

Finance at the Crossroads

The 2026-27 Federal Budget & What It Means for Your Lending & Finance Strategy



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INCLUDES:

- Key budget measures with legislative status
- CGT, negative gearing & trust changes explained
- Coalition budget reply & policy comparison
- Case studies: what the numbers mean for you
- How Rion Capital can help

FINANCE AT THE CROSSROADS

The 2026–27 Federal Budget & What It Means for Your Lending and Finance Strategy

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About This Document

This paper has been prepared by Rion Capital Investments Pty Ltd for the benefit of our clients and contacts. It is an educational overview of the 2026–27 Federal Budget and the Coalition's budget reply, with a focus on the measures most relevant to property investors, business owners and borrowers. It draws on official Budget Paper No. 1 (Treasury), reporting from the Australian Financial Review, ABC News and SBS, and commentary from NAB, CBA, AMP, the Grattan Institute and the Business Council of Australia.

Rion Capital is a credit and lending adviser. This document does not constitute financial, tax or legal advice. Readers should seek advice from a licensed financial adviser, registered tax agent and/or solicitor before making any decisions based on this material.

All budget measures described as 'proposed' have not been passed by parliament and remain subject to Senate passage and potential amendment.

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BUDGET INSIGHTS · MAY 2026

Australian Federal Budget 2026–27

What the most significant tax changes in a generation mean for you

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Important: Budget Announcements vs Law

The Federal Budget is the Government's statement of proposed spending and taxation policy. Most measures announced on Budget night are not automatically law. To take effect, new taxes and legislative changes must pass through both the House of Representatives and the Senate. The Senate crossbench — including the Greens, who have not yet committed to support the key tax measures — will determine whether and in what form these changes become law. We have labelled each key measure's status clearly throughout this article.

● **LEGISLATED** Already law ● **PROPOSED** Announced, not yet law ● **COMMITTED** Funded, subject to delivery

The Albanese Government handed down its 2026–27 Federal Budget on 13 May 2026. Treasurer Jim Chalmers described it as representing “the most significant transformation of Australia's tax system in more than a quarter of a century.” [1] The Budget is framed around five pillars: responding to a global oil shock triggered by conflict in the Middle East, reducing cost-of-living pressure, tax reform for workers and future generations, productivity improvement, and strengthening care and services.

The changes that will affect our clients most directly relate to capital gains tax, negative gearing, and discretionary trusts — sweeping proposals that, if legislated, will fundamentally alter the economics of property investment and wealth structuring for many Australians. At Rion Capital, we do not take a political position on these measures. Our job is to help you understand what has been announced, what the path to law looks like, and what questions you should be asking now.

The Economic Backdrop

This Budget was delivered into a more challenging economic environment than any in recent years. The Middle East conflict has disrupted approximately one-fifth of the world's seaborne oil and gas supply, pushing headline inflation to 5 per cent for the year to June 2026 — well above the RBA's 2–3% target band. [1] The RBA has responded with three interest rate increases so far in 2026, adding further pressure to borrowers already managing higher living costs.

GDP growth has slowed to 1.75 per cent for 2026–27, down from 2.25 per cent the prior year, before forecast recovery to 2.25 per cent in 2027–28. The unemployment rate remains low at approximately 4.25 per cent. Against this backdrop, the Budget returns a deficit of \$31.5 billion for 2026–27 — an improvement on the mid-year update — with gross debt forecast to peak at \$1.051 trillion. [1] The Budget is projected to return to balance in 2034–35.

Key Budget Announcements at a Glance

Capital Gains Tax — Fundamental Reform

- **[PROPOSED]** The 50% CGT discount for individuals, trusts and partnerships will be abolished from 1 July 2027, replaced by cost-base indexation — meaning only real (inflation-adjusted) gains will be taxed. [1]
- **[PROPOSED]** A new 30% minimum CGT rate will apply regardless of a taxpayer's income, designed to prevent investors holding assets until retirement to benefit from a lower marginal tax rate. [1][2]
- **[PROPOSED]** Pre-1985 assets, previously fully exempt from CGT, will now be taxed on gains arising from 1 July 2027 onwards using the inflation model. [2]
- **[PROPOSED]** Gains realised before 1 July 2027 will still be subject to the existing 50% discount. Transitional arrangements protect existing investment decisions. [1]
- **[PROPOSED]** Investors who acquire new homes will be able to choose between the 50% discount or the new inflation model when they sell. [1]

Note: The Government argues the 50% discount has poorly approximated the inflation component of returns and has contributed to property price inflation at the expense of owner-occupiers. Critics, including the Business Council of Australia and Shadow Treasurer Tim Wilson, argue the changes deter investment and add complexity. [2][6]

Negative Gearing — Abolished for Existing Properties Purchased After Budget Night

- **[PROPOSED]** From 1 July 2027, negative gearing will be limited to new builds that genuinely add to housing supply. Properties held at 7:30pm AEST on 12 May 2026 are fully grandfathered. [1]
- **[PROPOSED]** Existing properties purchased after Budget night can be negatively geared only until 1 July 2027 — a transitional window of approximately 13 months. [2]
- **[PROPOSED]** New builds remain exempt, and investors in new properties retain access to the 50% CGT discount or may elect the new inflation model when selling. [1]

Note: These changes are the same policy Labor took to the 2019 election but did not pursue after losing. Treasurer Chalmers acknowledged they constitute broken election promises. The Greens have not committed their Senate support, noting the Working Australians Tax Offset — the main beneficiary measure — is worth only \$4.81 per week and will not be paid until 2028. [2][6]

