



Federal Budget 2026

May 2026

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Executive summary



MARTIN SHEPPARD

National Chairman



ANDREW YATES

Chief Executive Officer

“The 2026-27 Budget includes significant changes to the taxation of investments and a welcome productivity and investment package. These measures are reasonable in an economic sense. However, if the Federal Government is to achieve its ambition for greater intergenerational equity, further focus is necessary on spending restraint, comprehensive tax reform and further measures to drive productivity in the economy.”

The Budget reflects the Government’s efforts to navigate a complex economic and geopolitical environment, balancing fiscal discipline with cost-of-living relief while managing inflation risk.

The Budget forecasts aggregate deficits in the underlying cash balance over the forward estimates period to 2029-30 of \$150.5 billion. Federal Government net debt is expected to be \$767.8 billion in 2029-30, or 21.9% of GDP.

Encouragingly, unemployment is expected to remain relatively steady at no more than 4.5 percent over the period to 2029-30. Those in work will welcome the \$250 annual tax offset against employment income from 2027-28.

It was flagged in advance that the Budget would include material reforms to capital gains tax, negative gearing and the taxation of income from certain trusts. The impact that these reforms will have on investment preferences, and on housing affordability remains to be seen. Interestingly, the measures are forecast to raise only \$8.1 billion to 2029-30.

We welcome the Government’s productivity and investment package and its focus on streamlining certain investment approvals. Many businesses should benefit from the Budget’s additional support measures for research and development, investment in business assets and for loss carry backs.

On the expenditure front, the Budget includes curbs to spending on the National Disability Insurance Scheme totalling more than \$35 billion to 2029-30.

The Iran conflict has introduced considerable additional risk and uncertainty for Australia. In this context, the additional spending on fuel security measures and defence reflects the Government’s focus on national resilience and preparedness.

The conflict also presents inflationary risks. However, it will be necessary to balance calls for further cost-of-living relief against the impact that government payments may have on the ability to stabilise and ultimately reduce interest rates.

Andrew Yates
Chief Executive Officer

Martin Sheppard
National Chairman

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Economic analysis



DR BRENDAN RYNNE

Partner, Chief Economist

“Despite what the Treasurer is saying in his Budget Speech this is not a tax reform Budget; it is a budget squarely aimed at generating additional tax revenue to help pay for spending and higher interest payments on debt.”

WHAT'S IN THE BUDGET

- **\$126 billion** of additional Tax Receipts by the end of the Forward Estimate period.
- **\$129 billion** of additional spending on Operating Activities by the end of the Forward Estimates.
- **\$122 billion** of deficits over the Forward Estimates on an Underlying Cash Balance basis and \$217 billion on a Headline Cash Balance basis
- **\$303 billion** of additional Government Debt Securities expected to be issued over the next four years from the end of FY26.
- **Interest expense as a proportion of Operating Activities rises from 3.5% (\$27.1 billion) in FY26 to 4.7% (\$42.2 billion) in FY30.**

The Commonwealth Government has laid down a Budget that seeks to generate additional tax revenue to help pay for an expanding range of goods and services being provided to the Australian population. Broadly, this additional ask on Australian tax payers is not unreasonable; we as a nation pay relatively less in tax than the OECD average, and as good and services become more expensive it is reasonable for the Government of the day to seek more from those that can afford to pay.

However, couching this as a tax reform budget is generous. Tax reform incorporates principles of simplicity, equity, efficiency and revenue adequacy and arguably the tax changes proposed in this budget, largely under the rationale of improving ‘intergenerational equity’, fall short of some of these ideals. This can be readily seen through the Government’s increased reliance on income based taxes, which rise to 77.9% of total tax revenue compared to the previous 10-year average of 75.6%. However, the budget’s productivity and investment package is a step in the right direction and is commendable.

Treasury’s GDP growth forecasts presented in the Budget appear a little optimistic, both in terms of the RBA’s and KPMG’s latest forecasts. The likelihood of economic uncertainty extending beyond next financial year as a consequence of the current oil price shock is considered high. That, combined with higher than expected interest rates, is likely to pull down consumption and business investment more than what is anticipated in Treasury forecasts.

WHAT DOES IT MEAN FOR YOU?

- Tax receipts as a proportion of GDP lifts to 23.7% over the forward estimates period, up from an average of 22.9% over the last 10 years to FY26.
- The additional tax ask is considered reasonable and appropriate to help pay for more and higher cost goods and services being provided to the public. Whether those goods and services are being delivered efficiently and at the least cost remains important.
- Proper tax reform remains lacking. Improving Australia’s tax efficiency requires reducing dependence on income taxes and increasing reliance on consumption-based taxes.

Geopolitics



JON BERRY

Geopolitics Lead

“Countries all over the world are trying to end energy dependence on unreliable suppliers, increase self-sufficiency, and build trusted networks with closely aligned partners. The Budget provides clear local examples of this trend.”

WHAT'S IN THE BUDGET

- **\$7.5 billion** to increase fuel reserves and fertiliser stockpiles.
- **\$3.2 billion** for a state-operated fuel security reserve.
- **\$35.5 million** for the Domestic Gas Reservation Mechanism and supporting gas investment.
- **\$4 million** for a green fuel bunkering strategy, and **\$24.7 million** for solar panel recycling.
- **\$55 million** to support rail and maritime freight.
- **\$110.2 million** over 5 years to boost trade and investment relationships, including **\$10.8 million** for the Singapore-Australia Green Economy Agreement.

The 2026 Federal Budget includes key policies that reveal how Australia is navigating the volatile geopolitical environment. As the open, rules-based global trading order continues to fracture, the Treasurer has announced a series of measures that aim to make Australia more resilient to global shocks.

For example, the Budget includes new spending commitments to reduce Australia's vulnerability to volatile energy markets that have recently been disrupted by conflict in Iran. These measures include a focus on increasing refined fuel and fertiliser stockpiles and domestic fuel refining. There is also support for solar, batteries, and clean liquid fuels, all of which meet decarbonisation objectives as well as contribute to greater energy sovereignty.

The government has also pursued greater energy security by signing 'landmark supply chain agreements' with Brunei Darussalam, Japan, the Republic of Korea and Singapore.

These measures are part of a broader global trend that impacts energy, agriculture, tech and defence industries. Countries all over the world are trying to end dependence on unreliable suppliers, increase self-sufficiency, and build trusted networks with closely aligned partners. As Australia navigates these shifts, we can expect additional targeted support for these domestic industries – and for partnerships with like-minded countries – in the years ahead.

WHAT DOES IT MEAN FOR YOU?

- Over time, more domestic refined fuel reserves should reduce availability and cost risks for households, as well as fuel-intensive industries like agriculture, mining and transport.
- Some companies will benefit from government support for renewable energy projects.
- We can expect more policies in the years ahead that aim to reduce Australia's dependence on potentially unreliable countries for energy, agricultural inputs, tech, and defence products. These could include more public funding for key projects in these sectors, and greater government intervention.

