

2026 Federal Budget Analysis



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Has tax reform entered the conversation?

Handing down his fifth budget, Treasurer Jim Chalmers faced a familiar choice: rely on temporary measures that soften short term pressures or undertake the more difficult task of tax reform to shape investment, productivity, and future living standards. This year, he chose to go hard on budget reform in the hope of strengthening the country's tax system and making it fairer.

Working Australians have been put front and centre, with the Working Australian Tax Offset (WATO) and a range of cost-of-living relief measures targeting healthcare, housing investment, and fuel security. Long-running debates about negative gearing and the capital gains tax discount have been revisited, raising a raft of new considerations for both foreign and local investors.

Measures that shake up the R&D Tax Incentive were not on the radar until budget night but will have a significant impact on the country's innovation agenda, particularly for start-up and early-stage companies.

The changes to capital gains tax, the taxation of trusts, and to a lesser extent, curbs on negative gearing will be controversial. If enacted, they represent an investment-decision-shifting trio, pushing investors towards yield assets and a preference for holding them in private companies.

There is no question that tax reform has been long overdue in Australia, and BDO has been calling for it for years. Talk of rebalancing the system, cutting regulatory costs, and levelling the playing field will be welcomed by many, but in a budget billed as the most ambitious of this Government, could the discussion have been broadened to include changes to the taxation of consumption? As it is, we are left with continued heavy reliance on personal income tax and an increase in taxes on investment.

The question is whether the Treasurer's hard line on reform will drive the taxpayer behaviours needed to create the simpler, more sustainable tax system the Government is striving for. The true test of how effective this budget's agenda is will come in the years ahead.

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Mark Molesworth
Partner, Tax



The economic backdrop for Federal Budget 2026

The Government has delivered this budget during a difficult period of inflation and geopolitical uncertainty. Productivity, intergenerational equity, and budget sustainability were already central objectives, but the 2026 energy crisis has added an immediate need to improve economic resilience and ease cost-of-living pressures.

Economic outlook

The Government forecasts economic growth of 2.25% in 2025–26 and 1.75% in 2026–27, which is more optimistic than the RBA's recent assessment. The expected improvement in the budget bottom line should therefore be viewed in the context of Treasury's relatively positive central forecast and the downside risk from a larger or more persistent oil shock.

Productivity

Productivity is front and centre in this year's Federal Budget, with changes to the CGT discount, reduced red tape, and improved skills policy.

Most of the benefit from the current CGT discount goes to owners of existing residential property, which does not promote innovation in our economy like investing in a growing business does. While reducing the CGT discount will cost investors across all asset types, it will likely hit residential property investors hardest (especially when paired with limits on negative gearing for established housing), shifting the incentives towards investing in more economically productive assets.

The Government has also announced a policy to remove trade barriers, improve labour mobility nationally, and attract younger, more appropriately skilled migrants through reforms to the permanent migration points test.

Resilience

Geopolitical uncertainty has put resilience firmly on the agenda, particularly in the energy sector. The Budget includes a \$14.8 billion fuel resilience package, a 20% domestic gas reservation requirement for LNG exporters, and a broader energy security package. This includes lifting diesel and jet fuel reserves to 50 days, establishing a \$3.2 billion government fuel security reserve, supporting EV charging and Australia Post fleet electrification, and providing \$1.1 billion for domestic low-carbon fuel production.

Intergenerational equity

The Federal Budget 2026 has delivered a suite of policies designed to improve economic prospects for younger Australians, with changes to tax, housing policy, and budget sustainability.

For housing, the 50% CGT discount will be replaced, for gains made from 1 July 2027, with an inflation-adjusted real-gains discount plus a 30% minimum tax on capital gains. New-build investors may still use the previous arrangement. Further, the Government will limit negative gearing to new builds and existing property holdings from 1 July 2027 and will extend the ban on foreign purchases of established dwellings to mid-2029. This aims to remove competition from the housing market, benefiting younger generations.





The Budget shifts some tax burden away from workers and towards asset owners through the WATO and changes to the CGT discount and negative gearing. This shift away from taxing incomes will be welcome for younger generations. However, this only claws back the last couple of years of increases to the effective tax rate for the average working Australian.

Funding government consumption with debt is a burden on future Australians who must repay it, so a sustainable budget is good for intergenerational equity. The intended savings from changes to the NDIS represent a substantial improvement in that sense.

Inflation and cost of living

Governments have been responding to the energy crisis with various support policies in the past few months. The Federal Budget 2026 was restrained in terms of substantial new support, avoiding additional inflation pressure.

The WATO provides a \$250 annual offset from 2027–28, which Treasury says increases the effective tax-free threshold for workers by nearly \$1,800. This sits alongside already legislated rate cuts and the \$1,000 instant tax deduction. This is an untargeted support measure, but it is not a significant risk to short-term inflation, since the WATO will begin more than a year from now.

BDO comment

This Budget is a serious attempt to tackle some of Australia's longer-term economic challenges by lifting productivity, improving resilience, and modestly rebalancing incentives across the economy. It contains several worthwhile structural reforms, but its success will depend on disciplined implementation, particularly around NDIS savings, and on economic conditions aligning closely with Treasury's relatively optimistic forecasts. While the direction is broadly sound, the real test will be whether these measures translate into stronger investment, higher productivity, and a more sustainable budget position over time.

Investors and individuals

30 per cent minimum tax on discretionary trusts

The Government will introduce a 30% minimum tax on the taxable income of discretionary trusts from 1 July 2028. This measure aims to improve the fairness of the tax system and help fund new tax cuts for workers. Trustees of discretionary trusts will be required to pay this minimum tax, and beneficiaries, excluding corporate beneficiaries, will receive non-refundable credits for the tax paid by the Trustee.

