

Contents

Higher yields are creating opportunities in global bonds *Eric Souders*

Are we in a recession? *Shani Jayamanne*

Meg on SMSFs - Division 296 actuarial certificates *Meg Heffron*

The first impact of negative gearing reform is not the tax bill *Jade Xie*

The oil market is running out of easy answers *Damien Klassen*

The state of investor knowledge in Australia *Alex Zaika*

Complexity and capital gains *Jim Bonham*

Editorial

I once had a rather amusing interaction with an older gentleman at an investment conference.

We'd been discussing artificial intelligence and the speed at which it's embedded itself into every corner of the market. After nodding along for a few minutes, he laughed and declared, "*Well, I'm glad I'll be dead soon – I don't have to deal with any of this AI stuff!*"

I'll be the first to admit that these conferences do strange things to people. Lock a few hundred attendees in a ballroom for eight hours of presentations and a comment like that no longer sounds unreasonable.

At the time, I filed it away as a good line. Lately I've been thinking about it differently. In the age of AI, which tasks are still worth doing ourselves?

A different kind of investment

Like most, I began 2026 with a collection of resolutions. Read more, spend less time staring at a screen, learn a new language (Guten tag) and so on. All of the aspirations that humanity collectively remembers in January.

Another resolution was to prioritise my health and wellbeing. I acknowledge it sounds like those virtuous, hippie endeavours that only wellness gurus with unlimited time and suspiciously flexible schedules can pursue. But my reasoning is considerably less enlightened.

As I continue further into what many insist on calling my 'late twenties', I've realised that neglecting my health is becoming less of a lifestyle quirk and more of a liability.

Our understanding of physical health has become increasingly sophisticated. And we've largely accepted that ageing well requires ongoing maintenance in this regard. That led me to another question. If my physical fitness deserves a level of attention, shouldn't my cognitive fitness deserve it too?

What happens when we outsource thinking?

Which brings me back to the conversation at the investment conference. AI may prove to be one of the most powerful thinking tools in human history. Refusing to use it entirely is about as practical as refusing to use the internet 20 years ago.

Every new tool that makes life easier also removes some of the mental load that previously accompanied the task. That isn't necessarily a problem, given humanity has spent thousands of years inventing ways to avoid unnecessary effort. I don't wash clothes by hand to preserve my laundry skills.

But what happens when intellectual labour becomes outsourced?

History offers a useful analogy. A [study](#) from 2006 on London taxi drivers found that those who spent years learning the complex street network had developed measurable structural changes in the hippocampus. This is a region of the brain involved in memory and decision-making.

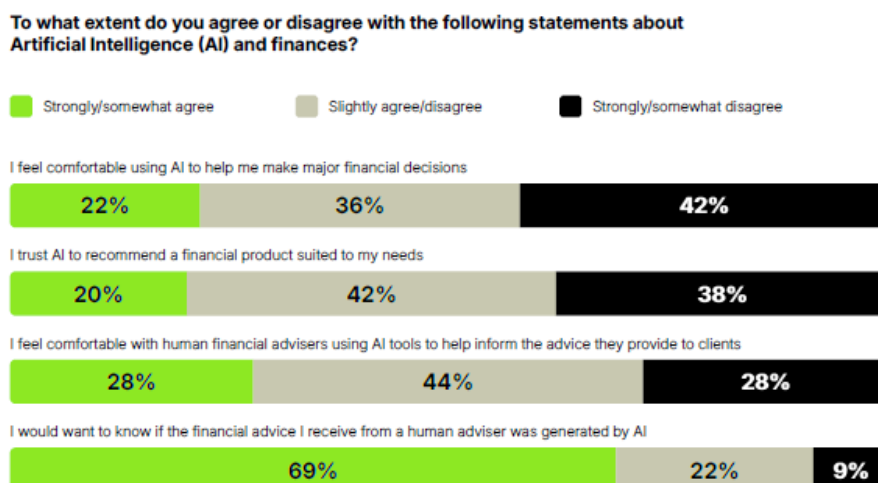
Later, the widespread adoption of GPS provided a contrast. As navigation was increasingly outsourced to technology, [researchers observed](#) declines in spatial memory among regular users. In other words, use it or lose it.

The risk for investors

Navigation and investment decisions are obviously very different tasks. Yet both illustrate the same principle. When technology consistently assumes responsibility for a cognitive function, we tend to exercise that function less ourselves.

More recent [findings](#) suggest an association between heavy AI reliance and weaker critical thinking, analytical reasoning and decision-making. This is largely because people begin outsourcing mental effort and accepting machine-generated answers with less scrutiny due to its perceived authority.

This perceived authority becomes concerning when we consider that [over 3 million Australians already use AI](#) to help manage aspects of their finances.



Source: Understanding Modern Australia. McCrindle. 2026.

Successful investing has always depended on questioning assumptions and exercising judgement. Unlike many disciplines, investing offers few objectively correct answers in the moment.

Investors are required to constantly operate under uncertainty, making judgement the scarce resource. This becomes problematic if AI becomes a substitute for thinking rather than a tool to enhance it.

I think the paradox is that the easier information becomes to access, the more valuable independent thinking becomes. The challenge is not whether to use AI, but how to ensure it supplements our abilities rather than replacing them entirely.

What can we do about it?

Many people assume that cognitive decline is an inevitable and largely uncontrollable feature of ageing. But researchers view the brain as remarkably adaptable in response to how it's used.

The Harvard University Medical School coined the term 'cognitive fitness'. That refers to the ability to learn, reason, remember and remain mentally engaged as we age. Importantly, the goal isn't to preserve the brain of a 30-year-old forever. It is to maintain the healthiest possible brain for whatever age you happen to be.

They propose a few tips to maintain your cognitive fitness. These were not developed with generative AI in mind, but they give us an interesting framework for maintaining the mental habits that AI increasingly encourages us to outsource.

1. **Understand how experience makes the brain grow.** Intellectual development doesn't stop in adulthood. Learning new skills, exposing yourself to unfamiliar situations and even observing others can physically strengthen and reshape neural pathways the same way exercise strengthens muscles. Whilst it's easy to fall into familiar routines, deliberately seeking new experiences continues to build mental capacity throughout life.
2. **Work hard at play.** The authors argue that adults often stop playing as they become older and more career-focused. But activities that involve experimentation, imagination, creativity and even a degree of risk continue to engage the brain. Intellectual growth always requires a balance between challenge and enjoyment.
3. **Search for patterns.** Cognitive fitness doesn't just involve learning new things. It's about building a sufficiently broad base of experiences so that you can recognise patterns others may miss. Intellectual curiosity helps the brain make better connections between seemingly unrelated pieces of information.

The cumulative effect of continuing to learn, adapt and engage with the world matters enormously. The age of AI has made cognitive fitness even more important. We don't need to compete with the machines, but rather maintain the skills required to use them wisely.

If we're prepared to spend decades building wealth so that we can enjoy later life, it seems sensible to devote at least some attention to maintaining the asset that will ultimately determine how much of that life we get to enjoy.

Simonelle Mody

Also in this week's edition...

Bond markets are adjusting to a new reality, but not in the ways most expect. **Eric Souders** believes [higher yields are creating opportunities in global bonds](#).

[Recession warning signs are flashing everywhere](#). **Shani Jayamanne** explains why investors face a different risk that can be just as dangerous for portfolios.

Meg Heffron is back to discuss how [a key Division 296 calculation](#) can sometimes attribute earnings in ways that many SMSF trustees won't expect.

Negative gearing changes formally begin in 2027, [but the first consequences may already be here](#). **Jade Xie** examines which investors are most vulnerable.

[The oil market is running out of easy answers](#). **Damien Klassen** argues why a more fragile reality is being masked.

Australians are investing more than ever, yet **Alex Zaika** shows [a surprising divide is emerging](#) between those building wealth effectively and those making costly mistakes.

Jim Bonham models how the 30% minimum CGT and a new definition of taxable capital gains [has created a complicated structure that is not progressive](#), especially for seniors.

Curated by Simonelle Mody and Leisa Bell

Higher yields are creating opportunities in global bonds

Eric Souders

The backdrop for global fixed income has changed meaningfully. Yields have moved higher as investors contend with persistent inflation, elevated government borrowing, and uncertainty around the path for interest rates. But that repricing has also created a more attractive starting point for bond investors.

Higher starting yields provide greater income and a larger cushion against further increases in rates, while a still-resilient global economy continues to create opportunities across credit markets.

A more attractive opportunity at the front end

In September, the Federal Reserve raised interest rates for the first time since 2023, increasing its target range by 25 basis points to 3.75-4.00%. The decision, alongside updated economic projections, reinforced a picture of an economy that remains resilient even as inflation continues to run above the Fed's target.

For investors, the question is no longer simply whether the Fed will hike. It is how much additional tightening is already reflected in bond prices.

Markets continue to price additional tightening over the coming months. That is broadly consistent with our expectations and, if anything, somewhat more tightening than we anticipate.

That creates what we believe is an increasingly attractive risk-reward proposition at the front end of the US yield curve. Two- to three-year Treasuries offer yields well above cash and three-month Treasury bills, providing a meaningful cushion against further increases in rates. Yields can rise further without necessarily producing a negative total return.

With considerable additional Fed tightening already reflected in market pricing, that creates an attractive asymmetry. Investors are being paid to wait and do not necessarily need rates to fall to generate positive returns.

The long end may behave differently

In previous cycles, investors often relied on long-duration government bonds as a natural hedge against a growth shock. We believe the starting point today is different.

The US is running a fiscal deficit of roughly 6% of GDP despite an economy that remains relatively strong, creating substantial ongoing Treasury financing needs. Against that backdrop, the long end may not provide the same degree of protection it has in previous cycles, when deficits and government borrowing needs were considerably smaller.

