# AUSTRALIAN FEDERAL BUDGET 2025-2026–KEY TAX MEASURES AND INSTANT INSIGHTS

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**Australia Tax Alert**

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The Australian Federal Government has just released its budget for 2025-26. The K&L Gates tax team outlines the key announced tax measures and our instant insights into what they mean for you in practice.

In summary, with an upcoming Australian federal election, the budget is light on substantive tax changes (other than personal income tax cuts), and largely defers measures to raise further revenue or amend the tax system until after the election. Whilst there will be some relief that there have not been further targeted tax measures (e.g. on multinationals), there is also likely to be disappointment that there has been no attempt at tax reform or addressing the large number of outstanding matters requiring clarification.

| Key Announced Tax Measure | K&L Gates Instant Insights |
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| **Personal Income Tax Cuts From 1 July 2026**<br>▪ The Government has announced reductions in the first tax rate from 16% to 15% from 1 July 2026 and from 15% to 14% from 1 July 2027.<br>▪ The Government has also increased the income threshold for where the 2% Medicare levy applies. | ▪ These will no doubt be welcome for individuals, and will likely form a key part of the Government's campaign for re-election.<br>▪ These changes have been largely targeted at low to middle income earners, although the tax cuts will apply to all taxpayers. Given the higher rates of inflation and wage growth, this essentially returns some (but not all) of the higher income tax take from "bracket creep" to taxpayers.<br>▪ There is no relief however for businesses, small or large. |
| **Managed Investment Trust (MIT) "Clarifications"**<br>▪ The Government is proposing to legislate to allow foreign widely held pension funds and sovereign funds to get access to the reduced MIT withholding tax rates on | ▪ This is a pre-announced, welcome change that confirms existing industry practice, and addresses a difference between the rules to qualify as a MIT and the rules to apply reduced withholding tax. |

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| eligible income for "captive" MITs (i.e. where they are the sole actual or beneficial member of the MIT).<br>▪ This is intended to "complement" the Australian Taxation Office's (ATO's) *Taxpayer Alert TA 2025 / 1* which focused on restructuring to access MIT benefits and using structures to implement captive MITs. | ▪ However, it was only necessary due to the ripple of serious concerns started by *TA 2025/1* and focusing on "captive MITs" without sufficient clarity on the ATO's concerns.<br>▪ It remains clear that the ATO has a focus on foreign collective investment vehicles (i.e. funds) accessing MIT withholding concessions where they are the sole ultimate owner (even though they may themselves by widely held). |
| **No Changes to Address Taxation of "Digital" Assets–Handball to the ATO**<br>▪ The Government has confirmed it will not legislate any amendments to the taxation laws to deal with the array of digital assets, such as "decentralised finance" (DeFi), gaming finance (GameFi) and non-fungible tokens (NFTs).<br>▪ It also (in a fairly luke-warm way) endorsed the principles developed by the Board of Taxation (BoT) to guide taxation of digital assets, whilst also indicating that further ATO guidance will be available to address uncertainty. | ▪ Whilst the lack of a specific tax regime for digital assets is consistent with the BoT's recommendations, the tepid endorsement of the BoT's policy framework for digital assets provides little guidance on how the ATO is to develop further tax guidance to address the taxation of these novel assets, leaving the ATO to largely continue to act as policy formulator and implementor as well as revenue collector.<br>▪ Based on the existing guidance, it is unlikely this will result in much relief for digital asset providers, platforms or investors. |
| **No Further Guidance on Corporate Tax Residency**<br>▪ The Government has provided no update on the changes (promised back in Federal Budget 2020/21) on clarifying corporate residency laws, particularly following hardening of ATO guidance on corporate residency. | ▪ This means the ATO's views in *TR 2018/5* and *PCG 2018/9* continue to be applied (notwithstanding the Government's previously stated intent to address some of the challenges associated with those rules).<br>▪ Foreign entities with Australian directors etc continue to face heightened risks of the ATO trying to allege Australian tax residency. |
| **Announced but Unenacted Measures**<br>▪ The budget largely provides no clarity on | ▪ The list of announced but unenacted tax measures continues to grow and |

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| a number of previously announced but unenacted measures, including:<br>▪ Changes to increase scope of foreign resident CGT withholding tax – other than that this has been delayed until after legislation is enacted;<br>▪ Clean building MIT rates for data centres and warehouses has been delayed until after legislation is enacted;<br>▪ Small business instant asset write-off extension to 30 June 2025;<br>▪ Part IVA amendments to deal with withholding tax;<br>▪ CGT rollovers and response to the BoT's review;<br>▪ Additional taxation of superannuation balances over AU$3 million, including whether this incorporates unrealised gains; and<br>▪ Changes to Division 7A (i.e. removal of distributable surplus requirement). | provides real uncertainty for the tax system and all taxpayers. Whilst there are some positive amendments, including deferring the commencement of the unreleased changes to foreign resident capital gains withholding, it largely leaves these matters unresolved.<br>▪ Some of the measures, such as taxation of superannuation balances, are clearly baked into the budget revenue forecasts, and so although the Government has not succeeded in getting legislation passed, the intent remains to do so (pending its re-election).<br>▪ The Government also appears to be in wait and see mode as to what the ultimate outcome is in the *Bendel* litigation to determine next steps on Division 7A.<br>▪ However, there has been little or no clarity provided on most measures, and so taxpayers continue to face uncertainty. Whether we see some measures proceed will ultimately depend on the outcome of the election. |
| **Continued Focus on Tax Integrity by the ATO**<br>▪ The Government has provided further funding to the ATO to address tax integrity and target tax avoidance arrangements, particularly focused on multinationals.<br>▪ The Government has also provided additional funding to the ATO to address non-payment of superannuation contributions and amounts PAYG withheld on account of tax. | ▪ This will see the ATO continue to target key concerns – based on our experiences, in recent years this has involved multinationals, foreign investors (including private equity funds) and intellectual property arrangements.<br>▪ The continued focus on entities using the PAYG withholding and superannuation contribution regimes as a source of funding is unsurprising, and we have seen dramatically increased ATO activity in this space. This has led to increased insolvencies in small to medium businesses. |

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