

Briefing Paper

Commonwealth Budget 2026-27

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The Budget puts intergenerational equity front and centre, but the tax reform it proposes is broader, extending well beyond the housing market. Changes to capital gains tax, negative gearing and trusts address decades of rising inequality, where asset values have risen faster than wages while taxes on asset owners have fallen relative to those on workers. A modest tax cut for workers follows the same logic. As prices and interest rates rise, the tax package helps share Budget costs more fairly, partly addresses Australia's housing crisis and modestly boosts productivity and resilience across the economy.

The spending side of the Budget is more disappointing. The biggest commitment is to a jobs-light defence package. Spending on housing related infrastructure is welcome, but the lack of real investment in public housing is a missed opportunity. Australia's marketised education, training and care services are proving increasingly problematic for citizens and workers. The Government has begun to address low pay, but has largely left market systems in place. Reforms to the National Disability Insurance Scheme (NDIS) address some problems in provision, but also leaves thousands in limbo without the support they need. Elsewhere, there is little new, including the notable absence of reform to Job Ready Graduates. Yet again, the Budget is silent on those receiving Job Seeker, leaving thousands in poverty.

The analysis begins with an overview of the economy, then focuses on the tax, productivity and housing package, before moving on to the spending side of the Budget covering education, skills, care and payments.

Macroeconomic and fiscal outcomes

Overall, on-budget **spending** is forecast to be 26.8% of GDP in 2026-27, projected to fall to 26.2% by 2029-30. **Revenue** is forecast at 25.8% of GDP in 2026-27, producing a deficit of 0.1% of GDP. Expenditure is forecast to grow by 1.1% per year to 2029-30, one third of the 3.3% annual growth over the preceding 30 years.

In **economic policy** terms, it is not an expansionary Budget, but nor can it be. The Government is not as much in control of economic policy as we might like to think. The Reserve Bank of Australia has signalled that it believes that the economy is too buoyant, that this is behind excessive inflation, and it is willing to drive the economy into recession to get inflation down.¹ While the recent rise in inflation is

¹ 'We don't want to have a recession, but if it's hard to get inflation down, then you know we're going to have to deal with that. Possibly.' Michelle Bullock, Monetary Policy Decision: Media Conference, 17 March 2026, Sydney, <https://www.rba.gov.au/speeches/2026/mc-gov-2026-03-17.html>

due almost entirely to the war in the Middle East,² the accuracy or otherwise of the Reserve Bank's beliefs is not the point. If it considers the government is spending too much, and that this would stimulate the economy, the Bank will just raise interest rates even higher, to slow down the economy.

The tax package is a sensible response. It takes money out of the economy, but from the wealthy, not workers. It also counter-acts a potentially perverse outcome of rising interest rates, where the spending of the wealthy retirees who have low mortgages and often earn income from interest rise, is driven up.³

