

2026-2027

FEDERAL BUDGET BRIEFING

MAY 2026

SUMMARY

The 2026–27 Federal Budget, released on 12 May 2026, is framed around the theme of ‘Resilience and Reform’.

Against a backdrop of escalating conflict in the Middle East, ongoing disruption to global oil supplies, heightened market volatility and growing geopolitical uncertainty, the global economic outlook remains subdued. At the same time, Australia continues to navigate a complex economic transition driven by decarbonisation, rapid technological change and shifting global supply chains. The Budget papers note that the conflict is expected to place upward pressure on global inflation and weigh on economic growth, with the extent of the impact dependent on both the duration and severity of the disruption.

In this environment, the Government has adopted a measured and fiscally restrained approach, seeking to balance targeted cost-of-living relief with mounting pressure on the Commonwealth’s fiscal position. These conditions are expected to continue weighing on real income growth and household consumption in the near term.

More broadly, the Budget attempts to respond to immediate economic pressures while positioning the economy for longer-term structural change.

The core of this Budget is an economic strategy with five main parts:

- Building resilience through the global oil shock
- Taking the pressure off Australians
- Making the economy more productive to lift living standards
- Reforming the tax system for workers, businesses and future generations
- Making the budget stronger, more sustainable, and helping to take the pressure off inflation by saving more than we spend

The 2026 -27 Federal Budget reinforces the importance of ensuring government policy settings remain aligned with the operational realities of Australia’s franchised new car retail sector. Dealers continue to navigate a period of significant transition driven by changing consumer preferences, rapid technological change, increasing regulatory obligations and evolving manufacturer approaches. At the same time, dealerships are managing rising business costs, significant investment requirements and growing pressure on margins, particularly as the sector transitions toward lower emissions vehicles and new retail models.

The AADA continues to advocate for a more coordinated and practical approach to automotive policy reform. Measures relating to emissions reduction, vehicle taxation and electrification continue to evolve rapidly, however, there remains a risk that policy settings move ahead of consumer demand and broader market readiness. This is particularly relevant in the context of the New Vehicle Efficiency Standard (NVES), where the interaction between geopolitical drivers, supply-side regulation, affordability pressures and purchasing behaviour have become increasingly important, and will continue to be over the coming years.