The minimum tax will not apply to other types of trusts, including fixed and widely held trusts (such as fixed testamentary trusts), complying superannuation funds, special disability trusts, deceased estates, and charitable trusts.

Certain types of income will also be excluded, including:

- ▶ Primary production income
- ▶ Income related to vulnerable minors
- ▶ Amounts subject to non-resident withholding tax
- ▶ Income from assets of discretionary testamentary trusts existing at the time of announcement.

The measure is expected to increase government receipts by \$4.5 billion over the five years from 2025–26. The ATO will receive \$660 million over the same period to support implementation, with funding from 2027–28 to be held in the Contingency Reserve.

Expanded rollover relief

To support small businesses and others seeking to restructure out of discretionary trusts, the Government will provide expanded rollover relief for three years starting 1 July 2027. This relief will facilitate transitions into other entity types, such as companies or fixed trusts.



BDO comment

We expect that this measure will be complex to introduce. We hope that when introduced, the proposed measure complies with the principles of good tax design - efficiency, equity, and simplicity.

Under the proposed measure, the Trustee of a discretionary trust estate with net distributable income for taxation purposes of \$15,000 will be subject to a 30% tax. In contrast, an individual deriving the same taxable income would fall below the tax-free threshold and incur no income tax liability. It appears that the days of treating trusts as flow-through vehicles for tax purposes are over.

We assume that franking credits attached to franked income included in the trust's assessable income will reduce the tax payable by the Trustee, but this needs clarification. This is likely to make what are now refundable franking credits non-refundable when received via a discretionary trust distribution.

While the proposed three-year rollover relief provides some transitional support from an income tax perspective, its effectiveness will depend on complementary relief at the State and Territory level, particularly in relation to Duty. Taxpayers may face material transactional costs that inhibit efficient restructuring if relief is not coordinated at the Federal, State, and Territory levels.

Changes to the capital gains tax discount

The Government announced that it will replace the current 50% capital gains tax (CGT) discount with an indexation method for assets held for more than 12 months. This change will apply to most CGT assets held by individuals, trusts, and partnerships, including pre-1985 CGT assets. Further, a 30% minimum tax rate will apply to net capital gains under the revised indexation method. Transitional arrangements will ensure that the changes only affect capital gains arising on or after 1 July 2027. Gains realised before this date will continue to be eligible for the 50% CGT discount, and capital gains on pre-1985 assets realised before 1 July 2027 will remain exempt from CGT.

This year's Federal Budget does not include proposed changes to the existing CGT concessions for the main residence exemption or the small business CGT concessions. Additionally, recipients of income support payments, including Age Pension recipients, will be exempt from the minimum tax rate.

Replacement of 50% CGT discount with cost base indexation

The current 50% CGT discount was introduced in 1999 to approximate the impact of inflation on investment gains. Under this method, assets that grow in value and are sold after a relatively short time horizon may have an inflation-adjusted tax liability considerably lower than similar investments with longer investment horizons.



From 1 July 2027, the 50% CGT discount will be replaced by cost base indexation for assets held longer than 12 months. This method adjusts the asset's original cost base for inflation, so only the real gain above inflation is taxed.

The 30% minimum tax will apply to net capital gains calculated under this method, with the stated intention of aligning the tax rate with the average tax rate paid by workers during their working lives.

Transitional arrangements

The changes will only apply to capital gains arising on or after 1 July 2027. Gains realised before this date will continue to benefit from the 50% CGT discount. Capital gains on pre-1985 assets realised before 1 July 2027 will remain exempt from CGT.

There is no significant detail in the budget papers relating to how these transitions will be managed.

New residential property investor choice and income support exemptions

Investors in new residential properties can choose between the 50% CGT discount or the cost base indexation method with the 30% minimum tax. Income support payment recipients, including Age Pensioners, will be exempt from the minimum tax rate.

BDO comment

The retrospective changes to subject pre-CGT assets disposed of after 1 July 2027 to CGT are the most controversial of these measures. Taxpayers who have held assets for decades may face substantial tax liabilities. It is currently not clear how the transition of pre-CGT assets into the taxation system will occur. A market value will likely be required, as otherwise owners of such assets will need cost base records that the law has not required them to keep.

The introduction of a 30% minimum tax on net capital gains may also impact taxpayers with lower incomes, as this rate exceeds the marginal tax rate for those earning under \$45,000. The stated purpose of the 30% minimum tax is to reflect the average tax rate paid by workers during their working lives. However, if that were the correct justification, we would expect to see a flat tax rate (rather than a minimum tax rate) applied to all capital gains.

Exempting income support recipients from the minimum tax is welcome, as it provides some relief to the disadvantaged.

Maintaining the 50% discount option for new residential properties is a positive incentive to encourage investment in new housing, which could help increase supply in high-demand markets.

Taxpayers should prepare for these changes by reviewing their portfolios and seeking advice on the most tax-effective strategies under the new rules, once the details become clear. Further guidance from the Government will be important to clarify implementation details and address any uncertainties.





Reforming negative gearing for residential properties

The Government has announced reforms to negative gearing to address housing supply shortages. The proposed changes intend to limit the availability of negative gearing on residential properties.

Current rules

Under the current rules, where a taxpayer holds a residential investment property and incurs a net loss for the financial year, these losses can be offset against other income earned by the taxpayer.

There are currently no limitations on the deductibility of these losses.

