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McKinley Plowman Federal Budget Update 2022/23

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Introduction

The October 2022-23 Federal Budget was handed down on Tuesday 25 October 2022 by Treasurer Jim Chalmers of the Albanese government off the back of their election win earlier in the year, with the preceding Morrison government handing down a pre-election budget in March. In this Budget, the key areas of focus for the Government are "Cost of Living Relief"; "A Stronger, More Resilient Economy"; "Responsible Budget Repair"; and "Paying for What's Important".

Measures introduced in this Budget to address those key areas include increased subsidies for Child Care; expanded Parental Leave; lower PBS co-payments; further investment in the NDIS and mental health services; investment in social and affordable housing; additional support for veterans, women experiencing violence, and Australians in Aged Care; additional protection for the Great Barrier Reef; further investment in the NBN; and more.

As the first Budget handed down by the recently elected Albanese government, "solid and sensible" appears to be the tagline. Its primary focus includes reducing unnecessary expenditure, tackling soaring inflation and interest rates, addressing the cost of living and housing crises, and reining in the Government's debt.

The good news is that the Budget, with its lower deficits this year and next, won't add to inflationary pressure in the near term and so shouldn't add to RBA rate hikes any further than are already likely. Another 0.25% rate in November is expected, with the cash rate to peak at 2.85%.

In recent Budgets, especially through the height of the COVID-19 pandemic, we've seen the cash well and truly splashed, with many Australians receiving some sort of injection of funds. However, this Budget certainly won't bring any quick cash to your bank account. Shorter-term measures like tax offsets and JobKeeper payments have been replaced with longer-term measures such as childcare subsidies, increased access to paid parental leave, and an increase to how much pensioners can earn before their pension is affected.

Note these Budget measures are subject to the passage of legislation.

The October 2022-23 Budget Update was compiled by the McKinley Plowman Tax Advisory team:

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Businesses

Energy efficiency grants for SMEs

The Government will provide $62.6m over 3 years from 2022-23 to help small and medium business fund energy efficient equipment upgrades. The funding will support studies, planning, equipment and facility upgrade projects that will improve energy efficiency, reduce emissions or improve the management of power demand. No details of the grants are currently available.

Modernising Business Registers Program – Continued Rollout

Extra funding of $166.2 million over the next four years goes to the ATO and ASIC to continue rollout of Modernising Business Registers program, which will consolidate over 30 business registries into a modernised registry platform, including the operation and regulation of the director ID regime.

Increase in Penalties for Competition and Consumer Law Breaches

From the 2022-23 year, the penalties for a corporation breaching competition and consumer laws will increase sharply from a maximum of $10m to a maximum of $50m per breach, and from 10% of annual turnover to 30% of turnover (whichever is greater) during the period the breach took place.

Removed: Self-Assessment of Intangible Assets

Announced in the 2021-22 Budget and due to commence on 1 July 2023, the measure enabling taxpayers to self-assess the effective life of certain intangible assets, rather than being required to use the effective life currently prescribed by statute, has been removed. The measure was to apply to assets acquired from 1 July 2023 including patents, registered designs, copyrights and in-house software.

Delayed: Ridesharing Reporting Requirements

In the 2019-20 Mid-Year Economic and Fiscal Outlook (MYEFO), new reporting measures were announced requiring sharing economy online platforms to report identification and income information on participating sellers to the ATO for data matching purposes. These measures have now been delayed from:

- 1 July 2022 to 1 July 2023 for transactions relating to the supply of ride sourcing and short-term accommodation, and
- 1 July 2023 to 1 July 2024 for all other reportable transactions (including but not limited to asset sharing, food delivery and tasking-based services).

Companies to Declare Their Subsidiaries

New reporting requirements from 1 July 2023 will require:

- Australian public companies (listed and unlisted) to disclose information on the number of subsidiaries and their country of tax domicile;
- Tenderers for Australian Government contracts worth over $200,000 to disclose their country of tax domicile (by supplying their ultimate head entity's country of tax residence); and
- Large multinationals, defined as significant global entities, to prepare for public release of certain tax information on a country by country (CbC) basis and a statement on their approach to taxation, for disclosure by the ATO.