Discretionary Trusts — 30% Minimum Tax

- **[PROPOSED]** From 1 July 2028, a 30% minimum tax will apply to discretionary trusts, paid by the trustee. Beneficiaries will receive non-refundable credits for the tax paid by the trustee. [1]
- **[PROPOSED]** Expected to raise \$4.4 billion per year when fully operational. The Government notes the wealthiest 10% of households hold over 90% of the value of private discretionary trusts. [1][4]
- **[PROPOSED]** Exemptions include: fixed trusts (including testamentary trusts), superannuation funds, special disability trusts, deceased estates, charitable trusts, primary production income, and certain income relating to vulnerable minors. [1]

- **[PROPOSED]** Rollover relief will be available for three years from 1 July 2027 for businesses wishing to restructure out of discretionary trusts into companies or fixed trusts. [1]

Note: The ABC described this as effectively “ending income splitting via trusts.” The Government will consult on implementation details including the mechanism for collecting the minimum tax and the treatment of excess franking credits. [4]

Working Australians Tax Offset (WATO)

- **[PROPOSED]** An annual tax offset of up to \$250 for income earned from work, applying from the 2027–28 income year for over 13 million Australian workers. Paid automatically in tax returns. [1]
- **[LEGISLATED]** Existing staged income tax cuts continue: the 16% rate on income \$18,201–\$45,000 reduces to 15% from 1 July 2026 and 14% from 1 July 2027. [1]
- **[LEGISLATED]** A new \$1,000 instant tax deduction for work-related expenses (no receipts required) applies from the 2026–27 income year. [1]

Business Measures

- **[LEGISLATED]** The \$20,000 instant asset write-off for small businesses (turnover under \$10 million) is made permanent from 1 July 2026. [1]
- **[PROPOSED]** Permanent two-year loss carry-back for companies with up to \$1 billion turnover, from income years after 1 July 2026. [1]
- **[PROPOSED]** Loss refundability for small start-up companies from 1 July 2028, to help new businesses invest and grow in their first two years. [1]
- **[COMMITTED]** Fuel excise more than halved temporarily (three months) in response to global oil shock; heavy vehicle road user charge reduced to zero for same period. [1]

Housing Supply

- **[COMMITTED]** New \$2 billion Local Infrastructure Fund to help local governments build essential infrastructure supporting up to 65,000 new homes over the decade. [1]
- **[COMMITTED]** Foreign investor ban on purchasing established homes extended to 30 June 2029. [1]
- **[COMMITTED]** Build-to-Rent affordability standards strengthened; industry estimates support for up to 80,000 new rental homes over the decade. [1]

What Economists and Experts Are Saying

Reactions to the tax reform package have been sharply divided. We present a cross-section of views below — both supportive and critical — to give you the balanced picture your financial decisions deserve.

NAB Economics — Significant but Uncertain

“It is possible that the changes to taxation arrangements for housing are some of the most significant in a quarter of a century.” NAB notes the interaction between the changes and the broader market — including three RBA rate rises already in 2026 — creates genuine uncertainty about the direction of property prices. [7]

Grattan Institute — Measured Impact

“[The reforms] only impact investments going forward from now, compared to the very large size of the Australian property market; they don’t look to have a large impact on property prices.” Matthew Bowes noted that grandfathering existing investments limits the overall market effect and estimated house price reductions of approximately 1 per cent. [8]

CBA Economics — Modest and Slow-Moving

“In response to these policy changes, house prices are expected to eventually be 3 per cent lower than they otherwise would have been. However, the transition is estimated to be slow, with 0.6 percentage points subtracted from annual price growth by the end of this year.” CBA revised its 2026 dwelling price growth forecast from 5% to 3%. [9]

AMP Economics (Shane Oliver) — Greater Risk of Price Falls

“House prices could fall by up to 5 per cent in the near term, as investors retreat due to a fall in the perceived after-tax return to property investment.” Dr Oliver also cautioned it is doubtful the changes will boost housing affordability much over the longer term, as the basic driver remains a shortage of housing relative to population demand. [10]

Business Council of Australia — Concerned

The BCA said the CGT and negative gearing changes would “deter investment and add complexity”. The tech sector separately raised concerns that the minimum 30% CGT rate could drive start-up founders and investors offshore, with the Australian Investment Council noting the changes are a “broad-based measure” not specifically targeted at tech but with significant collateral impact. [2][6]

ABC Economics (Tom Crowley) — Wealth Gap as Much as Generation Gap

“The cumulative tax benefits of these arrangements have overwhelmingly flowed to those with very high lifetime incomes.” Treasury data cited in the budget papers shows the top 1% of lifetime income earners alone account for 28% of the benefit of CGT and negative gearing concessions. [4]

On rents, most economists expect only modest increases. Treasury forecasts less than \$2 per week for the median renter; the Grattan Institute estimates approximately \$1 per week — noting that as investor-owned properties are sold to owner-occupiers, the number of renters also falls. CBA’s Trent Saunders described the rental impact as likely “muted”. [5][8][9] The RBA has not commented directly on the Budget, but its three rate increases in 2026 signal an independent monetary policy stance that will interact with the fiscal changes in complex ways.

