

2026 BUDGET

Property tax reform and the role of depreciation

An explanation of the negative gearing
and Capital Gains Tax changes
announced on 12 May 2026.

A man and a woman are shown in profile, looking out a window. The woman is in the foreground, smiling broadly, with her arm around the man's shoulder. Both are holding mugs. The background is a bright, out-of-focus view from the window.

Introduction

The 2026–27 Federal Budget has announced significant changes to negative gearing and Capital Gains Tax (CGT) rules which will commence from 1 July 2027.

While the measures are not yet legislated, they could change how some residential property investors assess future purchases, particularly when comparing established properties with new builds.

For investors, the key message is simple: tax planning and accurate depreciation records will become even more important.

What is changing?

“

Properties owned or contracted before this time will be grandfathered, meaning the current negative gearing rules would continue to apply until the property is sold.

The announced reforms focus on two key areas:

1. Negative gearing for established (second-hand) residential properties

2. Capital Gains Tax treatment for all assets that attract CGT

Proposed negative gearing changes

Under the proposed rules, losses from impacted established residential properties will be quarantined from 1 July 2027.

The changes will apply to established residential properties acquired after 7:30pm AEST on 12 May 2026.

Properties owned or contracted before this time will be grandfathered, meaning the current negative gearing rules would continue to apply until the property is sold.

This will also apply where a property was owned before the changes as a principal place of residence and later becomes an investment property.

There will be a transition period. Properties acquired after Budget night can still be negatively geared until 30 June 2027. From 1 July 2027, losses from impacted properties may no longer be deductible against other income, such as salary or business income. Instead, those deductions would be carried forward or 'quarantined'.



Negative gearing of property: key dates and rules

How negative gearing applies to second-hand residential property based on purchased or contracted date



Purchased or contracted refers to the date the property was acquired or contracts were exchanged.

What happens to quarantined losses?



Impacted property deductions, including depreciation and other rental property deductions, would be carried forward and used later to offset future residential rental income or residential property capital gains when a property is sold.

For example, if an impacted established property produces a \$20,000 rental loss after 1 July 2027, the \$20,000 loss would be carried forward. If the property later becomes positively geared and earns \$8,000 in net rental income, the investor will be able to use \$8,000 of the carried-forward loss to reduce that rental income and therefore tax liabilities to nil, leaving \$12,000 carried forward.

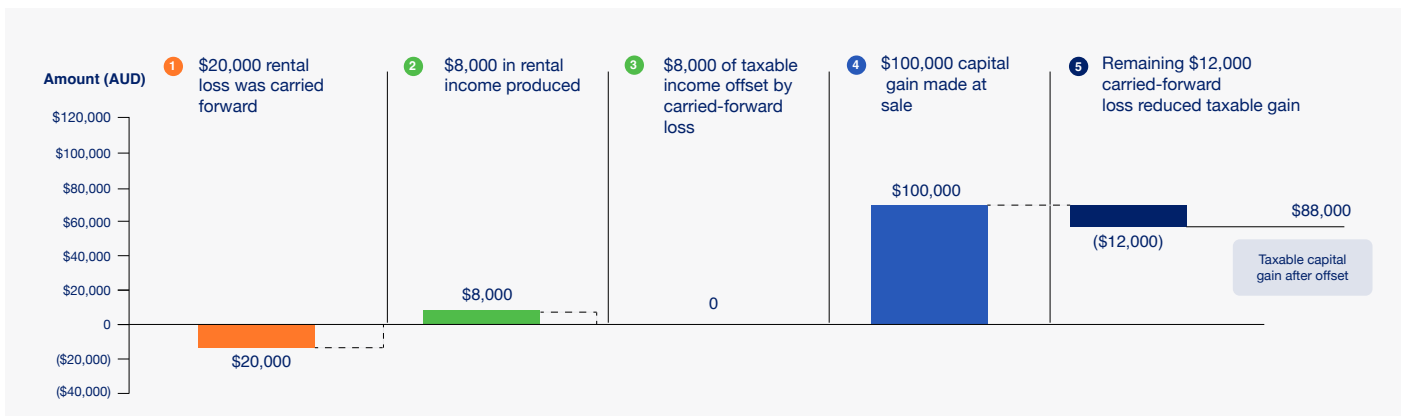
If the investor later sells a residential property and makes a \$100,000 capital gain, the remaining \$12,000 would be used to reduce the gain to \$88,000, subject to the final rules.

