

YOUR KNOWLEDGE



This month we focus on several significant developments affecting employers, investors, business owners and SMSF trustees.

While the Federal Budget was only handed down in May, the Government has already announced some changes to key proposals and we take a look at the latest developments. We highlight the commencement of Payday Super from 1 July 2026 and what employers need to do now to ensure they comply with more frequent superannuation payment obligations. We also examine the ATO’s increased scrutiny of personal services income arrangements and the practical steps business owners can take to reduce the risk of anti-avoidance rules applying. We explore the sharp rise in complaints to the Tax Ombudsman, including important developments around tax debt interest and penalty remission. Finally, we provide a practical checklist for SMSF trustees as a new financial year begins.

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Updates to Budget Measures and New Developments

Since the Federal Treasurer handed down the 2026-27 Federal Budget on 12 May 2026 there has been a significant amount of commentary on some of the more controversial proposals, including the decision to replace the CGT

discount with an indexation system and impose a 30% minimum tax rate on discretionary trusts.

Since our latest update in this area, the Government has announced some changes to these proposals, as well as some other areas of the tax system that weren't initially impacted by the Budget.

CGT Changes

On Budget night the Treasurer announced that the existing 50% CGT discount for individuals and trusts would be replaced with an indexation system and a 30% minimum tax rate on capital gains accruing from 1 July 2027 (with limited exceptions).

However, the Government has announced that it plans to introduce a new *Innovative Business CGT Concession* that would provide a 50% CGT discount to early-stage investors, including founders and employee share scheme participants in innovative start-up businesses. A consultation paper has been released on the design of this concession.

In addition, the Government is taking steps to increase the annual turnover threshold that applies in determining whether a small business or its owner can access the existing 50% "active asset reduction" under the small business CGT concessions, from \$2m to \$10m. This change would apply from 1 July 2027.

The existing \$2m turnover threshold would remain in place for the other three small business CGT concessions, being the 15 year exemption, retirement exemption and small business rollover relief. Taxpayers who can't pass the turnover test can still access the concessions if they can pass a \$6m net asset value test.

Testamentary Trusts

In the Budget the Government announced that a 30% minimum rate of tax would apply to the net taxable income of discretionary trusts from 1 July 2028. The Government had indicated that

this would apply to testamentary trusts, unless they already existed at 12 May 2026.

However, the Government has announced that it will now exempt income from all testamentary trusts from the new minimum tax rate rules, as long as they are established for "genuine testamentary purposes".

The exclusion from the rules will be limited to income from assets of the relevant deceased estate. For discretionary testamentary trusts established on or after 1 July 2028, the exclusion will only apply to trusts that can only benefit individuals and income tax exempt entities.

SMSF Borrowing Arrangements

As a result of negotiations with the Greens in connection with the changes to the CGT discount and negative gearing, the Government has agreed to remove the ability for SMSFs to borrow to purchase residential property (SMSF borrowing is commonly known as a limited recourse borrowing arrangement).

It seems that existing arrangements will be grandfathered.

We will keep you updated as more developments occur. However, please don't hesitate to contact us if you want to discuss how these changes impact on your position.

Payday Super Has Arrived – What Employers Need to Know

One of the most significant changes to the Australian superannuation system in decades

has now commenced. From 1 July 2026, Payday Super requires employers to ensure super contributions reach employee super funds within seven business days of each payday. For many businesses, this represents a major shift from a quarterly payment cycle to a more frequent, real-time obligation.

While the Government is aiming to get super into employee accounts faster and help close the national super gap, the new system introduces new compliance, cash flow and administrative considerations for employers. Businesses that have prepared well should find the transition manageable, but those still relying on quarterly processes need to act quickly to avoid significant problems.

What Exactly Has Changed?

Under the previous rules, employers generally had until 28 days after the end of each quarter to make super contributions. Under Payday Super, the clock now starts on each “Qualifying Earnings” (QE) day — essentially your payday for salary, wages, commissions, bonuses and certain contractor payments.

Key Requirements

- Contributions must be received and allocated to the employee’s fund within 7 business days of payday (there are limited exceptions to this).
- Shortfalls are now calculated per QE day rather than quarterly.
- The ATO’s Small Business Superannuation Clearing House has closed, meaning businesses previously using the service must now use a SuperStream-compliant alternative.

Penalties are also tougher. The administrative uplift can reach 60% of the shortfall (with reductions available for early voluntary disclosure), although the Superannuation Guarantee Charge itself is deductible in more circumstances.

The ATO’s first-year compliance approach (PCG 2026/1) adopts a risk-based view, with businesses that make genuine efforts to comply and promptly rectify mistakes generally treated as lower risk. However, if an employee reports a problem to the ATO then don’t expect the ATO to ignore this.