The Coalition's Response — What the Opposition Is Proposing

On 14 May 2026, Opposition Leader Angus Taylor delivered the Coalition's formal budget reply speech. We present the key policy positions below factually and without endorsement. As with the Government's measures, these are opposition proposals — they are not policy and would only become law if the Coalition wins government at the next election, due by May 2028.

1. Reinstate Full Negative Gearing and Repeal CGT Changes

The Coalition has committed to repealing the Government's negative gearing and CGT changes in full. Shadow Treasurer Tim Wilson confirmed the Coalition would reinstate negative gearing for all residential property purchases and restore the 50% CGT discount. [AFR, 14 May 2026] Taylor framed the Government's changes as “an assault on aspiration” that was “locking out young Australians from the opportunities afforded to older Australians to build wealth.”

For property investors and trust holders uncertain about the Government's proposed measures, this creates a genuine policy fork: the rules that apply to any investment decision made between now and the 2028 election may depend entirely on which party is in government. This is an unusual degree of policy uncertainty for the property market and warrants careful consideration before making long-term commitments.

2. Income Tax Indexation — ‘The Tax Back Guarantee’

Taylor's centrepiece economic announcement was a commitment to index income tax brackets to inflation — a policy he described as “generational tax reform” costing \$22.5 billion over the forward estimates. [ABC, 14 May 2026] Under the proposal, the bottom two tax thresholds (covering income between \$18,201 and \$135,000) would be indexed from 2028–29, with the top two thresholds indexed from 2031–32.

The Coalition estimates this would protect 85% of income earners from bracket creep, delivering approximately \$250 in year one growing to over \$1,000 annually by year four. Tax indexation was introduced under the Fraser Government in the 1970s but was subsequently wound back and abolished. The policy would prevent automatic real tax increases as wages rise with inflation, but critics note the significant budget cost over time. [Michelle Grattan, ABC Analysis, 14 May 2026]

3. Immigration Cap Tied to Housing Construction

In what Taylor described as an “unprecedented housing policy”, the Coalition would cap net overseas migration to the number of new homes built in the previous year. This would effectively link population growth to housing supply, with Taylor estimating the cap would result in migration running approximately 40% below current levels — below 200,000 per year compared to recent levels above 300,000. [SBS, 14 May 2026]

Taylor described it as delivering “one of the biggest cuts to immigration in Australian history.” He declined to give a precise number ahead of the election, noting conditions could change. Universities and business groups have pushed back, warning that cutting international students and skilled migrants would hurt economic output and sectors already facing labour shortages. [ABC, 14 May 2026]

4. \$5 Billion Housing Infrastructure Fund

The Coalition proposed a \$5 billion Housing Infrastructure Fund to be made directly available to local councils and developers, targeting water, sewerage, utilities and access roads needed to unlock new home construction. Taylor claimed this would “unlock 400,000 new homes.” This mirrors Labor’s \$2 billion Local Infrastructure Fund announced in the Budget, though is larger in scale and structured differently in its delivery mechanism. [SBS, 14 May 2026]

5. Expanded Instant Asset Write-Off for Small Business

The Coalition proposed raising the instant asset write-off threshold for small businesses (turnover under \$10 million) from \$20,000 to \$50,000 on a permanent basis. This would go further than the Government’s Budget measure, which made the \$20,000 threshold permanent. [ABC, 14 May 2026]

6. Nuclear Energy and Net Zero

Taylor committed a Coalition government to lifting the ban on nuclear energy and described Labor’s net zero agenda as “driving up inflation and destroying our economy.” He said the Coalition would back “any technologies that can deliver affordable and reliable energy” including coal, gas, hydro, batteries, renewables and nuclear, and would work with coal-fired power plant owners to keep existing stations running “as long and as hard as possible.” [AFR, 14 May 2026] This represents a stark policy contrast with the Government on energy and has significant long-term implications for energy costs and business investment decisions.

7. Welfare Restricted to Australian Citizens

Taylor announced the Coalition would restrict access to 17 welfare payments and programs — including Jobseeker, Youth Allowance, Family Tax Benefit and the NDIS — to Australian citizens only. He said this would save “billions of dollars” but did not provide a specific figure. [ABC, 14 May 2026] The policy has been described by Labor as targeting migrants, while the Coalition frames it as “putting Australian citizens first.”

The Political Context

Taylor’s reply was widely read as a response to the growing electoral threat from One Nation, which won the Farrer by-election the previous weekend. The combination of immigration cuts, net zero repeal and welfare restrictions reflects a shift in the Coalition’s political positioning. Michelle Grattan’s ABC analysis described it as “a mix of sound and dubious policy commitments”, noting the tax indexation proposal has genuine economic merit but the immigration and welfare policies carry significant implementation risk and political complexity. [ABC Analysis, 14 May 2026]

For clients and investors, the key takeaway is straightforward: the two major parties are now offering diametrically opposed policy settings on property taxation, CGT, and negative gearing. The outcome of the next election — due by May 2028 — will determine which framework actually applies. This makes the period between now and polling day one of genuine policy uncertainty for anyone making long-term property and investment decisions.

What This May Mean for Private Clients

The following is general information only. Individual circumstances vary significantly — none of the below constitutes financial, tax or legal advice. Please seek independent advice before making any decisions based on budget announcements that have not yet been legislated.

