

Barton Deakin Brief: Broken Promises Dressed as Reform

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Summary

Jim Chalmers last night called the 2026–27 Budget "the most important and ambitious budget in decades." It has been described but some in the corridors of power as certainly ambitious, in the scale of the promises it breaks.

The speech leaned heavily on the Middle East conflict as context for everything: the inflation, the slowing growth, the cost-of-living pressure. This is politically convenient. It is not, however, accurate.

The changes to negative gearing, capital gains tax, discretionary trusts and the NDIS are material. But the central fact of last night's Budget is that this Government explicitly promised not to do several of the most significant things it just did. It won two elections on the strength of those promises. Last night it abandoned them without apology.

Gross debt crosses \$1 trillion for the first time in Australian history. The deficit is \$31.5 billion. Inflation is forecast to peak at 5 per cent. And the Budget does not return to surplus until 2034–35.

The Key Numbers

- **Underlying cash deficit:** \$31.5 billion in 2026–27, worsening to \$34.4 billion in 2028–29
- **Gross debt:** \$1.051 trillion in 2026–27, rising to \$1.249 trillion by 2029–30
- **Inflation:** 5 per cent through the year to June 2026
- **GDP growth:** 1¾ per cent in 2026–27
- **Unemployment:** rising to 4½ per cent
- **NDIS savings:** \$37.8 billion over four years
- **Defence:** additional \$53 billion over the decade

- **Return to surplus:** 2034–35

The Broken Promises

- **Negative gearing and capital gains tax:** Before both the 2022 and 2025 elections, this Government gave two commitments: no changes to negative gearing, no changes to capital gains tax. The commitments were deliberate. Labor's 2019 defeat was widely attributed to these same policies and the party resolved never to revisit them. Last night: negative gearing was limited to new builds from 1 July 2027. The 50 per cent CGT discount replaced with inflation indexation. A minimum 30 per cent tax on capital gains from the same date. The Treasurer called it levelling the playing field for first home buyers. Property industry bodies have warned it will reduce construction and lift rents.
- **Housing:** The Government's \$2 billion Local Infrastructure Fund targets just 65,000 homes over a decade. The 1.2 million homes target does not appear anywhere in the Budget papers, the Government seems to have quietly dropped it.
- **Fiscal responsibility:** The Government promised to bank revenue upgrades and reduce debt. Australia's gross debt has crossed \$1 trillion on its watch, a first. Deficits continue across every year of the forward estimates. The surplus is projected for 2034–35.

What's changed

New burdens and risks

- **CGT overhaul.** Inflation indexation is more complex to apply than a flat 50 per cent discount, and the minimum 30 per cent floor will catch assets in periods of low real growth. Transition costs will fall on advisers, accountants and their clients.
- **Trust taxation:** Was not flagged in the lead-up to the Budget. Delivered last night: a minimum 30 per cent tax on discretionary trusts from 1 July 2028. This affects family businesses, farming operations and professional practices whose structures reflect decades of planning under the existing framework. The three-year rollover is welcome; the absence of any mandate for the change is not.
- **Negative gearing restrictions.** From Budget night, investors in established housing cannot deduct losses against other income. A two-tier investment

market is created overnight. Rental market pressure is the predictable consequence.

- **Trust taxation.** A minimum 30 per cent tax on discretionary trusts from July 2028 is a structural change to arrangements built over decades. Three years of rollover relief is provided.
- **Domestic gas reservation.** A 20 per cent reservation from July 2027 will assist domestic industrial users. For LNG exporters and the investors behind them, it introduces sovereign risk considerations that were not part of the investment thesis.
- **NDIS reform.** The \$37.8 billion in savings is significant and the reform is overdue. The provider market will contract and leave participants in the lurch.

What is absent

There is no industrial relations reform to reduce employer and increases compliance costs. No corporate tax rate reduction. No surplus within the forward estimates. No credible pathway to the 1.2 million homes target. And no structural reduction in energy costs and the rebates in this Budget compensate for price increases this Government's own policies have contributed to.

The Fiscal Picture

	2025–26	2026–27	2027–28	2028–29	2029–30
Deficit in \$B	-28.3	-31.5	-31.0	-34.4	-25.3
Gross debt in \$B	982	1,051	1,120	1,193	1,249
Debt % GDP	33.1	34.0	35.2	35.8	35.6
Payments % GDP	26.6	26.8	26.8	26.5	26.2

The \$63.8 billion in claimed savings rests heavily on a single item: \$37.8 billion in NDIS reform. That correction was three years in coming and does not represent new fiscal discipline. The remaining \$26 billion in savings is substantially offset by new spending commitments elsewhere.

Government payments sit at 26.8 per cent of GDP. The Treasurer's claim of the lowest average real spending growth in 35 years describes a deceleration from a very high base, not restraint in any meaningful sense. The interest bill on \$1 trillion of debt will grow each year.

What to watch next

- **Budget in reply:** Angus Taylor delivers the Opposition's Budget Reply at 7.30pm Thursday. It is the most consequential set-piece of his leadership to date and expect to see a focus on:
 - Rebutting the Government's Middle East economic framing.
 - Shaping the narrative that Australia's inflation was elevated before the conflict.
- **Also watch:** Senate crossbench positioning on the tax changes; the RBA's next statement on fiscal and monetary settings; the property market's immediate response; and small business and agricultural sector reaction to the trust taxation announcement.

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