rocket science

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Budget Summary & Market Update

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2026 Federal Budget

Budget Summary

Treasurer Dr. Jim Chalmers has delivered one of the most significant changes to the taxation system since the introduction of the GST. Seeking to address intergenerational inequity, in general it will reduce the after-tax gains to be had from growth investments making income generating assets relatively more attractive.

Key Changes

- The 50% discount on capital gains tax (CGT) for assets held more than one year has been eliminated for new investments outside of superannuation.
    - The cost base of an asset will be inflation indexed in a reversion to the system that applied prior to 1999.
    - Assets held prior to budget night will need to be valued on 1 July, 2027, with the new indexing system to apply to value uplift after that date.
    - The existing 50% discount regime will apply to the increase in value of an existing asset for the ownership period up to 1 July, 2027.
    - Pre 1985 assets that were previously exempt are now captured in the new indexing regime.
- Negative gearing has been eliminated for existing residential housing purchased after 7.30pm on budget night, but continues for property already held. Instead, losses can be offset against future rent and capital gains on the particular asset.
- A minimum 30% tax rate will apply to capital gains on all assets regardless of an investor's marginal tax rate.
- Distributions from trusts will attract a minimum 30% tax rate.
- The above applies to individuals, trusts and partnerships.
- NDIS reforms – The flagship policy change in this year's budget involves a substantial reform of the NDIS in an attempt to rein in runaway spending growth and secure its social licence. These reforms include setting clearer eligibility requirements, tightening criteria around spending, and fighting fraud. Together, these reforms are expected to save $37.8 billion, and if executed well, substantially more over the longer term.
- Other savings measures – These include $3 billion by removing the age-based uplift for the private health insurance rebate from April 2027, $2.7 billion in cuts to public service budgets for external labour hire (such as consultants and lawyers) and spending on travel, hospitality and property.

Key spending policies (spending over the next five years)

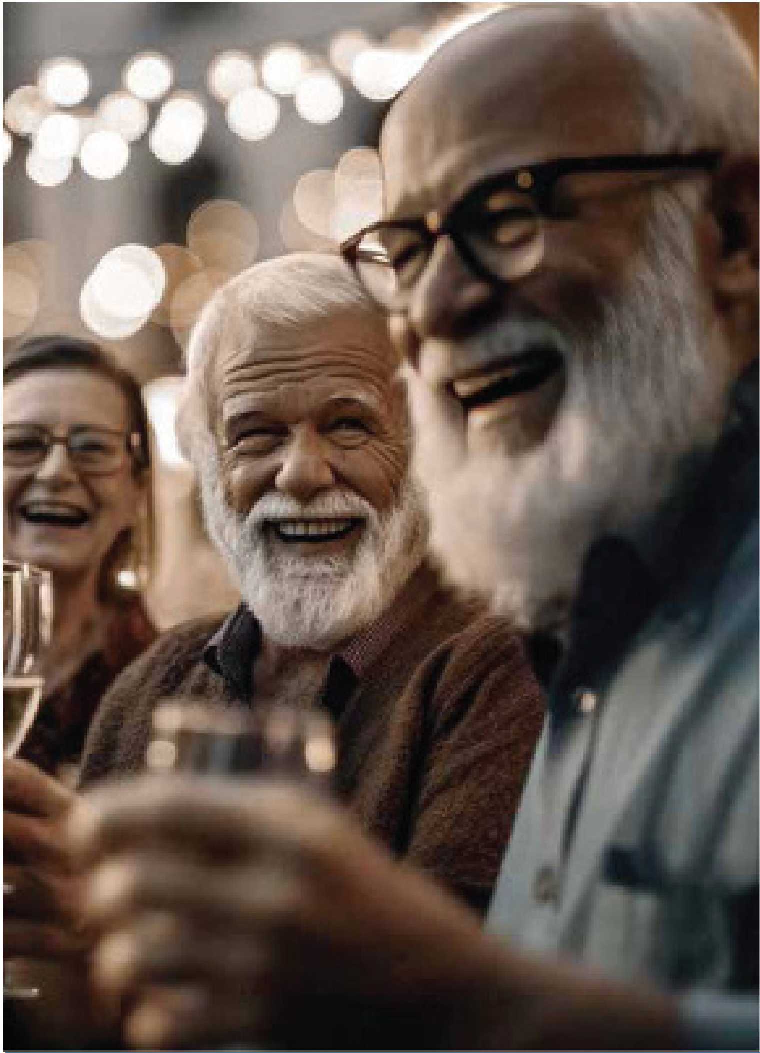
Despite the Government's massive parliamentary majority, a fragmented opposition, and no imminent election, this year's budget contained little in the way of genuine reform in spending or productivity measures. It does, however, include further spending on the care economy, cost of living, defence, and fuel security. This year's key spending policies include:

