

It Could Be Worse.....

"I contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle."

- Winston S. Churchill

To be clear, I wasn't actually there when Winston uttered these famous words!!!

Recently I've been ruminating on the stuff we accept in modern society that makes no sense. As an old white bloke, I'm all for tradition but the fact is that some products, rules and activities we mostly take for granted would never get a run if I dreamt them up today. The fact that at one time or another I've taken part in some of these follies and survived is either testament to my magnificent resilience or dumb luck writ large. The Managing Director is most assured that it's the latter and she should know. Having met me 45 years ago she has observed me at peak idiot and also my steady decline to a more risk averse old person.

Let's reflect on the stuff that would never get a run today and then I'll brilliantly segue to the point of this rambling missive. To ensure I don't keep you in suspense I'm heading down the slippery slope of events on the 12th May this year. At that point I intend to reveal a level of breathtaking dumbness (is that a word?) and unintended risk taking that will make my other examples seem positively pedestrian.

So, I've dreamt up a couple of new sports. One involves riding an animal while racing other similar animals. If my animal is faster than the others, I tie a bunch of weights onto the poor beast to slow him or her down. No pronouns in the animal kingdom.....yet. Then, with the animal appropriately hobbled I beat it with a stick and hope it wants the pain to end faster than the others. Would this new pastime get a run in our modern world. Of course not, but gee a day at the races can be fun.

On a similar riff, how about a sport where two people stand in a roped off square 6.1m x 6.1m with the aim of the game being to hit the other person in the head so hard that they lose consciousness. This goes on for 12 x 3-minute rounds, and if neither combatant is unconscious at the end, the prize is awarded to the less punch drunk of the pair. I had a crack at this stuff as a young bloke and learned a valuable lesson. 6.1 x 6.1 is a very small area with nowhere to hide. Can't see this one getting a tick either.

How about a form of transport that you sit on. Here's the idea. Take a 240HP engine, bolt on wheels front and back, a seat on top and a steering device up front. Tune the thing to get to 100km/h in 3 seconds and then sell it to the general public. Now rock up at the Department of Transport and try the register the weapon. My argument is that I've ridden all my life and still do and I'm not dead so what's the problem. If high powered bikes didn't already exist there's zero chance of them happening now. The MD says they are highly dangerous albeit she watches MotoGP and marvels at how the riders can sit on those bikes with such enormouserr, you get the point.

And now we move on to the fun stuff. How about a product that is so addictive and dangerous that it's packaging contains dire health warnings. A product directly linked to over 7 million deaths globally each year, including 66 per day here in the land of Oz. Per day! There was a time when smoking was fashionable, even sophisticated. Hell, the MD and I would go on holidays, and the first treat would be a carton of smokes each. Winnie Blues for me and the very la-di-da St Mortitz menthols for her.



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I could go on. An activity where the most vulnerable are fleeced of their dough via a combination of enticing riches and psychological manipulation. Rows of machines at most clubs, and an evil they most certainly are. Like many of the activities I've mentioned the reliance on revenue overwhelms the greater good. Once an activity drives the moolah there's no turning back.

Before I launch into the point of this meandering mess, one last concept that seems odd and maybe out of touch with the times. I've come up with a competitive race. Probably running but it could be swimming, or something similar. The rules are kinda weird. The winner doesn't necessarily win. The way it will work is that the winner can be voted the loser by the other losers. The competitors in second, third or even last can get together to void the result and nominate a winner. It's all in the interests of fairness and making sure the losers have some influence on the result of the race. Seems crazy you say and it is. Thing is though, we already have these race rules. It's called preferential voting where a party with say 30% of the primary vote can hold an overwhelming majority, while failing to reflect the core wishes of 70% of voters. Yeah yeah, I get why preferential voting is a thing and it has its merits but 30%!!

Having set the scene in terms of odd stuff we just accept, we turn now to the craziest example of all. As I am sure no one has anticipated I speak of the more than 14,000 pages of federal tax legislation that we navigate in this country. Those 14,000 pages embody a combination of baffling and complex laws intertwined with a punitive and demonstrably unfair system that punishes economic achievers and encourages concerted tax minimisation strategies. Our tax laws are the global benchmark in disincentivising entrepreneurial activity, small business achievement and investment. It's a mess and on 12th May 2026 our government thought it would be a good idea to make it messier.

There are in fact two tax acts – the 1936 Act and the 1997 Act. The government and bureaucrats thought it might be a good idea in 1997 to rewrite the 1936 Act in an attempt to simplify it..... needless to say, the bureaucrats got bored and found something more interesting to do so the 1936 Act has only partially been rewritten. So since that time, we now have 2 acts administering the income tax system.

