



ANDERSEN®

FEDERAL BUDGET 2026-27

Beyond the Headlines.

What the Budget Really Means for You.

Capital Gains & Trust Reform · Negative Gearing · Corporate & Multinational Tax

Innovation, Start-ups & R&D · Private Client Services · Global Mobility & Migration

About Andersen Australia

Andersen in Australia is a best-in-class tax and business advisory firm, focused on transparency, ethics, and client commitment. We work with corporate and multinational businesses, family enterprises and private clients across Australia, taking a considered approach to complex tax, advisory and transactional matters. Our practice spans corporate and international tax, transfer pricing, global mobility, and private client services.

As part of Andersen Global, we offer tailored services and access to a vast network of professionals across the world. As a global association of independent member firms with over 14,000 professionals and a presence in 170+ countries, Andersen Global is committed to providing a unified client experience for matters across borders, jurisdictions and regulatory regimes.

About this Report

The Federal Budget 2026–27 introduces some of the most significant structural tax changes Australia has seen in a generation. This Report sets out our team’s analysis of every major measure, with practical commentary on what each change means for individuals, businesses, family groups and cross-border clients.

All Budget figures, measures and commencement dates referenced in this Report are sourced from the 2026–27 Federal Budget Papers (Budget Paper No. 1 and Budget Paper No. 2), the Treasurer’s Media Release of 12 May 2026, and supporting Government media statements. Where specific legislative or regulatory references are cited, additional sources are noted in-text.

Commentary in this Report reflects the Budget announcement as of 12 May 2026. Final legislative drafting and consultation may alter the technical detail of individual measures, and clients should not act on any specific measure without confirming the position with their Andersen adviser at the time of the proposed action.

How to Use this Report

Each section covers a measure announced in the 2026–27 Budget, with our team’s commentary and practical guidance on what the change means for clients. The Report combines coverage of our usual practice areas with several spotlight sections on the most significant reforms. Clients should confirm specific positions with their Andersen adviser before acting.

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Australian Federal Budget At a Glance

\$31.5bn Forecast Budget Deficit (2026-27) 1.75% Real GDP Growth (2026-27)

1.65% Employment Growth (avg, 5 years) 4.5% Unemployment (2026-27)

2.5% Inflation Rate (2026-27) \$1.051tn Gross Debt (end 2026-27)

Foreword

Andersen in Australia's Budget Report outlines this year's Federal Budget 2026–27 key economic forecast indicators and the main tax and economic measures announced by the Government on 12 May 2026. Our report provides a reference point, insight, and commentary on what these changes may mean for you, your family, your business, and the structures through which your wealth is held.

Treasurer Jim Chalmers handed down the 2026–27 Budget against the backdrop of what he described as the fifth economic shock Australia has faced in less than twenty years. The conflict in the Middle East, which has closed the Strait of Hormuz, has pushed global oil prices above US\$100 per barrel, flowing through into petrol prices, food costs, and broader inflation. Treasury is now forecasting inflation to peak around 5 per cent in the middle of 2026, with economic growth slowing to 1.75 per cent in 2026–27 before recovering. A \$31.5 billion deficit is expected for 2026–27, with deficits forecast out to 2034–35 despite cumulative bottom-line improvements of \$44.9 billion over the forward estimates.

This Budget, however, is not about its immediate fiscal numbers. It is, by some margin, the most significant structural tax reform package since the introduction of the GST. The Government has framed the package around three themes: intergenerational fairness, housing affordability, and productivity. The centrepiece measures include sweeping changes to capital gains tax, negative gearing, discretionary trusts, and business tax incentives. The political weight of these reforms has been softened with additional personal tax relief, a new Working Australians Tax Offset, permanent small business deductions, and a refreshed package of innovation and start-up incentives.

\$31.5bn Forecast Budget Deficit (2026–27) 1.65% Employment Growth (avg, 5 years) 2.5% Inflation Rate (2026–27) 1.75% Real GDP Growth (2026–27) 4.5% Unemployment (2026–27) \$1.051tn Gross Debt (end 2026–27).

The key strategic message running through the Budget is straightforward: Australia's tax system is being rebalanced away from passive asset accumulation and toward wages, new housing supply, innovation and productive investment. Three reforms in particular signal the scale of the change. From 1 July 2027, negative gearing for residential property will be restricted to new builds. From the same date, the 50 per cent CGT discount will be replaced with cost base indexation for individuals, trusts and partnerships, alongside a new 30 per cent minimum tax on real capital gains. From 1 July 2028, a new 30 per cent minimum tax will apply to discretionary trust income.

The detail of these measures matters enormously. Existing property investors are largely grandfathered. New residential builds retain access to key concessions. Pre-CGT assets, long considered the cornerstone of intergenerational family wealth, are brought into the regime for future gains. Restructuring relief has been offered for discretionary trust groups, though only within a three-year window. Small business CGT concessions remain unchanged, but the broader R&D Tax Incentive has been materially reset. For multinational groups, Australia's Pillar Two framework has been recalibrated to align with the OECD's side-by-side package agreed in early 2026. For mobile employees and foreign investors, several pre-existing rules now interact with the new measures in ways that change the calculus for any client with cross-border circumstances.

Our team has prepared a detailed analysis of every significant measure announced, including the implications for individuals, property investors, family groups and trusts, private clients, small and medium enterprises, start-ups, corporate and multinational groups, and superannuation structures. Where the Government has left technical questions unanswered, we have flagged them. Where we believe the structural direction is already clear enough to act on, we have said so.

We expect these reforms to drive significant restructuring and strategic planning activity over the next 12 to 24 months. The major commencement dates of 1 July 2027 and 1 July 2028 give clients a meaningful planning window, but it is not unlimited, and the decisions that matter most (restructures, valuations, succession events, asset disposals) are not decisions that can be made in the months immediately before commencement.

A detailed summary of the key measures and our commentary on each follows.



Cameron Allen
CEO & Office Managing Partner
Andersen in Australia

Budget by the Numbers

Structural Tax Reform

\$7bn p.a.

Estimated annual revenue from CGT, negative gearing and trust reforms by 2029–30.

\$4.5bn

Over five years from the minimum 30 per cent tax on discretionary trust income.

\$1.9bn

Over five years (estimated) from the EV FBT exemption reduction.

Cost-of-Living and Business Relief

\$268 / \$536

Annual tax saving per worker from the lowest marginal rate cut (2026–27 / 2027–28).

\$250

Annual Working Australians Tax Offset for 13.3 million workers from 2027–28.

\$1,000

Instant work-related expense deduction for around 6.2 million workers from 2026–27.