- **Minimal additional income tax relief for Australian workers** – The Government will introduce a $250 Working Australians Tax Offset from July 2027, to offset income derived from work. This measure will cost $6.4 billion, adding to previously legislated minor tax cuts (1 per cent) from July 2026 and July 2027, and the previously legislated $1,000 instant tax deduction from July 2026.
- **Healthcare** – $25 billion of additional funding for public hospitals, $1.8 billion to secure the future of Medicare UrgentCare Clinics, $5.9 billion for new and amended listings on the Pharmaceutical Benefits Scheme
- **Defence** – An additional $6.8 billion of funding to support the 2026 National Defence Strategy and Integrated Investment Program, part of a total $53 billion of investment over the next decade on defence.
- **Fuel security and cost-of-living relief** – $11.9 billion in spending to support the National Fuel Security Plan, including increasing Australia's fuel and fertiliser reserves. A further $2.5 billion as the net cost of the Government's previously implemented temporary fuel excise and heavy vehicle road user charge reductions.
- **Business productivity** – $2.3 billion to re-introduce a 2-year loss carry back for companies with up to $1bn in turnover, allowing them to claim losses against prior years' profit, $890 million to make permanent the $20,000 instant asset write-off for businesses with a turnover up to $10 million, an expansion of tax incentives for venture capital and a commitment to "consult with stakeholders" to offset the impact of the CGT changes on venture investing.
- **Housing** – $2 billion of additional spending on critical infrastructure to support the construction of up to 65,000 homes. Mandatory Australian standards will also be made free for construction firms.

Market Update

Week Ending 15 May 2026

- The S&P 500 recorded a modest weekly gain of +0.1%. Market breadth was narrow, highlighted by the -1.3% decline for the equal weighted S&P 500. Higher oil prices and rising yields were a headwind, with status quo in Iran, no major breakthrough from the Trump-Xi summit and recent inflationary readings gathering focus.
- Relative to a US market which continues to be well supported by the AI thematic and Technology stocks, our local market (S&P/ASX 200 -1.2%) was again constrained by significant falls for several of our larger index weighted Industrial stocks. This week it was CBA, CSL, and the other major banks which held back our market.
- Goldman Sachs highlights that the strength of the AI trade has lifted the S&P 500 to 14 new highs during the past month against a backdrop of narrowing breadth and surging momentum. Technology accounts for circa 85% of the +8.7% S&P 500 index return YTD, with the S&P 500 excluding technology returning less than 3%.
- Much of the recent US equity market momentum corresponds with surging near-term earnings estimates. Bottom-up consensus estimates for S&P 500 EPS in 2026 and 2027 have each risen by 8% YTD, with increasing expectations for AI capex spending and higher energy prices driving the majority of positive revisions. Indeed, excluding AI infrastructure and Energy companies, S&P 500 2027 EPS estimates have been flat YTD, further highlighting the importance of the AI thematic to recent US equity market performance.
- The announced removal of the CGT discount, changes to negative gearing, and new minimum tax rates on trust distributions have likely significant implications for the way wealth is created, managed and distributed within Australia. Lagged implementation dates and grandfathering provisions may see an increased level of transactions in the nearer term, as existing investors look to adjust structures and reposition assets.
- Outside of the Budget, Q1 wages growth of +0.8% qoq was in-line with expectations, business confidence remains at GFC levels, whilst Q1 housing finance commitments were -3.8% qoq (+18.5% yoy).



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1300 852 862
www.rocketfinancial.com.au

Email:
emailus@rocketfinancial.com.au

Level 1 suite 102/541 Blackburn Rd
Mount Waverley VIC 3149