client alert | explanatory memorandum

May 2026

CURRENCY:

This issue of **Client Alert** takes into account developments up to and including 27 April 2026.

Keeping you informed about the Federal Budget

The Federal Budget is expected to be handed down on Tuesday 12 May.

The Client Alert team will, as usual, work to bring you a special Budget Extra edition that outlines the key announcements to assist you in dealing with your clients' queries. You can expect to receive it by the morning of Wednesday 13 May, after the Treasurer hands down the Budget to Parliament on Tuesday evening.

Will the proposed $1,000 instant tax deduction benefit you?

The Federal Government has released draft legislation for a proposed new $1,000 "instant" tax deduction for work-related expenses. The measure is intended to simplify tax time for individuals with relatively modest work-related expense claims, particularly those who may not have strong record-keeping habits.

For tax professionals, the proposal is worth watching. It's simple in headline form, but there are important details around eligibility, interaction with existing work-related deductions, substantiation, depreciation, low-value pools and fringe benefits tax integrity rules.

At this stage, the measure is not law. It's contained in exposure draft legislation, with public consultation closing on 1 May 2026. If the proposal were enacted in its current form, the income tax changes would apply from the 2026–2027 income year, meaning they would not affect clients' 2025–2026 tax returns.

The proposal would introduce a standard deduction of up to $1,000 for work-related expenses for individuals who are Australian tax residents and deriving "assessable labour income"; broadly salary, wages or similar employment-related income.

The deduction would be capped at the lesser of $1,000 and the individual's total assessable labour income for the year. This means that if a taxpayer earns less than $1,000 in relevant employment-type income, the standard deduction would be limited to that lower amount.

The policy aims to reduce compliance costs and simplify tax returns for employees and similar workers who otherwise need to itemise and substantiate relatively small work-related claims. Under the current rules, taxpayers can generally claim work-related deductions, but must keep appropriate records, subject to limited substantiation concessions such as the familiar $300 no-receipt threshold for certain work-related expenses.

The proposed standard deduction would effectively replace several small substantiation concessions. The exposure draft material indicates that the current $300 no-receipt threshold and the $150 laundry expense substantiation concession would be repealed as part of the package.

Not a $1,000 tax refund

One of the most important client communication points is that the proposed measure is a deduction, not a refundable offset or cash payment.

Of course, a $1,000 deduction reduces taxable income, and the actual tax saving depends on the taxpayer's marginal tax rate and whether they have tax payable. At higher marginal rates, the dollar benefit is larger, but still well below $1,000.

The government has estimated that about 6.2 million workers, or around 42% of taxpayers, could benefit in the 2026–2027 income year, with an average saving of about $205. For taxpayers on higher marginal rates, the saving could be more significant. For example, at a 45% marginal rate, a $1,000 deduction could reduce tax by up to $450, or around $470 including the Medicare levy.

However, many higher-income taxpayers are also more likely to already claim more than $1,000 in work-related expenses, meaning the standard deduction may not be useful to them.

Who's most likely to benefit?

From a practice perspective, the measure may be useful for clients with simple employment income and modest expenses, particularly where the cost of gathering and reviewing substantiation is disproportionate to the deduction being claimed.

However, it should not be assumed that the standard deduction is always better. For many clients, particularly those with occupation-specific expenses, vehicle use, tools, home office expenses or professional costs, actual deductible expenses may exceed $1,000.

Clients with more than $1,000 in work-related expenses

The proposal preserves the ability for taxpayers with genuine work-related expenses exceeding $1,000 to continue claiming actual deductions under the existing itemised approach, provided they meet the normal requirements.

Crucially, then, if a client's total covered work-related expense deductions exceed $1,000, they would not receive an additional $1,000 deduction on top. Instead, they would generally continue to claim their actual deductible expenses.

The exposure draft material explains that the standard deduction would be reduced dollar-for-dollar by certain work-related deductions claimed. If the covered deductions exceed the $1,000 maximum, the taxpayer would receive no standard deduction and would instead claim the actual work-related expenses incurred.

This means there is no double benefit. The standard deduction is designed as an alternative simplification mechanism for smaller claims, not a bonus deduction for all employees.

The ATO's taxation statistics for 2022–2023 show that the average work-related expense claim was $2,739, and the median was $1,338. On those figures, many taxpayers already claim more than the proposed $1,000 threshold and may not be financially better off under the standard deduction.

