Treasury Laws Amendment (Tax Reform No. 2) Act 2026

No. 71, 2026

An Act to amend the law relating to taxation, and for related purposes

Note: An electronic version of this Act is available on the Federal Register of Legislation (https://www.legislation.gov.au/)

Contents

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[*Assented to 26 August 2026*]

The Parliament of Australia enacts:

1 Short title

This Act is the *Treasury Laws Amendment (Tax Reform No. 2) Act 2026*.

2 Commencement

(1) Each provision of this Act specified in column 1 of the table commences, or is taken to have commenced, in accordance with column 2 of the table. Any other statement in column 2 has effect according to its terms.

Commencement information		
Column 1	**Column 2**	**Column 3**
Provisions	**Commencement**	**Date/Details**
1. Sections 1 to 3 and anything in this Act not elsewhere covered by this table	The day this Act receives the Royal Assent.	26 August 2026
2. Schedules 1 to 4	The first 1 January, 1 April, 1 July or 1 October to occur after the day this Act receives the Royal Assent.	1 October 2026

Note: This table relates only to the provisions of this Act as originally enacted. It will not be amended to deal with any later amendments of this Act.

(2) Any information in column 3 of the table is not part of this Act. Information may be inserted in this column, or information in it may be edited, in any published version of this Act.

3 Schedules

Legislation that is specified in a Schedule to this Act is amended or repealed as set out in the applicable items in the Schedule concerned, and any other item in a Schedule to this Act has effect according to its terms.

Schedule 1—Loss carry back tax offset

Part 1—Main amendments

Income Tax Assessment Act 1997

1 Division 160

Repeal the Division, substitute:

Division 160—Corporate loss carry back tax offset for businesses that are not significant global entities

Table of Subdivisions

Guide to Division 160

160-1 What this Division is about

A corporate tax entity can choose to "carry back" a tax loss it had for an income year against the income tax liability it had for either or both of the previous 2 income years.

The entity gets a refundable tax offset as a proxy for the tax the entity would save if it deducted the loss in the income year(s) to which the loss is "carried back".

The refundable tax offset:

(a) is capped at the entity's franking account balance; and

(b) is only available if the entity is not a significant global entity for the loss year.

Subdivision 160-A—Entitlement to and amount of loss carry back tax offset

Table of sections

160-5 Entitlement to loss carry back tax offset

(1) An entity is entitled to a *tax offset (the ***loss carry back tax offset***) for the *current year if the following conditions are satisfied:

(a) the current year starts on or after 1 July 2026;

(b) the entity is a *corporate tax entity throughout the current year (disregarding any period when the entity is not in existence);

(c) the current year is a *loss year;

(d) there is at least one *eligible carry back year for the current year;

(e) the entity is not a *significant global entity for the current year;

(f) any of the following requirements are satisfied for the current year and each of the 5 income years before the current year:

(i) the entity has lodged its *income tax return for the year;

(ii) the entity was not required to lodge an income tax return for the year;

(iii) the Commissioner has made an assessment of the entity's income tax for the year;

(g) the entity makes a *loss carry back choice for the current year in accordance with Subdivision 160-B.

Note 1: The entity can be entitled to only one loss carry back tax offset for the current year. However, that offset can have one or 2 components: that is, one for each eligible carry back year (see section 160-10).

Note 2: The loss carry back tax offset is a refundable tax offset (see section 67-23).

Meaning of ***eligible carry back year***

(2) An income year is an ***eligible carry back year*** for the *current year if:

(a) the income year is one of the 2 most recent income years before the current year; and

(b) the entity has an *income tax liability for the income year; and

(c) the entity is a *corporate tax entity throughout the income year (disregarding any period when the entity is not in existence).

160-10 Amount of loss carry back tax offset

(1) The amount of the entity's *loss carry back tax offset for the *current year is the lesser of the following amounts:

(a) the sum of the *loss carry back tax offset component for each *eligible carry back year;

(b) the entity's *franking account balance at the end of the current year.

