Treasury Laws Amendment (Tax Reform No. 1) Act 2026

No. 49, 2026

An Act to amend the law relating to taxation and superannuation, and for related purposes

Note: An electronic version of this Act is available on the Federal Register of Legislation (https://www.legislation.gov.au/)

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No. 49, 2026

An Act to amend the law relating to taxation and superannuation, and for related purposes

[*Assented to 26 June 2026*]

The Parliament of Australia enacts:

1 Short title

This Act is the *Treasury Laws Amendment (Tax Reform No. 1) Act 2026*.

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2 Commencement

(1) Each provision of this Act specified in column 1 of the table commences, or is taken to have commenced, in accordance with column 2 of the table. Any other statement in column 2 has effect according to its terms.

Commencement information		
Column 1	**Column 2**	**Column 3**
Provisions	**Commencement**	**Date/Details**
1. Sections 1 to 3 and anything in this Act not elsewhere covered by this table	The day this Act receives the Royal Assent.	26 June 2026
2. Schedule 1, Part 1	The first 1 January, 1 April, 1 July or 1 October to occur after the day this Act receives the Royal Assent.	1 July 2026
3. Schedule 1, Part 2	At the same time as the *Income Tax Rates Amendment (Tax Reform No. 1) Act 2026* commences. However, the provisions do not commence at all if that Act does not commence.	1 July 2026
4. Schedule 1, Parts 3 and 4	The first 1 January, 1 April, 1 July or 1 October to occur after the day this Act receives the Royal Assent.	1 July 2026
5. Schedule 2	The day after this Act receives the Royal Assent.	27 June 2026
6. Schedules 3 and 4	The first 1 January, 1 April, 1 July or 1 October to occur after the day this Act receives the Royal Assent.	1 July 2026
7. Schedule 5	The 45th day after this Act receives the Royal Assent.	10 August 2026

Note: This table relates only to the provisions of this Act as originally enacted. It will not be amended to deal with any later amendments of this Act.

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(2) Any information in column 3 of the table is not part of this Act. Information may be inserted in this column, or information in it may be edited, in any published version of this Act.

3 Schedules

Legislation that is specified in a Schedule to this Act is amended or repealed as set out in the applicable items in the Schedule concerned, and any other item in a Schedule to this Act has effect according to its terms.

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Schedule 1—CGT adjustments

Part 1—Main amendments

Income Tax Assessment Act 1997

1 Subsection 100-25(1)

After "there is an *exception* if", insert "the CGT event happens before 1 July 2027 and".

2 Subsection 100-40(2) (before the note)

Omit all the words after "the ***reduced cost base*** of the asset.", substitute:

One of the main differences is that the costs may be indexed for inflation in working out a capital gain for a CGT asset (which reduces the size of the gain), but not in working out a capital loss. Indexation is only available for certain entities and may not be available for the entire period the CGT asset is held.

3 Section 100-50

Repeal the section, substitute:

100-50 How to work out your net capital gain or loss

1. Reduce your capital gains for the income year by your capital losses for the income year. You need to reduce certain kinds of capital gains before you can reduce other kinds of capital gains. (If the capital losses for the income year exceed the capital gains, the difference is your net capital loss. You cannot deduct a net capital loss from your assessable income.)

2. Reduce any remaining capital gains by any unapplied net capital losses for previous income years. You need to reduce certain kinds of remaining capital gains before you can reduce other kinds of remaining capital gains.

3. Apply any quarantined amount relating to using or holding residential dwellings as residential accommodation to reduce certain kinds of remaining capital gains.

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4. Reduce any remaining capital gains that are discount capital gains by the discount percentage.

   Note: To find out what is a discount capital gain and the discount percentage, see Division 115.

5. If you carry on a small business, apply the small business concessions in further reduction of your capital gains (whether or not the gains are discount capital gains).

   Note: For the small business concessions, see Division 152.

6. Add up any remaining capital gains. The total is your net capital gain.

   Note: For the rules on working out your net capital gain or loss, see Division 102.

4 Paragraphs 102-3(2)(a) and (c)

Repeal the paragraphs.

5 Subsection 102-5(1)

Repeal the subsection, substitute:

(1) Your assessable income includes your net capital gain (if any) for the income year. You work out your ***net capital gain*** in this way:

Working out your net capital gain

Step 1. Reduce the *capital gains you made during the income year by the *capital losses (if any) you made during the income year as follows:

(a) first, reduce any *deferred non-residential capital gains;

(b) then, reduce any *deferred residential capital gains;

(c) then, reduce any *non-residential capital gains;

(d) then, reduce any *residential capital gains.

Note 1: Indexation may apply in relation to working out your capital gains: see Divisions 110 and 114.

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Note 2: Some provisions of this Act (such as Divisions 104 and 118) permit or require you to disregard certain capital gains or losses when working out your net capital gain. Subdivision 152-B permits you, in some circumstances, to disregard a capital gain made from a CGT event happening to a CGT asset you held for at least 15 years.

Note 3: If you have more than one capital gain within a category mentioned in paragraph (a), (b), (c) or (d), you can choose the order in which you reduce them.

Step 2. Apply any previously unapplied *net capital losses from earlier income years to further reduce the amounts (if any) remaining after the reduction of *capital gains under step 1. Make the further reductions in the same order as mentioned in step 1.

Note: Section 102-15 explains how to apply net capital losses.

Step 3. Apply any quarantined amount referred to in paragraph 26-155(1)(b) you have for the income year to reduce the amounts (if any) of any *deferred residential capital gains remaining after the reduction of *capital gains under step 2.

Note: Subsection 26-155(1) deals with amounts relating to using or holding residential dwellings as residential accommodation.

Step 4. Apply any quarantined amount referred to in paragraph 26-155(1)(b) you have for the income year remaining after step 3 to reduce the amounts (if any) of any *residential capital gains remaining after the reduction of *capital gains under step 2.

Step 5. Reduce by the *discount percentage each amount of any *discount capital gain remaining after the application of steps 1 to 4.

Note: Only some entities can have discount capital gains, and only if they have capital gains from certain CGT assets acquired at least a year before making the gains: see Division 115.

Step 6. If any of your *capital gains (whether or not they are *discount capital gains) remaining after step 5 qualify for

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any of the small business concessions in Subdivisions 152-C, 152-D and 152-E, apply those concessions to each of those capital gains as provided for in those Subdivisions.

Note 1: The basic conditions for getting these concessions are in Subdivision 152-A.

Note 2: Subdivision 152-C does not apply to CGT events J2, J5 and J6. In addition, Subdivision 152-E does not apply to CGT events J5 and J6.

Step 7. Add up the amounts of any *capital gains remaining after step 6. The sum is your ***net capital gain*** for the income year.

Note: For exceptions and modifications to these rules: see section 102-30.

6 After section 102-5

Insert:

102-6 Meanings of the different categories of capital gains

Non-residential capital gains

(1) If a *capital gain you make during an income year is not one to which subsection (5) applies, then so much of the capital gain as is not a *residential capital gain is a ***non-residential capital gain***.

Residential capital gains

(2) If a *capital gain you make during an income year:

(a) is not one to which subsection (5) applies; and

(b) arises from a *CGT event happening in relation to a *CGT asset that is or was a *residential dwelling;

then so much of the capital gain as is worked out as follows is a ***residential capital gain***:

$$\text{Amount of the }{}^{*}\text{capital gain} \times \frac{\text{Residential accommodation days}}{\text{Days in the post-July 2027 ownership period}}$$

where:

post-July 2027 ownership period means the number of days in so much of the following period:

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(a) unless paragraph (b) applies—your *ownership period of the *CGT asset;

(b) if because of section 115-215 you are taken to have made the *capital gain as a beneficiary of a trust—the trustee's ownership period of the CGT asset;

as:

(c) is on or after 1 July 2027, and as ends on the day the *CGT event happens; and

(d) does not include a day or part of a day for which you can reasonably expect to disregard the capital gain because of Subdivision 118-B (about the main residence exemption).

Note 1: If the CGT event is a realisation event mentioned in paragraph 112-155(1)(c) or 112-165(1)(c), subsection (4) of this section applies to your capital gain for the portion of your ownership period that is before 1 July 2027.

Note 2: If the CGT event happens (on or after 1 July 2027) in relation to a CGT asset that was a pre-CGT asset just before 1 July 2027, your capital gain for the portion of your ownership period that is before 1 July 2027 is disregarded (see subsection 112-175(2)).

residential accommodation days means the sum of:

(a) the number of days in the post-July 2027 ownership period in which the *CGT asset is used, or held, solely for the provision of residential accommodation; and

(b) for each other day in the post-July 2027 ownership period—the fraction of that day that represents the extent to which, on that day, the CGT asset is used, or held, for the provision of residential accommodation.

Deferred non-residential capital gains

(3) If a *capital gain you make during an income year is one to which subsection (5) applies, then so much of the capital gain as is not a *deferred residential capital gain is a ***deferred non-residential capital gain***.

Deferred residential capital gains

(4) If a *capital gain you make during an income year:

(a) is one to which subsection (5) applies; and

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(b) arises from a *CGT event happening in relation to a *CGT asset that is or was a *residential dwelling;

then so much of the capital gain as is worked out as follows is a ***deferred residential capital gain***:

$$\text{Amount of the }^{*}\text{capital gain} \times \frac{\text{Residential accommodation days}}{\text{Days in the pre-July 2027 ownership period}}$$

where:

pre-July 2027 ownership period means the number of days in so much of the following period:

(a) unless paragraph (b) applies—your *ownership period of the *CGT asset;

(b) if because of section 115-215 you are taken to have made the *capital gain as a beneficiary of a trust—the trustee's ownership period of the CGT asset;

as:

(c) ends on 30 June 2027; and

(d) does not include a day or part of a day for which you can reasonably expect to disregard the capital gain because of Subdivision 118-B (about the main residence exemption).

residential accommodation days means the sum of:

(a) the number of days in the pre-July 2027 ownership period in which the *CGT asset is used, or held, solely for the provision of residential accommodation; and

(b) for each other day in the pre-July 2027 ownership period—the fraction of that day that represents the extent to which, on that day, the CGT asset is used, or held, for the provision of residential accommodation.

Does the capital gain arise from a deemed sale on 30 June 2027?

(5) This subsection applies to a *capital gain you have made if:

(a) paragraph 112-160(3)(a) or 112-170(3)(a) treats you as having made the capital gain; or

(b) because of section 115-215, you are taken to have made the capital gain as a beneficiary of a trust in relation to the trust's deferred gain (within the meaning of paragraph 112-170(3)(a)).

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Note 1: Subsection 112-160(3) covers individuals who are Australian residents. Subsection 112-170(3) covers trusts.

