



Australian Federal Budget 2026-27 Briefing Paper

Prepared by AustCham Hong Kong, May 2026

Based on Budget Paper No. 1, Budget Strategy and Outlook 2026–27, delivered 12 May 2026 by the Hon Dr Jim Chalmers MP, Treasurer of Australia

FOREWORD FROM AUSTCHAM HONG KONG

Dear Members,

The Australian Government handed down its 2026–27 Federal Budget on 12 May 2026 against a challenging global backdrop. The ongoing conflict in the Middle East has disrupted global energy markets, driven up inflation and created significant supply chain volatility. Australia enters this period with relatively low public debt by advanced economy standards, with gross debt lower than every major advanced economy and public finances among the more stable in the developed world.

This briefing is designed to cut through the complexity of a substantial budget and focus on matters relevant to our members: Australian businesses operating from Hong Kong, companies engaged in trans-Tasman and Asia-Pacific trade and investment, financial services professionals, and those with cross-border interests across the Australia-Asia corridor.

We have organised this briefing into thematic sections, each concluding with a practical *What This Means for Members* note.

Important Disclaimer

This briefing has been prepared by AustCham Hong Kong for general information purposes only. It provides a high-level summary of selected measures from the 2026–27 Australian Federal Budget that may be relevant to AustCham Hong Kong members. It is not intended to be comprehensive and does not take into account the objectives, financial situation or particular circumstances of any individual or entity.

This document does not constitute tax, legal, accounting, financial or other professional advice and must not be relied upon as a substitute for obtaining independent professional advice tailored to specific circumstances.

SECTION 1: THE ECONOMIC PICTURE

Australia's Economic Outlook

The budget was framed around Australia navigating a global oil shock triggered by the Middle East conflict, which has disrupted approximately one-fifth of the world's seaborne oil and gas supply. The economic numbers members should note are:

- GDP growth is forecast to slow from 2.25% in 2025–26 to 1.75% in 2026–27, before recovering to 2.25% in 2027–28.
- Headline inflation is expected to peak at 5% through to the June quarter 2026, falling to 2.50% by June quarter 2027.
- Unemployment remains low, rising only gradually from 4.25% to 4.50%.
- Wages growth (Wage Price Index) is forecast at 3.50%.
- Nominal GDP is forecast to grow 6.75% in 2025–26 and 4.25% in 2026–27.

Australia's Fiscal Position

Australia retains a AAA credit rating from all three major ratings agencies, one of only nine countries globally to hold this position. Gross debt as a share of GDP is expected to peak at 35.8%, below the advanced economy average. The deficit for 2026–27 is projected at \$31.5 billion (1.0% of GDP), with the budget projected to return to balance in 2034–35.

What This Means for Members: Australia's relatively low public debt and stable credit position are relevant factors for businesses assessing Australian investment risk. Near-term growth is moderating, while the labour market and wages data indicate continued consumer activity. The elevated LNG and commodity prices in the near term are relevant for members in the resources, energy and related professional services sectors.

SECTION 2: MAJOR TAX REFORMS — DIRECT IMPACT ON INDIVIDUALS AND BUSINESSES

The Government has described this budget as including the most significant transformation of Australia's tax system in over a quarter of a century. Several of these reforms will directly affect members' personal tax positions and their Australian business structures.

2.1 Income Tax Cuts for Workers

The Government has confirmed a multi-layered tax cut package for Australian workers:

- From 1 July 2026: The bottom income tax rate (on earnings between \$18,201–\$45,000) reduces from 16% to 15%.
- From 1 July 2027: The rate reduces further to 14%.
- From 2027–28: A new Working Australians Tax Offset (WATO) of up to \$250 per year applies to Australians earning income from work.

- From 2026–27: A \$1,000 instant tax deduction for work-related expenses, claimable without receipts.

What This Means for Members: Australian expatriates in Hong Kong who retain Australian tax residency, hold Australian employment income, or return to Australia should note these cuts will reduce their Australian tax liability. The instant \$1,000 deduction simplifies tax return administration. Employers with Australian payroll should review PAYG withholding settings ahead of the July 2026 changes. These income tax rate changes apply to Australian tax residents. Non-residents are taxed under different rate schedules and are not affected by the new resident tax thresholds.

