SOUTH AUSTRALIAN Business Chamber EST. 1839

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Big changes to Australia’s tax system, bigger questions. What does this Federal Budget mean for you?

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16 June 2026

What’s in store for today’s session

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16 June 2026

The session at a glance

- What’s unfolded over the past month
- Why does it matter
- CGT measures
- Trusts measures – big changes also
- What do you need to do:
  - Before 30 June 2026
  - Before 30 June 2027
  - Before 30 June 2028

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What’s unfolded over the past month?

What’s unfolded

- 12 May 2026 - **Federal Budget**
  - Announcements on various tax measures including proposed changes to <u>CGT</u>, <u>Taxation of Trusts</u>, <u>Negative Gearing</u>
  - Some fact sheets released on the night, but no draft legislation
  - Fact sheet provided different dates and time periods in which proposed changes to become "live"
  - Overall the biggest tax changes for private/mid-market groups in over 25 years

- 28 May 2026 – **certain legislation** introduced to Parliament
  - Two bills - Covering the core CGT proposals, negative gearing, WATO and $1,000 standard deduction measures
  - Referred to Senate Economics Legislation Committee
  - Public hearings on 15 and 16 June 2026
  - Report due 19 June 2026

- *Bendel Case* - decision handed down on 10 June 2026 – Commissioner of Taxation unsuccessful
  - Significant impact on the Division 7A implications for trust distributions to corporate beneficiaries

Why does it matter?

These proposed measures are big

- The measures hit at the core of mid-market, private group structures – CGT and trusts
- Every discretionary trust will need to be considered for their effectiveness
- Structuring of business, assets and investment holdings in private groups will need a fundamental re-think
- Factors in deciding on an appropriate structure:
  - Tax on income
  - Tax on gains
  - Asset protection / Limited liability
  - Funding
  - Estate/succession planning
- There is no one size fits all solution

Negative gearing

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Proposed changes to negative gearing

- From 1 July 2027, negative gearing will not be available for 'existing' residential investments:
  - These negative gearing losses will be ‘quarantined’
  - They can be carried forward
  - Eligible to be utilised against:
    - rental income from residential property investments, or
    - capital gains and other income from residential property investments.

- Proposed changes will apply to:
  - individuals, partnerships, companies and most trusts
  - all residential properties, other than new builds.

- Distinction between:
  - New builds / new residential dwelling
  - Existing residential dwelling / established residential dwelling.

Exclusions from proposed changes to negative gearing

- Residential properties owned before 7:30pm (AEST) on 12 May 2026

- New builds
  - Add to housing supply

- Other Exclusions
  - Commercial property investments
  - Shares and other types of investments
  - Properties in widely held trusts and superannuation funds
  - Specific exemptions: build-to-rent developments, and private investors supporting government housing programs.

CGT

Proposed changes to CGT rules

1. 50% CGT Discount will be replaced by Cost Base Indexation

2. 30% Minimum Tax Rate on Capital Gains

3. Remove full exemption for pre-CGT assets (held before 20 September 1985)

Exclusions from proposed CGT changes:

- Main residence exemption
- Small business CGT concessions

Some core CGT concepts

- Capital Proceeds – the amount you receive for selling an asset
- Cost Base – what you paid to acquire the asset, plus costs such as stamp duty
- Capital Gain – when capital proceeds from the disposal of a CGT asset are greater than the cost base of the asset
- Capital Loss – when capital proceeds from the disposal of a CGT asset are less than the reduced cost base of the asset
- Net Capital Gain – included in taxpayer’s assessable income

Method statement to calculate a net capital gain – current tax system

Outlined below is the method statement to calculate a net capital gain for income year under the current system:

Steps	Method
Step 1	Reduce current year capital gains by current year capital losses (you choose the order)
Step 2	Apply any prior year unapplied net capital losses (you choose the order)
Step 3	Apply the CGT discount to any remaining discount capital gains (if eligible)
Step 4	Apply any small business CGT concessions (if eligible)
Step 5	Add up the remaining capital gains — the sum is your net capital gain

Existing rules – 50% CGT discount

- Allows the reduction of a capital gain by 50% where:
  - The CGT asset is held by an individual or a trust
  - The CGT asset is held for at least 12 months
  - Australian tax resident

- 50% CGT discount - reduces the capital gain itself rather than increasing the cost base

- Effective tax rate of 23.5% for individuals on the top marginal tax rate (47%)

