connect

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Certain uncertainty – An evolving tax landscape

The 2026 Federal Budget signals a clear shift in Australia's tax landscape, with reform announcements pointing to a broader redesign that is likely to affect how wealth can be built, managed and transferred over time.

At the centre of the proposed reforms are changes to capital gains tax (CGT) and discretionary trust taxation. Together, they point to a tightening of long-standing tax advantages that many Australian families have relied on for decades, particularly when it comes to property, financial investments and intergenerational wealth planning.

The proposed CGT changes are particularly notable. From 1 July 2027, the long-standing 50% discount on capital gains from assets held more than 12 months would be replaced with an indexation-based approach, alongside a minimum 30% tax on net capital gains[1]. While unrealised gains to 1 July 2027 are expected to be grandfathered to remain subject to the current rules, future growth would be taxed under new indexation rules. Further details are needed to confirm that this will be the basis for calculating assessable capital gains that will be included in draft Bills to come. For the first time, "pre-1985" assets (that is, assets purchased before CGT was introduced on 20 September 1985) will be subject to CGT from 1 July 2027.

The key concern for investors is not just the rate change itself, but the uncertainty it introduces into established investment strategies. This is likely to influence a prudent investor's decision making around whether to sell assets earlier, hold for longer, or acquire new types of investments. It will have a flow-on effect on property markets if investors act ahead of the changes.

Trust taxation is also set for a significant shift. Proposed rules introducing a minimum 30% tax on trust distributions would reduce the flexibility that discretionary trusts have traditionally provided. These structures have long been used by families and business owners to distribute income in a tax-effective way between family members and for asset protection purposes. If implemented, the changes would significantly reduce these benefits, prompting many to reconsider how trusts are used, particularly professionals and small business owners who relied on the tax rules for income distributions not being changed.

[1] Subject to certain carve outs. These changes will cover all asset classes including shares, property, and managed funds held by individuals, most trusts and partnerships. Super funds are expected to continue to be able to access the existing 1/3rd CGT discount with clarification needed on the treatment of trust gains which flow to super funds. There will be an exception for new residential property builds for which there will be a choice to apply the CGT discount or cost base indexation.

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In response to a more complex and less predictable tax environment, alternative structures such as investment bonds are gaining more attention. These vehicles offer a tax-paid framework with defined long-term outcomes, and after a 10-year holding period (and that holding has not been reset according to special rules), withdrawals made will be tax-free. They also provide flexibility for estate planning and succession planning, and can sit alongside other structures such as trusts and superannuation, depending on individual circumstances.

More broadly, the role of financial advice becomes increasingly important. As settings evolve, professional guidance is essential in helping clients reassess their strategies and help support them to decide on whether they would be better placed to maintain long-term discipline, rather than react to short-term uncertainty.

Overall, the Budget does not eliminate traditional wealth-building tools, but it does propose to reshape how they will function. For many investors, the key challenge ahead will be adapting to a more complex and less certain environment for their financial plans that continue to pursue the same long-term financial goals. While no investment decision should be made based on tax considerations alone, this uncertainly adds to the complexity of the investment landscape.

Because tax rules can be complex, it's best to speak with a tax professional if you're unsure.

You should seek tax (financial) advice from an appropriate adviser.

Why diversification matters more in a concentrated market

Harry Markowitz, the Nobel Prize-winning economist who pioneered modern portfolio theory, famously described diversification as the only free lunch in investing. His insight was simple: combining assets whose returns are not closely correlated can reduce risk without sacrificing expected return.

In practice, however, many portfolios that appear diversified are increasingly exposed to the same underlying drivers.

Global share markets have become more concentrated, particularly in the United States, where a small group of very large technology companies now represents a significant portion of major indices. Investors holding broad market index funds may assume they are widely spread across sectors, regions and opportunities, but much of their portfolio performance can still be driven by the same handful of companies.