Tailored Small Business Mental Health & Financial Counselling

The Government is providing $15.1 million to extend the tailored small business mental health and financial counselling programs, NewAccess for Small Business Owners and the Small Business Debt Helpline.

FBT exemption on electric vehicles

The Government has reiterated its commitment to creating greater pathways for Australians to drive zero or low emissions vehicles through the proposed introduction of an exemption from fringe benefits tax for the use of electric vehicles (as outlined in the Treasury Laws Amendment (Electric Car Discount) Bill 2022).

Individuals

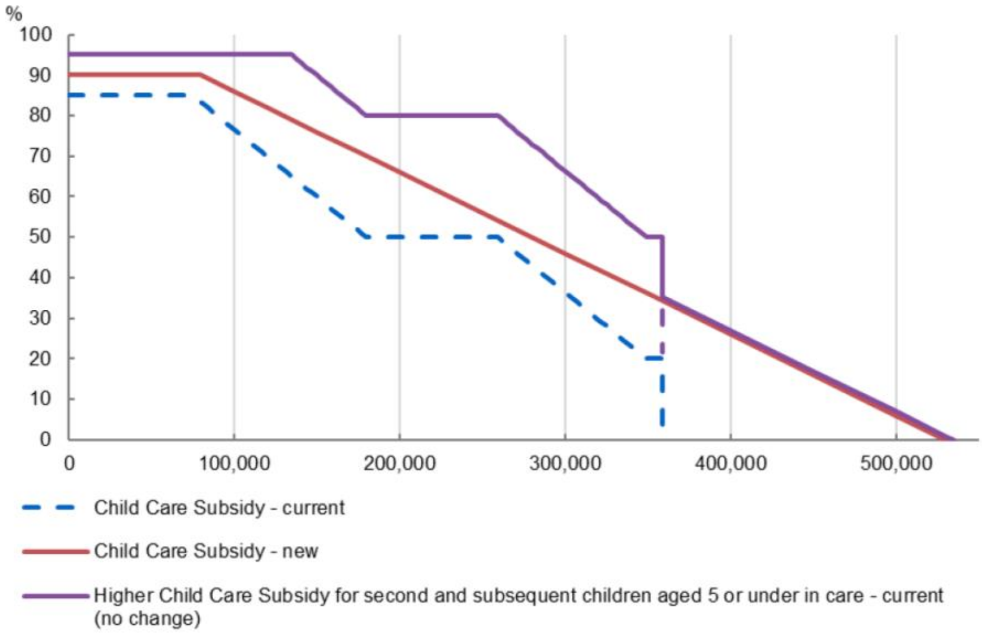
Child Care Subsidies – Extended

The Government has pledged to invest $4.7 billion over 4 years from 2022-23 to make early childhood education and care more affordable. Of all Australian families with children in care, 96 per cent will benefit from these reforms. From July 2023, Child Care Subsidy rates will increase up to 90 per cent for eligible families earning less than $530,000; and those with any additional children in care aged 5 or under will continue to receive a higher rate (up to 95 per cent).

It is hoped that by increasing financial support through Child Care Subsidies, there will be several positive outcomes, namely:

- Parents returning to work sooner: These measures will allow many parents to return to the workforce sooner, rather than having to wait until their child reaches school age.
- Increasing workforce capacity: It is predicted that these reforms will increase the number of women in the workforce, bringing in an additional 1.4 million working hours per week in 2023-24 – equivalent to 37,000 full-time workers.
- The reforms will also support children's learning and development, better preparing them for school.

The graphic below compares the proposed new subsidy rate with the current rate, with the x-axis representing



Expanded Paid Parental Leave

$531.6 million will be invested from 2022-23 to expand the Paid Parental Leave Scheme. In 2026, 26 weeks of Paid Parental Leave will be accessible to families, constituting the most significant reform to the scheme since it was first introduced in 2011. This aims to enhance economic security, improve gender equality and flexibility, and allow both parents to spend more time with their children.