The front end, by contrast, may offer a cleaner hedge against weaker growth. A deterioration in the outlook would likely make the Fed less hawkish and could eventually cause it to reverse course, with changes in the expected path of monetary policy reflected most directly in shorter-term yields.

The AI investment boom is changing credit markets

At the same time, competition for capital is increasing.

Government borrowing requirements are already elevated, while the private sector is entering a more capital-intensive phase. The artificial-intelligence investment cycle is an important part of that story.

Until recently, much of the investment in AI infrastructure was financed through the substantial cash flows and equity valuations of the largest technology companies. As those financing needs are increasing, companies are incrementally turning to debt markets to fund that investment.

The hyperscalers have already become significant issuers of longer-dated investment-grade bonds, and we expect financing to broaden further across corporate bonds, loans and securitised credit.

This investment is supportive of economic growth, but for bond investors it also means the public and private sectors are increasingly competing for the same capital. Against an already-heavy backdrop of Treasury issuance, that competition could continue to put upward pressure on longer-term yields.

While we remain constructive on the economic benefits of the AI investment cycle, we are also conscious of the concentration of capital and investor attention around the theme. That makes diversification increasingly important. We continue to look beyond the direct beneficiaries of the US AI buildout for return drivers that may behave differently across a range of economic and market outcomes.

Where are the opportunities?

We remain constructive on credit, supported by resilient growth and generally healthy corporate fundamentals. With spreads relatively tight, however, we believe returns will increasingly depend on where investors take risk rather than simply adding broad credit exposure.

Commercial real estate has been a favoured area within securitised credit, where depressed valuations and an improving fundamental backdrop created attractive opportunities. Following a meaningful recovery and tightening in spreads, however, valuations are less compelling today and we have become more selective.

We continue to see opportunities in parts of the high-yield corporate bond and bank loan markets. The AI investment cycle is providing a meaningful impulse to the real economy through increased capital

expenditure, infrastructure development, and power demand. We believe those tailwinds should continue to benefit areas such as utilities and energy that are directly exposed to the buildout.

At the same time, we believe it is important to diversify beyond the direct US AI investment cycle. European corporate credit and emerging-market debt provide exposure to different economic drivers, industries, and policy regimes, broadening the sources of return within a global fixed income portfolio. With uncertainty around both economic and policy outcomes, that diversification can help build a more resilient portfolio across a range of scenarios.

The opportunity in today's bond market

Yields remain elevated, providing a strong starting point and a healthy cushion for bond investors. At the same time, credit spreads are relatively tight, meaning investors do not necessarily need to reach for risk to build an attractive and resilient portfolio.

In our view, today's environment allows investors to maintain a relatively high-quality, shorter-maturity portfolio while still earning attractive yields. Within US rates, we continue to favour the front end of the curve. Within credit, we remain invested but selective, combining exposure to areas benefiting from resilient US growth and the AI investment cycle with opportunities in European corporates, emerging-market debt, and other sectors that provide diversifying sources of return.

Rather than relying on a single economic outcome or investment theme, we believe that mix of exposures can create a more resilient portfolio across a range of outcomes.

The Fed may not be finished raising rates. But at today's yields, investors don't need it to be.

Eric Souders is a director and portfolio manager of the Payden Global Income Opportunities Fund at [Payden & Rygel](#), a specialist investment manager partner of GSFM Funds Management, a sponsor of Firstlinks. The information in this article is provided for informational purposes only. Any opinions expressed in this material reflect, as at the date of publication, the views of Payden & Rygel and should not be relied upon as the basis of your investment decisions.

For more articles and papers from GSFM and partners, [click here](#).

Are we in a recession?

Shani Jayamanne

Costco is not just a place where you can buy a 2kg cheese wheel and a three-person sauna in the same transaction. The retailer is also in the recession prediction business.

When customers started switching from more expensive beef to cheaper proteins, it was a sign household budgets were under pressure. Comments made by Costco's former chief financial officer Richard Galanti during a 2023 earnings call resurfaced this year. In 2023 Galanti noted that similar shifts had occurred around previous economic slowdowns. This trend is re-emerging as more consumers turn to poultry to meet tighter household budgets.

Every economic slowdown seems to produce a new recession indicator.

More traditionally minded economists point to inverted yield curves, rising unemployment or widening credit spreads. Their new age brethren turn to consumer trends. Some have loose connections to the economic climate and are household perceptions of conditions. Cheaper meat makes sense as households try to cut back on spending. Dips in restaurant bookings are consistent with discretionary income evaporating.

Other popular measures have much looser connections – shortening of women’s skirts, or the Lipstick Index which measures increases in cosmetic sales.

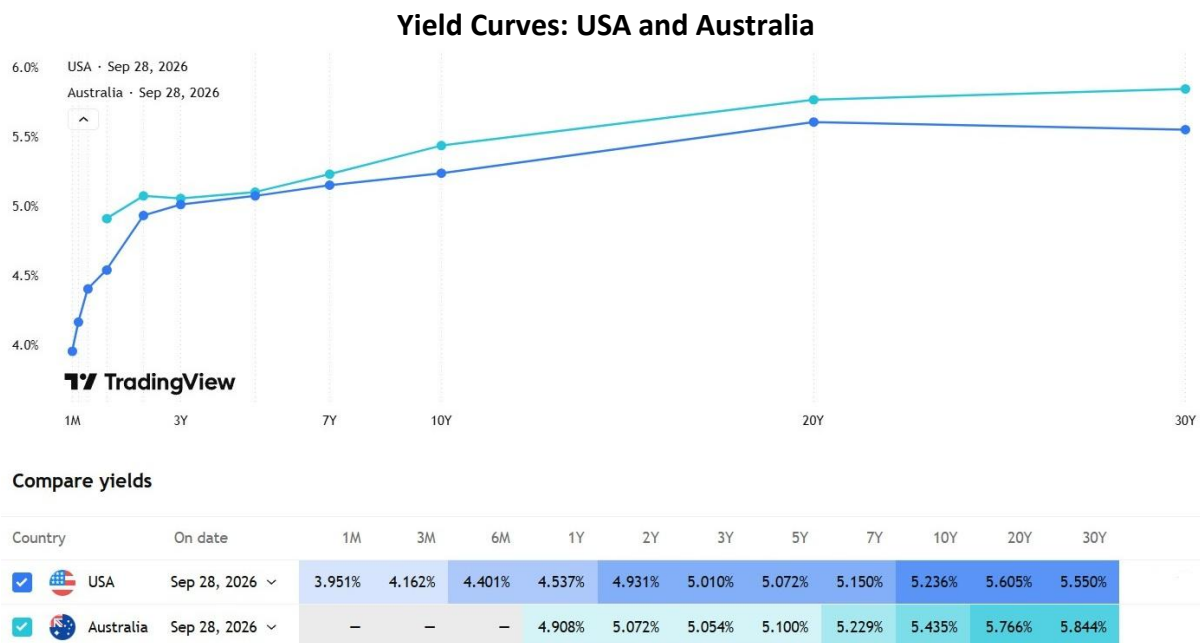
The Lipstick Index was popularised by Leonard Lauder, the former chairman of Estée Lauder, after he observed increased lipstick sales during periods of economic uncertainty. The underlying idea is not particularly complicated: when people cannot afford major luxuries, they may still want a small treat.

There is a temptation to treat every change in consumer behaviour as a warning that a recession is coming. It isn’t surprising that people worry about how a slower economic environment will impact our quality of life. It is natural to look for a signal one is coming.

General indicators of recession

Of the traditional indicators, the yield curve is one of the best known.

Normally, investors demand a higher interest rate to lend money for longer periods. When short-term interest rates rise above long-term rates, the yield curve becomes inverted. Historically, this has often preceded US recessions.



Source: [TradingView](https://tradingview.com). As of 28 September 2026

Currently neither the Australian nor US yield curve are inverted.

But the yield curve being the ‘right-way up’ doesn’t mean a recession won’t occur. Just as an inverted yield curve shouldn’t be treated as a recession countdown clock. It can invert well before an economic contraction and there are numerous instances when a recession didn’t follow.

Employment is another indicator. The Sahm Rule, developed by economist Claudia Sahm, looks for a 0.5 percentage-point increase in the three-month average unemployment rate relative to its low over the previous 12 months. It is designed to identify when a recession is already beginning rather than predict one in advance.

This is an important distinction as a country needs to experience two consecutive quarters of negative economic growth for a recession to be declared. You can be in a recession for six months before knowing it.

The Reserve Bank of Australia prefers to use a 0.75% trigger for Australia. The latest data shows the July three-month average for unemployment is 4.43%. The lowest unemployment rate over the preceding 12 months was 4.1%. Australia has not breached the Sahm rule by US or Australian standards.

If the lowest unemployment rate stays at 4.1%, the rate will have to reach 4.85% to trigger the Australian version of the Sahm Rule and be acknowledged by the RBA.

These indicators are useful for economists because they are connected directly to the mechanisms through which recessions occur. That is often a chain reaction – businesses stop hiring, consumers reduce spending, credit becomes more expensive and companies cut investment. This is a situation where the economy is weakening in ways that matter for corporate profits.

Australia is already showing some signs of pressure

There are legitimate reasons for Australian investors to pay attention to the economic outlook.

Consumer sentiment remains weak, while higher interest rates and elevated living costs have put pressure on household budgets. The Reserve Bank's August outlook expects Australian economic growth to slow during 2026, with higher inflation, tighter monetary policy and softer housing conditions weighing on activity. The central bank also expects unemployment to rise gradually as labour demand eases.

The labour market is also showing some signs of cooling. The unemployment rate rose to 4.5% in July, from 4.4% in June, while underemployment remained at 6.4%.