What the budget means for different demographics



TERRY RAWNSLEY

National Lead – Demographics & Urban Economics

DEMOGRAPHIC GROUP

JOBSEEKER RECIPIENTS

0.9 MILLION PEOPLE

10% UNDER 25 YEARS OLD **42%** BETWEEN 25 AND 44 **48%** AGED 45+

2.5 YEARS AVERAGE DURATION ON JOBSEEKER **34%** ON JOBSEEKER FOR LESS THAN 1 YEAR

21% EARNED INCOME FROM EMPLOYMENT IN THE LAST FORTNIGHT

AGED PENSIONERS

2.7 MILLION PEOPLE

13% IN THEIR 60s **51%** IN THEIR 70s **36%** 80 AND OVER

56% FEMALE / 44% MALE

RENTERS

AROUND ONE THIRD OF HOUSEHOLDS ARE RENTERS

MORE THAN 80% WERE RENTING FROM PRIVATE LANDLORDS

3.7% RENTS INCREASE IN THE LAST YEAR **5.2%** DOWN FROM THE YEAR BEFORE

RECENT FIRST HOME BUYERS

119,000 LOANS FOR OWNER OCCUPIERS IN 2025 **UP 1.7%** FROM YEAR BEFORE

\$571,000 AVERAGE LOAN FOR OWNER OCCUPIER IN 2025 **6.9%** UP FROM PREVIOUS YEAR

7,900 RENT-VESTORS FIRST HOME BUYERS IN 2025 **WITH AVERAGE LOAN OF \$520,000**

2026-2027 OUTLOOK

ECONOMIC OUTLOOK	BUDGET OUTLOOK
<p>Unemployment rate is expected to rise to 4.5% in 2026-27, pushing more people onto JobSeeker.</p> <p>Cost-of-living pressures are expected to remain high, with CPI growth peaking at 5% in 2025-26 and then falling to 2.5% in 2026-27.</p>	<p>\$316.1 million over five years from 2025-26, to support Australians into employment and improve participant experience.</p> <p>Increases in Commonwealth Rent Assistance.</p>

ECONOMIC OUTLOOK	BUDGET OUTLOOK
<p>CPI growth peaking at 5% in 2025-26 and then falling to 2.5% in 2026-27.</p>	<p>Over \$600 million over four years invested in the aged care sector to deliver more residential aged care beds and improve affordability and access to home care supports.</p>

ECONOMIC OUTLOOK	BUDGET OUTLOOK
<p>CPI growth peaking at 5% in 2025-26 and then falling to 2.5% in 2026-27.</p> <p>National dwellings investment to increase 4% in 2026-27 which points to increased housing supply.</p>	<p>Enabling local infrastructure with an additional \$2 billion over four years to support more new homes.</p> <p>Tax cuts and \$1,000 instant tax deduction.</p> <p>Increases in Commonwealth Rent Assistance supporting more than 1.4 million renters.</p>

ECONOMIC OUTLOOK	BUDGET OUTLOOK
<p>CPI growth peaking at 5% in 2025-26 and then falling to 2.5% in 2026-27.</p> <p>A further cash rate increase in the September quarter of 2026 is expected to raise mortgage repayments.</p>	<p>Tax cuts and \$1,000 instant tax deduction.</p> <p>Impact from changes to negative gearing and Capital Gains Tax are unclear at this stage.</p>

Sources:

Department of Social Services: Benefit and Payment Recipient Demographics, December 2025
 Australian Institute of Health & Welfare: Home ownership and housing tenure
 Australian Bureau of Statistics Consumer Price Index, Australia March 2026
 Australian Bureau of Statistics Lending indicators, December 2025

Individuals

“This Budget represents a shift in the tax landscape for individuals. There are changes to personal income tax settings for workers and significant future changes for investors including capital gains tax, negative gearing and discretionary trust settings.”



DANIEL HODGSON

Partner, People Services



HAYLEY LOCK

Partner, People Services

WHAT'S IN THE BUDGET

- **Change in CGT rules**, headed by the removal of the 50 percent CGT discount, a return to cost base indexation, and a minimum 30 percent tax on capital gains arising from 1 July 2027.
- **Negative gearing changes**, with existing investments and new builds retaining current negative gearing concessions, while new purchases of established residential properties face restricted concessions.
- **Minimum tax on discretionary trusts** of 30 percent from 1 July 2028.
- **Modest and simplified tax relief for workers**, including a \$250 tax offset and instant \$1,000 tax deduction for work-related expenses.

Personal income tax rates and Working Australians Tax Offset

The Budget introduces a Working Australians Tax Offset of \$250 per worker claimable through the income tax return for the 2027-28 tax year.

Coupled with previously announced changes to income tax rates (see below), this will contribute towards reducing 'bracket creep'.

THRESHOLDS	CURRENT TAX RATES	TAX RATES IN 2026-27	TAX RATES IN 2027-28
Up to \$18,200	0	0	0
\$18,201 - \$45,000	16%	15%	14%
\$45,001 - \$135,000	30%	30%	30%
\$135,001 - \$190,000	37%	37%	37%
From \$190,000	45%	45%	45%

The Medicare levy low-income threshold will increase effective 1 July 2025 by 2.9 percent across the various groups e.g. from \$27,222 to \$28,011 for singles, \$45,907 to \$47,238 for families etc.

Tax deduction for work-related expenses

From 1 July 2026, the government has introduced a \$1,000 instant tax deduction for work-related expenses incurred by Australian tax residents, without requiring receipts. Other non-work related deductions can still be claimed on top of the instant tax deduction (e.g. charitable donations). This is consistent with the exposure draft legislation released in April 2026.

Individuals cont'd

Capital gains tax reform

From 1 July 2027, the 50 percent capital gains tax (CGT) discount will be replaced by cost base indexation for assets held for more than 12 months, with a 30 percent minimum tax on net capital gains introduced.

These changes will apply to all CGT assets (including pre-1985 CGT assets) held by individuals, trusts and partnerships. Capital gains on pre-1985 assets arising before 1 July 2027 will remain exempt from CGT.

Cost base indexation will be calculated based on the Consumer Price Index (CPI).

The government expects the impact of these changes on existing investments to be limited, with the cost base indexation and 30 percent minimum tax only applying to real capital gains accrued from 1 July 2027.

For investment in new residential properties, investors will be able to choose either the 50 percent CGT discount, or cost base indexation and the minimum tax.

For eligible CGT assets other than new residential properties, the following transitional arrangements will apply:

- Assets purchased and sold prior to 1 July 2027 will be grandfathered and not impacted by the changes.
- Gains made on assets purchased after 1 July 2027 will be treated wholly under cost base indexation and the minimum tax.
- Gains made on assets owned prior to 1 July 2027 and sold after 1 July 2027 will be treated under the 50 percent CGT discount for gains accrued up to 1 July 2027 and treated under the cost base and minimum tax method for gains made from this point.

Taxpayers can either seek a valuation of their assets as at 1 July 2027 (including using quoted prices for shares); or use a specified apportionment formula (supported by ATO tools to estimate value).

Changes to negative gearing

From 1 July 2027, the government proposes to limit negative gearing for residential property to new builds only.

Investors who enter into contracts of sale for an established residential property after 7:30pm AEST, 12 May 2026 will only be able to deduct losses against income or capital gains from residential property. Any unused rental losses will be carried forward to future years and quarantined to offset income or capital gains from residential property only.

Negative gearing arrangements will be fully grandfathered for established residential properties held at 7:30 pm AEST on 12 May 2026. This grandfathering extends to residential properties where a contract of purchase was entered into before that time, even if settlement occurs after that date.

Other asset classes, such as shares and commercial property, will remain subject to existing arrangements (i.e., negative gearing can apply without restriction).

Minimum tax rates for discretionary trust distributions

From 1 July 2028, the government will introduce a 30 percent minimum tax on most discretionary trusts.

Trustees will pay a minimum tax rate of 30 percent on the taxable income of discretionary trusts. Beneficiaries, excluding corporate beneficiaries, will receive non-refundable credits for the tax payable by the trustee.

Individuals cont'd

This means that if a beneficiary's effective tax rate is above 30 percent, they will still need to pay additional tax, while those taxed below 30 percent will not receive a refund for the difference. The new rules will also discourage the use of corporate beneficiaries given the potential for double entity taxation.

Expanded rollover relief will be available for three years from 1 July 2027 to support small businesses and others that wish to restructure into another entity type.

Electric vehicle FBT policy reform

The government has committed to delivering policy reform in relation to the existing Fringe Benefits Tax (FBT) discount for electric vehicles (EVs).

EVs valued up to and including \$75,000 that are provided before 1 April 2029 will continue to be eligible for a 100 percent discount on FBT.