Managing the June – July Changeover

There is a technical quirk in the rules which could catch out unsuspecting employers, especially when it comes to SG contributions made across the month of July 2026.

If a business has paid employees during the June 2026 quarter then the SG deadline for this quarter would normally be 28 July 2026. However, many employers have decided to pay the SG amount for the June quarter before this deadline to reduce the risk of accidentally triggering a SGC problem.

This is because any SG contributions made from 1 July 2026 will reduce the super owing for the June quarter first, before any remaining amount is used to meet Payday Super obligations relating to pay runs that occur in July.

The best way to manage this situation to avoid SGC liabilities really depends on the dates of any July pay runs. Please contact us if you need help identifying any potential problems or to help come up with a practical solution.

Three Practical Steps to Take Now

- 1. Review Your Systems:** Confirm that your payroll software, clearing house and internal processes are operating correctly under the new rules. If you have not already done so, review pay codes and contribution workflows to ensure QEs are correctly identified.
- 2. Monitor Cash Flow and Processes:** Assess the impact of more frequent super payments on cash flow. Review approval processes, onboarding

procedures and the handling of bonuses or out-of-cycle payments.

3. Strengthen Controls and

Communication: Ensure payroll and finance teams understand the new requirements and have appropriate controls in place. Ongoing monitoring and periodic reviews will help identify issues before they become compliance problems.

The interdependencies between payroll systems, clearing houses and super funds mean small oversights can quickly create larger compliance issues. Businesses that continue to monitor and refine their processes will be best placed to meet their obligations.

At Circle Advisory Partners, we are helping clients navigate the practical implications of Payday Super through readiness reviews, payroll process assessments and cash flow planning. Our goal is to help businesses remain compliant while building stronger and more efficient systems.

If you would like to discuss how Payday Super affects your business, contact your Circle Advisory Partner adviser. We can help identify any remaining gaps and ensure your systems and processes continue to operate effectively under the new system.

ATO Cracks Down on Personal Services Income Arrangements: Is Your Business at Risk?

The ATO is sharpening its focus on how taxpayers generating income from personal services deal with that income for tax purposes. In a recent [Spotlight bulletin](#), Small Business Assistant Commissioner Tony Poulakis highlighted the release of Practical Compliance Guideline PCG 2025/5.

This guideline clarifies the ATO's compliance approach to the "alienation" of personal services income (PSI) — essentially, arrangements which involve routing income earned through your personal skills and efforts via a company or trust, rather than receiving it directly.

Why the ATO Is Interested

Many business owners operate through a company or trust rather than earning income personally. In many cases this is entirely legitimate and provides commercial benefits such as asset protection, flexibility and succession planning.

However, where income is generated primarily from the efforts, skills or reputation of one individual, the ATO is concerned about arrangements that divert income away from that individual in order to reduce tax.

Even where a business is able to pass certain tests to be classified as a Personal Services Business (PSB) under the tax rules and falls outside the strict PSI attribution rules, the ATO

has made it clear that general anti-avoidance provisions in Part IVA can apply if the arrangement is primarily tax-driven. If Part IVA applies then this can lead to higher tax liabilities as well as significant penalties and interest charges.

What Does the ATO Consider Low Risk?

The ATO's guidance focuses heavily on whether the individual generating the income receives an appropriate share of the profits.

Generally, an arrangement is more likely to be considered low risk where:

- The individual who performs the work receives most of the economic benefit through salary, wages, bonuses, director fees or trust distributions.
- Profits retained in a company are kept for genuine and short-term business reasons.
- Family members or associates are only paid reasonable amounts for genuine work performed.

For example, retaining profits in a company to fund the purchase of new equipment in the short-term could be viewed favourably if there is evidence supporting those plans and the company actually follows through with these plans.

What Will Attract ATO Attention?

The ATO has specifically identified a number of higher-risk behaviours, including:

- Splitting income with family members who have made little or no contribution to earning that income.
- Retaining substantial profits in a company without a genuine short-term commercial purpose.
- Directing profits generating from someone's personal services to entities or beneficiaries primarily because they are taxed at lower rates or because they have tax losses.

The ATO's expectations in this area are very strict. The greater the mismatch between who performed the work and who is ultimately taxed on the profits from that work, the greater the likelihood of ATO scrutiny.

A Limited Opportunity to Review Existing Arrangements

The ATO has provided a transition period for taxpayers who genuinely review and adjust their arrangements.

Businesses that take genuine steps to move from higher-risk arrangements to lower-risk arrangements by 30 June 2027 are unlikely to face Part IVA action in relation to those arrangements if reviewed by the ATO.

This is not an amnesty, but it is an opportunity for business owners to proactively assess their position and make changes where necessary.

