

Federal Budget

Changes summary and Investment Bonds strategic positioning

Overview

Treasurer Jim Chalmers' Federal Budget announcement was delivered as "the most important and ambitious budget in decades". The Treasurer introduced what he called one of the most significant rounds of reforms in over two decades, framed around building "Australia's fourth economy".

The Budget was announced against a backdrop of global trade tensions, with the Middle East conflict affecting fuel security and persistent household cost-of-living pressures. While critics deemed the proposed changes as a "revenue grab", Chalmers is positioning headline measures to reform policies around capital gains tax (CGT), negative gearing, and superannuation as active steps towards achieving intergenerational equity.

These factors are expected to prompt Australians to fundamentally reassess where and how they hold wealth, shifting away from property and superannuation, toward simpler, more tax rule certain structures. For Generation Life, the proposed measures around tax on property, CGT, the taxing of trusts, and recent changes to taxes on the earnings of large superannuation balances, strengthen the case for investment bonds and lifetime annuities as tax-efficient alternatives that can provide certainty.

It's important to note that the changes proposed in the Budget announcements are subject to consultation and amendment, as such, the final enacted legislation may differ to the budgeted announcements.



Capital Gains Tax (CGT) Discount Reform

Proposed Measures: The government is proposing to remove the 50% CGT discount with effect from 1 July 2027 and replace it with cost base indexation for assets held for more than 12 months, with a 30% minimum tax on net capital gains, including for pre-1985 assets (subject to certain carve outs). These changes will cover most asset classes including shares, property, and managed funds held by individuals, trusts and partnerships (noting super funds are expected to continue to be able to access the existing 1/3rd CGT discount with clarification needed on the treatment of trust gains which flow to super funds).

There will be a transition period whereby the current CGT discount and CGT exemption for pre-1985 assets will be retained for gains which arise prior to 1 July 2027. The revised arrangements will apply to gains arising thereafter (thereby likely to require a determination of the market value of CGT assets as at 1 July 2027 with guidance needed on how gains and losses are to be allocated between periods). There will also be an exception for new residential property builds for which investors can choose to apply the 50% CGT discount or cost base indexation with a 30% minimum tax rate.

For Generation Life: Investment bonds are subject to tax being paid by the life company on earnings at up to 30% with no personal CGT and tax-free withdrawals after 10 years, provided the 10-year rule has not been reset (with tax continuing to be paid by the life company at up to 30% on earnings).

With the complexity of applying the new rules and super funds likely to be exempt from CGT changes, personally held investments outside of super face the greatest exposure, strengthening the case for investment bonds as an alternative holding structure that is simpler to implement.

Negative Gearing

Proposed Measures: For properties acquired from 7.30pm AEST on 12 May 2026 and with effect from 1 July 2027, negative gearing will be limited to new builds of residential property. Also from 1 July 2027, losses from existing residential investment properties acquired from 7.30pm AEST on 12 May 2026 will only be deductible against rental income or the capital gains from residential properties (with excess losses carried forward). This has the effect of impacting the tax benefit for a significant portion of Australia's existing investment property stock. Treasurer Chalmers has repeatedly flagged "intergenerational fairness" as the driving principle behind housing tax reform.

For Generation Life: Removing negative gearing on certain properties will prompt many investors to reassess direct established property investments, as a wealth-building solution. Investment bonds, with no annual personal tax liability (subject to tax being paid by the life company on earnings at up to 30% as noted above that investment bonds are 'tax-paid'), a proven tax management vehicle and no contribution caps, are well-placed to capture those redirected savings.

Grandfathering

Proposed Measures: As referred to above, there is limited grandfathering for the proposed CGT and negative gearing changes in that properties held prior to 7.30pm AEST on 12 May 2026 will be exempt from the negative gearing changes (which come into effect from 1 July 2027) and only those gains which accrue from 1 July 2027 will be subject to the removal of the CGT discount. Further, for the discretionary trust measures (discussed below), it is proposed that there will be rollover relief for three years from 1 July 2027 to support small businesses and others that wish to restructure out of discretionary trusts into another entity type, such as a company or a fixed trust.