S&P 500 Current Market Cap (%)

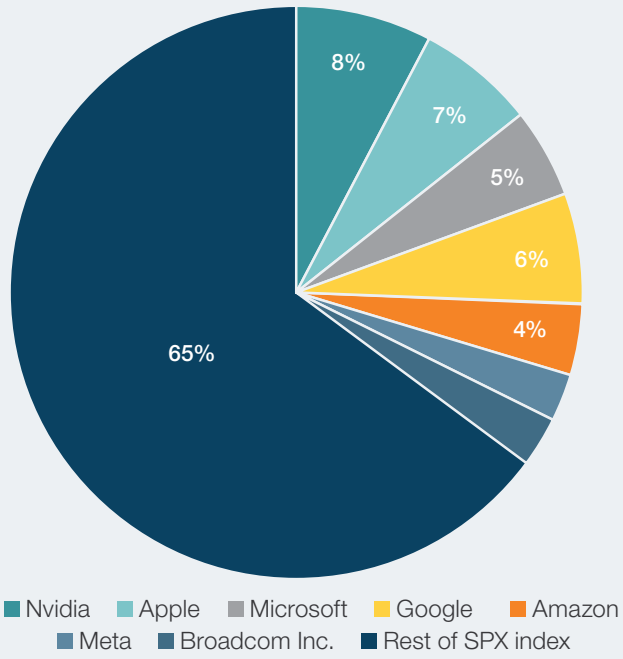

Figure 1- 7 stocks represent more than 1/3 of the S&P500.
Source: May 2026, Bloomberg

Passive investing has accelerated this dynamic. Capital is allocated by index weight rather than valuation or fundamentals, creating a feedback loop where rising prices attract more capital, further increasing concentration. While often seen as a conservative approach, this can leave investors with greater exposure to the most expensive parts of the market and more reliance on continued optimism.

This creates a hidden risk. When markets are rising, concentration can feel rewarding. But when sentiment shifts, portfolios with too much exposure to the same companies, sectors or economic assumptions can fall together.

True diversification is not simply about holding more investments. It is about ensuring those investments behave differently under different market conditions.

Diversification works because different asset classes carry different primary risks. Equities compensate for economic uncertainty, credit for default risk, and government bonds for inflation and duration risk. When these risks are genuinely distinct, diversification is effective. When they are not, assets that appear different on paper can still move in unison.

Investors saw this clearly in 2022, when both equities and bonds declined together. What was expected to provide balance instead moved in the same direction.

A resilient portfolio should aim for exposure to genuinely different sources of risk and return. That may include balancing growth assets with income-producing investments, active conviction rather than pure index alignment, and maintaining liquidity and flexibility when conditions change.

Diversification is not about owning more of the same. It is about reducing reliance on any single outcome.

In a market shaped by higher interest rates, geopolitical uncertainty, and elevated valuations, that distinction matters more than ever.

Often, the greatest risk is not what investors can see, but what they assume they already have, or what they think they have avoided.

Want a flourishing retirement? Plant seeds of financial security

As the old saying goes, the best time to plant a tree was 20 years ago: the second-best time is now.

A garden in full bloom doesn't happen by chance. It takes preparation, the right conditions, and a little nurturing along the way. And just as a gardener finds joy in watching their plants thrive, retirees who take an active role in shaping their future are more likely to enjoy a fulfilling and purposeful life in their golden years.

Research[1] has unearthed some fascinating insights into what makes for a happy retirement. The study – Australia's first with those who have a guaranteed regular income – found that purpose was key to retirement satisfaction. Specifically, those who choose when and how to retire enjoy greater wellbeing than those who are forced into it by external circumstances beyond their control.

And much like a well-planned garden, retirement flourishes when financial security is in place – allowing you to focus on what you love, rather than worrying about whether if your savings will last.

Cultivating the right conditions

The study found that retirees who proactively decided when to leave the workforce – rather than being driven by factors like age, ill health, or redundancy – reported higher levels of satisfaction and financial security. Having the confidence to retire on your own terms is like knowing your soil is rich and ready to support new growth.

Proactively choosing how and when to retire is the key to wellbeing in our golden years. The research study[1] found that feeling empowered in this next stage of life results in a healthier transition and greater retirement happiness, adjustment, and satisfaction.

But for many Australians, financial uncertainty can make retirement feel more like a battle with weeds than a thriving garden. Close to half (46%) of retirees surveyed were interested in a lifetime income option for at least some of their retirement income – yet fewer than one in 10 Australians currently have a guaranteed income stream.