\$20,000

Permanent instant asset write-off for small businesses with turnover up to \$10 million.

2.9%

Increase in Medicare levy low-income thresholds from 1 July 2025.

Compliance, Innovation and Notable Savings

\$86.3m

Over four years to fund Phase 2 of the ATO Counter Fraud Strategy.

\$50m

New turnover threshold for refundable R&D Tax Incentive offsets (up from \$20 million).

\$480m / \$80m

Expanded VCLP and ESVCLP investee asset caps.

\$37.8bn (estimated)

Over the forward estimates (2026–27 to 2029–30) from NDIS reform.

\$63.8bn

Total savings measures over the forward estimates (2026–27 to 2029–30).

\$150bn

~\$150bn - projected NDIS savings over the next decade (Treasury medium-term projection).

Source: Budget Paper No. 1 and Budget Paper No. 2, Treasury. Forward estimates cover 2026–27 to 2029–30. Medium-term projections cover 2026–27 to 2036–37. Where figures are described as estimated or projected, they are subject to the delivery of the announced measures.

Spotlight On:

Capital Gains & Negative Gearing

How the 50 per cent discount, indexation and the 30 per cent minimum tax will reshape capital investment.

> Measure: CGT Reform: 50% Discount Replaced with Indexation and New 30% Minimum Tax on Capital Gains (Carve-Out for New Builds of Residential Property)

The Federal Government has announced sweeping changes to the capital gains tax (CGT) regime from 1 July 2027, including replacing the longstanding 50 per cent CGT discount with cost base indexation and introducing a new minimum 30 per cent tax on net capital gains.

The reforms also bring pre-20 September 1985 ('pre-CGT') assets into the CGT regime for future gains arising after 1 July 2027, a major shift in long-standing structural settings.

The measures form part of the Government's broader tax reform agenda and are estimated to raise substantial additional revenue over the forward estimates.

What has been announced?

From 1 July 2027:

- The current 50 per cent CGT discount for individuals and trusts will be replaced with cost base indexation for assets held longer than 12 months.
- A minimum 30 per cent tax will apply to net capital gains.
- The changes will apply to all CGT assets held by individuals, trusts and partnerships.
- Pre-CGT assets will become subject to CGT for gains accruing from 1 July 2027 onwards.

Importantly:

- Gains accruing before 1 July 2027 will continue to access the existing 50 per cent CGT discount; and
- Capital gains relating to pre-CGT assets arising before 1 July 2027 will remain exempt.

At this stage, the Budget Papers do not provide detailed technical design rules. However, the announcement suggests that gains will effectively be apportioned between:

- The pre-1 July 2027 period, where the existing discount rules continue to apply; and
- The post-1 July 2027 period, where indexation and the minimum tax regime apply.

Unlike earlier historical CGT transition measures, there does not presently appear to be any proposed market value reset or rebasing of assets as at 1 July 2027.

The Government has also announced a carve-out for investors in new residential property. Eligible investors will be able to choose between:

- Continuing to apply the 50 per cent CGT discount; or
- Applying indexation and the minimum 30 per cent tax regime.

The Budget Papers indicate this exception is intended to preserve investment incentives for new housing supply.

Income support recipients, including Age Pension recipients, will be exempt from the proposed minimum tax.

Andersen Comment

This proposal represents one of the most significant structural changes to Australia's CGT regime since the introduction of the CGT discount in 1999.

In substance, the practical implications extend well beyond residential property investment and will affect private groups, family investment structures, succession planning and long-term capital allocation decisions, despite being framed as a fairness measure.

The most consequential aspect of the announcement may not be the replacement of the 50 per cent discount itself, but rather the interaction between indexation and the proposed 30 per cent minimum tax.

Historically, Australia's CGT regime deliberately rewarded long-term capital investment by taxing only half of a realised gain for eligible taxpayers. The proposed framework instead moves closer to a minimum effective tax floor on accumulated capital appreciation, regardless of the taxpayer's broader economic position.

Andersen Comment Continued

The reforms will alter investment behaviour across private groups. In particular:

- Taxpayers may increasingly prefer entities already taxed at fixed rates, such as companies.
- Long-term passive investment structures may become less tax efficient.
- Trust distribution strategies involving capital gains may require significant reconsideration.
- The distinction between income and capital returns may become even more commercially important.

The proposal to bring pre-CGT assets into the CGT net is the most consequential element for private groups.

For decades, pre-20 September 1985 assets have formed a cornerstone of many private family wealth structures and succession plans. The announcement effectively removes the perpetual grandfathering expectation that has existed since CGT was introduced. Although gains accrued before 1 July 2027 remain exempt, future growth in value will become taxable.

This creates practical and technical issues, including:

- How pre-CGT assets will be valued at the commencement date.
- Evidentiary issues for long-held family assets.
- Disputes regarding historical ownership and improvements.
- Interaction with deceased estate and testamentary trust planning.
- Future succession and intergenerational transfer strategies.

The absence of a proposed market value reset at 1 July 2027 will create compliance complexity for taxpayers holding legacy family assets, farmland, private business interests and property acquired decades ago. Contemporaneous valuations and forensic reconstruction of historical cost bases may be required.

Private groups with substantial unrealised gains may now consider whether pre-1 July 2027 disposals, restructures or crystallisation events should be evaluated before the commencement of the new regime. The proposed changes may also accelerate family group restructures, reconsideration of trust versus company holding structures, succession planning reviews, and estate planning revisions involving long-term family assets.

The proposal also raises important questions for venture capital, start-up founders and entrepreneurial investment structures. Early-stage businesses often rely on the concessional treatment of future capital gains to compensate for high commercial risk and long investment horizons. While the Government has indicated further consultation will occur regarding the start-up and technology sector, the ultimate design of the regime may influence innovation investment behaviour in Australia.

Andersen Comment Continued

A further unresolved issue is the interaction between the minimum 30 per cent tax and existing capital loss utilisation rules. **The Budget Papers provide no detail regarding:**

- Whether carried forward capital losses will reduce the minimum tax base.
- How the minimum tax will interact with trust streaming arrangements.
- The treatment of small business CGT concessions.
- Interaction with non-resident CGT rules.
- Whether any refund mechanism will apply where the taxpayer's effective marginal tax rate is below 30 per cent.

Importantly, the carve-out for new residential property creates the potential for a bifurcated CGT regime depending on asset class. Over time, this may distort investment decisions toward qualifying housing assets while discouraging investment in other long-term productive capital.

