A&M | TAX

A View on the 2025/2026 Australian Federal Budget

INTRODUCTION

Treasurer Jim Chalmers has handed down the Albanese Government's fourth Budget – an election-year Budget that we are only being 'gifted' because the Government's election timetable was blown off-course by Cyclone Alfred. With a Federal Election expected within the next two months, the Government has delivered a cautious and strategic package aimed at consolidating voter confidence, rather than pursuing meaningful reform.

Consistent with market expectations, the Budget focuses on targeted cost-of-living relief, including increased Medicare funding and expanded childcare rebates. However, it also includes, to the surprise of many observers, a second round of tax cuts for all Australian taxpayers – commencing in July 2026 and further reduced in 2027. Additional initiatives target housing affordability, add further green economy incentives, and tighten foreign investment into residential property.

While the Budget delivers some headline-friendly measures and modest support for young families, it unsurprisingly offers little in the way of genuine reform. Notwithstanding sustained pressure from economists and industry leaders, structural change has been deferred once again. A number of the 'Budget measures' are simply re-statements of previously announced but still unenacted measures.

The key tax measures from this year's Federal Budget are outlined below.

KEY TAX MEASURES FROM THE FEDERAL BUDGET 2025 - 2026

Businesses

Managed Investment Trusts (MITs)

- The Government has reaffirmed its commitment (announced in its press release of 13 March 2025 [1]) to clarify how 'legitimate' investors can continue to access the concessional MIT withholding tax regime. The announcement still lacks any detail as to exactly how the law will change and the breadth of foreign investors which will have continued access to the MIT regime.
- The clarifications are intended to apply to MIT fund payments from 13 March 2025 (being the date of the Government's press release), making it clear that there is unlikely to be any grandfathering for existing MIT structures.
- This follows the Australian Taxation Office's (**ATO**) release of Taxpayer Alert (**TA**) 2025/1 on 28 February 2025 [2] in relation to the misuse of restructures to access the MIT regime, and the ATO's concerns around 'captive' MIT structures. Subject to the proposed changes in law, foreign investors and Australian fund managers should be careful about making any changes to ensure continued access to the MIT regime (the TA indicates that the ATO will not dedicate compliance resources to existing structures, unless there is 'material' new investment or ownership change).
- Unfortunately, the announcements will mean a period of significant uncertainty for foreign investors looking to invest into Australia.

[1] Ministers, Clarifying tax arrangements for managed investment trusts, https://ministers.treasury.gov.au/ministers/stephen-jones-2022/media-releases/clarifying-tax-arrangements-managed-investment-trusts

[2] Australian Taxation Office, TA 2025/1, "Managed investment trusts: restructures to access the managed investment trust withholding regime," https://www.ato.gov.au/law/view/document?docid=TPA/TA20251/NAT/ATO/00001

Foreign resident CGT regime

- The Government has announced the deferral of changes to the foreign resident capital gains tax (**CGT**) regime from 1 July 2025 to the later of 1 October 2025 and the start of the first quarter following Royal Assent.
- This measure was originally announced in the 2024-25 Budget and was followed by a Treasury consultation paper in July 2024 [3]. Given the long delays, it is still not clear if the Government will introduce legislation in the coming year or if foreign investors will be kept nervously waiting.
- To recap, the proposed changes to the foreign resident CGT regime include:
  - Expansion to assets with a close economic connection to Australian land and natural resources (in particular, targeting infrastructure assets);
  - Amending the principal asset test from a point-in-time to a 365-day test; and
  - Requiring foreign residents disposing of membership interests exceeding $20 million to notify the ATO prior to settlement if they have made a declaration to a purchaser that the interests are not indirect Australian real property interests (i.e., not taxable).
- The expansion of the foreign resident CGT regime could significantly impact the tax cost to foreign investors when they exit Australia investments (i.e., what might have been a tax-free disposal may be taxed at the 30% tax rate).
- No other changes to the proposal have been included in the forward estimates. This amendment to the start date follows the Shadow Treasurer calling the foreign resident CGT changes a 'zombie measure' that has 'little hope of passing parliament.'

