



The 2026–27 Budget, delivered amid ongoing economic uncertainty and significant tax reform, has broad implications across Australia's key industries.

## Sector: Real Estate and Construction

Previously, the Government has set a goal of building 1.2 million homes over five years from 1 July 2024. Currently, the nation may be up to 100,000 homes behind target and it is in this context that the Budget has been constructed.

The centrepiece of the Government's home building agenda in the 2026-27 Budget is the establishment of a \$2bn investment fund, designed to accelerate the delivery of 65,000 new homes nationwide through the funding of infrastructure, such as roads and utilities, to open up new lots.

For those in industry, the Government is providing the following support:

- \$75.1m over four years for a new, modern skills assessment for Trades Recognition Australia to facilitate the integration of occupational licensing, including in priority trades such as electricians and plumbers.
- \$105.9m over four years to modernise environmental information, data and digital systems (including AI) to improve user experience and enable simpler and faster environmental approvals for infrastructure projects.
- \$26.4m over four years to work with states and territories to fast-track environmental approvals in priority areas including housing.

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- \$42.7m over four years to provide Standards Australia with ongoing grants to provide free public read-only access to standards referenced in Commonwealth

and State and Territory legislation. This measure is stated as saving small businesses and tradies up to \$1,600 per year.

- Abolishing 457 nuisance tariffs, including some inputs into the construction industry, with effect from 1 July 2026.

Whilst much of the attention is focused on the impacts of the proposed changes to negative gearing and capital gains tax discounts, investors in new residential properties will have preferential treatment from 1 July 2027, retaining negative gearing as well as access to the 50% CGT discount. The Government considers that these changes will support an estimated 75,000 homeowners over the next decade.

Lastly, bans on foreign investors purchasing established homes have been extended until mid-2029, meaning that any foreign investment will need to be directed toward new dwellings.

For those providers of infrastructure projects, the Government states that it is maintaining a rolling infrastructure pipeline of more than \$120bn over 10 years, including \$8.6bn for new and ongoing projects of national significance. The largest new investment is \$3.8bn directed towards Victoria's Suburban Rail Loop East, enabling more transport and homes in the right places and reducing congestion, with a further \$1.75bn in equity for the Australian Rail Track Corporation to upgrade Australia's rail freight network.

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# Negative Gearing for Residential Property

From 1 July 2027, negative gearing for residential property investments will be limited to new residential builds.

Losses from established residential investment properties will no longer be able to be deducted against other forms of taxable income, such as salary and wages. Instead, these losses will be quarantined.

Where losses cannot be fully utilised in a particular year, they will be carried forward indefinitely and can be applied against residential property income or capital gains in future years.

Importantly, grandfathering provisions will apply. Owners of existing residential investment properties held prior to 7:30pm AEST on 12 May 2026 (includes contracts entered into but not settled) will be able to continue to negatively gear those properties under the current rules until the property is sold. Residential investment properties purchased between the announcement and 30 June 2027 may be negatively geared during that period, but not from 1 July 2027.

New residential builds will be exempt from the negative gearing restriction. Investors who purchase qualifying new builds will continue to be able to deduct rental losses against other income.

In addition, on disposal, these investors may choose between applying the 50% CGT discount or the proposed cost base indexation and minimum tax regime.

Eligible new builds are limited to properties that genuinely increase housing supply, such as dwellings constructed on vacant land or developments where existing dwellings are demolished and replaced with a greater number of dwellings.

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Knock-down rebuilds or substantial renovations that do not increase supply will not qualify.

The proposed changes will apply to individuals, partnerships, companies and most trusts. **Widely held trusts (such as most managed investment trusts) and superannuation funds, including SMSFs, are excluded.**

## Case Study

Harry buys an existing residential investment property for \$600,000 on 1 July 2027, rents it out and sells it five years later for \$815,000. Over the first two years that he owns the property, he has net rental losses and accumulates \$12,000 of carry forward losses.

In the following three years, Harry applies most of these carried forward losses to reduce his positive net rent over this period from \$10,000 to zero.

In the year he sells the property, he can use the remaining \$2000 of carried forward tax losses to reduce his indexed capital gain from the sale of the property.

If Harry had bought a newly built property instead, he would be able to negatively gear the losses each year and the existing capital gains tax discount would still be available for this property.

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# CGT

The Government has announced major proposed reforms to the CGT regime, intended to apply from 1 July 2027.

The key change announced in the Budget is replacement of the 50% CGT discount for individuals, trusts and partnerships, with a cost base indexation regime, along with the introduction of a 30% minimum tax rate on realised capital gains. Superannuation funds appear to retain access to the one third CGT discount.

Rather than having access to the 50% CGT discount for assets held for more than 12 months, taxpayers would broadly be taxed on real gains above inflation, with indexation based on movements in the CPI.

A notable and unexpected element is the proposed extension of the CGT regime to now include pre-CGT assets which are disposed of from 1 July 2027. While gains accrued on pre-CGT assets before 1 July 2027 remain exempt or not subject to tax, gains accruing from 1 July 2027 would come within the new regime. This is likely to be significant for taxpayers holding long-dated assets, including farmland.

The key transitional rules to be aware of are:

- Assets acquired and sold before 1 July 2027 will remain fully subject to current rules.
- Assets acquired after 1 July 2027 will be entirely subject to the new arrangements.
- Assets acquired prior to 1 July 2027 and sold after that date will have their gains effectively 'split' with gains which accrued up to 1 July 2027 taxed under current rules (including the 50% discount); and the portion of the gains which accrue from 1 July 2027 calculated using an indexed cost base starting from the asset's 1 July 2027 value, and subject to the minimum tax.

This is a significant change and further detail and explanation of these rules will be released in due course.

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For assets held prior to 1 July 2027 and disposed of subsequently, taxpayers will need to determine an asset's value on 1 July 2027, either by obtaining a valuation or using an ATO-specified apportionment formula.

New residential builds receive special treatment: investors may choose between the 50% CGT discount or indexation plus the minimum tax on disposal. However, this concession is limited to genuine additions to housing supply and does not extend to subsequent purchasers.

Importantly, the main residence exemption and the small business CGT concessions are proposed to remain unchanged.

## WINNERS

- Taxpayers who are planning to sell CGT assets before 1 July 2027
- Taxpayers who are planning to purchase or sell their main residence
- Investors planning to invest in new residential properties

## CGT – Indexation

**Travis purchased an asset in March 1995 for \$150,000.**

**The asset was sold in March 2025 for \$750,000. According to the ATO table, the CPI for the relevant periods is as follows:**

- March 1995 quarter - 114.7
- March 2025 quarter - 140.7

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The discount on the capital gain for assets held for more than 12 months is 50%. The capital gain for Travis under the proposed indexation method could be as follows:

<b>Description:</b>	<b>Amount (\$)</b>	<b>Period</b>	<b>Indexation Factor</b>
Proceeds – Sale of Property	750,000	March 2025	140.7
Cost Base	150,000	March 1995	114.7
Cost Base – Indexation	184,050		
Profit – Indexation	565,950		
Profit – Discount	300,000		
Increase in profit under the proposed method	265,950		

## Minimum tax on capital gains

Jenny has a taxable income before capital gains of \$25,000 in 2029–30 and realises a capital gain of \$10,000 on an asset that she purchased in 2027–28.

The tax on Jenny's capital gain of \$10,000 is \$1,400, or a tax rate of 14% (excluding the Medicare levy). As this is lower than 30%, Jenny pays an additional \$1,600 tax to ensure the tax rate on the capital gain is 30%.

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