2023-24 Federal Budget Summary

Foreword

On Tuesday, 9 May 2023, Treasurer Jim Chalmers handed down the 2023-24 Federal Budget, his second Budget, which follows the October 2022 Budget.

The Treasurer announced a package of cost-of-living measures, including up to $3bn in energy bill relief (expected to reduce power bills by up to $500 for 5 million households, $650 for eligible small businesses) and $1.3bn for home energy upgrades by providing low-cost loans. These measures have been designed to provide relief without adding inflationary pressures (which would make the Reserve Bank's job even harder). Access to the Parenting Payment (Single) will also be extended along with increased payments for JobSeeker, Youth Allowance and rent assistance. Small businesses will also benefit from a temporary increase in the instant asset write-off threshold to $20,000 for 2023-24.

A Budget surplus of $4.2 billion is forecast in 2022-23, but an underlying cash deficit of $13.9 billion is expected in 2023-24 (and a $35.1 billion deficit for 2024-25). The Budget papers note that the global economic outlook has deteriorated and is highly uncertain with persistent inflation and rising interest rates expected to slow real GDP growth from 3.25% in 2022-23 to 1.5% in 2023-24, before rising to 2.25% in 2024-25.

On the revenue side, the Government said it is taking action to improve the sustainability of the tax system. This includes measures to reduce the tax concessions for superannuation balances above $3m, more timely payments of tax and superannuation, and reforms to the tax settings for offshore liquefied natural gas projects.

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Personal Income Tax & Cost of Living Measures

Increasing the Medicare levy low-income thresholds

The Government will increase the Medicare levy low-income thresholds for singles, families and seniors and pensioners from 1 July 2022 as follows:

- The threshold for singles will be increased from $23,365 to $24,276.
- The family threshold will be increased from $39,402 to $40,939.
- For single seniors and pensioners, the threshold will be increased from $36,925 to $38,365.
- The family threshold for seniors and pensioners will be increased from $51,401 to $53,406.

For each dependent child or student, the family income thresholds will increase by a further $3,760 instead of the previous amount of $3,619.

The increase in the thresholds provides cost-of-living relief by taking account of recent CPI outcomes so that low-income individuals continue to be exempt from paying the Medicare levy.

Exempting lump sum payments in arrears from the Medicare levy

The Government will exempt eligible lump sum payments in arrears from the Medicare levy from 1 July 2024. This measure will ensure low-income taxpayers do not pay higher amounts of the Medicare levy as a result of receiving an eligible lump sum payment, for example as compensation for underpaid wages.

Eligibility requirements will ensure that relief is targeted to taxpayers who are genuinely low-income and should be eligible for a reduced Medicare levy. To qualify, taxpayers must be eligible for a reduction in the Medicare levy in the two most recent years to which the lump sum accrues.

Taxpayers must also satisfy the eligibility requirements of the existing lump sum payment in arrears tax offset, including that a lump sum accounts for at least 10% of the taxpayer's income in the year of receipt.

Low and Middle Income Tax Offset (LMITO) not extended beyond 2021-2022

The 2023-24 Budget did not announce any extension of the Low and Middle Income Tax Offset (LMITO) beyond the 2021-22 income year. The LMITO has now ceased and been fully replaced by the Low Income Tax Offset (LITO).

With no extension of the LMITO announced in the Budget, the LMITO remains legislated to only apply until the end of the 2021-22 income year. As a result, low-to-middle income earners may see their tax refunds from July 2023 reduced by between $675 and $1,500 (for incomes up to $90,000 but phasing out up to $126,000), all other things being equal.

Stage 3 tax cuts

Although not specifically addressed, it would seem that the stage three tax cuts will proceed for now.

New personal tax rates will apply from 1 July 2024 as shown in the table below.

Tax Rate	Thresholds in 2022-23 & 2023-24	Tax Rate	New thresholds in 2024-25
Nil	Up to $18,200	Nil	Up to $18,200
19%	$18,201 - $45,000	19%	$18,201 - $45,000
32.5%	$45,001 - $120,000	30%	$45,001 - $200,00
37%	$120,001 - $180,000		
45%	$180,001 and over	45%	$200,001 and over

*The above rates **do not** include the Medicare levy of 2%.*

Anyone with taxable income above $45,000 will benefit from the stage three tax cuts, but the largest gains will be for those on higher incomes, particularly those in the top marginal bracket of $200,000 or more as shown in the below table:

Income	Income Tax (2022-23)	Income Tax (2024-25)	Tax Savings
$45,000	$5,092	$5,092	$0
$60,000	$9,967	$9,592	$375
$80,000	$16,467	$15,592	$875
$120,000	$29,467	$27,592	$1,875
$150,000	$40,567	$36,592	$3,975
$180,000	$51,667	$45,592	$6,075
$200,000	$60,667	$51,592	$9,075
$250,000	$83,167	$74,092	$9,075

Source: Australian Financial Review.