Clean building MIT concessions

- In a separate but related announcement to the MIT integrity changes, the Government has announced the deferral of extensions to the clean building MIT withholding tax concession (a 10% withholding tax rate) for data centres and warehouses that meet the minimum energy efficiency standards. The extensions will now be deferred from 1 July 2025 to the start of the first quarter following Royal Assent. Industry has been waiting some time for this measure to be enacted as it was originally announced in the 2023-24 Budget, and once again it is not clear if the Government will introduce legislation in the coming year.
- Keep in mind the minimum energy efficiency standards were already increased to 6-star Green Star or 6-star NABERS rating last year.

Changes to alcohol tax settings to support the hospitality sector and alcohol-producers

- The Government has announced measures designed to support hospitality venues and alcohol producers through changes to certain alcohol tax settings.
- Under the proposed measures, the biannual indexation of the draught beer excise and excise equivalent customs duty rates will be paused for a period of two years, commencing from August 2025.
- Additionally, the Government has announced an increase in support for alcohol producers under the existing 'Excise remission scheme for manufacturers of alcoholic beverages' and the Wine Equalisation Tax (**WET**) producer rebate.
- Under the changes, the existing $350,000 excise remission cap for eligible brewers and distillers will be increased to $400,000 per financial year, and this increase will be mirrored for wine producers, taking the existing WET rebate from a current cap of $350,000 to $400,000 per financial year. Both of these increases will commence from 1 July 2026.

The Research & Development Tax Incentive

- No new announcements were made regarding the Research & Development Tax Incentive, which is surprising given the focus on 'Made-in-Australia' and innovation in this and previous Budgets. Instead, the Government has announced narrowly targeted production spending and grant funding as set out below.

[3] The Treasury, "Strengthening the foreign resident capital gains tax regime," https://treasury.gov.au/consultation/c2024-546457

$2 billion in production credits for the production of green aluminium

- The Government has re-announced that $2 billion in production-based grants will be made available to support aluminum smelters. Facilities that switch to renewable electricity prior to 2036 will be able to access credits for up to 10 years.

$500 million in grant funding to support green iron manufacturing

- As part of the $1 billion Green Iron Investment Fund, at least $500 million of capital grants will be made available to support green iron manufacturing facilities (and associated supply chains) reduce their emissions.

Continued focus on social and affordable housing

- The Government continues its commitment to social and affordable housing, with an increase in the cap on the Commonwealth's guarantee of Housing Australia's liabilities from $10 billion to $26 billion including support for commitments for projects under the Housing Australia Future Fund and the National Housing Accord Facility.
- However, investors should also monitor the proposal to ban foreign persons (including foreign owned companies) from purchasing established dwellings for two years from 1 April 2025, unless an exception applies – see 'International' section below. Exceptions to the ban will include investments that significantly increase housing supply or support the availability of housing on a commercial scale, and purchases by foreign owned companies to provide housing for workers in certain circumstances.

Superannuation measures

- From 1 July 2025, Super Guarantee (**SG**) contributions will be paid on Commonwealth Paid Parental Leave, improving retirement outcomes, particularly for women.
- The ATO will receive increased funding to enhance real-time SG monitoring. The Government reiterated its commitment to mandate payday super from 1 July 2026, meaning employers must pay SG at the same time as salary and wages.

International

Temporary ban on foreign residents acquiring established dwellings

- The Budget restated the previously announced measure that foreign persons (including temporary residents and foreign-owned companies) would be temporarily banned from purchasing established dwellings for two years. It was announced that this measure would be introduced from 1 April 2025, with a stated intention of 'boosting Australia's housing supply'.
- Exceptions to the restriction will apply to the temporary ban, including investments that are considered to significantly increase housing supply, support the availability of housing on a commercial scale, or which will provide housing for workers.
- There is a risk that the ban, if not properly targeted, could inadvertently capture investment into the social and affordable housing or student accommodation sector (which as noted above in the 'Businesses' section, is a focus area of this Budget).
- In addition to the measures announced, the Government has indicated that foreign investors who have already acquired or are proposing to acquire vacant residential or non-residential land will be subject to heightened scrutiny by the ATO and Treasury (through an audit program and an enhanced compliance approach) targeting land banking by foreign investors, ensuring that they put vacant land to use for residential and commercial developments within a reasonable timeframe.