What expenses would be covered?

The standard deduction would cover a range of work-related expense deductions connected with producing assessable labour income, including:

- general deductions for losses or outgoings incurred in gaining or producing assessable labour income;
- car expenses connected with earning assessable labour income;
- transport expenses for travel between workplaces;
- deductions for decline in value of depreciating assets used to produce assessable labour income;
- balancing adjustment deductions for relevant depreciating assets;
- repairs to premises or depreciating assets used in producing assessable labour income; and
- deductions for COVID-19 tests.

So, this may include items such as work-from-home costs, stationery, tools, computers, uniforms, protective clothing, work-related subscriptions, travel between workplaces and other ordinary employment-related costs.

Importantly, the taxpayer would not need to incur or substantiate work-related expenses to receive the standard deduction, provided they otherwise meet the eligibility requirements and the law is enacted in the proposed form.

Deductions still claimable separately

The exposure draft materials describe categories of deductions that would remain separate from the standard deduction. These could potentially be claimed in addition to the standard deduction, if otherwise deductible.Examples include:

- charitable donations;
- costs of managing tax affairs;
- investment-related deductions, such as deductions connected with interest income;

- income protection, personal sickness and accident insurance premiums; and
- union, trade, business or professional association membership fees.

This distinction will be important in tax return preparation. Some clients may assume the $1,000 standard deduction replaces all personal deductions. Based on the exposure draft materials, that is not the intended operation. The measure is directed at work-related expenses connected with assessable labour income, not every deduction an individual may claim.

Low-value pools and depreciation

A less publicised but important part of the proposal concerns depreciating assets and low-value pools.

Under current rules, taxpayers may be able to immediately deduct work-related assets costing $300 or less, if the relevant conditions are met. Assets costing between $300 and $1,000 may, in some circumstances, be allocated to a low-value pool and depreciated under pooling rules. A low-value pool can include multiple depreciating assets acquired at different times. The exposure draft proposes that, from 1 July 2026, depreciating assets that a taxpayer reasonably expects to use mainly to gain or produce assessable labour income could no longer be allocated to a low-value pool for the 2026–2027 and later income years.

Existing low-value pools would not simply disappear. Taxpayers could continue to claim depreciation for assets already in existing pools. However, new work-related assets mainly used to produce assessable labour income would need to be dealt with outside the low-value pool rules.

This could affect clients who regularly purchase work equipment, such as laptops, phones, tools, musical instruments or other occupation-specific assets. In some cases, deductions may be spread over a longer period than clients expect, particularly where an asset has a longer effective life.

The proposal also includes a simplified approach for certain balancing adjustment and CGT event K7 calculations where a taxpayer has received the standard deduction during years overlapping with a depreciating asset's effective life. The draft material refers to an optional fixed reduction approach, including a 50% reduction method in relevant circumstances. This is an area where tax professionals may need to watch for final legislation and ATO guidance if the measure proceeds.

Fringe benefits tax integrity measures

The draft legislation also includes proposed amendments to the *Fringe Benefits Tax Assessment Act 1986* to prevent double benefits through salary packaging arrangements that would apply from FBT years starting on or after 1 April 2027.

Broadly, where an expense payment fringe benefit relates to an expense covered by the standard deduction and is provided under a salary packaging arrangement, the "otherwise deductible" rule would not apply to reduce the taxable value of the benefit.

The exposure draft also proposes changes to the exemption for eligible work-related items under s 58X of the FBTAA 1986. The exemption would be limited to benefits provided outside salary packaging arrangements, and the existing restriction concerning substantially identical items provided in the same FBT year would be removed.

These integrity rules are designed to ensure employees can't combine the standard deduction with salary packaging arrangements to obtain a double tax advantage.

Practical communication points

The proposal may simplify tax time for some clients, but it's not a universal tax cut and won't replace the need for substantiation in all cases.In summary:

- the measure is still only proposed, and wouldn't apply until 2026–2027, if enacted;
- it is a deduction, not a $1,000 refund;
- clients with work-related expenses over $1,000 may still be better off claiming actual expenses;
- some deductions, such as donations, investment expenses and union fees, may remain separately claimable;
- low-value pool and depreciation changes may affect future equipment claims; and
- clients should continue keeping records until the law is finalised and its operation is clear.

This is also an opportunity to remind clients that legitimate deductions should be considered in light of their individual circumstances. The proposed standard deduction may reduce compliance for smaller claims, but for many taxpayers, especially those with significant work-related expenses, careful record keeping may still produce a better outcome.