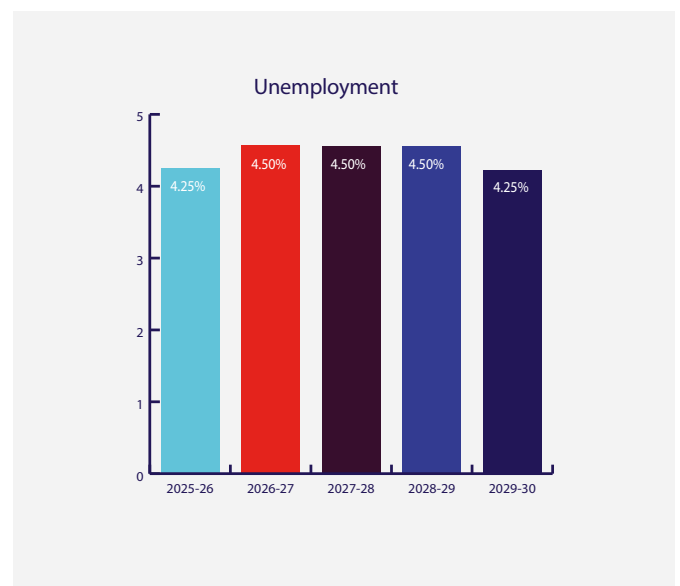
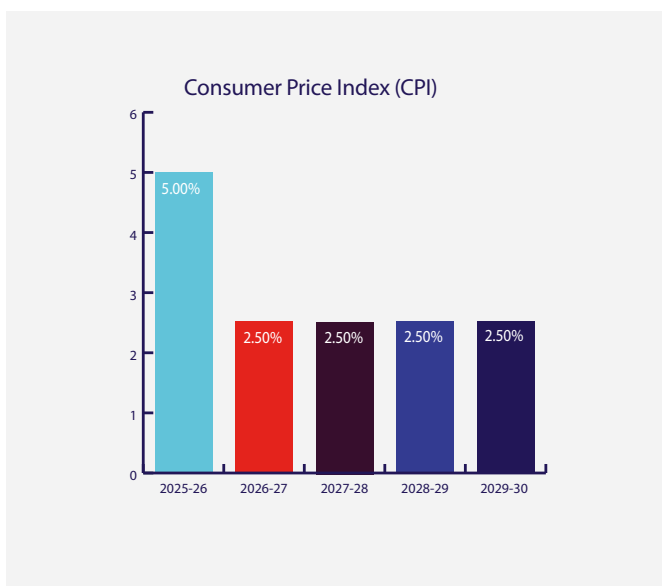
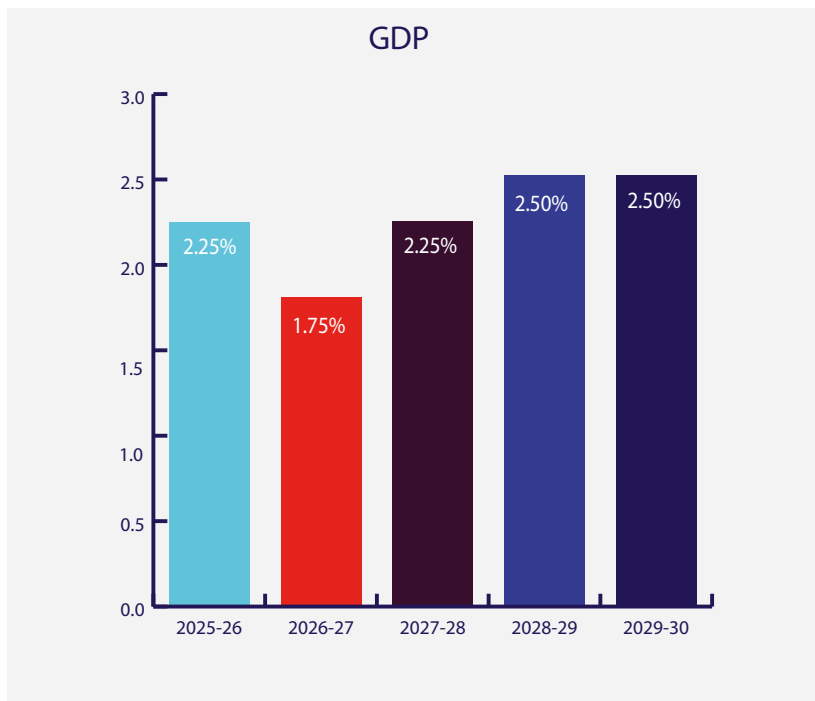
The Budget also highlights the importance of broader reforms being pursued by the AADA in relation to franchising protections, unfair trading practices and consumer law. Franchised new car dealers operate within highly imbalanced commercial relationships, where key business decisions relating to product supply, facility investment and operational requirements are largely controlled by global manufacturers. As regulatory obligations continue to expand, it is critical that reforms appropriately recognise the franchised nature of the sector and do not further shift commercial and compliance risk onto local dealer businesses that have limited ability to influence upstream decisions.

MAJOR ECONOMIC INDICATORS

Economic growth is forecast to slow from 2.25 per cent in 2025–26 to 1.75 per cent in 2026–27. While the economic outlook remains highly uncertain, the Australian economy is expected to grow by 2.25 per cent in 2027–28.

This recovery assumes that global oil prices begin to decline from the middle of 2026 and largely stabilise from the middle of 2027, informed by current market expectations.

Headline inflation is forecast to be 5 per cent through the year to the June quarter 2026. Headline inflation is forecast to decline to 2.5 per cent through the year to the June quarter 2027, supported by an assumed decline in global oil prices from the middle of 2026.