2.2 Capital Gains Tax and Negative Gearing — Property and Investment Changes

These are among the most structurally significant reforms for members with Australian property and investment portfolios. It is important to note that the CGT changes apply to capital gains assets generally, not only real property, and will affect holders of shares, business assets, and interests in private equity, venture capital and other investment structures. This briefing focuses primarily on the property context given the relevance to our membership, but members with broader investment portfolios should seek specific advice.

From 1 July 2027:

- The 50% CGT discount for individuals, trusts and partnerships will be replaced by a system combining cost-based indexation (adjusting for inflation, so only real gains are taxed) and a 30% minimum tax rate on real capital gains.
- Negative gearing on residential property will be limited to new builds only. Existing investors (properties held at Budget night, 12 May 2026) are fully grandfathered.
- These reforms are projected to bring an additional 75,000 owner-occupiers into the housing market over the next decade, according to Treasury modelling.

Residents vs Non-Residents — An Important Distinction:

The impact of these reforms differs meaningfully depending on whether a member is an Australian tax resident or a non-resident, and this distinction is particularly relevant given that many AustCham Hong Kong members are non-residents for Australian tax purposes.

For **Australian tax residents:** The CGT reform represents a material change. The 50% discount has historically been available on assets held for more than 12 months, and its replacement with indexation plus a 30% minimum tax alters the after-tax return on future disposals of all capital assets, including property, equities, and investment fund interests. The negative gearing changes directly affect how rental losses on new investment properties can be structured.

For **Australian tax non-residents:** The impact is more limited in some respects but should not be overlooked. The 50% CGT discount has not been available to non-residents on Australian assets since legislative changes took effect in 2017 (with proportional reductions applying from 2012). Non-residents were therefore already not entitled to the discount, meaning the shift to indexation is a less dramatic change relative to the current rules applying to them. However, the introduction of a 30% minimum tax rate creates a new explicit rate floor that may interact with applicable tax treaty rates or withholding obligations, and members should seek specific advice on how this interacts with their circumstances. On negative gearing, non-residents can still claim deductions on Australian rental properties, but losses have

generally been quarantined within Australian-sourced income. The restriction of negative gearing to new builds from July 2027 applies to both residents and non-residents.

Members who are uncertain of their Australian tax residency status, which is a facts-and-circumstances test that can be complex for long-term expatriates, should seek clarification from an Australian tax adviser.

What This Means for Members: Members who own Australian investment properties purchased after Budget night should assess the implications of the negative gearing changes. Those with existing portfolios held before 12 May 2026 are fully grandfathered under the negative gearing changes. The CGT changes on future gains are relevant for investment planning across all asset classes. Members with financial advisory roles should familiarise themselves with the transitional arrangements and the broader application of these changes beyond property. The broader housing market implications of these reforms are discussed further in Section 8.

2.3 Discretionary Trust Reforms

From 1 July 2028, a 30% minimum tax will apply to the taxable income of discretionary trusts, paid by the trustee. Many Australian private businesses and family offices are structured through discretionary trusts.

Key points:

- The tax is paid at the trustee level; beneficiaries receive non-refundable credits to offset income tax.
- Fixed trusts, widely held trusts, complying superannuation funds, charitable trusts and deceased estates are exempt.
- Primary production income and income from certain vulnerable minors are also excluded.
- Rollover relief will allow businesses to restructure out of discretionary trusts into companies or fixed trusts from 1 July 2027 to 30 June 2030, including CGT rollover.

What This Means for Members: Members with Australian family businesses, private investment vehicles or professional practices operating through discretionary trusts should review their structures before July 2028. The three-year rollover relief window (2027–2030) provides an opportunity to restructure without immediate adverse tax consequences. Members are strongly encouraged to seek advice from Australian tax advisers well ahead of the July 2028 implementation date. AustCham can refer members to accredited Australian tax professionals operating across the Asia-Pacific.

For non-resident beneficiaries of Australian discretionary trusts, existing withholding tax obligations continue to apply. However, where trusts hold Australian-sourced income or Australian assets, the interaction of the new 30% trustee-level minimum tax with non-resident withholding rules should be reviewed with an Australian tax adviser.