[Data from Owen Analytics](#) shows that the rate of company insolvencies is at its highest rate in 40 years. Using ASIC data, Owen estimates that insolvencies in recent years have been well above the low levels during the pandemic and that the 2024-2025 financial year was particularly high.

The ongoing Bathla crisis has some channeling Michael Burry – predicting this is the first domino to fall in an inevitable financial crisis. The dangers of an opaque private credit investment industry have divided investors and market commentators. Some believe Bathla is the start of rising credit issues while others see the double-digit income as attractive given stable credit conditions.

The Reserve Bank addressed the issue back in March. Its Financial Stability Review said company insolvencies had stabilised around their longer-run average as a share of operating companies. It added that there were elevated rates in industries such as hospitality and construction. The RBA also noted that many recent insolvencies involved small companies with limited bank debt, so there weren't broad-reaching implications for the economy. In other words, there are pockets of stress, but that is different from evidence of a broad financial system crisis.

These indicators have limitations for investors. They tell us something about what is happening in the economy - they do not tell us exactly what markets will do next or what we should do with our portfolios.

The danger of indicator shopping

Perhaps the biggest problem is indicator shopping. If investors look at enough data, they will eventually find something that looks worrying. A rise in insolvencies. A fall in consumer confidence. Weak restaurant bookings. A change in what people are buying at Costco. A yield curve signal. A labour-market rule. This can be a case of confirmation bias where an investor worried about the economy seeks out more signs that their thesis is correct.

We recently conducted a survey of Australian investors and their general sentiments towards the market. The most common answer was that they are feeling 'cautious'. That feeling isn't irrational. People experience the economy differently from the way it appears in a collection of national statistics. A household facing a large mortgage, higher insurance premiums, expensive groceries and rising fuel costs can feel that the economy is in trouble even if GDP is still growing.

This is one reason recession indicators can become so popular. Investors are trying to reconcile what the data says with what they are experiencing. We may not technically be in a recession, but many people feel like economic conditions have become significantly more difficult.

Sometimes even when several indicators are pointing in the same direction, it may be because many of these measures are related.

A weaker economy can simultaneously produce weaker consumer confidence, softer employment, lower spending and rising business failures. Counting each of these as an independent warning signal can make the evidence appear stronger than it actually is.

You don't need to predict the recession

The lesson isn't that investors should become better at predicting recessions and position their portfolios at the right time. It is that they should become better at building portfolios that are resilient in the face of economic slowdowns.

Lesson 1: Separate economic data from market predictions

A recession is an economic event. A bear market is a market event. They are often related, but they are not the same thing. Markets are forward looking. They can fall before a recession is officially recognised, and they can begin recovering while economic data still looks weak. An investor who waits for certainty about the economic outlook might find that markets have already moved on before they can re-position their portfolios.

Lesson 2: Understand and use economic data for the right decisions

A recession indicator is not a reason to sell. They can however help investors understand the environment in which companies are operating. Rising unemployment, falling demand and tighter financial conditions can affect corporate earnings, interest rates and valuations. This adds context to how companies and your portfolio are performing.

Ask the right questions.

Does your portfolio rely heavily on one economic outcome? Understand how diversified your portfolio really is and how it will behave in different market environments.

Do you have enough liquidity outside your investment portfolio? Consider your ability to self-insure through liquid assets to avoid selling at an inconvenient time.

Lesson 3: Be particularly careful with irreversible decisions

The danger of recession anxiety isn't simply that investors become more cautious. It is that they make large, difficult-to-reverse changes to their portfolios based on a forecast that may turn out to be wrong.

Moving from shares to cash can feel prudent when the headlines are frightening. The difficult part is knowing when to reverse the decision. Missing a recovery can have a lasting impact on long-term returns because an investor needs to make two correct decisions - when to get out and when to get back in. It is hard enough to get one of those decisions right.

Final thoughts

Recessions are a normal part of economic life. So are periods of inflation, changing interest rates, falling consumer confidence and disappointing corporate earnings. Resist the temptation to believe that somewhere, buried among all the data, there is an indicator that will tell you exactly when the next recession is coming so you can avoid the pain.

Many investors are currently on high alert and remain cautious about the environment. Your job is to look beyond what is currently happening to focus on your long-term goals. Don't let caution lead to irreversible decisions and instead build a system that can survive most economic environments.

Shani Jayamanne is Director, Investment Specialist, at Morningstar Australia.

Meg on SMSFs - Division 296 actuarial certificates

Meg Heffron

Never give an actuary a new certificate to talk about it. She will want to talk to you about it or worse, write an article about it.

But hear me out: Division 296 actuarial certificates will be interesting. They will drive how an SMSF's Division 296 earnings are divided between the various member accounts. In other words, they will play a significant role in calculating the tax bill.

The allocation is based on each account's average value during the year (compared to the fund as a whole). The method appears logical, and is actually more or less the same as the method used in actuarial certificates for pension funds. However, it can produce some unexpected results when an SMSF has large transactions, specific investment portfolios for different members or reserves. This article explains how the allocation works and why – sometimes – it won't feel right.

How will Division 296 actuarial certificates attribute earnings?

SMSFs with members subject to Division 296 tax will need to calculate their 'Division 296 earnings' at a fund level. This starts with the fund's taxable income but is adjusted for a host of things – adjusted capital gains amounts for funds that opt into some special relief, adding back income that is exempt from tax because the fund has pensions etc.

This income then needs to be notionally divided up between the members – so that the ATO can work out how much Division 296 tax each member should pay. This is where the new actuarial certificates come in.

The legislation provides a formula for actuaries to use here. The % of the SMSF's overall Division 296 earnings that is allocated to each 'interest' (member account) is broadly as follows:

$$\frac{\text{Average value of the member account}}{\text{Average value of all member accounts} + \text{Average value of pension reserves}}$$

The 'pension reserves' part is largely for funds that have (or used to have) defined benefit pensions. While most software systems show an 'account balance' for these pensions, technically they're not member accounts. Rather, they're reserves the trustee uses to pay the defined benefit pension.

(Note: SMSFs providing defined benefit pensions won't use this method to calculate the 'earnings' attributable to the defined benefit pension itself. They'll only use it for all the other member accounts. There's an entirely separate formula for earnings when it comes to defined benefit pensions.)

An example – the simplest case

Monica and Chandler both belong to the same SMSF and their super balances over the 2026/27 financial year are as follows:

	Monica (Pension)	Monica (Accumulation)	Chandler (Pension)	Chandler (Accumulation)	Total
1/07/2026	\$2,000,000	\$3,000,000	\$2,000,000	\$1,500,000	\$8,500,000
Pensions	-\$100,000	\$0	-\$100,000	\$0	-\$200,000
Earnings	\$240,000	\$360,000	\$240,000	\$180,000	\$1,020,000
30/06/2027	\$2,140,000	\$3,360,000	\$2,140,000	\$1,680,000	\$9,320,000

(The pensions are simple account-based pensions, not defined benefits)

The SMSF's actuary would work out the average value of each member account. In doing the calculations, the actuary would allow for the timing of events like pension payments and contributions. In this case, for example, let's say the pension payments weren't taken out until the end of the year. Just before her pension payment on 30 June, Monica's pension balance was \$2,240,000. The average value of Monica's pension would be something like:

$$0.5 \times (\$2,000,000 + \$2,240,000) = \$2,120,000$$

Once this calculation has been done for all the various member accounts in the fund, it's possible to translate it into a proportion or percentage as follows:

	Monica (Pension)	Monica (Accumulation)	Chandler (Pension)	Chandler (Accumulation)	Total
Average	\$2,120,000	\$3,180,000	\$2,120,000	\$1,590,000	\$9,010,000
%	23.53%	35.29%	23.53%	17.65%	100.00%

In this example, the amount of earnings taken into account for Monica's Division 296 tax would be:

$$58.82\% \text{ (ie, } 23.53\% + 35.29\%) \times \text{the whole fund's Division 296 earnings}$$

If the fund's Division 296 earnings overall amounted to (say) \$800,000 in 2026/27, the amount used to calculate Monica's Division 296 tax would be \$470,560.

Remember, of course, calculating Monica's actual tax bill has some more steps. We'd need to work out the proportion of her balance that is over \$3 million. In this example, it's 45.45% (her balance at the end of the year is \$5.5 million). Her actual tax bill would therefore be:

$$15\% \times 45.45\% \times \$470,560 = \$32,080.43$$

If the fund's Division 296 earnings was much higher, Monica's earnings (and tax bill) would also be higher.

When can Division 296 actuarial certificates produce unusual outcomes?

Large transactions for just one member

The example above 'feels' about right. Monica will be allocated around 60% of the fund's Division 296 earnings and Chandler will get the other 40%. That looks about right given her pension and accumulation balances (when added together) account for about that much of the fund's balance at the start and end of the year.

They've both belonged to the fund all year and so it feels 'fair' that any capital gains or other income should be split in that way.

But what if Chandler actually cashed out his super in full right at the end of the year? If it happened (say) on 30 June 2027 the average balance for each member wouldn't change much (the split between Monica and Chandler would still be around 60 / 40).

But making Chandler's benefit payment might have triggered a large capital gain – let's say that increased the fund's Division 296 earnings from \$800,000 to \$1.5 million.

Now, Monica's Division 296 tax bill is much bigger – it will be based on earnings of \$882,300 (58.82% x \$1,500,000) and will amount to:

$$15\% \times 45.45\% \times \$882,300 = \$60,150.80$$

So action taken by *Chandler* has impacted *Monica's* tax bill.

That will feel odd.

In fact, it would be even worse if Chandler withdrew his super right at the start of the year. In that case, the actuarial certificate would probably attribute close to 100% of the fund's Division 296 earnings to Monica. Including all of the capital gain realised to pay Chandler's benefit!

