POLICY EXPLAINER

The 2026 property tax reforms, explained

From 1 July 2027, Australia is winding back negative gearing and scrapping the 50% capital gains tax discount. Here is what changes, who it touches, why the government is doing it now, and where the plan is open to question.

Announced **12 May 2026** Takes effect **1 July 2027** Status: **announced, not yet law**

READ THIS FIRST

This is an educational explainer, not financial, tax or legal advice. It summarises measures announced in the 2026-27 Federal Budget that, at the time of writing, have not yet passed into law. Details may change, and anyone making a decision should confirm the current rules and seek professional advice.

THE SHAPE OF IT

Two changes, one goal

In his 2026-27 Budget, Treasurer Jim Chalmers announced the biggest shift in property tax settings in a generation: negative gearing wound back, and the 50% capital gains tax discount replaced.

It is politically loaded. Labor took similar policies to the 2016 and 2019 elections, lost both, then promised to leave these settings alone. Doing it now, in government, is a deliberate reversal. Both measures share a single design idea: keep the tax breaks flowing to **newly**

built homes, and pull them back from investment in existing housing. The dates below anchor everything that follows.

FIGURE 1 · THE TIMELINE THAT MATTERS

The grandfathering line is budget night, 12 May 2026, not the start of 2027. Anything held before that moment is protected.

CHANGE ONE

Negative gearing, narrowed to new builds

Negative gearing lets an investor whose rental costs exceed their rent (a **rental loss**) deduct that loss against their other income, including their salary, lowering their tax bill. From 1 July 2027 this benefit is reserved for newly built homes. Three rules decide who is affected, and they hang entirely on what you own and when you bought it.

FIGURE 2 · WHO KEEPS NEGATIVE GEARING?

FULLY PROTECTED

Bought before budget night

Any property held before 7:30pm on 12 May 2026 is grandfathered.

Keeps negative gearing against all income, for as long as you hold it.

ENCOURAGED

A new build

Newly constructed housing that genuinely adds to supply.

Keeps full negative gearing against wages, before and after 2027.

RESTRICTED

Established, bought after budget night

An existing home purchased after 12 May 2026.

From 1 Jul 2027 losses can offset rental income or future gains only, not your salary.

Benefit kept   Benefit restricted

The change applies to residential property only. Shares, ETFs and commercial property are untouched. Losses are not abolished for the restricted group, only "quarantined" so they can no longer reduce wage income.

What it looks like for three investors

Take three people, each earning $120,000 and each making an $8,000 rental loss in a year.

NO CHANGE

Priya

Bought her rental in 2023. Grandfathered.

Deducts the full $8,000 against salary, saving roughly **$3,000** in tax. Nothing changes.

LOSES WAGE OFFSET

Tom

Buys an established rental in late 2026.

From 2027 the $8,000 carries forward against future rent or gains only. **No saving** against wages.

KEEPS THE BREAK

Mia

Buys a brand-new apartment off the plan.

As a new build, deducts the $8,000 against salary, saving about **$3,000** — the behaviour the policy rewards.

Simplified for illustration. Actual figures depend on individual circumstances and the final legislation.

CHANGE TWO

The 50% capital gains discount, replaced

Since 1999, individuals selling an asset held more than a year have paid tax on only half the gain. From 1 July 2027 that flat discount is replaced by two things working together: **cost-base indexation**, which only taxes the gain above inflation, and a **minimum 30% tax** applied after indexation. Crucially, the new rules apply to **gains arising on or after 1 July 2027**, so for an asset you already own, the gain on sale is split in two.

FIGURE 3 · SELLING AN ASSET YOU ALREADY OWN

Sell before 1 Jul 2027 and the whole gain keeps the 50% discount. Sell after, and only the later slice is taxed the new way.