Proposed reform

The Government has announced that from 1 July 2027, negative gearing will be limited to new residential builds, with losses from established properties deductible only against rental income or capital gains from residential properties. These changes apply to established properties acquired from 7:30pm AEST on 12 May 2026, with prior acquisitions exempt until disposal.

There are broad exceptions from the proposed reform, including:

- ▶ Residential investment properties held before 7:30pm AEST 12 May 2026
- ▶ Eligible new builds of residential properties (such as build-to-rent developments and private investors supporting government housing programs)
- ▶ Residential properties held by widely held trusts and superannuation funds.

BDO comment

The reforms appear to apply to all taxpayers (including closely held trusts and companies), not just individual investors. Additionally, as announced, the changes apply regardless of the number of properties held.

There is a strange mismatch in the application dates under the announcement. While the new rule will apply to established houses acquired under a contract entered into after 12 May 2026, the denial of losses against other income only kicks in from 1 July 2027. It would usually be expected to apply from 1 July 2026. The Government may be acknowledging the extensive legislative program that they have set themselves in this budget.

The reforms certainly aim to redirect investment toward new housing supply. This goal is intended to be achieved by increasing tax burdens on new investors in established housing.

Returning cash to Australian pockets through targeted relief



Addressing the cost-of-living crisis was considered a priority heading into the 2026 Federal Budget. The Government's approach for workers takes the form of:

- ▶ A new \$250 Working Australian Tax Offset
- ▶ A new \$1,000 instant tax deduction
- ▶ The continued reduction in the personal income tax rate.

The latter two measures are reannouncements of measures already flagged.

The new Working Australian Tax Offset

From 1 July 2027, the Government will introduce a new \$250 Working Australian Tax Offset (WATO). Applied against income derived from wages, salaries, and sole trader business income, this is designed to encourage greater workforce participation and support working Australians in their battle against the rising cost of living. Notably, the Government intends for this measure to form a permanent feature of the tax system. Hence, whilst modest from the perspective of the individual, this promises to cumulatively decrease government receipts by \$6.4 billion over the five years from 2025-26.

The WATO is intended to increase the effective tax-free threshold for income derived from work by nearly \$1,800 to \$19,985 (or up to \$24,985 for workers eligible for the Low Income Tax Offset), which the Government boasts is the largest permanent increase in the

effective tax-free threshold since 2012-13. Interestingly, the ATO is granted \$10 million in additional funding to assist with its implementation.

Introducing the \$1,000 instant tax deduction

Further to the introduction of the WATO, the Government has also announced a \$1,000 instant tax deduction in the 2026-27 income year. This will be available to all Australian tax residents who earn income from and incur expenses on work. Under the reform, taxpayers will not be required to itemise and claim work-related expenses that fall within the provided \$1,000 threshold. Other deductions, such as charitable donations and union or professional association fees, remain separately claimable. Similarly, taxpayers incurring expenses of more than \$1,000 will be able to continue claiming them as usual.

We expect the proposed \$1,000 instant tax deduction to have a more noticeable, practical impact than the WATO. By significantly reducing the need to track and substantiate work related expenses, it lessens the administrative burden on taxpayers and simplifies compliance. This approach should encourage a greater uptake of deductions while reducing friction within the tax system.

Following through on tax cuts

There were no further changes announced to the measure in this year's Federal Budget, suggesting business as

usual in respect of the changes already legislated in Federal Budget 2025. Under the Treasury Laws Amendment (More Cost-of-Living Relief) Act 2025, the resident personal income tax rate for the taxable income bracket from \$18,201 to \$45,000 will decrease from 16% to 15% for the 2026-27 income year, and then to 14% for the 2027-28 and later income years.

These changes reduce tax payable by up to \$268 from 1 July 2026, rising to a maximum benefit of \$536 from 1 July 2027.

BDO comment

Australians are facing an uphill battle against the cost-of-living crisis, and any measures, however modest, are to be welcomed.

However, while these measures provide mild relief, they fall short of addressing deeper structural issues in the tax system and do not constitute comprehensive tax reform. The Government remains heavily reliant on personal income tax to fund its Budget.

The introduction of a minimum tax on discretionary trusts and reforms surrounding negative gearing and capital gains reflect a desire to shift some of the tax burden to investment gains, but without a corresponding reduction in the taxation of labour.

Businesses

Reforming the treatment of tax losses for businesses and start-ups

The Government proposes to reintroduce the loss carry back offset and introduce a refundable tax offset for certain small business start-ups.

Loss carry back for companies with turnover under \$1 billion

Currently, if a company incurs losses in an income year, it must wait until it returns to profitability before using the tax losses to reduce taxable income. For tax years commencing on or after 1 July 2026, companies with an aggregated annual global turnover of less than \$1 billion will be able to carry back revenue tax losses and offset them against tax paid up to two years earlier. This loss carry back will be limited by the company's franking account balance. For companies that elect to apply this measure, they will receive a tax refund in the loss-making year equal to the tax that has been offset by the losses carried back.

Loss refundability for small start-up companies

From 1 July 2028, start-up companies with an aggregated annual turnover of less than \$10 million that generate a tax loss in their first two years of operation will be able to use the tax loss to generate a refundable tax offset. The offset will be capped at the value of fringe benefits tax and withholding tax on wages paid to Australian employees in the loss year.

BDO comment

The loss carry back measures were previously enacted in response to the Covid-19 pandemic.

BDO welcomes the Government's permanent reintroduction of loss carry back as a practical way to help businesses manage cyclical downturns and temporary shocks. This measure will provide greater flexibility for companies to smooth their tax liabilities and support business resilience.