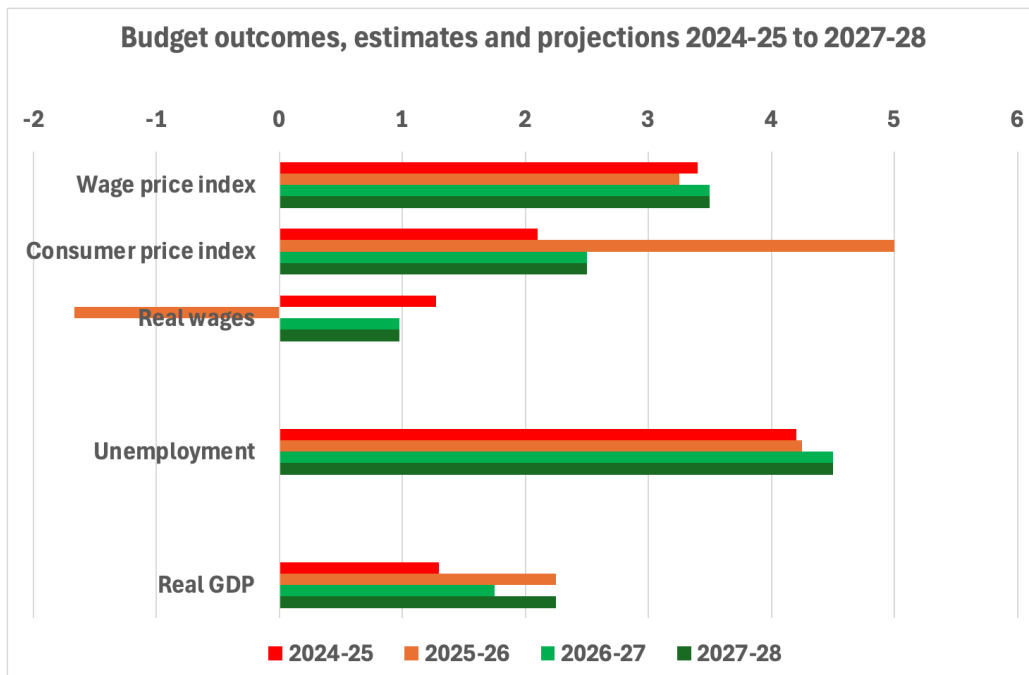
That also means that there is little scope in the Budget to offset the cost-of-living pressures that have been exacerbated by the Middle East war. There have been some accommodations made in this area, such as the permanent tax offset, mentioned below. However, anything more than this increases the danger that the Reserve Bank would just raise interest rates and more than counteract their impact. Hence the temporary halving of fuel excise, from April through June 2026, was not extended in the Budget.

As can be seen in the chart below, **inflation** (as measured by the consumer price index) is estimated to be as high as 5% in 2025-26, but fall sharply to forecast to be 2.5% in 2026-27, assuming that oil prices fall substantially by June 2027. This means that, in 2025-26, inflation is estimated to be well above the rate of wages growth (3.25%), but in 2026-27 below wages growth (3.5%). So real wages are estimated to fall in 2025-26 but forecast to rise in 2026-27, though it is only late in 2027-28 that the real wage losses in 2025-26 would actually be made up. Whether in practice this happens is unclear: last year's Budget expected a real wage increase in 2025-26, not a decline, because unsurprisingly it underestimated inflation. If the Middle East war continues, and oil prices rise substantially, inflation may peak at 7.25%.

On the optimistic version of the official forecasts, economic **growth** will fall to 1.75% in 2026-27, down from 2.25% this year, and not enough to prevent the **unemployment rate** rising slightly from 4.25% in 2025-26 to 4.25% in 2026-27, at which it remains for a total of three years. It would be better if we saw unemployment falling below 4% — it was below 4% through 2022-23, as low as 3.5% in December quarter 2022, and indeed averaging well under 2% for two decades to 1973. However, the Reserve Bank does not want unemployment that low, and there is little the Government can do, then, to achieve a low rate while the Reserve Bank runs an independent monetary policy. The Treasury assumes the Non-Accelerating Inflation Rate of Unemployment (NAIRU) is 4.25% and presumably aims for unemployment to go no lower.

² Anis Chowdhury, 'War-shock inflation': Reserve Bank's inflation phobia, no lesson learnt, Centre for Future Work, 7 May 2026, <https://futurework.org.au/news/war-shock-inflation-reserve-banks-inflation-phobia-no-lesson-learnt/>

³ David Taylor, 'Household spending up in March as fuel costs surge, over-65s lead spending growth, CBA data shows', *ABC News*, April 16, <https://www.abc.net.au/news/2026-04-16/household-spending-rises-in-march-driven-by-fuel-over-65s-cba/106568310>.