Potential Implications for Superannuation Funds

The CGT reform package raises significant unresolved questions for complying superannuation funds, including self-managed superannuation funds (SMSFs), approved deposit funds (ADFs) and pooled superannuation trusts (PSTs). The Budget Papers do not currently provide sufficient detail to determine how the proposed reforms will interact with the existing concessional CGT treatment available to these entities.

At present, complying superannuation funds may generally reduce capital gains on assets held for at least 12 months by one-third. As a consequence, complying superannuation funds are currently subject to an effective tax rate of 10 per cent on eligible discounted capital gains, based on the standard 15 per cent concessional superannuation tax rate.

The Budget announcement does not clarify whether:

- 1 The existing one-third CGT discount for complying superannuation funds will be retained.
- 2 The proposed indexation methodology will replace the current discount mechanism for superannuation entities.
- 3 The new 30 per cent minimum tax on net capital gains will apply to superannuation funds.
- 4 Any concessional treatment will continue to apply to pension-phase assets.

These issues are potentially significant for SMSFs and private wealth groups holding long-term investment assets within superannuation structures, including listed equities, business real property and intergenerational family investments. If the reforms ultimately alter or reduce the current concessional treatment available to complying superannuation funds, this could materially affect long-term retirement investment modelling, asset allocation decisions and the relative attractiveness of holding appreciating assets within superannuation structures.

The interaction between the proposed CGT reforms and the Government's broader superannuation tax integrity measures will require careful consideration once draft legislation is released. Substantial legislative detail remains outstanding and consultation is expected, but the policy direction is now clear. The Government is seeking to materially reduce the concessional nature of Australia's existing CGT system and broaden the tax base applying to accumulated private wealth.

Clients with significant unrealised capital gains, legacy family structures or pre-CGT assets should begin reviewing their position well before 1 July 2027, particularly where restructures, succession planning or asset disposals are already under consideration.

> Measure: Negative Gearing Reform

What has been announced?

From 1 July 2027, the Government will limit negative gearing for residential property to new builds. Net rental losses from established residential property will only be deductible against rental income or capital gains from residential property, and will no longer offset salary or other income.

Properties held at 7:30 pm AEST on 12 May 2026 are exempt and existing investor arrangements continue under current rules. Properties acquired between 12 May 2026 and 1 July 2027 retain temporary access to negative gearing until the new regime begins. Investments that support government housing programs, including the provision of affordable housing, are also exempt.

Excess losses can be carried forward and offset against residential property income (rental income or capital gains) in future years. This avoids discouraging maintenance and capital improvement spending on investment properties that would otherwise generate non-deductible rental losses.

The limitation applies only to net rental losses from residential property. Commercial property and other asset classes, such as shares, remain subject to existing arrangements.

In combination with the return to CGT indexation (covered separately in this report), the measure reduces the tax advantages of leveraged investment in established residential property and moves the treatment closer to a neutral position where rental deductions match rental income.

Case Example: Quarantining the Carry-Forward of Rental Losses

Mark invests in an established residential property after 1 July 2027. Because the property was purchased after Budget night on 12 May 2026, it falls within the new regime. Rental losses can only be deducted against rental income or capital gains from residential property, and any excess losses are carried forward to future income years.

In 2027–28, Mark incurs a net rental loss of \$10,000 from his property. Under the quarantining arrangements, the \$10,000 cannot offset Mark's other taxable income in 2027–28, but can offset residential property rental income or residential property capital gains in this or any future income year.

In 2028–29, Mark earns \$6,000 in net rental income from his property. The \$10,000 carry-forward loss from the previous financial year is applied against this income, so Mark pays no tax on the rental income that year. A \$4,000 quarantined loss remains and can continue to be carried forward.

Andersen Comment

The negative gearing reform sits alongside the CGT changes as part of a two-measure reset. Read alongside the replacement of the 50 per cent CGT discount with indexation (covered separately in this report), the combined effect is a structural change to how leveraged investment in residential property is taxed in Australia.

The grandfathering cut-off of 7:30 pm on 12 May 2026 is the critical date. Investors who held established residential property at that moment retain access to negative gearing under existing rules; investors who acquire established stock after Budget night will be unable to offset net rental losses against other income from 1 July 2027 onwards. The quarantining model is generous in mechanism (losses can be carried forward indefinitely and offset against future residential rental income or capital gains) but restrictive in effect (it removes the cashflow benefit that has historically made negatively geared residential property attractive to high-income earners).

The new-builds carve-out is consistent with the policy framing of redirecting investor capital toward housing supply. Whether the supply response materialises is the open question, since investor demand for new builds depends on developer pipelines, planning approvals, and finance availability, none of which are addressed by this measure.

Clients holding established residential property at Budget night should confirm their grandfathered status and review whether refinancing, ownership structure, or capital improvement timing decisions would benefit from being made before 1 July 2027. Clients considering new acquisitions should weigh the new-build pathway against the broader CGT changes, since the choice between continuing to access negative gearing (via new builds) and continuing to access the 50 per cent CGT discount (via the new-builds carve-out in the CGT measure) is no longer a single decision.

Spotlight On:

Trust Reforms

A material shift in how discretionary trusts are taxed from 1 July 2028.

> Measure: Minimum 30% Tax on Discretionary Trust Income from 1 July 2028

The Federal Government has announced that, from 1 July 2028, trustees of discretionary trusts will be subject to a minimum 30% tax on the taxable income of discretionary trusts. Beneficiaries (other than corporate beneficiaries) will receive non-refundable tax credits for tax paid by the trustee.

The measure represents one of the most significant proposed changes to the taxation of discretionary trusts in decades and appears directed at limiting the long-standing ability of discretionary trusts to stream income among beneficiaries taxed at lower marginal rates.

The proposal is estimated to raise approximately \$4.5 billion over five years.

What has been announced?

Under the current taxation framework, discretionary trust income is generally assessed directly to beneficiaries who are presently entitled to trust income, with tax imposed at the beneficiary's marginal tax rate. In most cases, no upfront withholding or minimum trustee-level tax currently applies to ordinary distributions made to Australian resident beneficiaries.

The Budget announcement proposes a fundamentally different model.

From 1 July 2028:

- Trustees of discretionary trusts will pay a minimum 30% tax on taxable income.
- Individual beneficiaries will receive non-refundable credits for tax paid by the trustee; and
- Corporate beneficiaries will not receive such credits.



Important: The Budget Papers provide limited detail regarding the precise assessment and crediting mechanism. However, based on the announcement, the measure appears intended to operate more as a minimum floor tax, rather than merely a prepayment system similar to existing trustee assessment provisions under Division 6 of Part III of the ITAA 1936.