Note: There may only be one eligible carry back year.

*Meaning of **loss carry back tax offset component***

(2) For the purposes of working out the amount of the entity's *loss carry back tax offset for the *current year, the entity's ***loss carry back tax offset component*** for an *eligible carry back year is:

(a) if the entity does not, in its *loss carry back choice for the current year, *carry back any *tax losses to the eligible carry back year—nil; or

(b) otherwise—so much of the entity's *income tax liability for the eligible carry back year as:

(i) has not previously been included in a component under this subsection for the purposes of working out the amount of the entity's loss carry back tax offset for an income year before the current year; and

(ii) does not exceed the amount worked out at step 3 of the following method statement for the eligible carry back year.

Method statement

Step 1. Start with the amount of the *tax loss the entity *carries back to the *eligible carry back year.

Step 2. Reduce the step 1 amount by the entity's *net exempt income for the *eligible carry back year.

Note: Do not reduce the step 1 amount by the entity's net exempt income to the extent the net exempt income has already been utilised (see section 960-20).

Step 3. Multiply the step 2 amount by the *corporate tax rate for the *loss year.

Example: Company A (which is not a base rate entity under the *Income Tax Rates Act 1986*) has at the end of the 2026-27 income year:

(a) a tax loss of $900,000 for that year and a franking account balance of $280,000; and

(b) for the 2024-25 income year—an income tax liability of $120,000 and net exempt income of $5,000; and

(c) for the 2025-26 income year—an income tax liability of $210,000.

Company A chooses to carry back $405,000 of its tax loss for the 2026-27 year to the 2024-25 year and $495,000 of that loss to the 2025-26 year.

Company A's loss carry back tax offset for the 2026-27 year is $268,500, worked out as follows:

(a) an offset component for the 2024-25 income year of $120,000, calculated by starting with the $405,000 carried back, reducing that at step 2 by $5,000, and multiplying the result by 30%;

(b) an offset component for the 2025-26 income year of $148,500, calculated by starting with the $495,000 carried back and multiplying the result by 30%.

The sum of the 2 components is $268,500 (which is less than Company A's $280,000 franking account balance at the end of the 2026-27 year). If that sum had exceeded that balance, the amount of the offset would have been limited under paragraph (1)(b) of this section to that balance.

Foreign residents

(3) Paragraph (1)(b) does not apply if the entity was a foreign resident (other than an *NZ franking company) for:

(a) if the entity carries back an amount to the most recent *eligible carry back year—more than half of that eligible carry back year; and

(b) if the entity carries back an amount to the next most recent eligible carry back year—more than half of that eligible carry back year.

Subdivision 160-B—Loss carry back choice

Table of sections

160-15 Loss carry back choice

(1) The entity may make a ***loss carry back choice*** for the *current year that specifies:

(a) how much (expressed as a specified amount) of the entity's *tax loss for the current year is to be *carried back to the most recent income year before the current year; and

(b) how much (expressed as a specified amount) of the entity's tax loss for the current year is to be carried back to the next most recent income year.

Note 1: To be carried back to an income year, the income year needs to be an eligible carry back year (see subsection 160-10(1)).

Note 2: The choice must also be consistent with sections 160-25 and 160-30.

(2) The choice under subsection (1) must be made in the *approved form by:

(a) the day the entity lodges its *income tax return for the *current year; or

(b) such later day as the Commissioner allows.

160-20 Changing a loss carry back choice

(1) An entity may change a *loss carry back choice for the *current year by notice, in the *approved form, given to the Commissioner.

(2) The notice must be given to the Commissioner within the limited amendment period (within the meaning of section 170 of the

Income Tax Assessment Act 1936) for an assessment for the *current year.

(3) To avoid doubt, the change takes effect from the day the entity made the original *loss carry back choice under section 160-15.