Note 2: Paragraph (b) can cover a capital gain taken to have been made by any of the trust's beneficiaries, not just beneficiaries who are individuals and Australian residents.

Note 3: Section 112-175 applies to assets that were pre-CGT assets on 30 June 2027. Section 112-175 has the effect that a capital gain from a CGT event happening on or after 1 July 2027 in relation to such an asset will be either a residential capital gain or a non-residential capital gain.

7 Section 102-30 (table item 2AA)

Omit "and small business concessions", substitute ", small business concessions and indexation".

8 Subsection 110-36(1)

Repeal the subsection, substitute:

Indexation for working out capital gains of Australian resident individuals or trusts for CGT events happening on or after 1 July 2027

(1A) The ***cost base*** of a *CGT asset also includes indexation of the elements of the cost base (except the third element) for the purposes of working out the *capital gain of an individual or a trust from a *CGT event happening in relation to the CGT asset if:

(a) the CGT event happens on or after 1 July 2027; and

(b) the requirements of Division 114 are met.

Note 1: This subsection does not extend to foreign residents or temporary residents (see section 114-25).

Note 2: This subsection is mainly relevant for a trust to the extent that the trust's beneficiaries are individuals who are Australian residents (see Subdivision 115-C and section 114-25).

Note 3: This subsection extends to the capital gain of an individual that is attributable to a partnership of which the individual is a partner.

Note 4: If an asset (including a pre-CGT asset) was held on 30 June 2027, it may be taken to have been sold just before, and reacquired on, 1 July 2027 (see subsections 112-155(2), 112-165(2) and 112-175(2)). For such an asset, indexation because of this subsection will happen only for the period the asset is held on or after 1 July 2027 (see subsection 960-275(1B)).

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Indexation for working out capital gains in other circumstances

(1) The ***cost base*** of a *CGT asset also includes indexation of the elements of the cost base (except the third element) for the purposes of working out the *capital gain of an entity from a *CGT event happening in relation to the CGT asset if:

(a) the most recent *acquisition of the CGT asset is at or before 11.45 am (by legal time in the Australian Capital Territory) on 21 September 1999; and

(b) for an entity that is an individual or a trust—the CGT event happens before 1 July 2027, and not because of subsection 112-155(2) or 112-165(2); and

(c) the requirements of Division 114 are met.

Note: For paragraph (b), indexation is not applicable for working out a capital gain arising:

(a) directly from a CGT event taken to have happened under subsection 112-155(2); or

(b) directly or indirectly from a CGT event taken to have happened under subsection 112-165(2).

Instead, capital gains from such CGT events may be discount capital gains.

9 Subsection 110-36(2)

After "***cost base*** includes indexation", insert "because of subsection (1)".

10 At the end of subsection 110-36(2)

Add:

Note 3: This subsection only applies for an individual or a trust for a CGT event happening before 1 July 2027 (see paragraph (1)(b)).

11 Subsection 110-36(3)

After "***cost base*** includes indexation", insert "because of subsection (1)".

12 After subsection 112-5(6)

Insert:

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(6A) Subdivision 112-E contains operative provisions setting out some deemed sales and reacquisitions that may result in a modification to the general rules.

13 At the end of Division 112

Add:

Subdivision 112-E—Deemed sales just before, and reacquisitions on, 1 July 2027

Table of sections

112-155 Australian resident individuals—deemed sale just before, and reacquisition on, 1 July 2027

Application

(1) This section applies in relation to a *CGT asset of yours if:
(a) on 30 June 2027, the asset is not a *pre-CGT asset; and
(b) you are an individual who *acquired the asset and then held it throughout the period:
(i) starting at a time before 1 July 2027; and
(ii) ending at the end of 30 June 2027; and
(c) you continue to hold the asset until a *realisation event happens in relation to the asset on or after 1 July 2027; and
(d) if it were assumed that you make a *discount capital gain from the realisation event—section 115-105 (about foreign or

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temporary residents) would not apply to the discount capital gain; and

(e) the asset is not an asset for which either of the following sections applies in relation to a *capital gain you make in relation to the realisation event:

(i) section 115-102 (about new residential dwellings);

(ii) section 115-125 (about affordable housing).

Deemed sale and reacquisition

(2) For the purposes of this Part, Part 3-3 and Subdivision 960-M, you are taken:

(a) to have sold the asset just before 1 July 2027, with your *capital proceeds for that sale taken to be the amount applying under subsection (3); and

(b) to have *acquired the asset again just after that sale for an amount equal to those capital proceeds.

Note 1: The sale under paragraph (a) happens on 30 June 2027, and the reacquisition under paragraph (b) happens on 1 July 2027.

Note 2: Any capital gain or loss you make from the sale on 30 June 2027 is disregarded (and deferred) until the income year in which the realisation event happens. You can wait until then before working out the amount of the capital gain or loss (see section 112-160).

Note 3: Subdivision 960-M deals with indexation of a CGT asset's cost base.

(3) The *capital proceeds are taken to be equal to:

(a) unless paragraph (b) applies—the asset's *market value just before 1 July 2027; or

(b) if you choose to use an apportioning method determined under section 112-185—the amount of capital proceeds worked out using that method.

(4) For the purposes of paragraph 103-25(1)(a), the *realisation event is the relevant *CGT event for such a choice.

Note 1: Section 103-25 sets out rules for making choices.

Note 2: This subsection and section 103-25 mean you do not have to make a choice until the day you lodge your income tax return for the income year in which the realisation event happens (see paragraph 103-25(1)(a)).

Note 3: The realisation event is the event mentioned in paragraph (1)(c).

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(5) Except for the purposes of section 112-185 (about making apportioning determinations), none of the following apply in relation to a sale and acquisition mentioned in paragraphs (2)(a) and (b) for which a choice is made under paragraph (3)(b):

(a) Subdivisions 112-A, 112-B, 112-C and 112-D (about modifications of the cost base and reduced cost base);

(b) sections 116-25 to 116-60 (about modifications of the general rules about capital proceeds).

112-160 Australian resident individuals—defer a gain or loss from the deemed sale until the later realisation event happens

Application

(1) This section applies in relation to a *CGT asset of yours if, under paragraph 112-155(2)(a), you make:

(a) a *capital gain (the ***initial notional gain***); or

(b) a *capital loss (the ***initial notional loss***);

in respect of the asset (disregarding subsection (2) of this section).

Note: The initial notional gain or loss is made from the sale that is taken to happen at the end of 30 June 2027 (see paragraph 112-155(2)(a)), and is disregarded under subsection (2) of this section.

Disregard the initial notional gain or loss because it is to be deferred

(2) Disregard the initial notional gain or the initial notional loss, except for the purposes of subsection (3) or (4).

Deferring an initial notional gain

(3) If you made an initial notional gain, then for the purposes of Division 102:

(a) in the income year in which the *realisation event happens in relation to the *CGT asset—you are treated as having made a *capital gain (***your deferred gain***):

(i) for the *CGT event that happens under paragraph 112-155(2)(a) (the ***deemed CGT event***); and

(ii) that is a *discount capital gain if the initial notional gain is a discount capital gain; and

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(iii) that is equal to the amount of the initial notional gain; and

(b) disregard section 102-20 in relation to your deferred gain; and

(c) for the purposes of subparagraph (a)(ii) of this subsection, in working out whether the initial notional gain is a discount capital gain, treat the deemed CGT event as if it happens on the day the realisation event happens; and

(d) in working out whether, under step 6 of the method statement in subsection 102-5(1), your deferred gain qualifies for any of the small business concessions, treat the deemed CGT event as if it happens on the day the realisation event happens.

Note 1: For paragraph (a), the realisation event is the CGT event referred to in paragraph 112-155(1)(c).

Note 2: Paragraph (c) is relevant for working out whether the 12-month rule in subsection 115-25(1) is satisfied for the initial notional gain.

Note 3: If the initial notional gain is a discount capital gain, then under step 5 of the method statement in subsection 102-5(1), the 50% discount mentioned in paragraph 115-100(aa) can apply to your deferred gain.

Deferring an initial notional loss

(4) If you made an initial notional loss, then for the purposes of Division 102:

(a) in the income year in which the *realisation event happens in relation to the *CGT asset—you are treated as having made a *capital loss (***your deferred loss***) equal to the amount of the initial notional loss; and

(b) disregard section 102-20 in relation to your deferred loss.

Note: You may make a separate capital loss from the realisation event for the period starting on 1 July 2027. In working out whether you make a capital loss from the realisation event for this period, you are taken to have acquired the CGT asset at the time, and for the amount, mentioned in paragraph 112-155(2)(b).

Working out whether concessions are available for a capital gain from the realisation event

(5) In working out when you *acquired the *CGT asset for the purposes of working out whether your *capital gain resulting from

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the *realisation event is a *discount capital gain, disregard the sale and acquisition under subsection 112-155(2).

Note: If you make a capital gain from the realisation event in respect of the asset, this subsection is relevant for working out whether the 12-month rule in subsection 115-25(1) is satisfied for the capital gain.

(6) In working out whether, under step 6 of the method statement in subsection 102-5(1), your *capital gain resulting from the *realisation event qualifies for any of the small business concessions, disregard the sale and acquisition under subsection 112-155(2).

Note: Subsections (5) and (6) refer to the capital gain from the realisation event for the period starting on 1 July 2027. The sale and reacquisition under subsection 112-155(2) remain relevant for working out the amount of this capital gain, just not for whether this capital gain:

(a) is a discount capital gain; or

(b) qualifies for any of the small business concessions.

112-165 Trusts—deemed sale just before, and reacquisition on, 1 July 2027

Application

(1) This section applies in relation to a *CGT asset of a trust estate if:

(a) on 30 June 2027, the asset is not a *pre-CGT asset; and

(b) the trustee *acquired the asset and then held it throughout the period:

(i) starting at a time before 1 July 2027; and

(ii) ending at the end of 30 June 2027; and

(c) the trustee continues to hold the asset until a *realisation event happens in relation to the asset on or after 1 July 2027; and

(d) if it were assumed that the trust estate makes a *discount capital gain (the ***primary trust gain***) from the realisation event—at least one beneficiary of the trust makes, because of section 115-215, a discount capital gain in relation to the primary trust gain for which:

(i) for a beneficiary who is an individual—section 115-110 (about foreign or temporary residents) does not apply; or

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(ii) for a beneficiary that is another trust (other than a *complying superannuation entity)—section 115-120 (about foreign or temporary residents) does not apply; and

(e) the asset is not an asset for which either:

(i) section 115-102 (about new residential dwellings); or

(ii) section 115-125 (about affordable housing);

applies in relation to *all* of the *capital gains that, because of section 115-215, are made by the beneficiaries of the trust in relation to the capital gain the trust estate makes in relation to the realisation event.

