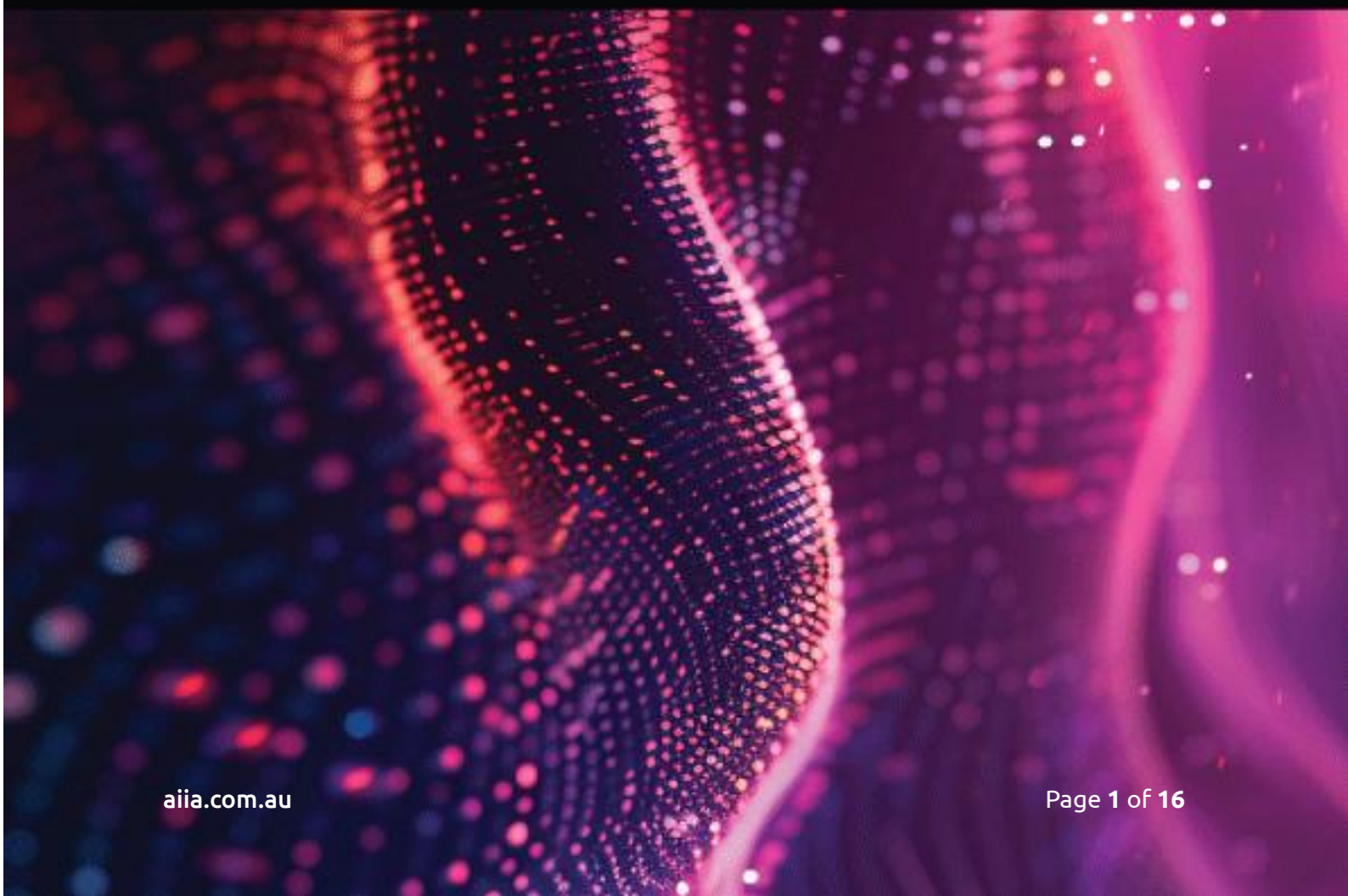




Federal Budget Analysis 2026/27

What it means for Australia's digital ecosystem



About the AIIA

The Australian Information Industry Association (AIIA) is the nation's peak body for those in the digital ecosystem, leading strategic policy and advocacy to shape a thriving digital sector. Through strong engagement with government, industry, and the broader community, the AIIA ensures the voice of its members informs decision-making on technology, innovation, and digital capability.

