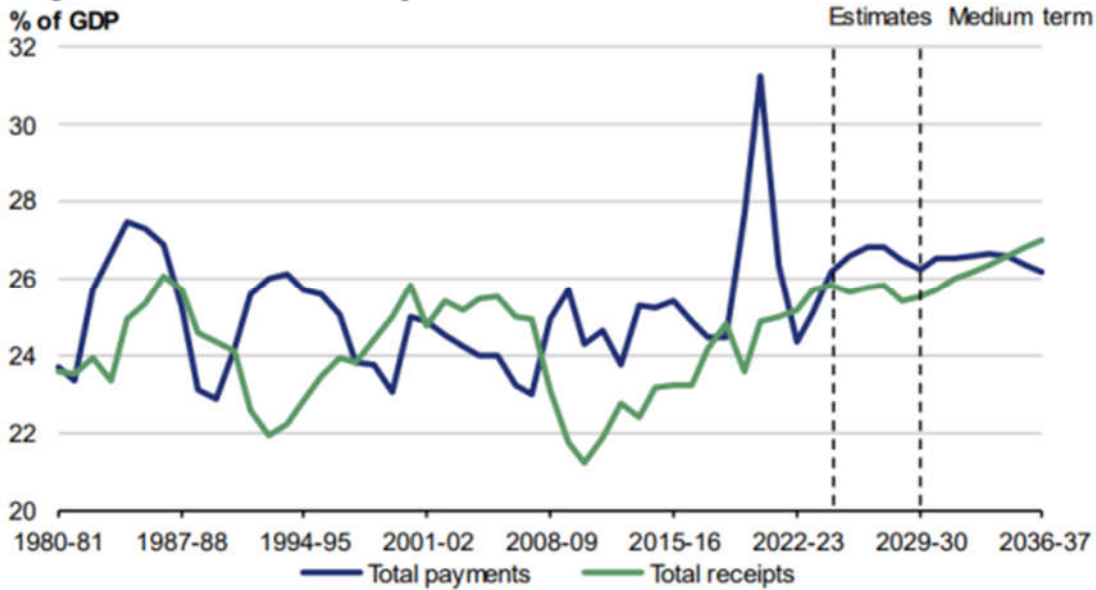
Key 2026-27 Federal Budget Information

	\$billion	Forecasts (\$billion)				
	Actual 2024–25	Budget 2025–26	Budget 2026–27	Budget 2027–28	Budget 2028–29	Budget 2029–30
Underlying cash position	(10.0)	(28.3)	(31.5)	(31.0)	(34.4)	(25.3)
Economic growth						
Real GDP	1.30%	2.25%	1.75%	2.25%	2.50%	2.50%
Nominal GDP	3.60%	6.75%	4.25%	2.75%	4.75%	5.25%
Unemployment rate	4.20%	4.25%	4.50%	4.50%	4.50%	4.25%
CPI — inflation	2.10%	5.00%	2.50%	2.50%	2.50%	2.50%
Net debt	532.3	556.0	616.6	668.8	725.5	767.8

While strong employment, rising incomes and solid corporate profitability has supported the Federal Budget in delivering a better (lower) than forecast deficit, Australia has experienced inflation above target levels, subdued productivity growth, and heightened global uncertainty.

With the added complexity of conflict in the Middle East, even with detailed modelling and scenario analysis, the ultimate economic impact remains highly uncertain.

Payments and receipts



Source: Treasury

Profile's view

The Australian economy remains fundamentally sound, underpinned by a strong labour market and resilient underlying demand.

However, the environment has clearly shifted.

Inflation remains the central challenge, and the response from central banks — maintaining higher interest rates for longer — is now flowing through to the broader economy.

At the same time, weak productivity growth is limiting the economy's ability to sustain stronger growth without generating further inflationary pressure, reinforcing the constraints on expansion.

Global uncertainty has also increased, making the outlook less foreseeable than in recent years.