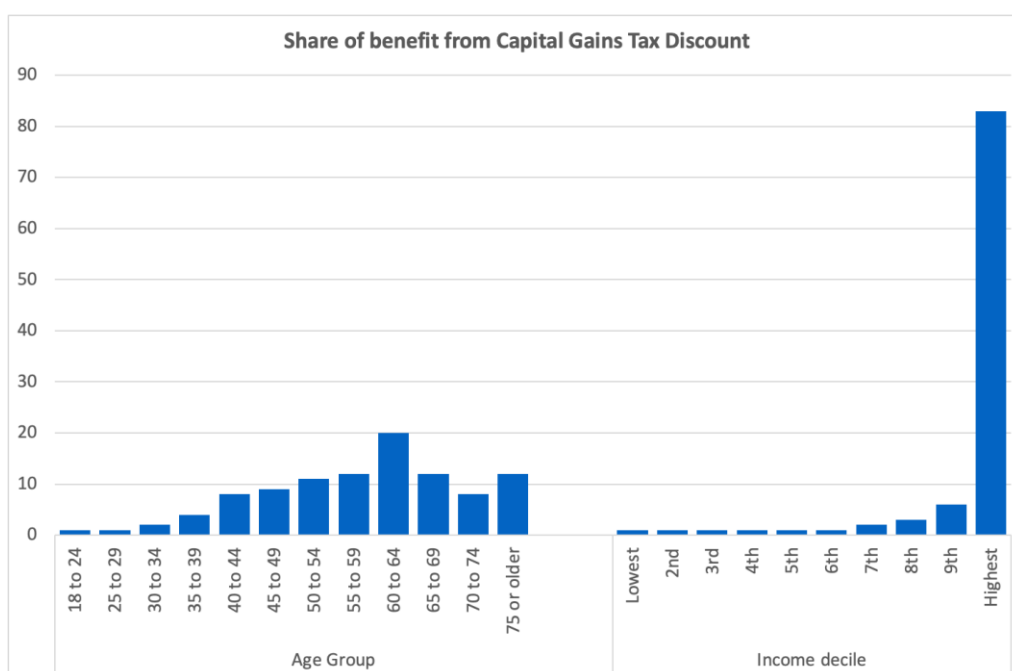
Tax reform, productivity and housing: addressing growing inequality

A signature theme of this Budget is productivity. Like most developed countries, Australia has experienced a decline in productivity growth since the peaks of the 1950s to 1970s, though the decline appears sharper than most. Many, probably most, of the key factors affecting productivity are in the hands of organisational management,⁴ but government can still do some things, though perhaps we should not hold too high expectations in this area. The reforms, pitched primarily at intergenerational equity, also do more to address rising class inequalities.

Rising rents and house prices, although other cost of living pressures, are often framed as intergenerational issues. But what appears to be intergenerational inequality is often a result of *class* inequality. While the young working class miss out, the young wealthy get to own a house, thanks to the ‘bank of mum and dad’, which only exists within wealthier families.

The chart below, from Treasury data, shows how the benefit from the previous capital gains tax discount increases in each age group, until peaking in the 60-64 age group (which gets a fifth of the benefit). But the right-hand side shows that, in practice, over four fifths of the benefit from the discount goes to the highest income decile (the top 10%). Those receiving capital gains are primarily the wealthy. We therefore bring a class analysis to this budget briefing.

⁴ David Peetz, Submission to the Senate Select Committee on Productivity in Australia, Centre for Future Work, 6 May 2026, <https://futurework.org.au/report/submission-to-the-senate-select-committee-on-productivity-in-australia/>



Source: Treasury, *2025–26 Tax Expenditures and Insights Statement*, Canberra, December 2025.