Help with annual power bills

Up to $500 electricity bill relief will be delivered to eligible households (i.e., pensioners, health card holders and recipients of Family Tax Benefits). Each State and Territory varies on their respective relief.

Reduce out-of-pocket health costs

The bulk billing incentive will be tripled for the most common consultations with eligible Australians (i.e., children under 16, pensioners and other Commonwealth concession card holders).

Regional Australia enjoys a specific boost in GP payments. The government is investing $3.5b to encourage GPs to bulk bill under-16s, concession card holders and pensioners. Regional GPs will receive a higher payment than metropolitan GPs.

The government has also expanded eligibility for the First Home Guarantee and the Regional First Home Buyer Guarantee.

Reducing the cost of medicines

From 1 September 2023, more than 300 PBS medicines will be dispensed in greater amounts.

Cheaper childcare

Cheaper childcare commences on 1 July 2023, making it easier for parents and carers, particularly women, to participate in the workforce. Childcare Subsidy rates will increase to 90% percent for eligible families earning less than $80,000. Subsidy rates will then taper down until it reaches 0% for families earning over $530,000 (previously over $356,756 would be nil).

Paid Parental Leave

From 1 July 2023, Parental Leave Pay and Dad and Partner Pay will combine into a single 20-week payment. A new family income test of $350,000 per annum will see nearly 3,000 additional parents become eligible for the entitlement each year. The Government has committed to increase Paid Parental Leave to 26 weeks by 2026.

Income support

Increasing the rate of income support payments like JobSeeker Payment, Austudy and Youth Allowance by $40 per fortnight. The age cut-off for the Single Parenting Payments will be lifted from 8 to 14. Eligible single parents will now receive $176.90 extra per fortnight.

Targeted support for older job seekers

Expanding eligibility for existing higher rebate of JobSeeker to recipients 55 and over who have received the payment for 9 or more continuous months, which currently only applies to those 60 and over.

Small Business Measures

$20,000 instant asset write-off

From 1 July 2023 until 30 June 2024, the Government will change the instant asset write-off threshold to $20,000.

Small businesses with an aggregated annual turnover of less than $10 million will be able to immediately deduct the full cost of eligible assets costing less than $20,000 after subtracting GST that are first used or installed ready for use between 1 July 2023 and 30 June 2024. The $20,000 threshold will apply on a per-asset basis, so small businesses can instantly write off multiple assets. This is unfortunately a considerably restricted instant asset write-off ("IAWO") scheme given the value of assets that qualify and that it no longer applies to businesses with turnover up to $50M.

Eligibility for the IAWO scheme is as follows:

- For businesses with annual aggregated turnover of less than $10m;
- For assets costing less than $20,000 (excluding GST); and
- For assets acquired and installed ready for use between 1 July 2023 and 30 June 2024.
- Expenditure on capital improvements to buildings that falls within the scope of the capital works rules is not expected to qualify.

Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool and depreciated at 15% in the first income year and 30% each income year thereafter.

The provisions that prevent small businesses from re-entering the simplified depreciation regime for five years if they opt-out will continue to be suspended until 30 June 2024.

This will be particularly relevant to small business entities that chose to leave the simplified depreciation system in order to opt-out of applying the temporary full expensing rules to one or more specific assets.

New Energy Incentive for small businesses

Small and medium businesses with an aggregated annual turnover of less than $50 million will be able to deduct an additional 20% of the cost of eligible depreciating assets that support electrification and more efficient use of energy. Up to $100,000 of total expenditure will be eligible for the Small Business Energy Incentive, with the maximum bonus deduction being $20,000.

For a company on the 25% tax rate, the maximum $20,000 bonus tax deduction equates to a tax saving of $5,000.

A range of depreciating assets, as well as upgrades to existing assets, will be eligible for the Small Business Energy Incentive. These will include assets that upgrade to more efficient electrical goods (such as energy-efficient fridges), assets that support electrification (such as heat pumps and electric heating or cooling systems), and demand management assets (such as batteries or thermal energy storage). Full details of eligibility criteria will be finalised in consultation with stakeholders.