EVs valued above \$75,000 and up to and including the fuel-efficient luxury car tax threshold that are provided between 1 April 2027 and 1 April 2029 will be eligible for a 25 percent discount on FBT, implemented through a 15 percent rate in the FBT statutory formula.

From 1 April 2029, a permanent 25 percent discount on FBT will be available for all EVs valued up to and including the fuel-efficient luxury car tax threshold. This discount will be implemented through a 15 percent rate in the FBT statutory formula.

Notably, the discount will not be factored into the Reportable Fringe Benefit Amount for individual reporting which is used for income testing for certain government benefits and obligations.

Salary packaging restrictions

Introduced in conjunction with the \$1,000 instant deduction for work-related expenses, the government intends to remove the ability for workers to salary package certain work-related items (such as laptops, mobile phones and tablets) and other work-related expenses. This has been introduced as an integrity measure to prevent 'double dipping' with the \$1,000 tax deduction.

WHAT DOES IT MEAN FOR YOU?

- Increase in take home pay from 1 July 2026, with a further increase from 1 July 2027 due to the Working Australian Tax Offset and reduction in personal income tax rate from 15 percent to 14 percent.
- With the exception of new builds, future returns for investments in residential property are expected to be materially impacted, reflecting the removal of negative gearing benefits and revisions to capital gains tax.
- Changes to trust tax rules may affect how income is distributed to lower income beneficiaries, limiting the tax effectiveness of these structures.

Multinational tax

“From a multinational tax perspective, the measures reinforce a continued alignment with global reform settings, and a more targeted approach to taxing economic activity connected to Australia.”



ALIA LUM

Partner, Tax Policy Lead



PETER OLIVER

Partner, International Tax



NATALIE RAJU

National Leader, Corporate and International Tax

WHAT'S IN THE BUDGET

- Amendments to the Pillar Two legislation to implement the side-by-side package agreed by the OECD on 5 January 2026.
- Funding for the ATO to continue delivery of the counter fraud strategy, strengthen powers to address fraud, and undertake targeted compliance activity.
- Time-limited concession within the foreign resident CGT regime for certain renewable energy investments, and clarification that Australian 'real property' is determined under Commonwealth legislation with retrospective effect from 12 December 2006.
- Reintroduction of two-year loss carry-back for companies and introduction of loss refundability for start-ups.
- Funding to strengthen and streamline foreign investment approvals.

Pillar Two side-by-side package implementation

The government will amend Australia's global and domestic minimum tax legislation to implement the side-by-side package agreed on 5 January 2026 by the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting.

This will ensure Australia's rules remain aligned with other jurisdictions in supporting a globally coordinated minimum tax framework, reflecting the government's sustained commitment to the multinational tax reform agenda.

The amendments will apply from 1 January 2026 and will impact large multinational groups operating in Australia, with particular significance for groups headquartered in the United States.

Foreign resident capital gains tax (CGT) concession for renewables

As foreshadowed in exposure draft legislation released for consultation on 10 April 2026, the government will introduce a time limited, targeted concession within the foreign resident CGT regime for certain investments in renewable energy infrastructure. The concession will apply to eligible disposals from the first day of the next quarter after Royal Assent. Notwithstanding robust industry submissions calling for a longer period in support of Australia's net zero targets, the concession period will only apply to CGT disposals occurring until 30 June 2030.

Multinational tax cont'd

The concession reflects the government's continued support for investment in the renewables sector while maintaining alignment with the longer term tax treatment of other assets. The government will also clarify that the concept of Australian 'real property' is determined under Commonwealth legislation (rather than state and territory laws), with effect from 12 December 2006. Again, this is despite substantial stakeholder feedback regarding the problematic nature of this retrospective aspect of the measure.

Accelerating foreign investment approvals

The government will provide \$47.5 million over four years from 2026–27 (and \$3.9 million per year ongoing) to the Treasury and the ATO to strengthen and streamline Australia's foreign investment framework. The reforms include a new performance target to finalise all low risk foreign investment applications within 30 days from 1 January 2027, and the removal of ineffective conditions on existing approvals.

Protecting the tax system against fraud

The government will provide \$86.3 million over four years from 1 July 2026, and \$9.7 million per year ongoing from 2030–31, to continue delivery of the Counter Fraud Strategy. The measure will enhance the ATO's real time fraud detection and monitoring capabilities across the tax and superannuation systems, strengthen protections for individuals, businesses and tax agents, and expand the ATO's powers to address fraud by tax intermediaries, including pausing, waiving and recovering tax debts in appropriate cases. Additional targeted compliance activity will be undertaken from 2026–27, including in relation to the Research and Development Tax Incentive.

Notably, the Budget does not refer to ongoing funding for the ATO's Tax Avoidance Taskforce, which has been a consistent feature of recent budgets.

Loss carry-back and loss refundability

The government will provide tax relief to businesses and start-ups by reforming the treatment of tax losses.

From income years commencing on or after 1 July 2026, companies with aggregated turnover of less than \$1 billion will be able to carry back tax losses and offset them against tax paid in the previous two income years, subject to franking account limits.

From 1 July 2028, the government will also introduce loss refundability for eligible start-ups with aggregated turnover of less than \$10 million.

Previously announced measures not in the Budget

There are no further developments in relation to a number of previously announced but unenacted measures, including:

- The significant expansion of the general anti-avoidance rule to schemes that access a lower withholding tax rate or have a dominant purpose of obtaining a foreign tax benefit (announced in the 2023-24 Budget).
- New penalties for mischaracterised or undervalued royalty payments to which withholding tax would otherwise apply (announced in the 2024-25 Budget), and mischaracterised or undervalued dividends or interest payments (announced in the 2024-25 MYEFO).

Multinational tax cont'd

- Amendments to the Managed Investment Trust (MIT) regime to clarify that trusts ultimately owned by a single widely held institutional investor (such as a foreign pension fund) can continue to qualify for MIT withholding tax concessions, following the ATO's release of Taxpayer Alert TA 2025/1 (announced in the 2025-26 Budget).
- Reforms to corporate tax residency rules to move to a "significant economic connection to Australia" test which would bring long-sought certainty to corporate residency (announced by the previous government in the 2020-21 Budget).

WHAT DOES IT MEAN FOR YOU?

- Large multinational groups should revisit their Pillar Two readiness now, as Australia's implementation of the OECD side-by-side package from 1 January 2026 may require reassessment of modelling, data collection and governance to ensure continued compliance. The OECD package also includes more favourable treatment for expenditure-based and production-based tax incentives, and so those with R&D claims may have improved outcomes from 1 January 2026.
- Foreign investors in renewable energy assets may benefit from a limited window of relief, with the proposed CGT concession potentially enhancing exit outcomes for eligible investments disposed of before 30 June 2030.
- Businesses should expect sustained ATO scrutiny and tougher fraud controls, supported by increased funding for real time monitoring, expanded enforcement powers and targeted compliance activity.

Mid-market tax

“This Budget contains some welcome measures for business and aims to address some perceived unfairness in the tax system. However, this comes at the cost of significantly increased complexity, including a paradigm shift in trust taxation and our capital gains tax rules.”



KAYLENE HUBBARD

Partner, Head of Tax,
Mid-Market & Private



ROBYN LANGSFORD

Partner in Charge, Family
Business & Private Clients



NAOMI MITCHELL

National Managing Partner,
Mid-Market & Private

WHAT'S IN THE BUDGET

- **\$3.5 billion** in business tax incentives, including reintroduced loss carry back, new start up loss refundability and a permanent \$20,000 instant asset write off to boost cash flow and investment.
- **\$3.6 billion** of revenue expected to be raised over 5 years under the negative gearing and CGT changes to support new housing supply, improve the fairness of the tax system and help fund new tax cuts for workers.
- Significant reforms to the taxation of trusts that will reduce their ability to be used for so-called “income splitting” including discouraging the use of corporate beneficiaries.
- **\$1.7 billion** in Budget savings expected to be realised from the electric vehicle changes.