2.4 Business Tax — Loss Carry Back and Start-Up Refundability

The budget introduces measures intended to support Australian business cash flow and early-stage investment:

- **Permanent two-year loss carry back:** Companies with turnover up to \$1 billion can carry back tax losses for up to two years, generating a refund of tax paid in prior years. Effective for income years after 1 July 2026. Up to 85,000 companies per year are expected to benefit, with average cash flow benefits estimated at approximately \$50,000.

- **Start-up loss refundability (from 1 July 2028):** Small start-up companies in their first two years can receive a refundable tax offset equivalent to their employment-related tax obligations (PAYG withholding and FBT paid on wages). Up to 25,000 new companies per year are estimated to be eligible.

What This Means for Members: For members with Australian companies that experienced losses in 2025–26, the loss carry back provides a mechanism for improved cash flow through a tax refund. For members with start-up investments or incubator interests in Australia, the refundability measure alters the early cash flow position of qualifying businesses, which may be relevant to investors assessing early-stage Australian opportunities. These measures apply to Australian incorporated entities and do not directly affect individuals who are non-residents unless they hold interests in Australian companies.

2.5 Small Business — Permanent \$20,000 Instant Asset Write-Off

The \$20,000 instant asset write-off for businesses with turnover under \$10 million is made permanent from 1 July 2026, providing certainty and removing the year-to-year uncertainty of annual extensions.

2.6 Venture Capital — Expanded Incentives

From 1 July 2027, caps for Venture Capital Limited Partnerships (VCLPs) and Early-Stage Venture Capital Limited Partnerships (ESVCLPs) will be updated to reflect inflation:

- VCLP asset cap raised from \$250m to \$480m
- ESVCLP asset cap raised from \$50m to \$80m
- ESVCLP full incentive retention cap raised to \$420m (from \$250m)
- Maximum ESVCLP committed capital raised to \$270m (from \$200m)

What This Means for Members: Hong Kong-based investors and fund managers exploring Australian venture capital opportunities through the VCLP and ESVCLP structures will have access to expanded thresholds. Members considering these structures should note that the broader CGT reforms discussed in Section 2.2 also apply to gains realised on investments held through these vehicles, and the interaction between the VC incentive frameworks and the revised CGT rules warrants specific advice.

2.7 R&D Tax Incentive Reforms

From 1 July 2028, the R&D Tax Incentive (R&DTI) is reformed to:

- Increase offset rates by 4.5 percentage points across all categories (from 8.5% to 13% for non-refundable; from 16.5% to 21% for high-intensity; from 18.5% to 23% for refundable).
- Remove supporting activities from eligibility. Only experimental core R&D will qualify.
- Focus refundability on young firms (under 10 years) with turnover under \$50m.
- Raise the maximum expenditure threshold to \$200m (from \$150m).
- Increase minimum expenditure to \$50,000.

What This Means for Members: Australian businesses engaged in qualifying R&D will receive higher offset rates on eligible expenditure. The removal of supporting activities narrows the eligible expense base, and businesses that have previously claimed on supporting activities should assess whether their claims remain eligible under the revised framework. Members with Australian parent or subsidiary

companies conducting R&D should review eligibility under the new rules. These measures apply to Australian tax-paying entities conducting eligible R&D activities in Australia and do not directly affect non-resident individuals unless they have interests in qualifying Australian entities.

2.8 Tariff Abolitions and Trade Simplification

497 additional nuisance tariffs will be abolished from 1 July 2026, building on 457 abolished in July 2024. Together, approximately 1,000 tariffs will have been removed over two years, with estimated compliance savings of \$157 million per year across \$23 billion in annual trade. Items affected include wine glasses, tyres, air conditioners and bitumen.

The Australia-EU Free Trade Agreement has been concluded (negotiations finalised 24 March 2026), providing access to a market of 450 million people with GDP of approximately \$30 trillion.

What This Means for Members: Importers and exporters operating between Hong Kong, Australia and global markets will be affected by reduced compliance costs and broader tariff elimination. The Australia-EU FTA creates new market access, particularly for members with European operations or supplier relationships. Members should review their product tariff classifications to identify specific changes from July 2026.