This makes timely record keeping critical. Investors will need to understand which deductions relate to impacted properties, what has been quarantined, and what may be available to offset future residential property income or gains.

Recording depreciation in the relevant income year also gives investors and their accountants clearer records, stronger support for carried-forward deductions, and less risk of missed claims, incomplete information or prior-year amendments.

“ Recording depreciation in the relevant income year also gives investors and their accountants clearer records, stronger support for carried-forward deductions, and less risk of missed claims, incomplete information or prior-year amendments. ”

Carried-forward rental loss in practice



What about new builds?

New builds are expected to remain eligible for full negative gearing.

However, the definition of a new build is important. To qualify, the property must add to housing supply. For example, a knock-down rebuild that results in the same number of dwellings may not qualify, because it does not add to housing supply.

Meanwhile, a knock-down rebuild that results in additional dwellings, such as replacing one house with a duplex will be eligible to take advantage of negative gearing.

A granny flat added to an existing property may not qualify as a new build for this purpose. While it may increase accommodation on the site, the primary dwelling remains established.

	Eligible for negative gearing?
New property purchased after 12 May 2026	Yes
Knock-down rebuild: 1 house to duplex	Yes
Newly built property which is occupied for less than 12 months before being sold to an investor	Yes
Like-for-like knock-down rebuild	No
New granny flat on existing property	No

SMSFs and other asset classes

The announced negative gearing changes do not apply to all investors or asset types in the same way. Based on Budget notes, SMSFs are expected to be exempt from the negative gearing changes.

Commercial property, shares and other asset classes are also expected to be unaffected by the negative gearing reforms. However, the CGT reforms are broader and are expected to apply to all CGT assets.



Capital Gains Tax changes

From 1 July 2027, the Budget announced the replacement of the 50 per cent Capital Gains Tax (CGT) discount with cost base indexation based on CPI for all CGT assets.

Under the current rules, many individuals and trusts can access a 50 per cent CGT discount when they sell an asset they have held for more than 12 months. The announced new rules replace the discount with indexation, meaning the asset's cost base will be adjusted for inflation instead. A minimum 30 per cent tax rule may also apply to net capital gains.

For example, under the current 50 per cent CGT discount method, if an investor's property cost base was **\$600,000** (purchase price + purchasing costs) and sold it for **\$750,000**, the **\$150,000 capital gain** would be reduced by 50 per cent, meaning **\$75,000** would be taxable at the applicable marginal rate.

Under the indexation method, the investor would instead adjust the asset's cost base for inflation. Using the same property, if the indexed cost base increased from **\$600,000** to **\$650,000**, then selling the property for **\$750,000** would result in a **\$100,000 capital gain** before applying the relevant tax rate or minimum tax rule.

For properties purchased before 12 May 2026 and sold after 1 July 2027, the gain may need to be split between the period before and after the new rules commence.

For example, using the same property purchased for \$600,000, if it was valued at **\$700,000 on 1 July 2027**, the **\$100,000 gain** up to that date would retain existing 50 per cent discount CGT treatment.

If the same property was then sold in 2028 for **\$750,000**, the additional **\$50,000 gain** made after 1 July 2027 would be calculated under the new indexation rules. The ATO is expected to release tools that calculate a property's value at 1 July 2027 and apply CPI indexation for gains made after that date.

This means the investor may still access the 50 per cent CGT discount on the gain made before 1 July 2027, while the gain made after that date would be calculated using cost base indexation.

Split CGT treatment example: property bought before Budget and sold after 1 July 2027

Joe purchased an investment property in 2024 with a cost base of \$700,000.

On 1 July 2027, the property is valued at \$820,000. Joe sells the property in 2029 for \$900,000.

Because the property was purchased before the Budget changes and sold after 1 July 2027, the gain is split.

Gain before 1 July 2027:

$\$820,000 - \$700,000 = \$120,000$ gain. This portion retains the existing 50% CGT discount, therefore:

$\$120,000 \times 50\% = \$60,000$ taxable gain

At a 37% tax rate:

$\$60,000 \times 37\% = \$22,200$ tax payable

Gain from 1 July 2027:

Assume the \$820,000 value is indexed at 2.5% per year for two years.