We also strongly support the introduction of loss refundability for small start-up companies; however, we would have liked to see the Government broaden the measure. This initiative encourages entrepreneurship and productivity by providing early-stage businesses with a valuable cash flow boost. While this measure will encourage investment, given the turnover requirements and limited time available, the practical impact may be more limited than hoped.



Expansion of dynamic PAYG instalment calculations and monthly payments

The Government has announced three measures to 'simplify' the tax system, helping businesses focus more on running their operations and less on tax compliance.

Expansion of dynamic PAYG instalment calculations

The Government will invest \$10.9 million to expand the ATO's pilot of dynamic PAYG instalment calculations. This expansion will allow more businesses to benefit from instalments that adjust based on their current financial performance.

Monthly payments option for small and medium businesses

From 1 July 2027, small and medium businesses can opt in to report and pay PAYG instalments monthly. They will also be able to use an ATO-approved calculation embedded in their accounting software to calculate and vary their instalments, thereby aligning payments with real-time business activity.

Mandatory monthly reporting for non-compliant taxpayers

Taxpayers with a demonstrated history of non-compliance will be required to report and pay PAYG instalments monthly, ensuring closer monitoring and compliance.

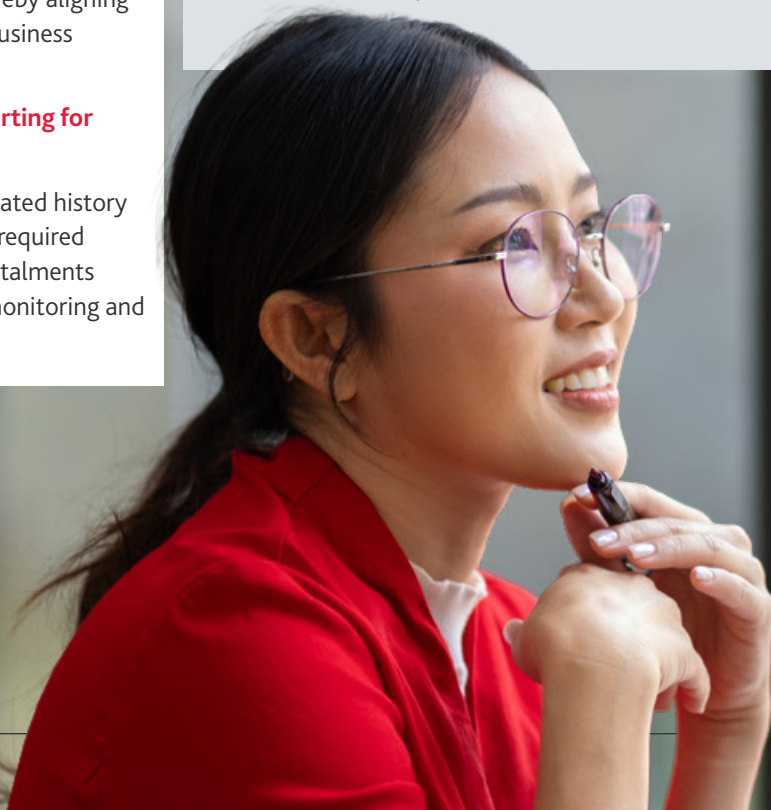
BDO comment

While the measure offers small and medium businesses a practical way to adjust their PAYG instalments in line with their current trading status, it seems unlikely that taxpayers will want to opt into a scheme that brings forward tax payments and increases the frequency. This could also create cash flow challenges for some businesses.

In addition, it is unclear how the introduction of monthly reporting will result in any significant reduction of administrative tasks or free up small business owners to focus on their operations. It merely gives the Government 'early' revenue.

BDO considers that the mandatory monthly reporting for non-compliant taxpayers is a stark reminder of the importance of maintaining a strong history of timely lodgements and payments to avoid increased reporting burdens.

Businesses should prepare for these changes by reviewing their accounting software capabilities and considering how monthly reporting might affect their tax planning and cash flow. Additionally, businesses should be aware that instalments that are too low (less than 85% of tax payable) may result in interest and penalties. It is hoped that one of the 'simplifications' is to exempt businesses relying on the calculations made by their ATO-approved accounting software from such penalties.



R&D Tax Incentive reform

The Government has announced major reforms to the R&D Tax Incentive (RDTI), purportedly seeking to simplify the scheme and better target support for business research and development activities. These changes will take effect from 1 July 2028 and will adjust offset rates as well as program delivery and eligibility criteria.

Overall, these changes will reduce what qualifies as R&D and significantly reduce refundability but provide a higher rate of benefit in respect of expenditure that does qualify. The proposed changes will move Australia out of step with the rest of the OECD regarding the definition of eligible R&D.

The proposed changes are summarised below.

Increase in core R&D offset rates

From 1 July 2028, the Government will increase the offset rates of core R&D expenditure by 4.5 percentage points. Currently, this is between 8.5% and 18.5% above an entity's corporate tax rate, but it will be increased to between 13% and 23%. This change will boost the tax benefit (i.e. the offset received less the tax impact of ordinary deductions foregone) by approximately 25% to 50%, depending on a company's circumstances, providing stronger financial incentives for expenditure incurred on core R&D activities.

Reduction in intensity threshold

The eligibility threshold for the intensity premium will be reduced from 2% to 1.5%. This adjustment, combined with the increased rates, will enable companies that are eligible for the non-refundable offset and spend more than 1.5% of total business expenditure on R&D to access a premium rate of up to 21% above their corporate tax rate.

Removal of supporting R&D expenditure eligibility

The Government will remove the eligibility for supporting R&D expenditure from the RDTI. This means that only expenditure incurred on 'core' R&D activities will qualify as a notional deduction for the R&D Tax Incentive.