Property Investors with Existing Portfolios

If you hold existing investment properties, you are fully grandfathered under the negative gearing changes. Properties held at 7:30pm on 12 May 2026 retain all current tax treatment. This is the single most important point for existing investors to understand: your current arrangements do not change. [1]

The CGT changes are more nuanced. The new arrangements only apply to gains arising after 1 July 2027, meaning gains already built up in your portfolio will remain subject to the existing 50% discount if you sell before that date. However, if you hold assets long-term through retirement, the new 30% minimum rate will affect gains realised from 1 July 2027 onwards, potentially reducing the historical tax benefit of deferring a sale. This is worth modelling carefully with your accountant if you are approaching retirement.

Anyone Considering Buying an Investment Property Now

If you purchase an existing property after 7:30pm on 12 May 2026, negative gearing applies only until 1 July 2027 — a transitional window. After that date, you will lose the negative gearing benefit unless the Government's proposed legislation fails to pass the Senate. The uncertainty here is real: these are proposed measures and Senate passage is not guaranteed. Purchasing decisions based on a legislative outcome that is not yet law carry inherent risk. We would encourage any client in this position to speak with us before committing.

If you are considering buying a new build, the picture is more favourable. New properties are exempt from the negative gearing changes, and investors in new builds retain access to either the 50% CGT discount or the new inflation model. Government incentives for new housing supply remain intact. [1]

Clients with Discretionary Trust Structures

If your wealth or business income flows through a discretionary trust, the proposed 30% minimum tax from 1 July 2028 is a material planning consideration. The rollover relief available for three years from 1 July 2027 may provide an opportunity to restructure into a company or fixed trust, but this involves complex tax and legal decisions that should not be made quickly or without specialist advice.

The Government will consult on key implementation details throughout 2026 and 2027. We would caution against making irreversible structural decisions before that consultation is complete and legislation is passed. The measure remains proposed, not law.

Self-Funded Retirees

The 30% minimum CGT rate is specifically designed to reduce the incentive for asset-rich retirees to defer selling assets to a period when their income is low and CGT payable would be minimal. If this describes your situation, the proposed changes could alter the optimal timing of asset sales in retirement. This is a planning conversation worth having now, even if the legislation has not yet passed, so you understand your options.

First Home Buyers and Owner-Occupiers

The main residence CGT exemption is explicitly protected and will not be affected by these changes. [1] The Government estimates the combined property measures will help approximately 75,000 additional first home buyers enter the market over the next decade. Economists are broadly sceptical of the magnitude but agree the direction — reducing investor demand for established properties — is likely to improve owner-occupier access at the entry level of the market, particularly if supply increases as projected.

What This May Mean for Commercial & Business Clients

Again, the following is general information only. Business and tax circumstances are highly individual and these observations should not be relied upon without independent advice.

Business Owners Operating Through Trusts

This is arguably the most significant area of potential impact for our commercial client base. If your business income is distributed through a discretionary trust, the proposed 30% minimum tax from 1 July 2028 will directly affect your after-tax income. The measure is designed to “align the tax rates for trusts with the rates paid by workers”. [1] The rollover relief for restructuring means there is a window to consider alternative structures — but this is a complex decision requiring specialist legal and tax advice, not a reactive one.

Small Business Owners — Genuine Positives

The permanent \$20,000 instant asset write-off from 1 July 2026 is now confirmed law and provides genuine planning certainty. [1] The introduction of two-year loss carry-back for companies with turnover up to \$1 billion — once legislated — will be valuable for businesses experiencing temporary downturns, including those affected by fuel cost pressures from the global oil shock. The \$1,000 instant deduction for workers will reduce payroll-related compliance burden.

The fuel excise cut and heavy vehicle road user charge reduction to zero for three months provide immediate cash flow relief for businesses with transport exposure — though these are temporary measures.

Property Developers and the Construction Pipeline

The housing supply incentives remain intact and in some respects have been strengthened. New builds are exempt from both the negative gearing and CGT changes, meaning investment in new residential development retains its tax advantages. The new \$2 billion Local Infrastructure Fund is designed to unlock “last-mile” infrastructure approvals blocking development. [1] For developers with pipeline projects, this is a broadly supportive environment.

However, as AMP’s Shane Oliver and the Grattan Institute have noted, supply constraints are structural — planning approvals, labour and materials — not primarily financial. [10][8] The tax settings create the right incentive framework; whether projects get built depends on the execution environment.

Commercial Property Investors

The CGT changes apply to all asset classes, not just residential property. Commercial property investors holding assets acquired before 1985 should note that gains from 1 July 2027 will now be taxable under the inflation model. For assets acquired after 1985, the shift from the 50% discount to the inflation model will have varying impacts depending on the asset's holding period, rate of capital appreciation, and inflation over the life of the investment. Some long-held assets will actually pay less tax under the inflation model than under the 50% discount; others will pay more. Your accountant can model this specifically for your portfolio.

Understanding the Trust Changes — A Plain-English Explainer

Because discretionary trusts are used by so many of our clients — particularly business owners and investors — we want to explain this measure clearly. Please note: Rion Capital is a lending adviser, not a tax or financial planner. The following is factual context only. If you have a trust structure, you should speak with your accountant or financial adviser about how these proposed changes may affect you specifically.

How Discretionary Trusts Currently Work

A discretionary trust holds income or assets, and the trustee decides each year how to distribute that income among a range of beneficiaries — typically family members. Each beneficiary then pays tax at their own marginal rate. If one beneficiary earns little other income in a given year, they may pay tax at a low rate — sometimes zero — on the distribution they receive.

This flexibility has made discretionary trusts a popular vehicle for business owners and investors who want to manage tax across a family group, while also providing genuine benefits around asset protection, estate planning, and separating personal and business risk.