160-25 Transferred tax losses, income tax liabilities etc. not included

(1) The entity cannot *carry back an amount of a *tax loss for an income year, to the extent that the loss:

(a) was transferred to or from the entity under Division 170 or Subdivision 707-A (about certain company groups); or

(b) exceeds the amount that would be the entity's tax loss for the year if section 36-55 (about excess franking offsets) were disregarded.

(2) For the purposes of this Division, disregard the *income tax liability of the entity for an income year to the extent that it consists of an income tax liability of a *subsidiary member of a *consolidated group or *MEC group that is taken to be an income tax liability of the entity because of section 701-5 (the entry history rule).

160-30 Integrity rule—no loss carry back tax offset if scheme entered into

No loss carry back tax offset if scheme entered into

(1) The *corporate tax entity cannot *carry back an amount of a *tax loss to an income year (the ***gain year***) if:

(a) there is a *scheme for a disposition of *membership interests, or an *interest in membership interests, in:

(i) the corporate tax entity; or

(ii) an entity that has a direct or indirect interest in the corporate tax entity; and

(b) the scheme is entered into or carried out during the period:

(i) starting at the start of the gain year; and

(ii) ending at the end of the *current year; and

(c) the disposition results in a change in who controls, or is able to control, (whether directly, or indirectly through one or more interposed entities) the voting power in the corporate tax entity; and

(d) an entity receives, in connection with the scheme, a *financial benefit calculated by reference to one or more *loss carry back tax offsets to which it was reasonable, at the time the scheme was entered into or carried out, to expect the corporate tax entity would be entitled; and

(e) having regard to the relevant circumstances of the scheme, it would be concluded that an entity, or one of the entities, that:

(i) entered into or carried out the scheme; or

(ii) entered into or carried out any part of the scheme;

did so for a purpose (whether or not the dominant purpose but not including an incidental purpose) of obtaining or realising a financial benefit referred to in paragraph (d).

Relevant circumstances

(2) For the purposes of paragraph (1)(e), the relevant circumstances of the *scheme for a disposition include the following:

(a) the extent to which the *corporate tax entity continues to conduct the same activities after the scheme as it did before the scheme;

(b) the extent to which assets that the corporate tax entity uses before, and continues to use after, the scheme are assets for which equivalents are not readily available at the time of the scheme;

(c) the matters referred to in subsection 177D(2) of the *Income Tax Assessment Act 1936* (applying paragraph 177D(2)(d) as if the reference in that paragraph to Part IVA of that Act were instead a reference to this section).

Application of this section to non-share equity interests

(3) This section:

(a) applies to a *non-share equity interest in the same way as it applies to a *membership interest; and

(b) applies to an *equity holder in the same way as it applies to a *member.

Part 2—Other amendments

Income Tax Assessment Act 1936

2 Subsection 170(10AA) (table item 168)

Omit "160-16(1)", substitute "160-20(1)".

Income Tax Assessment Act 1997

3 Section 36-17 (note 2)

Repeal the note, substitute:

Note 2: A corporate tax entity may also be able to carry a loss back to an earlier income year: see Division 160.

4 Section 36-25

Omit "*loss carry back tax offset for 2020-21, 2021-22 or 2022-23 for businesses with turnover under $5 billion*", substitute "*loss carry back tax offset for entities that are not significant global entities*".

5 Paragraph 195-15(5)(c)

Omit "the 2020-21, 2021-22 or 2022-23 income year", substitute "an income year".

6 Section 195-37

Omit "the 2020-21, 2021-22 or 2022-23 income year", substitute "an income year".

7 Paragraph 320-149(2)(aa)

Omit "2020-21, 2021-22 or 2022-23 for businesses with turnover under $5 billion", substitute "entities that are not significant global entities".

8 Subsection 995-1(1) (note to the definition of *carry back*)

Repeal the note.

9 Subsection 995-1(1)

Insert:

eligible carry back year has the meaning given by subsection 160-5(2).

