MLC TechConnect



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Legislation introduced: proposed changes to tax

Introduction of legislation supporting some of the taxation changes proposed in the 2026 Federal Budget has shed light on how the changes will operate.

Note: This document summarises the key components of the bill introduced to Parliament. TechConnect will provide further analysis shortly.

Legislation has been introduced to Parliament to implement the proposed capital gains tax (CGT) and negative gearing changes, as well as the new Working Australians Tax Offset (WATO) and the $1,000 instant tax deduction for workers.

The Bill has been referred to the Senate Economics Legislation Committee for inquiry, with a report due on 22 June 2026.

CGT: What's changing from 1 July 2027?

The current 50% CGT discount will be replaced with an indexation method for eligible post-1 July 2027 gains. Gains that accrued from this date will also be subject to a minimum rate of tax of 30%.

Who and what assets are impacted?	Who and what assets aren't impacted?
• The proposed new CGT framework applies to **Australian tax residents, trusts, and partnerships.**	• There's no change to the **main residence exemption or small business CGT concessions.**
• The changes apply to **all classes of CGT assets,** not just residential property.	• **Companies, super funds, and foreign and temporary residents.**
• CGT on **pre-CGT assets** for gains accrued from 1 July[1].	• **New residential dwellings** and **affordable housing[2]** are exempt.
• **Assets acquired between 20 Sept 1985 and 19 September 1999** but disposed of from 1 July 2027 must use the 50% discount method for gains accrued before this time.	• **The minimum 30% tax rate** won't apply to individual's who've received a means-tested income support payment during the year.[3]

[1] Gains accrued up to 30 June 2027 remain exempt.

[2] Affordable housing generally refers to housing that meets specific legal requirements aimed at making it available at below market rental rates.

[3] Includes Age Pension, Carer Payment, Disability Support Pension, JobSeeker, Service Pension. Excludes Family Tax Benefit and Carer Allowance.

Impact on gains accrued before 1 July 2027

For assets held before 1 July 2027 and disposed of after that date, gains will be split using a deemed sale and reacquisition framework. In effect, this means that individuals may have CGT on an asset calculated using two different methods:

- a pre-1 July 2027 component under the old rules, and
- a post-1 July 2027 component under the new rules.

Acquisition	Treatment if sold from 1 July 2027
22 September 1999 - 1 July 2027	Treated as being sold just before that date and reacquired on 1 July 2027. Any notional gain or loss from that deemed sale will be deferred until the asset is disposed of. The 50% discount will apply to the gain accrued prior to 1 July 2027. The market value at 1 July 2027 will be used as the starting point for the cost base when working out the gain for the post 1 July 2027 holding period. An apportioning method is also expected to be available. We await further information on this method.
20 Sept 1985 - 21 Sept 1999	Treated as being sold on 30 June 2027 and reacquired on 1 July 2027. Only the 50% discount method can be used to determine the amount of the pre-1 July 2027 gain that is taxable. Under the current rules, individuals and trusts can generally choose between the previous indexation method and the CGT discount. If these assets are disposed of before 1 July 2027, the choice between the previous indexation method and the 50% discount will still be available.
Pre-1985	Treated as being sold on 30 June 2027 and reacquired on 1 July 2027. As a result, pre-1 July 2027 gains remain exempt from CGT and future gains will be taxed under the new method.

The 12-month minimum holding period

The 12-month rule is unchanged, meaning the concessions are only available where an asset has been owned for at least 12 months. For this purpose, the original acquisition date will be used (not the deemed disposal date of 1 July 2027). For example, if an asset was acquired on 1 January 2027 and sold on 1 February 2028, the gain attributable to the six month period from 1 January – 1 July 2027 will still be eligible for the 50% discount. This is because the 12-month period is measured against the entire ownership period.

How will CGT be calculated from 1 July?

Gains will be grouped into four categories. This is, in part, to facilitate the operation of the changes to negative gearing and how losses will be used to reduce certain capital gains.

The four categories are:

- deferred non-residential capital gains
- deferred residential capital gains
- non-residential capital gains, and
- residential capital gains.

These categories are intended to keep residential property amounts separate, so income losses from residential property can only be used against residential property gains, rather than against other types of income or gains. **TechConnect will provide a deeper dive into how this will operate shortly.**

How the indexation method works

Under this method, the capital gain is calculated as follows:

Capital gain = Capital proceeds − Indexed cost base

The indexed cost base is the asset's cost base after applying indexation to eligible cost base elements (such as amount paid and incidental costs). Eligible cost base elements are indexed individually, by multiplying the amount of expenditure by an indexation factor (based on CPI). The total of the unindexed and indexed amounts is the indexed cost base. However, indexation does not apply when calculating a capital loss.