Tax relief for businesses

The Budget introduces targeted business cash flow support and investment incentives, including a permanent two year loss carry back mechanism allowing companies with aggregated turnover of less than \$1 billion to recover prior year tax paid from current year losses, a new refundable loss offset for early stage startups (subject to caps linked to employee related taxes), and making the \$20,000 instant asset write off permanent for small businesses to enable immediate deductions for eligible asset purchases.

Negative gearing

The negative gearing changes are introduced to restrict established residential properties acquired from 7:30pm (AEST) on 12 May 2026 from accessing negative gearing with losses deductible only against residential rental income or residential capital gains and excess losses carried forward. Properties acquired before that time (including exchanged but unsettled contracts) will be grandfathered until disposal. New builds are exempt, with further exclusions for superannuation funds, widely held trusts, build-to-rent projects, and certain government-supported housing investments.

Equally, this measure does not apply to other asset classes such as shares, which may well impact investment allocation decision making.

Mid-market tax cont'd

Capital gains tax (CGT) discount

From 1 July 2027, the 50 percent CGT discount will be replaced with cost-base indexation supplemented by a 30 percent minimum tax on net capital gains for certain taxpayers, including most individuals and trusts. These measures will apply to all CGT assets including those acquired before 1 July 2027 (and remarkably, even assets acquired before 20 September 1985 when the CGT rules were first introduced).

However, importantly, the Government has indicated that only effective gains made after 1 July 2027 will be subject to the indexation and the minimum tax rate. Gains made before then should effectively be subject to the old rules which will ameliorate some of the impact of the “un-grandfathering” of pre-CGT assets

Employers

There is no carveout in the CGT changes for start-up employee share scheme interests, reducing the tax effectiveness of the start-up concession. However, from 1 July 2028, start-ups with annual turnover less than \$10 million can use losses from their first two years to receive a refundable tax offset equal to the value of their FBT and wage withholding tax, directly linking the concession to employment costs.

From 1 April 2029, a permanent 25 percent FBT discount for electric cars up to the fuel-efficient luxury car tax threshold will be available. Changes and transitional rules will be given effect through the statutory formula:

- All eligible electric cars will retain the FBT discount rate that was in place when the arrangement commenced;
- Vehicles under \$75,000 provided pre-April 2029 remain 100 percent FBT-exempt; and
- Vehicles from \$75,000 up to the luxury car tax threshold provided between April 2027 and April 2029 will receive a 25 percent discount.

Trusts

The Budget significantly changes the taxation of discretionary trusts by limiting the ability to reduce a family group’s overall effective tax through distributions to lower-taxed individuals, corporate beneficiaries and certain other entities.

From 1 July 2028, the majority of discretionary trust income will be taxed at a minimum rate of 30 percent, with most beneficiaries receiving a non-refundable tax credit. However, this does not include corporate beneficiaries.

This means that if a beneficiary’s effective tax rate is above 30 percent they will still need to pay additional tax (plus the Medicare Levy). Those taxed below 30 percent will not receive a refund for the difference. The new rules will also discourage the use of corporate beneficiaries given the potential for double entity taxation.

Mid-market tax cont'd

Importantly, certain income will be exempt from these measures, including primary production income.

Certain types of trusts will also be excluded including fixed trusts, widely held trusts, complying superannuation funds, special disability trusts, deceased estates and charitable trusts.

From 1 July 2027, eligible taxpayers, including small businesses, will have three years of temporary rollover relief to restructure from impacted discretionary trusts into other entities such as companies or fixed trusts.

Superannuation

No further changes to superannuation were announced following the enactment of the Division 296 Tax that introduces a tax on superannuation earnings for balances above \$3 million from 1 July 2026.

WHAT DOES IT MEAN FOR YOU?

- Improved cash flow for businesses, with loss carry back and refundability enabling earlier access to tax benefits to support businesses through volatility.
- More focus on tax outcomes when making investment decisions.
- Revisiting the use of trust structures and distribution strategies as part of family group tax planning.
- Given the changes to CGT and negative gearing, strategic tax planning is more important than ever to manage risk and optimise outcomes.
- Electric vehicles will still be an effective salary packaging approach for employers to offer.

Business grants and innovation incentives

“This Budget marks a fundamental shift in support for Australian innovation, proposing generational R&D Tax changes aligned with the Ambitious Australia report, targeting high-impact activities and reprioritising grant programs.”



MATHEW HERRING

Partner in Charge, R&D Incentives & Grants, Mid-Market & Private



GEORGIA KING-SIEM

Partner, Innovation Policy Lead, Mid-Market & Private



KRISTINA KIPPER

Partner, R&D Incentives & Grants, Mid-Market & Private

WHAT'S IN THE BUDGET

- **Emphasis on core experimental R&D**, with a 25 to 50 percent increase to the R&D tax offset rate, countered by the exclusion of supporting activities.
- **Increased benefit for large firms** with higher R&D tax offset rates and R&D intensity threshold lowered from 2 to 1.5 percent and annual cap increased from \$150 to \$200 million.
- **Targeted support for younger firms**, lifting the SME turnover threshold to \$50 million while restricting refundability to entities less than 10 years old.
- **Increasing the minimum R&D expenditure** threshold to \$50,000 thereby raising the bar to access the incentive.
- **Reallocation of uncommitted grant funding** to communities and region and supporting more resilient supply chains.
- Increases in size and investment limits for venture capital.

R&D Tax Incentive (RDTI)

Almost every aspect of the RDTI and every claimant will be impacted from 1 July 2028.

The new measures announced broadly align with the Ambitious Australia report recommendations; from narrowing eligibility to increasing the benefit for activities that qualify.

These changes will bring greater complexity to the program on several fronts, including by limiting refundability based on the age of a firm rather than its size.

It is critical that government consults widely with stakeholders before enacting the enabling legislation.

Government Grants

The Budget highlights a rebalancing of government grant funding away from legacy or uncommitted allocations towards a more tightly targeted set of national priority programs.

\$1.3 billion has been repurposed from uncommitted funding across Battery Breakthrough Initiative, Solar Sunshot, and Hydrogen Headstart, and \$164.4 million from the Powering the Regions Fund.

Business grants and innovation incentives cont'd

The Budget reinforces support for strategic and high-impact sectors, and regional-based economic development, including:

- \$781.6 million for Growing Regions Program and Thriving Suburbs Program
- \$59.1 million for strengthening capability in defence and security
- \$30.1 million for Stronger Communities Program to support capital projects that deliver social benefit for local communities
- Increasing annual disbursements from the Medical Research Future Fund from \$650 million to \$1.0 billion over five years.
- Prioritise funding to support specific national priority outcomes such as critical minerals production incentive for downstream processing, energy security, fuel and supply chain resilience, emissions reduction and integration with global partner markets.

Start-ups and venture capital

From 1 July 2027, the current limitations on both venture capital limited partnerships (VCLPs) and early-stage venture capital limited partnerships (ESVCLPs) will be relaxed; asset size of the investee business to increase (to \$480 million and \$80 million respectively) and the tax exemption cap for ESVCLPs will increase to \$270 million.

Surprisingly, there are no similar changes to relax or increase the benefit under the early stage investor tax incentive (for investment in early stage innovation companies) or employer share scheme startup concessions.

WHAT DOES IT MEAN FOR YOU?

- Assess how these changes impact your future RDTI claims, re-evaluate your R&D strategy and consider engaging in the consultation process.
- While the turnover threshold increase for the refundable offset will allow more companies to access it, the limitation based on age could be problematic if you are operating in a sector with longer R&D lifecycles.
- The removal of supporting R&D activities may reduce your R&D benefit and will require you to consider how your R&D activities are identified and substantiated.
- Review project pipelines and prioritise grant applications with clear alignment to funded national and regional priorities.