Individuals

Further cuts to personal income tax rates

- The Government has announced new personal income tax cuts from 1 July 2026.
- While clearly adding to future budget deficit forecasts, it is a move that will likely be characterised by many as a pre-election pitch to voters.
- Estimated to decrease tax receipts by $17.1 billion over the forward estimate period, the new tax cuts amount to:
  - From 1 July 2026, the 16 per cent rate will be reduced to 15 per cent; and
  - From 1 July 2027, the 15 per cent rate will be reduced further to 14 per cent.
- These rates cuts apply to taxable incomes between $18,201 and $45,000 and broadly equate annually up to an additional $268 in FY26 and $536 in FY27 in tax savings for taxpayers.
- The Government echoed sentiments from last year's tax cuts, again characterising them as providing 'cost-of-living relief', combatting bracket creep and 'boosting labour supply, particularly for women.'
- The Opposition has already flagged that they will not support the tax cuts.

Increases to the Medicare Levy low-income thresholds

- Set to apply from 1 July 2024, the Medicare Levy low-income thresholds will be increased for singles, families, seniors and pensioners.
- In a measure represented to provide additional cost-of-living relief:
  - The threshold for singles will be increased from $26,000 to $27,222;
  - The family threshold will be increased from $43,846 to $45,907;
  - The threshold for single seniors and pensioners will be increased from $41,089 to $43,020;
  - The family threshold for seniors and pensioners will be increased from $57,198 to $59,886; and
  - The family income thresholds will increase by $4,216 for each dependent child or student, up from $4,027.
- The increase to the thresholds is estimated to decrease tax receipts by $648 million over five years from 2024–25.
- Given the Medicare Levy is currently 2 per cent for most taxpayers, while the Government will reiterate that every dollar counts, many will argue that the practical impact of the cuts does not provide sufficiently tangible benefits for low-income taxpayers.

Other tax measures

Tax integrity measures

- The Government's 'tax integrity measures' are not actually any new integrity measures or tax changes; rather they are simply additional funding to the ATO for some of its existing integrity programs:
  - The Tax Avoidance Taskforce – targeting multinationals and large business;
  - The Shadow Economy Compliance Program – targeting the cash economy and illicit tobacco;
  - The Personal Income Tax Compliance Program – targeting personal non-compliance; and
  - The Tax Integrity Program – targeting timely payment of tax and superannuation.
- The 'headline numbers' appear significant over 4 years ($999 million extra ATO funding with an expected 'return on investment' - in the form of extra tax extracted - of $3.2 billion). However, these projections are heavily skewed to year 4 and the story for the next 3 years looks very different. The extra funding for these

ATO programs across the next 3 years averages 'only' $75 million per year, with the extra tax collection 'ask' per year averaging just over $300 million across that same period. And these numbers are actually down on the figures proposed to fund these programs in the Government's 2024-25 Budget:

Reduction in ATO integrity program funding

	2025-26	2026-27	2027-28
2024-25 Federal Budget	$72.7m	$604.5m	$740.9m
2025-26 Federal Budget	$69.6m	$96.9m	$57.8m

- While the above shows the ATO is being asked to 'tighten its belt' a little over the next 3 years, it will remain one of the best funded (and arguably one of the most effective) tax authorities around the world. No doubt the new Commissioner will be watching with interest the very different picture emerging for his counterpart in the United States' Internal Revenue Service, facing significant cuts to funding and resources (speculated to emerge from the 'DOGE' campaign).

Funding directed to the Tax Practitioner's Board (TPB)

- Funding will be provided to the TPB to:
  - modernise the registration framework for tax practitioners;
  - strengthen the sanctions available to TPB; and
  - allow the TPB to undertake additional compliance targeting high-risk tax practitioners over four years from 1 July 2025.
- These changes are in response to the 2019 Independent Review of the Tax Practitioners Board and are not unexpected. While the TPB will receive an extra $27.4 million in funding over five years from 2024–25, the expected 'return on this investment' has been set by the Government at $47 million over the same period.

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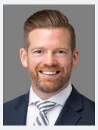
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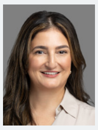
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