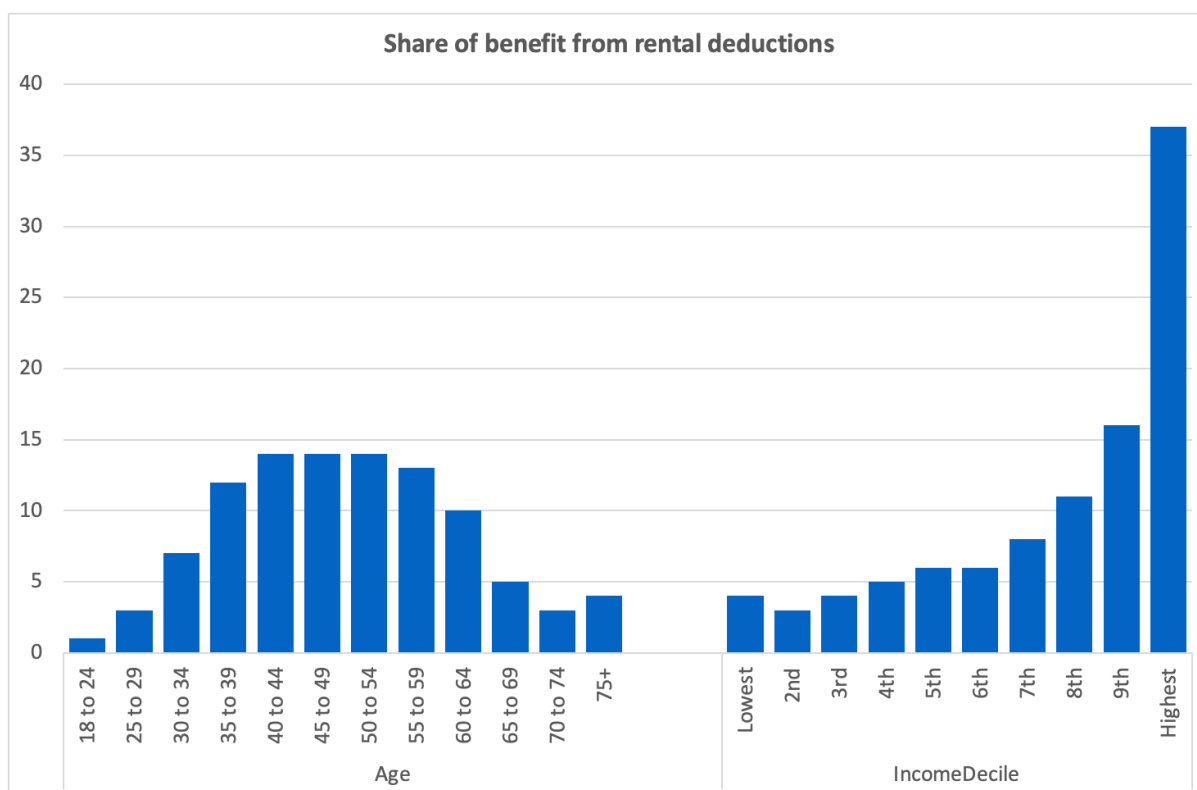
Housing

The most talked about measures in the budget can all be expected to improve the productivity equation. The **capital gains tax discount** that had been introduced by a Howard-Costello budget with effect from 1999 is to be abolished from 1 July 2027, mostly replaced by the system that preceded it, in which only real gains (after allowing for inflation) will be taxed (while specifying a minimum 30% tax rate on those gains). That will reduce the incentive for investors to just park their money in unproductive assets that can be expected to grow in value, and instead put it into more productive activities that generate income streams. It has the added advantage of reducing the bias in the tax system in favour of high income earners, for whom capital gains are a high share of income (26% of income for the highest income earners is in the form of capital gains, compared to 1% of income for the majority quintile).⁵ The announcement is at least as important for this reason as it is for its impact on the housing market, but it should still lead to a reduction in price pressures on housing, opening up opportunities for younger and middle and lower income households attempting to enter the housing market.

Similar things can be said for the abolition of **negative gearing** (the practice of offsetting rental ‘losses’ against earned and unearned income). After 1 July 2027, negative gearing will only be available for new properties that genuinely add to the housing supply.

⁵ In this case, the ‘highest income group’ is taxpayers receiving over \$1 million per annum, while the ‘majority’ is those on less than \$150,000 per annum. Data from the Australian Tax Office as analysed by the Australia Institute and reported in Matt Liddy, Andie Noonan, Simon Elvery, Margaret Burin and Jessica Riga, ‘[How everyone is making money, and what it means for their tax](#)’, ABC News, 10 May 2026.

As can be seen from the chart below, though its benefits were not as skewed or distortionary as the capital gains tax discount, negative gearing was most attractive to those who sought low-tax capital gains from rented housing. So, the top 30% of income earners got 70% of the benefit from claiming rental losses. It will become more attractive to invest in income-generating shares (thereby providing finance for corporate investment in machinery and equipment), while expenditure on existing houses will become less attractive. As one financial adviser said, scaling back negative gearing ‘could nudge people toward investments that actually stack up on their own merits.’⁶ Like the change in the capital gains tax discount, it should also give some downward impetus to house prices and improve opportunities for home ownership.



