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McKinley Plowman Federal Budget Update 2023-24

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Introduction

The 2023-24 Federal Budget was handed down on Tuesday 9 May 2023 by Treasurer Jim Chalmers of the Albanese government. The budget will return to a $4 billion surplus this financial year, followed by a $13.9 billion deficit the following year. Treasury forecasts under this budget inflation will fall from 6% this year to 3.25% next year, with wages rising to 4% the next financial year, suggesting potential return to real wages growth.

Here are the highlights from the budget:

- $14.6 billion cost-of-living package, including higher JobSeeker and other welfare payments, rent assistance, electricity bill assistance, and expanded eligibility for single parent payments. The JobSeeker base rate will increase by $40 per fortnight, while the higher JobSeeker payments for Australians 60 and older will be extended to include those 55 and older.
- Threshold increase on the Instant Asset Write-Off for Small Businesses.
- Small Business Energy Incentives – up to $20,000 in tax deductions available.
- Small Business Lodgement Penalty Amnesty.
- $5.7 billion investment in Medicare, including tripling bulk billing incentives.
- Rent assistance to increase by $31 per fortnight to address rising rents.
- Revenue Raising Measures:
  - A 15% global and domestic minimum tax for large multinational companies.
  - Tax on super balances over $3 million.
  - Increase to the tax on offshore gas companies.

Note these Budget measures are subject to the passage of legislation, however it is unlikely that there will be any issues there.

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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Businesses

Instant Asset Write-Off Threshold Increased to $20,000

The Government will temporarily increase the instant asset write-off threshold to $20,000 from 1 July 2023 to 30 June 2024. Small businesses (those with aggregated annual turnover of <$10m) will be able to immediately deduct the full cost of eligible assets costing less than $20,000 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. 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.

Small Business Energy Incentive: 20% bonus deduction

The Small Business Energy Incentive will provide businesses with annual turnover of less than $50 million an additional 20% deduction on spending that supports electrification and more efficient use of energy. This will apply to a range of depreciating assets, and upgrades to existing assets, and will include upgrades 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. However, exclusions 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.

Up to $100,000 of total expenditure will be eligible for the incentive, therefore the maximum bonus tax deduction is $20,000 per business. Eligible assets or upgrades will need to be first used or installed ready for use between 1 July 2023 and 30 June 2024.

Small Business Lodgement Penalty Amnesty

A lodgement penalty amnesty program will be provided for small businesses with aggregate turnover of less than $10 million to encourage them to re-engage with the tax system. For outstanding tax statements originally due during the period from 1 December 2019 to 29 February 2022, the amnesty will remit failure-to-lodge penalties if they are brought up to date in the period from 1 June 2023 to 31 December 2023.

Integrity Measure to Target Unpaid Tax and Super

Funding will be provided from 1 July 2023 over 4 years to assist the ATO to engage more effectively with businesses to address the growth of tax and superannuation liabilities. The ATO will be particularly interested in taxpayers who have high-value debts over $100,000 and aged debts older than 2 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.

This measure is estimated to increase receipts by $718m and increase payments by $275.4m over 5 years from 2022-23. In addition to the $82.1m in funding for the ATO, the increase in payments also includes $12.3m in unpaid superannuation to be disbursed to employees, and $181m in GST payments to the States and Territories.

Increasing payment frequency of employee super

From 1 July 2026, employers will be required to pay their employees' super guarantee entitlements on the same day that they pay salary and wages (currently, SG is paid quarterly). The Government is aiming to provide details of the final design of the measure in the 2024-25 Federal Budget, following a consultation process.

Hybrid cars excluded from FBT Electric Car Exemption

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.

Tax breaks for build-to-rent developments

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

- Increase the rate for the capital works tax deduction (depreciation) from 2.5% to 4% p.a.
- Reduce the final withholding tax rate on eligible fund payments from managed investment trust (MIT) investments from 30% to 15%.

The measure applies to build-to-rent projects where 50 or more apartments are made available to 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 3 years for each dwelling.

The reduced MIT withholding tax rate for residential build-to-rent will apply from 1 July 2024. The Government will work through a consultation process to determine 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.

Work hour cap on international student visa holders (reintroduction)

During the pandemic, the cap on the number of hours an international student visa holder could work was removed. From 1 July 2023 a work cap of 48 hours per fortnight will be reinstated. International students working in the aged care sector will be exempt from the cap until 21 December 2023.

Individuals

Energy price plan relief

Over the next 5 years, the $1.5bn Energy Bill Relief Fund will provide targeted energy bill relief to eligible households and small business customers, which includes pensioners, Commonwealth Seniors Health Card holders, Family Tax Benefit A and B recipients and small business customers of electricity retailers. It will also aim to progress gas market reform.