What Should Business Owners Do?

Now is an ideal time to review how profits are being distributed within your structure.

Questions worth considering include:

- Are retained profits supported by documented short-term commercial reasons?
- Are payments to family members commercially justifiable?
- Would your arrangements withstand ATO scrutiny if reviewed?

If you operate through a company or trust and derive income largely from your personal skills or efforts, it is important to review existing arrangements in light of the ATO's updated guidance. A proactive review today may prevent costly issues tomorrow.

Tax Ombudsman Sees 127% Surge in Complaints: What It Means for You

The Tax Ombudsman has reported a dramatic 127% increase in complaints about the ATO this financial year (to 30 April 2026), with nearly 3,000 complaints received in the first ten months. Debt collection, penalties, and tax debt interest charges have dominated the issues raised.

Tax Ombudsman Ruth Owen has linked the sharp rise directly to the ATO's intensified focus on recovering outstanding debts amid tighter economic conditions. Many SME owners and individuals are feeling the pressure from cash flow challenges, rising costs, and stricter ATO enforcement.

Why Complaints are Rising

Debt collection accounted for around 23% of complaints, followed by payment-related issues (16%) and penalties plus interest (15%). Common concerns include:

- Refund offsets against debts
- Director Penalty Notices
- Challenges in setting up or maintaining payment plans
- The rapid accumulation of General Interest Charge (GIC) on overdue amounts

This surge reflects real-world pressures: businesses navigating post-pandemic recovery, higher interest rates, and increased ATO activity to close the tax gap. For many clients, these

issues create significant stress and can distract from core operations.

Practical wins: Relief is Possible

The good news? The Ombudsman's office is proving effective as an independent escalation point. Around 31% of complaints relating to penalties and interest resulted in some form of debt reduction or remission.

This highlights that persistence and proper representation can sometimes deliver favourable outcomes when initial ATO decisions feel overly harsh or inconsistent.

Important Developments on GIC Remission

A key theme in the complaints data is the GIC – the daily interest applied to unpaid tax debts. In March 2026, the Tax Ombudsman released a major review titled [In the Interest of Fairness](#), which examined the ATO's handling of GIC remission requests.

The review identified inconsistent decision-making, unclear guidance, and communication gaps that left many taxpayers confused about their options. It made several recommendations, including clearer upfront interest-free payment plans for compliant taxpayers.

The ATO's response has been positive. It accepted all recommendations and has already begun implementing improvements, such as:

- Enhanced website guidance with practical examples
- New, more user-friendly remission application forms
- A \$2,500 cap on phone approvals with a dedicated review team for larger requests to improve consistency
- Better support frameworks for vulnerable taxpayers

These changes should hopefully make the process fairer and more predictable going

forward, but sometimes best intentions don't translate into practical reality so we will have to wait and see how this plays out.

What this Means for You

1. **Act early on tax debts:** Don't wait for the ATO to contact you. If you're facing cash flow pressure, engage proactively before penalties and GIC escalate. Early action often leads to better terms.
2. **Keep detailed records:** Strong supporting documentation is crucial when seeking remission of penalties or interest. Demonstrate why the delay occurred (eg, unexpected revenue drop, illness, or system issues) and what steps you've taken to rectify it.
3. **Use professional representation:** Tax agents can liaise directly with the ATO on your behalf, prepare strong submissions, and escalate to the Tax Ombudsman where appropriate. This often leads to faster and more commercially practical outcomes than dealing with the matter alone.

While the ATO must collect revenue fairly, the Ombudsman plays a vital role in ensuring processes remain reasonable and transparent. With economic headwinds continuing, understanding your rights and options has never been more important.

If you're concerned about a tax debt, penalty notice, or GIC charge, contact our team promptly. Early intervention can significantly reduce costs and protect your business or personal finances.

For more information, visit the Tax Ombudsman's complaints snapshots and reports: [Complaints snapshots - Tax Ombudsman](#)

Get Ready for 2026–27: Practical Steps SMSF Trustees Must Take Now

With the start of the 2026–27 financial year, SMSF trustees should take a proactive approach to ensure funds remain compliant and well positioned. Below is a concise checklist of the key legislative changes, compliance deadlines and practical steps trustees should prioritise.

1. Review Transfer Balance Cap and Pension Planning

- **Indexation of the general TBC:** From 1 July 2026 the general transfer balance cap (TBC) increases from \$2.0 million to \$2.1 million. Members should check whether their personal transfer balance cap is eligible for indexation, particularly if they started a pension before the latest indexation dates.

The ATO will calculate a member's entitlement to indexation of their personal TBC, however, this will be based on reported transfer balance account (TBA) events (eg, commencement or commutation of a pension). It's important that all TBA events up to 30 June 2026 have been reported to the ATO to ensure an accurate calculation of TBC indexation entitlement.