Financial services & superannuation

The changes to the taxation of capital gains will require fund managers and custodians to implement substantial system changes. The existing tax setting for superannuation funds will be maintained.

WHAT'S IN THE BUDGET

- Tax treatment of capital gains amended to:
 - Remove CGT discount for individuals, partnerships and trusts from 1 July 2027
 - Apply a minimum 30% tax on net capital gains derived by individuals
- Preserving the current tax treatment of superannuation funds
- 30% minimum tax rate for discretionary trusts from 1 July 2028
- Consultation to strengthen the superannuation performance test and reduce unintended barriers to investment.



ROBYN ANNETT

National Sector Leader,
Asset & Wealth Management



EVAN FOUDOULIS

Director, Mid-Market & Private



JOHN SALVARIS

Partner, Corporate Tax

Changes to CGT Discount: Managed funds

The CGT discount is being replaced with indexation from 1 July 2027 for individuals, partnerships and trusts.

As the change applies only to gains derived after 1 July 2027, assets acquired prior to that date will require managed funds and custodians to operate dual cost base tracking mechanisms. In doing so, Trustees will need to assess whether an asset's cost base at 1 July 2027 should be determined using a market valuation or a specified apportionment formula applying tool, to be provided by the ATO.

This measure will also likely require managed funds to report both indexed gains as well as gross capital gains (prior to the impact of indexation) to investors, with consequential cost base adjustment implications.

Minimum tax on capital gains

The minimum 30% tax on capital gains appears to only apply to individual taxpayers (including assets held through trusts and partnerships) to ensure individuals are subject to a tax rate commensurate with the rate paid by most workers.

It does not appear to contemplate a minimum 30% tax on capital gains of fixed trusts, nor changes to the managed investment trust withholding tax rate on fund payments.

Financial services & superannuation cont'd

Changes to CGT Discount: Superannuation

For complying superannuation entities, the current settings around CGT are maintained for directly held assets and CGT assets held as a partner in a partnership. This means that there should not be any adverse flow on impacts for members through unit pricing adjustments and for accounting purposes in determining deferred tax liabilities. However, given superannuation funds commonly invest through trusts, new reporting may be required to allow the appropriate application of the one third CGT discount at the superannuation fund level.

Changes to negative gearing for residential housing

The change to rental housing losses is not expected to apply to widely held trusts (for example, most managed investment trusts) and superannuation funds (including SMSFs).

Minimum tax on discretionary trusts

Clarity will be needed on the impact of the proposed 30% minimum tax on discretionary trusts for the managed funds industry.

Whilst the government has announced that fixed and widely held trusts will be excluded from these measures, given the ATO has long held the view that very few trusts satisfy the definition of a fixed trust in the absence of the exercise of the Commissioner's discretion, the implementation of this measure will need to be monitored.

This measure is also stated to not apply to amounts subject to non-resident withholding tax.

Superannuation performance test

The government is publicly consulting on options to strengthen the superannuation performance test to remove any unintended barriers to investment and ensure it remains fit for purpose.

WHAT DOES IT MEAN FOR YOU?

- Managed funds/custodians will need to update systems to properly calculate capital gains in line with these proposed changes.
- Parcel selection methodologies will need to be considered, including in the transitional period.
- Trustees need to assess the impact of these proposed changes.

Skills & workforce

“With an emphasis on productivity, skills alignment and control, this Federal Budget confirms a deliberate recalibration of Australia’s migration program.

While permanent migration levels are held steady, the Government is tightening overall population growth through reduced net overseas migration, targeted visa program reforms and stronger integrity measures.”



JEMMA HORSLEY

Lead Partner, National Early Childhood, Schools and Skills



MARIA HRAMBANIS

Director, Immigration Services



CHRIS MATTHEWS

National Sector Leader, Education

WHAT'S IN THE BUDGET

- Confirmation that **net overseas migration will continue to decline** from post-pandemic highs.
- Permanent **migration program planning levels remain at 185,000 places** in 2026-27, with the Skills stream representing over 70%.
- **\$167.4 million** over four years intended to strengthen migration integrity.
- **\$317.7 million** to States and Territories to expand early childhood provision as part of the Building Early Education Fund.
- **\$85.2 million over four years** to improve recognition of migrant skills, accelerating workforce entry.
- **Levy on Higher Education providers** to support the ongoing funding for the National Student Ombudsman.

Net overseas migration has already declined by around 45% from its peak in 2022–23, and is forecast to continue to drop over the next two years to 225,000.

Key elements of the strengthened migration integrity announcements include additional scrutiny of onshore and offshore student visa applications; and new visa refusal and cancellation powers linked to antisemitism, hate and extremism.

Reforms have been flagged for the ‘Working Holiday Maker Program’. The proposal includes expanding the use of ballots to improve management of the program.

Significant savings are signalled across the education portfolio, including \$472.1 million over four years from 2026–27 (and \$203.3 million per year ongoing).

WHAT DOES IT MEAN FOR YOU?

- Whilst downward pressure is placed on net overseas migration, employers can still access skilled foreign talent which remains a core focus of Australia’s migration program.
- Greater emphasis on retention of onshore temporary migrants transitioning to permanent residence.
- Limited new funding or investment into early childhood and schools’ sectors outside of National Partnership Agreements.

Climate & energy

“The Budget’s dual priorities of ensuring energy security and a timely energy transition are being delivered through a new National Fuel Security Plan, alongside continued implementation of its net zero agenda.”

WHAT'S IN THE BUDGET

- **\$11.9 billion** over five years for the National Fuel Security Plan and \$30.6 million to develop and implement a domestic gas reservation mechanism
- A **\$1 billion** cut to the Hydrogen Headstart program
- **\$148 million** over three years to support Australia’s role in COP 31
- A reduction in climate reporting obligations.

National Fuel Security Plan

The government is prioritising fuel security with \$7.5 billion in financing support to fuel companies and \$3.2 billion to establish a fuel security reserve of approximately 1 billion litres of diesel and jet fuel, along with increases to the Minimum Stockholding Obligation for each type of fuel. However, temporary cuts to fuel excise cuts will not continue beyond June 30.

Domestic gas reservation policy

As indicated prior to the budget, the Domestic Gas Reservation Mechanism will require LNG exporters to supply an equivalent of 20 percent of exports to the domestic market from 1 July 2027. Gas exports contracted prior to the Government’s announcement of the policy on 22 December 2025 will not be affected. Funding of \$30.6 million over four years has been provided to support its implementation, as well as \$4.9 million to modernise offshore resources regulation.



JULIA BILYANSKA

Partner in Charge, Climate Change & Sustainability Services



ADRIAN KING

Head of ESG & Sustainability Services



SABINE SCHLEICHER

Partner, Commercial Advisory & Transactions | Decarbonisation Lead

Funding for low carbon liquid fuels

The Budget outlines \$1.1 billion previously announced to support the production of low carbon liquid fuels in Australia to reduce emissions in hard-to-abate industries.

Over \$1 billion of hydrogen funding redirected

The government is redirecting \$1 billion in funding previously announced for Round 2 of Hydrogen Headstart and \$78.6 million allocated for the Regional Hydrogen Hubs program. This forms part of a broader redirection of \$2.2 billion within the climate, energy, environment and water portfolio. Funding from the Battery Breakthrough Initiative and Solar Sunshot Programs has also been redirected.

Reduction in electric vehicle tax breaks

The government will progressively phase out the Fringe Benefit Tax (FBT) exemption for electric vehicles (EVs), replacing it with a permanent 25 percent FBT discount for eligible EVs below the luxury car tax threshold from 1 April 2029. Existing leases will remain unaffected by the changes.

Funding of \$40 million over four years is provided to support EV charging infrastructure in regional areas and kerbsides.

