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Restrictions with negative gearing and residential property from 1 July 2027

Helping you understand how negative gearing changes may impact wealth accumulation and breaking into the property market.

Background

The changes to negative gearing announced in the 2026 Federal Budget are now law. From 1 July 2027, net rental income losses from an established residential rental property acquired from Budget night (7.30pm AEST 12 May 2026) can no longer reduce other forms of taxable income (eg wages and non-property investment income).

Further amendments have been made to ensure certain individuals can continue to negatively gear or retain the character of a new residential dwelling after certain events.

These changes do not impact properties acquired prior to Budget night, newly built residential properties and commercial properties. Negative gearing for residential property is effectively limited to new builds for individual investors.

What is negative gearing?

Gearing is borrowing money to invest. It increases your exposure in an investment and can magnify both your potential gains and losses.

Negative gearing occurs when allowable tax deductions for an investment (ie the expenses of an investment) exceeds the income generated. These excess deductions (or in the case of property, net rental loss) reduce the tax payable on other types of income (eg wages, interest).

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In the case of property, tax deductible expenses include:

- depreciation (for the decline in value of certain assets)
- insurance
- interest expense
- agent's fees and commissions
- council rates, water, land tax
- repairs and maintenance, and
- certain body corporate fees and charges.

For additional information on property expenses, refer to the [ATO website](#).

What are the changes to negative gearing?

From 1 July 2027, a net rental loss from an established residential rental property acquired from Budget night (7.30pm AEST 12 May 2026) can no longer reduce other forms of taxable income (eg wages and non-property investment income). These net rental losses are quarantined and only deductible against:

- other income, and
- realised capital gains

from residential properties (including non-quarantined properties).

Excess losses can be carried forward to offset residential property income in future years. However, if the individual becomes bankrupt the carried forward loss is extinguished. This means no quarantined amount can be used to offset against other eligible income once the individual is declared bankrupt, including quarantined amounts accrued prior to bankruptcy.

These changes apply to individuals, partnerships, companies and most trusts (excluding widely held trusts and super funds). A look through test applies to income distributed by trusts (including trust estates) and interposed partnerships.

Rental income distributed by these entities can be offset by quarantined net rental property losses. Similarly, if a loan is taken to acquire an interest in a trust, the interest costs for the loan are subject to the general loss quarantining rules.

Example: Negative gearing an existing residential property bought after Budget night

Yoonseo earns an income of \$100,000 and buys an existing residential investment property for \$519,000 (including stamp duty) after the policy start date. She rents it out and sells it ten years later for \$814,447. Over the first five years that she owns the property, she has net rental losses and accumulates \$22,879 of carry forward losses.

In the following five years, Yoonseo applies most of these carried forward losses to reduce her positive net rent over this period from \$18,079 to zero. In the year she sells the property, she uses the remaining carried forward losses to reduce her real estate capital gain from \$150,083 to \$145,284.

Based on: [Budget 2026/27 Negative Gearing and Capital Gains Tax Reform fact sheet](#)

If Yoonseo already owned another positively geared residential investment property, the net rental losses on the new property purchased can offset the rental income on the other property (regardless when the property was purchased).

Advice tip

Investors with multiple investment properties may have several properties that are positively geared. These investors can still get the benefits of effectively negatively gearing into an established property by offsetting the net rental losses against other residential rental income (ie reduce the assessable income on the positively geared residential investment properties) regardless of when those properties are acquired.

SMSF LRBA restriction for residential property

Since 10 August 2026, SMSFs can only use a limited recourse borrowing arrangement (LRBA) to acquire business real property (ie other types of real property, including residential, are prohibited). Business real property is real property used wholly and exclusively in the carrying on of a business. This will prevent an SMSF from borrowing to invest in a residential investment property.

The property must meet the definition of business real property for the entire time while the LRBA is in place. Arrangements that are grandfathered (ie not impacted by changes) are:

- LRBA's existing prior to the start date (even where settlement occurs after commencement date), and
- a refinancing of an LRBA that existed prior to the commencement date.

Summary of ability to negatively gear a property from 1 July 2027

The following table summarises the general rules when identifying whether a property is impacted by the changes.

Acquisition date	Type of property	Can it be negatively geared against other income (eg wages, non-property investment income)?
Property acquired before Budget night* (including contracts entered into but settled after)	Established residential	Yes
	New residential dwelling and commercial	Yes
Property acquired post Budget night* (but before 1 July 2027)	Established residential	Yes, up to 30 June 2027. Thereafter, no.
	New residential dwelling and commercial	Yes
Property acquired post 30 June 2027	Established residential	No
	New residential dwelling and commercial	Yes

* 7.30pm AEST 12 May 2026 (ignoring exceptions due to death of spouse or co-owner, part of property settlement due to relationship breakdown or main residence acquired before Budget night and first becoming income producing).