For most SMSFs, this won't be an issue very often. It's likely to emerge most commonly when someone dies as that's a time when large amounts are taken out of super, often for just one of the two members.

Separate member investment portfolios

The rules for these actuarial calculations specifically require actuaries to ignore anything like separate investment portfolios for particular members or member accounts.

Instead, every fund needs to be treated as a "pooled" SMSF for these calculations.

Imagine a scenario where:

- Two SMSF members (Harry and Ginny) have roughly equal balances but maintain entirely separate investment portfolios,
- Harry's assets have produced virtually no income during the year (perhaps they held a property which was not tenanted). Ginny's portfolio generated significant income and/or capital gains.

The actuarial certificate would likely provide that around 50% of the overall income would be attributed to each member. Harry would pay Division 296 tax on this income despite receiving absolutely no benefit from it.

Fortunately different investment portfolios are rare in SMSFs, particularly where the balances are very large. But it will be interesting to see if this change prompts those who have them to reconsider.

Non-pension reserves

The formula above specifically refers to pension reserves. Mathematically, this is important to make sure that earnings on these reserves don't fall into the other member(s) accounts.

For example, Rachel and Ross both belong to the same SMSF. Ross has a defined benefit pension and the account balance supporting that pension is \$3 million. Rachel has an accumulation account of \$5 million and there are no other member accounts in the fund. Let's say these are the same as the average balances over the financial year. The formula will mean the earnings attributed to Rachel for Division 296 tax will be:

\$5m (average value of Rachel's accumulation account)

\$5m (average value of all the member accounts) + \$3m (average value of the pension reserves)

i.e. 62.5%.

(Note: Ross's Division 296 earnings will be worked out completely differently, using a formula. It won't equal the remaining 37.5% of the fund's Division 296 earnings.)

But what if the reserves weren't pension reserves? Perhaps they were investment reserves leftover from a strategy carried out in the past? Or a reserve that used to be a pension reserve but has made allocations to members that caused it to stop being a pension reserve?

In that case, the formula above would be:

\$5m (average value of Rachel's accumulation account)

\$5m (average value of all the member accounts) + \$nil (average value of the pension reserves)

ie 100%.

In other words, all of the fund's Division 296 earnings would be attributed to Rachel even though 37.5% of the fund doesn't even belong to her – it's sitting in a reserve.

Final thoughts

Division 296 tax presents a host of new issues to consider for SMSF trustees. When deciding to sell particular assets, trustees often consider the CGT impact before making a change. Now, the consideration will need to extend to the Division 296 tax impact which means thinking about:

- Who will the earnings be attributed to?
- Do they have other super (which will increase the proportion of the capital gain subject to Division 296 tax)?
- Are there steps we could take first to reduce the impact?

Meg Heffron is the Managing Director of [Heffron SMSF Solutions](#), a sponsor of Firstlinks. This is general information only and it does not constitute any recommendation or advice. It does not consider any personal circumstances and is based on an understanding of relevant rules and legislation at the time of writing.

For more articles and papers from Heffron, [please click here](#).

The first impact of negative gearing reform is not the tax bill

Jade Xie

Australia's negative gearing reforms do not formally take effect until 1 July 2027, but many property investors are already feeling their first practical impact.

It is not showing up on a tax return. It is showing up in the bank's serviceability calculator.

Since the 12 May 2026 Federal Budget, lenders have changed the way some investment properties are treated when assessing borrowing capacity. That means an investor may encounter the reform well before lodging the first affected tax return simply because a bank is prepared to lend less today.

Property investing is moving away from a model where tax benefits help support the next purchase and towards one where cash flow, rental yield and borrowing capacity matter more.

Why investors are already being affected

From 1 July 2027, negative gearing on residential property will generally be limited to eligible new builds, while properties held before the Budget announcement are grandfathered. Investors who

acquire established dwellings after 12 May can still generally use losses against residential property income and residential capital gains and carry unused losses forward, but not against unrelated income such as salary.

That distinction matters because mortgage serviceability is forward-looking.

Historically, some lenders recognised the tax benefit of a negatively geared property when assessing disposable income.

If the property loss reduced an investor's personal tax bill, that benefit could help support the servicing calculation for additional debt.

For affected established properties bought after the Budget cut-off, that benefit is no longer generally recognised in the same way. The tax change may formally start in 2027, but the credit assessment has already changed.

How serviceability assessments are changing

Macquarie's public broker guidance provides a useful example. For contracts entered into after 12 May, negative gearing is included in serviceability only where the property qualifies as a new build that genuinely adds to housing supply. Eligible pre-Budget investments and certain refinances retain more favourable treatment.

This does not mean every rental-property deduction has disappeared from lender calculators. Interest and property expenses can still be assessed against rental income, subject to lender policy. The key issue is whether an investment loss can reduce tax on non-property income in a way that improves the borrower's assessed disposable income.

It also means the same borrower may receive a different serviceability result depending on what they buy. An eligible new dwelling, a grandfathered investment and an established property bought after the Budget cut-off may be treated differently even when the borrower's salary and personal debts are unchanged.

Who is most exposed?

There is no reliable rule that every investor will lose 8%, 10% or 12% of borrowing capacity.

Outcomes depend on income, debt levels, rental income, expenses and lender policy. The investors most exposed are likely to combine three characteristics: **high leverage, relatively low rental yields and a strong reliance on negative gearing benefits to support serviceability.**

A higher-income borrower can sometimes be particularly affected because the tax benefit of a property loss may previously have been more valuable at a higher marginal tax rate. By contrast, a lower-leverage investor with strong rental income may see a much smaller change, while a positively geared property does not depend on a tax loss to support household cash flow.

Buyers of qualifying new housing may also retain more favourable treatment.

The reform therefore does not divide investors simply into winners and losers. It makes the financing outcome more dependent on the property's cash flow and the borrower's balance sheet.

Three practical questions before the next purchase

For investors considering another property, I would focus on three questions.

1. Does the property work without relying on the tax refund?

Calculate the ongoing position using realistic rent, interest, rates, insurance, maintenance, management costs and other expenses. If the household can only afford the property because of an expected future tax benefit, the investment is more vulnerable to tax, lending or interest-rate changes.

2. What does the purchase do to future borrowing capacity?

A property that appears affordable today may materially reduce the borrower's ability to finance the next purchase. This is especially important for investors building a portfolio. The relevant question is not simply whether a lender will approve this loan, but what the balance sheet looks like after settlement.

3. Can the household carry the investment if rates rise again?

I would test the cash flow at mortgage rates another 0.25 to 0.50 percentage points higher. This is not a rate forecast; it is a resilience test. If a relatively small increase turns a manageable investment into a serious household cash-flow problem, the leverage may already be too aggressive.

Why cash flow and borrowing capacity now matter more

For many years, investors accepted low rental yields, borrowed heavily, relied on negative gearing to offset cash-flow shortfalls and counted on capital growth to fund the next purchase.

That model becomes harder to repeat when interest rates are high and lenders recognise less negative-gearing benefit when assessing the next loan.

Instead of asking primarily, "How much tax can I deduct?", investors increasingly need to ask, "How much debt can this property actually support?"

That shifts attention towards rental yield, interest costs, ongoing expenses and the amount of household income required to hold the property.

A property with strong rental income and moderate debt may remain resilient. A low-yield property purchased with maximum leverage is far more exposed, especially where cash flow depends on annual tax refunds.

Eligible new housing retains negative gearing advantages, but tax treatment alone does not make a property a good investment. Purchase price, quality, construction risk, supply and rental demand still matter.

The important point is that tax treatment is becoming only one part of the investment equation rather than the feature that makes the financing work.

A different kind of property-investment discipline

The reforms do not make established property unattractive, nor will they materially affect every investor.

What they do is change the discipline around leverage.

Grandfathered properties and qualifying new builds retain advantages, while investors with strong cash flow may see only modest effects.

That is why I believe the first impact of negative gearing reform is not the future tax bill. It is the way banks are already assessing the next loan.

For investors, the implication is straightforward: cash flow, rental yield and financeability now deserve at least as much attention as the tax deduction.

The reform may ultimately prove to be less about whether investors continue to buy property and more about which properties they can finance, how much leverage they can safely carry and whether the investment can stand on its own without tax-driven support.

Sources checked: Australian Treasury 2026-27 Budget tax changes; Treasury Laws Amendment (Tax Reform No. 1) Act 2026; Macquarie Broker Help Centre; APRA macroprudential policy settings.

[Jade Xie](#) is Managing Director of Easyhome Mortgage and has approximately 25 years of experience across finance, banking and credit in Australia and New Zealand. She is also an experienced property investor and financial commentator, with a particular interest in housing finance, household borrowing capacity, interest rates and property policy.

This article is general market information and financial commentary only. It is not tax, legal, credit, financial or property-investment advice. Lending policies, tax rules and individual borrowing outcomes vary according to borrower, property and lender circumstances.

The oil market is running out of easy answers

Damien Klassen

I have been struck by how difficult it has become to answer a seemingly simple question: how much oil is actually available to the global market? During a normal period, inventories, tanker movements and production figures give investors a reasonably clear picture of supply and demand. During an active geopolitical shock, however, those numbers become much harder to interpret.

The fog of war

That uncertainty is becoming the central feature of the current oil market. The question is no longer simply whether supply has been disrupted. It is how large the disruption really is, how long it will last, and how quickly consumers can adjust.

The disagreement between Goldman Sachs and JPMorgan illustrates the problem.

Goldman Sachs estimates visible global inventories at around 7.7 billion barrels, including landed storage, Chinese domestic stocks and strategic petroleum reserves. From this perspective, the global oil market has substantial buffers.

JPMorgan takes a considerably different approach. Its estimate of global inventory is closer to 6.8 billion barrels, but the more important difference is what it considers usable inventory.