SECTION 3: ENERGY, RESOURCES AND SUPPLY CHAIN

3.1 Fuel Security Package — \$14.8 Billion

The Government's response to the Middle East conflict includes a \$14.8 billion Strengthening Australia's Fuel Resilience package:

- \$7.5 billion Fuel and Fertiliser Security Facility via Export Finance Australia (EFA), securing additional diesel and jet fuel.
- \$3.2 billion Australian Fuel Security Reserve targeting 50+ days of supply.
- Temporary fuel excise halved (32 cents per litre reduction, \$2.9 billion package) for three months from April 2026, also reducing the heavy vehicle road user charge to zero.
- 20% domestic gas reservation for LNG exporters commencing 1 July 2027.
- Cleaner Fuels Program (\$1.1 billion) for low carbon liquid fuels.

3.2 Critical Minerals Strategic Reserve

The Government has established a Critical Minerals Strategic Reserve, initially focused on antimony, gallium and rare earth elements, drawing on \$1 billion from the \$5 billion Critical Minerals Facility. An additional \$150 million is allocated for selective mineral stockpiling.

What This Means for Members: The 20% domestic gas reservation policy from July 2027 is a structural change for members in the LNG sector. It will redirect a portion of export LNG to Australian domestic markets, which may affect long-term contract structures and export volumes. Members with exposure to LNG projects and supply contracts should factor this into forward planning. The Critical Minerals Reserve is relevant for members in mining, technology manufacturing and supply chain roles. The fuel excise reduction is a temporary measure that began reducing operating costs for logistics and heavy transport businesses in Australia from April 2026.

SECTION 4: FINANCIAL SERVICES AND DIGITAL ECONOMY

4.1 Financial Sector Deregulation

The budget reduces regulatory burden in the financial sector by \$780 million per year through 14 legislative reforms, including raising monetary thresholds for large proprietary companies, improving efficiency of climate-related financial disclosures, modernising business communications with ASIC, and increasing banks' covered bond issuance cap. The Council of Financial Regulators is taking 13 actions to reduce duplicative data requests, with the Better Regulation Roadmap delivering over 50 further commitments.

4.2 Tokenisation and Payments Reform

The Government is advancing reforms in financial innovation, including a regulatory sandbox for tokenised assets, analysis of the market for a tokenised government bond, a new strategic plan for the payments system, strengthened regulator-industry cooperation, and Memoranda of Understanding with Anthropic and Microsoft on AI.

4.3 Digital ID Expansion

Australia's Digital ID system is being expanded to cover 255 government services, aimed at reducing fraud risk and administrative burden for businesses.

4.4 Superannuation Sector

The superannuation performance test is being strengthened to remove unintended barriers to investment in Australia's \$4.5 trillion superannuation sector, with the stated aim of supporting more efficient capital flows, particularly into venture capital.

What This Means for Members: Australia's tokenisation and payments reforms, including the tokenised bond market analysis, are developments relevant to Hong Kong's financial community. For members in asset management, the regulatory changes are intended to reduce compliance friction for Australian entities. The superannuation performance test reforms may affect pathways for fund managers seeking Australian superannuation mandates. Climate disclosure reforms align with global ESG standards. The ultimate market impact of these reforms will depend on implementation detail as legislation progresses.

SECTION 5: FOREIGN INVESTMENT IN AUSTRALIA

5.1 Foreign Residential Property Ban Extended

The ban on foreign purchases of established dwellings in Australia is extended by two years and three months until 30 June 2029. Exceptions continue to apply for investments that support housing supply, and for permanent residents and New Zealand citizens.

5.2 Foreign Investment Framework Streamlined

The foreign investment screening framework is being further streamlined to reduce barriers for low-risk investments and accelerate low-risk approvals, with a stated regulatory burden reduction of up to \$16 million per year. Simultaneously, the Government is strengthening tools to identify and manage national interest risks.