Deemed sale and reacquisition

(2) For the purposes of this Part, Part 3-3 and Subdivision 960-M, the trustee is taken:

(a) to have sold the asset just before 1 July 2027, with the trustee's *capital proceeds for that sale taken to be the amount applying under subsection (3); and

(b) to have *acquired the asset again just after that sale for an amount equal to those capital proceeds.

Note 1: The sale under paragraph (a) happens on 30 June 2027, and the reacquisition under paragraph (b) happens on 1 July 2027.

Note 2: Any capital gain or loss the trust estate makes from the sale on 30 June 2027 is disregarded (and deferred) until the income year in which the realisation event happens. The trustee (and beneficiaries) can wait until then before working out the amount of the capital gain or loss (see section 112-170).

Note 3: Subdivision 960-M deals with indexation of a CGT asset's cost base.

(3) The *capital proceeds are taken to be equal to:

(a) unless paragraph (b) applies—the asset's *market value just before 1 July 2027; or

(b) if the trustee chooses to use an apportioning method determined under section 112-185—the amount of capital proceeds worked out using that method.

(4) For the purposes of paragraph 103-25(1)(a), the *realisation event is the relevant *CGT event for such a choice.

Note 1: Section 103-25 sets out rules for making choices.

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Note 2: This subsection and section 103-25 mean the trustee does not have to make a choice until the day the trustee lodges the trust's income tax return for the income year in which the realisation event happens (see paragraph 103-25(1)(a)).

Note 3: The realisation event is the event mentioned in paragraph (1)(c).

(5) Except for the purposes of section 112-185 (about making apportioning determinations), none of the following apply in relation to a sale and acquisition mentioned in paragraphs (2)(a) and (b) for which a choice is made under paragraph (3)(b):

(a) Subdivisions 112-A, 112-B, 112-C and 112-D (about modifications of the cost base and reduced cost base);

(b) sections 116-25 to 116-60 (about modifications of the general rules about capital proceeds).

(6) To avoid doubt, subsection (2) applies only for the purposes of the provisions mentioned in that subsection. For example, it does not apply for the purposes of Subdivision EA of Division 7A of Part III of the *Income Tax Assessment Act 1936* (about unpaid present entitlements).

112-170 Trusts—defer a gain or loss from the deemed sale until the later realisation event happens

Application

(1) This section applies in relation to a *CGT asset of a trust estate if, under paragraph 112-165(2)(a), the trust estate makes:

(a) a *capital gain (the ***initial notional gain***); or

(b) a *capital loss (the ***initial notional loss***);

in respect of the asset (disregarding subsection (2) of this section).

Note: The initial notional gain or loss is made from the sale that is taken to happen at the end of 30 June 2027 (see paragraph 112-165(2)(a)), and is disregarded under subsection (2) of this section.

Disregard the initial notional gain or loss because it is to be deferred

(2) Disregard the initial notional gain or the initial notional loss, except for the purposes of subsection (3) or (4).

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Deferring an initial notional gain

(3) If the trust estate made an initial notional gain, then for the purposes of Division 102 and Subdivision 115-C:

(a) in the income year in which the *realisation event happens in relation to the *CGT asset—treat the trust estate as having made a *capital gain (the ***trust's deferred gain***):

(i) for the *CGT event that happens under paragraph 112-165(2)(a) (the ***deemed CGT event***); and

(ii) that is a *discount capital gain if the initial notional gain is a discount capital gain; and

(iii) that is equal to the amount of the initial notional gain; and

(b) disregard section 102-20 in relation to the trust's deferred gain; and

(c) for the purposes of subparagraph (a)(ii) of this subsection, in working out whether the initial notional gain is a discount capital gain, treat the deemed CGT event as if it happens on the day the realisation event happens; and

(d) in working out whether, under step 6 of the method statement in subsection 102-5(1), the trust's deferred gain qualifies for any of the small business concessions, treat the deemed CGT event as if it happens on the day the realisation event happens.

Note 1: For paragraph (a), the realisation event is the CGT event referred to in paragraph 112-165(1)(c).

Note 2: Paragraph (c) is relevant for working out whether the 12-month rule in subsection 115-25(1) is satisfied for the initial notional gain.

Note 3: If the initial notional gain is a discount capital gain, then under step 5 of the method statement in subsection 102-5(1), the 50% discount mentioned in paragraph 115-100(ab) can apply to the trust's deferred gain.

Note 4: A beneficiary of the trust may also be taken to have made, because of section 115-215, a capital gain in relation to the trust's deferred gain.

Deferring an initial notional loss

(4) If the trust estate made an initial notional loss, then for the purposes of Division 102:

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(a) in the income year in which the *realisation event happens in relation to the *CGT asset—treat the trust estate as having made a *capital loss (the ***trust's deferred loss***) equal to the amount of the initial notional loss; and

(b) disregard section 102-20 in relation to the trust's deferred loss.

Note 1: For paragraph (a), the realisation event is the CGT event referred to in paragraph 112-165(1)(c).

Note 2: The trust estate may make a separate capital loss from the realisation event for the period starting on 1 July 2027. In working out whether the trust estate makes a capital loss from the realisation event for this period, the trust estate is taken to have acquired the CGT asset at the time, and for the amount, mentioned in paragraph 112-165(2)(b).

Note 3: The trust's deferred loss, and any separate capital loss referred to in note 2, are taken into account to work out whether the trust estate has a net capital gain for the income year in which the realisation event happens. If the trust estate does, then a beneficiary of the trust may also be taken to have, because of section 115-215, an extra capital gain for that income year.

Working out whether concessions are available for a capital gain from the realisation event

(5) In working out when the trustee *acquired the *CGT asset for the purposes of working out whether the trust estate's *capital gain resulting from the *realisation event is a *discount capital gain, disregard the sale and acquisition under subsection 112-165(2).

Note: If the trust estate make a capital gain from the realisation event in respect of the asset, this subsection is relevant for working out whether the 12-month rule in subsection 115-25(1) is satisfied for the capital gain.

(6) In working out whether, under step 6 of the method statement in subsection 102-5(1), the trust estate's *capital gain resulting from the *realisation event qualifies for any of the small business concessions, disregard the sale and acquisition under subsection 112-165(2).

Note 1: Subsections (5) and (6) refer to the capital gain from the realisation event for the period starting on 1 July 2027. The sale and reacquisition under subsection 112-165(2) remain relevant for working out the amount of this capital gain, just not for whether this capital gain:

(a) is a discount capital gain; or

(b) qualifies for any of the small business concessions.

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Note 2: A beneficiary of the trust may also be taken to have made, because of section 115-215, a capital gain in relation to the capital gain of the trust estate referred to in subsections (5) and (6).

112-175 Pre-CGT assets—deemed sale just before, and reacquisition on, 1 July 2027

(1) This section applies in relation to your asset if:

(a) the asset is a *pre-CGT asset on 30 June 2027; and

(b) you continue to hold the asset until a *realisation event happens in relation to the asset on or after 1 July 2027.

Deemed sale and reacquisition

(2) For the purposes of this Part, Part 3-3 and Subdivision 960-M, you are taken:

(a) to have sold the asset just before 1 July 2027, with your *capital proceeds for that sale taken to be the amount applying under subsection (3); and

(b) to have *acquired the asset again just after that sale for an amount equal to those capital proceeds.

Note 1: This subsection causes the asset to cease to be a pre-CGT asset, and for the first element of the asset's cost base to be reset, on 1 July 2027 (see paragraph 149-10(a) and subsection 110-25(2)).

Note 2: The sale under paragraph (a) happens on 30 June 2027, and the reacquisition under paragraph (b) happens on 1 July 2027.

Note 3: Any capital gain or capital loss you make from the sale on 30 June 2027 is disregarded (see subsection 104-10(5)).

Note 4: For the purposes of working out whether you make a capital gain or capital loss from the realisation event, you are taken to have acquired the CGT asset at the time, and for the amount, applying under paragraph (b).

Note 5: Subdivision 960-M deals with indexation of a CGT asset's cost base.

(3) The *capital proceeds are taken to be equal to:

(a) unless paragraph (b) applies—the asset's *market value immediately before 1 July 2027; or

(b) if you choose to use an apportioning method determined under section 112-185—the amount of capital proceeds worked out using that method.

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(4) For the purposes of paragraph 103-25(1)(a), the *realisation event is the relevant *CGT event for such a choice.

Note 1: Section 103-25 sets out rules for making choices.

Note 2: This subsection and section 103-25 mean you do not have to make a choice until the day you lodge your income tax return for the income year in which the realisation event happens (see paragraph 103-25(1)(a)).

(5) Except for the purposes of section 112-185 (about making apportioning determinations), none of the following apply in relation to a sale and acquisition mentioned in paragraphs (2)(a) and (b) for which a choice is made under paragraph (3)(b):

(a) Subdivisions 112-A, 112-B, 112-C and 112-D (about modifications of the cost base and reduced cost base);

(b) sections 116-25 to 116-60 (about modifications of the general rules about capital proceeds).

(6) To avoid doubt, subsection (2) applies only for the purposes of the provisions mentioned in that subsection. For example, it does not apply for the purposes of Subdivision EA of Division 7A of Part III of the *Income Tax Assessment Act 1936* (about unpaid present entitlements).

112-180 Pre-CGT assets—defer a gain from CGT event K6 from the deemed sale until the later realisation event happens

Application

(1) This section applies if:

(a) you own *shares in a company or an interest in a trust; and

(b) under subsection 112-175(2), you are taken to have sold the shares or interest (the ***deemed sale***) and acquired them again; and

(c) *CGT event K6 happens on 30 June 2027 as a result of the deemed sale, and you make a *capital gain from this CGT event (the ***initial notional gain***); and

(d) you continue to hold the shares or interest until a *realisation event happens in relation to them on or after 1 July 2027.

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Disregard the initial notional gain because it is to be deferred

(2) Disregard the initial notional gain, except for the purposes of subsection (3).

Deferring an initial notional gain

(3) For the purposes of Division 102:
  (a) in the income year in which the *realisation event happens in relation to the *CGT asset—you are treated as having made a *capital gain (***your deferred gain***):
    (i) for the *CGT event K6 mentioned in paragraph (1)(c); and
    (ii) that is a *discount capital gain if the initial notional gain is a discount capital gain; and
    (iii) that is equal to the amount of the initial notional gain; and
  (b) disregard section 102-20 in relation to your deferred gain.

Note 1: If the initial notional gain is a discount capital gain, then under step 5 of the method statement in subsection 102-5(1), the 50% discount mentioned in paragraph 115-100(aa) or (ab) can apply to your deferred gain.