Certain categories of income will also be excluded, including:

- Primary production income.
- Certain income relating to vulnerable minors.
- Income subject to non-resident withholding tax.
- Income from assets of discretionary testamentary trusts existing at the date of announcement.

The Government has additionally announced expanded rollover relief for a three-year period commencing 1 July 2027 to facilitate restructures out of discretionary trust structures into alternative entities, including companies and fixed trusts.

The Government has confirmed that the minimum tax will not apply to:



Fixed trusts and widely held trusts (including fixed testamentary trusts).



Complying superannuation funds.



Special disability trusts.



Deceased estates.



Charitable trusts.

Andersen Comment

This proposal represents a material shift in the tax treatment of discretionary trusts and will reshape how private groups, family offices, and investment structures distribute and accumulate income, with consequential impacts on succession planning

In substance, the changes move discretionary trusts closer to company-style taxation, particularly in the context of passive investment and long-term wealth accumulation - despite being positioned as a fairness measure.

A key practical consequence is the potential erosion of existing “bucket company” strategies. Distributions to corporate beneficiaries would no longer generate refundable tax credits, materially reducing the effectiveness of commonly used trust distribution models across private groups

The proposal may also lead to inequitable outcomes for lower-income beneficiaries. As announced, individuals receiving distributions subject to the 30 per cent minimum tax may be unable to recover excess tax where their marginal rate is lower, given the non-refundable nature of the credits.







The absence of detailed legislative design leaves several critical questions unresolved, including:

- 1 How the trustee-level tax will interact with Division 6 trust assessment principles.
- 2 Whether trust streaming provisions will continue to operate effectively.
- 3 The treatment of interposed trust structures.
- 4 The availability of franking-style tracing through family groups.
- 5 The interaction with existing anti-avoidance provisions, including section 100A and family trust election rules.

The proposed restructuring rollover relief is likely to become highly relevant. However, in practice, restructuring away from discretionary trust structures will be more complex than the Budget announcement suggests.

Many private groups hold appreciating business assets, pre-CGT assets, investment portfolios and real property within discretionary trust structures.

Any restructure may require detailed valuation analysis and could trigger broader commercial and tax consequences, including:

-  State and territory stamp duty exposure.
-  Financing and banking implications.
-  Loss of asset protection outcomes.
-  Resettlement and CGT risks.
-  Succession planning complications.
-  Unintended consequences for existing wills and testamentary trust arrangements.

Importantly, the proposal expressly preserves certain grandfathered treatment for assets held within existing discretionary testamentary trusts at the date of announcement. This indicates Treasury is aware of the potentially disruptive impact on estate planning structures, although the precise scope of grandfathering remains unclear.

Given the breadth of discretionary trust usage across Australian private groups, this measure has the potential to reshape long-standing structuring approaches across the market.

Clients should begin reviewing existing trust structures well before the proposed commencement date to assess:

- Effective tax rate impacts;
- Future cashflow implications;
- Restructuring feasibility;
- Asset protection considerations; and
- Succession and estate planning outcomes.

At this stage, the announcement remains high level and substantial consultation will likely be required before legislation is introduced. Nevertheless, the proposal signals a clear policy direction from Government toward reducing the tax flexibility historically associated with discretionary trusts.

Corporate and Multinational Tax

Key Updates & Comments

> Measure: Corporate Loss Carry-Back Reintroduction

What has been announced?

From 1 July 2026, companies with aggregated annual global turnover of less than \$1 billion can carry back revenue tax losses for up to two prior income years and offset those losses against tax previously paid, subject to the company's franking account balance. This allows eligible companies to convert current-year losses into recoverable tax paid in earlier periods.

Loss carry-back applies only to revenue losses and is capped by the available franking credits, meaning companies must have sufficient franking balances to access full refunds.

Andersen Comment

The reintroduction of loss carry-back from 1 July 2026 provides a direct cash-flow lever for corporates facing earnings volatility, particularly in cyclical or capital-intensive sectors. However, access will be constrained by franking account balances, which will be the binding limitation for many groups, particularly those with recent dividend distributions or low historic tax paid positions.

Groups should model carry-back capacity now, including stress-testing franking account positions, dividend policies and tax-paid profiles. Where franking is constrained, companies may need to reconsider dividend strategies or intra-group structuring to preserve access to refunds.

This measure is mechanical rather than structural. It restores a previously available tool used during COVID-period stimulus, but does not change the underlying loss recoupment framework. Companies should view it as a timing benefit rather than a permanent solution to loss utilisation constraints.

> Measure: Permanent \$20,000 Instant Asset Write-Off

What has been announced?

From 1 July 2026, the Government will permanently extend the \$20,000 instant asset write-off for small businesses with turnover up to \$10 million. Eligible assets costing less than \$20,000 can be immediately deducted in the year they are first used or installed ready for use.

Assets valued at \$20,000 or more will continue to be allocated to the small business simplified depreciation pool, with existing pooling rules applying.

Andersen Comment

The permanent extension of the \$20,000 instant asset write-off from 1 July 2026 provides certainty for small businesses that have been operating under repeatedly extended temporary thresholds. This removes ongoing legislative risk and allows eligible small businesses to embed the write-off into forward capital expenditure planning rather than treating it as a short-term stimulus measure.

Small business groups should reassess capital expenditure (capex) timing, particularly where assets can be split, bundled or staged to fall below the \$20,000 threshold. This creates immediate deduction opportunities that materially accelerate tax outcomes compared with depreciation pooling. However, the relatively low threshold means the measure primarily benefits lower-value or modular asset purchases. Businesses with larger capital programs will continue to rely on pooling rules, limiting the overall impact for asset-intensive sectors.

> Measure: Pillar Two Side-By-Side Package Implementation

What has been announced?

From 1 January 2026, the Government will amend Australia's global and domestic minimum tax rules to implement the OECD/G20 Inclusive Framework's 'side-by-side' package agreed on 5 January 2026.

The amendments are designed to align Australia's Pillar Two rules with those adopted by other jurisdictions, ensuring consistency in the application of global minimum tax settings across countries.

This change continues the operation of Australia's existing global and domestic minimum tax framework introduced in 2024, with modifications to reflect the agreed international standard.

Andersen Comment

The side-by-side package is a technical recalibration rather than a new policy shift, but for multinational groups, the practical impact is material. Alignment with OECD settings from 1 January 2026 reduces the risk of mismatches between jurisdictions, particularly in the application of Income Inclusion Rules (IIR), Undertaxed Profits Rules (UTPR), and Qualified Domestic Minimum Top-up Taxes (QDMTT).