What This Means for Members: The extension of the foreign residential property ban to June 2029 directly restricts non-citizen members from purchasing established residential property in Australia. The exception for investments supporting housing supply (i.e., new developments) remains in place. The streamlined framework for non-residential foreign investment is intended to reduce approval timelines and compliance costs for members with corporate investment interests in Australia, though the extent of practical change will depend on implementation.

SECTION 6: TRADE, INVESTMENT AND REGIONAL ENGAGEMENT

6.1 Export Finance Australia — Expanded Mandate

EFA's mandate has been significantly expanded under the Fuel and Fertiliser Security Facility (US\$5 billion) to provide financial support including loans, equity, guarantees, insurance and price support. EFA can now also finance domestic projects in the national interest under the Future Made in Australia framework.

6.2 Southeast Asia Investment Financing Facility

The Southeast Asia Investment Financing Facility (SEAIFF) provides up to \$2 billion in loans, guarantees, equity and insurance for projects boosting Australian trade and investment in Southeast Asia, with a focus on clean energy transition and infrastructure development.

6.3 Accessing New Markets Initiative

The Accessing New Markets Initiative (\$50 million) has been expanded to help Australian businesses diversify their exports. The Trade Resilience Service has been established to provide exporters with logistics, freight and market intelligence.

6.4 Australia-Indonesia Treaty on Common Security

Australia will commit \$33.2 million to support implementation of the Australia-Indonesia Treaty on Common Security.

6.5 Pacific Engagement

\$187.8 million over four years is being invested in enhanced Pacific engagement.

What This Means for Members: AustCham members may be positioned to engage with the SEAIFF and the Accessing New Markets Initiative, given Hong Kong's role as a regional business hub. The Trade Resilience Service is a resource for exporters facing supply chain disruptions. The Australia-Indonesia security treaty deepens the bilateral relationship with a market of growing importance to Australian exporters. Members in the infrastructure, energy and professional services sectors may wish to explore SEAIFF-backed project opportunities.

SECTION 7: PRODUCTIVITY, TECHNOLOGY AND AI

7.1 Productivity Package

The Government has released a productivity package targeting a \$10.2 billion reduction in regulatory burden per year, a \$13 billion per year boost to long-run GDP through National Competition Policy reforms (single national market), and a \$400 million per year increase in R&D investment by young firms.

7.2 AI and Digital Technology

Under the National AI Plan, the Government is establishing an AI Accelerator via Cooperative Research Centres (\$70m), launching AI.gov.au as an AI governance resource, establishing an AI Safety Institute, signing MoUs with Anthropic and Microsoft, and aligning data centre investment with national interests.

7.3 Environmental Approvals Streamlined

The new National Environmental Protection Agency (from 1 July 2026) is intended to streamline project approvals, with an estimated regulatory burden reduction of up to \$6.9 billion per year. AI is being deployed to accelerate environmental approvals processing.

What This Means for Members: For members in technology, consulting, professional services and project development, Australia's AI and digital economy initiatives may create commercial opportunities. The streamlined environmental approvals process is relevant for members involved in mining, energy and infrastructure projects in Australia, though the practical impact will depend on how the new agency operates. The single national market reforms, aimed at reducing compliance variation between Australian states, are intended to make it easier to scale Australian businesses nationally.

SECTION 8: HOUSING AND PROPERTY MARKET

Key Changes at a Glance

Measure	Detail	Effective
Foreign purchase ban (existing dwellings)	Extended to 30 June 2029	Ongoing
Negative gearing	Limited to new builds (existing investors grandfathered)	1 July 2027
CGT discount	Replaced with indexation + 30% minimum tax	1 July 2027
Local Infrastructure Fund	\$2 billion for housing-enabling infrastructure	2026–27
100,000 Homes for First Home Buyers	\$5.9bn in zero-interest state/territory loans	Ongoing

Market Impact: Treasury modelling projects house prices to grow approximately 2% less over a couple of years relative to no policy change, translating to an estimated reduction of approximately \$19,000 on the current national median price. The owner-occupier share of the housing market is projected to increase, with an additional 75,000 owner-occupiers over the next decade. Treasury modelling projections carry inherent uncertainty and actual outcomes will depend on a range of market factors.

