HD+Co
Accountants & Business Advisors
Client Newsletter – Tax & Super
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RENTING OUT YOUR HOME - AND THE CGT AND NEGATIVE GEARING CHANGES

About this newsletter

Welcome to the **HD+Co** client information newsletter, your monthly tax and super update keeping you on top of the issues, news and changes you need to know. Should you require further information on any of the topics covered, please contact us via the details below.

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One of the many areas where the big changes to negative gearing and Capital Gains Tax may have an effect is where you use the "absence concession" to allow you to "continue to treat" your home as your CGT-free main residence during an extended absence from the home - including where you rent it out for up to 6 years during this period.

continued overleaf ⇨

While, at this stage, there appear to have been no direct changes to this concession, some interesting consequences arise from using it under these new tax rules.

For example, if you rent it out during a period of absence, and you have a big mortgage, you may find yourself in a negatively geared position (ie where your taxable rent is less than the deductible rental expenses) – so that you end up with a deductible loss.

Moreover, if you acquired your home before 12 May 2026 (ie Budget-day) you will still be allowed to claim this negative geared loss, as the changes which now "quarantine" negative gearing losses do not apply to property acquired before that date.

In other words, such property is "grandfathered" from the negative gearing changes ie the property is carved out from the changes, but in the expectation that that property will one day cease to be a pre-12 May 2026 property when it is sold or bequeathed to beneficiaries etc.

Suffice to say the combination of this carve out from negative gearing quarantining and the CGT absence concession can provide some benefits – and even some good planning opportunities.

In relation to the CGT discount changes, where the absence concession is used, its effect is to "continue to treat" the home as your CGT-free main residence during your period of absence – so that there will be no CGT consequences on any later sale or disposal.

But this is subject to an important exception: where you rent your home for more than 6 years only a partial CGT exemption will apply – to reflect the period that it was rented for more than 6 years. But even then, that partial exemption will be calculated favourably by reference to the market value of your home when you first rent it and not its original cost.

Nevertheless, the capital gain so calculated will be subject to the new CGT rules regardless of when you acquired the property (unlike the negative gearing changes).

This will generally mean that you still get the 50% discount up to the property's market value on 30 June 2027, but thereafter any gain that accrues will be subject to the new (less favourable) indexation rules and the minimum 30% tax rate!

And for those that are interested, the 50% CGT discount applying to a partial capital gain from the sale of a home (and other circumstances where a partial CGT exemption on a home arises) actually costs the government some $25 billion to $30 billion in foregone tax each year - and has done so for at least the last 10 years!*

So, given a person's home is usually their most significant asset, if you think that these changes could affect (or even help) you, please make an appointment to see us about it.

*See "Mid-Year Economic and Fiscal Outlook" (MYEFO) statistics

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THE WHEELS NOW IN MOTION FOR FAMILY TRUST CHANGES

With the Government set to impose a minimum 30% tax on discretionary or "family" trusts from 1 July 2028, it's probably time to start thinking about what you should do about any existing family trust you have.

And this could include giving serious consideration to what may be involved in using the proposed concessions to roll-over assets into a different entity such as a company or fixed trust.

Although the start date is two years off (1 July 2028) it will come upon you quickly – hence the need to start thinking about things now, especially as the Government has now released its first consultation paper on the matter.

And the issues the government is seeking consultation on, will affect every family trust from the "plain vanilla style" ones to the most complex of family trust structures.

And these issues include such matters as the treatment of distributions to income-tax exempt entities like charities, the proposed rollover relief to support restructuring and how excess franking credits should be treated. And of course, the ways to collect the minimum tax.

However, a couple of areas have already seen much public discussion and this has resulted in the government backing down on one of the original proposals - namely, to subject testamentary trust income to a minimum 30% tax rate.

As a result, the government will now exempt "discretionary" testamentary trusts from this rule. This will mean that trusts set up under a person's will to hold assets of the deceased and distribute income to beneficiaries on an ongoing basis after the estate has otherwise been finalised will not be subject to the new minimum 30% tax.

But, importantly, this is subject to the "discretionary" testamentary trust being established for a "bona-fide" testamentary trust purpose (eg to cater for a disabled beneficiary). And this is likely to be an area of some debate and controversy.

Suffice to say, if you are proposing to create such a testamentary trust, then it is worthwhile to come and speak to us about it in the not too distant future.

And while on the topic of wills and estates, the big CGT changes in the Budget – and the ending of the 50% discount - may have implications for assets that are bequeathed after 30 June 2027.

So again, it may be worthwhile coming in and having a chat with us about these things – as there is some planning that can be done to avoid the possible harshness of the new rules.

