Economics

Investors Rush to Decode New Australian Capital Gains Tax Rules

By Richard Henderson and Carmeli Argana

May 13, 2026 at 3:00 PM GMT+10

Takeaways by Bloomberg AI Hide

- Investors are assessing the impact of a revamp of Australia's tax rules on gains from stocks, bonds and property, with wealth managers warning it could upend trust structures and boost demand for safer, income-generating assets.
- The change replaces a 50% discount on capital gains with cost base indexation and a 30% minimum tax rate, and also curtails rules permitting property investors to deduct losses from income.
- The new rules could shift the relative appeal of high-growth shares versus steady, income-generating assets, and reinforce the existing tax rationale for quality Australian stocks that pay franked dividends.

Investors are racing to assess the impact of a revamp of Australia's tax rules on gains from stocks, bonds and property, with wealth managers warning it could upend trust structures and boost demand for safer, income-generating assets.

Australia replaced a 50% discount on capital gains with cost base indexation and a 30% minimum tax rate, the annual budget on Tuesday showed. The change is expected to raise the effective tax rate on capital gains, as part of tweaks the center-left ruling Labor party said were designed to create a fairer system. Rules permitting property investors to deduct losses from income were also curtailed, while a 30% tax rate on income for trusts was introduced.

The rules amount to one of the largest overhauls to the nation's capital gains taxes on record, forcing investors and their advisers to review wealth structures and consider altering portfolios.

"There remains a lot of concern and uncertainty now because, from reading these announcements, they're scant on detail," said Jonathan Ortner, a partner with Arnold Bloch Leibler, who noted a "significant" uptick in client queries. "There are a lot of questions from clients who have circumstances that don't quite marry up to what's in the detail of the announcement," he said.

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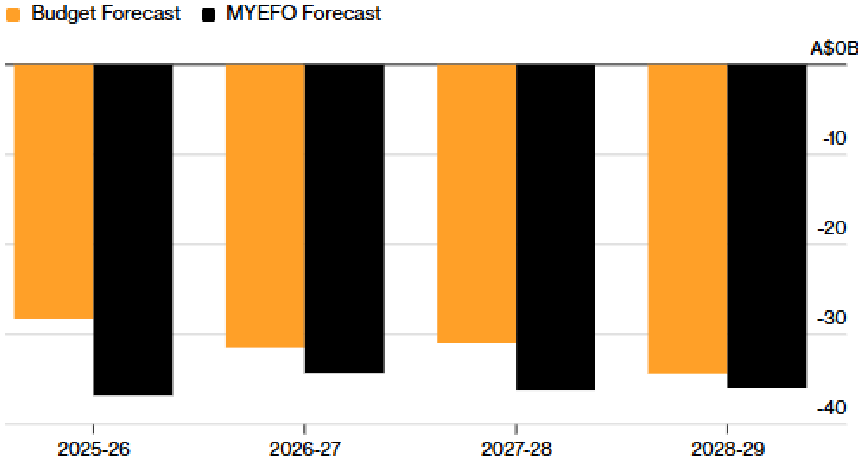
Australian Budget Is Still Deep in Deficit

Underlying Cash Balance



Source: Australian government

The new rules could “shift the relative appeal of high-growth shares versus steady, income-generating assets,” said Rob Wilson, director of investment strategy at Selfwealth by Syfe, an investment platform. The tweaks also “reinforce the existing tax rationale for quality Australian stocks that pay franked dividends,” he said, referring to the country’s system of tax credits that can accompany corporate profits.

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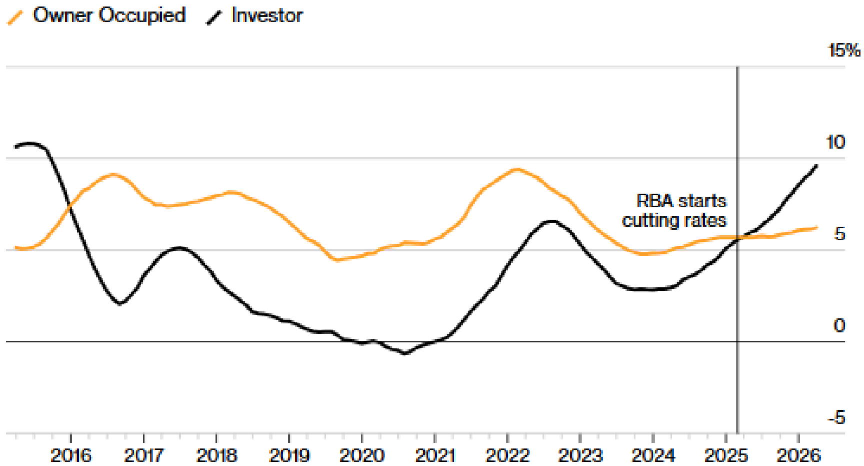
Plans to introduce a 30% tax on discretionary trusts from July 2028 are also expected to shake up the strategies of wealth managers and their advisers. Investments held in trusts have previously enjoyed hefty tax discounts to capital gains, making them popular among managers of high net worth clients looking to maximize wealth beyond retirement accounts, according to Adelaide-based wealth manager KeyInvest.

"That advantage is now materially diminished," said Craig Brooke, the firm's chief executive officer. "Advisers who engage early and position clients across a genuinely diversified set of structures will be best placed to navigate what comes next."

Housing Shortage, Favorable Tax Setting Drive Investor Loans

Annual rate of growth, percentage change



Source: RBA

The removal of negative gearing rules for property investors, where losses can be claimed against other income, may also make real estate investments less desirable. The revised rules only permit such concessions for new, rather than existing, dwellings.

"With negative gearing now restricted and capital gains tax less generous, investment property becomes a less compelling proposition," said Wilson.