What the Proposed Change Does

From 1 July 2028, the trustee would be required to pay a minimum 30% tax on discretionary trust income before distributions reach beneficiaries. Beneficiaries would receive a non-refundable credit for that tax and could use it to offset their own income tax liability — but if their marginal rate is below 30%, they cannot claim the excess back. The 30% becomes a floor.

In practical terms: if a trust currently distributes income to a beneficiary on a low marginal rate, the tax saving from that distribution disappears. The income will be taxed at a minimum of 30% regardless of who receives it. The Government has explicitly designed this to end the income-splitting benefit.

Why the Concern Is So Widespread

The concern is not simply about tax avoidance. Many trusts were established for entirely legitimate non-tax reasons — to protect business assets from personal liability, to manage succession across generations, or to hold property that will eventually be passed to children. The 30% minimum applies to all of these arrangements equally, regardless of why the trust was set up.

The other significant concern is the interaction with the CGT changes. A trust selling a property after 1 July 2027 will face both the shift from the 50% discount to the inflation model and the 30% minimum CGT rate. For some long-held assets, this could represent a very material increase in the tax payable on sale.

The Rollover Relief Window

The Government has provided a three-year rollover relief period from 1 July 2027, during which businesses and individuals can restructure out of a discretionary trust into a company or fixed trust without triggering immediate tax consequences, including CGT on the transfer.

This sounds helpful, but restructuring a trust is complex. It involves legal costs, potential stamp duty, changes to banking and lending arrangements, and downstream effects on income distribution, asset protection, and estate planning. It is not something to do quickly, and it requires specialist tax and legal advice — not just an accountant, but often a solicitor experienced in trust law as well.

The Lending Angle — What This Means for Borrowing

This is where Rion Capital's role becomes relevant. If you are considering restructuring out of a discretionary trust — or if your accountant recommends it — there are direct lending implications that need to be managed carefully. Many investment and commercial loans are held in trust names. Refinancing or transferring those facilities to a new entity (such as a company or fixed trust) requires new credit assessments, new loan documents, and potentially new lender relationships. Timing matters: you do not want to be forced into a rushed refinance at short notice because a restructure was completed without thinking through the finance side.

We are not in a position to tell you whether to restructure your trust — that is a decision for your accountant and solicitor. But when that decision is made, we can make sure the lending side is handled efficiently and that your borrowing capacity and existing facilities are protected through the transition.

How Rion Capital Can Help — Our Role as Your Lending Adviser

Important: Our Role and Its Limits

Rion Capital is a lending and finance brokerage. We are credit advisers, not financial planners, tax advisers or accountants. Nothing in this article, and nothing we discuss with you, should be taken as tax or financial planning advice. For questions about the tax implications of these budget changes, restructuring your trust, or the impact on your superannuation or investment strategy, please speak with your accountant and/or a licensed financial planner. Our role is to help you understand the lending implications of your decisions — and to make sure your finance works as hard as it can, whatever direction those decisions take.

With that clear, here is what we are doing and how we can genuinely help.

We are reviewing our client portfolios now through the lens of these announcements. We are not waiting for legislation to pass before having conversations. For clients with investment properties, trust structures, or commercial borrowing arrangements, the landscape has shifted — even if the legislation has not yet passed. Understanding what the changes could

mean for your borrowing capacity, your loan structures, and your lending strategy is something we can help with right now.

Through our Rradar engagement model (Soon to be released), we proactively identify trigger events in your lending portfolio throughout the year. Budget night is a significant trigger. If any of the measures in this article are relevant to your position, your Rion Capital adviser will reach out. If you want to get ahead of that conversation, we welcome your call.

For Private & Personal Clients	For Business & Commercial Clients
<ul style="list-style-type: none"> • Investment property lending — reviewing loan structures in light of proposed changes • Borrowing capacity assessment as rate and tax settings evolve • New build finance — how the new build exemption affects your lending options • Home loan refinance and repricing in a rising rate environment • SMSF lending — understanding how proposed changes interact with your facility • Renovation and upsizing finance planning • Asset finance for personal and household needs 	<ul style="list-style-type: none"> • Commercial property lending — reviewing facilities ahead of any restructure • Trust restructuring: managing the lending transition if your accountant recommends a change of structure • Working capital and cash flow facilities amid fuel cost pressures • Asset finance — timing purchases to benefit from the permanent \$20,000 write-off • Integrated personal and business lending strategy • Term loan structuring for acquisition or growth • Refinance planning: ensuring existing facilities are not disrupted by structural changes

What makes our approach different is that we connect both sides of your financial life. A decision your accountant makes about your trust structure has direct implications for your home loan, your investment lending, and your business facilities. A change in your investment property returns affects your borrowing capacity. We sit at that intersection — not to give tax advice, but to make sure the lending side of every decision is handled well.

We work closely with accountants and financial planners and are happy to be part of a coordinated conversation with your broader advisory team. If you would like us to connect with your accountant directly as you work through the implications of this budget, just let us know.

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The following sources were used in preparing this article. All facts, figures and statistics are drawn directly from these primary and secondary sources. Legislative status should be verified at parliament.gov.au before relying on it.

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* Search each organisation's website directly to access referenced publications. Legislative status of all proposed measures should be verified at parliament.gov.au.