What are the exceptions?

Residential properties excluded from negative gearing changes are referred to as non-quarantined properties. They include:

- residential property acquired prior to Budget night (including contracts entered into before Budget night but settled after that time)
- residential property where the ownership interest is acquired due to the death of spouse or co-owner, or part of a property settlement on relationship breakdown
- main residence acquired prior to Budget night and first becomes income producing after Budget night
- a property interest in land where a residential dwelling is being constructed or is contracted to be built, and the construction is not completed until after Budget night
- a property interest in vacant residential land where a new residential dwelling is constructed on the land after Budget night
- commercial property
- newly built residential properties (excluding properties located outside Australia), and
- property held in a widely held unit trust or super funds, including self-managed super funds¹.
- residential property provided as housing to employees as a fringe benefit.

Advice tip

Negative gearing is still available on other asset classes (eg shares and managed funds). Borrowing to invest in these asset classes, resulting in tax deductions exceeding assessable income, can continue to reduce tax payable on other income (eg wages).

Definitions of residential dwelling and new residential dwelling

Note: The following summaries the proposed definitions of residential and new residential dwellings contained in the **exposure draft** issued by Treasury on 4 August 2026. This is yet to be introduced into Parliament.

The definition of new residential dwelling and housing investment allows these properties to be negatively geared (ie not subject to the quarantining rule). When determining the realised capital gain, these owners also have the choice to apply the:

- 50% discount, or
- cost base indexation subject to minimum 30% tax.

Residential dwelling

Firstly, all residential dwellings must meet fundamental requirements including being:

- located in Australia
- capable of being occupied (certificate of occupancy), and
- the legal interest in the dwelling can be acquired by another entity.

However, interests in a caravan, mobile homes, a hotel, motel, inn, hostel, boarding house, certain student accommodation and marine vessels (including boats) are excluded.

¹ LRBAs for residential properties cannot be entered into since 10 August 2026.

New residential dwelling

A new residential dwelling is a property that genuinely adds to housing supply, such as a newly built dwelling on vacant land or a development that increases the number of dwellings. Knock-down rebuilds of single dwelling or substantial renovations that do not increase the housing supply do not qualify.

A 'new' residential dwelling must satisfy the fundamental requirements of a residential dwelling (above) and fall into one of the following four categories:

Categories of new residential property

1. Basic case requirements

- Ownership interest is acquired in land where there was no residential dwelling.
- After acquisition, a residential dwelling is constructed or installed on the land.

In this case, it can be vacant land or land that has a permanent structure that is not a residential dwelling or a residential dwelling that is uninhabitable or condemned property.

2. Adding more residential dwellings to a parcel of land requirements

- Ownership acquired in land which has at least one residential dwelling at the time of acquisition.
- After acquisition, the number of dwellings on the land is increased from the original number at acquisition.

This includes subdivision of land and building a second dwelling or demolition of existing property which is replaced with options that increases the number of residences from the original acquisition (eg duplex or apartment complex).

3. Acquiring a dwelling before a time no more than 24 months after certificate of occupancy issued requirements

- The dwelling is acquired from another entity.
- The dwelling was a 'new residential dwelling' to that entity.
- Acquisition is no more than 24 months from when the certificate of occupancy was first issued.

This allows the acquisition of a recently constructed or installed dwelling (ie is a new residential dwelling in the hands of the seller). There is no requirement that the dwelling was occupied during the 24-month period, or limit on the number of times the dwelling was sold during this time.

This primarily captures property developers as well as those who purchase property off-the-plan.

If the occupancy certificate was issued prior to Budget night, the property will not fall under the definition of a new residential dwelling. However, a transitional rule applies to property developers with unsold properties after Budget night but with occupancy certificates issued prior, which allow these properties to be treated as new residential properties.

4. Converting a building to residential dwelling requirements

- Acquisition of a building that is not or does not include any residential dwellings.
- The building is converted into one or more residential dwellings.

This includes converting commercial premises converted into residential accommodation.

Examples of a new build

The following table provides examples of what does and does not qualify as a new build:

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

Source: **Budget 2026/27 Negative Gearing and Capital Gains Tax Reform fact sheet**

Home acquired before Budget announcement becomes a rental property

A property acquired prior to the Budget announcement which is first used as the main residence and, at a later stage, used as a rental property is not subject the quarantining rule. This means net rental losses on this property can be offset against other income.

