



TechKnow Podcast – May 2026 – *What a super budget*

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Host: Bryan Ashenden

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Transcript

What a super(annuation) Budget

After a couple of comparatively benign years, the 2026-27 Federal Budget delivered in spades. Not necessarily in terms of what many Australians were after, but the level of change is arguably the most significant seen in over 25 years, particularly in terms of changes to taxation. Given it was untouched in this year's Budget, and the implications from the changes announced, has this Budget become a super Budget for the superannuation system?

Hello, and welcome to TechKnow, a podcast series brought to you by BT Technical Services. My name is Bryan Ashenden, and I have the pleasure of leading the BT Technical Services team – a group of professionals dedicated to helping you as advisers work through strategy options for your clients.

In today's podcast, I will explore why this year's Federal Budget should be considered a super Budget for the superannuation system, despite changes that are coming in from 1 July 2026. And then we will have a look at the Bill recently introduced into Parliament that starts to implement changes, particularly those around capital gains tax, that were announced in the Budget this year.

So, super. Let's start there. And in terms of this year's Federal Budget, we can almost stop there as well. A search for the word "super" in Budget Paper #2, which sets all Budget related measures, returns 23 results. The vast majority of these relate to broader measures the Government is considering around governance in the superannuation space post the collapse of Shield and First Guardian. In terms of changes that directly impact members, there were none. The only context of changes in the super space was the

mention of the capital gains tax (or CGT) and negative gearing changes not applying to complying superannuation funds.

Superannuation funds retain the one-third CGT discount that applies for underlying investments held for at least 12 months. There is no loss of this, nor a move (or perhaps reversion) to the indexation methodology that will apply to individuals, trusts and partnerships. The quarantining of negative gearing deductions for investments into residential investment properties will not apply to superannuation funds either. Not that you would be looking to establish a negative gearing strategy inside super, but the carve-out, or exemption, is positive news.

Now superannuation is not immune to change. In fact, there is a large, significant change on the horizon that will impact some members from 1 July 2026, and has the potential to impact many more in the future. This is, of course, the impending commencement of Division 296 which imposes an extra 15% tax on a portion of superannuation earnings for those with more than \$3M accumulated within the super environment (whether in accumulation or pension phase), and then another 10% on top of that to the extent their total super balance exceeds \$10M.

So how does this make super a winner when you could be talking about taxes of up to 40%? Well, the answer is it's all about the comparison. As a starting point, the Division 296 taxes are an extra tax imposed on only a portion of earnings, depending on how far a member is above the \$3M or \$10M threshold. For a member who hits the \$10M threshold exactly, its 70% of their earnings that are taxed at the extra 15% - or if you like, a 10.5% tax on the total earnings they have inside super. If they are entirely in accumulation phase, this equates to a 25.5% tax incorporating the standard 15% tax rate. In pension phase, where there is generally no tax to pay within super, it's only a 10.5% tax rate.

And remember, these tax rates apply to the taxable income (really taxable earnings when you reduce for concessional contributions received) within the fund (with some adjustments), so is against what may already be discounted capital gains given only 2/3rds of the capital gains on assets owned for at least 12 months within super get the 1/3rd discount.

How does this compare? It depends on what you want to compare to. Take individuals as an example. Earnings on investments can be taxed anywhere from Nil to 47% - it depends on the individual's level of taxable income in a particular year. Once an individual has taxable income of more than around \$55,000, they will have an average tax rate above 15%. A conservative rate of return of 4% inside super says you need \$1.375M total super balance to reach \$55,000 taxable returns.

If they have taxable income more than around \$138,000, their average tax rate exceeds 25.5%. Again, based on a 4% return, this requires \$3.45M inside super. And accounting for Division 296 tax and assuming the member is in accumulation phase in super, a balance of \$3.45M actually only results in an overtax of 16.95% on super earnings. Higher returns means more a higher average tax rate if investments held outside super. Higher returns wont impact the average tax rate in super – as the adjustment for Division 296 is only based on higher balances.

Based on these, superannuation looks attractive from a tax perspective, even if Division 296 applies.

And consider the changes proposed to CGT. Individuals (along with trusts and partnerships) will lose CGT discounting benefits for growth on assets that occurs after 1 July 2027. And those post 1 July 2027 gains, whilst potentially being slightly reduced due to indexation of the cost base, will be subject to a minimum 30% tax rate – higher than that which would apply for the same gains inside super even with extra Division 296 tax applying.