This measure should be viewed through an implementation lens rather than a policy lens. Groups that have already modelled Pillar Two exposures under the 2024 legislation will need to revisit those calculations, as even minor rule changes can materially affect effective tax rates, blending outcomes and top-up tax liabilities across jurisdictions.

Multinational groups should update Pillar Two modelling now to incorporate the side-by-side package assumptions, including reviewing jurisdictional effective tax rate calculations, deferred tax positions and data readiness. Particular focus should be placed on consistency between Australian calculations and those in other implementing jurisdictions, as divergence will increase compliance risk and audit exposure.

This measure reinforces the direction of travel. Pillar Two is no longer a prospective regime but an operational one. Groups that have treated 2024–2025 as a monitoring phase will need to transition to fully embedded compliance frameworks from 2026 onwards.

Tax Integrity and Foreign

Investment

Key Updates & Comments

> Measure: Tax Fraud and Integrity Package

What has been announced?

From 1 July 2026, the Government will fund Phase 2 of the Counter Fraud Strategy with \$86.3 million over four years, with \$9.7 million per year in ongoing funding from 2030–31. Phase 2 expands the ATO's real-time fraud detection capabilities, live monitoring of high-risk account activity, and oversight of tax agents, businesses and superannuation transactions. This increases the ATO's ability to identify and intervene in suspected fraud earlier, particularly in relation to high-risk superannuation changes and account access.

The ATO will also receive additional powers to pause or remit tax debts for victims of intermediary fraud, recover those amounts from tax agents, extend garnishee powers to jointly held assets, and expand information-gathering and data-sharing capabilities through targeted exceptions to tax secrecy.

Additional compliance activity will focus on high-risk areas, with the Research and Development Tax Incentive explicitly identified as a focus area, particularly relevant given the regime reset announced separately in this Budget.

Andersen Comment

This measure expands the ATO's compliance and enforcement toolkit, with a clear focus on fraud linked to intermediaries and system access. Corporates and advisers should expect increased scrutiny of transaction patterns, account changes and agent activity, with the ATO better positioned to act in real time rather than after lodgement.

Clients should actively monitor the ATO's development of capabilities under the Counter Fraud Strategy and ensure they are vigilant against the growing trend of fraud threats impacting Australian taxpayers, particularly in relation to superannuation accounts and system access. Businesses working with tax agents should also be aware that the ATO now has stronger powers to pursue intermediaries directly, which may change how disputes and recovery processes play out in practice.

The explicit flagging of the Research and Development Tax Incentive as a compliance focus area is the most actionable signal for corporate clients. The R&D reset announced separately in this Budget tightens eligibility and removes supporting expenditure from the regime, and groups should expect ATO attention to follow accordingly. R&D claim methodologies, nexus documentation and expenditure categorisation should be reviewed now.

This measure builds on Phase 1 of the Counter Fraud Strategy and signals continued investment in data, monitoring and enforcement capability. The extension of garnishee powers and data-sharing rules confirms a clear direction: the ATO is being equipped to intervene earlier and access taxpayer information more broadly, with the boundaries of tax secrecy being progressively narrowed.

> Measure: Foreign Resident CGT Regime Expansion

What has been announced?

The Government has confirmed the previously outlined expansion of the foreign resident CGT regime.

The expansion includes:



Broadening the definition of taxable Australian real property (TARP).



Introducing a 365-day continuous testing requirement for the principal asset test.



Codifying a Commonwealth definition of 'real property' that overrides State and Territory law, with retrospective effect from 12 December 2006.

The new definition pulls a much wider range of assets and interests into TARP including infrastructure, licences, and contractual rights, and requires foreign investors to monitor asset values on a continuous basis rather than at a point in time.

No general grandfathering is provided. The retrospective effect to 12 December 2006 means transactions completed almost two decades ago could be reopened where assets were not treated as TARP at the time. A targeted concession applies to eligible renewable energy assets, providing a 50 per cent CGT discount for disposals by foreign investors until 30 June 2030, subject to strict eligibility criteria including a 90 per cent TARP value threshold for indirect interests.

Andersen Comment

Foreign pension funds, sovereign wealth funds and private equity structures that relied on the narrower TARP definition will need to reassess existing holdings and prior transactions. The measure extends beyond the original Division 855 settings and brings a broader range of infrastructure, energy and resource investments into the Australian tax net, including assets historically treated as non-TARP.

Foreign investors should review historic asset disposals where income years remain open, particularly where positions were taken that assets were not TARP, and reassess valuation methodologies in light of the 365-day testing rule. Deal models and transaction documents for acquisitions and exits will also need to be updated to reflect expanded TARP exposure and new ATO notification requirements for transactions of \$50 million or more.

The renewable energy concession is a deliberately narrow carve-out, not a softening of the broader policy. The 90 per cent TARP value threshold will lock out most diversified investment portfolios.

Spotlight On:

Innovation, Start-Ups and R&D

What the R&D reset, start-up refundability and VCLP threshold lifts mean for the innovation ecosystem.

> Measure: Start-Up Loss Refundability

What has been announced?

From 1 July 2028, start-up companies with aggregated annual turnover of less than \$10 million can generate a refundable tax offset for tax losses incurred in their first two years of operation. The refundable offset is limited to the value of fringe benefits tax and PAYG withholding on wages paid to Australian employees in the loss year.

This introduces a mechanism for early-stage companies to obtain cash refunds for losses despite having no taxable income, provided they have Australian payroll-related tax liabilities.

Andersen Comment

The start-up refundability regime from 1 July 2028 introduces a targeted cash support mechanism. By linking refundability to PAYG withholding and FBT, the measure rewards start-ups with Australian payroll activity, but excludes founder-only companies and start-ups operating predominantly through offshore contractor arrangements.

Two structural decisions become particularly important under this regime. First, hiring decisions: building Australian payroll early creates capacity to access the offset, while contractor-heavy models may forfeit refunds even where losses are substantial. Second, entity design: corporate structure remains essential to qualify, and consolidation decisions for groups including early-stage companies need to consider whether refundability access is being inadvertently lost through grouping rules.

Start-ups should not wait for legislation. Aggregated turnover, payroll mix and entity structure should be reviewed now to model offset capacity ahead of 1 July 2028.

> Measure: R&D Tax Incentive Reform

What has been announced?

From 1 July 2028, the R&D Tax Incentive will increase support for core R&D expenditure through a 4.5 percentage point uplift in offset rates and a reduction in the R&D intensity threshold from 2 per cent to 1.5 per cent. The turnover threshold for access to refundable offsets will increase from \$20 million to \$50 million, and the maximum eligible R&D expenditure cap will increase from \$150 million to \$200 million.