Oil sitting in a pipeline cannot simply be removed without disrupting the pipeline itself. Oil aboard ships is technically inventory, but some of those barrels are already committed to voyages and cannot immediately reach a refinery. Strategic reserves may exist in large quantities but can take time to release.

So the headline inventory figure may overstate the amount of oil that can actually respond to a short-term supply shock.

The net effect: almost a billion barrels of oil inventory is not trivial. It is the difference between muddle-through and disaster.

Diesel could be the bigger problem

One area where the picture appears less ambiguous is diesel.

The disruption to exports and refining has pushed diesel prices to record levels in the United States and elevated levels elsewhere. That matters because diesel is not simply another petroleum product. It is deeply embedded in the global economy.

Trucks, ships, agricultural machinery and industrial equipment all rely heavily on diesel. That means a diesel shortage can spread through the economy even when there is not an outright shortage of crude oil.

The transmission mechanism is straightforward.

Higher diesel prices increase the cost of trucking and shipping. Higher freight costs increase the cost of moving commodities. Producers may receive less for their products after transport costs, while consumers may pay more for delivered goods. Industrial businesses also face higher operating costs.

The important point is that the global economy does not need to run out of crude oil for energy shortages to become inflationary. Refined products and transportation costs can do much of the damage themselves.

What is really happening through the Strait of Hormuz?

The Strait of Hormuz is another example of why headline data can be misleading.

It is tempting to look at the number of vessels crossing the Strait and conclude that oil flows are either functioning normally or have effectively stopped. But ships are not interchangeable. A handful of large tankers can transport more oil than a dozen smaller vessels.

The situation is further complicated by vessels switching off their transponders to reduce their visibility. Conventional shipping data therefore provide an incomplete picture. Satellite imagery can help fill the gaps, including by estimating how heavily loaded vessels are based on how low they sit in the water.

The current system is that producers can load vessels inside the affected region, move them outside the Strait and transfer the oil to another ship. The empty vessel can then return for another load. Governments and regional producers have a much stronger incentive to keep this system operating than ordinary commercial shipping companies because their revenues depend directly on exports.

As a result, the Strait is not simply open or closed.

The reported flows have varied dramatically, from days approaching the pre-war level of around 18 million barrels per day to days closer to 3-4 million. A more useful recent indicative range is around 8-10 million barrels per day, with flows appearing to increase over several weeks.

That volatility matters. Even if the average flow is manageable, large day-to-day fluctuations force inventories to absorb the difference.

Pipelines add another layer of uncertainty

Pipeline attacks create another variable. If damaged pipelines can be repaired quickly, their impact may ultimately be limited. If they remain offline, however, they remove an alternative route for moving oil and make disruptions to tanker traffic more consequential.

But we just don't know which it is.

Politics matters because supply is not the only variable

The Middle East is only part of the story. China, Iran, Russia and Ukraine all have their own economic and political incentives, and the approaching US midterm elections add another layer to the uncertainty.

China initially reduced purchases and drew on domestic supplies, apparently helping keep prices lower than they might otherwise have been. Now, renewed buying is putting upward pressure on prices, and China may see strategic value in higher oil prices putting pressure on Trump.

Iran also has incentives to preserve leverage while the US political timetable develops. Can Iran help usher in a US 'regime change'? Higher oil prices until the mid-terms is their best bet.

Meanwhile, Ukraine has continued targeting Russian refineries and oil infrastructure. The direct crude-oil loss from Russian attacks may be around 1 million barrels per day, but the impact on refined products could be considerably larger, potentially around 2-2.5 million barrels per day.

Net effect: expect volatility in the run up to the US elections.

How large could the actual shortage become?

Global oil consumption is roughly 100-105 million barrels per day. Before the conflict, supply may have exceeded demand by around 3-5 million barrels per day. Higher prices have already reduced demand, helping absorb some of the initial disruption.

The range of possible outcomes is therefore unusually wide.

A more favourable scenario produces a shortage of around 3-4 million barrels per day. A more severe Middle Eastern disruption could remove 8-10 million barrels per day, while an extreme combination of disruptions across the Middle East and Russia could approach 15 million barrels per day.

The market has two broad ways to deal with that gap: draw down inventories or push prices high enough to destroy demand.

The first few percentage points of demand reduction are relatively easy. A 10-20% increase in prices would probably remove another 5 million barrels per day of consumption relatively quickly. But the adjustment becomes exponentially more painful from there.

That makes the [relationship between oil prices and demand nonlinear](#). Each additional reduction in consumption may require a substantially larger price increase and cause progressively more economic damage.

Two very different paths from here

The bearish scenario for the global economy is a prolonged physical shortage.

Path 1: Another forever war

Middle Eastern infrastructure remains impaired, attacks on Russian energy infrastructure continue, and inventory buffers gradually run down. At that point, the market would need genuine demand destruction rather than simply relying on stored oil.

Under this scenario, prices could potentially need to reach [\\$150-200 a barrel](#) to force a sufficiently large reduction in consumption.

Path 2

If political conditions improve, several sources of supply could return at the same time.

A reopening of the Strait, repaired infrastructure, reduced attacks and additional production elsewhere could create a very different problem: too much oil.

If supply returns, it might still find a world [rapidly moving off oil](#) to reduce geopolitical risk.

This creates an unusual asymmetry. A prolonged disruption could drive prices dramatically higher, but a sudden political settlement could produce an equally rapid reversal.

What does this mean for investors?

From my perspective, the biggest mistake would be to become overly confident in either extreme.

There are reasonable arguments that the oil market has enough buffers to absorb a significant disruption. There are also reasonable arguments that much of those buffers are not immediately accessible, leaving the physical market considerably tighter than headline inventory numbers suggest.

For portfolios, that argues for resilience rather than a bet on one specific outcome.

I would also pay particular attention to diesel rather than crude oil alone. Refined-product shortages can remain severe even when crude supply appears manageable, and those shortages can feed into freight, industrial costs and broader inflation.

Expect heightened volatility until at least the US election. The outcome of that will determine the next direction for oil.

Damien Klassen is the Chief Investment Officer at [Nucleus Wealth](#). This article is general information and does not consider the circumstances of any investor.

The state of investor knowledge in Australia

Alex Zaika

What is an investor?

It's a simple question, and one that's becoming increasingly important as more Australians take control of their financial futures.

Thanks to compulsory superannuation, almost every working-age Australian is an investor. Millions of us hold diversified portfolios through our super funds, often without knowing where our money is invested or how it is being managed. Countless surveys have shown that when it comes to super, we're disengaged.

Outside of superannuation, though, investing becomes a far more personal experience. Decisions feel more immediate, risks more visible, and navigating markets, asset classes and investment terminology can be challenging.

For this study, we define a 'current investor' as an Australian adult who holds one or more investments outside of their home and superannuation. This includes those who own an investment property but no other assets. 'Prospective investors' are defined as not currently having money invested but have plans to invest in the next six months.

The inaugural [GXIQ Investor Scorecard 2026](#) explores how we as a nation invest, what we know, and how that knowledge shapes our behaviour. Based on a survey of over 2,000 Australians, the findings show that as investment knowledge increases, investors are more likely to build diversified portfolios, look beyond familiar assets and make decisions with greater confidence.

At Global X, we believe better information and education can help Australians become more confident investors. The inclusion of the GXIQ Index in this report provides a benchmark of investor knowledge and contributes to a broader conversation about Australia's investment future.

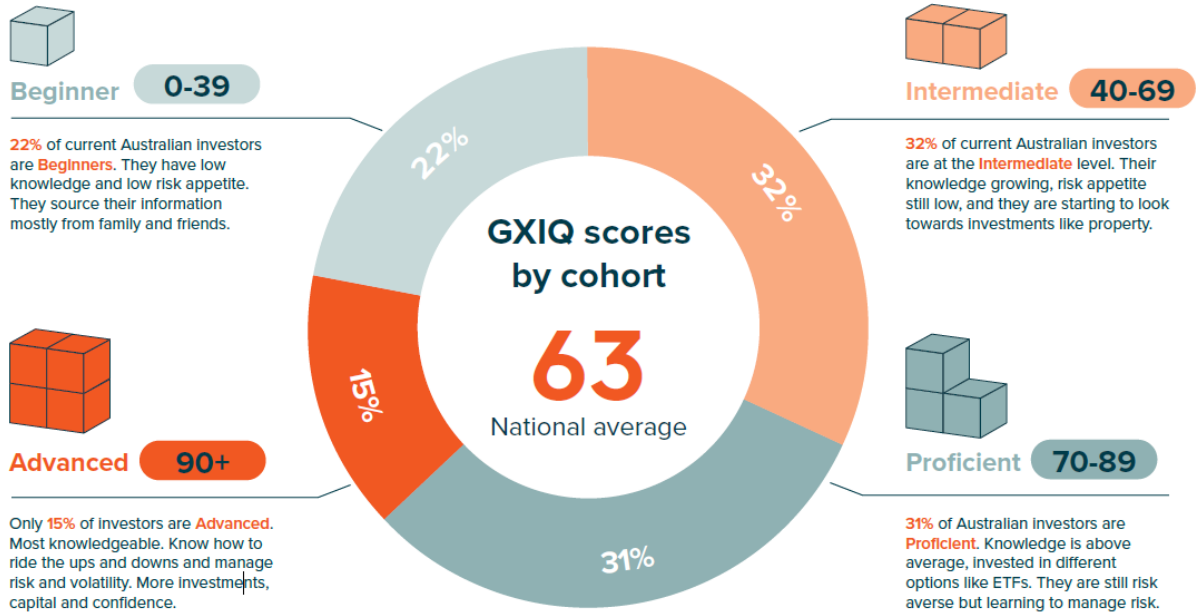
What is GXIQ?