Turnover threshold and refundability changes

The turnover threshold for the highest offset rate (which will be 23% above the corporate tax rate) will increase from \$20 million to \$50 million. This will allow growing companies to retain access to the higher offset rate.

For firms below this \$50 million turnover threshold, older firms will continue to be eligible for the higher offset rate, but eligibility for the refundable tax offset will be limited to companies under 10 years old. It is currently unclear whether this will be based on the age of the R&D entity or on the age of the corporate group as a whole.

Changes to expenditure thresholds

The maximum RDTI expenditure threshold will be raised from \$150 million to \$200 million, and the minimum threshold will be raised from \$20,000 to \$50,000. Research activities valued below this minimum threshold must be undertaken with a registered Research Service Provider or Cooperative Research Centre to be eligible for the RDTI.

BDO comment

We welcome the increased benefit rates, the lowered intensity threshold, and the higher program cap. Aside from this, we are highly concerned with the changes to the program.

Removing supporting R&D expenditure from eligibility will significantly reduce the scope of qualifying activities and risks turning the R&D Tax Incentive into the 'Development Tax Incentive'. This is out of step with the rest of the OECD and could push companies to invest in other jurisdictions rather than Australia. It also abandons the definitions of research and development established by the Frascati Manual, on which OECD countries, including Australia, based their RDTIs. We anticipate that this change will also introduce further complexity and increase the administrative burden rather than alleviate it, due to ambiguity regarding the delineation between 'core' and 'supporting' R&D.

Limiting refundability to companies less than 10 years old is a highly arbitrary threshold that has no relationship with the value of their R&D (which can progress at different rates). It neglects the fact that an existing business may choose to invest in R&D for the first time at any time in its journey.

We also note that lifting the minimum expenditure threshold will make some 6% of claimants ineligible per the most recent transparency data. This will have flow-on impacts to the Early-Stage Innovation Company (ESIC) regime, which is designed to encourage capital investment in high-risk innovative businesses. In its current state, a significant portion of the eligibility points for ESIC can be met by claiming the R&D Tax Incentive, however, companies seeking to raise capital may be locked out due to the higher expenditure threshold and the exclusion of supporting activities, including preliminary research and planning.

The Government should reconsider the impact of these changes and their flow-on effects on Australia's productivity. Failing this, further details and modelling on how the changes will be implemented must be released as soon as possible. Businesses should review their R&D strategies ahead of the proposed 1 July 2028 implementation and start early planning to navigate these proposed changes effectively.



Expansion of venture capital tax incentives

The Government will expand venture capital tax incentives to better support early-stage and growth businesses.

From 1 July 2027, the asset size caps for investee businesses under the venture capital limited partnership (VCLP) and early-stage venture capital limited partnership (ESVCLP) programs will be increased. This includes raising the VCLP cap from \$250 million to \$480 million and the ESVCLP cap from \$50 million to \$80 million. Additionally, the ESVCLP tax incentive cap for fully tax-exempt investment returns will increase from \$250 million to \$420 million, and the maximum fund size for ESVCLPs will rise from \$200 million to \$270 million.

These changes will apply to both new and existing funds and their new investments, including further investments in businesses already held. ESVCLPs must comply with their existing investment plans or seek approval for replacement plans. The eligible venture capital investor program will close to new applications from 7.30pm (AEST) on 12 May 2026.

The Department of Industry, Science and Resources (DISR) will receive \$3.6 million in 2026–27 to support program growth, with funding from 2027–28 held in the Contingency Reserve pending final implementation details. Treasury and DISR will conduct a departmental impact assessment of these programs in 2032–33 to ensure they remain well-targeted and appropriate. For Treasury

reporting purposes, the measure is estimated to decrease receipts by \$10 million and increase payments by \$14.7 million over the five years from 2025–26.

This measure forms part of the first stage of the Government's response to the Ambitious Australia: Strategic Examination of Research and Development Final Report.

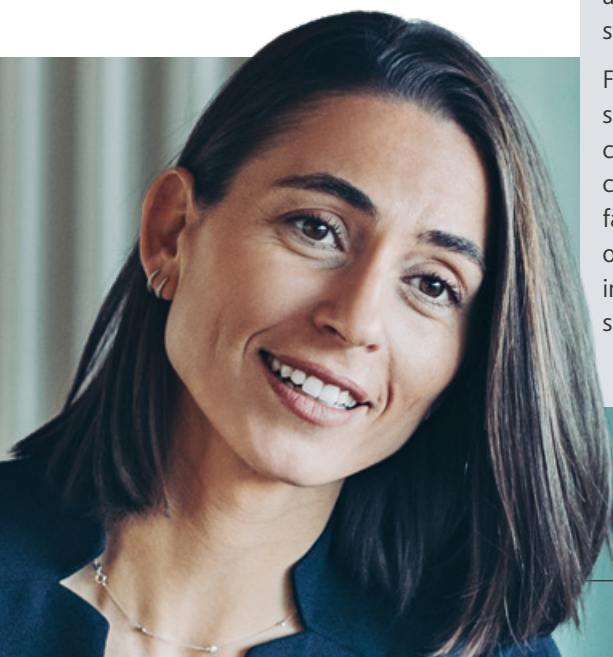
BDO comment

The expansion of venture capital tax incentives, together with the closure of the eligible venture capital investor program to new entrants, amounts to a quiet consolidation of Australia's concessional venture capital framework.