Eligible assets will need to be first used or installed ready for use between 1 July 2023 and 30 June 2024. Eligible upgrades will also need to be made in this period.

Certain exclusions will apply such as electric vehicles, renewable electricity generation assets, capital works, and assets that are not connected to the electricity grid and use fossil fuels.

FBT – Electric Car Discount

As previously announced, plug-in hybrid electric cars will be excluded from the fringe benefits tax (FBT) exemption for eligible electric cars from 1 April 2025.

Arrangements entered into between 1 July 2022 and 31 March 2025 can remain eligible for the FBT exemption as long as the exemption applied to the car before 1 April 2025 and the employer has a financially binding commitment to continue providing private use of the car on and after this date.

Heavy vehicle user charge increase

The Heavy Vehicle Road User Charge rate from 27.2 cents per litre of diesel by 6% per year over 3 years from 2023-24 to 32.4 cents per litre in 2025-26.

Support for SMEs and start-ups

An Industry Growth Program will support SMEs and start-ups to commercialise their ideas and grow their operations (businesses operating in the National Reconstruction Fund are a priority). The program has $392.4 million over 4 years.

An additional $39.6m over 4 years will support the Single Business Service to help SMEs engage with Government.

Cybersecurity funding

A small business wardens' program through the Council of Small Business Organisations Australia (COSBOA) will support small businesses to build in-house capability to protect against cyber threats. $23.4 million has been provided over 3 years from 2023-24.

Increase in wage expectations for temporary skilled workers

Employers who wish to nominate workers for subclass 482, 186 and 187 visas must meet certain salary and employment condition requirements. This includes ensuring that the overseas worker is paid no less than an Australia worker doing the same job, and the visa programs does not undercut the Australian labour market. If a worker will be paid less than $250,000, the employer needs to prove that the overseas worker will be paid at least the Temporary Skilled Migration Income Threshold (TSMIT). From 1 July 2023, TSMIT will increase from the current rate of $53,900 to $70,000.

$1bn to boost biosecurity

The Government has committed $1bn over 4 years to strengthen Australia's biosecurity system. The bulk of spending ($845m) is focussed on biosecurity policy and implementation including preparedness, digital systems in cargo pathways, and the reduction of biosecurity risks in Northern Australia. The initiative is partially offset by increasing costs for the clearance of low value imported cargo and a biosecurity protection levy on Australian producers of agricultural, forestry and fishery products from 1 July 2024.

The government continues to allocate funds from the Natural Heritage Trust funding special account. In this budget, existing resourcing is allocated to protect nature, threatened species, the BushBlitz, and Natural resource management ($341.2m over 5 years), $302.1m for 'climate smart' Agri, the protection of wetlands and catchments($50m) and world heritage properties ($48m). Note again that this is not new money, but money from an existing account that has now been allocated to projects.

The Budget also provides for $38.4m for agricultural sustainability, $5m for animal welfare, $5.6m for an independent assessment of the phase-out of live sheep export and $20m for a National Soil Action Plan.

The Budget also funds a new National Net Zero Authority, which was welcomed by the NFF, although with some concerns around electricity transmission easements.

Lodgement penalty amnesty program

A lodgement penalty amnesty program is being provided for small businesses with an aggregated turnover of less than $10 million to encourage them to re-engage with the tax system.

The amnesty will remit failure-to-lodge penalties for outstanding tax statements lodged in the period from 1 June 2023 to 31 December 2023 that were originally due during the period from 1 December 2019 to 28 February 2022.

Halving the increase in quarterly tax instalments

The Government will amend the tax law to set the GDP adjustment factor for pay as you go ('PAYG') and GST instalments at 6% for the 2024 income year, a reduction from 12% under the statutory formula. The reduced factor will provide cash flow support to small businesses and other PAYG instalment taxpayers.

The 6% GDP adjustment rate will apply to small businesses and individuals who are eligible to use the relevant instalment methods (up to $10 million aggregated annual turnover for GST instalments and $50 million aggregated annual turnover for PAYG instalments), in respect of instalments that relate to the 2024 income year and fall due after the enabling legislation receives Royal Assent.