BUDGET MEASURES

SMALL BUSINESS AND FRANCHISEE SUPPORT AND PROTECTION

The Government will provide \$100.0 million over four years from 2026–27 (and \$20.1 million per year ongoing) to promote fair competition and protect consumers. Funding includes:

- \$9.0 million in 2026–27 to support the implementation of unfair trading practices and consumer guarantee and supplier indemnification reforms, and regulation of cash distribution.
- \$67.7 million over four years from 2026–27 (and \$20.1 million per year ongoing) to increase the Australian Competition and Consumer Commission's (ACCC) enforcement capacity to deter companies from engaging in anti-competitive and anti-consumer conduct.

ENERGY TRANSITION

The Government will provide \$143.2 million over five years from 2025–26 (and \$0.7 million in 2030–31) to maximise consumer and community benefits of the energy transition. Funding includes:

- reprofiling \$15.4 million over four years from 2025–26 to expand the scope of the Dealership and Repairer Initiative for Vehicle Electrification Nationally program and extend the program by an additional year to better meet industry needs.

The Government will provide \$91.7 million over four years from 2026–27 (and \$4.3 million per year ongoing) to support transport priorities. Funding includes:

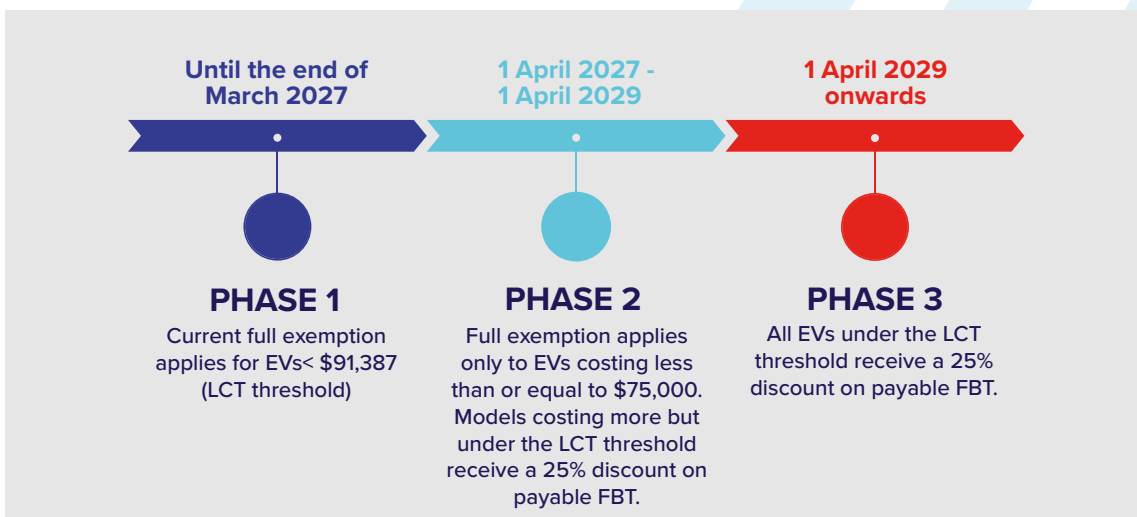
- \$3.6 million over two years from 2026–27 to continue the Real-World Testing program to conduct on-road emissions and fuel consumption testing of light vehicles sold in Australia.

AUTOMOTIVE TAXATION REFORM

The Government is adjusting settings of the electric car discount to maintain incentives for the shift to electric vehicles while transitioning to more sustainable settings for the longer term.

From 1 April 2029, a permanent 25 per cent discount on fringe benefits tax (FBT) will be available for all electric cars valued up to and including the fuel-efficient luxury car tax threshold, implemented through a 15 per cent rate in the FBT statutory formula.

The following transitional arrangements will be put in place:



BUDGET MEASURES

The existing 20 per cent statutory rate will continue to apply for all other cars, including electric cars costing more than the fuel-efficient luxury car tax threshold.