In practical terms, the reforms advantage investors who can access capital through established VCLP and ESVCLP structures, while screening out some direct or first-time participants who previously relied on individual eligibility pathways. Over time, this may reinforce the position of larger, incumbent fund managers and concentrate concessional capital within a narrower segment of the market.

By lifting asset and fund size thresholds, the Government is implicitly redefining what it considers 'early stage' and signalling that scale-up activity is now central to its innovation agenda. This represents a shift from encouraging investment activity per se, toward shaping the growth trajectory of firms deemed strategically important to the economy.

For industry participants, the key question is whether this policy calibration successfully balances scale with additionality. While the expanded caps improve capital continuity and international competitiveness, they also raise the risk that concessional treatment extends further into later-stage activity where market failure is less clear. The effectiveness of this approach will ultimately depend on whether larger, better-funded firms continue to generate the intended innovation spill-overs, an issue the Government has explicitly reserved for scrutiny through its planned 2032–33 review.



Farewell to the full FBT exemption on Electric Vehicles

A review has been undertaken of the electric car discount, noting that it comprises the FBT exemption and the tariff exemption that applies to eligible cars. The legislation that introduced the electric car discount required a review of the first three years of the discount and its effectiveness in encouraging the uptake of zero- or low-emission vehicles. Treasury released its final report on 5 May 2026, and on the same day, the Federal Government announced significant changes to the FBT exemption for the private use of electric vehicles. These changes will apply in tranches, with the varying concessions taking effect on a per-FBT year basis.

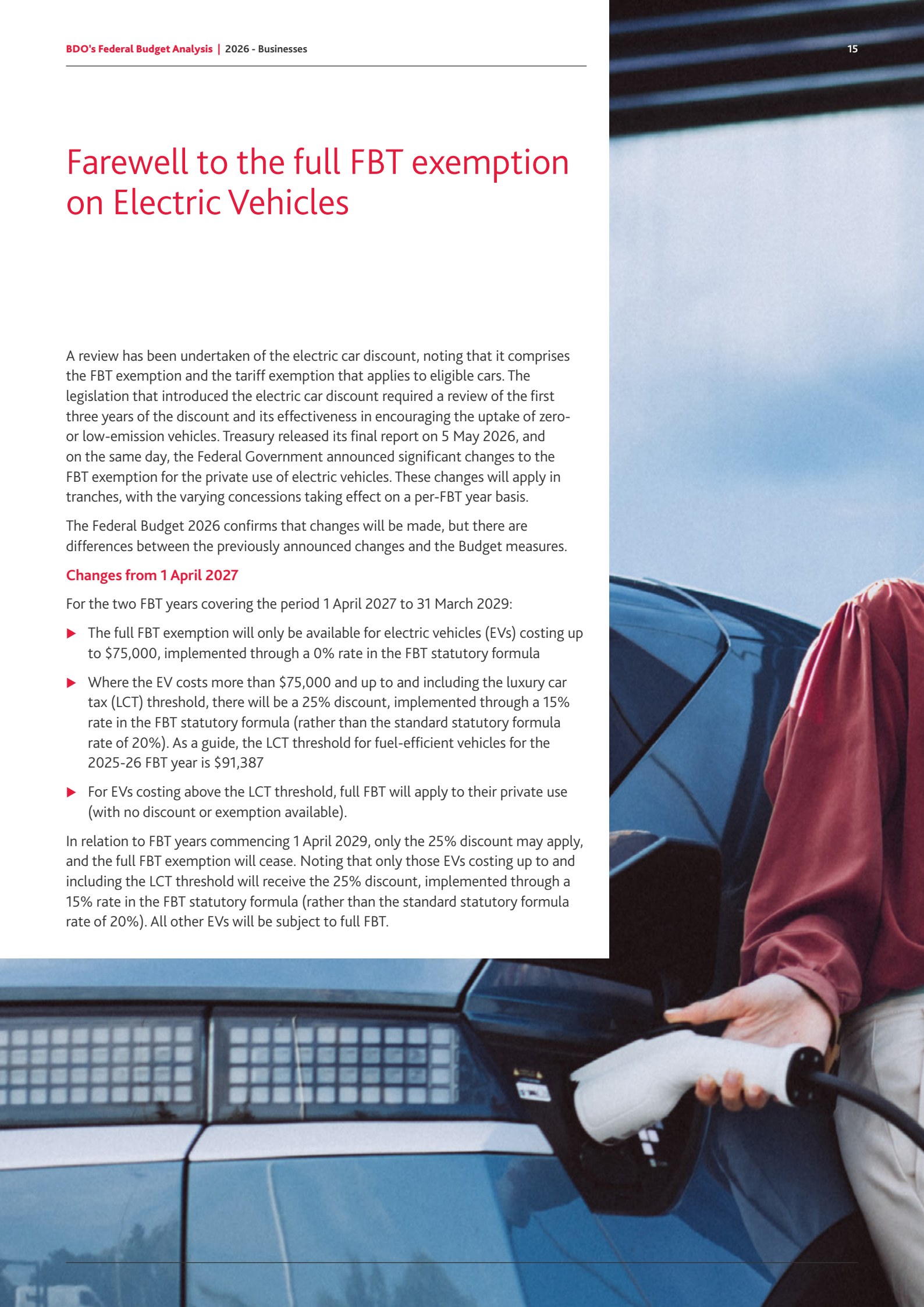
The Federal Budget 2026 confirms that changes will be made, but there are differences between the previously announced changes and the Budget measures.