Source: https://consult.treasury.gov.au/c2026-757530

ASIC launches new range of tools and resources for retirement planning

Worried about running out of money in retirement? You're not alone. National research carried out by the Australian Securities and Investments Commission (ASIC) has shown that many pre-retirees are worried that they won't have enough money in retirement, report low financial literacy and have low confidence in managing their retirement finances.

ASIC commissioned research that surveyed 2,065 Australians aged 45–75 to understand retirement planning and any readiness gaps. Focusing on the 50–66 age group, covering a range of retirement stages including respondents with retirement over 10 years away, nearing retirement (within nine years), and fully retired, the research showed that 48% of respondents were worried they'd run out of money in retirement; 32% felt they were already behind in retirement planning; and only 18% had a clear retirement plan in place.

Only a third of the pre-retirees in the age group felt confident that they would be financially comfortable in retirement, with female pre-retirees and renters in particular reporting low confidence in their ability to manage their finances or live comfortably in retirement.

Financial literacy and low confidence in managing retirement income was also a concern for 46% of the age group, with only 26% able to demonstrate they had a strong understanding of retirement finance concepts. Nearly 60% of the cohort reported that they wanted to learn more about super and retirement.

Retirement Hub

In response to the research, ASIC has developed new practical tools, calculators and guidance to support financial literacy and retirement planning in a new Retirement Hub on Moneysmart, and the launch offers a great opportunity to review your understanding before seeking advice about what will suit your circumstances.

Alongside video case studies, the online resources are broadly broken down into segments reflecting the key questions uncovered in the research:

- *How much will I need?* – covers retirement costs, retiring with debt, planning retirement goals and lifestyle and working out your living expenses.
- *How can I make my money last?* – budgeting, understanding different sources of income (eg super, Age Pension, account-based pensions or annuities), government benefits and how to decide what to do with your super.
- *How do I stay on track?* – how to check and keep track of your super and insurance, tackle debt, and stay aware of scams.

An upgraded Retirement Planner is designed to walk you through where your super is at, project how much income you could have in retirement, work out how much you'll need based on your goals or lifestyle choices, and allow you to review your options and test different scenarios to assess if you're on track to reach your financial goals. For example, the planner lets you review your income (including super, Age Pension and other income sources); your investment choices; and the impact of additional contributions or changing lifestyle goals or needs (eg debt management, aged care, renovations or holidays or other personalised goals for retirement); and examine the impact of those changes for your retirement income.

Source: https://moneysmart.gov.au/retirement
www.asic.gov.au/about-asic/news-centre/find-a-media-release/2026-releases/26-074mr-from-anxiety-to-action-helping-australians-to-plan-for-their-financial-future/

Young adult workers win equal pay rights

The Fair Work Commission has delivered a landmark decision that will significantly impact junior wage rates across three major industries, with changes set to begin in December 2026.

On 31 March 2026, a Full Bench of the Fair Work Commission handed down its decision in response to an application by the Shop, Distributive and Allied Employees' Association. The decision affects junior employees under the General Retail Industry Award 2020, Fast Food Industry Award 2020 and Pharmacy Industry Award 2020.

The key change is that junior employees aged 18 and over who have been employed by their current employer for more than six months will eventually receive the full adult minimum wage rate. This represents a significant departure from the current system, where these employees receive between 70% and 90% of the adult rate depending on their age.

Who's affected?

The changes will apply to employees in general retail, fast food and community pharmacy industries. However, the decision creates different outcomes for different age groups:

- employees aged under 18 will see no changes to their current rates;
- employees aged 18–20 with less than six months' experience with their current employer will continue to receive their current percentage rates; and
- employees aged 18–20 with more than six months' experience will gradually move to full adult rates through a phased implementation.

Implementation timeline

The Commission has outlined a provisional implementation schedule beginning 1 December 2026. The changes will be phased in over approximately two and a half years:

- 18-year-olds will move from 70% to full adult rates by July 2029;
- 19-year-olds will reach full adult rates by July 2028; and
- 20-year-olds will achieve full adult rates by July 2027.

The rates will increase incrementally every six months during this transition period.

The Commission's reasoning

The Commission considered extensive evidence from 87 witnesses, including witnesses who shared their workplace experiences and expert economists who analysed potential impacts. The Commission found that for adult junior employees, the variation was justified for work value reasons, considering the nature of work, skills, responsibility and working conditions.