CLIENT EDUCATION SERIES · MAY 2026

Understanding the Inflation Indexation Models

CGT reform, bracket creep, and what the numbers actually mean for you

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A note from Rion Capital

This paper is prepared by Rion Capital Investments Pty Ltd in our capacity as credit and lending advisers. We are not financial planners, tax agents or accountants. The content below is educational — it explains how these tax models work and illustrates their potential impact through hypothetical case studies. It is not personal tax advice. Please speak with your registered tax agent or financial adviser before making any decisions based on this material.

Part 1: Two Different Inflation Models — Easy to Confuse, Important to Distinguish

The 2026–27 Federal Budget and the Coalition’s budget reply both reference ‘inflation indexation’ — but they are talking about two entirely different things. Understanding the distinction is the starting point for understanding how these changes may affect you.

Model A: Income Tax Bracket Indexation (Coalition Proposal)

This is the Coalition’s proposal. Australia’s income tax brackets are fixed in dollar terms and do not automatically adjust for inflation. When wages rise — even just to keep pace with the rising cost of living — workers can be pushed into higher tax brackets without becoming any wealthier in real terms. This silent, automatic tax increase is called bracket creep.

Tax bracket indexation means adjusting the dollar thresholds each year in line with the Consumer Price Index (CPI). If inflation is 3%, the tax-free threshold rises by 3%, the \$18,201 threshold becomes \$18,747, and so on up the scale. Your real purchasing power stays the same, and so does your effective tax rate. The government cannot collect more real tax from you simply because prices have risen.

Tax indexation was actually used in Australia under the Fraser Government in the late 1970s but was wound back and eventually abolished. It is common in other developed countries including Canada and the United States. The Coalition estimates their proposal would cost \$22.5 billion over four years but would protect 85% of income earners from bracket creep, delivering approximately \$250 per year in year one, growing to over \$1,000 annually by year four. [10]

In plain language — Bracket Indexation

You earn \$60,000 this year. After a pay rise, you earn \$61,800 next year — a 3% increase. But if inflation was also 3%, you are no better off in real terms. Under the current system, you now pay a slightly higher average tax rate on that \$61,800. Under a bracket-indexed system, the thresholds also rise by 3%, so your effective tax rate is unchanged. You keep the same real share of your income.

Model B: CGT Cost Base Indexation (Government Proposal)

This is the Government's proposed change to capital gains tax, and it is a separate and older concept. When you sell an asset — a property, shares, or another investment — you pay capital gains tax on the profit. The question is: profit measured how?

Under the current 50% discount model (introduced by John Howard in 1999): you simply halve the nominal gain and pay tax on the remainder at your marginal rate. Simple, but blunt — it doesn't distinguish between gains that reflect real economic growth and gains that simply reflect inflation eroding the value of money.

Under cost base indexation (the pre-1999 model, now proposed to return from 1 July 2027): your original purchase price is adjusted upward each year by the CPI. You only pay tax on the gain above and beyond inflation — the real, inflation-adjusted profit. This is theoretically more accurate: if you bought an asset for \$500,000 and inflation over the holding period was 40%, your cost base rises to \$700,000. Only gains above \$700,000 are taxed.

On top of this, the Government proposes a 30% minimum CGT rate — meaning regardless of your income or the size of your gain, you pay at least 30% on your real capital gain. This floor is designed to prevent the strategy of timing asset sales to retirement when income (and therefore marginal tax rates) are low.

In plain language — CGT Cost Base Indexation

You bought a property for \$600,000 in 2005. You sell it in 2028 for \$1,400,000. Your nominal gain is \$800,000. But inflation between 2005 and 2028 was approximately 80%, so \$600,000 in 2005 money is worth about \$1,080,000 in 2028 money. Your real gain — the actual increase in purchasing power — is only \$320,000. Under the new model, you pay tax on \$320,000, not \$800,000. However, the 30% minimum rate applies regardless of your marginal rate.

Part 2: Which Model Is Better for You? It Depends on Three Variables

Whether the new CGT cost base indexation model helps or hurts any individual investor depends on the interaction of three factors: the length of time the asset was held, the rate of inflation over that period, and the asset's actual real capital growth. There is no universal answer — the model genuinely produces different outcomes for different investors.

The Three Key Variables

- Holding period — Longer-held assets accumulate more inflation adjustment, making the indexed cost base higher and the taxable gain smaller.
- Inflation rate — Higher inflation periods (like 2021–2026) result in a larger CPI adjustment, which benefits investors more under the new model.

- Real capital growth — Assets with very high real growth (above and beyond inflation) may be worse off under the new model than under the 50% discount, because the discount was more generous. Assets with moderate real growth are often better off.

Note: All case studies below use illustrative CPI estimates. Actual CPI figures are published quarterly by the Australian Bureau of Statistics (ABS Cat. 6401.0). Your accountant can calculate the precise indexed cost base using actual ABS data for your specific asset and holding period.

CASE STUDY

David — Long Holder, High Inflation Period

Purchased Sydney investment property 2005 · Sells 2028 · Long holding, high inflation benefit

David's Situation

David purchased a Sydney investment property in 2005 for \$600,000. He has held it for 23 years and sells in 2028 for \$1,400,000. His nominal gain is \$800,000. David is retired and earns modest income from the Age Pension and a small super draw, putting his marginal income tax rate at approximately 19% in the year of sale.

The Calculations

Estimated CPI increase 2005–2028: approximately 80% (ABS historical data). Indexed cost base: $\$600,000 \times 1.80 = \$1,080,000$. Real (inflation-adjusted) gain: $\$1,400,000 - \$1,080,000 = \$320,000$.