The Global X Investor Quotient (GXIQ) is a national benchmark of investor knowledge. It provides a simple way to measure and compare how well Australians understand investing.

Every participant completes the same 15-question investment knowledge assessment, covering core concepts such as diversification, compound interest, risk, tax and investing fundamentals. Responses are combined into a score from 0 to 100, creating an individual GXIQ score. Based on their GXIQ score, investors fall into one of four groups.

Four investor knowledge segments based on an individual's GXIQ score out of 100		
0-39	Beginner	Limited investment knowledge
40-69	Intermediate	Developing understanding and confidence as an investor
70-89	Proficient	Strong knowledge across a broad range of investing concepts
90+	Advanced	Demonstrates a comprehensive understanding of investing concepts

The four GXIQ levels



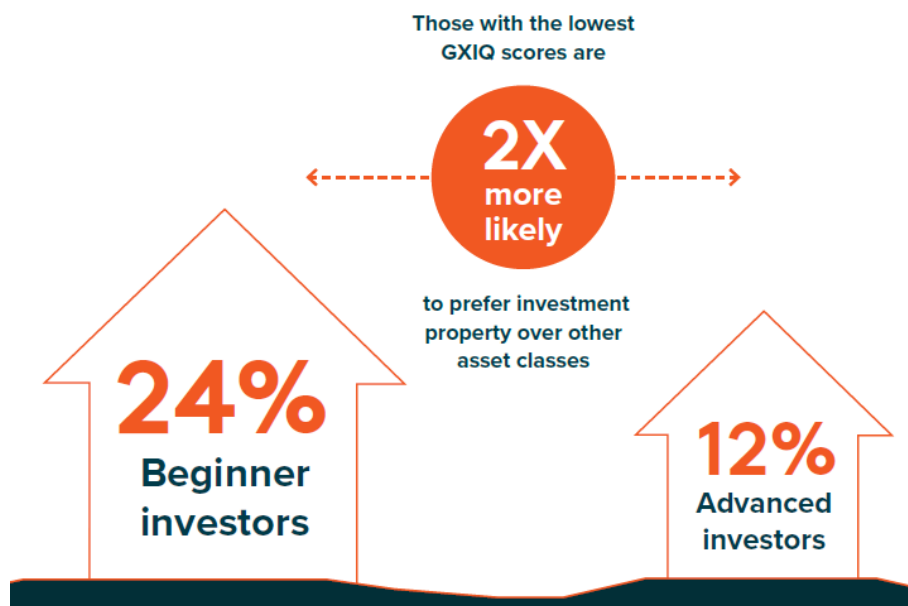
Five trends reshaping Australia's investment landscape

1. Property is the preference among the least knowledgeable investors

Property remains Australia's first investment language, but confidence in home ownership is falling. As affordability declines, Australians are beginning to reconsider how they will build wealth.

For now, investment property is one of the most popular assets for the average Australian. The research found that it is the preferred choice for Beginner and Intermediate investors.

However, for Proficient and Advanced investors, the preference shifts to Australian shares, additional superannuation contributions and ETFs.



2. 1 in 3 Prospective investors don't understand the Federal Government's CGT changes

Policy uncertainty is influencing investment decisions but not encouraging Australians to invest. Instead, many prospective investors are delaying investment altogether.

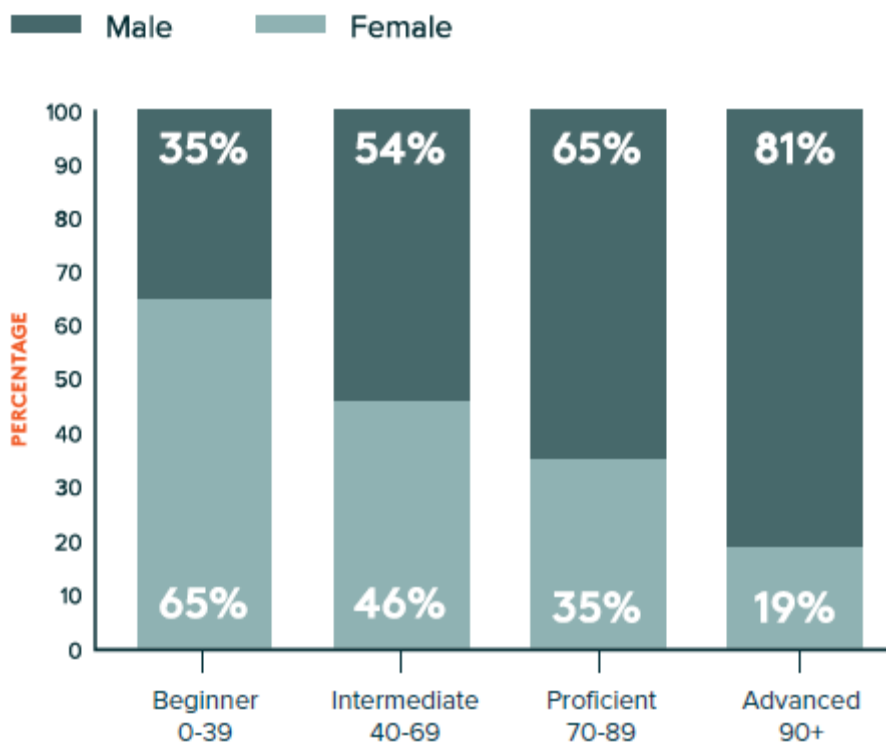
The negative gearing and capital gains tax (CGT) changes suggest prospective investors are less likely to invest in property, but no more likely to invest in shares or ETFs.

Confusion around the policy changes only adds to the uncertainty for Prospective investors. When asked why they haven't started investing, lack of knowledge rivalled not having enough money as the primary reason. However, for women and those aged 18 to 34, lack of knowledge is the primary reason.

3. Australia has a gender knowledge gap to close

Two in three (65%) of beginner investors with lower investment knowledge are women, and relatively few progress to the highest levels of investment knowledge. The opportunity lies in helping more women to learn and broaden their investment knowledge.

The next generation of investors could be dominated by women if this gender progression gap can be addressed.



Global X Portfolio Manager, Jessica Leung adds:

"For many women, the biggest barrier isn't a lack of interest, it's simply not knowing where to start. Historically, financial markets and conversations around wealth have been spaces where women have been underrepresented. Add to that an industry full of jargon, and investing can easily feel like something you need to be an expert in before you can participate. But that's also what makes this such an exciting opportunity. Investment knowledge is learnable. You don't need a finance degree or to know everything before you start."

4. AI has taken over super funds as a source of investment information

Australia's younger, knowledgeable investors are building wealth differently, favouring diversified portfolios and looking beyond residential property as the cornerstone of long-term investing.

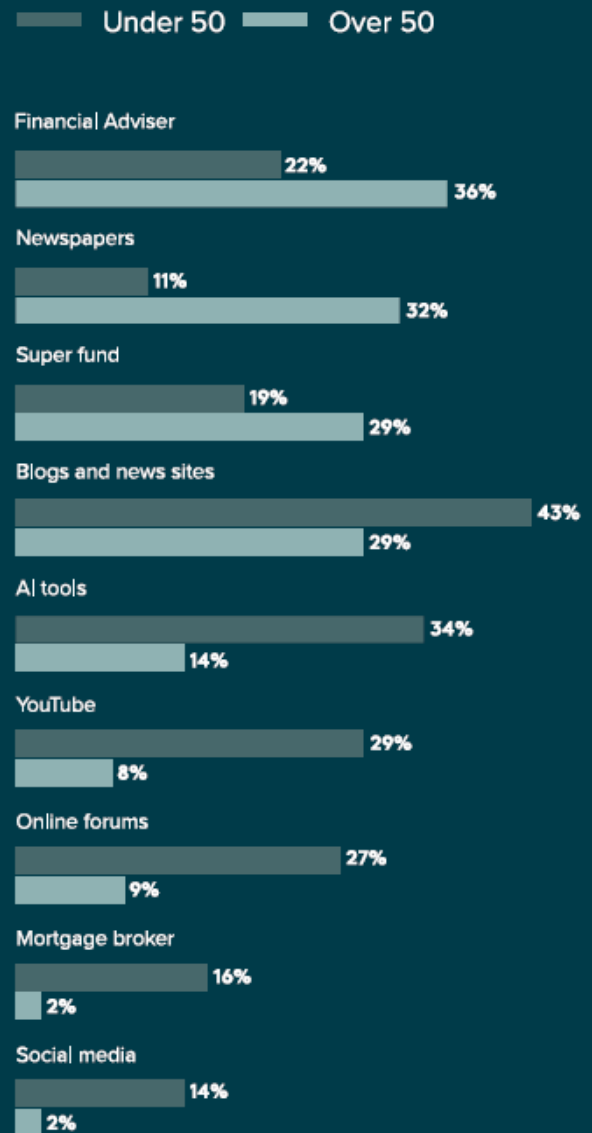
ETFs have overtaken property as the preferred investment for younger, knowledgeable investors.

Investors are also using information sources differently based on their age. Advanced investors under 50 are relying more on online and free sources (e.g., AI tools, forums, YouTube) rather than traditional advice.

5. Investment risk could be misunderstood by many Australians

Investor knowledge plays a powerful role in shaping behaviour. Beginner investors are almost three times more likely than advanced investors to describe themselves as low risk (52% versus 18%), and more than five times as likely to invest without any strategy (34% versus 6%). By contrast, advanced investors are far more likely to diversify across asset classes and regions and are twice as likely to focus on low-cost investments. The data suggests that as knowledge grows, investors become more strategic, diversified and confident in managing risk.