Taxation Administration Act 1953

10 Section 45-340 in Schedule 1 (method statement, paragraph (db) of step 1)

Omit "2020-21, 2021-22 or 2022-23 for businesses with turnover under $5 billion", substitute "entities that are not significant global entities".

Part 3—Application of amendments

11 Application of amendments

The amendments made by this Schedule apply in relation to assessments for income years starting on or after 1 July 2026.

Schedule 2—$20,000 instant asset write-off for small business entities

Income Tax Assessment Act 1997

1 Section 328-170

Omit "$1,000", substitute "$20,000".

2 Section 328-180 (heading)

Omit "**$1,000**", substitute "**$20,000**".

3 Paragraph 328-180(1)(b)

Omit "$1,000", substitute "$20,000".

4 Paragraph 328-180(2)(a)

Omit "$1,000", substitute "$20,000".

5 Paragraph 328-180(3)(a)

Omit "$1,000", substitute "$20,000".

6 Subsection 328-205(4) (example)

Repeal the example, substitute:

Example: When Bria's minivan was allocated to her general small business pool for the 2023-24 income year, she estimated that it would be used 50% for her child care business and 50% for her own personal use. Due to increasing business, Bria estimates the business use of the minivan to be 70% for the 2024-25 year, and 90% for the 2025-26 year. She makes an adjustment under section 328-225 for both those years.

Bria sells the minivan for $20,000 at the start of the 2026-27 income year. She must now average the business use estimates for the minivan for the year it was allocated to the pool and the next 3 years to work out the taxable purpose proportion of its termination value. The average is worked out as follows:

- 50% (original estimate); plus
- 70% (2024-25 estimate); plus
- 90% (2025-26 estimate); plus
- 90% (no change on previous year);

= 300% ÷ 4 = 75%

The taxable purpose proportion of the minivan's termination value is, therefore:

75% of $20,000 = $15,000

7 Subsection 328-210(1)

Omit "$1,000", substitute "$20,000".

8 Subsection 328-210(3) (example)

Repeal the example, substitute:

Example: Cassidy's Gardens is a small business entity for the 2024-25 income year and chooses to use this Subdivision for that year. The business has an opening pool balance of $28,500 for its general small business pool for that year.

During that year, Cassidy acquired a new ride-on lawn mower for $21,000. The taxable purpose proportion of its adjustable value is:

$21,000 x 80% business use estimate = $16,800

Cassidy also sold her business car for $29,600 during that year. The car was used 100% in the business.

To work out whether she can deduct an amount under this section, Cassidy uses this calculation:

$28,500 + $16,800 - $29,600 = $15,700

Because the result is less than $20,000, Cassidy can deduct the $15,700 for the income year. The pool's closing balance for the year is zero.

9 Subsection 328-215(4)

Omit "$1,000", substitute "$20,000".

10 Subsection 328-247(1) (example)

Omit "$6,600", substitute "$25,000".

11 Subsection 328-247(1) (example)

Omit "$3,300", substitute "$12,500".

12 Subsection 328-250(1)

Omit "$1,000", substitute "$20,000".

13 Subsection 328-250(4) (heading)

Omit "*$1,000*", substitute "*$20,000*".

14 Subsection 328-253(4) (heading)

Omit "*$1,000*", substitute "*$20,000*".

15 Application of amendments

(1) The amendment of paragraph 328-180(1)(b) of the *Income Tax Assessment Act 1997* made by this Schedule applies to a depreciating asset if:

(a) you first used the asset, for a taxable purpose, on or after 1 July 2026; or

(b) you first installed the asset ready for use, for a taxable purpose, on or after 1 July 2026.

(2) The amendments of paragraphs 328-180(2)(a) and (3)(a) of the *Income Tax Assessment Act 1997* made by this Schedule apply to an amount included in the second element of the cost of an asset if the amount is so included at any time on or after 1 July 2026.

(3) The amendment of subsection 328-210(1) of the *Income Tax Assessment Act 1997* made by this Schedule applies to assessments for income years ending on or after 1 July 2026.