Membership provides direct access to influential networks, premium events, and opportunities to collaborate on initiatives with the sector's best and brightest to drive industry growth, improve productivity, and secure Australia's place as a global technology leader. AIIA members access real collaboration, real connections, and real outcomes.

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Executive Summary

The 2026–27 Federal Budget, handed down by Treasurer Jim Chalmers on 12 May 2026, is the Albanese Government's fifth Budget and first since winning re-election in May 2025. Framed around six themes, it is a Budget of fiscal consolidation with selected reform ambition.

For AIIA members and the broader ICT and digital technology industry, this Budget is a mixed picture. It contains no flagship AI or digital economy strategy comparable to those announced by other nations. The Treasurer made only a single passing reference to artificial intelligence in his parliamentary speech. However, beneath the surface, the Budget contains a volume of measures with direct or indirect relevance to AIIA members, spread across digital government infrastructure, cyber security, R&D tax reform, innovation incentives, digital health, and a substantial productivity package that has real consequences for our sector.

The AIIA's overarching message is this: this Budget invests in using digital tools rather than building a domestic digital capability. Government is deploying technology but has not matched the scale of ambition that AIIA pre-budget submissions called for on sovereign AI capability, digital skills, or a dedicated digital economy strategy.

Part 1: Budget Context & Fiscal Settings

1.1 The Macro Picture

The conflict in the Middle East has created significant global economic and energy disruption, driving inflation higher, slowing global growth, and increasing uncertainty. Higher oil prices are adding to cost pressures in Australia, affecting supply chains and household spending.

Headline inflation is forecast to reach 5 per cent through the year to June quarter 2026 before easing to 2.5 per cent by June quarter 2027. Higher inflation is expected to slow household spending and economic growth, with GDP forecast to ease from 2¼ per cent in 2025–26 to 1¾ per cent in 2026–27.

Despite these pressures, the Government says Australia enters this period with comparatively strong growth, low unemployment, solid wages growth and strong public finances. Treasury expects growth to recover to 2¼ per cent in 2027–28, with unemployment stabilising at around 4½ per cent, assuming oil prices begin to fall from mid-2026.

The Government says the fiscal position has improved, with lower projected debt and deficits than forecast at MYEFO. The 2026–27 deficit is forecast at \$31.5 billion, while gross debt is expected to reach \$1.051 trillion by June 2027. The Government says savings and reprioritisations have improved the budget position by \$44.9 billion across the forward estimates.

This macroeconomic environment is important for AIIA members: tighter government procurement, higher interest rates suppressing ICT capex, but also a real productivity imperative that creates demand for technology solutions.

1.2 Six Budget Themes

- Fuel supply and security
- Cost of living
- Productivity
- Tax reform
- Care and opportunity
- Security and investment

Technology and digital economy investment cuts across all six themes but lacks a standalone chapter or dedicated funding envelope. This is a gap that AIIA will need to address in post-budget advocacy.

Part 2: Budget Measures Affecting AIIA Members

The following is a mapping of budget measures with direct or significant indirect relevance to AIIA members.

2A. Digital Government, AI and Data

Digital ID - \$654.3 Million

What it is: The Government is investing \$654.3 million to expand the use of Digital ID, implementing a 'tell-us-once' approach to safely verify identity, reduce data storage and improve access to government services online. This is described as part of the productivity agenda. The OAIC also received \$5.3 million in 2025–26 to continue regulatory oversight of Digital ID and Identity Verification Service programs.

AI Accelerator Grants - Up to \$70 Million

What it is: The Government is providing up to \$70 million for 'AI Accelerator' grants to boost AI development. The funding is delivered through upcoming rounds of the existing Cooperative Research Centres (CRC) and CRC-P programs in 2026 and 2027, rather than as a new standalone AI fund, meaning access requires industry-research consortium arrangements consistent with CRC eligibility rules. The budget also notes AI will be used to accelerate environmental and medicine approvals and make the National Construction Code easier to use. The government's broader productivity package explicitly references AI as a tool for government efficiency, not as a standalone capability program.