Proposed changes - Indexation to replace 50% CGT Discount

- From 1 July 2027, the 50% CGT Discount replaced with Cost Base Indexation:
  - Capital gains arising from 1 July 2027
  - All eligible CGT assets – individuals, trusts which held asset greater than 12months

- What is Indexation, and how do the rules apply?
  - Indexation increases the Cost Base of a CGT asset
  - Aims to tax only the inflation adjusted increase in the asset's value
  - Capital Gain = Capital Proceeds less Indexed Cost Base
  - Broadly, each element of the CGT Cost Base is indexed (i.e. adjusted)
  - Adjustment based on quarterly CPI figures

Example – Difference between 50% CGT Discount & Indexation

Investment property purchased for $1m and sold 5 years later for $1.5m

	CGT discount ($) under current rules	Indexation ($) under proposed changes
Capital Proceeds	1,500,000	1,500,000
Cost Base	1,000,000	
Indexed Cost Base*		1,130,000
Capital Gain	500,000	370,000
Net Capital Gain (after 50% CGT discount)	250,000	N/A
Tax Payable at 47%**	117,500	173,900

**Assumes 2.5% annual inflation*

***Assumes individual's taxable income is already greater than $190,000 prior to the capital gain calculation*

Proposed changes - 30% Minimum Tax Rate on Capital Gains

- Minimum tax rate of 30% applies on capital gains
  - Capital gains from CGT events on or after 1 July 2027
  - Only applies to gains accrued after 1 July 2027
  - Applies to all CGT assets, not just residential property

- Impact taxpayers with a marginal tax rate of less than 30%

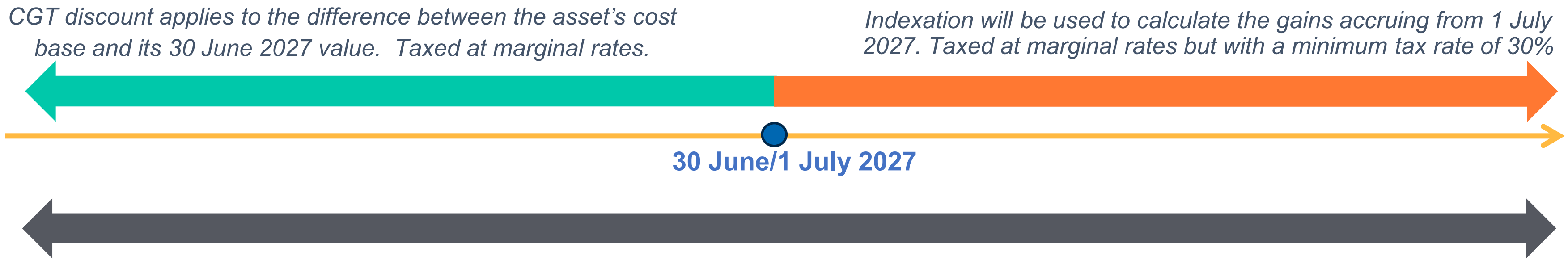
- Carve outs and exemptions
  - Recipients of income support payments, including the Age Pension, Disability Support Pension and JobSeeker
  - New residential dwellings or affordable housing (subject to other criteria being met).

Categories of capital gains really matter

Grandfathering of CGT discount and pre-CGT assets

- Gains accrued to 30 June 2027 will be subject to the current CGT rules. I.e. there will be 'grandfathering'
- The status of the CGT asset (pre-CGT or post-CGT) and the date it was acquired will be important in determining how capital gains will be calculated
- What the CGT asset is will be important with the introduction of 4 new categories of capital gains which determine how gains and losses are calculated
- Determining the market value for assets at 30 June 2027 of critical importance

Grandfathering of CGT discount and pre-CGT assets



Assets Acquired pre-CGT (20 September 1985)

- Gains accruing from 1 July 2027 are subject to CGT
- Valuation required as at 30 June 2027 to ensure gains accrued up to 30 June 2027 are exempt from CGT (consider CGT event K6)

Assets Acquired between 1985 and 1999

- Choice to index the cost base or apply CGT discount (if an individual or trust) up until 30 June 2027. Only indexation from 1 July 2027.
- Valuation as at 30 June 2027 to allow any accrued gain up to 30 June 2027 to access the 50% CGT discount (if an individual or trust)

Assets Acquired between 1999 and 30 June 2027

- Valuation as at 30 June 2027 to allow any accrued gain up to 30 June 2027 to access the 50% CGT discount (if an individual or trust)

Four categories of capital gains

- Deferred gains – being the portion of the gain that accrues up to 30 June 2027. Can potentially access the 50% CGT discount on a sale.