Source: Treasury, *2025–26 Tax Expenditures and Insights Statement*, Canberra, December 2025.

On the spending side, the low level of public infrastructure spending in Australia is one of the weaknesses behind low productivity growth that the Budget could address. The additional \$2 billion for housing-related **infrastructure** (such as water and sewerage pipes) will help with housing. However, it is hard to see the supply side of the housing equation adequately addressed until there is major renewed investment in public housing.

⁶ Michael Horan, partner and financial planner, CA Financial Services Group, quoted in ‘[What financial experts are saying about the budget](#)’, Australian Financial Review, 12 May 2026.

Shifting tax

These changes to capital gains tax and negative gearing will have significant impacts on who pays tax. The changed tax treatment of **discretionary trusts** — a minimum tax rate of 30% — will have similar effects. Trusts are commonly used by high income earners to cut tax by enabling income splitting.⁷ Some 63% of the benefit of the favourable tax treatment of trusts accrued to the highest 10% of taxpayers.

The introduction of the permanent \$250 **tax offset for wage and salary owners** will be progressively redistributive (it will be worth 0.5% of income for someone on \$50,000 per year but only 0.1% for someone on \$250,000), and again give a more favourable tax treatment to activities that generate income rather than capital gains. These do not, however, provide benefits to people on low-incomes outside the wage framework (e.g. recipients of JobSeeker payments), whose real incomes are around the levels of the Howard-Costello years.

So the net effect of the changes to trusts (costing \$4.5 billion in 2029-30) and the comparably expensive tax offset (\$3b in 2028-29, and \$3.3b in 2029-30), will be to benefit lower and middle-income earners, at the expense of high-income earners.

A productivity package

Other announcements that are listed under the ‘boosting productivity’ heading are often beneficial in some way.

Making permanent the \$20,000 **‘instant’ write-off** of new asset purchases for small businesses (instead of an asset being depreciated over several years) would likely improve productivity growth in small businesses (presently weaker than productivity growth in medium and larger businesses).⁸

Quickening the process of recognising migrants’ **overseas qualifications**, if successful, will undoubtedly help firms use labour more productively. Reviewing the points system by which skilled migrants are chosen *might* also help.

The impact of that part of the package that aims to cut “**red tape**” by \$780 million per year in the financial sector is harder to assess at this stage. This includes things like abolishing fees for accessing construction standards, simplifying electronic record keeping with financial regulators, and simplifying climate-related financial disclosures. While some changes may indeed boost productivity, or at least speed approval processes, perhaps by addressing unanticipated consequences, others may simply reverse measures originally taken to achieve some equity or environmental goal. Thirteen of 17 measures recommended in a major Productivity Commission inquiry have been adopted. Each measure needs to be assessed in detail.

Overall, it seems likely that the Budget will enhance productivity growth, but it is plausible that it could be measures outside the ‘productivity package’ — such as in capital gains and negative gearing — that will do much of the ‘heavy lifting’ in this area. Productivity growth has been unimpressive since 1999.

⁷ Matt Grudnoff, ‘[What are trusts, how do they reduce tax, and what is Labor rumoured to change?](#)’, *The Point*, 6 May 2026.

⁸ ABS, *Characteristics of Australian Business, 2021-22*, Cat No 8167.0DO002_202122

The measures in the Budget have not persuaded Treasury to alter its long-term assumption of 1.2% annual productivity growth.

Spending: more defence, NDIS cuts and missed opportunities

The largest spending commitment in the Budget is a \$53 billion increase in defence expenditure over a decade, that has added 0.5% to defence expenditure in 2035-36 compared to expectations six months ago. Whatever its merits in terms of defence policy,⁹ it is unlikely to be a major job creator. For example, John Quiggin estimated that the AUKUS submarine project would cost at least \$18 million per job over 30 years¹⁰ (over \$600,000 per job per year, assuming it raised employment by 20,000 per annum). Beyond this, the emphasis is on cuts (especially in the NDIS) and reorganisation.