Climate & energy cont'd

Continued efforts to speed up environmental approvals

\$179.9 million is provided over four years from 2026–27 to progress bilateral agreements across jurisdictions and establish bioregional plans and clear 'go' and 'no go' zones. Combined with work by the National Environmental Protection Agency to modernise environmental information and use AI, this aims to reduce duplication and provide greater certainty to proponents, including in energy.

Consumer Energy Resources

\$97.2 million over five years from 2025–26 will be provided for continued implementation of the National Consumer Energy Resources Roadmap, including establishing a National Technical Regulator, to ensure the benefits of consumer energy resources reduce household bills.

National Solar Panel Recycling Pilot

The budget outlines \$24.7 million over three years to deliver a national solar panel recycling pilot via a reprioritisation in funding. The program will establish up to 100 collection sites across Australia to divert panels from landfill and reuse minerals.

Reduction in climate reporting obligations

A doubling of monetary thresholds for large proprietary companies will result in fewer entities being required to prepare sustainability reports. Government will consult on additional reforms to reduce reporting burden whilst maintaining core sustainability reporting.

COP31 funding signals commitment to global and regional climate action

\$148 million has been committed over three years to support Australia's role in COP31, signalling a strong commitment to international climate cooperation and regional climate resilience.

WHAT DOES IT MEAN FOR YOU?

- The significant fuel security measures in this year's budget aim to strengthen Australia's resilience to global supply chain disruption and geopolitical instability affecting liquid fuel markets. However, the expiry of temporary fuel excise cuts on June 30 will see prices at the pump increase in the short-term.
- The introduction of the Domestic Gas Reservation Mechanism signals strong willingness to intervene in energy markets but impact on domestic gas prices is not guaranteed. Key details are yet to be finalised and are expected to be subject to further consultation with industry over coming months.
- The government continues to implement its net zero agenda, with few major changes to climate programs, and continued recognition of the increasing role of Consumer Energy Resources. The redirection in funding away from hydrogen initiatives is a notable exception.
- Electric vehicle tax support is changing with the introduction of \$75,000 threshold on 1 April 2027 to access the existing the full-FBT discount. From 1 April 2029, the full FBT discount will be replaced with a permanent 25 percent discount on all EVs under the luxury car threshold.

Transport & infrastructure

“During a time of global uncertainty, the Budget provides further investment in transport projects that will boost productivity, deliver safer and faster freight, and strengthen Australia’s fuel resilience.”

WHAT’S IN THE BUDGET

- **\$10.3 billion** for transport projects including \$8.6 billion over 11 years for priority road and rail infrastructure projects.
- **\$14.8 billion** to deliver a major fuel security and price relief package, designed to strengthen Australia’s supply chains and build long-term resilience to future fuel shocks.
- Consolidation of the Inland Rail project at Parkes in NSW, returning **\$4.4 billion** in equity to the Budget, partly offset by \$1.8 billion in new ARTC freight rail equity.
- New investments to support major rail and road projects including a further **\$3.8 billion for Suburban Rail Loop East**, a further \$812.5 million for Bruce Highway upgrades, and \$552 million for Anketell Road upgrades in WA.



MATT DUCK

National Sector Leader,
Transport & Infrastructure

The following table provides a summary of the Budget’s key investment highlights for new and existing transport projects and initiatives.

	\$ MILLION
\$3.8 billion for Suburban Rail Loop East	3,800.0
\$1.8 billion to Australian Rail Track Corporation (ARTC) for investment in its rail network	1,800.0
\$659.6 million to the High Speed Rail Authority	659.6
\$4.4 billion of returned equity to the Budget for consolidation of Inland Rail	(4,400.0)
\$1.7 billion for New Infrastructure Investment Program projects, including:	
Melton Line electrification in VIC	76.4
Western Freeway Upgrade in VIC	50.0
Drake Brockman Drive Duplication in ACT	50.0
Sydney to Canberra Rail Corridor	50.0
M1 Safety Improvements in NSW	45.0
Bagot Road Safety and Capacity Upgrades in NT	24.0
Bruce Highway Stage 2 upgrades in QLD	812.5
East Derwent Highway Improvements planning in TAS	4.0
Anketell Road Upgrades, Westport in WA	552.0
AUKUS Planning Study and Business Case in SA	7.5
\$230.8 million in supplementary road funding for SA	230.8
\$500 million invested in the Active Transport Fund	500.0
\$11.9 billion for the National Fuel Security Plan	11,900.0
\$40 million for EV charger rollout [HS1.1]	40.0

WHAT DOES IT MEAN FOR YOU?

- The Budget provides \$12.1 billion in new investments predominantly in road and rail projects across all states and territories.
- The \$14.8 billion fuel resilience package, including halved excise and zero heavy vehicle road user charges, strengthens supply chains and provides immediate relief for logistics and manufacturing businesses.

Social housing & real estate

The Budget continues the government's investment in programs and initiatives targeted at improving housing supply.



JESSICA DAVIS

National Sector Lead, Property



DAVID WALKER

Principal Director, Social and Affordable Housing Lead

WHAT'S IN THE BUDGET

- **\$2.0 billion** to fund housing enabling infrastructure to support the delivery of new housing supply.
- **\$59.4 million** to support at-risk young people (aged 16-24) enter community housing through rent supplementation.
- **\$56.4 million** to deliver key programs under the Homes for Australia plan and a public campaign to inform taxpayers on the changes to the tax system.
- **\$6.3 million** for a national First Nations housing peak body to represent the Aboriginal and Torres Strait Islander housing sector.
- **\$2.1 million** in extended funding to support the Australia Housing and Urban Research Institute.
- **Extension of temporary ban on foreign purchases** of established residential dwellings until 30 June 2029.

The government is reforming negative gearing and capital gains tax (CGT) concessions. Negative gearing will be limited to new builds for residential properties (subject to grandfathering), and the 50% CGT discount will be replaced with cost base indexation and a 30% minimum tax on net capital gains, from 1 July 2027. These reforms are expected to support an additional 75,000 first home buyers over the decade.

The government is providing \$2.0 billion of funding over four years via states and territories (states) to expedite the delivery of housing enabling infrastructure. The provision of funding is contingent on states committing to reforms to improve productivity in the housing sector, including faster and simpler approvals, releasing more land ready to build homes, and delivering a national construction code.

The government is making all mandatory Australian standards free, including across construction, occupational health and safety, and product safety, saving small electrical, plumbing and construction firms up to \$1,600 in access fees.

Under National Competition Policy, the government is delivering new agreements with states to remove barriers to modern methods of construction in housing and streamline commercial planning and zoning regulations.

WHAT DOES IT MEAN FOR YOU?

- Increased government investment in housing enabling infrastructure should support supply.
- The sector has opportunities to benefit from planned productivity and efficiency reforms.

Health, ageing and human services

“This year’s Budget reflects the government’s ongoing commitment to supporting the growing cohort of older Australians, together with increases in hospital funding and measures to improve the sustainability of the NDIS.”

WHAT’S IN THE BUDGET

- **\$220.3 billion** over five years from 2026–27 for public hospital services and the implementation of the 2026-2031 Addendum to the National Health Reform Agreement (NHRA).
- **\$1.8 billion** over five years for Medicare Urgent Care Clinics to support access to bulk-billed urgent care.
- **\$606.5 million** over four years and an additional \$3 billion from 2030-31 to 2035-36 to increase aged care beds and equity of access.
- **\$1.4 billion** over four years from 2026–27 to improve affordability and access to home care supports.
- **\$565.1 million** over four years from 2026–27 to strengthen regulatory, governance and quality to provide care for older Australians.
- **\$5.9 billion** over five years from 2025-26 for medicines listed on the Pharmaceutical Benefits Scheme.
- **\$1.7 billion** over five years to strengthen the integrity and sustainability of the NDIS whilst improving the quality of supports for people with a disability.
- **\$308.6 million** over five years to further support women and children impacted by family, domestic and sexual violence (FDSV) and to strengthen the frontline FDSV workforce.