  - “Deferred residential capital gain”
  - “Deferred non-residential capital gain”

- Other gains – being the portion of the gain that accrues from 1 July 2027 and may have an indexed cost base.

  - “Residential capital gain”
  - “Non-residential capital gain”

How to calculate your net gain

Classify your capital gains	Classify your capital gains made during the income year as: a) Deferred non-residential capital gains b) Deferred residential capital gains c) Non-residential capital gains d) Residential capital gains Total each category
Adjust the total capital gain for each category	Reduce each total (but not below nil), in order of the categories above, by: — Any capital loss made during the income year (Step 1); then — Any previously unapplied net capital losses from earlier income years (Step 2); then — For residential gains, the sum of any quarantined amount for the income year (first to deferred residential capital gains, then to residential capital gains) (Steps 3 and 4); then — The discount percentage for each remaining discount capital gain as applicable (Step 5); then — Apply any small business concession from Subdivisions 152-C, 152-D and 152-E to gains that qualify for the concessions (Step 6).
Find your net capital gain	The sum of the remaining amounts is your net capital gain for the income year (Step 7)

An example of how the new method operates

- Assume it is the year ending 30 June 2033
- You have carried forward capital loss of **$200,000** from some assets sold in previous years
- You sold your beach house in Feb 2033 for **$3.2M**
  - It had been purchased December 2018 for **$1.5M** and rented
  - The market value at 30 June 2027 was **$2.5M**
  - The indexed cost base at the time of sale was **$2.7M**
- You also sold ASX listed shares in June 2033 for **$500,000**
  - They had been purchased in January 2033 for **$380,000**

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The worked example

	Deferred residential gain	Non-residential gains	Residential gain
Beach house	1,000,000		500,000
ASX shares		120,000	
Step 1 : Reduce current year gains by current year capital losses	-	-	-
Step 2: Apply carried forward net capital losses	(200,000)	-	-
Step 3: Apply current year quarantined amount against deferred residential capital gains	-	-	-
Step 4: Apply remaining quarantined amounts against residential capital gains	-	-	-
Step 5: Reduce the amount by the discount percentage	(400,000)	-	-
Step 6: Apply any small business CGT concessions	-	-	-
Step 7: Add up remaining capital gain. This is the net capital gain	400,000	120,000	500,000

Trusts

New 30% Minimum Tax on Discretionary Trusts

Trusts - Information provided to date

- Federal Budget Papers - Tuesday 12 May 2026 Budget Paper No. 2 | Budget 2026–27
- Government fact sheet - "Minimum Tax on Discretionary Trusts" Budget 2026–27 Tax Explainer

Big changes proposed for discretionary trusts

What we know of the proposed measures:

- From **1 July 2028,** Trustees of discretionary trusts will pay a minimum 30% tax on their taxable income
- Individuals and other non-corporate beneficiaries should receive non-refundable tax credits for tax paid by trustee which reduces their income tax payable.
- Trustees will be required to calculate, report and pay the minimum tax, as well as notify the beneficiaries of their entitlements of the tax credits.
- Trustees that receive franked dividends may be required to use their franking credits to pay the minimum tax.

Exclusions from the new proposed rules

Exclusions:

Certain types of Trusts:

- Fixed Trusts (including fixed testamentary trusts)
- Widely held Trusts
- Complying Superannuation Funds
- Special Disability Trusts
- Deceased estates
- Charitable Trusts

Certain types of Income:

- Primary Production Income
- Certain income relating to vulnerable minors
- Amounts to which non-resident withholding tax applies
- Income from assets of discretionary testamentary trusts existing as at 12 May 2026.

The Government is incentivising restructuring away from trusts

Expanded Roll-over Relief proposed:

- Expanded roll-over for three years from 1 July 2027 to support small businesses and others that wish to restructure out of a discretionary trusts in another entity type such as a company or fixed trust.
- From 1 January 2027, the Australian Small Business and Family Enterprise Ombudsman will be available to assist small businesses to understand the options available to them and where they can get further advice.
- ASIC will put in place specific arrangements to support small businesses that wish to incorporate.