Changes from 1 April 2027

For the two FBT years covering the period 1 April 2027 to 31 March 2029:

- ▶ The full FBT exemption will only be available for electric vehicles (EVs) costing up to \$75,000, implemented through a 0% rate in the FBT statutory formula
- ▶ Where the EV costs more than \$75,000 and up to and including the luxury car tax (LCT) threshold, there will be a 25% discount, implemented through a 15% rate in the FBT statutory formula (rather than the standard statutory formula rate of 20%). As a guide, the LCT threshold for fuel-efficient vehicles for the 2025-26 FBT year is \$91,387
- ▶ For EVs costing above the LCT threshold, full FBT will apply to their private use (with no discount or exemption available).

In relation to FBT years commencing 1 April 2029, only the 25% discount may apply, and the full FBT exemption will cease. Noting that only those EVs costing up to and including the LCT threshold will receive the 25% discount, implemented through a 15% rate in the FBT statutory formula (rather than the standard statutory formula rate of 20%). All other EVs will be subject to full FBT.



Existing electric vehicles

Both the Treasurer and the Climate Change and Energy Minister stated in their joint announcement of these measures that the changes would not impact existing EV arrangements.

New electric vehicles acquired up to 31 March 2027

The original announcement on 5 May 2026 stated that there would be no changes for the FBT year for the period 1 April 2026 to 31 March 2027. The Budget papers state that all eligible electric cars will retain the FBT discount rate that was in place when the arrangement commenced. It also states that the existing 20% statutory rate (i.e. no discount/exemption) will continue to apply to all other cars, including electric cars that cost more than the LCT. Therefore, there is some uncertainty in the way the budget papers are set out regarding new EVs acquired up to 31 March 2027. The better view of the interpretation of these budget papers is that no changes will apply for the 2026-27 FBT year, however, it would be prudent to await further details to confirm this treatment.

BDO comment

The FBT exemption has already ceased for new plug-in hybrid electric vehicles (PHEVs) acquired from 1 April 2025. Further, the Government has limited the FBT exemption applying to PHEVs acquired before 1 April 2025, by requiring that a financially binding commitment exists to continue providing the vehicle for private purposes. Therefore, the Government has already commenced limiting the application of the FBT exemption on electric vehicles by targeting PHEVs.

Employees have until 31 March 2027 to receive the full FBT exemption/discount when salary packaging an EV. This is assuming that the Minister's promise that existing EV leases will remain FBT-exempt will apply to all EVs from the date of the announcement up until 31 March 2027, after which the new measures apply (and not just to EVs up to 5 May 2026 when the announcement was made). We also assume that the FBT exemption will continue to not apply to EVs costing more than the LCT threshold, but the wording of the budget papers is unclear.

Employees wishing to take advantage of these concessions would be wise to focus on lower-valued vehicles and act sooner rather than later.

We note that electric vehicles remain fully subject to the reportable fringe benefits provisions. That is, the grossed-up taxable value must still be reported on the employee's PAYG income statements.

It should also be noted that eligible EVs will remain exempt from import tariffs.



The demise of salary packaging for work-related expenses

There is an unexpected Fringe Benefits Tax (FBT) sting in the draft legislation for the standard \$1,000 work-related expenses deduction that was released on 20 April 2026. This may lead to the demise of salary packaging work-related expenses for individuals from the commencement of the new proposed provisions. Although the Federal Budget did not address the FBT issue, it is included in the draft legislation previously released and is therefore assumed to be proceeding.

The Government has proposed in its announcement to introduce a \$1,000 standard tax deduction for all Australian tax resident individuals who derive assessable labour income, commencing in the 2026-27 financial year. Surprisingly, the proposed measure also includes changes to the FBT legislation, so that certain salary packaged benefits will become subject to FBT.

Where the salary sacrificed expense relates to expenses covered by the proposed standard deduction, the taxable value of the benefit will no longer be reduced, and an FBT liability will arise for the employer. Under the proposed changes to the FBT legislation, the 'otherwise deductible rule' will no longer apply to these benefits.

In addition, the Government is proposing to remove the FBT exemption for certain eligible work-related items, such as salary-sacrificed mobile phones and tablets, so that FBT will apply to these benefits (where no alternate FBT exemption or concession is available).

In good news, the restriction on substantially identical items in the same FBT year will be removed for all employers.

The FBT amendments will apply to FBT years from 1 April 2027.

Which expenses are impacted under the proposed measures?

Employers will no longer be able to reduce the value for FBT purposes, and therefore will have an FBT liability, where the employee salary sacrifices the following expenses:

- ▶ Claims under the general deduction provisions of the tax law
- ▶ Car expenses
- ▶ Travelling between workplaces
- ▶ Depreciating assets such as repairs, depreciation, and balancing adjustments
- ▶ Covid-19 tests.

In addition, the following salary sacrificed benefits will no longer qualify for an FBT exemption for employers:

- ▶ Portable electronic devices (e.g. mobile phones, laptops, tablet devices, etc.)
- ▶ Computer software
- ▶ Protective clothing
- ▶ Briefcases
- ▶ Tools of trade.

Therefore, FBT will apply to employers in these situations where no alternative FBT exemption or concession is available under the FBT law.

BDO comment

Under the proposed changes to the FBT legislation relating to the \$1,000 tax deduction, salary packaging of these benefits will no longer be attractive. Employees will likely need to cease such arrangements to ensure the employer does not incur FBT exposure on the salary-sacrificed benefits, which the employer would then seek to recover from the employee. Employees and employers should also be mindful of these proposed changes before entering into any new salary packaging arrangements once the provisions commence.

It should be further noted that these proposed amendments to the FBT legislation will apply irrespective of the amount of the expenses. That is, even though they are being introduced in conjunction with the standard \$1,000 tax deduction, the proposed FBT amendments will apply to the benefits even where they exceed \$1,000 in total for the FBT year. BDO's view is that this is a design flaw in the proposal that should be addressed.