Fairness to junior employees weighed heavily in the decision. The Commission took into account factors such as the value of junior employees' work and young people's labour market disadvantage. However, it also considered fairness to employers and likely business impacts.

Importantly, the Commission maintained current rates for employees under 18, recognising factors such as employment restrictions, availability constraints, and differences in maturity and work experience.

What employers need to know

This decision will have significant cost implications for businesses in the affected industries. The phased implementation provides time to adjust business models and budgets, but employers should begin planning now for the increased wage costs.

The Commission will issue further directions soon, providing additional opportunities for parties to be heard regarding the implementation details.

Next steps

If your business employs junior staff in retail, fast food or pharmacy industries, this decision will likely affect your wage costs and workforce planning. The complexity of the new age- and experience-based criteria means careful attention to payroll systems and employee records will be essential.

Given the significant financial implications and implementation complexities, consider seeking professional advice to understand how these changes will specifically impact your business and ensure your compliance with the new requirements.

Source: https://www.fwc.gov.au/documents/sites/am2024-24/am202424-2026fwcfb75-summary-310326.pdf

Payday super changeover requires careful cash flow planning

The transition to payday super is just months away, and employers need to prepare for a complex changeover period that could significantly impact cash flow during July 2026.

From 1 July 2026, employers must pay superannuation guarantee each payday instead of quarterly. Super payments must reach employees' funds within seven business days after payday, marking the end of the current quarterly system that's operated for decades.

The July challenge

July 2026 presents unique cash flow pressures as employers navigate dual payment obligations. You'll need to make your final quarterly payment for the April to June period by 28 July, while simultaneously beginning payday super payments for July pay runs.

The timing is important. Super payments for July paydays may be due before the final quarterly payment deadline of 28 July. Any contributions received on or before 28 July will first reduce amounts owing for the June quarter, with remainders then applied under payday super rules.

Critical deadlines

The final quarterly payment for the June quarter must reach employees' super accounts by 28 July 2026. Missing this deadline triggers super guarantee charge obligations, with statements due by 28 August. Importantly, the late payment offset won't be available for this final quarterly payment.

For tax deductibility, any superannuation guarantee contributions must be received by the fund by 30 June 2026 if you want them to be tax deductible in the 2025–2026 income year. This rule hasn't changed under payday super.

From 1 July, super calculations change from ordinary time earnings to qualifying earnings.

Critically for the transition, the *payment* date is what counts: even for work performed before July, super is calculated under payday super rules when contributions are paid from 1 July onwards.

Example

Marcus operates a small business with eight employees and pays wages weekly on Fridays. During July, Marcus faces dual super obligations.

For the April to June quarter, Marcus calculates super as 12% of ordinary time earnings paid between 1 April and 30 June 2026. His final quarterly calculation includes the Friday 26 June payday.

His first payday super obligation applies to Friday 3 July 2026, with super calculated as 12% of qualifying earnings paid that day. This payment must reach employees' super accounts by Tuesday 14 July.

Marcus makes his payday super payment on 3 July, and employees' funds receive contributions on 8 July. He then pays his quarterly contribution on 12 July, received on 16 July.

Because both payments are received before 28 July, his payday super contribution reduces his June quarter obligation first. The remaining quarterly amount is then applied separately. By paying correct amounts for both obligations before 16 July, Marcus meets all requirements on time.

Managing the transition

The ATO recommends reviewing expected pay cycles for July to understand cash flow impacts. Consider setting aside additional funds to meet dual obligations during the changeover.

If cash flow permits, paying your June quarter super on or before your first July payday offers a smoother transition with time to correct any rejected payments before the 28 July deadline. Additionally, all June quarter super contributions will be tax deductible in 2025–2026 if funds receive them by 30 June 2026.

Source: www.ato.gov.au/businesses-and-organisations/super-for-employers/payday-super/payday-super-how-to-manage-super-during-the-changeover

Thomson Reuters would like to hear from you

Subscribers are invited to submit topics for articles for future publication. Information should be sent to:

Publisher – **Client Alert**

Thomson Reuters (Professional) Australia Limited ABN 64 058 914 668

PO Box 3502, Rozelle NSW 2039

Tel: 1800 074 333

Email: SupportANZ@thomsonreuters.com

Website: www.thomsonreuters.com.au