Consumer Data Right - \$62 Million

What it is: A further \$62 million is being invested into the Consumer Data Right (CDR), including finding new ways for customers to use their own data to save money and get better services. This continues development of the open data economy framework that AIIA members in fintech, data analytics and digital platforms rely on.

myGov Platform Uplift - \$26.5 million

What it is: The Budget provides \$26.5 million over three years to improve the functionality, availability and security of myGov. myGov remains one of the Commonwealth's flagship digital citizen interfaces. Continued investment signals ongoing demand for cyber uplift and improved service outcomes.

My Health Record Operations and Enhancement - \$598.3 million

What it is: Funding to sustain and further modernise Australia's national digital health record infrastructure, including interoperability, data access, diagnostic integration and system reliability. Digital health remains one of the Commonwealth's largest and most

persistent ICT transformation domains. It also signals continuing momentum behind connected healthcare infrastructure and real-time health information exchange.

Business Registers Stabilisation and Uplift - \$136.1 million

What it is: The Government will provide \$136.1 million over two years to complete the second tranche of stabilisation and uplift of Australia's business registers. This is another example of the Commonwealth's continuing legacy remediation agenda. It also reinforces that government remains heavily exposed to ageing enterprise architecture and is prioritising stabilisation before broader transformation.

AUS–US Data Access Agreement Capability - \$28 million

What it is: The Government will provide \$28 million over four years to support continued data-sharing capability for law enforcement and national security under the AUS–US Data Access Agreement. This continues demand for secure cross-border data systems, lawful access frameworks and trusted infrastructure environments.

Environmental Data and AI-Enabled Approvals Systems - \$105.9 million

What it is: The Budget allocates \$105.9 million over four years to modernise environmental information, data and digital systems, including using AI. This is one of the Budget's clearest references to AI-enabled regulatory administration. For industry, it demonstrates that AI adoption is increasingly shifting from experimentation to operational government deployment.

Health Data and Information Access - \$39.2 million

What it is: The Government will provide \$39.2 million over five years to support continued access to health data and information. The measure reinforces ongoing government dependence on interoperable health data ecosystems and analytics capability.

National Veterans' Data Asset - \$29.8 million

What it is: The measure reflects growing Commonwealth interest in integrated longitudinal datasets and trusted cross-agency information architecture.

2B. Cyber Security and National Resilience

Australian Cyber Security Strategy Horizon 2 - \$89.3 Million

What it is: \$89.3 million over four years from 2026–27 to sustain and enhance cyber security initiatives under Horizon 2 of the 2023–30 Australian Cyber Security Strategy. The Department of Home Affairs will partially fund this from existing resources. This builds on the MYEFO measure and continues station-keeping spending on an already-established framework.

Services Australia Broader ICT/Security - \$2.2 Billion

What it is: A \$2.2 billion investment to improve the way Services Australia delivers services to the Australian community. Embedded within the package are targeted ICT and cyber components, including \$160.4 million for the Services Australia Cyber Security Uplift program and \$19.8 million for long-term ICT architecture planning.

Aged Care ICT Sustainment - \$259.9 million

What it is: Funding focused on maintaining and stabilising aged care digital systems. Aged care continues to undergo structural reform following the Royal Commission. ICT systems are now central to compliance, reporting, workforce management and care coordination. The measure also reinforces the broader trend that social services modernisation is becoming a permanent digital transformation market rather than episodic reform spending.

The package also includes \$33.7 million for the Aged Care Quality and Safety Commission's own ICT governance and internal cyber security capability, distinct from the sector-wide sustainment funding.

ATO Counter-Fraud and Real-Time Detection - \$86.3 Million

What it is: \$86.3 million over four years from 2026–27 for the Counter-Fraud Strategy, enhancing the ATO's real-time fraud detection and monitoring capabilities across tax and superannuation systems. Includes targeted compliance activity in relation to the R&D Tax Incentive.

Defence Cyber Domain - Part of \$53B Increase

What it is: The 2026 National Defence Strategy confirmed a \$53 billion increase in defence spending over the decade, concentrating on priority capabilities including the cyber domain. This creates procurement and partnership opportunities for AIIA members in defence technology.

ASIC and APRA Security Capability Uplift - \$18.5 million

What it is: ASIC and APRA will receive \$18.5 million over four years to improve the security of systems of national significance. This reinforces growing cyber resilience obligations across financial regulators and critical systems operators.

