



May 2026

As we enter the final month of Autumn, the focus has been on the Federal Budget and interest rates.

April certainly brought a sharper edge to the economic outlook with the Middle East crisis, inflation, volatile markets and fragile consumer confidence continuing to weigh heavily on investors.

The sharp increase in petrol prices fuelled a jump in inflation for March to 4.6%, the largest jump in three years. Underlying price growth was steadier, with trimmed mean inflation holding at 3.3%, although still exceeding the Reserve Bank's target range of 2-3%. Opinions are currently split on where interest rates are heading.

In the US, the Federal Reserve voted narrowly to keep rates on hold despite worsening economic conditions.

The ASX 200 was sliding downwards towards the end of the month with the Australian dollar also weaker but still trading near four-year highs

The latest Westpac-Melbourne Institute survey showed sentiment falling, highlighting growing pressure on household budgets from fuel and borrowing costs.

Oil prices continued their stellar climb with Brent crude now at its highest level since 2022.

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2026-27 FEDERAL BUDGET:

THE TAX TAKE AWAY

Jim Chalmers' fifth Budget included significant tax reforms with the package billed as "the most significant tax reform package in more than a quarter of a century".

While Australian workers and small businesses are likely to be happy, property investors and those with discretionary (family) trusts face new rules and tax rates that will require careful review.

The package was announced against a backdrop of global uncertainty and demographic change, with the Treasurer emphasising the tax reforms represent a key component in the government's response to intergenerational inequality and challenges to national resilience.

Tax offset and instant deduction for individuals

Over 13 million workers will benefit from a new annual \$250 Working Australians Tax Offset from the 2027-28 financial year. This will increase the effective tax-free threshold for workers to \$19,985.

The offset is in addition to announced cuts to the lowest tax rate on 1 July 2026 – when the rate drops to 15 per cent – and on 1 July 2027 (14 per cent).

The Budget included a new \$1,000 instant tax deduction for work-related expenses from 2026-27, reducing paperwork requirements for employees claiming these deductions.

Incentives for business

With cash flow a key issue for smaller businesses, the Budget included measures to make the popular \$20,000 instant asset write-off permanent from 1 July 2026.

It also permanently reinstated loss carry backs. From 2026-27, eligible companies making a loss in the current income year will

be able to use the loss to obtain a refund against tax paid in the prior two income years.

From 2028-29, small start-ups will be able to access cash flow support through a refund for tax losses in their first two years of operation, up to the value of fringe benefits tax (FBT) and withholding tax paid on employee wages.

Businesses will gain flexibility to opt in to monthly PAYG instalments from 1 July 2027 and will receive a 25 per cent FBT discount for eligible electric cars (EVs) over \$75,000 until 1 April 2027 (after this time the discount will be scaled back to be removed for all EVs from March 2029).

Incentives for venture capital and R&D

From 1 July 2027, tax incentives for venture capital will be expanded through changes to the Early-Stage Venture Capital Limit Partnership and Venture Capital Limit Partnership programs.

The offset for experimental core R&D will also be increased by around 25 to 50 per cent, together with an increased turnover threshold for the refundable offset and a new \$200 million maximum expenditure cap.

Negative gearing reforms

Two significant changes to existing tax rules for property investments were announced in the Budget.

Negative gearing will no longer be available for established residential properties from 1 July 2027. For all properties held prior to Budget night, the existing tax arrangements will remain unchanged.

Investors who purchase new builds will still be able to deduct their losses from other income.

Purchasers of established housing after the Budget announcement, however, will only be able to deduct losses against residential property income. Unused losses can be carried forward to future years but will no longer be deductible against other income (such as wages).

CGT discount rule changes

Another major change is replacement of the current 50 per cent capital gains tax discount with cost-based indexation from 1 July 2027.

The government is also introducing a minimum 30 per cent tax rate on capital gains starting on the same date.

The CGT change will only apply to gains arising after 1 July 2027, with investors in new builds given a choice of the 50 per cent CGT discount or the new arrangements.

Minimum tax rate for discretionary trusts

The tax change likely to generate the most criticism is a new minimum taxation rate of 30 per cent for discretionary trust distributions from 1 July 2028.

The new rate will not apply to fixed trusts, super funds, special disability trusts, deceased estates and some types of farming income.

Rollover relief will be available for three years from 1 July 2027 to assist small businesses and others wishing to restructure in light of the new rules.

Information in this article has been sourced from:

– The Budget Speech 2025-265 (<https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/speeches/2026-27-budget-speech-parliament-house-canberra>)

– and Federal Budget support documents (<https://budget.gov.au/>)

It is important to note that the policies outlined in this publication are yet to be passed as legislation and therefore may be subject to change.