Parents will also be able to claim weeks of the payment concurrently so they can take leave at the same time. Eligibility will also be expanded with the introduction of a $350,000 family income test, which families can be assessed under if they do not meet the individual income test.

From 1 July 2024, the Government will begin expanding the scheme from the current 18 weeks by two additional weeks a year until it reaches a full 26 weeks from 1 July 2026.

Both parents will be able to share the leave entitlement, with a proportion maintained on a "use it or lose it" basis, to encourage and facilitate both parents to access the scheme and to share the caring responsibilities more equally. Sole parents will be able to access the full 26 weeks.

Aged Care Reform

$2.5bn will be provided over 4 years to improve the quality of aged care in residential aged care facilities by requiring all facilities to have a registered nurse onsite 24 hours per day, 7 days a week from 1 July 2023 and increasing care minutes to 215 minutes per resident per day from 1 October 2024.

The reforms also enable the Government to cap charges that approved providers of home care (home care providers) may charge care recipients and removes the ability of home care providers to charge exit amounts.

Lifting the Income Limit on Seniors Health Card

As previously announced, the income test limits will be increased for access to the Commonwealth Seniors Health Card (CSHC). The CSHC provides subsidised pharmaceuticals and other medical benefits for self-funded retirees that have reached aged pension age.

The income test captures adjusted taxable income plus deeming on account-based pensions unless grandfathered under the pre-1 July 2015 rules. The CSHC is not asset tested.

	Current ($ per annum)	New ($ per annum)
Single	$61,284	$90,000
Couples combined	$98,054	$144,000

Legislation enabling the increase is before Parliament.

The Government will also freeze social security deeming rates at their current levels for a further two years until 30 June 2024.

Pharmaceutical Benefits Scheme (PBS) Co-Payment Reduction

From 1 January 2023, the maximum co-payment under the PBS will reduce from $42.50 to $30 per script – a reduction of 29 per cent. This is another measure introduced in the Budget to tackle cost of living pressures, as high costs of PBS medications meant that in 2019-20, nearly 1 million Australians chose to delay filling their medications, or not fill them at all. The reduction in the co-payment is predicted to save approximately 3.6 million Australians a combined $190 million in out of pocket costs.

Encouraging Pensioners Back into the Workforce

Age and veterans pensioners will be able to work and earn more before their pension is reduced. The Government is providing a one-off $4,000 credit to their Work Bonus income bank.

The temporary income bank top-up will increase the amount pensioners can earn in 2022–23 from $7,800 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.

Housing Accord

The Housing Accord sets a target of one million new, well-located homes to be delivered over five years from mid-2024 as capacity constraints (worker shortages, material supply chain issues etc.) are expected to ease. Under the Accord, the Government will provide $350 million over five years, with ongoing availability payments over the longer term, to deliver an additional 10,000 affordable dwellings. States and territories will also support up to an additional 10,000 affordable homes, increasing the dwellings that can be delivered under the Accord to 20,000.

The Accord builds on the Government's $10 billion investment to establish the Housing Australia Future Fund. Returns from the Fund will be used to build 30,000 new social and affordable dwellings over 5 years. The Government is expanding the remit of the National Housing Infrastructure Facility to allow it to use more flexibly $575 million of existing funds. This will help unlock a projected 5,500 new dwellings.

Regional First Home Buyer Guarantee

The Government is helping 10,000 eligible first home buyers a year in regional Australia to buy a home by guaranteeing up to 15 per cent of the purchase price.

Total and Permanent Incapacity Payments to Veterans

The Special Rate of Disability Compensation Payment, Temporary Special Rate Payment, and the Special Rate Disability Pension for veterans will increase by $1,000 per year.

Income Support Asset Test Extended on Proceeds of Sale of Main Residence

As previously announced, the Government is:

- Extending the assets test exemption for principal home sale proceeds from 12 months to 24 months for income support recipients, and
- Changing the income test, to apply only the lower deeming rate (0.25%) to principal home sale proceeds when calculating deemed income for 24 months after the sale of the principal home.