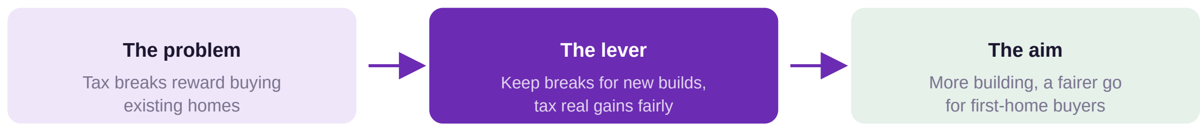
Selling after the change may require a valuation of the asset as at 1 July 2027 to split the gain. The change reaches all CGT assets of individuals, trusts and partnerships, including shares and ETFs outside super, not just property. The family home and superannuation funds are not affected, and new builds can choose whichever treatment is better.

THE REASONING

What the government is trying to do, and why now

The government frames the package around four aims: redirect investment toward building new homes rather than competing for existing ones, level the field between investors and the owner-occupiers and renters who could never deduct losses against wages, restore the pre-1999 idea of taxing only real capital gains, and serve both fairness and the budget by trimming concessions that skew to higher earners.

FIGURE 4 · THE LOGIC IN ONE LINE



The timing comes down to three things. Housing has become the dominant political issue, with the Coalition and a surging One Nation hammering affordability, so doing nothing carried its own cost. Labor was returned in 2025 with a large majority, so it can legislate without the crossbench. And the design is built to dodge a repeat of 2019: existing investors are fully grandfathered and the family home is untouched, so the group actually affected is narrow. The bet is that a reform most people never personally feel is far harder to run a scare campaign against than one still on the drawing board.

THE FAIR CRITIQUE

Where the plan is open to question

A balanced read has to flag the weak points, and the criticism comes from several directions.

The effect on rents is genuinely disputed

Opponents warn that dampening investment will push landlords to sell or raise rents. The evidence everyone reaches for is the 1985-87 period when negative gearing was briefly quarantined and rents supposedly soared. The careful analyses, including work by economist Saul Eslake and an ABC Fact Check review, found the real rent rises were concentrated in Sydney and Perth, which already had the tightest vacancy rates, pointing to local supply shortages rather than the tax change. Rents are set by what tenants can pay, not simply by a landlord's costs. The concern is not baseless in tight markets, which is why the new-build carve-out exists, but the strong "rents will spike everywhere" version does not hold up well.

It reaches well beyond housing

Sold as a housing measure, the CGT change actually applies to nearly all assets held outside super, including shares and ETFs. Critics argue this hits ordinary investors and retirement savers, not just property speculators.

Complexity, and a lock-in effect

Swapping a simple 50% discount for indexation plus a minimum tax, layered over apportioned gains and a grandfathered class of assets, creates a genuinely complicated dual system with new valuation and record-keeping burdens. And because existing owners keep their old treatment, they have a reason to hold rather than sell and re-buy, which could reduce the number of homes coming to market in the short run, working against the policy's own goal.

Tax alone will not fix affordability

The most important critique, made even by supporters, is that this does little on its own to add housing. Bodies such as CPA Australia stress that tax reform has to move in lockstep with lifting construction and speeding up planning. For scale, the Housing Australia Future Fund has so far delivered a planned 18,500 homes against an estimated 640,000 households whose needs are unmet. The benefits also arrive slowly, biting mainly on future purchases from 2027, so they offer little to people struggling right now.

THE BOTTOM LINE

These reforms are a targeted attempt to reward building over speculating, designed by a government that learned the political lessons of 2019. The strongest objections are not that they are reckless, but that they may be insufficient alone, reach further than the housing framing suggests, and add real complexity. Their success rests on one assumption above all: that Australia actually builds the homes it needs alongside them. Tax can change who buys and how, but it cannot, by itself, conjure houses that do not exist.

Sources & further reading

Draws on the 2026-27 Federal Budget papers (budget.gov.au), Australian Taxation Office guidance on the announced measures, and analysis from Baker McKenzie, William Buck, Perpetual, Duo Tax, CPA Australia, the Grattan Institute and the Australia Institute, with reporting from SBS, the Law Society Journal and Mortgage Professional Australia. Historical analysis of the 1985-87 negative gearing period draws on economist Saul Eslake and ABC Fact Check. Confirm details against the final legislation once passed, and seek professional advice for any individual decision.