For example, a \$10,000 gross capital gain to an individual, could be reduced to, say \$9,000 due to indexation. At a minimum of 30% tax, that's at least \$2,700 tax to be paid. In super, the \$10,000 gain is reduced by 1/3rd down to \$6,667. No tax would be paid if in pension phase and no Division 296 impact. In accumulation, the standard tax would be \$1,000. If the member had \$10M in super and was in accumulatio phase, with the average tax rate of 25.5%, its only \$1,700 in tax.

With discretionary trusts also to be subject to the 30% minimum tax (subject to some exceptions), the same comparison – and same results - arise.

The 30% minimum tax in respect of capital gains can be avoided if the individual has been in receipt of certain Commonwealth income support payments, such as the age pension, during the year the asset is sold. This will open up the opportunity to explore the use of innovative income streams in the superannuation environment, essentially deferred and or lifetime annuities, the development of which has been encouraged by Governments for their longevity benefits. But they also come with some asset test discounting advantages that may allow clients to qualify for a small age pension in the future.

Now, whilst superannuation has been, and remains a tax effective investment vehicle, decisions should not be based on tax alone. Superannuation requires foregoing access to the funds for what could be an extended period of time. But if the plans for your clients include what their retirement looks like, then tax has to be part of the equation, as they can

only live on what's available after tax. So super is an important consideration for longer-term lifestyle decisions.

OK, on that note, it's time for a short break. But don't go anywhere as I'll be back in less than a minute to have a look at the Bill recently introduced to Parliament to give effect to some of this year's Federal Budget announcements.

Welcome back to our TechKnow podcast. Continuing with the theme of the 2026-27 Federal Budget tax announcements, recently we saw the Government introduce the first Bill which is intended to implement some of the changes around capital gains tax and negative gearing, as well as the standard \$1,000 deduction and Working Australians Tax Offset for workers into the future.

I do say some of the changes around areas like capital gains tax, as there is still more to come, although these may be done by the Minister via legislative instruments or regulations, rather than formal legislation. But what can we observe and what's relevant from this first Bill?

When it comes to capital gains, the removal of the 50% CGT discount for individuals, trusts and partnerships will apply, as announced in the Budget, for disposals that occur on or after 1 July 2027. From that point in time, the existing discounting methodology will be replaced with an indexation approach, which is what applied prior to September 1999.

The complexity in the approach arises due to differing treatments for different types of assets, the application of capital losses, and the transitional approach for assets acquired before 1 July 2027, but disposed of on or after that date, due to the change in calculation methods.

Dealing to the transitional approach first, if your client had acquired an asset before 1 July 2027 and still owns it at the time, they will be entitled to the use of the CGT discount method for gains that have accrued up to that point in time, and the indexation methodology will apply against gains that accrue thereafter. In order to determine the level of gain (or loss) that occurred up until 1 July 2027, there is a deemed sale and reacquisition of the asset as at that time. Initially, this deemed sale and reacquisition is done at market value at that time, although there is scope for the Minister to provide to prescribe a different methodology which could be used. The details of the alternative method are not yet known, but is not compulsory to be used if the market value method is preferred.

The difference between the original cost of the asset and its market value at 1 July 2027 is regarded as a deferred capital gain. Whilst the calculation is essentially undertaken at 1

July 2027, no tax is payable at this time. Rather, the amount of this notional gain (before discounting) is deferred until such time as the asset is actually sold. These deferred gains then need to be categorised into one of two types – either a deferred non-residential gain, or deferred residential gain. The distinction between residential and non-residential gains broadly comes down to whether the asset was one used to provide residential accommodation or not, and if only used for that purpose for part of the ownership period, an apportionment is required.

To the extent gains accrue from 1 July 2027, the indexation method will be used. Similarly, these gains are also split into non-residential and residential capital gains, but are not deferred as they relate to the actual sale price at the time the asset is sold on or after 1 July 2027.

So why do we have this split into what is now 4 categories of capital gains, being:

- Deferred non-residential capital gains
- Deferred residential capital gains
- Non-residential capital gains
- Residential capital gains

The split between the deferred and non-deferred gains makes sense, in that it allows for gains accrued to 1 July 2027 to still be eligible for CGT discounting (provided the asset is actually owned – ignoring the deemed sale and reacquisition on 1 July – for at least 12 months). And over time, as assets acquired pre 1 July 2027 are eventually sold, these categories will diminish in size and ultimately disappear, leaving gains to be calculated solely under the indexation method.