Note 2: For a trust, a beneficiary of the trust may also be taken to have made, because of section 115-215, a capital gain in relation to the deferred gain.

112-185 Method for apportioning capital gains and losses between realisation events and earlier deemed CGT events

(1) The Minister may, by legislative instrument, determine a method for apportioning *capital gains and *capital losses between:
  (a) *realisation events happening on or after 1 July 2027 in relation to *CGT assets; and
  (b) earlier *CGT events relating to those CGT assets that are taken to have happened under subsection 112-155(2), 112-165(2) or 112-175(2).

(2) For such a *CGT asset, such a method must take into account:
  (a) the *acquisition of the *CGT asset that is taken to have happened under paragraph 112-155(2)(b), 112-165(2)(b) or 112-175(2)(b); and

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(b) any expenditure (including indexation) in an element of the *cost base or *reduced cost base of the CGT asset on or after 1 July 2027; and

(c) any other matter the Minister considers relevant.

(3) For such a *CGT asset, such a method must enable the following to be worked out:

(a) the *capital proceeds for the sale of the CGT asset that is taken to have happened under paragraph 112-155(2)(a), 112-165(2)(a) or 112-175(2)(a);

(b) the *cost base and *reduced cost base of the CGT asset when it is taken to have been *acquired under paragraph 112-155(2)(b), 112-165(2)(b) or 112-175(2)(b).

The method may also enable other things to be worked out.

14 Section 114-1

Repeal the section, substitute:

114-1 Indexing elements of cost base

(1) In working out the *cost base of a *CGT asset under subsection 110-36(1A), index expenditure incurred in each element (except the third element).

Note 1: The expenditure can include giving property (see section 103-5).

Note 2: Subdivision 960-M shows you how to index amounts (see subsections 960-275(1B) and (1C) in particular).

Note 3: You have to work out the cost base of a CGT asset if a CGT event happens in relation to it or if there is a cost base modification.

Note 4: You cannot index expenditure in the third element (costs of ownership) (see subsection 960-275(4)).

(2) In working out the *cost base of a *CGT asset under subsection 110-36(1), index expenditure incurred in each element (except the third element) at or before the time mentioned in paragraph 110-36(1)(a).

Note 1: The expenditure can include giving property (see section 103-5).

Note 2: Subdivision 960-M shows you how to index amounts. Indexation under subsection 110-36(1) does not take account of inflation after 30 September 1999 (see subsections 960-275(2) and (3)).

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Note 3: You have to work out the cost base of a CGT asset if a CGT event happens in relation to it or if there is a cost base modification.

Note 4: You cannot index expenditure in the third element (costs of ownership) (see subsection 960-275(4)).

Note 5: Indexation under subsection 110-36(1) is not relevant to expenditure incurred after 11.45 am on 21 September 1999 or any expenditure relating to a CGT asset acquired after that time.

15 Subsection 114-5(2)

Omit all of the words before the table (including the heading), substitute:

Indexation for some entities only if indexation chosen

(2) Indexation is *not* relevant for the purposes of working out under subsection 110-36(1):

(a) the *cost base of a *CGT asset; and

(b) the *capital gain of an entity mentioned in an item of the table from a *CGT event happening in relation to the CGT asset after 11.45 am (by legal time in the Australian Capital Territory) on 21 September 1999;

unless the relevant entity mentioned in that item chooses that the cost base includes indexation.

16 Subsection 114-5(3)

Repeal the subsection (not including the note), substitute:

(3) Indexation is *not* relevant for the purposes of working out under subsection 110-36(1):

(a) the *cost base of a *CGT asset; and

(b) the *capital gain of a *life insurance company from a *CGT event happening after 30 June 2000 in respect of a CGT asset that is a *complying superannuation asset;

unless the company chooses that the cost base includes indexation.

17 Subsection 114-10(1)

Repeal the subsection, substitute:

(1) You only index expenditure in the *cost base of a *CGT asset because of subsection 110-36(1A) or (1) for a *CGT event

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happening in relation to the asset if you, or the entity whose cost base is being worked out, had *acquired the asset at least 12 months before the time of the CGT event.

Note: Generally, expenditure is indexed from when it is incurred: see subsection 960-275(1B) or (2). The exception is when there is an acquisition that did not result from a CGT event. The first element in this case is indexed from when the expenditure was paid: see subsection 960-275(1C) or (3).

18 Subsection 114-10(2)

Omit “5 exceptions”, substitute “6 exceptions”.

19 At the end of subsection 114-10(2)

Add:

; and • one for a sale and reacquisition taken to have happened under subsection 112-155(2), 112-165(2) or 112-175(2): see subsection (9).

20 At the end of section 114-10

Add:

Sales and reacquisitions taken to have happened in relation to adjustments to the 50% capital gains discount

(9) Disregard subsections 112-155(2), 112-165(2) and 112-175(2) for the purposes of applying the 12 month rule.

21 Subsection 114-15(1)

After “indexation”, insert “because of subsection 110-36(1A) or (1)”.

22 Subsection 114-15(6) (note)

Omit “960-275(3)”, substitute “960-275(1C) or (3)”.

23 Section 114-20

Before “you index”, insert “when indexing that element because of subsection 110-36(1A) or (1),”.

24 After section 114-20

Insert:

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114-25 Residency requirements for individuals for indexation to be included in a cost base under subsection 110-36(1A)

(1) This section sets out requirements for indexation to be included under subsection 110-36(1A) in the *cost base of a *CGT asset for the purposes of working out your *capital gain from a *CGT event happening in relation to the *CGT asset if:

(a) you are an individual; and

(b) the CGT event happened while you were holding the CGT asset (as a result of earlier *acquiring it).

Note: This section applies for working out a capital gain you make from directly holding the asset. A similar result arises for any capital gain you make indirectly as a beneficiary of a trust (see Subdivision 115-C, in particular subsections 115-225(4) and (5)).

(2) You must be neither a foreign resident nor a *temporary resident at any time during the period (the ***testing period***):

(a) starting on the later of 1 July 2027 and the day of *acquiring the *CGT asset; and

(b) ending on the day the *CGT event happens.

(3) For the purposes of subsection (2), if:

(a) another individual owned the *CGT asset on a particular day before the testing period ends; and

(b) on that day, that individual was one of the following (that individual's ***residency status***):

(i) an Australian resident (but not a *temporary resident);

(ii) a temporary resident;

(iii) a foreign resident; and

(c) section 115-30 treats you as having *acquired the CGT asset when that individual, or an earlier owner of the CGT asset, acquired it;

you are treated as having the same residency status on that day as that individual had on that day.

(4) Section 115-30 applies to subsections (2) and (3) of this section in a corresponding way to the way that section applies in relation to section 115-105.

Note: Section 115-30 has special rules about when assets are acquired.

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114-30 Asset requirements for indexation to apply for a cost base worked out under subsection 110-36(1A)

(1) This section sets out requirements for indexation to be included under subsection 110-36(1A) in the *cost base of a *CGT asset for the purposes of working out your *capital gain from a *CGT event happening in relation to the CGT asset if:

(a) you are an individual; and

(b) you make the capital gain directly or, because of section 115-215, as a beneficiary of a trust.

(2) The *CGT asset must not be an asset for which either of the following sections applies in relation to the *capital gain:

(a) section 115-102 (about new residential dwellings);

(b) section 115-125 (about affordable housing).

Note 1: If you are a beneficiary of a trust, the requirements in this section do not affect whether indexation is included in the cost base of the CGT asset for the purposes of working out whether the *trust estate* makes a capital gain. If section 115-102 or 115-125 (the ***discount section***) applies for *your* capital gain, then in working out your capital gain:

(a) the cost base will be adjusted to remove the effect of indexation (see subsection 115-225(5)); and

(b) instead, the discount relating to the discount section applies (see paragraph 115-215(4)(a)).

Note 2: However, the result in paragraphs (a) and (b) of note 1 does not happen for your capital gain if the trust chooses under the discount section for that section not to apply. If the trust makes this choice, the indexation included in the cost base of the CGT asset will flow through to working out your capital gain (see subsection 115-215(3)(a)).

25 Division 115 (heading)

Omit "**trusts' net capital gains**", substitute "**certain trust capital gains**".

26 Section 115-1

After "net income of trusts with net capital gains", insert "(and in certain other circumstances)".

27 At the end of section 115-1

Add:

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> For a discount capital gain from a CGT event happening on or after 1 July 2027, a discount of at least 50% continues to be available if the CGT event relates to a new residential dwelling or to the provision of affordable housing.

28 Paragraph 115-100(a)

Repeal the paragraph, substitute:

(a) 50% if section 115-102 (about new residential dwellings) applies to the gain; or

(aa) 50% if:

(i) the gain is made by an individual from a *CGT event happening before 1 July 2027; and

(ii) neither section 115-105 nor 115-110 (about foreign or temporary residents) applies to the gain; or

(ab) 50% if:

(i) the gain is made by a trust (other than a trust that is a *complying superannuation entity) from a *CGT event happening before 1 July 2027; and

(ii) section 115-120 (about foreign or temporary residents) does not apply to the gain; or

29 At the end of section 115-100

Add:

; or (f) 0% if none of the above paragraphs applies to the gain.

30 After section 115-100

Insert:

115-102 New residential dwellings

(1) This section applies to a *discount capital gain if:

(a) you are an individual; and

(b) neither section 115-105 nor 115-110 (about foreign or temporary residents) applies to the discount capital gain; and

(c) either:

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(i) you make the discount capital gain from a *CGT event happening on or after 1 July 2027 in relation to a *CGT asset covered by subsection (2); or

(ii) because of section 115-215, Division 102 applies to you as if you had made the discount capital gain for a *capital gain of a trust covered by subsection (4); and

(d) where subparagraph (c)(ii) applies—the trust's capital gain was made directly, or indirectly through one or more entities that are all covered by subsection (4), from a CGT event happening on or after 1 July 2027 in relation to a CGT asset covered by subsection (2).

Note: The discount percentage for the discount capital gain is 50% (see paragraph 115-100(a)).

CGT assets to which this section relates

(2) This subsection covers a *new residential dwelling.

Relevant trusts and interposed entities

(4) This subsection covers the following:

(a) a trust, other than a *superannuation fund or a public unit trust (within the meaning of section 102P of the *Income Tax Assessment Act 1936*);

(b) a partnership.

Note: For paragraph (a), a trust includes a managed investment trust.

Indexation may be able to be chosen as an alternative

(5) Despite subsection (1), the following person may choose for this section not to apply to the *discount capital gain:

(a) if you make the discount capital gain in the way described in subparagraph (1)(c)(i)—you;

(b) if you make the discount capital gain in the way described in subparagraph (1)(c)(ii)—the trustee of the trust.

