

Tax Alert

2026-27 Federal Budget – CGT and housing tax reform



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Budget tax reform bill overhauls CGT, limits negative gearing and adds a 30% minimum tax on capital gains, reshaping investment outcomes.

In brief

Addendum (26 June 2026): Since this Alert was published, the Bill completed its passage through Parliament with amendments and was enacted on 26 June 2026. Of particular note is that the amendments made to the Bill include an increase to the aggregated turnover threshold from \$2m to \$10m for access to the small business 50% active asset reduction, ensuring that capital gains

subject to the 30% minimum tax are reduced by deductible gifts or donations, and limiting certain ministerial instrument making powers.

On 28 May 2026 the Australian Government introduced into Parliament the Bills (Treasury Laws Amendment (Tax Reform No. 1) Bill 2026 and Income Tax Rates Amendment (Tax Reform No. 1) Bill 2026) to give effect to its 2026-27 Budget capital gains tax (CGT) and housing tax reform measures. Specifically, the legislative package introduces the framework for:

The replacement of the 50% CGT discount for individuals and trusts from 1 July 2027 with cost base indexation;

Bringing in all pre-CGT assets (including those held by companies) into the CGT regime from 1 July 2027;

A new 30% minimum tax on capital gains;

Restrictions on negative gearing for certain residential dwellings applicable from 1 July 2027.

In detail

CGT reforms

This Bill introduces the most far-reaching overhaul of Australia's CGT regime since CGT discounts were introduced in 1999. From 1 July 2027, the rules will change for almost every Australian resident individual and trust holding a CGT asset - cost base indexation returns, a new minimum rate of tax on capital gains is imposed, and the pre-CGT status that has shielded assets acquired before 20

September 1985 for more than four decades comes to an end. Taken together, these measures will reshape investment, succession and exit strategies across property, shares, business interests and trusts.

Replacement of the 50% CGT discount with cost base indexation

For CGT events happening on or after 1 July 2027, the 50% CGT discount that currently applies to discount capital gains made by Australian resident individuals (including individual partners in a partnership) and trusts is removed and replaced with cost base indexation. Indexation will apply to expenditure incurred in relation to each element of the cost base of a CGT asset, other than the third element (costs of ownership), provided the asset has been held for at least 12 months and the residency requirements are met.

Indexation is not available to foreign or temporary residents, and existing CGT settings continue to apply for companies, superannuation funds and life insurance companies. Importantly, the Bill provides that an individual that is a foreign resident for even one day during the period that they hold an asset that would otherwise be eligible for indexation from 1 July 2027, will not qualify for indexation. This differs from the existing policy that allows individuals to apportion their access to the CGT discount based on the number of days they are an Australian resident compared to the total days the asset is held. The Explanatory Memorandum (EM) to the Bill notes that future amendments may be considered in relation to how entities that are resident for only part of the period they hold a CGT asset may access indexation.

A significant consequence of this change is that indexation is of limited benefit to assets held by individuals or trusts that have low or no cost base, such as investments in a new and emerging company, a minerals exploration company or internally created business goodwill. This outcome is a clear contrast to the current CGT discount outcomes that would emerge upon ultimate realisation of the successful investment. The small business CGT concessions will continue to apply, but not all taxpayers will meet the eligibility requirements in relation to the asset. The Treasurer has indicated that the Government is consulting with

stakeholders on the treatment of capital gains of small and start-up businesses, so time will tell whether there are any specific concessions made for those impacted.

Assets held by Australian resident individuals and trusts on 30 June 2027 (including pre-CGT assets) will be deemed to have been sold just before 1 July 2027 and reacquired on 1 July 2027 at market value (or at an amount worked out under an apportioning method that may be prescribed by the Minister by legislative instrument). For many taxpayers, particularly those holding interests in private companies, trusts, real property, or other illiquid assets, obtaining a reliable market value at a specific point in time may be costly. While the EM to the Bill indicates the promise of "guidance, calculators and tools" to assist taxpayers, these have not yet been released or detailed.

Critically, the choice between using the market value of the transitioned CGT asset as at 1 July 2027 and the apportioning method does not need to be made until the taxpayer lodges their tax return for the income year in which the actual realisation event occurs. While this defers the decision, it also means taxpayers may hold assets for years without certainty as to the outcomes that arose from the deemed disposal and reacquisition of the asset at 1 July 2027.