In this environment, the key risks include:

- Inflation persisting for longer than expected.
- Interest rates remaining restrictive for an extended period.
- Growth materially lower than forecast, particularly if productivity remains subdued.

SUPERANNUATION

No new major reforms

After years of consistent change, this year's Budget was largely silent on new superannuation initiatives. Previously announced changes that are now legislated and continuing to proceed are:

- Payday Super – Redesign of the Superannuation Guarantee Charge (SGC) legislation to require employers to pay superannuation at the same time as salary and wages; and to update penalties and charges for late or missed payments. Applies from 1 July 2026.
- Division 296 – Reduces the tax concession available to individuals with total superannuation balances exceeding \$3 million. From the 2026–27 income year the headline concessional tax rates applying to superannuation earnings on superannuation balances:
 - below \$3 million – 15%;
 - between \$3 million and \$10 million – an additional 15% up to an overall 30%; and
 - above \$10 million – an additional 10% up to an overall 40%. The thresholds will be indexed to the Consumer Price Index (CPI) each year.
- Low-income superannuation tax offset (LISTO) – From the 2027–28 income year:
 - increase the LISTO eligibility threshold from \$37,000 to \$45,000 to align with the lowest income tax threshold (after the tax-free threshold); and
 - increase the maximum LISTO amount from \$500 to \$810, reflecting the superannuation guarantee rate of 12%.

SOCIAL SECURITY

Private Health Insurance Rebate

The Government will remove the age-based uplift of the Private Health Insurance (PHI) Rebate from 1 April 2027.

Age	Base rebate (combined income ≤ \$202,000)*	Tier 1 rebate (combined income \$202,000 - \$236,000)*	Tier 2 rebate (combined income \$236,000 - \$316,000)*	Tier 3 rebate (combined income \$316,000+)*
Current – Under 65	24.118%	16.079%	8.038%	0%
Current – 65-69	28.139%	20.098%	12.058%	0%
Current – 70+	32.158%	24.118%	16.079%	0%
Proposed – All ages	24.118%	16.079%	8.038%	0%

* Family income threshold

What this means for you

Older Australians (65+) with a Medicare Levy Surcharge (MLS) income (taxable income plus reportable fringe benefits, net investment losses, reportable super contributions and certain tax-free government benefits) below \$316,000 may be worse off with a rise in the out-of-pocket premiums for their private health cover.

TAXATION

Individuals

Previously announced and now legislated personal tax rates

Taxable Income (\$)	Current tax rates 2025-26*	New tax rates 2026-27	New tax rates 2027-28
0 - 18,200	Nil	Nil	Nil
18,201 - 45,000	16%	15%	14%
45,001 - 135,000	30%	30%	30%
135,001 - 190,000	37%	37%	37%
>190,000	45%	45%	45%

* The above rates do not include the Medicare levy of 2%.

Medicare levy low-income threshold changes

The Medicare levy low-income thresholds for singles, families, and seniors and pensioners will be increased by 2.9% from 1 July 2025, continuing to exempt low-income individuals and families from paying the Medicare levy.

Medicare low-income threshold	Threshold as at 30 June 2025	Threshold from 1 July 2025
Singles	\$27,222	\$28,011
Families	\$45,907	\$47,238
Single – seniors and pensioners	\$43,020	\$44,268
Family – seniors and pensioners	\$59,886	\$61,623
Family – for each dependent child or student	\$4,216	\$4,338

What this means for you

The increase to the thresholds assists low-income individuals and families continue to be exempt from paying the Medicare levy or pay a reduced levy rate.

Capital gains tax arrangements

From 1 July 2027, the 50% capital gains tax (CGT) discount will be replaced by cost base indexation for assets held for more than 12 months, with a 30% minimum tax on net capital gains introduced. These changes will apply to all CGT assets (including pre-1985 CGT assets) held by individuals, trusts and partnerships. Cost base indexation will be calculated based on the Consumer Price Index (CPI).