Advanced Investors Top Advice Sources



	Beginner	Advanced
Diversify across different types of assets	22%	64%
Diversify across different countries or regions	8%	32%
Focus on low-cost investments	12%	24%
Don't follow any strategy	34%	6%

Global X Senior ETF Strategist, Marc Jocum, adds:

"Australians have long preferred to invest in what they know. Whether it's the family home, local shares, or household-name companies, familiarity often feels safer than venturing into unfamiliar investments. Our research suggests many self-described conservative investors hold concentrated portfolios, exposing themselves to significant risks if a single company, sector or asset class underperforms. In this sense, being too risk-averse can become a risk in itself. Getting risk controls

right is critical. Taking too little risk can be just as damaging to long-term wealth creation as taking too much.”

Australia’s investment landscape is changing

The future of wealth creation won’t be determined by what Australians invest in, but by how much they understand investing. Australia is moving beyond a property-only mindset, with investment knowledge one of the strongest predictors of better investment behaviour.

Women represent the next wave of investor growth. We know that Australian women are eager to invest. But they are being held back by complex government policy and a lack of confidence.

Anyone can increase their knowledge of investing. Start the journey today and discover your own GXIQ with our [free 15-question quiz](#). The full report is [available here](#).

Alex Zaika is CEO of [Global X ETFs Australia](#), a sponsor of Firstlinks.

Issued by Global X Management (AUS) Limited (‘Global X’) (AFSL 466778, ACN 150 433 828). This is general information only and not personal advice. This communication doesn’t consider your personal circumstances or needs. Investors should consider whether these products are appropriate for them, obtain financial advice and read the product disclosure statement (PDS), prospectus (as applicable) and target market determination (TMD) before making investment decisions. All PDSs, prospectuses and TMDs are available on [our website](#). Investment in any products are subject to risks, including possible delays in repayment and loss of income and principal invested. Past performance is not a reliable indicator of future performance.

Complexity and capital gains

Jim Bonham

Capital gains tax (CGT) has been a hot topic since the 2026 budget, but the discussion of high-profile issues has tended to neglect taxpayers at the lower end of the scale.

Their situation is characterised by a complicated tax structure that can produce highly non-progressive outcomes, especially for seniors. A progressive tax structure, which many people mistakenly think we have, charges lower rates at the lower end of the income scale to ease the burden on those least able to afford it.

Adding to this complexity is a new definition of taxable capital gains and also the misleadingly named ‘30% minimum CGT’, which defines a new calculation mechanism for CGT under some circumstances, justified by the income you might have earned in years or decades past: *“This reduces the benefit to taxpayers of deferring realisation to years in which their marginal rates are low”* (Explanatory Memorandum page 10).

I have assembled a cast of characters to show how a complicated system has been made even more so, leading to the deeper problem of complexity itself. Cherry picked? Sure, but the fact that cherries are there for the picking *is the issue*. Finally, we’ll look at a simple fix.

Just a few technical words first: these stories are set in a parallel universe where the new rules have been in place long enough to capture any capital gains mentioned; the tax parameters are as per 2026-27, plus the 30% minimum CGT where relevant. All characters are single.

All cases include the Low-Income Tax Offset (LITO), the Medicare Levy and, where relevant, the Seniors and Pensioners Tax Offset (SAPTO).

The 30% minimum CGT is applied before the levy and offsets, which means that the true CGT rate may actually be above or below 30%, or even zero. Age pensioners and some others are exempt, as a half-hearted attempt to protect low-income taxpayers: *“Certain income support recipients will be exempt from the minimum tax to ensure that low-income, low wealth individuals are not adversely affected”* (Explanatory Memorandum page 10).

Case studies

Let’s meet the cast:

Sophie is a 75-year-old homeowner, living on \$46,000 of gross dividends from a \$900,000 share portfolio held outside super. She only trades shares occasionally, to fine tune her portfolio and maintain its ability to at least keep up with inflation.

Mark has a taxable income of \$38,000, including a part age pension. He has a few shares he might sell, or maybe that small block of land in the bush.

Rob is too young at 65 for the age pension. His taxable income is \$28,000, which includes some dividends from shares held outside super. He also has some tax-free money from super, so he’s not starving but he’s not rich either. Like Sophie, he only trades shares occasionally.

Larry has the same taxable income as Rob. He does not get the age pension, but he does get SAPTO, being a few years older than Rob. Not sure what he’s contemplating selling, but it doesn’t matter here.

Sally is a full-time student living with her parents. She has no job, receives no government assistance and has no significant assets other than four paintings inherited from her grandmother. Checking with a valuer and an accountant revealed that each of those paintings would create a \$5,000 real gain if sold. She contemplates selling one or more of the paintings and investing the proceeds or perhaps buying a car – her first foray into the world of adult finance.

Realising a gain

Table 1 shows how each of our cast would be affected if they sold enough assets to realise taxable capital gains of either \$5,000 or \$20,000.

Table 1: CGT for \$5,000 or \$20,000 gains						
					CGT Rate	
	Other taxable income	Retired	Gov't support	SAPTO	Gain \$5,000	Gain \$20,000
Sophie	\$46,000	Yes	No	Yes	54.0%	42.2%
Mark	\$38,000	Yes	Yes	Yes	32.5%	43.2%
Rob	\$28,000	Maybe	No	No	40.0%	36.9%
Larry	\$28,000	Maybe	No	Yes	0.8%	34.1%
Sally	\$0	No	No	No	16.0%	26.5%

There's a huge variation within this small data set.

Sophie, on less than half the average wage, and close to qualifying for a part age pension, pays an astonishing 54% CGT on small gains!

This is made up of 30% basic marginal rate, plus 1.5% LITO fade-out (every extra dollar of taxable gain reduces LITO by 1.5 cents, thus increasing the marginal tax rate by 1.5%), plus 12.5% SAPTO fade-out, plus 10% Medicare levy fade-in.

That high CGT rate's not new; it's been the case for years. But it's become more important with the new definition of taxable capital gains.

Mark, with slightly less income than Sophie, but a part age pension, pays 32.5% on small gains. What about the exemption from the 30% minimum CGT for pensioners? He wonders if he's been conned, but it's there, buried in the calculations. Without it, he would pay 47.5%, slightly more than anyone on an income over \$190,000.

Rob pays 40% CGT on small gains, which is a serious blow to someone on his level of income (even with the money he gets from super).

Larry is happy with small gains, where he pays virtually no CGT because SAPTO and LITO overwhelm the depredation of the 30% minimum CGT. With larger gains, though, he ends up in much the same position as Rob.

Sally faces an especially harsh outcome. If she sells just one painting, the resulting tax liability is \$800. If she sells the lot, she pays not $4 \times \$800 = \$3,200$, but \$5,300 in tax. Sally was not born when her grandmother bought the paintings, thus setting the cost base, and she has never had any taxable income. She has fallen foul of the 30% minimum CGT rate, with no protection from the exemption (which would have reduced her CGT to zero, even if she sold all four paintings).

Mark, Larry and Sally pay a higher rate on the higher gain, but that reverses for Sophie and Rob. These inconsistent outcomes are a consequence of the non-progressive tax structure.

The graphical presentation in Figures 1 and 2 gives a better appreciation of how the positions of the various characters relate to each other, and where they sit with regard to other combinations of income and other parameters.

The blue lines indicate that the taxpayer is entitled to SAPTO (qualifies for the age pension, except possibly the means tests). The grey lines indicate no SAPTO.

The dashed lines in each case indicate that the 30% minimum CGT has not been applied, implying the taxpayer receives the age pension or other government assistance. They also apply to the way things were before the budget. The 30% minimum has no effect if other income exceeds \$45,000.

Fig 1: CGT on a \$5,000 gain
New rules; all cases include LITO

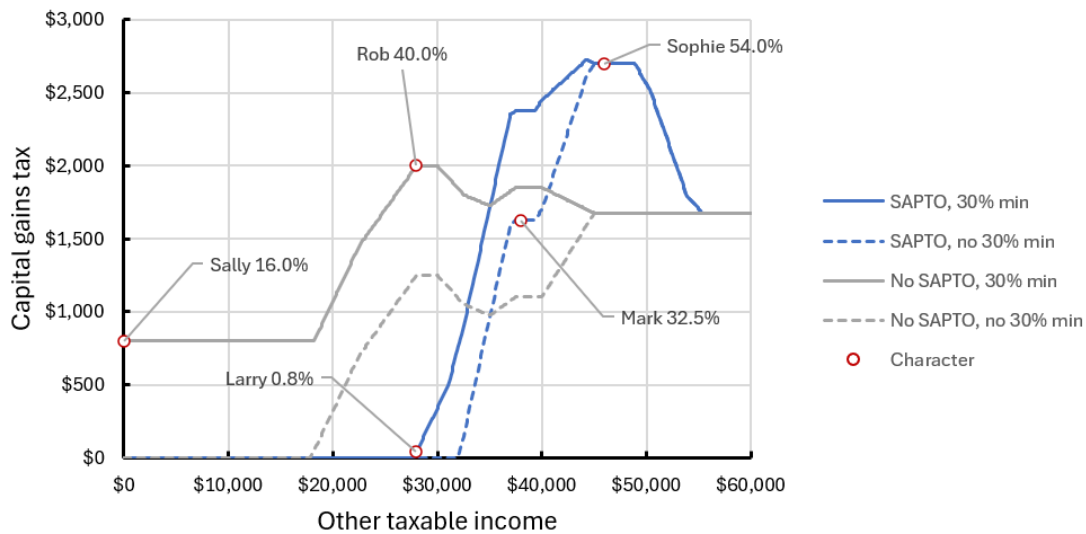
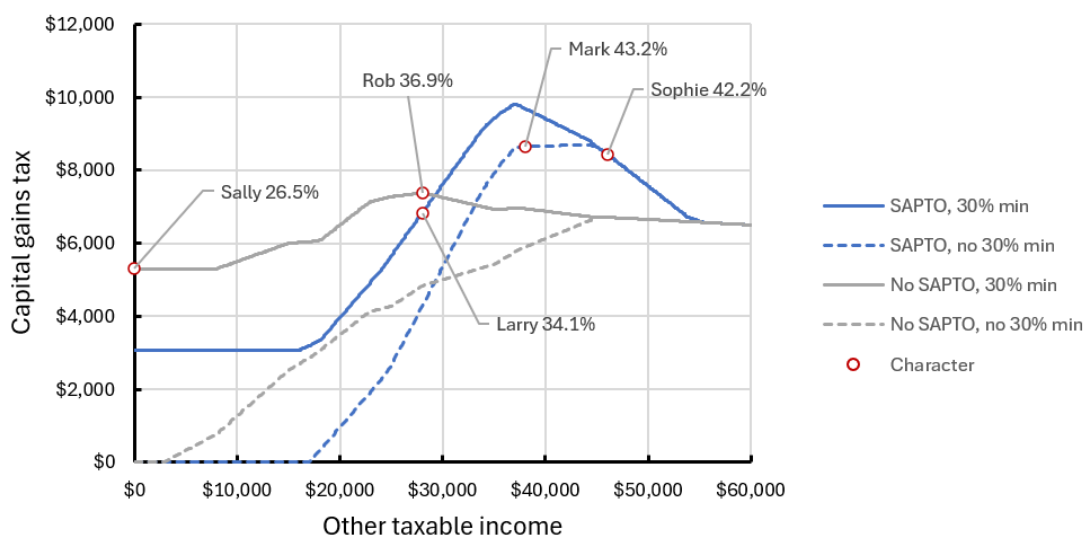