In partnership with the states and territories, the plan is expected to deliver up to $500 in electricity bill relief for eligible households and up to $650 for eligible small businesses. Funding has also been provided to the ACCC to enforce the temporary cap of $12 per gigajoule on the price of gas and to develop and implement a mandatory gas code of conduct, as well as funding for Australian Energy Regulator to monitor coal and gas markets across the National Electricity Market. The Government expects that retail electricity price increases in 2023-24 will be around 25% smaller and retail gas price increases around 16% smaller as a result of their interventions.

Medicare levy low-income thresholds for 2022-23

The Medicare levy low-income threshold for singles will be increased from $23,365 for the 2021-22 income year to $24,276 for the 2022-23 income year. For couples with no children, the family income threshold will be increased to $40,939 (up from $39,402 for 2021-22). The additional amount of threshold for each dependent child or student will be increased to $3,760 (up from $3,619).

For single seniors and pensioners eligible for the Seniors and Pensioners Tax Offset (SAPTO), the Medicare levy low-income threshold will be increased to $38,365 (up from $36,925 for 2021-22). The family threshold for seniors and pensioners will be increased to $53,406 (up from $51,401), plus $3,760 for each dependent child or student. The increased thresholds will apply to the 2022-23 and later income years. Note that legislation is required to amend the thresholds and a Bill will be introduced shortly.

Medicare levy exemption for lump sum payments in arrears from 1 July 2024

The Government will exempt eligible lump sum payments in arrears from the Medicare levy from 1 July 2024. The measure seeks to 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 2 most recent years to which the lump sum accrues. Taxpayers must also satisfy the existing eligibility requirements of the existing lump sum payment in arrears tax offset, including that a lump sum accounts for at least 10 per cent of the taxpayer's income in the year of receipt.

The measure is estimated to only cost the Budget $2 million over the 5 years from 2022-23 and will take effect 1 July 2024.

Extension of ATO Tax Compliance and Anti-Crime Programs

The Government has announced an extension to personal tax compliance and serious financial crime programs, with a view to combatting non-compliance and tax evasion.

Anti-financial crime programs: From 1 July 2023, the Serious Financial Crime Taskforce and the Serious Organised Crime program will be extended and merged. This aims to better target serious and organised crime groups seeking to undermine the integrity of Australia's public finances. The combined programs are estimated to increase receipts by approximately $279.5 million and payments by $256.6 million over five years from 2022-23.

Personal income tax compliance program: From 1 July 2023, the scope of the Personal Income Tax Compliance Program will be extended and expanded. This will allow the ATO to continue delivering preventative, corrective and proactive activities in key areas of non-compliance, and to broaden the program's scope to address developing risk areas. The funding of this program will allow the Government to undertake compliance activities and detect tax avoidance, notably deductions relating to short-term rental properties. During the five years from 2022-23, the extension is estimated to increase payments by $90.8 million and increase receipts by $474.9 million.

Note that voluntary disclosures can reduce penalties in some instances by 80%, provided a disclosure is made prior to commencement of ATO review/audit activity.

JobSeeker Support Increased

The Government will increase support for people receiving working age payments including JobSeeker. The base rate of working age and student payments will increase by $40 per fortnight from 20 September 2023. The increase applies to the JobSeeker Payment, Youth Allowance, Parenting Payment (Partnered), Austudy, ABSTUDY, Disability Support Pension (Youth), and Special Benefit.

In addition, eligibility for the existing higher single JobSeeker Payment rate for recipients aged 60 years and over will be extended to recipients aged 55 years and over who are on the payment for 9 or more continuous months.

Single parent payment increase

As previously announced, the age cut-off for the Parenting Payment (Single) will increase from 8 to 14. From 20 September 2023, (subject to the passage of legislation), single parents will no longer have to transfer to JobSeeker when their youngest child turns eight. Instead, they will continue to receive the higher support, with a current base rate of $922.10 per fortnight until their youngest child turns 14.

As a result, eligible single parents currently on JobSeeker will receive an increase to payments of $176.90 per fortnight. Single parents moving to Parenting Payment (Single) will also benefit from more generous earning arrangements compared to JobSeeker. Eligible single parents with one child will be able to earn an extra $569.10 per fortnight, plus an extra $24.60 per additional child, before their payment stops.

In-home aged care increase

An additional 9,500 Home Care Packages will be available in 2023-24. The $338.7m package also includes a trial to test products and services for a new assistive technologies loan program, commencing in July 2024 within 2 states and territories.

Access to home guarantee scheme expanded to friends and siblings

As previously announced, from 1 July 2023, access to the Government's Home Guarantee Scheme will be expanded to joint applications from "friends, siblings, and other family members" and to those who have not owned a home for at least 10 years.