Recipients of means-tested income support payments, such as the Age Pension or JobSeeker, will be exempted from the minimum tax if they receive any payment in the financial year in which they realise the capital gain.

For investment in new residential properties, investors will be able to choose either the 50% CGT discount, or cost base indexation and the minimum tax.

For eligible CGT assets other than new residential properties, the following transitional arrangements will apply:

- Assets purchased and sold prior to 1 July 2027 will be grandfathered and not impacted by the changes.
- Gains made on assets purchased after 1 July 2027 will be treated wholly under cost base indexation and the minimum tax of 30% will apply.
- Gains made on assets owned prior to 1 July 2027 and sold after 1 July 2027 will be treated under the 50% CGT discount (or CGT exempt on pre-1985 assets) for gains accrued up to 1 July 2027 and treated under the cost base and minimum tax method for gains made from this point.

There are no changes proposed to the existing capital gains tax arrangements within the superannuation environment.

What this means for you

While there will be an ATO provided apportionment formula to determine the 1 July 2027 value, investors will also have the option of obtaining a 1 July 2027 valuation (which includes using quoted prices for share and widely held unit trusts). While you can obtain a 1 July 2027 valuation at the time of a future sale, these can be more expensive than obtaining them at the time the tax treatment changes. Investors will need to consider if they obtain a valuation of assets shortly after 1 July 2027.

If you are not an income support recipient (and not expected to be in the future) and have taxable income below the tax-free threshold, it may be worth reviewing your investment holdings (especially small ones) prior to 1 July 2027. An unintended consequence of the proposal may be that the 30% minimum capital gains tax triggers the requirement to complete a tax return where it may not otherwise have been required. While there may be no tax benefit in this, it may save you the time and/or cost of preparing a tax return.

Negative Gearing

From 1 July 2027, the government proposes to limit negative gearing for residential property to new builds. There will also be an exemption for properties owned by widely held trusts and superannuation funds. There may also be targeted exemptions for build to rent developments and investors supporting government housing programs.

- Properties held at announcement (including where a contract has been entered into but not yet settled) will be allowed to be negatively geared in future years until sold. This ensures that arrangements for taxpayers who have already made investment decisions based on the existing negative gearing rules will not change.
- Properties purchased between announcement and 30 June 2027 may be negatively geared during this period, but not from 1 July 2027.
- Properties purchased from 1 July 2027 will not be able to be negatively geared.

Where negative gearing restrictions apply, investors will only be able to deduct losses against income or capital gains from residential property. Any unused rental losses will be carried forward to future years and quarantined to offset income or capital gains from residential property only.

Other asset classes, such as shares and commercial property, will remain subject to existing arrangements (i.e., negative gearing can apply without restriction).

What this means for you

From a broader investment market perspective, newly built properties as well as other asset classes such as shares or commercial property where the concessions remain, may experience a relative shift toward them in market demand.

Given the grandfathering arrangements, for many existing clients this change is unlikely to require immediate action. However, it will be an important consideration when assessing future property investments, particularly in relation to after-tax returns and associated cashflow planning.

From a broader investment market perspective, there may be a relative shift in demand toward newly constructed residential properties, and alternative asset classes such as shares and commercial property, where negative gearing continues to apply under existing rules.

Tax on discretionary trusts

The Government will introduce a 30% minimum tax on discretionary 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, which can be used to offset current year income tax liabilities.

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. Some types of income will also be excluded, including primary production income, certain income relating to vulnerable minors, amounts to which non-resident withholding tax applies, and income from assets of discretionary testamentary trusts existing at announcement.

The Government will provide 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.

What this means for you

While trusts may still play an important role in areas such as asset protection, the potential tax benefits they afforded are no longer going to apply and, in some instances, may now penalise users.

The new rules strongly discourage the use of a corporate beneficiary given the income will be taxed at both the trust and company level with no tax credit applied (for a top marginal taxpayer that could mean that on \$10,000 of trust income, once distributed to a company, then paid out as a dividend, and then exposed to their marginal tax rates, they would only receive \$3,570).