Expanded ATO powers to address tax fraud

The Government will commit \$86.3 million over four years from 1 July 2026, with ongoing funding of \$9.7 million per annum from 2030–31, to implement Phase 2 of the Counter Fraud Strategy. This will modernise fraud prevention and detection in the tax and superannuation systems, including strengthened real-time ATO detection capabilities, enhanced individual protections, and expanded live monitoring of fraudulent account access involving tax agents, businesses, and high-risk superannuation activities.

Fraud by tax agents and intermediaries

The ATO's powers will be strengthened to combat fraud by tax agents and intermediaries, including proposed measures that would allow the ATO to pause and waive tax debts for victims of intermediary fraud, and to pursue recovery action against intermediaries responsible for that fraud. Existing garnishee powers will be expanded to cover jointly held assets used to shield funds from recovery.

At present, while the ATO has administrative discretion to defer payments, remit interest, and waive penalties, it does not have a general power to waive primary tax liabilities for victims of fraud, nor to substitute recovery from a victim with recovery from a fraudulent tax practitioner.

Tax secrecy exceptions

Further targeted exceptions to tax secrecy and enhancements to tax regulators' information-gathering powers will be introduced to support system integrity, compliance, and effective administration.



Under current law, tax secrecy obligations bind taxation officers in relation to 'protected information', being information obtained or generated under a taxation law that relates to the affairs of an identifiable entity and is not already lawfully public. Disclosure is prohibited unless one of the existing exceptions applies, such as disclosure for the administration or enforcement of a taxation law, disclosure with taxpayer consent, disclosure pursuant to court or tribunal proceedings, or disclosure expressly authorised under other laws.

Impact on tax receipts

These counter-fraud measures, in conjunction with additional targeted compliance activities, particularly in relation to the R&D Tax Incentive, are expected to increase receipts by \$217.8 million and increase payments by \$72.9 million over the five years from 2025-26.

BDO comment

BDO welcomes the Government's commitment to addressing fraud committed by tax practitioners. Enhancing the ATO's recovery and protective powers is an important step towards safeguarding victims of tax fraud and reinforcing the integrity of the tax system.

However, BDO remains cautious regarding the proposed expansions to tax secrecy exceptions. While these measures may support compliance and enforcement outcomes, they must be carefully balanced against the need to protect taxpayer privacy and maintain trust in the tax system. Clear, practical guidance will be essential to ensure these changes are implemented and administered consistently in practice.

International

Foreign resident CGT concessions and retrospective clarification

The Government is introducing a temporary concession for foreign investors in the renewables sector under the foreign resident CGT regime. This measure will allow foreign investors disposing of certain renewable energy infrastructure assets to access transitional relief from the passage of the legislation until 30 June 2030. The relief will be a 50% discount on the capital gain that would otherwise be taxable. The aim is to encourage continued investment in renewables while ensuring that, over time, the tax treatment of these assets is consistent with that of other Australian taxable property.

At the same time, the Government will clarify that the definition of 'real property' for CGT purposes is set by Commonwealth law, not state or territory legislation. This clarification, effective from 12 December 2006, is intended to address recent legal uncertainty and protect existing tax revenue.

Transitional arrangement for renewable energy infrastructure assets

Foreign investors who dispose of eligible renewable energy infrastructure assets during the transitional period will benefit from a time-limited 50% discount concession. This approach is designed to support Australia's climate goals by encouraging investment in renewables, while signalling that the concessional treatment will not be permanent and that alignment with the broader CGT regime remains a priority.

Clarification of 'real property definition'

The Government's move to confirm that 'real property' is defined by Commonwealth legislation responds to recent court decisions that created ambiguity in the application of the foreign resident CGT regime. By overriding state and territory definitions, this change aims to provide greater certainty and ensure the regime operates as originally intended, with effect from the regime's commencement in 2006.

BDO comment

The introduction of a targeted, temporary concession for foreign investors in renewables is a positive step to encourage investment in this sector. While the concession supports Australia's climate goals and investment in renewables, it raises questions about whether the time limit is appropriate, given the long lead times for developing these projects.

The move to clarify the 'real property' definition by overriding state and territory laws with Commonwealth legislation is controversial. It addresses recent court decisions that did not favour the revenue, but raises serious questions about retrospectivity and the appropriate balance between legislative power and investor certainty.

Draft legislation released before the Budget indicated that the Government intends to apply this change fully retrospectively. We strongly oppose this approach as it undermines trust in the tax system.



Global Anti Base Erosion Rules (Pillar Two) Side-by-Side Package

The Government has announced it will amend Australia's global and domestic minimum tax laws to implement the OECD/G20 Inclusive Framework's Side-by-Side Package. These amendments will apply for income years starting on or after 1 January 2026, ensuring Australia's Pillar Two rules remain aligned with the international consensus.

The package introduces new safe harbours and administrative simplifications for in scope multinational groups, reflecting the updated OECD design. A key feature of these changes is the accommodation of US interests, ensuring the framework can operate alongside existing US measures such as Global Intangible Low-Taxed Income (GILTI) without immediately triggering top up taxes for US-parented groups.

BDO comment

With the US having already rejected Pillar One, the Side-by-Side Package represents a significant concession by the OECD to accommodate US interests, effectively creating a workaround to ensure that Pillar Two does not impact US-parented multinational groups once the measure takes effect. While the compromise keeps the global project alive, it also underscores that Pillar Two is no longer a uniform minimum tax regime.



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