The Difference

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Understanding changes to negative gearing

Changes to negative gearing announced in the Federal Budget have attracted considerable attention. While negative gearing has not been abolished, the reforms are expected to change how some investors can offset rental property losses against salary, wages and other income.

The changes mainly target established residential investment properties purchased after Budget night. Newly built homes and qualifying new housing supply are expected to continue receiving concessional treatment.

Negative gearing is when a rental property makes a loss after interest and other eligible expenses, and the investor uses that loss to reduce tax on other income. For many Australian investors, the appeal has been that short-term holding losses can be partly offset through the tax system, while the investor hopes to benefit from long-term capital growth.

Under the proposed framework, investors who purchase established residential investment properties after Budget night will generally no longer be able to offset rental losses against salary and wage income in the same way.

Instead, those losses are expected to be able to offset income from residential property, or be carried forward and used in future years. This means the loss may still have value, but the immediate annual tax benefit could be reduced for affected investors.

The key commencement date for the negative gearing changes is 1 July 2027. However, the Budget announcement time of 7:30pm AEST on 12 May 2026 is also important.

Grandfathering arrangements mean existing property investments are expected to remain subject to the current rules. The key issue is whether the property was already held, or under contract, before the Budget night cut-off.

In simple terms, the treatment may depend on:

- Whether the property was already owned before Budget night
- Whether the contract was signed before or after 7:30pm AEST on 12 May 2026
- Whether the property is an established dwelling or a qualifying new build
- How the final legislation is drafted and applied

Newly built homes, apartments and townhouses are expected to continue receiving more favourable treatment. This is designed to shift more investor activity toward new housing supply rather than only established homes.

Post-Budget analysis also suggests some superannuation structures, including Self-Managed Super Funds, may be treated differently under parts of the proposed framework. However, investors should seek their own tax advice before making decisions, as the final rules and individual circumstances will matter.

The broader impact will depend on how investors respond. If activity shifts toward new construction, the reforms may support housing delivery over time. But if investor participation falls before new supply improves, rental markets could remain under pressure, particularly in areas where vacancy rates are already low.

Understanding changes to capital gains tax

Australia's investment tax settings are set for major change following this year's Federal Budget, with the property market one of the key areas affected.

The reforms are largely aimed at improving housing affordability, supporting first-home buyers, and addressing concerns about intergenerational wealth. They include significant proposed changes to how Capital Gains Tax, or CGT, applies to qualifying investments, including property.

Head of Research, Mathew Tiller, said private "mum and dad" investors still provide most of the rental housing across Australia, so any policy change that reduces investor activity needs to be considered carefully.

"The Federal Budget marks the biggest change to property-related tax policy in a generation," he said.

"That matters because the market is already being pulled in two different directions. Conditions are softer than they were a year ago, borrowing capacity has been reduced by higher interest rates, but rental markets remain tight, and housing supply is still constrained.

"Any change that affects investor confidence has the potential to flow through to rental supply, particularly in markets where vacancy rates are already low."

Under the current system, investors who hold an investment property for more than 12 months generally receive a 50 per cent CGT discount. This means only half of the capital gain is generally included in taxable income when the property is sold.

For an investment property, the capital gain is generally the difference between the sale price and the original purchase price, after allowing for eligible costs and adjustments.

The Budget proposes to replace the current system with a cost-based indexation model from 1 July 2027. In simple terms, this means the original purchase cost may be adjusted for inflation, so tax is more focused on the real gain rather than the full increase in the asset's value over time. The proposed framework also includes a minimum 30 per cent tax on capital gains.

For investors purchasing qualifying newly built homes, post-Budget guidance indicates they may be able to choose between the current 50 per cent CGT discount framework and the new indexed approach. This is designed to encourage more investment in new housing supply rather than only established homes.

"Existing investors should not assume every gain will automatically be treated under the old system forever," Mr Tiller said.

"Equally, they should not assume the full gain will automatically fall under the new rules. It will depend on when the gain arose, when the asset was acquired, whether it is a new build or established property, and how the final legislation is drafted."