SARAH ABBOTT

National Public Health
Sector Leader



KERRY MCGOUGH

National Human Services
Sector Leader



MATT WRIGHT

Federal Government
Health Leader

The Budget is focused on delivering against the government’s commitment to meet growing demand for health and aged care services with a focus on affordability and system efficiency. This includes investments for initiatives to expand aged care capacity.

A commitment of \$220.3 billion in funding to states and territories for public hospital services and to support implementation of the 2026–2031 Addendum to the National Health Reform Agreement (NHRA). The largest component of this funding, \$24.4 billion over five years from 2026–27, focuses on the Commonwealth contributions to hospital costs. Other allocations target Aboriginal and Torres Strait Islander health outcomes, digital health reforms and cross-border hospital arrangements.

To support access to affordable primary care the government is investing \$1.8 billion to fund Medicare Urgent Care Clinics, making them a permanent feature of the health system providing bulk billed care for urgent, but non life threatening conditions.

Pharmaceutical Benefits Scheme initiatives aim to reduce out of pocket costs for patients with measures focused on expanding access to innovative and high-cost therapies targeting both unmet clinical need and complex diseases.

Health, ageing and human services cont'd

Investment of \$447.9 million to strengthen health protection and system preparedness, including the National Medical Stockpile, Emergency Health Resilience Preparedness Fund and efforts to eliminate HIV transmission.

Commitment of \$241.5 million over five years for First Nation's Health initiatives, including supporting Aboriginal Community Controlled Health Services, construction of dialysis units for First Nations People, and Birthing on Country programs.

In response to the Residential Aged Care Accommodation Pricing Review there is a commitment of \$606.5 million over four years and an additional \$3 billion from 2030-31 to 2035-36 to increase aged care beds and support equity of access.

The government is committing \$1.4 billion over four years from 2026–27 (and \$377.3 million per year ongoing) to improve home care affordability, with the largest share of \$1 billion to fully fund personal care services. A further \$389.8 million will refine the Support at Home program.

Investment of \$565.1 million over four years will continue to strengthen aged care regulatory, governance and quality arrangements including workforce support.

The Budget sets out a clear path for a fundamental reset of the NDIS to deliver a fairer more sustainable scheme, with greater clarity on eligibility, funded supports and the role of state-based systems.

Investment of \$1.7 billion over five years from 2025–26, with ongoing funding of \$110.9 million per year aimed at ensuring the NDIS remains sustainable. Alongside this, \$2 billion over five years is committed to the introduction of a new program *Thriving Kids* to support children to transition from the NDIS to community-based

child development services. The majority of this funding will be directed to states and territories to deliver these supports (\$1.4 billion), alongside targeted investment in early childhood settings, early identification of developmental delays through a Medicare-funded health check for three-year-olds, and information and advice for parents. The package also includes funding for a digital child health record, workforce training, public awareness, implementation, and community engagement.

In addition, the Budget outlines provisions of \$3 billion to establish *Foundational Supports* for those with lower support needs (to be matched by states and territories). These reforms are anticipated to reduce growth in NDIS payments by \$37.8 billion over the next four years.

To improve safety outcomes for women and children who experience FDSV, the Government is committing \$218.3 million over five years (from 2025-26) to support the implementation of actions under the *Our Ways – Strong Ways – Our Voices: National Aboriginal and Torres Strait Islander Plan to End Family, Domestic and Sexual Violence 2026-2036* to address unacceptably high levels of family violence experienced by First Nations women and children. This includes funding for a national network of Aboriginal Community Controlled Organisations to deliver FDSV services.

An additional \$61.2 million over four years has been committed to boost funding for the frontline FDSV workforce through the next phase of the *500 Workers* initiative.

Further funding of \$182.6 million will strengthen the Child Support system, addressing financial abuse, non compliance and system misuse, to improve safety and financial security for families.

Health, ageing and human services cont'd

Investment of \$171.7 million over five years will support stronger outcomes for families and communities through enhanced frontline delivery of prevention and early intervention services to support children's development and wellbeing,

empowering parents, caregivers and families, as well as building capacity in the family and communities sector.

WHAT DOES IT MEAN FOR YOU?

- In response to increased demand, state and territory governments will see increased contribution from the Commonwealth Government for public hospital services.
- The Australian community will benefit from improved access to healthcare and medicines through continued investment in Urgent Care Clinics, the PBS and public hospitals.
- Consumers will experience enhanced access to aged care through an increase in residential aged care capacity and investment in personal home care and refinement of the Support at Home program.
- The reforms signal a fundamental reset of the NDIS - tightening access, transitioning lower level supports to state based systems, and introducing a targeted program for child development services.

Defence

“The Budget delivers on the 2026 National Defence Strategy, locking in increased capability investment and lifting Defence spending.”

WHAT'S IN THE BUDGET

- **\$53 billion** increase in Defence spending over the next 10 years; inclusive of the previously announced \$12.0 billion investment in Henderson shipyard. This increases capability investment to \$425 billion over the period to 2035-36.
- **\$6.8 billion** of additional funding over four years from 2026-27 to support delivery of the 2026 National Defence Strategy and Integrated Investment Program.
- **\$5 billion** in funding to be contributed through alternative financing arrangements over the forward estimate period; and \$15 billion over the decade.
- **\$311.9 million** additional funding over four years to implement the response to the Final Report of the Royal Commission into Defence and Veteran Suicide.



DAVID BLUCK

Defence Account,
Client Lead Partner



ADAM GRUNSELL

Client Lead Partner,
Defence Industry



MELISSA McCLUSKY

Industry Lead Partner, Defence
and Defence Industry

The Budget has confirmed the \$53 billion increase in Defence spending over the next decade announced with the release of 2026 National Defence Strategy and Integrated Investment Program in April 2026.

The budget and National Defence Strategy/ Integrated Investment Program concentrates opportunity for industry in priority areas rather than spreading growth evenly across the sector. The largest investment bands: undersea warfare (\$94 to \$130 billion), maritime sea denial (\$62 to \$77 billion), guided weapons and explosive ordnance (\$26 to \$36 billion), long range strike (\$28 to \$35 billion), space and cyber (\$27 to \$38 billion) and missile defence (\$21 to \$30 billion) favour organisations with strong systems integration, sovereign production and sustainment depth.

The Budget translates strategic intent into targeted Defence industrial enablers across precinct infrastructure, the nuclear enterprise and workforce pipelines. It confirms that the National Defence Strategy/Integrated Investment Program measure includes part of the \$12 billion Henderson Defence Precinct commitment and provides \$30 million in 2025–26 to support design and early works for interim facilities which is an explicit stimulus for Western Australian maritime sustainment and supply chain scaling.

Defence cont'd

It further provides an equity injection to Australian Naval Infrastructure over four years from 2026–27 to support the Nuclear Powered Submarine Construction Yard.

The Budget strengthens the industrial base and talent pipeline through \$863.8 million over four years for continued nuclear program resourcing

across the Australian Submarine Agency and regulators, plus \$218.4 million over eight years including workforce initiatives and submarine industrial base uplift, and \$106.4 million over six years in grants to support defence industry pathways (internships and school pathways) and the strategic policy sector.

WHAT DOES IT MEAN FOR YOU?

- This Budget, along with the recently announced National Defence Strategy, largely signal continuity of Defence priorities with targeted increases and acceleration for select critical capabilities.
- Defence Industry aligned to these select critical capabilities will welcome the continuity and uplift of funding whilst those servicing other parts of Defence will be required to navigate ongoing constraints in sustainment and operating budgets. For these firms, growth opportunities will most readily be found in global markets which are rapidly scaling expenditure across a broader array of capability programs.
- Reforms such as the Defence Delivery Agency and estate rationalisation point to a recalibrated Defence Industry relationship: more capital, coupled with tighter oversight and reduced tolerance for delay.