Income Tax (Transitional Provisions) Act 1997

16 Section 328-180 (heading)

Omit "**2026**", substitute "**2027**".

17 Subsection 328-180(1) (paragraph (b) of the definition of *increased access year*)

Omit "2026", substitute "2027".

18 Subsection 328-180(1)

Insert:

threshold change day means the day on which Schedule 2 to the *Treasury Laws Amendment (Tax Reform No. 2) Act 2026* commences.

Note: The Schedule amends certain thresholds in Subdivision 328-D of the *Income Tax Assessment Act 1997* from $1,000 to $20,000 in relation to, at a general level, matters on or after 1 July 2026. The $1,000 amount is still relevant to the earlier (temporary) increases to those thresholds in this Division.

19 Subsections 328-180(4), (4A), (5) and (6)

After "*Income Tax Assessment Act 1997*", insert "(as in force immediately before the threshold change day)".

20 Subsection 328-181(1)

Insert:

threshold change day has the same meaning as in section 328-180.

21 Subsections 328-181(2) and (3)

Omit "of $1,000".

22 Subsection 328-181(5)

After "*Income Tax Assessment Act 1997*", insert "(as in force immediately before the threshold change day)".

Schedule 3—Income tax exemption for PNG Chiefs Limited employment

Income Tax Assessment Act 1997

1 Section 11-15 (after table item headed "education and training")

Insert:

employment

PNG Chiefs Limited employment 51-130

2 At the end of Division 51

Add:

51-130 PNG Chiefs Limited employment

(1) An amount of your *ordinary income or *statutory income is exempt from income tax if the amount is included in your ordinary income or statutory income for the 2025-26 income year or any of the next 9 income years and:

(a) if the amount is ordinary income—the amount is derived from PNG Chiefs Limited in respect of your employment, or former employment, with PNG Chiefs Limited; or

(b) if the amount is statutory income—the amount is from PNG Chiefs Limited in respect of your employment, or former employment, with PNG Chiefs Limited.

(2) Without limiting subsection (1), an amount may be exempt under that subsection whether the amount is in the form of salary or wages, match fees, allowances, bonuses, benefits, or another form of remuneration.

(3) In this section:

PNG Chiefs Limited means PNG CHIEFS LIMITED, a company:

(a) incorporated under the *Companies Act 1997* of Papua New Guinea; and

(b) with the registration number 1-122199282.

3 Application of amendments

The amendments made by this Schedule apply in relation to assessments for the 2025-26 income year and the next 9 income years.

Schedule 4—Negative gearing amendments

Income Tax Assessment Act 1997

1 Subsection 26-155(2) (before the note)

Insert:

Note 1: See also sections 26-156, 26-157 and 26-158 for extensions to these exceptions in certain circumstances.

2 Subsection 26-155(2) (note)

Omit "Note", substitute "Note 2".

3 After subsection 26-155(3)

Insert:

(3AA) For the purposes of paragraph (2)(a), in determining when an *ownership interest in a *residential dwelling was last *acquired, disregard the effect of subsection 118-192(2).

(3AB) For the purposes of paragraph (2)(b), if a *residential dwelling would cease to be a *new residential dwelling in relation to you because of the operation of subsection 118-192(2), disregard the effect of that subsection.

4 After section 26-155

Insert:

26-156 Extension of exceptions for non-quarantined residential dwellings—dwelling acquired by surviving spouse

(1) This section applies if:

(a) your *spouse holds an *ownership interest in a *residential dwelling; and

(b) your spouse dies and you *acquire the ownership interest (or part of the ownership interest) in the residential dwelling, either as a surviving joint tenant or because the interest *passes to you as beneficiary in the estate of your deceased spouse.

Residential dwelling originally acquired before 2026 Budget time

(2) If your deceased *spouse *acquired the *ownership interest before the time referred to in paragraph 26-155(2)(a), then for the purposes of that paragraph you are taken to have acquired the ownership interest (or the part of the interest) before that time.