Any gain or loss on the deemed sale (the initial notional gain or loss) of the transitioned CGT asset is deferred until a later realisation event happens to the asset. At that point, both the deferred pre-1 July 2027 component (calculated under the existing law, including any applicable 50% discount) and the post-1 July 2027 component (calculated using the indexed cost base) are taken into account in working out the entity's net capital gain.

Individuals and trusts that hold CGT assets acquired between 20 September 1985 and 21 September 1999 lose the existing choice between cost base indexation (frozen at 30 September 1999) and the 50% CGT discount once 1 July 2027 arrives. After that date, only the 50% CGT discount applies to the deferred pre-1 July 2027 component for these taxpayers.

Pre-CGT assets brought into the regime

As at 1 July 2027, all pre-CGT assets (those acquired before 20 September 1985) are deemed to be sold and reacquired at market value (the default option), or an apportioning method set out in a legislative instrument to be made by the Minister, and cease to be pre-CGT assets. Importantly, this change applies to all entities holding pre-CGT assets, including companies.

The new CGT regime will then apply to these assets in relation to any capital gains or losses arising on any subsequent disposal after 1 July 2027 while gains accruing before 1 July 2027 continue to be disregarded but this is subject to existing rules.

Shareholders and unit-holders that have pre-CGT interests in underlying unlisted companies or trusts may be familiar with the current CGT event K6 rule which operates as an exception to the general rule that capital gains and losses on pre-CGT assets are disregarded. CGT event K6 can apply where, broadly, certain CGT events happen to a pre-CGT share in a private company or interest in an unlisted trust and the underlying entity holds post-CGT property that makes up at least 75% of its net value. The proposed amendments effectively require a CGT event K6 calculation to be undertaken at 1 July 2027 to determine if a latent capital gain exists at that time. If a capital gain does exist, the deemed disposal at 1 July 2027 crystallises that gain but any resulting liability is deferred until a later realisation event in respect of the share or interest.

For affected taxpayers, the measure raises a number of practical considerations that should be worked through well before 1 July 2027. These include not only obtaining contemporaneous market valuations of the pre-CGT shares or units, but also valuations of the underlying entity's assets as at 1 July 2027 to support any resulting deferred K6 gain.

New method statement and asset categories

The new law proposes a new seven step method statement for working out a net capital gain for an income year and introduces four new asset-based categories as part of that calculation:

deferred non-residential capital gains;

deferred residential capital gains;

non-residential capital gains; and

residential capital gains.

The order in which capital losses, carry-forward net capital losses and quarantined rental amounts are applied is now prescribed. For individuals and trusts, the ordering effectively requires capital losses to be used against discount capital gains first (being those capital gains deferred under the current law) and indexed capital gains thereafter. This removes the flexibility that is available under the current law.

Trustee reporting obligation

The Commissioner of Taxation can by legislative instrument, require trustees to provide beneficiaries with a statement (in the approved form) detailing each beneficiary's attributed capital gains and the relevant categorisation. Administrative penalties will apply for failure to comply.

The provisions indicate that the additional statement is not required where trustees have reporting obligations in relation to the lodgment of Annual Investment Income Reports (AIIRs), but it is likely that it would be necessary to provide additional information to unitholders in relation to the proposed changes through other reporting requirements.

The compliance burden on trustees is already significant and this requirement, together with the complexity of the capital gains tax calculations required under the new regime, only increases that burden. For managed funds, it is expected

that to comply with the new law significant changes will be required to reporting processes and systems in a relatively short timeframe.

30% minimum tax on capital gains

A new additional amount of income tax may be imposed where required to ensure a minimum effective tax rate of 30% on certain capital gains made by Australian resident individuals on or after 1 July 2027. The minimum tax is calculated on the taxpayer's "minimum tax capital gain" (broadly, the post-1 July 2027 portion of a capital gain) and applies only to the extent the gain is not already taxed at 30% or more under the marginal rates applicable to them. That means that if the taxpayer is already paying 30% or more on the gain (because their marginal rate is high enough), no additional tax is payable.