The split between residential and non-residential categories is, perhaps, more relevant as this is important for the utilisation of capital losses, as well as any amount quarantined from changes to negative gearing on residential investments from 1 July 2027.

The reason I say this is that under these new proposed rules, there is a prescriptive order in which capital losses are to be utilised – or in other words, against which gains they must be offset. Currently, taxpayers have a choice against which gains capital losses are to be offset.

Under the newly proposed laws, capital losses (current year and then any carried forward amounts) must first be offset against deferred gains, but in the first instance against any non-residential gains. This means a capital loss arising on an asset purchased on or after 1 July 2027, held for more than 12 months, and therefore calculated under the indexation regime (albeit with no indexation applying if it is a capital loss) being offset against a

notional deferred gain calculated for an asset owned before 1 July 2027, against the notional gain calculated to that point in time. As a result, after discounting, the taxpayer essentially only gains 50% of the benefit of the capital loss.

If there are any capital losses still remaining, they are then applied against deferred residential gains. If any still remain, then we move to the non-deferred gains – or those calculated under the indexation methodology, but again applied to non-residential gains first, followed thereafter by any residential gains.

Next, we also need to see if the taxpayer (or your client) has what is referred to as a “quarantined amount”. These quarantined amounts essentially represent the negative gearing amount on a residential investment property asset that arise from 1 July 2027 – being the amount of the negative gearing deduction that is no longer allowed to be claimed as a tax deduction. Instead of solely being quarantined and carried forward to offset against any future positive gearing position, if a residential asset is sold during the year (even if not the asset that is negatively geared), the unused deduction (or quarantined amount) will act like a quasi-capital loss and reduce the level of assessable capital gains. Whilst this is still of a benefit to your clients, in that it reduces the level of tax payable, we are again in a position where a quarantined deduction that arises from 1 July 2027 is potentially reducing the level of a notionally discountable capital gain that arose prior to 1 July 2027, and therefore may only provide 50% of the benefit – certainly when compared to the position if offset against a post 1 July 2027 gain, or a future positively geared position on a residential asset.

Only after applying all these rules, and any applicable CGT discounting, do you get to the position of considering (with one exception) the application of any of the small business CGT concessions. The one exception is for those assets that qualify for exemption under the 15 year rule for eligible small business taxpayers.

Without doubt, the operation of the new CGT rules will be complex and difficult for many clients to understand. And whilst as financial advisers you may not be giving pure tax advice, understanding the operation of the tax rules and how they impact on your client’s wealth journey is vitally important.

As I said earlier, there is still more to come in this space. The expected rules on who can still qualify for the 50% discount, such as being rumoured for start ups, are yet to come. The current Bill itself has been referred to a Senate Economics committee for report, which is due to be delivered by 19 June 2026. With the Bill having progressed through the House of Representatives already, it will be interested to see what bearing the Committee report has on passage through the Senate.

Well, that's about all we have time for in this podcast.

Come back and join me for our next TechKnow podcast when I will give an update on where things stand, as well as take a more in-depth look at some of the other Budget announcements around tax changes, including negative gearing and the taxation of discretionary trusts.

Just a reminder, if you have any questions about the content of today's podcast, or other advice strategy questions in general, and you are a registered adviser with BT Panorama, you can contact our BT Technical Services team via the BT Panorama mobile app. To call, simply open the app, head to the contact us section, and navigate to the option to initiate a call with BT technical services. Or you can simply email the team at technical@btfinancialgroup.com.

And don't forget to join us for our fortnightly BT Academy Webinar series where we talk all things regulatory and technical. Our next webinar will be held at midday AET on Wednesday, 17 June 2026 when Matt Manning, one of BT's Technical Services consultants will talk more about Division 296 with its impending start date of 1 July 2026, and use a range of case studies to explore its operation in more depth.

To register for that session, simply head to www.bt.com.au/professional and navigate to the Events and Webinars section within BT Academy. You can also explore previous some of our previous webinars that are available on demand and quality for CPD points if originally held within the last 12 months.

Once again, thanks for joining us today. Until next time, bye for now.