Such a choice by the trustee applies to you in a similar way to a choice made by you for a gain covered by paragraph (a).

Note: Instead, the cost base of the CGT asset may be able to be indexed (see subsection 110-36(1A)).

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31 Subsection 115-125(2) (note)

Omit “Note”, substitute “Note 1”.

32 At the end of subsection 115-125(2)

Add:

Note 2: It may be possible to choose indexation as an alternative to a discount under this section (see subsection (6)).

33 Paragraph 115-125(3)(b)

Repeal the paragraph.

34 At the end of subsection 115-125(3)

Add:

Note: For paragraph (a), a trust includes a managed investment trust.

35 Paragraph 115-125(4)(a)

Repeal the paragraph, substitute:

(a) either:

(i) 50% if neither section 115-105 nor 115-110 (about foreign or temporary residents) applies to the *discount capital gain; or

(ii) the *discount percentage that, apart from this section, would result from section 115-115 if section 115-105 or 115-110 applies to the discount capital gain; and

36 At the end of section 115-125

Add:

Indexation may be able to be chosen as an alternative

(6) If the percentage that would result from this section for you and the *discount capital gain is 60%, then, despite subsection (2), the following person may choose for this section not to apply to the discount capital gain:

(a) if you make the discount capital gain in the way described in subparagraph (2)(b)(i)—you;

(b) if you make the discount capital gain in the way described in subparagraph (2)(b)(ii)—the trustee of the trust.

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Such a choice by the trustee applies to you in a similar way to a choice made by you for a gain covered by paragraph (a).

Note: Instead, the cost base of the CGT asset may be able to be indexed (see subsection 110-36(1A)).

37 Section 115-200

Omit "step 3", substitute "step 5".

38 At the end of subsection 115-210(1)

Add:

Note: This Subdivision has an extended application under Subdivision 115-CA (about trusts that would have net capital gains if indexation were disregarded).

39 Subsection 115-215(4)

Omit "paragraph (3)(b) or (c)", substitute "subsection (3)".

40 Paragraph 115-215(4)(a)

Omit "if the relevant trust gain was reduced under step 3 of the method statement in subsection 102-5(1)—", substitute "if the relevant trust gain is a *discount capital gain (disregarding section 115-20)—".

41 Before subsection 115-225(2)

Insert:

Special rule if net income falls short of certain amount

42 At the end of section 115-225

Add:

Special rule relating to indexation

(4) Subsection (5) applies if the *capital gain has been worked out using a *cost base that includes indexation because of subsection 110-36(1A), and the amount mentioned in subsection (1) of this section:

(a) is being worked out for the purposes of subsection 115-215(3) in circumstances where, had you:

(i) made the capital gain; and

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(ii) *acquired and held any relevant *CGT asset in the same way as the trust estate did;

that indexation could not have applied to the cost base; or

(b) is being worked out for the purposes of subsection 115-215(3) in connection with you having a resultant *discount capital gain to which section 115-102 (about new residential dwellings) or 115-125 (about affordable housing) applies; or

(c) is being worked out for the purposes of subsection 115-220(2) in relation to a beneficiary in circumstances where, had the beneficiary:

(i) made the capital gain; and

(ii) acquired and held any relevant CGT asset in the same way as the trust estate did;

that indexation could not have applied to the cost base; or

(d) is being worked out for the purposes of subsection 115-220(2) in connection with a beneficiary having a resultant discount capital gain to which section 115-102 (about new residential dwellings) or 115-125 (about affordable housing) applies; or

(e) is being worked out for the purposes of subsection 115-222(4).

Note 1: For paragraph (a) or (c), indexation under subsection 110-36(1A) is only applicable in relation to capital gains, of individuals and trusts, that arise from a CGT event that happens on or after 1 July 2027. In addition, residency requirements for individuals apply under section 114-25.

Note 2: For paragraph (b) or (d), indexation may be able to be chosen by the trustee of a trust as an alternative to the discount percentage applying for a beneficiary's attributed gain: see subsections 115-102(5) and 115-125(6).

Note 3: For paragraph (e), subsection 115-222(4) relates to assessing trustees under section 99A of the *Income Tax Assessment Act 1936*.

(5) For the purposes of the provision mentioned in subsection (6) of this section, determine the amount of the *capital gain remaining assuming that:

(a) in working out the amount of the capital gain before any reductions under the method statement in

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subsection 102-5(1) were applied, the *cost base was adjusted to remove the effect of indexation on its calculation; and

(b) the assumption in paragraph (a) did not result in any changes to the application of *capital losses, previously unapplied *net capital losses or quarantined amounts (including how much of each of those was applied) under that method statement to reduce the capital gain.

(6) The provision is:

(a) if subsection (3) does not apply—paragraph (1)(a); or

(b) if subsection (3) applies—subparagraph (1)(a)(i) (as taken to be included because of subsection (3)).

43 At the end of Subdivision 115-C

Add:

115-235 Giving information to beneficiaries

(1) If a trust is covered by a determination under subsection (4), the trustee must:

(a) prepare a statement for each beneficiary of the trust who, because of subsection 115-215(3), makes one or more *capital gains for an income year in relation to capital gains of the trust estate for the income year; and

(b) ensure the statement complies with subsection (2); and

(c) give the statement to the beneficiary within the period specified in, or worked out under, the determination.

Note: Section 286-75 in Schedule 1 to the *Taxation Administration Act 1953* provides an administrative penalty for breach of this subsection.

(2) The statement complies with this subsection if it:

(a) is in the *approved form; and

(b) states the amount of each of those *capital gains that the beneficiary makes; and

(c) sets out which of those capital gains are *non-residential capital gains, *residential capital gains, *deferred non-residential capital gains or *deferred residential capital gains; and

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(d) sets out the effect of subsections 115-215(4), and 115-225(5) if applicable, in relation to each of those capital gains.

Note: Subsection 115-215(4) deals with the status of capital gains as discount capital gains, and the effect of Subdivision 152-C having been applied to the trust gain. Subsection 115-225(5) makes adjustments to remove the effect of indexation on the cost bases of the relevant CGT assets.

(3) A trustee of a trust is not required to prepare and give a statement under subsection (1) for an income year if a report is given, or required to be given, under section 393-10 in Schedule 1 to the *Taxation Administration Act 1953* in respect of the trust estate for the *financial year that corresponds to the income year.

(4) The Commissioner may, by legislative instrument, determine that trustees of all or specified kinds of trusts are required:

(a) to prepare and give statements under subsection (1) to beneficiaries of the trusts; and

(b) to do so before the end of:

(i) a specified period; or

(ii) a period worked out using a specified method.

44 After Subdivision 115-C

Insert:

Subdivision 115-CA—Extended application of rules about trusts with net capital gains (disregarding indexation)

Guide to Subdivision 115-CA

115-250 What this Subdivision is about

This Subdivision extends the application of Subdivision 115-C in certain circumstances where indexation is used in working out the cost base for trust estate capital gains, and Subdivision 115-C does not otherwise apply because the trust estate does not have a net capital gain.

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Table of sections

Operative provisions

115-255 Extended application of Subdivision 115-C—disregarding indexation

(1) In addition to its application under subsection 115-210(1), Subdivision 115-C applies as set out in this section if:

(a) a trust estate has one or more *capital gains that have been worked out using a *cost base that includes indexation because of subsection 110-36(1A); and

(b) that Subdivision does not apply under subsection 115-210(1) in relation to the trust estate for an income year; and

(c) that Subdivision would so apply if, in working out whether the trust estate has a *net capital gain for the income year, the following assumptions applied in relation to each of those capital gains:

(i) in working out the amount of the capital gain before any reductions under the method statement in subsection 102-5(1) were applied, the *cost base was adjusted to remove the effect of indexation on its calculation;

(ii) the assumption in subparagraph (i) did not result in any changes to the application of *capital losses, previously unapplied *net capital losses or quarantined amounts (including how much of each of those was applied) under that method statement to reduce the capital gain.

(2) Subdivision 115-C applies under this section as follows in relation to such a *capital gain of the trust estate (the ***trust gain***):

(a) that Subdivision applies for the purposes of treating a beneficiary of the trust estate as having a related capital gain under subsection 115-215(3) in circumstances where subsection 115-225(5) would apply for working out the amount of the trust gain;

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(b) if paragraph (a) applies—section 115-235 applies for such a related capital gain;

(c) that Subdivision applies for the purposes of increasing the trustee's assessable amount under subsection 115-220(2) or 115-222(4) in circumstances where subsection 115-225(5) would apply for working out the amount of the trust gain.

(3) The reference to the trust estate's net income in subsection 115-215(1) does not limit the application of section 115-215 for those purposes.

(4) To avoid doubt, subsection 115-210(2) applies in relation to the application of Subdivision 115-C under this section.

(5) To avoid doubt, a reference in a *taxation law to Subdivision 115-C or a provision of that Subdivision includes a reference to that Subdivision, or that provision (as the case requires), as it applies because of this section.

45 Section 149-10 (note)

Omit "Note", substitute "Note 1".

46 At the end of section 149-10

Add:

Note 2: A CGT asset will cease to be a pre-CGT asset on 1 July 2027 (see section 112-175).

47 Section 152-205 (example)

Repeal the example, substitute:

Note: The cost bases of CGT assets of an individual are indexed from 1 July 2027, reducing capital gains that arise after 1 July 2027. This reduction applies after indexation, allowing the indexed gain to be reduced by a further 50%.

48 After subsection 960-275(1A)

Insert:

(1B) For indexation under subsection 110-36(1A) of the *cost base of a *CGT asset (except the first element of the cost base of an asset covered by subsection (3)), the ***indexation factor*** for expenditure:

(a) in an element of the cost base; and

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(b) incurred on or after 1 July 2027;

is:

$$\frac{\text{Index number for the quarter in which the } {}^{*}\text{CGT event happens}}{\text{Index number for the quarter in which the expenditure is incurred}}$$

The expenditure can include giving property: see section 103-5.

Note 1: This includes expenditure taken to have been incurred on 1 July 2027 as mentioned in paragraph 112-155(2)(b), 112-165(2)(b) or 112-175(2)(b).

Note 2: There are rules affecting when the expenditure was incurred: see Division 114.

(1C) For indexation under subsection 110-36(1A) of the first element of the *cost base of a *CGT asset that is a *share in a company, or unit in a unit trust, the ***indexation factor*** for an amount in that first element that was paid to the company or trust at a time:

(a) after the asset was *acquired; and

(b) on or after 1 July 2027;

is:

$$\frac{\text{Index number for the quarter in which the } {}^{*}\text{CGT event happens}}{\text{Index number for the quarter in which the amount is paid}}$$

The payment can include giving property: see section 103-5.

