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2026–27 Federal Budget

Discretionary Trusts Fact Sheet

What the Proposed Trust Minimum Tax Means for You

13 May 2026

The 2026–27 Budget includes a significant proposed change to the way discretionary trusts are taxed. This fact sheet explains what has been announced, what it means for you, and what — if anything — you should be doing right now.

What Has Been Announced

The Government has announced a 30% minimum tax on discretionary trusts, proposed to start from 1 July 2028. This is designed to limit the tax benefit of distributing trust income to beneficiaries on lower tax rates.

Under the proposal, the trustee pays a minimum of 30% tax on the trust's taxable income before it is distributed. Individual beneficiaries — other than corporate beneficiaries — receive a non-refundable credit for the tax paid, similar to a franking credit on a share dividend.

> **Important:**
> *This is a Budget announcement only. No draft legislation has been released. The final rules may differ from what has been announced. Do not change your trust arrangements based on this announcement alone.*

How the Current Rules Compare to the Proposed Rules

Currently, when a discretionary trust distributes income to you, you pay tax at your own marginal rate — which may be lower than 30%. The trust itself pays no tax on that income before distributing it.

Under the proposed change, the trust pays 30% first. You receive a credit for the tax paid. If your personal tax liability on the distribution is less than 30%, the difference is permanently lost — it cannot be refunded to you.

	BEFORE (current rules)	AFTER (proposed from 1 July 2028)
Who pays the tax?	Beneficiary — at their own marginal rate	Trustee — minimum 30% before distribution
Beneficiary on $20,000 (no other income)	Tax: ~$288	**Trust pays $6,000. Your credit: $6,000. Your liability: $288. Permanently lost: ~$5,712**
Beneficiary on $100,000 (only income)	Tax: ~$24,632	**Trust pays $30,000. Credit $30,000 against $24,632 tax. Lost: ~$5,368**
Breakeven point	Not applicable	Approx. $131,600 total income — at that level the credit and liability roughly match

Note: All figures are illustrative and based on 2025–26 tax rates. Subject to final legislation.

The Corporate Beneficiary Problem

If your trust distributes income to a company — sometimes called a bucket company — the situation is more serious. The Budget announcement states that corporate beneficiaries will not receive the same non-refundable credits as individual beneficiaries.

Based on the announcement as it stands, this means:

- The trust pays 30% minimum tax on income distributed to the company.
- The company then pays company tax — 25% or 30% — on that same income, with no credit to offset the tax already paid by the trust.
- The combined effective tax rate on those distributions could approach 55–60%.

⚠ If your trust distributes income to a company:
This is a significant risk that requires urgent review. Please contact us to assess how your current arrangements would be affected if the measure proceeds as announced.

Which Trusts Are Not Affected?

The following types of trusts are excluded from the proposed minimum tax:

- Fixed trusts and widely held trusts (including fixed testamentary trusts)
- Complying superannuation funds
- Special disability trusts
- Deceased estates
- Charitable trusts

Certain types of income are also excluded, including primary production income, income relating to vulnerable minors, and income from assets of discretionary testamentary trusts existing at the time of the announcement.

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The Rollover Relief Window

The Budget confirms expanded rollover relief for three years from 1 July 2027. This allows individuals and businesses to restructure out of a discretionary trust into another entity — such as a company or fixed trust — without triggering a capital gains tax liability at the point of transfer. The window closes 30 June 2030.

However, stamp duty on the transfer of assets remains a state-based tax and will still apply in most states. This is a real upfront cost that needs to be factored into any restructure decision. And the decision cannot be made sensibly until the legislation is released — which is expected in the second half of 2026.

What you should do:

Do not restructure your trust arrangements based on this announcement alone. Contact us to begin a preliminary review of your position so we are ready to act quickly once the legislation is confirmed.

Please do not hesitate to reach out with any questions — no matter how small.

Regards,

PENDER & ASSOCIATES PTY LTD

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Disclaimer: This fact sheet provides general information only based on the 2026–27 Federal Budget announcements of 12 May 2026. The trust minimum tax measure is based on an announcement only — no draft legislation has been released. Final details may differ materially from what has been announced. This is not a substitute for professional advice tailored to your individual circumstances. Please seek independent advice before taking any action.