If all individual beneficiaries of a trust are expected to have ongoing other (excluding trust income) taxable income that results in them being in the 30% or greater marginal tax bracket, or their average tax rate across all income (including trust income) is at least 30% (this requires taxable income of around \$195,000) then the net tax position is likely to remain unchanged. However, if their marginal or average tax rates are below this threshold then the use of a discretionary trust is likely to result in a higher level of overall tax being paid.

For those with an existing discretionary trust it will be important to review the reasons why you have it in place, as well as the potential tax outcomes under the new arrangement, to consider if restructuring during the rollover relief period will be of benefit.

While there appears to be a carve out for income from existing discretionary testamentary trusts, it does not look like it will apply to newly created testamentary trusts. While most estate planning documentation (Wills) that create a testamentary trust allow for the trust to effectively be bypassed/collapsed, not all do. Where your estate planning includes the use of a testamentary trust, it may be worth reviewing, while also taking into consideration the likely position of the beneficiaries.

FBT discounts on electric vehicles

From 1 April 2029, a permanent 25% discount on Fringe Benefits Tax (FBT) will be available for all electric cars valued up to and including the fuel-efficient luxury car tax threshold, implemented through a 15% rate in the FBT statutory formula.

Transitional arrangements will ensure that:

- All eligible electric cars will retain the FBT discount rate that was in place when the arrangement commenced.
- All electric cars valued up to and including \$75,000, that are provided before 1 April 2029, will continue to be eligible for a 100% discount.

- Electric cars valued above \$75,000 and up to and including the fuel-efficient luxury car tax threshold, that are provided between 1 April 2027 and 1 April 2029, will be eligible for a 25% discount.

The existing 20% statutory rate will continue to apply for all other cars, including electric cars costing more than the fuel-efficient luxury car tax threshold.

What this means for you

If you are considering purchasing an eligible vehicle around the time these changes are introduced, it will be important to plan ahead to ensure delivery occurs prior to 1 April 2029.

\$1,000 instant tax deduction

From 1 July 2026, an instant tax deduction of up to \$1000 will apply, with no need to itemise and claim work-related expenses,. Australian tax residents who earn income from work will be eligible for the instant tax deduction and will not need to itemise and claim work-related expenses if claiming less than \$1,000.

Individuals who incur work-related expenses greater than the instant tax deduction can continue to claim their deductions in the usual way. Charitable donations, union and professional association membership fees and other non-work-related deductions can still be itemised separately and claimed on top of the instant tax deduction.

What this means for you

For workers with relatively simple tax positions, this should simplify their work-related expense record keeping requirements, while also simplifying the completion of their tax return.

\$250 Working Australians Tax Offset

From 1 July 2027, a \$250 Working Australians Tax Offset (WATO) is to be introduced. The WATO will provide a permanent annual tax offset for income earned by Australian workers (such as wages and salaries and the business income of sole traders), increasing the effective tax-free threshold by nearly \$1,800 to \$19,985 (or up to \$24,985 for workers eligible for the Low Income Tax Offset).

What this means for you

This a modest benefit to workers earning above the current tax-free threshold.

TAXATION

Businesses

\$20,000 instant asset write-off

From 1 July 2026, the Government will permanently extend the \$20,000 instant asset write-off for small businesses with turnover up to \$10 million.

What this means for you

This provides greater certainty for small businesses when planning capital expenditure and reduces the likelihood of assets being purchased earlier than necessary simply to access available tax benefits under previous, more uncertain arrangements.

Loss carry back

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 it against tax paid up to two years earlier.

What this means for you

Where a loss has been incurred, the ability to carry it back against taxes paid up to the prior two years has the potential to generate a tax refund and timely cashflow for a business when it is likely to need it. While this will help when times are tough, it may also help small businesses invest and expand when used in conjunction with the \$20,000 instant asset write off (which may be creating the loss).



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