Essential care, support and early education

The headline initiative affecting essential education, care and support systems for young children, people with disability and the frail aged is the significant cut to NDIS funding. Savings of \$37.8 billion over five years will see an estimated 160,000 people with disability lose access to NDIS supports altogether, while many others may have some supports reduced. Not all the NDIS savings are gained from cuts to supports, as much-needed reforms to the unregulated service provider market will produce some significant savings.

Restricting eligibility for individualised support to people with permanent and significant impairment does bring the NDIS back to its original intentions. But this should not occur without a solid plan and funding for support for the 100s of thousands of people with less severe impairment who will not be eligible for the NDIS.

There are some positive initiatives for people with disability in the budget. These are initiatives designed to build supports in the community and in early childhood education and care. However, the Commonwealth's contribution to these initiatives does not appear to be anywhere near the level that might be necessary to address unmet need arising from the NDIS cuts. This funding includes a \$2 billion package over five years for the Thriving Kids program to support children aged eight and under with low support needs, \$3 billion over five years to establish Foundational Supports outside the NDIS, and \$200 million over three years to establish an Inclusive Communities Fund to support community organisations to deliver group based activities and individual capacity building support for NDIS participants.

There is also \$463 million being cut from funding for school-based support for students with disability. The cuts may well have inequitable outcomes as they are likely to impact disproportionately on public schools, with public schools educating most students with disability.

There were no other new budget initiatives for early childhood education and care (ECEC). This is perhaps not surprising given the recent focus on addressing serious safety and quality concerns. However, the continuing lack of affordability of ECEC for many thousands of families experience ongoing and growing out-of-pocket costs remains an urgent issue. This year's budget brings Australia

⁹ see Doug Cameron, *Australian Sovereignty and the Path to Peace*, the 2025 Laurie Carmichael lecture, 10 September 2025,

¹⁰ John Quiggin, '\$18 million a job? The AUKUS subs plan will cost Australia way more than that', *The Conversation*, 17 March 2023,

no closer to achieving the universal, affordable childcare system that the Prime Minister has said he would like to be remembered for.

A new \$3 billion package for aged care services includes a commitment to more aged care beds and increases the affordability of personal care services for people receiving support at home. These reforms have been welcomed by consumer advocates as addressing identified gaps. However, the market-based system has many ongoing problems. Following recent shifts to greater user-pays, inequity remains a significant problem including as providers have incentives to provide places to those elderly people with the greatest capacity to pay.

In recent years the Government has made some significant steps to repair care and support systems, including through various workforce initiatives and support for pay increases to address low pay and gender undervaluation. Yet, across ECEC, aged care and the NDIS the market basis of provision and reliance on for-profit providers continue to produce less than optimum outcomes, create inequities and siphon public funds for services to profits.

Next-to-no support for people on social security payments

There were no increases in base rates of social security payments in this budget, despite members of the community relying on these payments being some of the groups most vulnerable to severe disadvantage and risk in the current context of widespread cost-of-living pressures. Amidst evidence of the harms of the compliance system for unemployed people receiving Jobseeker payment, that system remains in place. An increase in social security funding to improve service delivery is one small positive in the 2026-27 budget.

Skills, training and tertiary education

In his post-election speech to the National Press Club in June 2025 the Prime Minister stated that:

This is a time when government has to step up, to invest in education and skills and research and innovation.¹¹

Reversing the privatisation and marketisation of Australia's higher education and training systems and rebuilding education and training systems to improve skills for all workers is an important component of any productivity strategy.¹²

Since its election in 2022 the Albanese Government has adopted measures designed to rebuild Australia's training and higher education systems. The last Budget included some important, though incomplete, measures including fee-free public TAFE places and HECS/HELP debt relief. It is unfortunate that in this year's budget there are no new initiatives. Instead, the focus is on addressing regulatory compliance risks and redirecting (or in the language of the budget) reprioritising, where funds are spent.