In short, if you have any sort of trust or plan to create one (including a "discretionary" testamentary trust), then it is worthwhile to get ahead of the curve and speak to us about it – or if only just to understand what all these trust changes will mean for you.

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WHAT YOU NEED TO RETIRE:

The Latest Numbers

Have you ever wondered how much superannuation you will have and need in retirement? The answer is it depends on a range of factors, such as your lifestyle goals, whether you have paid off your mortgage, your financial situation, whether you live a relatively healthy lifestyle, your likely life expectancy, and so on.

How much will I spend in retirement?

According to the government's MoneySmart website, the amount of money you will need when you retire depends on:

- Your costs in retirement – for example, paying off your mortgage, rent, renovations, travel and medical costs, and
- The lifestyle you want – for example, a modest versus a comfortable lifestyle (discussed below).

MoneySmart suggests that if you own your home, a general rule of thumb is that you'll need two-thirds (67%) of your current income each year to maintain the same standard of living.

The other option is to use the Retirement Standard from the Association of Superannuation Funds of Australia (ASFA) which estimates how much the average Australian would need to retire on.

The Retirement Standard budget for individuals aged 65 to 84 who retire at age 67, who own their home (no mortgage), and are relatively healthy are as follows:

ASFA Retirement Standard	Modest lifestyle	Comfortable lifestyle
Single	$36,434 a year	$55,923 a year
Couple	$52,473 a year	$78,566 a year

Source: ASFA Retirement Standard, March quarter 2026

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ASFA's '**modest**' standard estimates how much money is needed for the basics, which is mostly met by the Age Pension.

ASFA's '**comfortable**' standard estimates how much money is needed for retirees to be involved in a range of leisure activities and to have a good standard of living including:

- Private health insurance
- A reasonable car
- Household goods, and
- Holidays.

How much superannuation will I need?

ASFA estimates that the lump sum needed at retirement depends on a range of factors, with one major factor being your standard of living.

As a rough estimate, the superannuation balances required to achieve a modest and comfortable retirement (assuming retirement at age 67) are as follows:

Category	Modest lifestyle – savings required at retirement	Comfortable lifestyle – savings required at retirement
Single	$110,000	$630,000
Couple	$120,000	$730,000

The lump sums needed for a modest lifestyle are relatively low as a modest lifestyle covers the basics and is mostly met by the Age Pension.

On the other hand, the lump sums needed at retirement to support a comfortable lifestyle assumes the retiree/s will draw down all their capital and receive a part Age Pension.

How much will I have?

Regardless of the projected budgets and superannuation balances that may be needed in retirement, you can estimate how much superannuation you'll have when you retire by using the MoneySmart 'retirement planner'.

This tool can help you estimate:

- How much money you'll have to spend each year once you retire
- How fees, investment options and contributions will affect your retirement income, and
- How to test out different scenarios and work out how to grow your superannuation.

You can access the MoneySmart retirement planner by:

- Visiting moneysmart.gov.au/retirement-income/retirement-planner (or search for 'retirement planner' on the MoneySmart website), and
- Start entering your personal details in the retirement planner calculator to work out how much superannuation you'll have when you retire.

Reduce the gap and build your superannuation

You may find that the amount of superannuation you'll have when you retire may not be enough to fund the lifestyle you want in retirement.

But don't worry too much, as it's never too late to build up your superannuation to boost your retirement savings.

There are a number of things you can do that can increase your superannuation over time, such as:

- Make extra contributions to grow your superannuation
- Change your investment option within your superannuation account, and
- Consolidate your superannuation funds into one account so you pay less fees.

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SALARY SACRIFICING TO SUPER

Are you an employee thinking of putting some of your pre-tax income into superannuation to boost your retirement savings? This is known as salary sacrifice, and the good news is that it can benefit you and your employer.

What is salary sacrifice?

An effective salary sacrifice agreement (SSA) involves you as an employee, agreeing in writing to forgo part of your future entitlement to salary or wages in return for your employer providing you with benefits of a similar value, such as increased employer superannuation contributions.

Contributions made through a SSA into superannuation are made with pre-tax dollars and do not form part of your assessable income.

This means salary sacrifice contributions are not taxed at your marginal tax rate (MTR) and will instead be subject to superannuation contributions tax of up to 15% when received by your superannuation fund and will count toward your concessional contributions (CC) cap.

The CC cap is a limit to how much you can contribute to superannuation. The combined total of your employer superannuation guarantee (SG) and salary sacrificed contributions must not be more than $32,500 per financial year (2026-27).

For most people, the 15% contributions tax will be lower than their MTR. You benefit because you pay less tax while boosting your retirement savings.