Lack of awareness and understanding about retirement income options has been a real challenge for Australians in or approaching retirement. The customer research tells us guaranteed income helps provide peace of mind and significantly increases retirement happiness. Having a portion of your income guaranteed to last a lifetime brings an unparalleled sense of security – especially in an environment of high and variable inflation and market volatility.

Retirees with a guaranteed regular income can spend their time doing what they love rather than worrying about making ends meet. For many, that means more time outdoors – gardening, spending time with family, or completing their bucket list.

The joy of growing in retirement

As gardeners we take pride in nurturing plants, and similarly retirees who invest their time in meaningful activities – whether it's community gardening, teaching the next generation, or finally creating the veggie patch of their dreams – experience greater life satisfaction.

In fact, 22% of retirees surveyed said the best part of retirement was focusing on what they want to do rather than what they have to do. This was closely followed by enjoying freedom and flexibility (20%), spending more time with family (17%), and travelling (15%). When financial security is in place, retirement becomes a time of growth, discovery, and connection—rather than uncertainty.

Planting for the future

As the seasons shift, a good gardener knows a well-tended garden continues to thrive – just as a well-planned retirement provides financial security for a better retirement, no matter what changes come your way.

Thinking ahead? Let's talk about strategies for creating a positive financial future.

[1] Retirement income study, Macquarie University and Challenger 2024

Life insurance at tax time

You may be wondering if you can claim your insurance premiums as a tax deduction or have to pay tax on an insurance payout. In this article we cover a range of common questions about life insurance and tax.

Understanding how life insurance may affect your tax return

As tax time approaches, it's natural to wonder how your life insurance might factor into your return. For example, can you claim your premiums as a tax deduction? Or, if you received a claim payout, do you have to pay tax on it?

To help you prepare for the end of the financial year, we've covered some common questions about life insurance and tax.

Everyone's circumstances are different, so if you're unsure or need help, it's best to speak to your financial adviser or registered tax agent for advice.

What information do I need for my tax return?

Details of your insurance policy, the premiums you've paid, and any benefits you've received, are essential for your tax return. Therefore, to make life easier for yourself when preparing your tax return, keep all documents relating to your life insurance policies handy, including annual notices and payout information.

Insurance companies usually send out a statement to members after 30 June each year outlining the premium amounts that can be claimed as tax deductions.

Are life insurance premiums tax deductible?

The short answer is that it depends – some premiums are tax deductible, others aren't.

- **Generally not deductible:** Premiums for Life Cover, Total and Permanent Disability (TPD), and Critical Illness (Trauma) cover. That is, covers that pay a one-off, lump sum benefit, where the premiums are paid from after-tax money.
- **Possibly deductible:** If your insurance is held inside your super and you make personal contributions (e.g. via credit card or BPAY), you may be able to claim a deduction. You'll need to submit a Notice of Intent form to your superannuation fund and receive an acknowledgement before lodging your tax return. Note than any amount paid this way counts towards your annual Concessional Contributions Cap.
- **Usually deductible:** Premiums for Income Protection (IP) or Business Expenses insurance, as they relate to income replacement where the premium is paid from after-tax money.

What if my SMSF pays my premiums?

If your self-managed super fund (SMSF) holds your insurance, you won't be able to claim premiums paid by your fund as a personal tax deduction. However, the SMSF trustee may be able to claim some (or all) of the insurance premiums it paid during the financial year when lodging the SMSF Annual Return. In general, an SMSF has no greater tax benefit in relation to insurance premiums than an ordinary super fund.

Do I have to pay tax on insurance payouts?

The tax you pay on insurance payouts depends on the type of cover you have and if it's held inside super.

- **Generally tax-free:** Payouts from Life Cover, TPD, or Critical Illness cover held outside super.
- **May be taxable:** If held inside super, tax treatment depends on factors like who receives the benefit and how it's paid.
- **Usually taxable:** Income Protection and Business Expenses payouts, as they replace income.

Because tax rules around insurance benefits can be complex, it's best to speak with a tax professional if you're unsure.

As your financial needs evolve, we can help you evaluate your options.

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