

## What The Negative Gearing Changes Mean For Property Investors

### Negative gearing reform at a glance:

From 1 July 2027, the announced reforms would limit negative gearing benefits for established residential property. The key point for property investors is that the change is targeted: existing properties held before Budget night are grandfathered, new residential builds continue under the current treatment, and losses on later purchases of established residential property are deferred rather than lost.

<b>NEW RESIDENTIAL BUILDS</b> <b>Current rules continue</b> Eligible new residential builds continue to access negative gearing under existing rules, including the ability to deduct rental losses against other income.	<b>EXISTING / GRANDFATHERED PROPERTY</b> <b>No change while held</b> Property under contract before 7:30 PM AEST on 12 May 2026 keeps the current rules indefinitely, even if settlement occurs later.	<b>ESTABLISHED RESIDENTIAL</b> <b>Targeted change from 1 July 2027</b> For established residential property purchased after Budget night, losses arising from 1 July 2027 are quarantined to residential property income.
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### WHAT IS UNAFFECTED?

<b>COMMERCIAL PROPERTY</b> <b>Outside the reform</b> Commercial, industrial and other non-residential property remains outside the scope of the negative gearing changes.	<b>NEW BUILDS</b> <b>Full negative gearing retained</b> Eligible new builds retain the existing treatment to encourage additional housing supply.	<b>PRE-BUDGET CONTRACTS</b> <b>Grandfathered</b> Any property under contract before 7:30 PM AEST on 12 May 2026 retains the current rules until sold.	<b>SUPER FUNDS / WIDELY HELD TRUSTS</b> <b>Excluded</b> Super funds, including SMSFs, and widely held trusts are excluded from the announced negative gearing reform.
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### HOW THE TRANSITIONAL RULES WORK

Scenario	Proposed treatment	Property investor takeaway
Property under contract before 7:30 PM AEST, 12 May 2026	Grandfathered. Current negative gearing rules continue indefinitely while the property is held.	Existing investors are not forced into the new quarantining treatment for properties already committed to before Budget night.
Established residential property purchased from 12 May 2026 to 30 June 2027	Current rules apply until 30 June 2027. From 1 July 2027, future losses become quarantined.	There is a transitional window, but losses arising after the start date are treated under the new rules.
Established residential property purchased from 1 July 2027	Quarantined from day one. Losses can offset residential property income only, including rental income and capital gains.	The loss is deferred, not lost, but it cannot be used to reduce salary, wage or business income.
Eligible new residential build purchased at any time	Current negative gearing rules continue, subject to the final legislation and eligibility requirements.	New supply receives more favourable treatment than established residential property.

### WHAT DOES QUARANTINED MEAN?

Under the announced reform, quarantined losses are not immediately deductible against unrelated income. Instead, they are carried forward and can be used against residential property income.

- Can offset: residential rental income and capital gains from residential property.
- Can carry forward: excess losses can be carried forward to future years.
- Cannot offset: salary, wage or business income under the proposed treatment for affected established residential property.

## WHAT COUNTS AS AN ELIGIBLE NEW BUILD?

Eligible new build	Not an eligible new build
A newly constructed apartment bought off-the-plan.	An established property that has recently been extended to add additional bedrooms.
A duplex constructed through a knock-down rebuild replacing a single, free-standing house.	A free-standing house constructed through a knock-down rebuild replacing an older, smaller free-standing house.
Any residential construction on previously vacant land.	A granny flat built adjacent to an established property that does not increase overall housing supply in the required way.
A newly built property occupied for less than 12 months before being first sold to an investor.	A newly built property occupied for more than 12 months before being sold to a subsequent investor.

## DOES THE REFORM APPLY TO MY PROPERTY?

Follow the decision flow below. Commercial property and property held in a super fund or widely held trust is excluded from these changes entirely.

Question	If YES	If NO
Q1. Is the property commercial, industrial or non-residential?	Unaffected. Current negative gearing rules continue.	Continue to Q2.
Q2. Is it held through a super fund, including an SMSF, or a widely held trust?	Excluded from the reform. Current rules continue.	Continue to Q3.
Q3. Is it an eligible new residential build?	Unaffected. Negative gearing and depreciation continue under existing rules.	Continue to Q4.
Q4. Was the property under contract before 7:30 PM AEST on 12 May 2026?	Grandfathered. Existing rules apply indefinitely while held.	Continue to Q5.
Q5. Is it an established residential property purchased after Budget night?	Affected from 1 July 2027. Losses are quarantined to residential property income.	Seek advice to confirm treatment.

## EXAMPLES FOR PROPERTY INVESTORS

Example	Outcome	Plain English
Established investment property bought in 2024 and still held after 1 July 2027	Grandfathered. Current negative gearing rules continue while the property is held.	The reform does not retrospectively apply to existing properties already under contract before Budget night.
Established investment property bought in 2026 after Budget night	Current rules apply until 30 June 2027, then losses are quarantined from 1 July 2027.	There is a transition period, but the property is not grandfathered.
Established residential property bought in August 2027	Losses are quarantined from day one.	The investor can use losses against residential property income, not against salary or business income.
New townhouse bought off-the-plan in 2028	Current negative gearing rules continue if the property satisfies the eligible new build rules.	The policy is designed to favour investment that adds housing supply.

## WHAT INVESTORS SHOULD CONSIDER NOW

- Confirm whether a property is grandfathered, transitional, an eligible new build or an affected established residential property.
- Keep clear records of contract dates, settlement dates, property type and any construction or redevelopment details.
- Understand that affected losses are deferred rather than lost, but cash flow may change because losses cannot offset salary, wage or business income.
- Before buying, selling or restructuring, seek tax advice. Final legislation and ATO guidance may change the practical application of the announced reforms.

## KEY MESSAGE

The proposed negative gearing reform is targeted, not universal. Existing properties under contract before Budget night are grandfathered, new residential builds remain supported, and commercial property is outside the reform. The main change is for established residential property purchased after Budget night, where rental losses arising from 1 July 2027 are quarantined to residential property income rather than being deductible against salary, wage or business income.

**General information only.** This factsheet summarises the announced reforms as at the issue date and does not constitute tax, financial or legal advice. Final legislation and rulings may differ. Please consult your accountant or financial adviser before acting on the information here.

Sources: Australian Government Budget 2026-27 Tax Explainer - Negative Gearing and Capital Gains Tax Reform; Australian Government Budget 2026-27 Tax Reform page; OBrien Real Estate Federal Budget Summary 2026 negative gearing factsheet supplied by the user.