Your employer also benefits because salary sacrifice contributions are tax deductible to them and there is no limit to the amount of their contribution/deduction.

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However, this is not the case for employees. Salary sacrifice contributions in excess of your CC cap will be included in your assessable income and taxed at your MTR. You will however be entitled to a 15% non-refundable tax offset to compensate for the tax paid by the superannuation fund on the same excess contribution.

Warning – Division 293 tax on higher income earners

If your income plus your CCs exceed $250,000 pa, you will pay an additional 15% tax on CCs (or on the amount above the $250,000 threshold if that is lower).

For many impacted people however, CCs are still worthwhile as even though they pay 30% tax on CCs, this is still less than the top MTR of 47% (including Medicare levy) that applies to high income earners who are liable for Division 293 tax.

The additional Division 293 tax is administered by the ATO who will work out if you need to pay the tax based on information in your tax return and data the ATO receives from your superannuation fund(s).

The benefits of salary sacrifice

- Disciplined approach to saving – individuals who struggle to save may benefit from salary sacrificing as contributions are deducted directly from pre-tax income. This automatic process can help you build your superannuation over the long-term and save for retirement.
- Tax saving is immediate – because contributions are made from pre-tax salary, the personal tax benefit is derived 'up-front'. This means the saving goes straight to your superannuation fund and you can benefit from compounding returns on the tax saving amount (presuming the return is positive) throughout the year.
- Dollar cost averaging – salary sacrifice allows you to buy into the market at regular intervals and, therefore, reduce the risk of market timing.
- Easy to administer once established – you do not need to claim a deduction in your tax return or lodge a notice of intent form with your superannuation fund when salary sacrificing, unlike personal deductible contributions.
- Employer matching arrangements – salary sacrifice may also be attractive if your employer offers generous matching arrangements to their employees, for example, an additional 1% employer contribution for each 1% of salary sacrificed.

Tip – consider the carry forward rules

You may be eligible to make large CCs in a year without exceeding your CC cap under the carry forward CC rules. These rules allow certain individuals to make extra CCs in excess of the general concessional cap by utilising any unused concessional cap amounts from the previous five financial years (for 2026-27, this means unused cap amounts from 2021-22 onwards; unused amounts from 2020-21 or earlier have now expired).

To be eligible to make carry forward CCs in a year, you must have:

- A total superannuation balance (TSB) of less than $500,000 at the end of 30 June in the previous financial year, and
- Unused CC cap amounts for one or more of the previous five financial years.

The key issues to consider

- SSA may be ineffective – where your employer offers salary sacrifice, the arrangement must be in place before you have actually earned the entitlement. This means only income that relates to future employment and entitlements can be salary sacrificed into superannuation. This is known as an 'effective' SSA. With any bonus payments, the arrangement needs to be made before a decision to pay the bonus has been made. This applies even when the bonus won't be paid until sometime in the future.
- Employers may not offer salary sacrifice to employees – although most employers will offer SSA to their employees.
- Potential for excess CCs – once established, salary sacrifice should not be a 'set and forget' strategy. For example, your salary may increase/decrease, or the cap may change. Therefore, it is important to track the contributions regularly if aiming to maximise, and also stay within, the CC cap.

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SHOULD YOU SELL BEFORE 1 JULY 2027?

From 1 July 2027, the way capital gains are taxed for individuals, trusts and partnerships is set to change. The 50% CGT discount will be replaced by cost base indexation and a new 30% minimum tax on real gains.

Many people assume they must sell before the deadline to keep the discount, but this is not the case.

Your gains so far are protected

The new legislation treats assets you hold on 30 June 2027 as sold at market value on that date and bought back the next day. You do not pay any tax then. Instead, the gain built up to 1 July 2027 is locked in and keeps the 50% discount whenever you actually sell. Only the growth after that date falls under the new indexation and minimum tax rules.

In short, holding past the deadline does not cost you the discount you have already earned. This is why a number of advisers describe rushing to sell purely to beat the deadline as one of the more expensive mistakes investors make during tax reform.

Reasons to be cautious

Some assets are not affected at all. New builds can still choose the discount, and qualifying affordable housing keeps its existing discount of up to 60%. The small business CGT concessions remain. Income support recipients are exempt from the 30% minimum tax.

Also note that super is unaffected, meaning super funds continue to receive the one-third CGT discount on capital gains.

The bottom line

For most people, there is no need to sell simply because the rules are changing. The gain you have made up to 1 July 2027 stays on the old rules. The decision to sell should rest on your own plans, your asset, your income and your timeframe, not on the calendar.

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