2C. R&D, Innovation and Venture Capital

R&D Tax Incentive Reform - ~\$400M/yr Additional R&D Unlocked

What it is: Significant reform to the R&D Tax Incentive (R&DTI), including: (1) a 4.5 percentage point increase in core R&D offset rates; (2) reduction of the intensity threshold from 2% to 1.5%; (3) removal of supporting R&D expenditure from eligibility; (4) increase of the refundable offset turnover threshold from \$20M to \$50M; (5) loss refundability for

startups in their first two years from 1 July 2028. These reforms are projected to unlock \$400 million per year in additional R&D by young firms. However, the ATO will also undertake targeted compliance activity on R&DTI claims, and the SERD review's full recommendations have not yet been funded.

Venture Capital Tax Incentive - ESVCLP Expansion

What it is: The ESVCLP (Early Stage Venture Capital Limited Partnership) asset size cap is increased from \$250M to \$420M, and the maximum fund size increased from \$200M to \$270M. These apply to new and existing funds and new investments. The Eligible Venture Capital Investor Program (EVCIP) is being closed to new applications from Budget night. These changes are designed to encourage larger VC investment in early-stage Australian tech companies.

Two-Year Loss Carry-Back - All Companies to \$1B Turnover

What it is: Two-year loss carry-back permanently reintroduced for all companies with turnover up to \$1 billion from 1 July 2026. This reduces risk for ICT companies investing in new capabilities and allows losses to be offset against prior profits.

Loss Refundability for Startups - 1 July 2028

What it is: Loss refundability for startups from 1 July 2028, to help new businesses invest and grow in their first two years. Directly relevant to the Australian tech startup ecosystem.

Permanent Instant Asset Write-Off - \$20,000

What it is: A permanent \$20,000 instant asset write-off, removing the year-to-year uncertainty that has historically undermined business technology investment planning. ICT equipment purchases by SMEs will benefit directly.

Science and Research Institutions - \$1.5 Billion

What it is: \$1.5 billion in research and scientific institutions including CSIRO, National Measurement Institute, and the Square Kilometre Array. CSIRO (including Data61) is directly relevant to AIIA members working on AI, quantum, and data technology.

2D. Productivity, Regulatory Reform and Trade

Productivity Package - \$10.2 Billion/yr Regulatory Burden Reduction

What it is: The Government's productivity reforms target \$10.2 billion per year in regulatory burden reduction and a boost to long-run GDP of \$13 billion per year. Measures include 14 legislative financial sector reforms, 13 actions to streamline data collections, abolition of 497 more nuisance tariffs (total ~1,000), expanded Australian Trusted Trader program, and a National Resilience and Science Council to coordinate innovation investment.

Environmental Approvals - AI Deployment

What it is: More than \$500 million to implement approval reforms that deploy AI, cut duplication with states and fund bioregional plans. This signals the government's intent to use AI as a tool within its own regulatory processes, creating an implicit demand for AI products and services from AIIA members.

Telecommunications Approvals Acceleration

What it is: The budget includes acceleration of telecommunications approvals to make it easier to launch new projects - directly relevant to AIIA members in the telco and network infrastructure space.

2E. Tax Measures Affecting ICT Businesses and Workers

Personal Income Tax Cuts - 16% → 15% → 14%

What it is: From 1 July 2026, the 16% marginal tax rate reduces to 15%; from 1 July 2027, to 14%. Additionally, a \$1,000 Instant Tax Deduction and \$250 Working Australians Tax Offset from 2027-28. Tech sector workers benefit from these cuts, slightly enhancing take-home pay and slightly reducing the relative attractiveness of offshore roles.

Capital Gains Tax Reform

What it is: The 50% CGT discount is replaced by CPI-indexed cost base plus a 30% minimum tax on real capital gains for assets held ≥12 months, from 1 July 2027. The government has committed to consulting on treatment of early-stage and startup businesses given 'the unique features of the tech and start-up sector'. This is critical for AIIA members with equity in startups, and for founders and investors in the venture-backed tech ecosystem.

2F. Workforce, Skills and Migration

Skills Assessments for Migrant Workers - \$85.2 Million

What it is: \$85.2 million to accelerate skills assessments for migrant trades workers and occupational licensing. While primarily aimed at trades, the migration points test reform to select 'better educated, higher-skilled and younger migrants' has implications for Australia's tech talent pipeline.

Part 3: What the Budget Means for AIIA Members

Having mapped the individual measures, this section analyses the strategic implications for the AIIA membership, broken into the themes most relevant to member segments.