Example: Peter acquires shares in a company. The shares are partly-paid, and the company makes a call on the shares. Peter sells the shares to Narina before Peter is liable to pay the call.

The amount Narina paid to Peter for the shares is indexed under subsection 960-275(1B) from the quarter in which she incurred the expenditure to acquire the shares.

The amount Narina later pays for the call on the shares is indexed in accordance with this subsection from the quarter in which she made that later payment.

49 Subsection 960-275(2)

After “For indexation”, insert “under subsection 110-36(1)”.

50 Subsection 960-275(3)

After “For indexation”, insert “under subsection 110-36(1)”.

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51 Subsection 995-1(1)

Insert:

deferred non-residential capital gain has the meaning given by subsection 102-6(3).

deferred residential capital gain has the meaning given by subsection 102-6(4).

non-residential capital gain has the meaning given by subsection 102-6(1).

residential capital gain has the meaning given by subsection 102-6(2).

Taxation Administration Act 1953

52 After subsection 286-75(2) in Schedule 1

Insert:

(2AAA) You are also liable to an administrative penalty if:

(a) you are required under subsection 115-235(1) of the *Income Tax Assessment Act 1997* (giving information to beneficiaries) to prepare and give a statement to an entity (other than the Commissioner) by a particular day; and

(b) you do not give the statement to the entity by that day.

53 Paragraph 286-80(2)(a) in Schedule 1

After “(1),”, insert “(2AAA),”.

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Part 2—Minimum rate of tax on capital gains

Income Tax Assessment Act 1997

54 Section 4-25

Omit "Subsection 392-35(3)" (first occurring), substitute "Subsection 119-10(1) or 392-35(3)".

55 Section 4-25 (before the note)

Insert:

Note 1: Subsection 119-10(1) increases some individuals' tax liability by requiring them to pay extra income tax in relation to certain capital gains.

56 Section 4-25 (note)

Omit "Note", substitute "Note 2".

57 At the end of section 102-1

Add:

> Some or all of your net capital gain may be subject to a 30% minimum tax (see Division 119).

58 After Division 118

Insert:

Division 119—Minimum rate of tax on capital gains

Guide to Division 119

119-1 What this Division is about

> If you are an individual who is an Australian resident, you may have to pay extra income tax relating to certain capital gains you make during an income year to ensure, before applying offsets, a

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rate of tax of 30% on so much of those gains as remains after applying section 119-5.

This Division sets out how to work out when extra income tax is payable and matters relating to the amount of that tax.

The requirement to pay extra income tax does not apply if you received certain payments during the income year.

Table of sections

Operative provisions

119-5 Your *minimum tax capital gain* for an income year

(1) Your ***minimum tax capital gain*** (if any) for an income year is worked out as follows:
  (a) first, total the amounts of *capital gains (if any) covered by subsection (2) that are remaining after applying step 6 of the method statement in subsection 102-5(1);
  (b) next, reduce the result of paragraph (a) (but not below nil) by the total amount (if any) you are entitled to deduct, for the income year, under any of the following:
    (i) Division 30 (about gifts or contributions);
    (ii) Division 31 (about conservation covenants).

(2) This subsection covers a *capital gain you made during the income year, including because of section 115-215 (about attribution of trust gains to beneficiaries), if:
  (a) the capital gain is:
    (i) a *residential capital gain; or
    (ii) a *non-residential capital gain; and
  (b) section 115-102 (about new residential dwellings) does not apply to the capital gain; and

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(c) section 115-125 (about affordable housing) does not apply to the capital gain.

119-10 When extra income tax is payable on your minimum tax capital gain

(1) You must pay extra income tax on your *minimum tax capital gain for an income year if:

(a) you are an individual; and

(b) you are an Australian resident at any time during the income year; and

(c) you have a *minimum tax gap amount for the income year.

Note: Section 12AA of the *Income Tax Rates Act 1986* sets the rate at which you must pay extra income tax on your minimum tax capital gain. It does so in such a way that the extra income tax you must pay equals the minimum tax gap amount.

(2) Use this method statement to work out whether you have a ***minimum tax gap amount*** for the income year:

Method statement

Step 1. Multiply your *minimum tax capital gain for the income year by 30%.

Step 2. Work out your basic income tax liability for the income year under step 2 of the method statement in subsection 4-10(3), disregarding this Division.

Step 3. Work out what the amount at step 2 of this method statement would be if your taxable income for the income year were reduced (but not below nil) by the amount of your *minimum tax capital gain.

Step 4. Subtract the amount at step 3 from the amount at step 2.

Step 5. Subtract the amount at step 4 from the amount at step 1.

Step 6. Round the result down to the nearest whole dollar if the result is not already a number of whole dollars.

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Step 7.	If the result (as rounded) is more than nil, you have a ***minimum tax gap amount*** for the income year equal to that amount.

119-15 Exception for recipients of certain payments

(1) Section 119-10 does not apply to you if you receive, at any time during the income year, a payment covered by any of subsections (2) to (5).

Social Security Act 1991 payments

(2) This subsection covers the following payments under the *Social Security Act 1991*:
- (a) an age pension under Part 2.2 of that Act;
- (b) an austudy payment under Part 2.11A of that Act;
- (c) a carer payment under Part 2.5 of that Act;
- (d) a disability support pension under Part 2.3 of that Act;
- (e) a double orphan pension under Part 2.20 of that Act;
- (f) a jobseeker payment under Part 2.12 of that Act;
- (g) parenting payment under Part 2.10 of that Act;
- (h) special benefit under Part 2.15 of that Act;
- (i) youth allowance under Part 2.11 of that Act.

Other social support payments

(3) This subsection covers the following payments:
- (a) family tax benefit under the *A New Tax System (Family Assistance) Act 1999*;
- (b) a stillborn baby payment under the *A New Tax System (Family Assistance) Act 1999*;
- (c) farm household allowance under Part 2 of the *Farm Household Support Act 2014*;
- (d) parental leave pay under the *Paid Parental Leave Act 2010*;
- (e) a payment under the scheme known as the ABSTUDY scheme that includes an amount identified as living allowance.

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Veterans' Entitlements Act 1986 payments

(4) This subsection covers the following payments under the *Veterans' Entitlements Act 1986*:

(a) an age service pension under Division 3 of Part III of that Act;

(b) a carer service pension under former Division 6 of Part III of that Act, as saved by clause 8 of Schedule 5 to that Act;

(c) income support supplement under Part IIIA of that Act;

(d) an invalidity service pension under Division 4 of Part III of that Act;

(e) a partner service pension under Division 5 of Part III of that Act;

(f) a veteran payment under section 45SB of that Act;

(g) a pension under Part II or IV of that Act at a rate determined under or by reference to subsection 30(1) of that Act;

(h) a pension under Part II or IV of that Act at a rate determined under or by reference to paragraph 30(2)(a) or (b) of that Act;

(i) a pension under Part II or IV of that Act at a rate applicable under section 23, 24 or 25 of that Act.

Military Rehabilitation and Compensation Act 2004 payments

(5) This subsection covers the following payments under the *Military Rehabilitation and Compensation Act 2004*:

(a) a Special Rate Disability Pension under Part 6 of Chapter 4 of that Act;

(b) the weekly amount mentioned in paragraph 234(1)(b) of that Act, including a reduced weekly amount because of a choice under section 236 of that Act;

(c) a lump sum mentioned in subsection 236(5) of that Act.

59 Subsection 995-1(1)

Insert:

minimum tax capital gain has the meaning given by section 119-5.

minimum tax gap amount has the meaning given by subsection 119-10(2).

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Income Tax (Transitional Provisions) Act 1997

60 After Division 118

Insert:

Division 119—Minimum rate of tax on capital gains

Table of sections

119-1 Application of Division 119 of the *Income Tax Assessment Act 1997*

Division 119 of the *Income Tax Assessment Act 1997* applies in relation to capital gains from CGT events happening on or after 1 July 2027.

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Part 3—Other amendments

Income Tax Assessment Act 1936

61 At the end of section 95AAA

Add:

Note: In this Division, a reference to Subdivision 115-C of the *Income Tax Assessment Act 1997* includes a reference to that Subdivision as it applies because of Subdivision 115-CA of that Act (which extends the application of Subdivision 115-C in certain circumstances to trusts that would have net capital gains if indexation were disregarded): see subsection 115-255(5) of that Act.

62 Paragraph 100AB(4)(b)

Omit "steps 3 and 4", substitute "steps 5 and 6".

63 Subparagraph 102UW(b)(i)

Omit "steps 1 to 4", substitute "steps 1 to 6".

Income Tax Assessment Act 1997

64 Subsection 104-71(4) (table item 1, column headed "Amount excluded")

Omit "step 3", substitute "step 5".

65 Subsection 104-71(4) (note 1)

Omit "Step 3", substitute "Step 5".

66 Subsection 104-71(4) (notes 2 and 3)

Omit "step 3", substitute "step 5".

67 Paragraphs 115-215(3)(a), (b) and (c)

Omit "step 3", substitute "step 5".

68 Paragraph 115-215(4)(b)

Omit "step 3", substitute "step 5".

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69 Paragraph 115-220(2)(b)

Omit “step 3”, substitute “step 5”.

70 Paragraph 115-222(4)(a)

Omit “step 3”, substitute “step 5”.

71 Paragraph 115-225(1)(a)

Omit “steps 1 to 4”, substitute “steps 1 to 6”.

72 Subparagraph 115-225(3)(a)(i)

Omit “steps 1 to 4”, substitute “steps 1 to 6”.

73 Subsection 115-228(1) (definition of *net financial benefit*)

After “losses” (wherever occurring), insert “and quarantined amounts”.

74 Subsection 115-228(1) (paragraph (b) of the definition of *share of net financial benefit*)

After “losses” (wherever occurring), insert “and quarantined amounts”.

75 At the end of section 115-228

Add:

(4) In this section:

quarantined amount means a quarantined amount referred to in paragraph 26-155(1)(b) (about using or holding residential dwellings as residential accommodation).

76 Section 152-1

Omit “step 4”, substitute “step 6”.

77 Section 152-1

Omit all the words after “against your capital gains”, substitute “and quarantined amounts to first reduce your capital gains (under steps 1 to 4) before you can use those 3 concessions to further reduce them”.

77A Subsection 152-10(1AA) (note)

Omit “Note”, substitute “Note 1”.

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77B At the end of subsection 152-10(1AA)

Add:

Note 2: Disregard the $2 million threshold in paragraph (b) for working out the availability of the small business 50% reduction mentioned in Subdivision 152-C (see subsection 152-205(2)).

78 Section 152-200

Omit "step 4", substitute "step 6".

78A Section 152-200

After "if the basic conditions in Subdivision 152-A are satisfied", insert "(assuming the $2 million threshold for a small business entity to be a CGT small business entity were disregarded)".