Andersen Comment

The R&D Tax Incentive is materially restructured from 1 July 2028. Headline rates rise but the eligibility base contracts, the regime gives with one hand and takes with the other. This is the first stage of the Government's response to the Ambitious Australia: Strategic Examination of Research and Development Final Report released in December 2025.

The reset increases offset rates and broadens access on one side, and narrows what qualifies on the other. The 4.5 percentage point uplift and expansion of the \$50 million turnover threshold will benefit scale-ups transitioning out of early-stage status, particularly those with sustained core R&D programs. Lowering the intensity threshold to 1.5 per cent will also bring more businesses into higher benefit bands.

However, the removal of supporting expenditure is a fundamental tightening that will reduce claimable amounts for most existing claimants. For taxpayers where a significant portion of current claims relates to supporting activities, these will need to be critically reassessed.

The introduction of a 10-year cap on refundable offsets further bifurcates the regime between early-stage and more mature companies. Groups that remain under the \$50 million threshold but exceed the age limit will move to non-refundable outcomes, reducing cashflow benefits.

R&D claim methodologies should be reviewed now with a focus on strengthening core activity positions, documenting nexus, and reassessing expenditure categorisation. Groups approaching the \$50 million turnover or 10-year thresholds should model the interaction of these rules alongside entity structuring and the R&D pipeline. Coordination with other measures in this Budget, including loss refundability and broader innovation settings, will be critical to optimise outcomes.

> Measure: Venture Capital Tax Incentive Expansion

From 1 July 2027, the Government will increase key eligibility and investment thresholds across the venture capital limited partnership (VCLP) and early stage venture capital limited partnership (ESVCLP) regimes.

The changes are:

- 1 VCLP investee asset cap lifts to \$480 million (from \$250 million).
- 2 ESVCLP investee asset cap lifts to \$80 million (from \$50 million).
- 3 ESVCLP tax incentive cap lifts to \$420 million (from \$250 million).
- 4 ESVCLP maximum fund size lifts to \$270 million (from \$200 million).

Andersen Comment

The threshold lifts are overdue. The \$250 million VCLP cap and \$50 million ESVCLP cap were set in the early 2000s and have not kept pace with company valuations or fund sizes, with the result that a growing share of late-stage Australian VC activity has had to be structured outside the concessional regimes. The change brings the regime back into line with current market scale.

This change expands the scope of the venture capital regimes to cover larger businesses and funds that have outgrown thresholds set more than 20 years ago. Venture funds constrained by the \$250 million and \$50 million asset caps can now deploy capital into later-stage funding rounds without breaching eligibility rules.

Fund managers and investors should review fund mandates, pipeline investments and deal sizing ahead of 1 July 2027 to identify opportunities to deploy capital under the expanded thresholds. Existing ESVCLPs in particular should assess whether to update investment plans to take advantage of the higher caps and increased fund size limits.

Startups should assess whether they now fall within the expanded eligibility thresholds and engage with venture capital providers earlier, particularly for follow-on funding rounds that may now qualify for concessional treatment.

Individuals

Key Updates & Comments

> Measure: Reduction in Lowest Marginal Tax Rate

What has been announced?

From 1 July 2026, the lowest marginal income tax rate will be reduced from 16 per cent to 15 per cent, with a further reduction to 14 per cent from 1 July 2027. This change applies to all Australian taxpayers and is intended to provide broad-based cost-of-living relief, particularly for low and middle-income earners.

Under the measure, taxpayers will receive a tax saving of up to \$268 in the 2026–27 income year, rising to \$536 annually from 1 July 2027 against current rates.

The revised resident individual tax rates are expected to apply as follows:

Taxable Income (\$)	2026 - 2027	2027 - 2028
0 - 18,200	Nil	Nil
18,201 - 45,000	Nil + 15% of excess over \$18,200	Nil + 14% of excess over \$18,200
45,001 - 135,000	\$4,020 + 30% of excess over \$45,000	\$3,752 + 30% of excess over \$45,000
135,001 - 190,000	\$31,020 + 37% of excess over \$135,000	\$30,752 + 37% of excess over \$135,000
190,001 and above	\$51,370 + 45% of excess over \$190,000	\$51,102 + 45% of excess over \$190,000

Andersen Comment

Every resident taxpayer will benefit from the reduction in the lowest marginal tax rate, with the effect flowing through all income brackets. Clients should expect a direct reduction in their tax liability from 1 July 2026, with a further reduction the following year. Payroll systems and salary structures should be updated to reflect the new rates ahead of each effective date.

> Measure: Working Australians Tax Offset (WATO)

What has been announced?

From 1 July 2027, a \$250 annual Working Australians Tax Offset (WATO) will apply to income derived from work, including wages, salaries, and sole trader business income. The offset does not apply to passive investment income. The effective tax-free threshold for work income will increase to approximately \$19,985, or \$24,985 for those eligible for the Low Income Tax Offset (LITO). The WATO will be applied automatically when taxpayers lodge their tax return and is expected to benefit over 13 million Australian workers, with 97 per cent receiving the full \$250 offset.

Andersen Comment

Clients with mixed income streams should note that WATO applies only to work income, not passive investment returns. For retirees, self-funded investors, and those drawing primarily from trusts or dividend portfolios, the offset will not be available - this is a meaningful gap given the original framing as cost-of-living relief.

The offset is delivered automatically through the tax return system, so no additional compliance steps are expected for most employees and sole traders. Beyond the cash impact, the measure delivers a material reduction in average tax rates for low and middle-income earners and delays bracket creep for several years.

> Measure: Medicare Levy Low-Income Threshold Increase

What has been announced?

The Medicare levy low-income thresholds will increase for singles, families, seniors and pensioners by 2.9 per cent from 1 July 2025 (from the 2025–26 income year).

The measure is intended to ensure that lower income Australians continue to either remain exempt from the Medicare levy or pay a reduced rate.

The updated thresholds are as follows:

Category	2024-25 Threshold	2025 - 26 Threshold (2.9% increase)
Singles	\$27,222	\$28,011
Families (no children)	\$45,907	\$47,238
Additional amount per dependent child or student	\$4,216	\$4,338
Single seniors and pensioners eligible for SAPTO	\$43,020	\$44,268
Family seniors and pensioners eligible for SAPTO	\$59,886	\$61,623

Andersen Comment

This is a routine indexation adjustment rather than a policy shift, and is broadly in line with prior-year increases. For clients on the threshold margins, particularly retirees and pensioners, the higher threshold may push some households out of the Medicare levy net entirely.