New residential dwelling

(3) If the *residential dwelling was a *new residential dwelling in relation to your *spouse just before dying, then for the purposes of paragraph 26-155(2)(b), the residential dwelling is taken to be a new residential dwelling in relation to you for the *ownership interest you *acquire.

Note: See also section 26-159 (application of extended new residential dwelling exception for capital gains purposes).

Disregard other timing rules for surviving joint tenants and beneficiaries

(4) For the purposes of subsections (2) and (3), disregard the effect of subsection 128-15(2) or 128-50(2) (as applicable) in relation to the timing of the acquisition of the ownership interest.

26-157 Extension of exceptions for non-quarantined residential dwellings—co-owner of dwelling dies

(1) This section applies if:

(a) you and another individual, who is not your spouse, each hold an *ownership interest in the same *residential dwelling as either joint tenants or tenants in common (whether or not there are others who also hold ownership interests in the residential dwelling); and

(b) the other individual dies and you *acquire that deceased individual's ownership interest (or part of the ownership interest) in the residential dwelling, either as a surviving joint tenant or because the interest *passes to you as beneficiary in the estate of the deceased individual.

Residential dwelling originally acquired before 2026 Budget time

(2) If:

(a) you *acquired your existing *ownership interest before the time referred to in paragraph 26-155(2)(a); and

(b) the deceased individual had also acquired the deceased individual's ownership interest before that time;

then for the purposes of that paragraph you are taken to have acquired the deceased individual's ownership interest (or the part of the interest) before that time.

New residential dwelling

(3) If:

(a) for your existing *ownership interest, the *residential dwelling is a *new residential dwelling in relation to you; and

(b) for the deceased individual's ownership interest, the residential dwelling was a new residential dwelling in relation to the deceased individual;

then for the purposes of paragraph 26-155(2)(b), the residential dwelling is taken to be a new residential dwelling in relation to you for the ownership interest you *acquire from the deceased individual.

Note: See also section 26-159 (application of extended new residential dwelling exception for capital gains purposes).

Disregard other timing rules for surviving joint tenants and beneficiaries

(4) For the purposes of subsections (2) and (3), disregard the effect of subsection 128-15(2) or 128-50(2) (as applicable) in relation to the timing of the acquisition of the ownership interest.

26-158 Extension of exceptions for non-quarantined residential dwellings—relationship breakdown

(1) This section applies if, as a result of an order, agreement or award of a kind mentioned in paragraphs 126-5(1)(a) to (f) involving you and your *spouse (or former spouse), you *acquire an *ownership interest in a *residential dwelling from your spouse (or former

spouse) (the ***transferor***) or a company or trustee (also the ***transferor***).

Residential dwelling originally acquired before 2026 Budget time

(2) If the transferor *acquired the *ownership interest in the *residential dwelling before the time referred to in paragraph 26-155(2)(a), then for the purposes of that paragraph you are taken to have acquired the ownership interest in the residential dwelling before that time.

New residential dwelling

(3) If the *residential dwelling is a *new residential dwelling in relation to the transferor before you *acquire the *ownership interest in the residential dwelling, then for the purposes of paragraph 26-155(2)(b) the residential dwelling is taken to be a new residential dwelling in relation to you for the ownership interest you acquire.

Note: See also section 26-159 (application of extended new residential dwelling exception for capital gains purposes).

26-159 Application of extended new residential dwelling exception for capital gains purposes

If you *acquire an *ownership interest in a *residential dwelling that is taken to be a *new residential dwelling in relation to you under subsection 26-156(3), 26-157(3) or 26-158(3), then for the purposes of subsection 115-102(2) the residential dwelling is also taken to be a new residential dwelling in relation to you for the ownership interest you acquire.

5 Application of amendments

The amendments made by this Schedule apply in relation to the 2027-28 income year and later income years.

[*Minister’s second reading speech made in—*
House of Representatives on 25 June 2026
Senate on 19 August 2026]

(83/26)