Residents vs Non-Residents — CGT and Negative Gearing: As noted in Section 2.2, the CGT reforms have a materially different impact depending on Australian tax residency status. For **Australian tax residents**, the replacement of the 50% CGT discount with indexation plus a 30% minimum tax is a significant change to the tax treatment of future property disposals. For **non-residents for Australian tax purposes**, the 50% CGT discount has not been available on Australian assets since 2017, so the primary reform to the discount structure has less direct impact; however, the introduction of a 30% minimum tax rate should be considered in the context of applicable treaty arrangements and specific advice sought. The restriction of negative gearing to new builds from July 2027 applies to both residents and non-residents holding Australian property, though the practical significance differs depending on each individual's overall income structure. Non-residents are additionally subject to the foreign purchase ban on established dwellings, which restricts acquisition options independently of the tax changes.

What This Means for Members: The continued ban on purchasing established dwellings limits options for non-citizen members seeking Australian residential property exposure. Investment in new residential construction retains full tax concessions under the grandfathering provisions. Members with Australian property portfolios acquired before Budget night are fully grandfathered under the CGT and negative gearing changes. Treasury modelling projects moderate downward pressure on prices, though actual market outcomes are subject to a range of variables.

SECTION 9: DEFENCE AND NATIONAL SECURITY

The 2026 National Defence Strategy provides an additional \$14 billion over four years and \$53 billion over the next decade, including through leveraging private sector funding. Priority investments include autonomous and uncrewed systems, long-range strike capabilities, integrated air and missile defence, nuclear-powered submarines (AUKUS pathway), Mogami-class frigates, and the Henderson Defence Precinct, Western Australia.

What This Means for Members: Australia's sustained defence investment creates procurement and supply chain activity for members in advanced manufacturing, technology, cybersecurity, logistics and professional services. The Henderson Defence Precinct in WA represents a major long-term industrial development with significant contractor and services requirements. Members with relevant capabilities may wish to explore engagement with Australia's defence supply chain.

SECTION 10: KEY DATES AND IMPLEMENTATION TIMELINE

Date	Measure
1 April 2026	Fuel excise reduced by 32 cents/litre (temporary, 3 months)
1 July 2026	Income tax rate cut to 15% (was 16%); 497 nuisance tariffs abolished; \$20,000 instant asset write-off permanent; New environmental approvals agency
1 July 2027	Income tax rate cut to 14%; Domestic gas reservation commences; Negative gearing limited to new builds; CGT discount replaced with indexation; EV FBT reforms; Venture capital cap uplifts
1 July 2028	Working Australians Tax Offset (\$250); Discretionary trust 30% minimum tax; Loss refundability for start-ups; R&D Tax Incentive reforms
30 June 2029	Foreign residential property ban expiry (current extension)

SUMMARY: TOP 10 ISSUES FOR AUSTCHAM HK MEMBERS

1. **Trust restructuring window:** If you operate through Australian discretionary trusts, the three-year rollover period from July 2027 is critical. Act early.
2. **CGT and investment portfolio:** The CGT changes from July 2027 apply to all capital assets, not only property, including shares and private equity or VC interests. Existing portfolios are not grandfathered for future gains. Residents and non-residents are affected differently; seek specific advice.
3. **CGT and property investment:** Existing property portfolios benefit from full grandfathering on negative gearing. Future investments in established residential property face new CGT settings from July 2027. New builds retain full concessions.
4. **Foreign property purchase ban:** Extended to June 2029. New builds remain purchasable by eligible foreign investors.
5. **Business loss carry back:** Companies with Australian operations that ran at a loss in 2025–26 should assess eligibility for a tax refund under the new rules.
6. **Tariff abolitions:** Review your import/export product classifications for changes from July 2026.
7. **LNG and gas reservation:** If your business has exposure to Australian LNG, the domestic gas reservation from July 2027 warrants early scenario planning.
8. **Critical minerals opportunities:** The Strategic Reserve and Critical Minerals Facility represent government-backed market development activity.
9. **Financial services and tokenization:** Regulatory changes and tokenisation reforms are progressing; members in financial services should monitor implementation.
10. **Income tax cuts:** If you retain Australian tax residency or employ Australians, review payroll and withholding settings ahead of July 2026 changes.

Disclaimer

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