Some known unknowns

What we don't know (***and will be subject to consultation/ stakeholder input***)

- What are the precise mechanisms for collecting minimum tax?
- What happens if franking credits exceed the minimum tax liability?
- How exactly will the expanded roll-over relief work?

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Quotes from Treasury

Government policy comments (fact sheet):

- *"All trustees of discretionary trusts in scope will be required to pay the minimum tax, but where a trust is already distributing to non-corporate beneficiaries with a tax rate of 30% or higher there will be no overall increase in tax paid".*

- *"Those that are affected may restructure into a company or fixed trust structure not subject to the minimum tax or make different decisions about the distributions of income to beneficiaries to reduce their tax liability.*

- *"The introduction of the minimum tax will reduce the incentive for trustees to distribute to corporate beneficiaries set up just to receive trust distributions from discretionary trusts. This will discourage the use of structures that add complexity to the tax system and compliance costs for taxpayers".*

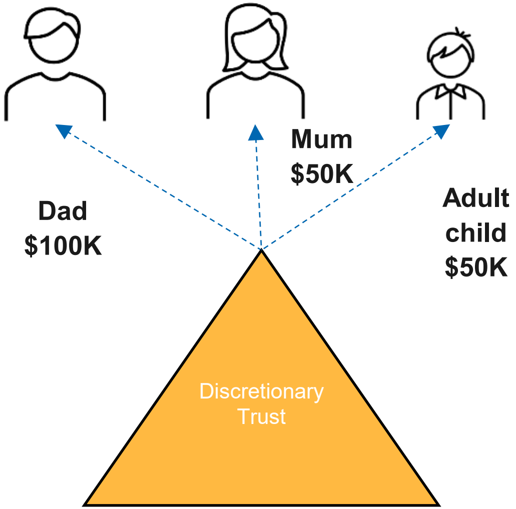
Examples in practice

Example 1: Trust generates business income, distributes to Dad (high rate), Mum (30%) and adult child (no other income)

Trust generates net business income of $200k

Distributes:

- Distributes to $100k to Dad (marginal tax rate of 47%)	100,000
- Distributes $50k to Mum (marginal tax rate 30%)	50,000
- Distributes $50k to adult child, no other income	50,000
	200,000



Examples in practice

Example 1 : Trust generates business income, distributes to Dad (high-rate MTR), Mum (30% MTR) and adult child (no other income)

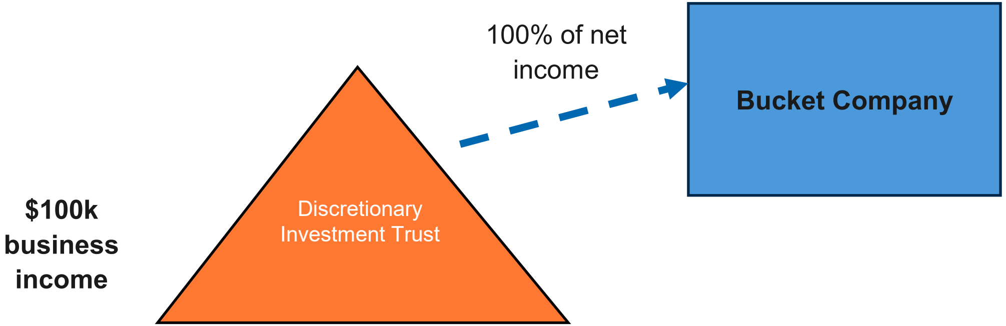
Current position (until 30 June 2028)	
Tax payable by trustee	-
Tax payable by Dad	47,000
Tax payable by Mum	15,000
Tax payable by adult child	5,788
Total tax payable	**67,788**
Effective tax rate	**33.89%**

From 1 July 2028 (with 30% minimum tax)	
Tax payable by trustee	60,000
Tax payable by Dad	17,000
Tax payable by Mum	-
Tax payable by adult child	-
Total tax payable	**77,000**
Effective tax rate	**38.50%**

Examples in practice

Example 2: Distribution to corporate beneficiary

- Discretionary Trust generates business net income of $100k
- Discretionary Trust distributes 100% of its net income to a corporate beneficiary (“Bucket Company”)
- Assume tax rate of bucket company is 30%



Examples in practice

Example 2: Distribution to corporate beneficiary

Current position (until 30 June 2028)

