



Federal Budget 2026–27: A Structural Reset for Property, Capital and Trust-Based Investment

At Preston Rowe Paterson we will be tracking the impacts of the Federal Budget changes on the cost of capital (for property investment and development) and markets for real estate assets in the forward periods impacted by the budget measure roll out dates.

The 2026–27 Federal Budget represents a clear pivot in Australia’s approach to investment taxation. Rather than a wholesale dismantling of existing arrangements, the Government has opted for a prospective re-pricing of incentives—reshaping how future capital is deployed across residential property, long-term assets and discretionary trust structures.

From a valuation and capital markets perspective, this is less about redistribution and more about materially altering post-tax returns, risk premia and acceptable holding structures going forward.

Negative Gearing: From Income Arbitrage to Supply Incentive

Negative gearing has not been abolished, but its economic function has been fundamentally altered. From 7:30pm on 12 May 2026, newly acquired established residential property will no longer permit rental losses to be offset against salary or other income. Instead, those losses are quarantined—available only to be applied against future residential rental income or capital gains on disposal. Existing holdings are fully grandfathered.

This distinction matters. The grandfathering of existing assets preserves the integrity of prior investment decisions and limits forced selling or abrupt repricing.

However, for new acquisitions, negative gearing ceases to operate as a cross-income tax shield and instead becomes a timing mechanism within the same asset class. The implicit subsidy for leveraged acquisition of established housing stock has therefore been removed.

By contrast, new build residential property remains fully eligible for traditional negative gearing and the capital gains tax discount. This is a deliberate redirection of tax incentives toward incremental housing supply, not investor churn. From a capital allocation standpoint, the policy draws a sharper line between assets that add to national housing stock and those that merely reprice existing dwellings.

For investors, this introduces greater complexity but also greater clarity. Acquisition date, asset classification and supply impact now directly influence after-tax returns.

For valuers and advisers, assumptions around holding costs, tax cash flows and exit pricing will require more explicit treatment—particularly in feasibility and highest-and-best-use analysis going forward.

Key Takeaways – Negative Gearing

- Negative gearing is not abolished, but is structurally redirected away from established housing stock toward new residential supply.
- From 7:30pm on 12 May 2026, established residential properties acquired after this date will no longer allow rental losses to be offset against wages or other income.
- Rental losses on affected properties are quarantined and may only be applied against:
 - future residential rental income; or
 - capital gains arising from the disposal of residential property.
- Full grandfathering applies to properties held (or under contract) prior to Budget night, preserving legacy investment assumptions and minimising forced repricing.
- New build residential property remains fully eligible for traditional negative gearing and CGT concessions, clearly signalling a policy preference for incremental housing supply rather than investor trading of existing stock.
- From a valuation perspective, acquisition date, asset classification and holding structure now materially affect after-tax cash flows and must be explicitly modelled rather than assumed.

Capital Gains Tax: Moving From Discount to Real Gains

The proposed capital gains tax reforms are structural rather than incremental. From 1 July 2027, the long-standing 50 per cent CGT discount will be replaced by a two-part framework: inflation-adjusted cost base indexation and a minimum effective tax rate of 30 per cent on net capital gains. Gains accrued prior to that date retain access to the existing discount, with all assets transitioning under a clearly defined apportionment regime.

This change materially reframes the economics of long-term asset holding. In principle, the system reverts to taxing real gains rather than nominal ones—a conceptually defensible position. In practice, however, outcomes will vary significantly depending on inflation, cost base magnitude and holding period. Assets with low initial cost bases, particularly founder-held equity and long-held property or business interests, may face materially higher effective tax outcomes than under the existing discount regime.

Of equal importance is the extension of CGT to pre-September 1985 assets for post-1 July 2027 gains. While not retrospective, this ends a 42-year exemption and introduces a reset valuation exercise at the transition date. For intergenerational portfolios and legacy commercial assets, this represents a structural break that will require considered valuation, documentation and forward planning.

From a valuation standpoint, exit assumptions can no longer rely on a uniform discount-based tax outcome. Net realisation values, internal rates of return and bid pricing will increasingly diverge

across asset classes and ownership profiles, reinforcing the importance of asset-specific modelling rather than generic tax assumptions.

Key Takeaways – Capital Gains Tax

- The longstanding 50% CGT discount will cease from 1 July 2027, replaced with cost-base indexation and a minimum effective tax rate of 30% on real (inflation-adjusted) capital gains.
- Gains accrued up to 30 June 2027 retain access to the existing discount, with assets straddling the change subject to a clearly defined transitional apportionment regime.
- Pre-CGT assets (pre-20 September 1985) lose their blanket exemption for gains accruing after 1 July 2027, effectively resetting cost base values at that date.
- The reform shifts CGT from a concessional discount model to a real-gains model, with materially different outcomes depending on:
 - inflation over the holding period;
 - magnitude of the initial cost base; and
 - length of ownership.
- Assets with low or nominal cost bases (including long-held property and founder equity interests) face potentially higher effective tax outcomes than under the existing regime.
- Net realisation values, IRRs and exit pricing assumptions can no longer rely on a uniform CGT discount and will increasingly diverge by asset type and ownership profile.

Trusts: The Repricing of Flexibility

Perhaps the most consequential change for private capital structures is the introduction of a 30 per cent minimum tax at the trustee level for discretionary trusts from 1 July 2028. Unlike previous reforms, there is no grandfathering. Existing structures are captured in full, with non-refundable credits flowing to individual beneficiaries and no credits available to corporate beneficiaries.

This directly undermines the effectiveness of bucket company strategies and significantly reduces the tax arbitrage historically available through income streaming. For beneficiaries taxed below 30 per cent, excess credits are lost; for those above, top-up tax applies. The practical result is a narrowing of outcomes between trust-held income and other investment vehicles.

The three-year rollover relief window from 1 July 2027 provides an opportunity—but not a solution in itself. Restructuring into companies or fixed trusts will require careful modelling of control, asset protection, succession and exit implications, not simply tax rate arbitrage. In many cases, the choice will not be between “old” and “new” optimal structures, but between competing inefficiencies.

Key Takeaways – Trusts

- From 1 July 2028, discretionary trusts will be subject to a 30% minimum tax at the trustee level, representing a fundamental re-pricing of trust-based investment structures.
- No grandfathering applies—existing discretionary trust structures are fully captured.
- Individual beneficiaries receive non-refundable tax credits for tax paid by the trustee:
 - beneficiaries on higher marginal rates pay top-up tax;

- beneficiaries below 30% lose excess credits.
- Corporate beneficiaries do not receive credits, significantly undermining bucket company strategies and introducing potential double taxation by design.
- A three-year rollover relief window from 1 July 2027 allows restructuring out of discretionary trusts, but structural decisions will need to balance tax, control, asset protection and succession considerations.
- For many private groups, discretionary trusts shift from being an optimisation tool to a neutral or adverse structure, accelerating reassessment of long-term ownership models.

Implications for Investors and Valuers

Taken together, these measures do not unwind history—they redraw the incentive map for future decisions. The system increasingly favours productive investment, supply creation and transparent tax outcomes over leveraged arbitrage and structural complexity. For investors, this raises hurdle rates and increases the dispersion of post-tax returns. For valuers, it reinforces the need for disciplined, assumption-driven analysis grounded in asset-specific tax treatment rather than legacy rules of thumb.

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