For Generation Life: The limited grandfathering and transitional relief are likely to prod investors to make decisions about portfolio restructuring more urgent. Investment bonds offer a tax-certain alternative with no personal CGT events (subject to the abovementioned tax paid rule), no contribution caps, and proceeds passing directly to nominated beneficiaries outside of estates, with no tax after 10 years.

Discretionary Trust Taxation

Proposed Measures: Discretionary trust reform is another feature of the Budget. The announced change is a 30% tax on distributions from discretionary trusts to all beneficiaries from 1 July 2028, with a non-refundable tax offset credit being available to beneficiaries other than corporate beneficiaries (as it is intended that such beneficiary distributions would have been subject to the minimum 30% tax in hands of the trustee (with potential double taxation at the corporate beneficiary level in the absence of an available tax offset)).

The measure looks to limit the benefit of flexible, discretionary income streaming, the practice of distributing trust income to lower-earning family members to reduce the overall tax bill.

For Generation Life: If trust-based income streaming becomes more restricted or costly, investment bonds offer a simpler, lower-risk alternative for families accumulating wealth outside of super. Investment bonds carry no distribution complexity, no compliance exposure, and earnings are taxed in the life company at up to 30% making them an attractive substitute for families currently relying on trust structures for tax efficiency.

Summary

The 2026-27 Budget has significantly restructured Australia's investment and retirement tax landscape. With these proposed changes, individuals are likely to move away from direct property investment and complex trust structures and also, reassess the role of superannuation as a wealth transferring vehicle, creating an environment that favours simpler, more tax-certain structures.

For Generation Life, these measures place investment bonds as an attractive tax-efficient alternative, while retirees navigating a restructured superannuation environment will increasingly look to the lifetime annuity for tax-efficient income guaranteed for life.

Broader Tax Landscape

Superannuation Death Benefits

Existing Measures: Superannuation death benefits paid to non-dependants, such as adult children, currently attract a 15% tax on the taxable component (though this may vary depending on the circumstances). While no formal change is proposed in this Budget, the issue is drawing increased attention as Division 296 makes super a less attractive wealth transfer vehicle. A formal inheritance tax has been explicitly ruled out by Treasurer Chalmers.

For Generation Life: Investment bonds are less complex to administer than the super death benefits tax, able to pass proceeds directly to nominated beneficiaries outside the estate and outside super, with no tax on withdrawal after 10 years (subject to tax being paid by the life company on earnings at up to 30% as noted above).

Division 296

Existing Measures: Already legislated and commencing 1 July 2026, Division 296 introduces an additional 15% tax on super earnings attributable to super balances above \$3 million and an additional 10% on earnings for balances above \$10 million, both thresholds are CPI-indexed. The reform commences shortly after the Budget was announced, likely to make superannuation the ongoing dominant policy conversation throughout May.

For Generation Life: Investment bonds maximum tax rate now matches the super tax rate for earnings above \$3 million, but without contribution caps, access restrictions, or estate planning limitations they are an attractive alternative for high-net-worth clients diversifying outside super.

Bracket Creep and Income Tax Cuts

Proposed Measures: The reduction in the second marginal tax rate tier from 16% to 15% from 1 July 2026 is already legislated from the 2025 Budget. This delivers a modest saving of around \$268 per year for most workers. With income tax thresholds remaining unindexed and the government's own forecasts relying on bracket creep to return the Budget to structural balance by 2035-36, meaningful structural relief is unlikely in this Budget or beyond.

The announcement of a new \$250 Working Australian Tax Offset and new \$1,000 instant tax deduction for workers.

For Generation Life: With bracket creep locked in as a long-term fiscal reality, investors will increasingly seek structures that provides better after tax-return that doesn't impact their personal taxes. Investment bonds do exactly this as earnings are taxed internally at up to 30%, regardless of the investor's marginal rate.

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Investor services

1800 806 362

Adviser services

1800 333 657

Enquiries

enquiry@genlife.com.au

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