Example

Gemma sold an investment for $180,000. The investment was purchased on 1 July 2027 for $100,000. Incidental costs were $5,000.

After applying the indexation factor, the indexed purchase price becomes: $112,000 and the indexed incidental costs becomes $5,400.

The indexed cost base is $112,000 + $5,400 = $117,400

The capital gain = $180,000 - $117,400

= $62,600

Changes to negative gearing from 1 July 2027

From 1 July 2027, negative gearing will no longer be available in relation to 'established' (already built) residential properties purchased after Budget night (7.30 pm on 12 May 2026). Rental income losses will only be able to be used against any other residential property income, including capital gains. Any income losses that can't be used can be carried forward to future years (where they can be used to reduce income or gains on residential property only).

The changes to negative gearing only applies to residential property and no other asset types are impacted. These changes apply to individuals, partnerships, companies and most trusts (excluding widely held trusts and super funds).

Exceptions

New builds: Losses will continue to be deductible against other types of income for new residential builds.

Vacant land: Where the land was owned before Budget night and a residential dwelling is built after Budget night.

Other assets: Non-residential property assets, including commercial property, shares, and any assets owned by super funds (including SMSFs).

Fringe benefits: Applies to residential properties provided as housing to employees.

Homes that aren't 'dwellings': Certain homes such as caravans, mobile homes and some short-term accommodation (including hotels and boarding houses).

Newly built property for the purpose of the CGT and negative gearing changes

A new build is broadly defined as adding to the housing supply and will be further clarified in a legislative instrument. Examples are:

New build	Not a new build
Newly constructed apartment purchased-off-the plan	An established property that has been subject to an extension or renovation (regardless how extensive changes made)
A knockdown of a single dwelling which is replaced with a duplex	The knockdown of a single dwelling which is replaced with a single dwelling
A newly built property owned by a builder which is occupied for less than 12 months before being sold*	A newly built property owned by a builder which is occupied for more than 12 months before being sold

Affordable housing is also carved out in addition to new builds. Broadly, this type of housing meets the affordable housing requirements. Further details are expected to be set out in supporting instruments.

What are the possible advice implications of these changes?

- **Valuations:** Evidence, record keeping and eventual administrative guidance are likely to become central practical issues. Individuals will be able to obtain a professional valuation, quote values including share prices, or use an apportionment formula to estimate the value of an asset on 1 July 2027 in certain cases. The ATO will provide further guidance about this method.
- **Closer review may be required** for clients with personally held growth assets, family trust or partnership structures, older investments acquired before September 1999, and pre-CGT assets. The new framework does not trigger an immediate taxing point on 30 June 2027, but it does create a deemed disposal mechanism that may still require valuation, apportionment and detailed record support later.
- **Clients with assets purchased between 1985-1999:** You may need to consider whether the previous indexation method would provide a more favourable outcome than the 50% discount (in relation to gains accrued up to 1 July 2027) and discuss whether it may be more beneficial to dispose of these assets before 1 July 2027.
- **Cash flow:** Where clients purchase established property after Budget night, the impact of income loss quarantining on cash flow, borrowing capacity and after-tax returns need to be considered.
- **Timing of gains and losses:** Where capital losses are available (or likely to arise), greater focus may be required on the sequencing and timing of asset disposals. This may become increasingly important where quarantined property losses can only be applied against property income or gains, and where individuals are managing exposure to the proposed 30% minimum tax rate.
- **Borrowing capacity:** Reduced after-tax cash flow outcomes for negatively geared established property may affect lending serviceability, debt reduction strategies and refinancing capacity. Clients relying on tax refunds to support holding costs may need more conservative cash flow modelling.

Other taxation measures introduced

$1,000 instant tax deduction for work-related expenses

From 1 July 2026, eligible taxpayers will be able to claim $1,000 tax deduction on work-related expenses without needing to retain receipts. Individuals can still claim work-related expenses above this limit, but evidence will be required to support the full deduction.

Eligible taxpayers must be a tax resident and receive 'labour income'. Certain expenses do not count towards the $1,000 limit and continue to be deductible. Examples include charitable giving, union or other trade expenses, business or professional association memberships and other non work-related deductions.

Working Australians tax offset

From 1 July 2027, a non-refundable tax offset up to $250 is proposed for working income of tax residents, known as the Working Australians tax offset (WATO).

The tax offset only applies where 'labour income' (reduced by labour deductions) exceeds the tax-free threshold ($18,200). 'Labour income' includes income such as salary, wages, personal services income and business income of sole traders.

The offset is non-refundable meaning that if tax payable on labour income is below $250, the amount of the offset can only reduce tax on labour income to nil. The offset is available regardless of age and is permanent. It is expected that WATO will be applied automatically if the person is eligible, when they complete their tax return.

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