3.1 The AI Question: An Opportunity Gap

The Budget continues incremental AI investment under the existing National AI Plan but lacks a transformational sovereign capability commitment comparable to peer nations' flagship programs. The \$70 million AI Accelerator grant program is welcome but modest compared to the ambitions articulated in the AIIA's advocacy and pre-budget submission, which called for national AI infrastructure investment to prevent Australia from falling behind in the global AI race.

The government's approach positions AI primarily as a productivity tool - for accelerating approvals, simplifying the National Construction Code, improving service delivery - rather than as a standalone investment in domestic capability. This contrasts with peer nations including the UK (\$1.5B AI action plan), the US (executive orders on AI infrastructure), India (IndiaAI Mission with 38,000 GPUs), and Ireland's sustained AI skills investment.

AIIA Advocacy Implication

The absence of a national AI strategy is the single largest gap in this budget for AIIA members. The AIIA will use the post-budget period to press for a standalone AI Infrastructure Investment Fund, framing it as national economic infrastructure in the same category as fuel reserves (which received \$14.8B in this very budget). The SERD review final report provides evidence - 20 recommendations, a clear diagnostic of declining R&D investment. AIIA will push to see those recommendations fully funded in the Mid-Year Economic and Fiscal Outlook (MYEFO) or the next budget.

3.2 R&D Reform: A Win, With Caveats

The R&D Tax Incentive reform package is a positive for AIIA members - particularly startups and scale-ups. The increase in offset rates, reduction of the intensity threshold, raising the refundable offset turnover threshold to \$50M, and the introduction of loss refundability for early-stage businesses collectively address long-standing industry complaints.

The projected unlock of \$400 million per year in additional R&D investment for young firms is significant. Combined with expanded ESVCLP limits and the return of two-year loss carry-back for all companies, this creates the most favourable set of innovation tax incentives in over a decade.

However, there are material caveats: (1) the removal of supporting R&D expenditure eligibility will increase pressure on how members structure their claims; (2) the ATO is receiving dedicated funding for R&DTI compliance activity, signalling sustained scrutiny; (3) the SERD review's broader recommendations - including higher investment ambition - remain unfunded.

AIIA Advocacy Implication

AIIA will welcome the R&DTI reforms publicly, while noting the compliance risk and calling for ATO guidance that provides certainty for members navigating the transition. The incomplete adoption of SERD recommendations will be flagged for the next budget cycle, with quantified evidence of Australia's OECD R&D ranking. AIIA will also closely monitor the CGT consultation on early-stage businesses and ensure tech startups and scale-ups are explicitly protected.

3.3 Cyber Security: Steady State, Not Transformation

Cyber security in this budget is kept steady but is by no means transformative. The major policy and funding architectures - REDSPICE, the 2023–30 Australian Cyber Security Strategy - have already been established. Horizon 2 of the Strategy receives \$89.3 million over four years, a relatively modest continuation. The Treasurer's Budget speech contains no mention of cyber security, and the only reference in the BP1 overview is incidental to a tax-cut worked example. Cyber capability is instead embedded across agency-level ICT and regulator resourcing rather than coordinated through a unifying program, reinforcing the picture of a sector being maintained rather than transformed.

The larger cyber story is embedded in these agency investments, which are the actual procurement opportunities for AIIA members providing cyber, cloud, and ICT managed services to government.

The defence cyber investment - as part of the \$53B national defence build-up - deserves close attention. The National Defence Strategy concentrates investment in priority areas including the cyber domain, and AIIA members with defence capabilities should be positioning for the procurement cycle this creates.

AIIA Advocacy Implication

The cyber community should be engaged on the Horizon 2 Strategy implementation plan. AIIA will also push for the National Anti-Scam Centre's funding to be made recurrent, given the ongoing nature of scam threats.

3.4 Government ICT Procurement: The Invisible Pipeline

The Budget contains a large, fragmented stream of government ICT investment spread across health, social services, financial regulation, defence and national security. This represents a procurement pipeline for AIIA members.

AIIA should advocate for procurement settings that ensure Australian companies - including SMEs and startups - have genuine access to these programs, not just the large systems integrators and global vendors. A Digital Restart Fund concept, as previously proposed by AIIA, remains a gap in this budget.