78B Section 152-205

Before "The amount", insert "(1)".

79 Section 152-205

Omit "step 3", substitute "step 5".

79A At the end of section 152-205

Add:

(2) In working out for the purposes of subsection (1) whether the basic conditions in Subdivision 152-A are satisfied, disregard paragraph 152-10(1AA)(b).

Taxation Administration Act 1953

80 Subsection 12-405(2) in Schedule 1 (method statement, step 2, paragraph (b))

Omit "step 3", substitute "step 5".

81 Subsection 12A-110(5) in Schedule 1 (method statement, step 2)

Omit "step 3", substitute "step 5".

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Part 4—Application of amendments

82 Application of amendments—Division 102

The amendments made by:

(a) Part 1 of this Schedule of Division 102 of the *Income Tax Assessment Act 1997*; or

(b) Part 3 of this Schedule that relate to Division 102 or 152 of the *Income Tax Assessment Act 1997*;

apply in relation to assessments for the income year that includes 1 July 2027 and for later income years.

83 Application of amendments—section 115-125

The amendments made by Part 1 of this Schedule of section 115-125 of the *Income Tax Assessment Act 1997* apply in relation to CGT events happening on or after 1 July 2027.

84 Application of amendments—Subdivision 115-C

(1) Subject to subitem (2), the amendments of Subdivision 115-C of the *Income Tax Assessment Act 1997* made by Part 1 of this Schedule apply in relation to assessments for the income year that includes 1 July 2027 and for later income years.

(2) Section 115-235 of the *Income Tax Assessment Act 1997*, as inserted by Part 1 of this Schedule, applies in relation to the income year that includes 1 July 2027 and later income years.

(3) Subdivision 115-CA of the *Income Tax Assessment Act 1997*, as inserted by Part 1 of this *Schedule*, applies in relation to assessments for the income year that includes 1 July 2027 and for later income years.

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Schedule 2—Limit negative gearing for residential property to new builds

Income Tax Assessment Act 1997

1 At the end of Division 26

Add:

26-155 Using or holding residential dwellings

General rule

(1) If the amounts relating to the using or holding of *residential dwellings as residential accommodation that you could otherwise deduct for an income year exceed your assessable income from using or holding residential dwellings as residential accommodation for the income year, this Act applies to the amount of the excess as follows:

(a) it is not deductible for that income year;

(b) it is an amount (a ***quarantined amount***) that could be applied in accordance with the method statement in section 102-5 (about working out your net capital gain) for that income year;

(c) to the extent any part of it remains after applying that method statement—it is treated as an amount relating to using or holding residential dwellings as residential accommodation for the next income year.

Example: Henrietta acquires an established residential dwelling in July 2028. For the 2028-29 income year Henrietta has assessable income of $50,000 from renting out the residential dwelling as residential accommodation. For that year, Henrietta has (but for this subsection) $65,000 in deductions for the residential dwelling, including interest, insurance and strata costs. She can only deduct $50,000 and the remaining $15,000 is carried forward to the next income year.

For the 2029-30 income year, Henrietta has (but for this subsection) $70,000 in deductions and $52,000 of assessable income from renting out the residential dwelling as residential accommodation. She can deduct $52,000 and $33,000 is carried forward to the next income year (comprising the $15,000 carried forward from the 2028-29 income year and $18,000 from the 2029-30 income year).

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For the 2030-31 income year, Henrietta has $20,000 in deductions and $72,000 of assessable income from renting out the residential dwelling as residential accommodation, having reduced her mortgage following an inheritance. She has net rental income from the residential dwelling of $52,000 for this income year and can fully offset the amount of $33,000 that has been carried forward from the previous income year.

Exceptions for non-quarantined residential dwellings

(2) For the purposes of subsection (1), disregard amounts you could otherwise deduct, and amounts of assessable income, to the extent those amounts relate to the using or holding of the following:

(a) an *ownership interest in a *residential dwelling you last *acquired before 7.30 pm, by legal time in the Australian Capital Territory, on 12 May 2026;

(b) a residential dwelling that is a *new residential dwelling in relation to you;

(c) a residential dwelling for an activity or purpose determined by the Minister by legislative instrument for the purposes of this paragraph.

Note: If you have a net gain from your non-quarantined residential dwellings for an income year: see subsection (6).

(3) Despite subsection 118-130(2), for the purposes of paragraph (2)(a) of this section, for a *residential dwelling that you *acquire under a contract, you have an *ownership interest in the residential dwelling from the time when you enter into the contract.

(3A) Before determining an activity or purpose for the purposes of paragraph (2)(c), the Minister must be satisfied that determining the activity or purpose will assist in achieving one or more of the following objectives:

(a) improving availability of social or affordable housing;

(b) improving housing outcomes for one or more of the following:

(i) Aboriginal or Torres Strait Islander persons;

(ii) persons with a disability;

(iii) aged persons;

(iv) another class of persons suffering disadvantage.

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Exception for certain kinds of entities

(4) Subsection (1) does not apply to you if you are:

(a) a widely held unit trust as defined in section 272-105 in Schedule 2F to the *Income Tax Assessment Act 1936*; or

(b) a *complying superannuation entity.

Exception for fringe benefits

(5) For the purposes of subsection (1), disregard amounts you could otherwise deduct, and amounts of assessable income, to the extent those amounts relate to *providing a *fringe benefit.

Modification in relation to certain gains

(6) Reduce the amount of an excess referred to in subsection (1) for an income year (before applying any of paragraphs (1)(a) to (c)) by the sum of the following:

(a) any amount by which your assessable income covered by subsection (2) for the income year exceeds your deductions covered by that subsection for the income year;

(b) any gain you *realised for income tax purposes for the income year from a *realisation event occurring in relation to a *residential dwelling that is a *revenue asset.

Modification in relation to beneficiaries of trusts

(7) If:

(a) you are a beneficiary of a trust estate; and

(b) an amount is taken to have been included in your assessable income for an income year under Division 6 of Part III of the *Income Tax Assessment Act 1936* in relation to the *net income of the trust estate;

to the extent that the amount is referable (either directly or indirectly through one or more interposed partnerships or trust estates) to using or holding *residential dwellings as residential accommodation, the amount is taken to be included in your assessable income from using or holding residential dwellings as residential accommodation for that year.

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Modification if you become bankrupt

(8) The modification in subsection (9) has effect if:

(a) in an income year (the ***current year***) you become bankrupt or are released from a debt by the operation of an Act relating to bankruptcy; or

(b) you became bankrupt before the current year and:

(i) the bankruptcy is annulled in the current year under section 74 of the *Bankruptcy Act 1966* because your creditors have accepted a proposal for a composition or scheme of arrangement; and

(ii) under the composition or scheme of arrangement, you have been, will be or may be released from some or all of the debts from which you would have been released if you had instead been discharged from the bankruptcy.

(9) This Act applies to you as if any amount that:

(a) is an amount that you cannot deduct for the current year in accordance with paragraph (1)(a); and

(b) has not been applied in accordance with the method statement in section 102-5;

were not an amount relating to using or holding *residential dwellings as residential accommodation that you can deduct for the current year or a later year.

26-160 Meaning of *residential dwelling* and *new residential dwelling*

Meaning of ***residential dwelling***

(1) A ***residential dwelling*** means a *dwelling other than any of the following:

(a) a caravan, mobile tiny home, or other mobile home;

(b) a hotel, motel, inn, hostel or boarding house;

(c) a dwelling providing accommodation to students in connection with a school or an education institution that is not a school;

(d) a boat or other marine vessel.

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(2) For the purposes of subsection (1), a ***residential dwelling*** is taken to include any of the following things to the extent that the thing is available for use by an occupant of the *dwelling:

(a) land adjacent to the dwelling;

(b) a garage, storeroom or other structure associated with the dwelling.

Meaning of ***new residential dwelling***

(3) A *residential dwelling is a ***new residential dwelling*** in relation to you if the requirements determined under subsection (4) are met in relation to you and the residential dwelling.

(4) The Minister must, by legislative instrument, determine requirements for the purposes of subsection (3). Without limiting this subsection, the requirements may include requirements relating to one or more of the following:

(a) the kind of *residential dwelling;

(b) the kind of interest you hold in the residential dwelling and the circumstances in which you acquired your interest (such as whether you were the builder or a subsequent purchaser of the residential dwelling);

(c) circumstances relating to the creation of the residential dwelling (such as whether the residential dwelling was built on vacant land, was created through substantial renovations of an existing building, or was built to replace a demolished residential dwelling);

(d) whether the residential dwelling has a separate title, equitable title or similar legal interest that can be acquired by an entity.

(4A) Before determining requirements for the purposes of subsection (4), the Minister must be satisfied that determining the requirements will assist in achieving the objective of genuinely adding to the supply of residential dwellings in Australia.

(5) To avoid doubt, the Minister may determine requirements under subsection (4) relating to matters or circumstances existing before the commencement of this section.

2 After subsection 110-38(8)

Insert:

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(8A) Expenditure does *not* form part of any element of the ***cost base*** to the extent that section 26-155 prevents it being deducted.

Note: Section 26-155 denies deductions for the excess of residential dwelling related expenditure over residential dwelling related income.

3 After subsection 110-55(9J)

Insert:

(9JA) Expenditure does *not* form part of the ***reduced cost base*** to the extent that section 26-155 prevents it being deducted.

Note: Section 26-155 denies deductions for the excess of residential dwelling related expenditure over residential dwelling related income.

4 Subsection 995-1(1)

Insert:

new residential dwelling: see subsection 26-160(3).

residential dwelling: see subsections 26-160(1) and (2).

5 Application of amendments

The amendments made by this Schedule apply in relation to the 2027-28 income year and later income years.

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Schedule 3—Working Australians tax offset

Part 1—Amendments

Division 1—Main amendments

Income Tax Assessment Act 1997

1 After Subdivision 61-D

Insert:

Subdivision 61-E—Working Australians tax offset

Guide to Subdivision 61-E

61-150 What this Subdivision is about

> You may be entitled to a tax offset if you earn certain labour income.

Table of sections

Operative provisions

Operative provisions

61-155 Entitlement to the working Australians tax offset

(1) You are entitled to a *tax offset for an income year if:

(a) you are an individual who is an Australian resident at any time during the income year; and

(b) in the income year, the amount worked out for you under subsection (2) (about your net labour income) exceeds the tax-free threshold (within the meaning of the *Income Tax Rates Act 1986*).