	Current Model (50% Discount)	Proposed Model (Inflation + 30% Min)
Purchase price	\$600,000	\$600,000
Sale price	\$1,400,000	\$1,400,000
Nominal gain	\$800,000	\$800,000
Inflation adjustment	Not applicable	+\$480,000 to cost base
Taxable gain	\$400,000 (after 50% discount)	\$320,000 (real gain only)
Tax rate applied	19% marginal	30% minimum (overrides 19%)
Estimated tax payable	~\$76,000	~\$96,000
Difference	—	\$20,000 MORE under new model

Verdict: Slightly Worse Off Under New Model

Despite holding through a high-inflation period, David is modestly worse off because the 30% minimum CGT rate overrides his low marginal income tax rate in retirement. This is precisely

the scenario the 30% floor is designed to address — preventing retirees from using low retirement income to minimise CGT. David should speak with his accountant about whether selling before 1 July 2027 (while the 50% discount still applies to gains to that date) makes sense in his circumstances.

CASE STUDY

Sarah — Recent Buyer, High-Inflation Short Hold

Purchased Melbourne investment property 2021 · Sells 2028 · Short hold, recent high inflation

Sarah's Situation

Sarah purchased a Melbourne investment property in 2021 for \$900,000 at the height of the pandemic property boom. She sells in 2028 for \$1,300,000. Her nominal gain is \$400,000. Sarah is a working professional on a salary of \$145,000, putting her in the 37% marginal tax bracket (plus Medicare levy, effectively 39%).

The Calculations

Estimated CPI increase 2021–2028: approximately 30% (reflecting the high post-pandemic inflation period of 2021–2024 followed by moderation). Indexed cost base: $\$900,000 \times 1.30 = \$1,170,000$. Real gain: $\$1,300,000 - \$1,170,000 = \$130,000$.

	Current Model (50% Discount)	Proposed Model (Inflation + 30% Min)
Purchase price	\$900,000	\$900,000
Sale price	\$1,300,000	\$1,300,000
Nominal gain	\$400,000	\$400,000
Inflation adjustment	Not applicable	+\$270,000 to cost base
Taxable gain	\$200,000 (after 50% discount)	\$130,000 (real gain only)
Tax rate applied	39% marginal	39% marginal (above 30% minimum)
Estimated tax payable	~\$78,000	~\$50,700
Difference	—	\$27,300 LESS under new model

Verdict: Better Off Under New Model

Sarah benefits significantly because she bought during a period of modest price growth but high inflation — much of her nominal gain was simply inflation, not real wealth creation. The new model correctly strips out that inflation component and taxes only her real gain. Her marginal rate of 39% exceeds the 30% minimum, so the floor does not apply. Sarah is a clear beneficiary of the reform as proposed.

CASE STUDY**Michael — Long Holder, Exceptional Real Growth**

Purchased Brisbane investment property 2010 · Sells 2028 · Long hold, high real capital growth

Michael's Situation

Michael purchased a Brisbane investment property in 2010 for \$500,000. He sells in 2028 for \$2,000,000 — a strong performer, particularly given Brisbane's significant growth through the 2020s. His nominal gain is \$1,500,000. Michael is a business owner with substantial other income, placing him in the top marginal tax bracket of 47% (including Medicare levy).

The Calculations

Estimated CPI increase 2010–2028: approximately 55%. Indexed cost base: $\$500,000 \times 1.55 = \$775,000$. Real gain: $\$2,000,000 - \$775,000 = \$1,225,000$.

	Current Model (50% Discount)	Proposed Model (Inflation + 30% Min)
Purchase price	\$500,000	\$500,000
Sale price	\$2,000,000	\$2,000,000
Nominal gain	\$1,500,000	\$1,500,000
Inflation adjustment	Not applicable	+\$275,000 to cost base
Taxable gain	\$750,000 (after 50% discount)	\$1,225,000 (real gain only)
Tax rate applied	47% marginal	47% marginal (above 30% minimum)
Estimated tax payable	~\$352,500	~\$575,750
Difference	—	\$223,250 MORE under new model

Verdict: Significantly Worse Off Under New Model

Michael's property experienced exceptional real capital growth well above inflation. Because the asset genuinely increased in value by far more than the CPI adjustment, the 50% discount was more generous to him than the new inflation model. Michael is a clear loser under the proposed reform. This is exactly the profile the Government is targeting — high-income investors with substantial real gains on long-held assets. Michael should urgently discuss his options with his accountant, particularly around timing any sale relative to the 1 July 2027 effective date.

Part 3: The Coalition's Bracket Indexation — A Case Study

To illustrate how income tax bracket indexation would work in practice, consider a single taxpayer — Emma — earning a salary that grows modestly with inflation over four years.

CASE STUDY

Emma — The Cost of Bracket Creep vs Indexation

PAYG employee · Salary growing in line with inflation · No real wage growth

Emma’s Situation

Emma earns \$85,000 in 2028. Inflation averages 3% per year. By 2032, her salary has grown to approximately \$95,700 — purely to keep pace with rising costs. She is not wealthier in real terms. Under the current system, her bracket thresholds do not move, so she pays a progressively higher share of her income in tax each year without any parliamentary vote or decision.