Paid domestic violence leave

Following the October 2023 federal budget, the Government has continued its support for paid domestic violence leave:

- Up to 10 days for employers of 15 or more from 1 February 2023;
- Up to 5 days for small businesses with less than 15 employees from 1 August 2023.

Property Measures

Capital allowances – Accelerating the capital works tax deduction for 'Build-To-Rent Developments'

For eligible new build-to-rent projects where construction commences after 7:30pm (AEST) on 9 May 2023 (Budget night), the Government will:

- increase the rate for the capital works tax deduction to 4% per year; and
- reduce the final withholding tax rate on eligible fund payments from managed investment trust ('MIT') investments from 30% to 15%.

This measure will apply to build-to-rent projects consisting of 50 or more apartments or dwellings made available for rent to the general public. The dwellings must be retained under single ownership for at least 10 years before being able to be sold and landlords must offer a lease term of at least three years for each dwelling.

The reduced managed investment trust withholding tax rate for residential build-to-rent will apply from 1 July 2024. Consultation will be undertaken on implementation details, including any minimum proportion of dwellings being offered as affordable tenancies and the length of time dwellings must be retained under single ownership.

Home Ownership and Housing Affordability

The three Home Guarantee Schemes have been expanded to allow greater eligibility for 50,000 people annually to buy homes with the backing from the government.

These schemes allow potential home buyers who earn less than $125,000 (or under $200,000 for couples) to purchase a home with a deposit of as little as 5% without paying lenders' mortgage insurance.

From 1 July this year, the eligibility criteria will expand to include:

- Joint applications from friends, siblings and other family members, rather than just married or de-facto couples;
- Non-first home buyers who haven't owned a property in Australia in the last 10 years;
- Single legal guardians of children such as aunts, uncles and grandparents, rather than the single natural or adoptive parents with dependents; and
- Australian Permanent Residents, in addition to Australian citizens.

Reducing Household Energy Bills

$1B of funds into the Clean Energy Finance Corporation to assist with more than 110,000 low interest loans for energy-saving home upgrades, including double glazing and solar panels and other improvements.

$300M of funds to make energy performance upgrades to social housing, which is expected to cut the energy needed by 60,000 social housing properties by one third and give tenants savings on their energy bills.

Superannuation Measures

Government to amend the Non-Arm's Length Income ('NALI') provisions

The Non-Arms Length Income (NALI) rules prevent superannuation trustees artificially increasing the balance of the fund, and accessing preferential tax treatment on the higher amount, by failing to recognise expenses incurred by the fund provided by a related party at a reduced rate. For example, your brother is a qualified accountant and does all of your SMSF's accounting work for free (that he would normally charge $5k for).

Currently, where expenses incurred by the fund are not at arm's length and below market rates, any income derived could be deemed to be non- arm's length income and taxed at the top marginal tax rate.

The Government will amend the NALI provisions which apply to expenditure incurred by superannuation funds by doing the following:

- Limiting income of self-managed superannuation funds and small Australian Prudential Regulation Authority ('APRA') regulated funds that is taxable as NALI to twice the level of a general expense. Additionally, fund income taxable as NALI will exclude contributions.
- Exempting expenditure that occurred prior to the 2019 income year.
- Exempting large APRA regulated funds from the NALI provisions for both general and specific expenses of the fund.

Increasing the frequency of superannuation guarantee payments

From 1 July 2026, employers will be required to pay their employees' superannuation guarantee entitlements on the same day that they pay salary and wages.

Currently, employers are only required to pay their employees' superannuation guarantee on a quarterly basis. By increasing the payment frequency of superannuation to align with the payment of salary and wages, this measure aims to ensure employees have greater visibility over whether their entitlements have been paid and better enable the ATO to recover unpaid superannuation.

Changes to the design of the superannuation guarantee charge will also be necessary to align with increased payment frequency.

This package will particularly benefit those in lower paid, casual, and insecure work who are more likely to miss out when superannuation guarantee is paid less frequently

Earnings for superannuation balances above $3 million taxed at 30%

From 1 July 2025, the Government will reduce the tax concessions available to individuals with a total superannuation balance exceeding $3 million.

Individuals with a total superannuation balance of less than $3 million will not be affected.

This reform is intended to ensure superannuation concessions are better targeted and sustainable. It will bring the headline tax rate to 30%, up from 15%, for earnings corresponding to the proportion of an individual's total superannuation balance that is greater than $3 million. This rate remains lower than the top marginal tax rate of 45%.

