

# Rebalancing the Wealth Net: The 2026 Federal Budget Tax Overhaul

The Australian Federal Budget has introduced some of the most significant structural tax reforms in decades, specifically targeting residential real estate, investment vehicles, and capital accumulation. By dismantling long-standing tax concessions, the federal government aims to level the playing field for first-home buyers, incentivize new housing supply, and curb tax-minimization strategies utilized by high-wealth individuals. The epicenter of this policy shift lies at the intersection of rental properties, discretionary trusts, and Capital Gains Tax (CGT).

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## The Ring-Fencing of Rental Properties and Negative Gearing

For over a generation, "negative gearing" has been a staple of Australian property investment, allowing landlords to offset net rental losses against their personal taxable income, such as salary and wages. The government has severely curtailed this mechanism:

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- **The Cut-Off:** Effective immediately for contracts signed after **7:30 PM (AEST) on 12 May 2026**, negative gearing is disallowed against personal income for *established* residential properties.
- **Loss Ring-Fencing:** From 1 July 2027, net rental losses from these established properties can only be deducted against income generated within the same asset class—specifically, other rental income or capital gains from residential property. Excess losses must be carried forward to future financial years.

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- **The "New Build" Carve-Out:** In a strategic bid to boost housing supply, new residential construction remains entirely exempt. Investors in new builds can still use negative gearing to offset their broader personal income, creating a strong tax incentive to fund fresh housing stock rather than competing for existing homes. Existing properties owned prior to the budget night deadline remain grandfathered.

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## The Abolition of the 50% Capital Gains Tax Discount

Arguably the most sweeping reform is the winding back of the 50% CGT discount for individuals, trusts, and partnerships, which has been in place since 1999.

From **1 July 2027**, the blanket 50% discount will be replaced with a **cost base indexation model** paired with a **30% minimum tax rate** on net capital gains. Under the indexation

model, the original purchase price of an asset is adjusted for inflation (tracked via the Consumer Price Index) over the holding period, meaning investors will only be taxed on the "real" economic gain rather than nominal growth.

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To prevent individuals from strategically deferring asset sales to low-income or retirement years to avoid tax, the new 30% minimum floor ensures capital gains face a tax rate closer to what workers pay during their career. Crucially, the government has built in complex transitional rules:

- Gains accumulated up to 1 July 2027 will still retain the 50% discount.
- Only gains accruing *after* 1 July 2027 will fall under the new indexation and minimum tax rules.
- Age Pension and JobSeeker recipients are exempt from the 30% minimum floor.
- Strikingly, even "pre-CGT" assets (acquired before September 1985), which enjoyed a 40-year total exemption, will lose their grandfathered tax-free status on gains accrued after the 2027 start date.

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## Closing the Loophole: The Discretionary Trust Minimum Tax

Historically, family and discretionary trusts have been favored vehicles for wealth preservation and tax optimization. Trustees could distribute capital gains and trust income to beneficiaries in lower tax brackets (such as adult children or non-working spouses) to reduce the family's overall tax liability.

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The budget systematically addresses this via two main mechanisms:

1. **Direct Impact of CGT Changes:** Because trusts are explicitly included in the broader CGT overhaul, any capital gains distributed by a trust after 1 July 2027 will be subject to the new inflation-indexation and 30% minimum tax rate.
2. **The 30% Trustee Tax Floor:** Moving broader than just capital gains, from **1 July 2028**, the government will introduce a blanket 30% minimum tax on *all* distributions from discretionary trusts. Trustees will be required to pay a 30% liability upfront, with beneficiaries receiving non-refundable tax credits.

While fixed testamentary trusts, charitable trusts, and complying superannuation funds are excluded from this rule, the era of using discretionary trusts to funnel wealth into sub-30% tax brackets is effectively over.

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## Conclusion

The federal government's tax reforms represent a profound philosophical pivot away from subsidizing established wealth and passive property accumulation. By restricting negative

gearing to new builds, reverting CGT to an inflation-adjusted indexation model, and imposing a 30% tax floor on capital gains and trust distributions, the state is redirecting capital toward productive economic capacity—specifically, building new homes. While grandfathering and transitional arrangements will soften the immediate blow for current asset holders, the long-term landscape for Australian wealth creation and property investment has been fundamentally rewritten.