The calculation of the minimum tax gap amount broadly compares the 30% tax on the minimum tax capital gain with the actual tax paid by the individual (inclusive of all other income and deductions). Ordinary deductions (e.g. new residential property investment losses, superannuation deductions, donation deductions) claimed against taxable income *prima facie* reduce an individual's actual tax paid, and yet may result in an additional tax payable in respect of capital gains. The mechanics of the calculation appear to be flawed where taxable income is less than the net capital gain as it creates a difference in the effectiveness of deductions that are applied against ordinary income or net capital gains. Deductions will be available to reduce the marginal tax rate applying to ordinary income to below 30% (and nil if applicable), whereas deductions will not be available to reduce the marginal tax rate on capital gains below 30%. This could give rise to an overall effective tax rate in excess of 47%. Some practical impacts could include:

1. reduced incentives to make voluntary deductible superannuation contributions
2. incentives to make charitable deductible donations could be reduced if the after-tax effect of the deduction is diluted by additional tax payable on a

capital gain (noting that capital gains often fund donations made by individuals).

The minimum tax will also apply to an individual beneficiary of a trust who is entitled to a capital gain from a trust.

Gains from new residential dwellings and affordable housing are excluded from this measure unless the relevant entity chooses indexation and the minimum tax over applying the CGT discount (discussed later). Capital gains derived by recipients of certain payments prescribed by the Minister - intended to include income support payments such as the Age Pension, JobSeeker, Disability Support Pension and Parenting Payment - will be exempt from the measure.

The practical issues - particularly around streaming through trusts, multi-tier structures, and part-year residents - are likely to generate significant compliance and planning work. The EM expressly signals further tranches of legislation.

Limit negative gearing for residential property to new builds

The new measures quarantine the excess of deductions over assessable income from using or holding a residential dwelling as residential accommodation. The quarantined amount is not deductible against other assessable income (such as salary and wages or other non-residential dwelling investment income and gains). Instead, it can only be applied against net assessable income from non-quarantined residential dwellings, against revenue or capital gains from residential dwellings or carried forward to be applied in later income years.

The general rule does not apply to:

interests in residential dwellings last acquired before 7.30pm AEST on 12 May 2026 (the Budget night grandfathering date);

new residential dwellings, with the requirements to be prescribed by the Minister by legislative instrument;

residential dwellings used for activities, purposes, businesses or enterprises determined by the Minister; and

widely held unit trusts, complying superannuation entities, and other entities determined by the Minister.

An exception also applies to amounts incurred in providing fringe benefits.

Quarantined amounts cannot also be included in the CGT cost base or reduced cost base of the residential dwelling, preventing a double benefit.

This measure applies to net rental losses incurred in income years starting on or after 1 July 2027, in relation to interests in residential dwellings acquired on or after 7.30pm AEST on 12 May 2026. Importantly for straddle contracts, the law does not apply where a residential dwelling is acquired under a contract entered into before that date but is settled after.

A number of practical issues emerge under this proposal. The most significant is the concept of a 'new residential dwelling' for which investment losses will not be quarantined. The detail of what this will cover is yet to be determined as it will be set by the Minister via legislative instrument. The Government intends to release the details of this legislative instrument publicly as soon as possible. The EM to the Bill identifies possible criteria including the kind of dwelling, the kind of interest acquired, whether the dwelling was built on vacant land or created through substantial renovations, whether it has a separate legal title, and whether it "genuinely adds to the supply of residential dwellings in Australia". For example, knock-down-rebuild projects on existing sites will need careful consideration before assuming that negative gearing access is allowed – i.e. the EM contemplates that a single dwelling demolished and replaced with a single dwelling will not satisfy the "genuine addition to supply" test, but a single dwelling demolished and replaced with two separately titled duplexes will.

New residential dwellings and affordable housing

The negative gearing reforms interact closely with the CGT amendments when it comes to new residential dwellings. Not only does an investor in a new residential dwelling benefit from continued ability to negatively gear the investment, but new residential dwellings also benefit from advantageous CGT treatment.

To maintain incentives for new housing supply, individuals and trusts disposing of new residential dwellings or affordable housing on or after 1 July 2027 may choose between applying the 50% CGT discount (or up to 60% for affordable housing) and the new indexation-plus-minimum-tax regime. Where the discount is chosen, the deemed sale and reacquisition rules and the 30% minimum tax do not apply.