Tax payable by trustee	-
Tax payable by corporate beneficiary	30,000
Total tax payable	**30,000**
Effective tax rate	**30.00%**

From 1 July 2028 (with 30% minimum tax)

Tax payable by trustee	30,000
Tax payable by corporate beneficiary	21,000
Total tax payable	**51,000**
Effective tax rate	**51.00%**

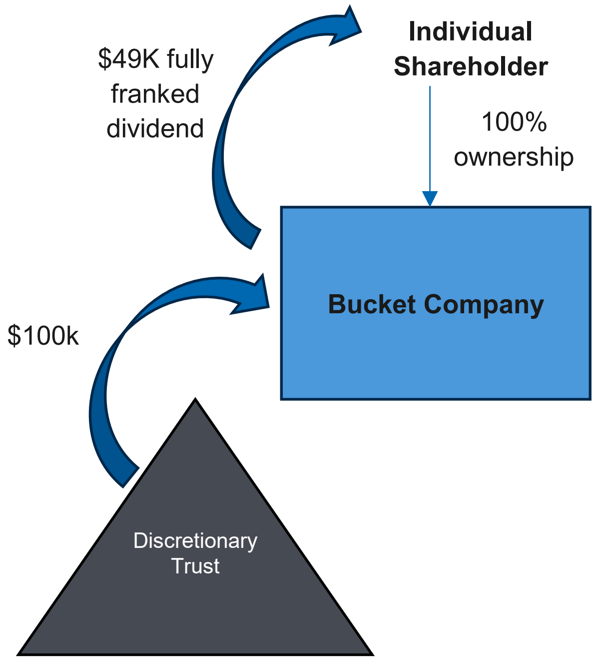
The significant increase in effective tax rate represents the lack of tax credit for the corporate beneficiary, and seems to be in line with the Government's intentions

Examples in practice

Example 2 Cont. Distribution to corporate beneficiary & flow through to individual shareholder

<u>From 1 July 2028 (with 30% minimum tax)</u>

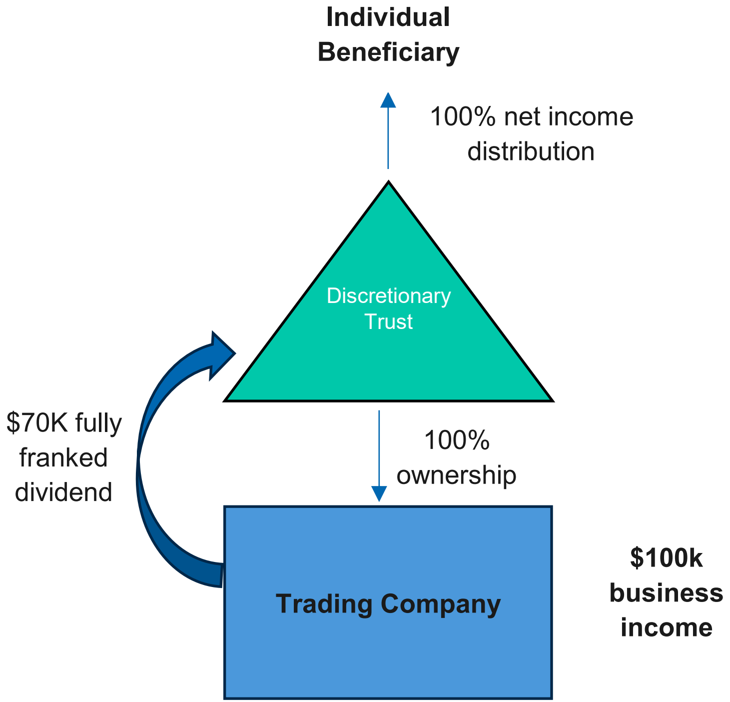
Dividend assessable to individual shareholder	70,000
Tax payable by individual shareholder at 47%	32,900
Tax offset for franking credits	(21,000)
Net tax payable by individual shareholder	11,900
Tax payable at trust and company level	51,000
Total tax payable	**62,900**
Effective tax rate	**62.90%**



Examples in practice

Example 3: Potential Franking credit leakage (company to trust to individual beneficiary)

- Company is 100% owned by a Discretionary Trust
- Company tax rate is 30%
- Company has net trading income of $100k for the year
- Company pays out 100% profits to its Discretionary Trust shareholder
- Trust distributes 100% of annual net income to an individual beneficiary
- Assume the individual beneficiary has an effective tax rate of 20%
- Individual beneficiary has other tax deductions of $30k