Reportable fringe benefits will continue to be determined for eligible electric cars as if a 20 per cent FBT statutory formula rate or cost basis method applied.

PERSONAL TAXATION REFORM

The Government will introduce an instant tax deduction of up to \$1,000 from the 2026–27 income tax year. Australian tax residents who earn income from work will be eligible for the instant tax deduction and will not need to itemise and claim work-related expenses if claiming less than \$1,000.

TAX ARRANGEMENTS FOR CAPITAL GAINS

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

These changes will apply to all CGT assets, including pre-1985 CGT assets, held by individuals, trusts and partnerships. Transitional arrangements will limit the impact on existing investments by ensuring the changes only apply to gains arising on or after 1 July 2027. The 50 per cent CGT discount will continue to apply to gains arising before 1 July 2027. Capital gains on pre-1985 assets arising before 1 July 2027 will remain exempt from CGT.

To maintain incentives for new housing supply, investors in new residential properties will be able to choose either the 50 per cent CGT discount, or cost base indexation and the minimum tax. Income support payment recipients, including Age Pension recipients, will be exempt from the minimum tax.

LOSS CARRY BACK

For tax years commencing on or after 1 July 2026, companies with an aggregated annual global turnover of less than \$1 billion will be able to carry back a tax loss and offset it against tax paid up to two years earlier. Loss carry back will apply to revenue losses only and will be limited by a company's franking account balance.

REFORMING NEGATIVE GEARING TO SUPPORT NEW HOUSING SUPPLY

The Government will limit negative gearing for residential property to new builds. From 1 July 2027, losses from established residential properties will only be deductible against rental income or the capital gains from residential properties. Excess losses will be carried forward and able to be offset against residential property income in future years. These changes will apply to established residential properties acquired from 7:30PM (AEST) on 12 May 2026.

Properties acquired prior to this time (including contracts entered into but not yet settled) will be exempt from the changes until disposed of. Eligible new builds will be exempt from the changes, ensuring the benefits of negative gearing are directed to investment that increases the housing stock. Properties in widely held trusts and superannuation funds will be excluded, alongside targeted exemptions for build-to-rent developments and private investors supporting government housing programs.

BUDGET MEASURES

INTRODUCING A MINIMUM TAX ON DISCRETIONARY TRUSTS

The Government will introduce a 30 per cent minimum tax on discretionary trusts. From 1 July 2028, trustees will pay a minimum tax of 30 per cent on the taxable income of discretionary trusts. Beneficiaries, other than corporate beneficiaries, will receive non-refundable credits for the tax payable by the trustee.

The minimum tax will not apply to other types of trusts such as fixed and widely held trusts (including fixed testamentary trusts), complying superannuation funds, special disability trusts, deceased estates and charitable trusts. Some types of income such as primary production income, certain income relating to vulnerable minors, amounts to which non-resident withholding tax applies, and income from assets of discretionary testamentary trusts existing at announcement will also be excluded.

SKILLS AND TRAINING SUPPORT

The Government will provide funding of \$36.7 million over four years from 2026–27 (and \$9.1 million per year ongoing) to extend support for skills and training priorities. Funding includes:

- \$35.2 million over four years from 2026–27 (and \$9.1 million per year ongoing) for Jobs and Skills Australia to continue providing advice under its legislated requirements on Australia's labour market and skills and training needs.

AUTOMOTIVE TAXATION RECEIPTS

LUXURY CAR TAX

The Luxury Car Tax (LCT) is forecast to raise more than \$1.15 Billion in this financial year.



The Budget papers confirm that forecast revenue incorporates the impact of the Australia–European Union Free Trade Agreement (A-EU FTA), including previously announced changes to the Luxury Car Tax (LCT). LCT revenue is forecast to decline over the next two years before recovering later in the decade, reflecting an anticipated adjustment period as the vehicle market transitions.



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