The apparent flaws evidenced in the 2026 Federal Budget are breathtaking. It is a document that should be displayed in our national library as Exhibit A in our history of decline. The unintended consequences of this farce are already playing out, and I won't be surprised if public pressure forces Dr Jim to amend some of the new rules. Is it just a coincidence that our worst treasurer in living memory was also a Dr Jim? That's my living memory of course, which may be a bit longer than the average, although contrary to popular belief I didn't arrive with him on the First Fleet.

Of consequence to those in the accommodation and property management game are the new rules that impact residential property investment. I speak of negative gearing and capital gains tax. The two concepts are joined at the hip insofar as the idea is to lose money on the way through but make it up upon sale. For anyone who owned an investment property on 12th May you can continue to claim interest on your loan and offset that interest against your taxable income. This potentially includes anyone who moves their existing owner occupied home across to a tenanted asset and wishes to claim interest as a tax deduction. The arrangements have been grandfathered which will create two sets a rules for negatively geared investors.

Well actually, three sets of rules. There's the grandfathered rule as described above. For new investors buying existing properties you can keep track of your losses and apply them to income from other properties or to future capital gains.

For investors buying new stock such as off-plan townhouses the negative gearing rules don't change. There are some transitional regulations, but my head is already hurting, so seek professional advice (commercial property and shares can still be negatively geared).

Capital Gains Tax rules have also changed. The current 50% capital gain discount will be replaced with an indexed inflation-based cost base adjustment. For existing investors CGT rules don't change until 1st July 2027. At that point a minimum 30% tax on future gains will apply regardless of the investors marginal rate of tax. I expect a few valuations will need to be done in the run up to 1st July 27. For buyers of new builds investors can choose which form of CGT calculation they wish to use.

The aim of these changes is to level the playing field and assist in housing affordability, particularly for first home buyers. I expect the opposite to happen. This will be bad news for first time owner occupiers and renters, but potentially good news for property managers.

Let's say you have an investor in your property who's taking advantage of negative gearing. That investor has an attractive tax arrangement that is no longer available to investment buyers of existing stock. My expectation is that investors in this position are unlikely to sell and as such I think the new rules will lessen owner occupation risk in existing properties. I expect the CGT rules, while changing but quarantining the 50% write down to July 2027, will also be an incentive for investors to hold properties. On the flip side one might wonder if new investors buying existing stock will be put off by the absence of an opportunity to claim losses either annually or via a variation at each pay day. Only time will tell albeit I can't see investment property becoming materially less appealing for those who have the cash flow to carry losses until they can be offset against capital gains or other property income.

For new off plan residential builds, the capacity to negative gear and calculate CGT as before will almost certainly drive investors to those assets. The net result will be competition for those properties that will drive up prices and freeze out first home buyers. Well done Dr Jim.

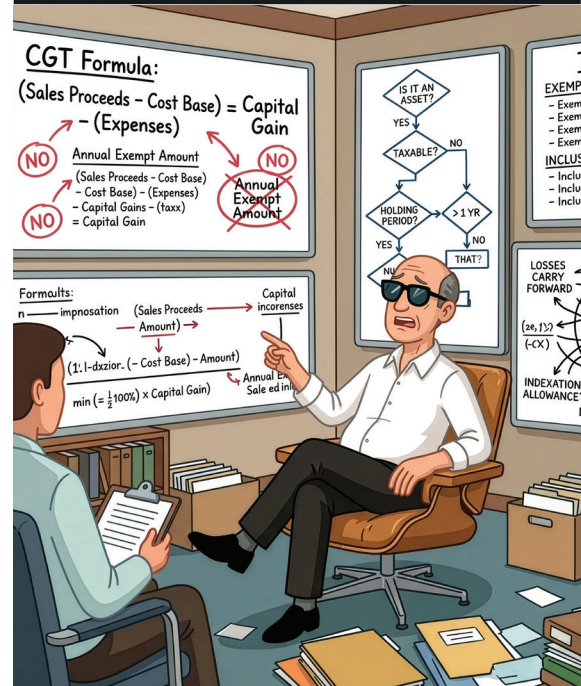
In closing, a word on intergenerational wealth and fairness. As we've noted the new rules set a minimum tax rate of 30% on capital gains. For a young person starting out on the property investment journey it is conceivable that the CGT rate will exceed their top marginal rate of taxation. This is particularly pertinent given the current trend of groups of younger investors buying investment properties jointly.

A budget that makes tax law ever more complex, encourages existing investors to retain property, incentivises investors into new stock that families will be competing for and punishes young people trying to get on the investment ladder.

In this regard it's a bit like my other examples. Dangerous, dumb and no good for your health.

Disclaimer: There's a fair bit more to the budget and its impacts on asset investment so please don't rely on my observations. Seek professional advice. The MD says I should do the same, but I think she means of the psychiatric kind.

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