Fig 2: CGT on a \$20,000 gain
New rules; all cases include LITO



Capital gains are different

“Should be taxed the same as other income” is a common call. Ironically, the 30% minimum CGT is deaf to it. For relatively low-income investors, the new rules tax capital gains much more than other income.

But there is a deeper issue, best illustrated by Sophie: CGT sabotages her investment strategy by introducing a cost and, since her trading is entirely discretionary, it may scare her away from that strategy to the government’s cost in the long term, as well as her own.

Complexity is the deeper issue

Complexity itself has many unsavoury aspects:

- Every additional parameter gives governments another button to press in pursuit of particular political or policy outcomes.

- Complexity creates opportunities for both misunderstanding and manipulation.
- Governments tend to trip over their own feet by adding further rules to address unintended consequences, thereby exacerbating complexity.
- In extreme cases, the combination of complexity and administrative zeal can produce serious policy failures, of which RoboDebt is a prominent example. AI increases the risk.

What to do?

Nothing fundamental will change until there is recognition that complexity itself is a problem, and that the system design should aim for straightforward and comprehensible outcomes. That would be a hallmark of genuine tax reform.

This does not mean ignoring the needs of special cases, just that care must be taken to ensure that secondary consequences don't ruin the basic benefit. Ample opportunity needs to be provided for public feedback, which the government should take seriously.

In that spirit, here is a straightforward model to show how the system can be simplified, so as to create a progressive structure for both total income and CGT.

(It's not a polished solution, which would also look at issues such as the optimal CGT rate and interaction with the age pension, which has its own dysfunctional complexities.)

- Abandon the 30% minimum CGT for reasons already stated.
- Abandon the fade-outs and fade-in of LITO, SAPTO and the Medicare Levy. They are the root cause of the excessively complex non-progressive tax structure.
- Retain the fundamental aspect of LITO and SAPTO, which is to increase the tax-free threshold from \$18,200 to about \$23,000 and then to \$37,000 respectively.
- Add 2% to the 30%, 37% and 45% basic marginal rates and project the 32% rate for SAPTO recipients back to \$37,000.

Table 2: Model tax rates			
LITO but no SAPTO		LITO and SAPTO	
Threshold	Marginal rate	Threshold	Marginal rate
\$23,000	20%	\$37,000	32%
\$45,000	32%	\$135,000	39%
\$135,000	39%	\$190,000	47%
\$190,000	47%		

This is far simpler than what has been legislated from the 2026 budget. It is progressive and easy to understand, and there is little change in the total tax paid by most individuals, except where the 30% minimum CGT is significant. The 54% peak for seniors is gone, and the low-income end of the graph is simplified in both cases.

Compare Figures 3 and 4 with the solid curves in Figure 1 (noting that \$5,000 is a big enough gain to cause some broadening of the curves).

We need not accept such an impenetrably complex system.

Fig 3: Current marginal tax rate versus model
with SAPTO, no 30% min

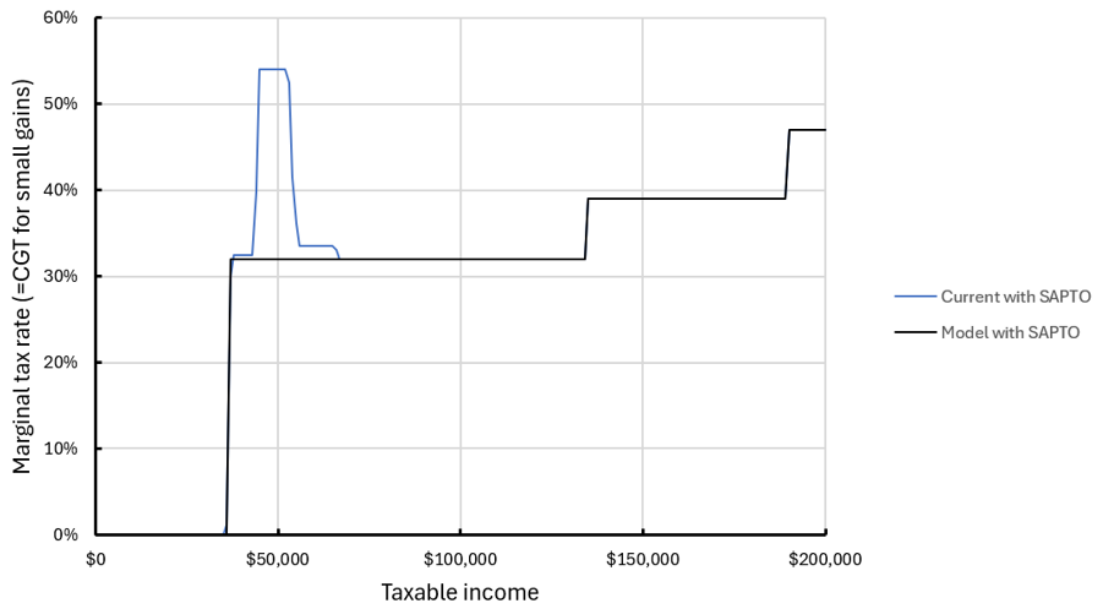
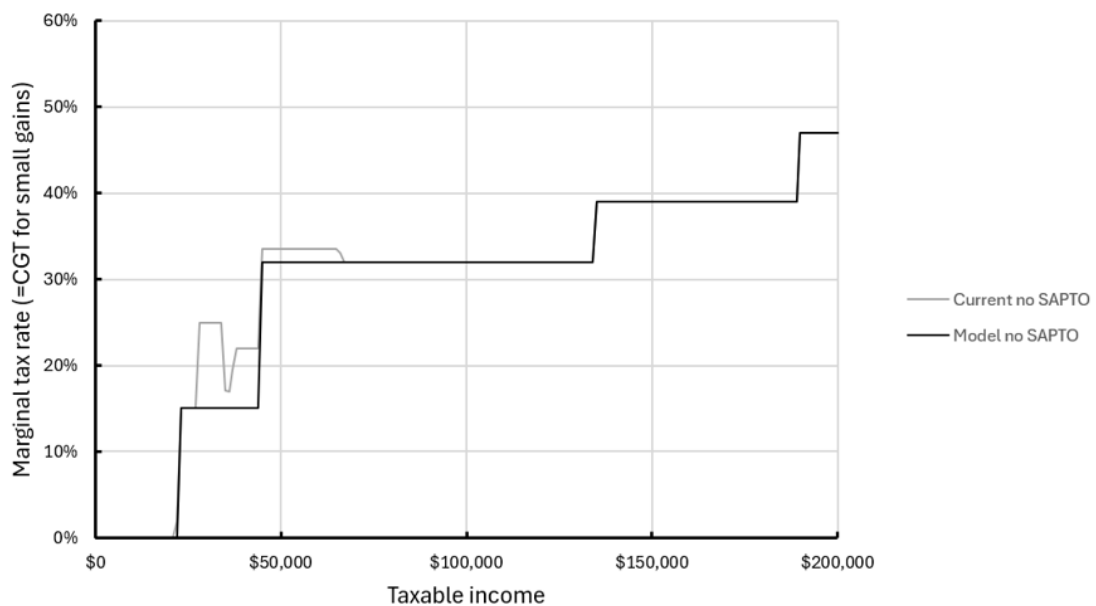


Fig 4: Marginal tax rate versus model
with no SAPTO, no 30% min



Jim Bonham PhD has been a self-funded retiree for 21 years, following 25 years in the paper industry, managing product and process R&D. For 7 years before that he was an academic researcher and physical chemistry lecturer. This article expresses opinions on tax policy based on experience and analysis. Nothing in it should be construed as advice.

Disclaimer

This message is from Morningstar Australasia Pty Ltd, ABN 95 090 665 544, AFSL 240892, Level 3, International Tower 1, 100 Barangaroo Avenue, Barangaroo NSW 2000, Australia.

Any general advice has been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) without reference to your financial objectives, situation or needs. For more information refer to our Financial Services Guide at www.morningstar.com.au/s/fsq.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Past performance does not necessarily indicate a financial product's future performance.

For complete details of this Disclaimer, see www.firstlinks.com.au/terms-and-conditions. All readers of this Newsletter are subject to these Terms and Conditions.