Next steps

This Bill is only the start of the legislative response to the Government's proposed reforms of the new CGT regime. Consultation is still underway to address the treatment of capital gains of small and start-up businesses and further amendments are yet to be drafted to address other interaction issues such as part-year residency, tax consolidation and importantly, the interaction with the attribution managed investment trusts (AMIT) rules.

The Bill, which also includes the Working Australians tax offset and \$1,000 standard work-related deduction, has also been referred to the Senate Economics Legislation Committee for inquiry and report by 22 June 2026.

The other major Budget tax reform measure that is still to be developed is the proposed 30% minimum tax on discretionary trust income that will apply from 1 July 2028.

The takeaway

The proposed legislation represents a major shift in Australia's tax reform agenda and will significantly affect both existing and future investments. Although the earliest direct tax impact will not arise until after 1 July 2027, taxpayers should not be complacent — the tax and cash-flow implications of current and proposed investments will need careful review well before then.

The deemed disposal of CGT assets just before 1 July 2027 and reacquisition on 1 July 2027 at market value is a key date for affected taxpayers. Reliable market valuation evidence as at 1 July 2027 will be critical, particularly for unlisted assets - although there will be the alternative apportioning method that taxpayers can choose to apply at the time the asset is ultimately sold. However, this may not result in the most appropriate tax outcome and the ability to obtain accurate market valuations retrospectively may become more difficult over time.

Where realisation events are anticipated in the next several years, some investors may consider whether to crystallise gains (or losses) before 1 July 2027 under existing settings or to retain the asset and apply the new regime.

Those taxpayers with large asset portfolios, including large trusts, will need to consider the system and reporting changes needed under the new regime. Not only will this be to ensure that CGT records appropriately capture adjusted cost bases but also to calculate the four new categories of capital gains, if relevant. Trustees will also need to prepare for the additional reporting requirements.

In short, while 1 July 2027 may feel some way off, the valuation, modelling and systems work required to navigate the new regime is firmly a near-term agenda item. Taxpayers who begin scoping the implications now - across their existing portfolios, planned transactions and reporting infrastructure - will be best placed to transition into the new regime.

Contact us

If you would like to discuss what these changes mean for your organisation or your personal investments, please contact your usual PwC adviser.

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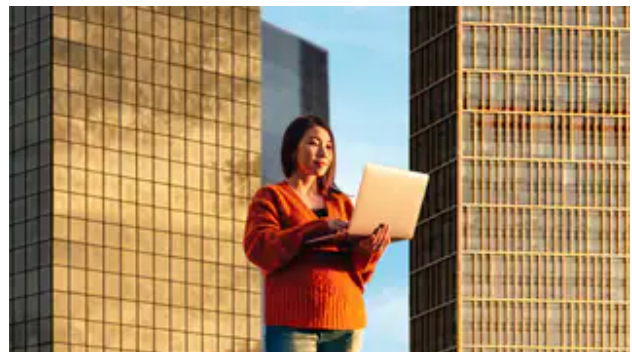
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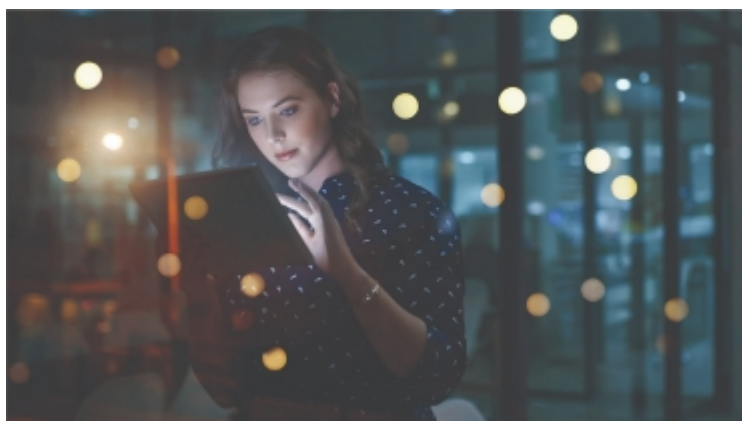
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