The exemptions apply until the income support recipient acquires another main residence or the 24-month period expires. The Bill enabling the extension is currently before Parliament.

Superannuation

‘Downsizer’ eligibility reduced to 55

As previously announced, the Government will reduce the age an individual can make a ‘downsizer’ contribution to superannuation from the current 60 years to 55 years of age.

Currently, eligible individuals aged 60 years or older can choose to make a ‘downsizer contribution’ into their superannuation of up to $300,000 per person ($600,000 per couple) from the proceeds of selling their home.

Downsizer contributions can be made from the sale of your principal residence in Australia that you have owned for the past ten or more years. These contributions are excluded from the age test, work test, and your total superannuation balance (but not exempt from your transfer balance cap).

Legislation enabling the expanding eligibility is currently before Parliament.

Delayed: Relaxation of SMSF residency requirements

The 2021-22 Budget announced that the residency rules for Self-Managed Superannuation Funds (SMSFs) and small APRA regulated funds (SAFs) will be relaxed by extending the central control and management test safe harbour from two to five years for SMSFs, and removing the active member test for both fund types.

This measure was due to commence from 1 July 2022. The Government has announced that it will defer the start date to the income year commencing on or after the date of Royal Assent of the enabling legislation.

Removed: 3-Year SMSF Audit Requirement

Back in the 2018-19 Budget the Government announced that SMSFs with a history of good record-keeping and compliance – that is, three consecutive years of clear audit reports and annual returns lodged on time, will only be required to have their fund audited every three years.

The Government has now officially announced that this measure will not be proceeding, however annual audit requirements remain in place.

Other Important Budget Items

Extended ATO Compliance Programs

The Government has announced that it will be investing heavily in personal/business tax compliance, whilst tackling the shadow economy, tax avoidance, and enhancing the overall integrity of the tax system. Below is a summary of each focus area.

Personal Income Tax Compliance Program

$80.3 million will be given to the ATO to extend the Personal Income Tax Compliance Program for two years from 1 July 2023. This aims to enable the ATO to continue to deliver preventative and corrective activities addressing non-compliance, modernise its guidance products, and engage earlier with taxpayers and tax agents.

Shadow Economy Program

The existing Shadow Economy Program will be extended for a further three years, from 1 July 2023, with a view to enabling the ATO to continue to target shadow economy activity. This will include a "strong and coordinated" response to such activity, aiming to protect revenue and ensure a level playing field for businesses that are compliant.

Tax Avoidance Taskforce

The Tax Avoidance Taskforce will receive additional funding of approximately $200 million per annum, over four years starting from 1 July 2022, and will be extended by a further year from 1 July 2025. With this additional resource, the ATO intends to pursue new priority areas of observed business tax risks, to complement the ongoing focus on multinational enterprises and large public and private businesses.

Cryptocurrency Not a Foreign Currency

As previously flagged, the Government will legislate to clarify that digital currencies such as Bitcoin will continue to be excluded from the Australian income tax treatment of foreign currency. The exclusion does not apply to digital currencies issued by, or under the authority of, a government agency, which continue to be taxed as foreign currency.

Community Batteries for Household Solar

The Government will provide $224.3m over 4 years from 2022-23 to deploy 400 community batteries across Australia. A related solar initiative will see an additional $102m committed to establish a Community Solar Banks program for the deployment of community-scale solar and clean energy technologies. This initiative is aimed at regional communities, social housing, apartments, rental accommodation, and households that are traditionally unable to access rooftop solar.

At McKinley Plowman, we're dedicated to helping our clients make the most of the measures announced in the budget. If you require any assistance or further information about the contents of the Federal Budget, and how they might affect you as an individual or a business owner, please don't hesitate to reach out. Our dedicated teams in the areas of accounting, taxation, bookkeeping, superannuation, and finance are on hand to assist.

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