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Net labour income

(2) Work out the amount for an income year using the formula:

$$\text{Labour amounts} - \text{Labour deductions}$$

where:

labour amounts means the sum of the following amounts included in your assessable income for the income year:

(a) an amount of *assessable labour income;

(b) an amount you *derive from carrying on a *business as an individual (not including assessable income you derive from a business carried on by a partnership or trust);

(c) an amount of *personal services income;

(d) an amount included in your assessable income under section 83A-25 (about discounts given in relation to an *ESS interest included in assessable income);

(e) an amount that is a payment from which an amount must be withheld (even if the amount is not withheld) under section 12-60 in Schedule 1 to the *Taxation Administration Act 1953* (about payments under labour hire and certain other arrangements).

labour deductions means the sum of the following amounts you can deduct in relation to the income year:

(a) an amount of a loss or outgoing that you incurred in gaining or producing an amount mentioned in paragraph (a) or (c) of the definition of ***labour amounts***;

(b) an amount of a loss or outgoing that you necessarily incurred in carrying on a *business as an individual (not including a loss or outgoing necessarily incurred by a business carried on by a partnership or trust);

(c) an amount you can deduct under section 25-130;

(d) an amount you can deduct under section 40-25 (other than an amount equal to the decline in value of a *depreciating asset that you allocate to a low-value pool under section 40-425), to the extent that the deduction arises for a depreciating asset that you use to:

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(i) derive an amount mentioned in paragraph (b) of the definition of ***labour amounts***; or

(ii) gain or produce an amount mentioned in paragraph (c) of the definition of ***labour amounts***;

(e) an amount of a deduction mentioned in paragraphs 25-130(2)(d) to (g) (standard deduction for work-related expenses);

(f) an amount you can deduct under Subdivision 328-D, to the extent that the deduction arises for a depreciating asset that you use to derive an amount mentioned in paragraph (b) of the definition of ***labour amounts***.

(3) If more than one paragraph in the definition of ***labour amounts*** or ***labour deductions*** covers an amount, include the amount only once.

61-160 Amount of the working Australians tax offset

The amount of your *tax offset for an income year is the lesser of:

(a) $250; and

(b) the amount that would be the amount of your basic income tax liability for the income year if your taxable income was comprised only of your net labour income worked out under subsection 61-155(2) for the income year.

2 Subsection 63-10(1) (before table item 5)

Insert:

3	*Tax offset under Subdivision 61-E (working Australians tax offset)	You cannot get a refund of it, you cannot transfer it and you cannot carry it forward to a later income year

Division 2—Consequential amendments

Income Tax Assessment Act 1997

3 Section 13-1 (after table item headed "invalid relative")

Insert:

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Part 2—Application

4 Application

The amendments made by this Schedule apply in relation to assessments for the 2027-28 income year and later income years.

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Schedule 4—Standard deduction for work-related expenses

Part 1—Amendment of the Income Tax Assessment Act 1997

Income Tax Assessment Act 1997

1 Section 12-5 (table item headed "work expenses")

Repeal the item, substitute:

work expenses

standard deduction for work-related expenses 25-130

see also *substantiation*

2 After subsection 25-100(1)

Insert:

Transport expense

(1A) A ***transport expense*** is a loss or outgoing to do with transport (including the decline in value of a *depreciating asset used in connection with transport) but does not include:

(a) a loss or outgoing for accommodation or for food or drink; or

(b) expenditure incidental to transport.

3 At the end of Division 25 of Part 2-5

Add:

25-130 Standard deduction for work-related expenses

(1) You can deduct the amount provided by subsection (2) for an income year if:

(a) you are an individual; and

(b) you are an Australian resident at any time during the income year; and

(c) you derive *assessable labour income in the income year.

(2) The amount is the lesser of:

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(a) $1,000; and

(b) the total amount of your *assessable labour income for the income year;

reduced, but not below zero, by the sum of the following amounts (if any):

(c) subject to subsection (3), each of your deductions for the income year under section 8-1 (general deductions), to the extent that the loss or outgoing that gives rise to the deduction is incurred in gaining or producing your assessable labour income;

(d) each of your deductions for the income year under Division 28 (car expenses), to the extent that the deduction arises in respect of gaining or producing your assessable labour income;

(e) each of your deductions for the income year under section 25-100 (travel between workplaces), to the extent that either of the following is satisfied in relation to the deduction:

(i) while you were at the ***first place*** mentioned in paragraph 25-100(2)(a), you were engaged in activities to gain or produce your assessable labour income;

(ii) while you were at the ***second place*** mentioned in paragraph 25-100(2)(b), you were engaged in activities to gain or produce your assessable labour income;

(f) each of your deductions for the income year under any of the following provisions, to the extent that the deduction arises in respect of a *depreciating asset that is used for the purpose of gaining or producing your assessable labour income:

(i) section 25-10 (repairs);

(ii) Subdivision 40-B (deducting amounts for depreciating assets);

(iii) Subdivision 40-D (balancing adjustments);

(g) each of your deductions under section 25-125 (COVID-19 tests) for the income year.

(3) For the purposes of paragraph (2)(c), disregard each of your deductions under section 8-1 to the extent that the deduction is in respect of any of the following:

(a) an income protection insurance premium;

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(b) a personal sickness insurance premium;
(c) an accident insurance premium;
(d) membership of a trade, business or professional association.

(4) Your ***assessable labour income***, for an income year, is each amount included in your assessable income for the income year from which an amount must be withheld (even if the amount is not withheld) under any of the following provisions in Schedule 1 to the *Taxation Administration Act 1953*:
(a) section 12-35 (payment to employee);
(b) section 12-40 (payment to company director);
(c) section 12-45 (payment to office holder);
(d) section 12-47 (payment to religious practitioners);
(e) section 12-50 (return to work payment);
(f) Subdivision 12-C (payments for retirement or because of termination of employment);
(g) paragraph 12-110(1)(ca) (parental leave pay).

4 Section 28-180

Repeal the section.

5 At the end of subsection 40-290(1)

Add:

Note: You may instead choose a fixed reduction for certain depreciating assets that have been used to produce your assessable labour income: see section 40-291A.

6 At the end of subsection 40-291(1)

Add:

Note: You may instead choose a fixed reduction for certain depreciating assets that have been used to produce your assessable labour income: see section 40-291A.

7 After section 40-291

Insert:

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40-291A Fixed reduction for certain assets used to produce assessable labour income

(1) Instead of a reduction under section 40-290 or 40-291, you may reduce, by a fixed amount, the amount (the ***balancing adjustment amount***) included in your assessable income, or the amount you can deduct, under section 40-285 for a *depreciating asset if:

(a) the depreciating asset has been used at any time for the purpose of gaining or producing your *assessable labour income; and

(b) you have deducted an amount under section 25-130 for an income year (whether the income year in which the *balancing adjustment event that gave rise to the balancing adjustment amount occurred or another income year); and

(c) the *effective life of the depreciating asset overlaps, wholly or partly, with that income year.

(2) The amount of the reduction is 50% of the balancing adjustment amount.

8 At the end of section 40-425

Add:

Exception: assessable labour income

(9) You cannot allocate a *depreciating asset to a low-value pool if, at the time you:

(a) started to use it; or

(b) had it *installed ready for use;

you reasonably expected to use it mainly for the purpose of gaining or producing your *assessable labour income.

9 Subsection 104-240(1) (paragraph (a) of the definition of *sum of reductions*)

Repeal the paragraph, substitute:

(a) if the *depreciating asset is covered by subsection 104-235(1):

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(i) if subparagraph (ii) does not apply—the reductions in your deductions for the asset under sections 40-25 and 40-27; or

(ii) if there is a reduction of the ***balancing adjustment amount*** under section 40-291A in relation to the *balancing adjustment event—the amount of that reduction; or

10 Section 900-10 (note)

Omit:

- Subdivision 900-I has an exception about certain losses or outgoings related to award transport payments.

11 Sections 900-35 to 900-45

Repeal the sections.

12 Subdivision 900-I

Repeal the Subdivision.

13 Subsection 995-1(1)

Insert:

assessable labour income has the meaning given by subsection 25-130(4).

14 Subsection 995-1(1) (definitions of *award transport payment* and *laundry expense*)

Repeal the definitions.

15 Subsection 995-1(1) (definition of *transport expense*)

Omit “900-220”, substitute “25-100”.

16 Subsection 995-1(1) (definition of *transport payment*)

Repeal the definition.

17 Application provision

(1) The amendments made by this Part apply in relation to assessments for the 2026-27 income year and later income years.

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(2) To avoid doubt, the amendment made by item 8 does not apply in relation to depreciating assets that have been allocated to a low-value pool for an income year that is the 2025-26 income year or an earlier income year.

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Part 2—Amendment of the Fringe Benefits Tax Assessment Act 1986

Fringe Benefits Tax Assessment Act 1986

18 After subsection 24(1)

Insert:

(1A) Subsection (1) does not apply in relation to the recipient of an expense payment fringe benefit in relation to a year of tax if:

(a) the benefit is provided to the recipient under a salary packaging arrangement; and

(b) the gross deduction would be a kind of deduction mentioned in any of paragraphs 25-130(2)(c) to (g) of the *Income Tax Assessment Act 1997*.

19 Subsections 58X(2) to (5)

Repeal the subsections, substitute:

(2) Each of the following is an ***eligible work related item*** if it is primarily for use in the employee's employment and it is *not* provided to the employee under a salary packaging arrangement:

(a) a portable electronic device;

(b) an item of computer software;

(c) an item of protective clothing;

(d) a briefcase;

(e) a tool of trade.

20 Application provision

The amendments made by this Part apply in relation to FBT years starting on or after 1 April 2027.

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Schedule 5—Limited recourse borrowing arrangements

Superannuation Industry (Supervision) Act 1993

1 At the end of subsection 67A(2)

Add:

; and (c) for an asset that is real property—the asset is business real property (within the meaning of section 66 of this Act).

2 Application of amendment

(1) The amendment made by this Schedule applies in relation to arrangements entered into on or after the commencement of this Schedule under which money is borrowed, or borrowings of money are maintained, for the acquisition of assets.

(2) However, the amendment does not apply in relation to such an arrangement to the extent that:

(a) the arrangement is for maintaining (or refinancing) a borrowing of money under another arrangement entered into before that commencement; or

(b) the acquisition of the asset (to which the borrowing under the arrangement relates) happens under an arrangement entered into before that commencement.

Note: This item means each of the following continues to be covered by the exception in subsection 67A(1) of the *Superannuation Industry (Supervision) Act 1993*:

(a) a borrowing arrangement entered into before commencement;

(b) a refinancing arrangement covered by paragraph (2)(a);

(c) a borrowing arrangement for which the related asset is acquired under an arrangement entered into before that commencement (even if the settlement for the acquisition of the asset happens after that commencement).

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[*Minister's second reading speech made in—*
House of Representatives on 28 May 2026
Senate on 22 June 2026]

(72/26)

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