The original acquisition date is used to determine if the property can be negatively geared and not the time the property first becomes income producing. However, there is no change to the capital gains tax (CGT) calculation. Under existing tax law, the cost base of a main residence that becomes income producing is deemed to be acquired at market value at that time it first became income producing.

Property interest acquired on death or relationship breakdown

A property that is not subject to the quarantining rules for the original owner can retain this status upon transfer as a result of relationship breakdown or death (in limited circumstances). This relates to properties acquired before the Budget as well as new residential dwellings.

Death

An ownership interest acquired in a residential property:

- due to death of the spouse, or
- additional ownership in a property due to death of a co-owner (joint tenants or tenants in common)

will allow the new owner to be able to utilise the concessions that were available to the original owner. This includes the transfer of the ownership interest to the spouse or co-owner through estate. This means if the property:

- was acquired prior to Budget night by the original owner, or
- is a new residential dwelling

these characteristics are retained for the new owner and ensures the property is exempt from the quarantining rules. This includes ability to negatively gear and choose between 50% discount or indexation plus minimum 30% tax for new residential dwellings for CGT purposes.

Other beneficiaries of estate assets don't receive this concession and the quarantining rules will be lost. Acquisition for gearing purposes is when the ownership interest is acquired.

Relationship breakdown

Upon relationship breakdown, the ownership interest acquired in a residential property that was not subject to the quarantining rules will retain this characteristic for the former spouse. This applies if transfer of title is from the original owner's name, a company or trust. This also applies to a property that is a new residential dwelling to ensure it retains this characteristic upon transfer under the property settlement.

This applies where the automatic rollover relief would apply on relationship breakdown, such as supported by a court order, financial agreement under Family Law or other recognised agreement/order.

This means the spouse acquiring the ownership interest in the residential dwelling:

- acquired by the previous owner prior to the Budget announcement can be negatively geared, or
- a new residential dwelling that was negatively geared by the previous owner, and who was also eligible to choose between the 50% discount or the new cost base indexation and minimum tax on capital gains, will retain that choice.

Implications of changes to negative gearing

Impact on a person's borrowing capacity

The changes to negative gearing may reduce a person's borrowing capacity when acquiring an established investment property. Lenders may restrict or remove the negative gearing 'add back' in borrowing calculations because of potentially reduced cash flow.

The reduction in lending capacity depends on the applicant's personal marginal tax rate and expected net rental property loss that can no longer be used to offset other income.

Getting into the property market with negative gearing?

Many people use an investment property to enter the property market. The tax benefits of negative gearing assist with borrowing capacity and affordability. This strategy is no longer applicable for established residential investment properties purchased from Budget night. However, it is still available for an investment in a newly built residential investment property which may be associated with a higher purchase price and a higher deposit.

Gearing alternatives to build wealth

The benefits of negative gearing and building wealth may be achieved earlier by borrowing to invest in shares, managed funds and Exchange Traded Funds (ETFs). These assets can be accessed with smaller initial investments. However, there is no guarantee of a negatively geared outcome, especially where the underlying assets are actively traded. Exposure to growth assets (like shares) are also high risk and carry a long-term investment timeframe. Gearing into growth assets can magnify the potential returns, as well as the potential losses. In addition, these are also subject to the new CGT rules from 1 July 2027 (see below).

Homeowners looking to build wealth - the super alternative

Existing homeowners who are looking to build wealth can consider concessional super contributions as an alternative (caps apply). Concessional super contributions create an immediate tax benefit resulting in more funds invested in the tax concessional super environment. This approach may also assist with spreading risk through diversification rather than being overweight in property.

The changes to CGT (see below) do not apply to super, making super relatively more attractive as an investment vehicle.

CGT changes impacting property investment

The CGT rules are changing, including realised capital gains on assets. The current 50% CGT discount is replaced with a CPI-based cost base indexation method for gains made from 1 July 2027. The change to CGT applies to all assets owned by individuals, trusts and partnerships, but excludes assets owned by companies and super funds (including SMSFs).

In addition, a minimum tax rate of 30% applies to real capital gains accrued from 1 July 2027 unless an exemption applies.

Investors of new residential dwellings and affordable housing can choose between:

- retaining the current 50% CGT discount (and up to 60% for affordable housing), or
- applying the new CPI-indexation method with the minimum 30% tax.

For further information on the CGT changes, refer to our adviser article

Capital gains tax changes from 1 July 2027.

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Flow chart - Can a residential property be negatively geared?