> Measure: \$1,000 Instant Tax Deduction

What has been announced?

From the 2026–27 income year, employees can claim a \$1,000 instant tax deduction for work-related expenses without needing to provide receipts or other substantiation. Claims above \$1,000 for work expenses will continue to require full substantiation under existing rules. Deductions for donations, union fees, and other non-work-related items remain claimable in addition to the \$1,000 instant deduction. The measure is expected to benefit around 6.2 million workers, with the average tax saving estimated at \$205. The measure is subject to the passage of enabling legislation.

Andersen Comment

The \$1,000 instant deduction removes the receipt-keeping burden for employees with modest work-related expenses, cutting both paperwork and audit risk for claims up to the threshold. Taxpayers with higher work-related expenses must continue to maintain full records for amounts above \$1,000. The measure does not affect the ability to claim donations, union fees, or other non-work deductions, which remain subject to existing substantiation requirements.

Clients claiming above the \$1,000 threshold should review their record-keeping practices before the 2026–27 income year - full substantiation rules continue to apply for amounts above the cap.

> Measure: Electric Vehicle FBT Exemption Reduction

What has been announced?

From 1 April 2029, the current electric vehicle fringe benefits tax (FBT) exemption shifts to a permanent 25 per cent discount for electric cars valued up to and including the fuel-efficient luxury car tax threshold, implemented through a 15 per cent statutory formula rate.

This replaces the existing 100 per cent exemption for new arrangements and increases the taxable value of benefits provided under salary packaging and employer fleet arrangements.

Transitional rules apply. Electric cars valued up to and including \$75,000 and provided before 1 April 2029 retain a 100 per cent FBT exemption, while vehicles valued above \$75,000 and up to the fuel-efficient luxury car tax threshold provided between 1 April 2027 and 1 April 2029 receive a 25 per cent discount.

Existing arrangements that met original criteria retain the discount rate that applied at commencement, with the 20 per cent statutory rate continuing to apply for all other vehicles. 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.

This change is estimated to increase Government receipts by \$1.9 billion and increase payments by \$200 million over the five forward estimates years from 2025–26.

Andersen Comment

This change unwinds the salary packaging incentive that has driven EV uptake since 2022. Employees on novated leases entered into after 1 April 2029 will face higher post-tax lease costs, and employer-funded EV fleets will carry a higher FBT bill.

Clients with existing EV leases should review whether their arrangements are protected under the grandfathering rules and confirm the valuation and start date assumptions used.

Employers offering novated leasing programs should update employee communications and costing models now, as quoting based on a 100 per cent exemption will understate post-2027 costs.

This measure aligns with earlier Treasury signalling that the exemption would not be permanent. Clients should not wait for legislation. Fleet procurement decisions being made between now and 1 April 2029 will lock in long-term tax outcomes based on the current settings.

> Measure: Superannuation Performance Test Reform

What has been announced?

The Government announced that it will strengthen the superannuation performance test framework to reduce unintended barriers to investment by Australia's \$4.5 trillion superannuation sector.

As part of the proposed reforms, the Government aims to consult on targeted refinements to the annual superannuation performance test, including removing unnecessary constraints on investment decisions by superannuation funds. The consultation will consider adjusting benchmarks for emerging and alternative assets, assessing risk-adjusted returns, reviewing benchmarks regularly, and potentially expanding the test to cover a broader range of products.

At the time of the Budget announcement, no commencement date has been legislated and no direct fiscal impact estimate was included in Budget Paper No. 1.

Andersen Comment

The Government's stated direction here is to free up superannuation funds to invest in a broader asset mix, including emerging and alternative assets. For clients running or advising on super fund investment mandates, the consultation is worth tracking. Until benchmarks are reset, however, current performance test pressures continue to shape allocation decisions.

Spotlight On:

Mobile Employees: Impacts across the Budget

A Global Mobility lens on how the 2026–27 Budget reforms affect Australian expats and non-resident investors.

This section steps back from the measure-by-measure coverage above to examine how the Budget changes land specifically on Australian taxpayers who have left, or are considering leaving, Australia. The negative gearing and CGT reforms covered earlier in this report apply uniformly to residents and non-residents, but the practical consequences for mobile employees are shaped by a separate set of pre-existing rules around residency, CGT departure events, and the foreign resident main residence exemption. Reading the two together produces a substantially different picture than reading the measures in isolation.

> Measure: Negative Gearing Impacts on Mobile Employees

From 1 July 2027, only newly built residential properties will be eligible for standard negative gearing. Net rental losses from established properties acquired after 12 May 2026 will be ring-fenced, deductible only against residential property income or capital gains, not against other income.

These rules apply uniformly to Australian taxpayers, including those who become non-residents. For an Australian tax resident leaving Australia and becoming a non-resident for tax purposes, the key points are:

1 Grandfathering survives a change of residency

Properties held at 7:30 pm AEST on 12 May 2026 are fully grandfathered. Becoming a non-resident does not revoke this grandfathering, since the property remains on the existing rules until it is sold. Importantly, grandfathering attaches to the property, not to the investor. An expat who held no property before 12 May 2026 but later buys an established property in 2028 from overseas will be subject to the ring-fencing rules in full.

2 Carry-forward losses persist across residency changes

Accumulated rental losses do not disappear when a taxpayer becomes non-resident. They can be carried forward indefinitely and used against future Australian rental income or a future capital gain on the property. If the taxpayer later returns and resumes Australian tax residency, carried-forward losses become usable against broader Australian income, subject to the ring-fencing rules applicable to that property.

3 Application to non-residents in practice

Non-residents are taxed on Australian-sourced income only, so for many expats the new ring-fencing rule largely overlaps with their existing position. The key difference under the reform is for non-residents who do hold Australian-sourced wages or business income, since losses from an established property acquired after Budget night can no longer reduce that income.

Example: A non-resident investor buys an established rental property in August 2027. Under the new rules, any net rental loss from this property cannot reduce other non-property income, it can only offset other Australian rental profits or be carried forward. Conversely, if the investor buys a qualifying new build in 2028, negative gearing remains available in full: the net loss can offset other Australian income.

4 CGT impacts on mobile employees

The CGT reforms covered earlier in this report — replacement of the 50 per cent CGT discount with indexation, introduction of a 30 per cent minimum tax on net capital gains — interact with several existing rules in ways that materially affect mobile employees.

5 CGT departure events

Leaving Australia permanently triggers CGT event I1 on certain assets. Australian real estate is excluded from this deemed disposal, so no CGT is payable at departure on Australian property holdings, since these remain in the Australian tax net until actual disposal. Other assets such as shares and foreign property may be subject to a departure CGT event unless the taxpayer elects to defer under section 104-165 of the ITAA 1997.