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Examples in practice

Example 3 Cont. Potential Franking credit leakage (company to trust to individual)

Current position (until 30 June 2028)	
Tax payable by trading company	30,000
Tax payable by the trust	-
Gross tax payable by individual shareholder	14,000
Refundable tax offsets for franking credits	(30,000)
Tax refundable to individual shareholder	(16,000)
Net tax payable	**14,000**
Effective tax rate	**20.00%**

From 1 July 2028 (with 30% minimum tax)	
Tax payable by trading company	30,000
Gross tax payable by trust	30,000
Tax offset for franking credits	(30,000)
Net tax payable by the trust	-
Gross tax payable by individual shareholder	14,000
Non-refundable tax offsets for franking credits	(14,000)
Tax refundable to individual shareholder	-
Total tax payable	**30,000**
Effective tax rate	**42.86%**

Future considerations for trusts

What does it mean for the use of discretionary trusts as a tax structuring vehicle going forward?

- No additional tax where income from trusts already taxed at 30%.
- Post 1 July 2028: not generally possible to have discretionary trust income taxed at less than 30%.
- Post 1 July 2028: are bucket companies effectively dead?
- Potential wastage of franking credits where franked dividend income flows through a discretionary trust to an individual. beneficiary whose effective tax rate is lower than 30%.
- There are 3 income years left (2026, 2027 & 2028) left under the current rules.
  - The impact of the recent *Bendel* High Court decision should be considered over this time period.
- Taxpayers should proactively consider the appropriateness of the use of discretionary trusts in existing or new business or investment structures.

What should I do and when?

These proposed measures are big

- The measures hit at the core of mid-market group structuring – CGT and trusts
- Break the measures down into actions over the next 4 years
- Over the next two years every discretionary trust will need to be considered for their effectivnesss
- Structuring of business, asset and investment holdings in private groups will need a fundamental re-think and in particular how we weight different factors that go into deciding on an appropriate structure:
  - Tax on income
  - Tax on gains
  - Asset protection / limited liability
  - Funding
  - Estate/succession planning
- Some groups may need a complete restructure

Between now and 30 June 2026

- Start thinking about how the measures might impact your group
  - CGT impact - assets purchased over different time periods
- Consider distributing from your discretionary trust to a corporate beneficiary if appropriate in your structure, to allow for the possibility of building up wealth within that company in anticipation that it may be harder to do so from 1 July 2028
  - Impact of the *Bendel* decision handed down 10 June 2026
- Don't make rash decisions until we have a more complete picture of the legislation and associated materials
- If you need to acquire assets or setup a new structure now, try and build as much flexibility as possible into the structures you choose.
  - Don't just default to a structure you may have previously used.

Between 1 July 2026 and 30 June 2027

- CGT Discount and 30 June 2027 valuation date
  - Valuations are important - don't need a valuation by that date rather a valuation at that date
  - May be able to utilise a different valuation methodologies
- Pre-CGT assets, this is a key year to manage the end of the pre-CGT status
  - Valuations as at 30 June 2027
  - Review of the actual pre-CGT status of assets – private company shares
- Anticipate all the legislation for the Trust measures will be released during this period
  - Work with your advisor to review, assess and plan for the potential actions / impact to your group
  - Details of the proposed CGT restructure rollover are likely to be released
  - Existing and new CGT rollovers vs. Small Business CGT concessions
  - These are real transactions
  - Consider state based taxes!
- Continue using corporate beneficiaries if appropriate in your structure, before the likely practical end to their use from 1 July 2028

Between 1 July 2027 and 30 June 2028

- Gains on the sale of CGT assets acquired pre 1 July 2027 - calculated under the new rules
- CGT assets acquired from this date - cost base records important for indexation
- Anticipate that all the legislation for the measures will be released/final during this period
- This will likely be a key year for trust restructures ahead of the 1 July 2028 trust changes.
- Implementation/execution of planning from the prior year
  - Real transaction - do not leave a restructure too late
  - Existing and new CGT rollovers vs. Small Business CGT concessions
  - Consider state based taxes
- Continue using corporate beneficiaries if appropriate in your structure
  - Likely be the final year to distribute to them in a tax effective manner.
- Another Federal Election....

Any questions?

Submit via the teams Q&A chat




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Thank you