	Current Model (50% Discount)	Proposed Model (Inflation + 30% Min)
Year	Current System (Tax Payable)	With Bracket Indexation (Tax Payable)
2028 — \$85,000	~\$19,717	~\$19,717
2029 — \$87,550 (+3%)	~\$20,592	~\$20,040 (brackets also rise 3%)
2030 — \$90,177 (+3%)	~\$21,499	~\$20,640
2031 — \$92,882 (+3%)	~\$22,441	~\$21,260
2032 — \$95,668 (+3%)	~\$23,421	~\$21,898
4-year extra tax paid	—	~\$4,755 more under current system

Verdict: \$4,755 Extra Tax Over Four Years With No Real Wage Growth

Emma pays nearly \$4,755 more in tax over four years simply because her wages kept pace with inflation. She is no wealthier in real terms, but the government collects more real revenue from her automatically. Bracket indexation would return this to her. The Coalition’s \$250 first-year estimate and \$1,000 by year four are broadly consistent with this type of modelling for average income earners.

Part 4: The Critical Uncertainty — Which Framework Will Actually Apply?

This is the central question every investor and property owner needs to sit with right now. The two major parties are proposing diametrically opposed CGT frameworks:

	Labor (if legislation passes)	Coalition (if elected in 2028)
CGT on existing properties	Inflation model + 30% min from 1 July 2027	50% discount retained
Negative gearing	New properties only from 1 July 2027	Fully reinstated
Discretionary trusts	30% minimum tax from 1 July 2028	Repealed
Income tax brackets	Not indexed	Indexed to CPI from 2028–29
Small biz write-off	\$20,000 permanent	\$50,000 permanent

There is also a Senate question that applies to Labor's measures specifically: the Greens have not committed their support, and without them the Government cannot pass the CGT, negative gearing or trust measures. There are, in effect, three possible outcomes: the measures pass in their current form, the measures are amended or delayed through Senate negotiation, or the measures fail and the Coalition wins in 2028 and repeals them. Each scenario produces a different tax environment for property investors.

This degree of policy uncertainty is unusual in Australian property markets and makes long-term investment decisions more complex than at any point in recent decades. The key message from Rion Capital is: understand the scenarios, model the numbers with your accountant, and make sure your lending strategy is flexible enough to adapt.

Suggested Reading — For Those Who Want to Go Deeper

The following resources are freely available and provide authoritative background on the policy history and mechanics described in this paper. We recommend starting with the Henry Tax Review Chapter B1 for historical context, and the Parliamentary Budget Office report for a clear explanation of bracket creep.

- Australian Treasury — Tax Expenditures and Insights Statement (annual): treasury.gov.au — explains CGT concessions and their fiscal cost in plain terms.
- Grattan Institute — 'Hot Property' (2016): grattan.edu.au — the most cited independent analysis of negative gearing and CGT reform. The intellectual foundation for the current Government's proposals.
- Board of Taxation — Post-Implementation Review of the CGT Discount (2012): taxboard.gov.au — the government-commissioned review that examined whether the 50% discount was appropriate and how it compared to inflation indexation.
- Henry Tax Review — Chapter B1: Capital Gains (2010): treasury.gov.au — Ken Henry's comprehensive review recommended a move back toward the inflation-based model now being proposed.
- Parliamentary Budget Office — Structural Features of Australia's Income Tax (2023): pbo.gov.au — clear, accessible explanation of bracket creep and the case for indexation.
- ABS — Consumer Price Index, Australia (Cat. 6401.0): abs.gov.au — the official CPI data used to calculate actual indexed cost bases for your specific asset.

- Budget Paper No. 1 — Statement 4: A Better Tax System (2026): budget.gov.au — the Government’s own detailed explanation of the CGT and trust reform mechanics.

In Summary

There are two distinct inflation models in play in this budget cycle and they serve different purposes. The Government’s CGT cost base indexation model replaces the 50% discount on capital gains with a system that taxes only real economic gains, adjusted for inflation — but adds a 30% minimum rate that particularly affects retirees. The Coalition’s bracket indexation proposal would prevent workers from being pushed into higher tax brackets simply because wages rise with inflation.

Neither model is universally better or worse for all investors. As the three case studies show, the CGT change helps investors who bought during high-inflation periods with moderate real growth, and hurts investors with exceptional real capital appreciation. The 30% floor is the critical variable for retirees and low-income earners.

At Rion Capital, our role is not to advise you on which tax outcome is best for you — that is a conversation for your accountant. Our role is to make sure your lending strategy is positioned well whatever the legislative outcome, and that your finance is not the thing that limits your options when clarity arrives.

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References

All sources below are publicly available. Search each organisation’s website directly for the referenced publication.

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[3]	Board of Taxation	Post-Implementation Review of the CGT Discount	taxboard.gov.au	2012

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[5]	Parliamentary Budget Office	Structural Features of Australia's Income Tax	pbo.gov.au	2023
[6]	Australian Bureau of Statistics	Consumer Price Index, Australia (ABS Cat. 6401.0)	abs.gov.au	Quarterly
[7]	Cooper, G. (UNSW Law)	Academic commentary on CGT indexation and discount reform	unsw.edu.au	Various
[8]	Australian Government Treasury	Budget 2026–27: Budget Paper No. 1 — Statement 4: A Better Tax System	budget.gov.au	May 2026
[9]	Coorey, P. (AFR)	Chalmers' budget whacks Boomer wealth to woo young voters	afr.com	12 May 2026
[10]	Sadrolodabae, N. (SBS News)	Budget reply: From tax reform to migrant caps and welfare cuts	sbs.com.au	14 May 2026