6 Existing non-resident discount restrictions

Since 8 May 2012, foreign residents and temporary residents cannot claim the 50 per cent CGT discount on gains accruing during periods of non-residency. For taxpayers who were Australian residents when they acquired a property and later became non-resident, the gain is apportioned, with the portion up to departure still qualifying for the discount and the portion after that fully taxable.

7 Foreign resident main residence exemption

Since 2019, taxpayers who sell their former Australian home while a non-resident lose the main residence CGT exemption entirely, unless specific short-term life-events exceptions apply. The six-year absence rule, which can preserve an exemption for up to six years of renting out a former home, does not help if the taxpayer is a foreign resident at the time of sale. For long-term expats holding a former home as an investment property and selling without returning to Australian residency, the entire capital gain is taxable.

8 Interaction with the new indexation regime

The Budget announcement does not clarify how the new indexation methodology will interact with the existing non-resident CGT apportionment rules. This is a significant open technical question for taxpayers with mixed-residency capital gains profiles. Non-residents are already taxed at 32.5 per cent or higher from the first dollar of income, so the new 30 per cent minimum tax does not change the rate position materially, but the move from discount to indexation may produce different outcomes depending on hold period and inflation.

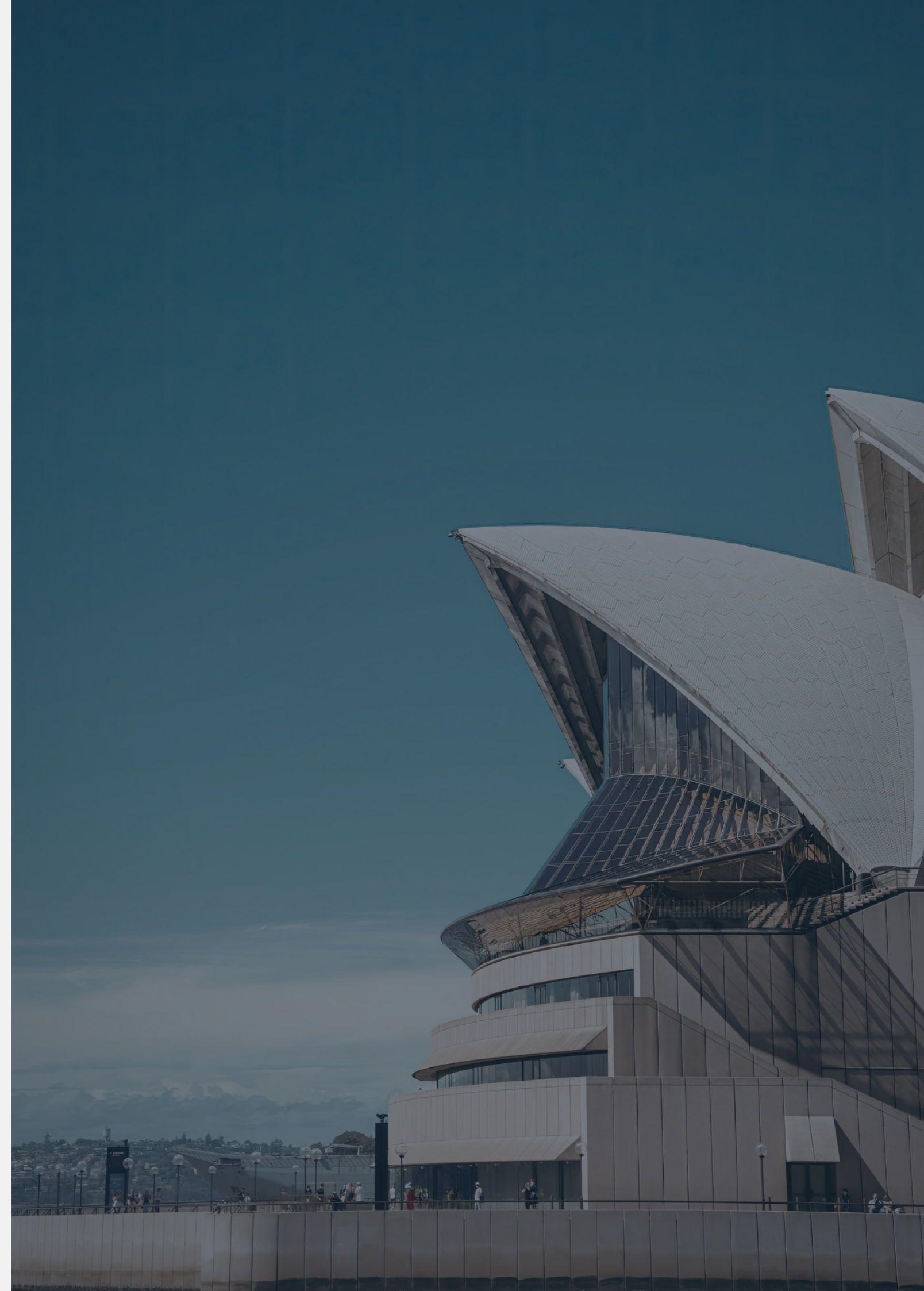
Andersen Comment

The Budget changes are not framed around mobile employees, but they land squarely on them. Australian expats holding investment property at 12 May 2026 retain grandfathered access to negative gearing and the 50 per cent CGT discount on pre-1 July 2027 gains. Expats acquiring established stock after Budget night will find their new acquisitions subject to ring-fencing, even where they hold Australian-sourced salary or business income to which losses might otherwise have been applied.

Three points warrant particular attention. First, the timing of acquisition and ownership relative to Budget night matters more than residency status itself, since the rules apply uniformly to residents and non-residents. Second, the interaction between the new indexation regime and the existing non-resident CGT apportionment rules is not addressed in the Budget Papers, leaving an open technical question for clients with mixed-residency capital gains profiles. Third, the foreign resident main residence exemption rules introduced in 2019 continue to operate independently and amplify the CGT impact for expats who hold a former home as an investment property while overseas, particularly for stays longer than six years.

Mobile employees considering departure from Australia, return to Australia, or further property acquisition while overseas should review their full position now. Decisions about whether to retain or dispose of existing investment property, whether to switch new acquisitions to new builds, and when to time a return to Australian residency, all become materially more consequential after Budget night.

Andersen's Global Mobility practice is positioned to advise on these interactions in conjunction with the broader CGT and negative gearing measures covered earlier in this report. Clients should not wait for legislation, since the structural decisions are clear from the announcement alone.





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