The Government points to savings to be made by targeting apprenticeship supports and redirecting uncommitted funding across programs in the Employment and Workplace Relations portfolio (\$297.9

¹¹ Albanese A (2025), *PM Anthony Albanese: Address to the National Press Club, National Press Club of Australia*, 10 June (2025),

¹² Stanford J 2025 *Productivity in the real world: What it is, what it isn't, and how to make it work better for workers*, Centre for Future Work.

million over five years from 2025–26 budget and \$106.3 million per year ongoing). These savings are being directed to advice on training needs and compliance actions by Australian Skills Quality Authority.

Amongst a host of new regulatory functions across universities, funding for the National Student Ombudsman (NSO) to resolve student complaints about higher education providers¹³ is welcome given it is an important part of the Action Plan Addressing Gender-Based Violence in Higher Education.

The Government has confirmed its cap on migration numbers and its focus (over 70 percent) on skilled migrants as a priority. In this budget there is \$85.2 million over four years allocated to accelerate the processes of acknowledging qualifications of migrants in trades licensing areas.

Missed opportunities in this budget in relation to skills, training and tertiary education include further measures to continue to fix the Job-ready Graduates (JRG) scheme, introduced by the Morrison Government. The JRG initiative substantially increased fees for students in arts, business and law and reduced fees in STEM, education and health courses. The JRG has resulted in higher fees for students, but less resources for universities, limiting access to higher education for those from lower socio-economic backgrounds.¹⁴ These inequities should be removed, and we should be continuing to work towards making higher education and training free for all.

In the 2024-2025 budget the government announced payments for students undertaking unpaid practical placements that are a condition of study in teaching, midwifery, nursing and social work courses. The level of these payments should be increased to provide a living wage for students required to undertake placements. Access should also be extended to other courses where placements are required to obtain a qualification.

Whilst the ongoing commitment to fee-free TAFE is important, additional supports for students and for the VET workforce are needed. Investment in supports to improve the working conditions and excessive workloads on TAFE staff should be made a priority.

Women's economic security and equality at work

The fact that this budget is light on new initiatives directed specifically towards women's economic security is apparent when reviewing the Women's Budget Statement. The government has produced its fifth Women's Budget Statement. The Statement, and accompanying gender impact assessments, are designed to clarify who benefits from budget initiatives and how those benefits are distributed across genders – including the impact of these initiatives on women's labour force participation, income and economic security.

Reflecting a lack of new commitments, the Statement focusses on the Albanese Government's not insignificant track record including: extending Paid Parental Leave; setting the foundations for universal early childhood education; supporting extensive pay rises in female dominated areas of work; and introducing and funding the Building Women's Careers (BWC) program designed to drive structural and cultural change to increase women's participation in male-dominated industries.

There are small new announcements about possible measures to prevent weaponisation by perpetrators of family, domestic and sexual violence (FDSV) of the Child Support Scheme (\$182.6m)

¹³ <https://www.nso.gov.au/>

¹⁴ Littleton E (2023), *Public Attitudes on Issues in Higher Education*, Centre for Future Work.

and prevent perpetrators from accessing their victims' superannuation death benefits and from using company directorships to create tax and corporate debts as a form of coercive control (known as coerced directorships).

An increase in funding to extend the Protecting Migrant Workers – Information and Education grants program (\$27 million over two years from 2026–27). This education programs assist migrant workers to understand their work rights and to report allegations of exploitation.

Missed opportunities for women's economic security in this budget include further extensions to the duration of paid parental leave. The lack of additional funding to support tribunals who are fundamental to gender equality initiatives is also a missed opportunity. This includes the Fair Work Commission who needs additional funding to do further research and provide data in equal remuneration and work value cases, and the Australian Human Rights Commission (AHRC) to allow it to carry out enforcement activities associated with positive duties under the Sex Discrimination Act's (SDA).

Public Service

The Albanese Government has committed to continue for an extra year (2028-29) its initiatives to reduce reliance on external labour hire and consultants, an initiative that it committed to at the 2022 election and commenced in the 2022-2023 budget.¹⁵

¹⁵ Heap (2025) *Briefing Paper: Restoring public sector capability through investment in public service employees*, Centre for Future Work.