Earnings relating to assets below the $3 million threshold will continue to be taxed at 15%, or 0% if held in a retirement pension account.

Interests in defined benefit schemes will be appropriately valued and will have earnings taxed under this measure in a similar way to other interests. This will ensure commensurate treatment.

The measure will not place a limit on the amount of money an individual can hold in superannuation. The current contributions rules will continue to apply.

Tax Integrity Measures

Expanding the general anti-avoidance rule (Part IVA)

The Government will expand the scope of the general anti-avoidance rule for income tax (Part IVA of the ITAA 1936) so that it can apply to:

- schemes that reduce tax paid in Australia by accessing a lower withholding tax rate on income paid to foreign residents; and
- schemes that achieve an Australian income tax benefit, even where the dominant purpose was to reduce foreign income tax.

This measure will apply to income years commencing on or after 1 July 2024, regardless of whether the scheme was entered into before that date.

Extending the compliance program for personal income tax

The Government will provide $89.6 million to the ATO and $1.2 million to Treasury to extend the Personal Income Tax Compliance Program for two years from 1 July 2025 and expand its scope from 1 July 2023.

This extension will enable the ATO to continue to deliver a combination of proactive, preventative, and corrective activities in key areas of non-compliance, and to expand the scope of the program to address emerging areas of risk, such as deductions relating to short-term rental properties to ensure they are genuinely available to rent.

Improving engagement with taxpayers to ensure timely payment of tax and superannuation liabilities

The Government will provide funding over four years from 1 July 2023 to enable the ATO to engage more effectively with businesses to address the growth of tax and superannuation liabilities.

The additional funding will facilitate ATO engagement with taxpayers who have high-value debts over $100,000 and aged debts older than two years where those taxpayers are either:

- public and multinational groups with an aggregated turnover of greater than $10 million; or
- privately owned groups or individuals controlling over $5 million of net wealth

Investing in superannuation guarantee compliance

The Government will provide $40.2 million to the ATO in the 2024 income year, which includes $27 million for the ATO to improve data matching capabilities to identify and act on cases of superannuation guarantee underpayment by employers and $13.2 million for consultation and co-design.

Four-year extension for GST compliance program

The Government will provide $588.8 million to the ATO over four years from 1 July 2023 to continue a range of activities that promote GST compliance.

These activities will ensure businesses meet their tax obligations, including accurately accounting for and remitting GST, and correctly claiming GST refunds. Funding through this extension will also help the ATO develop more sophisticated analytical tools to combat emerging risks to the GST system.

Extending and merging the Serious Financial Crime Taskforce and Serious Organised Crime program

The Government will extend funding for the Serious Financial Crime Taskforce ('SFCT') and Serious Organised Crime program ('SOC') over four years to 30 June 2027 and merge the programs, with a merged SFCT to commence from 1 July 2023.

The SFCT and SOC are currently separately funded ATO-led cross-agency collaborations between the ATO, national policing and other law enforcement and regulatory agencies, targeting serious and organised crime groups and serious financial crime and tax evasion.

An extension and merging of these programs will maximise the disruption of organised crime groups that seek to undermine the integrity of Australia's public finances.

Minimum multinational tax rates

In line with the OECD's Base Erosion & Profit Shifting (BEPS) reforms, the Government is introducing a global minimum tax rate and a domestic minimum tax rate for large multinational enterprises to ensure that they are paying an effective minimum rate of tax on the income arising in each jurisdiction in which they operate. These measures seek to reduce the incentive for multinationals to shift their profits to low-tax jurisdictions.

Features of the model include:

- Minimum tax rates will apply to large multinationals with annual global revenue of EUR750M (approximately $1.2B) or more.
- Global minimum tax rate of 15%.
  - This would allow Australia to apply a 'top-up tax' on a resident multinational that is a parent or subsidiary company in a group, where the group's global income is taxed below 15% overseas.
- Domestic minimum tax rate of 15%.
  - This would give Australia first claim on the top-up tax where a large multinational company's effective Australian tax rate falls below 15%.

Other Budget Measures

Incentivising pensioners into the workforce – six months extension

The Government will provide $3.7 million to extend the measure to provide age and veterans pensioners with a once-off credit of $4,000 to their Work Bonus income bank and temporarily increase the maximum income bank until 31 December 2023.

Under this measure, pensioners can earn up to $11,800 before their pension is reduced, supporting pensioners who want to work, or work more hours, to do so without losing their pension.