- **Legacy pensions:** The five-year legacy pension exit measure (7 Dec 2024 – 6 Dec 2029) remains available. Where clients hold legacy lifetime, life

expectancy or market-linked pensions, confirm deed powers and consider the interaction with Division 296 and commutation rules before acting.

2. Update Contribution Strategies and Caps

- **Higher caps for 2026–27:** The concessional contributions cap rises to \$32,500 and the standard non-concessional cap becomes \$130,000. However, the non-concessional cap is subject the member's 30 June 2026 total superannuation balance (TSB) being less than \$2.1 million. Review your planned contributions to avoid cap breaches.
- **Bring-forward and TSB thresholds:** Check each member's TSB at 30 June 2026 prior to applying bring-forward rules in 2026-27. Thresholds and allowable bring-forward periods changed for 2026–27. The increase to the standard non-concessional cap means the maximum bring forward cap has increased from \$360,000 to \$390,000. However, if the bring-forward rule was triggered in 2024-25 or 2025-26, the member does not get the benefit of the increase.

3. Pension Minimums, TRIS and ECPI Risks

- **Minimum pension percentages:** Check minimum pension percentages for age groups and ensure pensions meet the standards to avoid breaches and potential loss of fund tax exempt income.

For a transition to retirement (TTR) pension, in addition to making at least the minimum pension payment, make sure you don't exceed the 10% maximum. Also, if turning 65 in 2026-27, a TTR pension automatically moves into retirement phase and has TBC consequences. Speak to your adviser

about implications and options well before your 65th birthday.

- **Commutations and starting pensions:** Follow correct commencement and commutation procedures; incorrect handling can trigger multiple events and adverse tax outcomes. Report all TBA events to the ATO by the due date.

4. Review Related Party Loans and Update Interest Rate

- The ATO document PCG 2016/5 sets out many of the terms and conditions a related party loan should have, including the interest rate. These are commonly referred to as the 'safe harbour provisions'.

Each year, the interest rate of the loan should be reviewed and updated in line with the relevant rate determined in May immediately before the commence of the financial year. The rate for the 2025-26 year was 8.95% for property and 10.95% for listed securities.

As a result of increases in the RBA's cash rate over the last 12 months there has been an increase to the safe harbour interest rates to 9.35% and 11.35% for property and listed securities respectively. The repayments of any related party loans that are complying with the safe harbour provisions will need to be adjusted to reflect these new rates.

5. Check Compliance for Payroll and Contributions (SuperStream 3.0 / Payday Super)

- **NPP readiness:** From 1 July 2026 funds and employers must be capable of receiving contributions via the New Payments Platform (NPP). Ensure the SMSF bank account can accept Osko/PayID and other NPP payments.

- **Member Verification Requests (MVRs):** Employers will use MVRs to confirm whether a fund can accept a contribution. SMSFs receiving employer contributions should be prepared to respond to MVRs promptly (within required timeframes). Generally, SuperStream messages will be received in the SMSF administration platform that is used by the SMSF's accountant or administrator. Members should inform their SMSF accountant or administrator if their employer will be sending a message via the MVR to confirm whether their SMSF can accept the contribution.
- **Closely held employees:** If your SMSF has related employees, confirm whether SuperStream exemptions apply and ensure payroll systems are updated as late lodgements may result in penalties. Remember the ATO can remove fund details from the SMSF lookup database if tax returns are overdue. This could impact on a fund's ability to receive employer contributions.
- **Deed powers and trustee structure:** For SMSFs with individual trustees, consider whether a corporate trustee is a potentially better option. Talk to your adviser about these potential benefits and the process to change. Ensure that any changes to the trustee structure is reported to the relevant authority within the required timeframe (eg, the ATO, ASIC).
- **Document everything:** Keep clear records of trustee decisions, valuations used for elections, contribution timing evidence and communications with employers — documentation is key for the annual audit and if the ATO queries an event.

Preparing now will reduce 2026-27 year-end stress and help avoid costly compliance issues. Speak to us if you have any questions or wish to discuss any of the issues raised above.

6. Consider the Division 296 Transitional Rules and Tax Traps

- **2026–27 transitional year treatment:** The 2026–27 year has specific transitional rules for Division 296 where the relevant TSB is measured at 30 June 2027. Trustees should assess whether electing to set a Div 296 cost base to 30 June 2026 market values is appropriate. This election does not need to be made until the lodgement of the 2027 SMSF Annual Return (tax return), and if made, applies to all assets and has consequences for capital losses and later adjustments. Seek tailored advice before electing.

7. Practical Housekeeping