2026-2027 Federal Budget Analysis

Reform and resilience in uncertain times

Treasurer Jim Chalmers has framed the 2026 Federal Budget as "the most important and ambitious budget in decades".

"This Budget is about getting us through the global oil shock and taking pressure off Australians while building a stronger economy, better tax system, a more sustainable budget and lifting living standards," the Treasurer told Parliament.

With an overarching theme of 'reform and resilience', the Federal Government is aiming to shore up investor confidence at a time when the global economy teeters thanks to war in the Middle East and the disruption of global oil supplies. Despite the challenges, Treasury says Australia's economy continues to grow faster than every major advanced economy.

For households and wage earners, the Budget delivers a mix of targeted cost-of-living relief and significant structural reform, particularly in tax and housing.

The big picture

At the headline level, the Budget forecasts an underlying cash deficit of $31.5 billion in 2026–27, an improvement of $2.8 billion on the mid year update, despite slower global growth and higher oil prices.

Economic growth is forecast to slow from 2.25 per cent this financial year to 1.75 per cent in 2026–27, reflecting weaker international conditions, before gradually strengthening over the medium term. Inflation is expected to rise temporarily in the June quarter to around 5 per cent driven largely by fuel and transport costs linked to the war driven global oil shock. Despite this near-term pressure, the Government continues to project a return to a balanced budget in the mid-2030s followed by modest surpluses.

The Treasurer maintains that budget repair is being driven primarily by savings and spending restraint, rather than broad-based tax increases.

From a policy perspective, the Budget rests on five pillars: managing the global oil shock; easing cost-of-living pressures; lifting productivity; reforming the tax system; and strengthening national resilience.

Each has direct implications for household finances, superannuation, investment structures and long term planning.

The Treasurer has made clear that a major goal is to “rebalance the tax system” so that wage earners are not treated substantially differently from those who earn income through assets and investments.

While some measures will take years to flow through, the direction is to prioritise the national security, energy supply, productivity and care sectors, while accepting political risk, to strengthen the economy over the medium to long term.

Cost of living

The Government has been careful to structure cost-of-living measures so that they don’t meaningfully add to inflation. The most prominent initiative is the Working Australians Tax Offset, providing a $250 offset for more than 13 million employees from the 2027–28 income year.

In addition, workers will be able to claim a $1,000 instant tax deduction for work-related expenses from 2026–27, without the need to keep receipts.

Income tax thresholds will also be adjusted. From 1 July 2026, the 16 per cent tax rate, applying to income between $18,201 and $45,000, will be reduced to 15 per cent before falling further to 14 per cent from 1 July 2027.

The government will increase Medicare Levy low-income thresholds by 2.9 per cent from the 2025–26 income year, a change expected to benefit more than one million lower-income Australians who will remain exempt from the Levy or pay a reduced rate.

Productivity

Productivity comes in for renewed focus, reflecting concern that long-term improvements in living standards can’t be sustained without structural change. The Budget allocates funding aimed at reducing red tape by an estimated $10.2 billion per year, including faster environmental approvals and streamlined foreign investment processes.

Housing construction remains a central productivity priority. New funding for local infrastructure is designed to support up to 65,000 extra homes, alongside measures to fast track skilled migrant trades and improve construction capacity.

Investment in transport infrastructure also features prominently, with $8.6 billion committed to nationally significant road and rail projects, improving freight efficiency and workforce mobility particularly across the regions.

Taken together, these measures represent a shift toward capability building. For business owners and investors, the emphasis is on reducing friction, improving labour supply and supporting capital investment that lifts output over time rather than fuelling higher prices.

Tax reform

The most debated element of the Budget is the tax reform package directed at property investors and discretionary trusts.

From 1 July 2027, negative gearing will be limited to new housing, with existing arrangements grandfathered. At the same time, the 50 per cent capital gains tax (CGT) discount will be replaced with cost-base indexation, alongside a new minimum effective tax rate of 30 per cent on capital gains.

The CGT settings for super and self-managed super funds will remain unchanged, which means investors will continue to receive a CGT discount of 33.33 per cent for relevant assets held for over 12 months in super.

The Government argues these changes are essential to address intergenerational inequity and housing affordability, while continuing to support investors who add to new housing supply. Treasury modelling suggests a modest impact on rents over time, with savings redirected toward care services and tax relief for wage earners.

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Trusts have also been brought into the Government's tax reform agenda, with a new minimum 30 per cent tax rate to apply to discretionary trust distributions from 1 July 2028. The measure is aimed at improving integrity and reducing income splitting arrangements that allow some taxpayers to pay significantly less tax than wage earners on comparable incomes.

Housing affordability

The Treasurer aims to address housing shortages and affordability, by increasing total investment to $47 billion and supporting an estimated 75,000 additional Australians to achieve home ownership over the next decade through the tax reform package.

The Government claims around 65,000 additional homes will be delivered over 10 years through its support for new developments.

A new $2 billion fund has been established to help local governments and state utilities build the infrastructure needed to support new housing.

To free up additional supply, the Government is extending the ban on foreign buyers purchasing established homes until mid-2029.

Aged care and health

Health and aged care receive significant additional funding as demand continues to rise. The Budget commits $25 billion in additional hospital funding over the medium term, alongside incentives to expand bulk billing and reduce strain on emergency departments.

The Government has confirmed further reductions in the cost of medicines, building on earlier PBS reforms, with cheaper scripts and faster access to newly listed drugs funded through additional PBS investment.

Aged care reform focuses on both supply and workforce sustainability. The Government will fund incentives to support construction of an additional 5,000 residential aged care beds per year by 2029.

The NDIS also features prominently, with continued efforts to rein in unsustainable cost growth and strengthen integrity. Measures include tightening eligibility, reducing rorting and redirecting funding towards participants with the highest needs.

Future proofing

The focus on national resilience is a defining characteristic of the Budget.

Fuel security is front and centre following the global oil shock, with measures to secure domestic fuel reserves, reserve 20 per cent of gas exports for Australian use and provide concessional finance to logistics and manufacturing firms most exposed to price volatility.

Defence spending also rises sharply, with a record additional $53 billion committed over the coming decade. The focus is on readiness, supply chains and regional security, reflecting growing geopolitical risk in the Indo Pacific and beyond.

Looking ahead

The outlook remains uncertain. Treasury acknowledges the risk of further inflation spikes if global energy markets deteriorate, with worst-case scenarios still modelling inflation above 7 per cent and higher unemployment. But the central forecast avoids recession and assumes gradual improvement from late 2027 onward.

If you have any questions about how the 2026 Federal Budget may affect your personal finances, please contact us to discuss.

Information in this article has been sourced from:

– The Budget Speech 2026-27 (https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/speeches/2026-27-budget-speech-parliament-house-canberra)

– and Federal Budget support documents (https://budget.gov.au/)

It is important to note that the policies outlined in this article are yet to be passed as legislation and therefore may be subject to change.

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