$\$820,000 \times 1.025 \times 1.025 = \$861,513$ indexed value
 $\$900,000$ (sold price) – $\$861,513$ (indexed value) = $\$38,487$ taxable gain

At a 37% tax rate:

$\$38,487 \times 37\% = \$14,240$ tax payable

Total estimated CGT payable

$\$22,200 + \$14,240 = \$36,440$

New build CGT choice

Under the announced rules, investors in new residential properties may be able to choose between the 50 per cent CGT discount or cost base indexation, depending on which produces the better result.

This could make new builds more attractive for some investors.



Depreciation and CGT

Depreciation of plant and equipment and capital works deductions can both affect the CGT outcome when an investment property is sold.

Currently, when a property is sold, the capital gain is calculated by comparing the sale price with the property's cost base. Capital works deductions for the building's structure, whether claimed or able to be claimed, reduce that cost base over the ownership period.

Eligible plant and equipment assets, such as appliances and carpets, also need to be considered when the property is sold and factored into the tax calculation at sale. These assets are treated separately from the building. If an eligible plant and equipment asset has been fully depreciated, its remaining tax value is nil. If that asset still has value when the property is sold, that value may need to be accounted for separately, such as through a balancing adjustment. This does not reduce the building's cost base in the same way as capital works, but it can still affect the investor's overall tax outcome at sale.

CGT event K7 is also currently relevant for some residential investors. Where depreciation deductions for plant and equipment have been denied, such as for certain second-hand residential assets, the unclaimed decline in value can be recognised as a capital loss when the property is sold or the asset is disposed of. This capital loss can then reduce the investor's overall capital gain.

Although we do not yet have full clarity on how depreciation will interact with the final CGT rules, accurate depreciation records will ensure maximum losses are captured by showing:

- what depreciation was available to be claimed
- what depreciable assets contribute to a capital loss
- what deductions may have been quarantined and carried forward
- how capital works may affect the cost base

Conclusion

The 2026–27 Federal Budget announced major changes to how some property investment losses and capital gains are treated.

While the final rules are still subject to legislation, the message for investors is clear: tax outcomes may depend more heavily on property type, purchase timing, ownership structure and the quality of supporting records.

Depreciation remains central to that picture. An ATO-compliant tax depreciation schedule can help investors maximise cash flow during ownership, track deductions that may be carried forward, and reduce CGT liabilities when the property is sold.

Having a schedule prepared early helps ensure depreciation amounts are recorded in the right income years, rather than needing to adjust previous years' records when losses are applied against future income or a capital gain. This gives investors and their accountants clearer records, stronger support for carried-forward deductions, and less risk of missed claims, incomplete information or prior-year amendments.

For more information on how a tax depreciation schedule can help support carried-forward losses and assist with future CGT calculations under the announced changes, contact BMT Tax Depreciation on **1300 728 726** or **Request a Quote**.



t 1300 728 726 | f 1300 728 721 | e info@bmtqs.com.au | w bmtqs.com.au



Sydney
Angel Place
Level 17, 123 Pitt Street
Sydney, NSW 2000

Parramatta
Level 14, 3 Parramatta Square,
153 Macquarie Street
Parramatta NSW 2150

Brisbane
320 Adelaide St
Brisbane QLD 4000

Gold Coast
Level 15 Corporate Centre One
2 Corporate Court
Bundall QLD 4217

Newcastle
19 Brunner Road
Broadmeadow NSW 2292

Melbourne
Level 50, 120 Collins Street
Melbourne VIC 3000

Darwin
Level 1, Paspalis Centrepoint
48-50 Smith Street
Darwin NT 0800

Perth
Level 28, 140 St Georges Terrace
Perth WA 6000

Cairns
Boland Centre, 14 Spence Street
Cairns QLD 4870

Canberra
Level 5, 15 Moore Street
Canberra ACT 2600

Adelaide
Ground Floor,
121 King William Street,
Adelaide SA 5000

Hobart
Level 3, 85 Macquarie Street
Hobart TAS 7000