3.5 Digital ID: A Platform for Member Opportunity

The \$654.3 million Digital ID investment is one of the most significant tech-adjacent measures in this budget. A 'tell-us-once' identity infrastructure creates the backbone for broader digital government services, and the OAIC's strengthened oversight signals serious intent on privacy compliance.

For AIIA members, this creates opportunities in identity verification platforms, privacy-enhancing technologies, secure data storage and sharing, API development, and integration services across the public and private sector. The Consumer Data Rights investment of \$62 million complements this as the data portability layer of the same digital economy architecture.

3.6 Tax Reform: Mixed Signals for the Tech Ecosystem

The CGT reform is the most consequential tax change for the broader tech and startup community. Replacing the 50% discount with CPI indexation and a 30% minimum tax on real gains will affect founders, angel investors, and the VC ecosystem. The government has committed to consulting on the treatment of early-stage and startup businesses - this consultation window is critical for AIIA advocacy.

The permanent Instant Asset Write-Off at \$20,000 removes the annual uncertainty that has historically complicated technology investment planning for SME members. Combined with loss carry-back, this creates a more stable investment environment.

AIIA Advocacy Implication

AIIA will formally engage the CGT consultation process to protect tech founders, early-stage investors, and the ESVCLP ecosystem from unintended consequences of the CGT overhaul. The interaction between CGT reform and the expanded ESVCLP caps requires careful modelling. AIIA will perform analysis and submit to Treasury's consultation process with specific scenarios illustrating the tech sector impact.

3.7 Productivity Package: Good News for Tech Adoption

The 15-pillar productivity package is arguably the most relevant macro-economic policy development for AIIA members, even though it is not labelled as a technology policy. Reducing regulatory burden by \$10.2 billion per year is the kind of reform that increases business capacity to invest in technology. The AI deployment in government approvals is a direct procurement signal.

3.8 Workforce and Skills: The Persistent Gap

The AIIA has consistently identified the technology skills shortage as an existential challenge - with over 60,000 ICT jobs unfilled annually. This budget does not contain a dedicated digital skills investment program. The \$85.2 million for migrant skills assessments is primarily aimed at trades and construction, not technology.

The sector needs a systematic, long-term digital skills and workforce strategy - investment in VET and university ICT pathways, a dedicated migration pathway for high-skill tech workers, and digital literacy programs from school age.

AIIA Advocacy Implication

The technology skills gap is the advocacy priority most underserved by this budget. AIIA will develop proposals for a National Digital Skills Strategy - targeting the 1.1M ICT jobs goal - for submission ahead of MYEFO and the 2027-28 budget. The productivity agenda provides the 'hook': without skilled workers, the productivity gains the government seeks from digital adoption cannot be realised.

3.9 Defence and National Security: A Growing Market

The \$53 billion defence capability build-up over the decade, including explicit investment in the cyber domain, creates one of the largest long-term growth markets for AIIA members with defence and national security capabilities.

AIIA members with relevant capabilities in areas such as cyber, AI, data analytics, quantum, and systems integration should be actively engaging with the Defence procurement pipeline and the Australian Signals Directorate's technology partnership programs.

Conclusion

The 2026–27 Federal Budget is not a digital economy budget. It is a productivity budget that uses digital tools, a tax reform budget with significant innovation incentives, and a cost-of-living budget that happens to benefit tech workers. It is not a budget that signals Australia's intent to lead the global AI economy, invest in sovereign digital capability, or close the structural technology skills gap.

For AIIA members, the aggregate picture is mixed-to-positive. There is genuine good news in R&D reform, startup incentives, Digital ID investment, government ICT volumes, and regulatory burden reduction. The income tax cuts benefit the workforce. The venture capital changes would be welcome if co-designed effectively with industry.

There are significant gaps. No national AI strategy. No digital skills program. No procurement reform for SMEs. No Digital Economy Minister. And a CGT reform that - without careful consultation - could damage the very startup ecosystem the government's productivity agenda is designed to enable.

The AIIA's role in the post-budget period is clear: build on the wins, protect against unintended consequences, and escalate the unfunded priorities - AI infrastructure, digital skills, procurement access - with the urgency and evidence they deserve. The government's own productivity agenda creates the policy opening. AIIA must make the case that you cannot realise a \$13 billion GDP uplift from digital adoption without investing in the industry and workforce that makes digital adoption possible.