National security & cyber

“This year’s budget introduces modest national security reforms, with a focus on strengthening social cohesion and countering domestic threats. It recognises the ongoing importance of robust domestic cyber security settings, with some uplift also for natural disaster resilience, migration reform and law enforcement activities. Our near region is the primary beneficiary of continued investment in the Foreign Affairs portfolio.”

WHAT’S IN THE BUDGET

- **\$604.2 million** for the Government Response to the Antisemitic Bondi Terrorist Attack including enhanced security and law enforcement measures, mental health support and community grants.
- **\$550 million** over 10 years to support high-quality, climate-resilient infrastructure in the Pacific and Timor-Leste through the Australian Financing Facility for the Pacific.
- **\$167.4 million** to 2029-30 to strengthen the integrity of Australia’s migration system, complementing broader reform to boost the productivity from high-skilled migrants.
- **\$89.3 million** to 2029-30 to sustain and enhance cyber security initiatives under Horizon 2 of the *2023-2030 Australian Cyber Security Strategy*.



GREGORY MILLER

Partner, Cyber Security – Critical Infrastructure & Government Lead



SARAH NEWPORT

Partner, National Security & Justice

The Government Response to the Antisemitic Bondi Terrorist Attack measure shapes the more significant features of the national security spending in this budget. The government has made a commitment to responding to the interim findings of the Royal Commission and complementary programs, with a \$604.2 million package. Over \$200 million will be dedicated to supporting the Jewish community and bolstering the security of Jewish institutions. \$207.4 million is also allocated over five years to broader counter terrorism and violent extremism initiatives including \$80 million to establish the Counter-Terrorism Online Centre.

A \$167.4 million migration integrity package will complement the productivity-focused migration reforms. Priorities include funding courts to address protection visa misuse, enhancing system capabilities, improving migrant worker awareness of rights, and increasing scrutiny of student visa applications both onshore and offshore. These initiatives should also help improve the efficacy of, and public support for, the migration program.

The courts, law enforcement and emergency management functions of the Commonwealth have received minor investments to top up necessary activities and delay more expensive reforms. Notably the budget provides over \$50 million to investigate war crimes allegations. There will be ongoing spending on disaster resilience and response by supporting emergency communications, a national cell broadcast system, and an aerial firefighting capacity, funded largely through existing programs and reprioritisation.

National security & cyber cont'd

Cyber security is now a permanent feature of the budget, albeit this year at a more modest level. Cyber security uplift across the Commonwealth is the main winner with a \$160.4 million investment into Services Australia, further advancing objectives under the 2023-2030 Australian Cyber Security Strategy.

Recognising the increasing strategic contest in the Indo-Pacific, \$550 million has been allocated over 10 years to support high-quality, climate-resilient infrastructure in the Pacific and Timor-Leste through the Australian Financing Facility for the Pacific.

DFAT again enjoys a modest budget uplift, reflecting this Government's focus on sustained, strategic engagement in the region and globally as Australia faces into challenging global headwinds.

WHAT DOES IT MEAN FOR YOU?

- A stronger focus on safety at home. This is not a national security budget, but it does quietly reinforce essential services for safety, social cohesion and to better protect our communities.

Technology & AI

“This Budget sees a continued focus on targeted, practical technology investment, with government spending focused on improving productivity, resilience and integrity through the uplift and sustainment of core digital systems, selective application of artificial intelligence, and strengthened fraud prevention across critical service delivery and regulatory functions.”



DEAN GRANDY

Global Digital Government Leader



DHAWAL JAGGI

Lead Partner, AI Transformation



JAMES MABBOTT

Partner in Charge, KPMG Futures

WHAT'S IN THE BUDGET

- **\$654.3 million** over four years to maintain the security and reliability of the Digital ID system.
- **\$598.3 million** over two years to support continued operations and enhancement of My Health Record.
- **\$358.5 million** over five years to continue development of new digital payment and fraud detection systems for the NDIS.
- **\$198.1 million** to streamline regulatory systems and secure access to data.
- **\$146.8 million** over four years to establish enhanced Medicare fraud detection capabilities.
- **\$105.9 million** over four years to modernise environmental information, data and digital systems.

Productivity

Investment in technology-enabled productivity measures has increased in this Budget under the Boosting Productivity theme. This is evident in the \$198.1 million commitment to streamline regulatory systems within the Treasury portfolio, particularly through enhancements to Australia's business registers and expanding the Consumer Data Right. This investment is a targeted intervention to reduce friction in regulatory processes and improve data accessibility for the Australian economy.

The government has also allocated \$105.9 million to modernise data and systems across the Department of Climate Change, Energy, the Environment and Water (DCCEEW) and for a new National Environmental Protection Agency (NEPA), the only reference in the Budget to the government's internal artificial intelligence adoption, indicating a cautious and highly selective approach to AI use.

The most notable measure under the government's boosting productivity theme is \$654.3 million to sustain the Digital ID system. This investment underscores its strategic importance as both a productivity enabler and key input for national resilience. By strengthening secure identity infrastructure, the government is positioning Digital ID as a foundation for more efficient service delivery while reinforcing trust and security.

Technology & AI cont'd

Resilience

The Budget reinforces the government's priority to strengthen government resilience through targeted investment in security and system reliability. This includes \$160.4 million allocated for Services Australia's Cyber Security Uplift Program and additional funding to improve the functionality, availability, and security of the MyGov platform. Additionally, \$598.3 million is allocated to support the continued operations of My Health Record, delivering improvements that will underpin implementation of future legislative reforms.

Targeted investment of \$259.9 million is also provided to the Department of Health and Aged Care to sustain core aged care ICT systems and ensure service continuity. This is alongside a further \$33.7 million to improve the Aged Care Quality and Safety Commission's ICT governance, delivery processes and internal cyber security capability. Separately, \$26.1 million is allocated to Department of Finance to support the sustainment of core systems underpinning whole-of-government budget and financial management platforms. The Department of Home Affairs and Department of Parliamentary Services also received funding to increase resilience by strengthening the migration system (\$46.4 million), and parliamentary ICT systems respectively (funding not for publication).

Collectively, these measures prioritise system availability, integrity and security, with funding focused on sustainment and risk reduction to ensure continuity of critical government services in response to increasing government security obligations.

Fraud prevention

Government spending continues to prioritise fraud detection and prevention, with a particular focus on health, disability, and care support settings. The government has committed \$358.5 million of continued funding to the National Disability Insurance Scheme and \$146.8 million of new funding to Medicare, to support payment integrity and compliance. These measures reflect a sustained interest in ensuring public funds are used appropriately in health and disability programs.

Emerging technologies

The Budget includes new funding to accelerate the development and commercialisation of AI researchers and businesses by making up to \$70m available through upcoming rounds of the Cooperative Research Centres and CRC-P program starting in 2026 and 2027 for an 'AI Accelerator'. Beyond the already announced funding for PsyQuantum in the 2024-25 Budget, there has not been any additional spending pledged for Quantum technologies.

Technology & AI cont'd

WHAT DOES IT MEAN FOR YOU?

- This Budget signals the Government's continued focus on productivity gains through stabilising, integrating and streamlining existing digital and data systems. Investment is directed to improving the efficiency of regulatory processes, strengthening data sharing and simplifying interactions with government, rather than delivering large-scale technology transformation programs.
- Funding priorities reflect a strong emphasis on resilience and integrity across core national systems, particularly in health, payments, taxation and social services. Enhancements to cyber security, system reliability and fraud prevention are intended to protect public funds, support service continuity and maintain trust in government services.
- While the Budget includes targeted use of advanced technologies, the measures suggest Government is positioning artificial intelligence primarily as a lever for near-term productivity and efficiency rather than as a standalone capability agenda. The focus remains on practical use cases with clear economic, risk management or service delivery returns, signaling a preference for contained outcome-driven adoption over broader, system-wide AI adoption.

Contact us

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