Scheme	Current Eligibility	From 1 July 2023:
First Home Guarantee – guarantees part of a first home owner's home loan enabling them to purchase a home with as little as 5% deposit without paying Lenders Mortgage Insurance. Guarantee capped at 15% of the value of the property. 35,000 places are available to the scheme per year.	• Applying as an individual or couple (married / de facto) • First home buyers who have not previously owned, or had an interest in, a property in Australia. An Australian citizen(s) at the time they enter into the loan • At least 18 years of age • Earning up to $125,000 for individuals or $200,000 for couples, as shown on the Notice of Assessment (issued by the Australian Taxation Office) • Intending to be owner-occupiers of the purchased property	• Friends, siblings, and other family members will be eligible for joint applications not just an individual or couple (married de facto) • First home buyers and non-first home buyers who haven't owned a property in Australia in the last ten years • Australian citizens and permanent residents at the time they enter the loan • All other criteria remain the same
Regional First Home Buyer Guarantee - An extension of the First Home Guarantee applicable to regional areas only. 10,000 places are available to the scheme each year to 30 June 2025.	• As above for the First Home Guarantee plus the borrower must have lived in the regional area (or adjacent) they are purchasing in for the preceding 12-month period to the date they execute the home loan agreement.	• As above for the First Home Guarantee plus the regional area eligibility requirement.
Family Home Guarantee – guarantees the home loan of an eligible single parent with at least one dependent child enabling them to purchase a home with as little as 2% deposit without paying Lenders Mortgage Insurance. Guarantee capped at 15% of the value of the property. 5,000 places are available to the scheme each year to 30 June 2025.	• Applying as an individual • A single parent with at least one dependent child (natural or adopted) • An Australian citizen at the time they enter into the loan • At least 18 years of age • Be earning no more than $125,000 per year • Intending to be owner-occupier of the purchased property • Not currently a property owner	• A single parent with at least one dependent child including legal guardians of children such as aunts, uncles and grandparents • Australian citizens and permanent residents at the time they enter into the loan

Stage 3 Tax Cuts (Remaining in Place)

Note, the stage 3 tax cuts legislated to take effect on 1 July 2024 remain in place. Stage 3 radically simplifies the tax brackets by collapsing the 32.5% and 37% rates into a single 30% rate for those earning between $45,001 and $200,000.

Superannuation

Further Amendments to the NALE Rules

In October 2019, the previous government made changes to the Income Tax Assessment Act to impose non-arm's length income taxes on net revenue where superannuation funds had incurred non-arm's length expenditure (NALE). That legislative amendment has been the subject of much comment and advocacy from industry organisations.

The Budget has clarified some elements of how NALE will operate, namely:

- APRA regulated funds have been entirely excluded from the measures
- The measures will not apply to expenditure that occurred prior to the 2018-19 financial year
- Small APRA funds and SMSFs will continue to be subject to the NALE rules
- Income to which non-arm's length income taxation will apply specifically excludes superannuation contributions.

How is non-arm's length income taxation applied?

In relation to specific investment, if expenditure is not incurred on an arm's length basis, then the net income arising from the investment will be taxed at the non-arm's length income tax rate of 45%.

Where general expenditure has not been incurred on arm's length terms, then an amount equal to double the value of the general expense will be deemed to be non-arm's length income and subject to income tax at 45%.

Increased Tax on Superannuation Balances >$3 million

The Government has confirmed its intention to reduce tax concessions for members with total superannuation balances of more than $3 million. The headline tax rate will increase up to 30% - double the existing 15% tax currently being paid by members of superannuation funds not in retirement phase.

The proposal to increase tax on superannuation balances greater than $3 million will be effective 1 July 2025 and will also apply to defined benefit schemes, with interests being appropriately valued and earnings taxed in a similar way to other interests.

Our understanding is that there will be no indexation applied to this $3 million cap, however contribution caps and transfer balance caps are expected to continue to be indexed. While the measure is only expected to impact 80,000 individuals in 2025-26, the number of impacted individuals is expected to increase as superannuation balances increase.

Tax on unrealised gains

The proposal introduced by the Government intends to assess all earnings and member balance growth from 1 July to 30 June of each year. The proposed definition of earnings is intended to include unrealised capital gains.

While the Government's intention is to keep the measure simple to administer, while continuing to provide for a dignified retirement, there has been insufficient information received to confirm how this tax will actually be applied in practice.

Other Important Budget Items

15% pay increase for Aged Care Workers

$515m over 5 years will be provided to fund the outcome of the Fair Work Commission's decision on the Aged Care Work Value Case – increasing award wages by 15% from 30 June 2023 for many aged care workers including registered nurses, enrolled nurses, assistants in nursing, personal care workers, home care workers, recreational activity officers, and some head chefs and cooks.

The increase will be partially offset by a temporary reduction in the residential aged care provision ratio from 78 places to 60.1 places per 1,000 people aged over 70 years.

Childcare

Support for childcare workforce: A series of measures will support the Early Childhood Education and Care (ECEC) sector including:

- $34.4m over 5 years to subsidise ECEC services to backfill up to 75,000 early childhood educators, and training for teachers and directors.
- $33.1m over 5 years for financial assistance for up to 6,000 educators to undertake a paid practicum in initial teacher education courses at a bachelor or post-graduate level.
- $4.8m for up to 2,000 ECEC workers to undertake a practicum exchange at a different service.

Additional Childcare Subsidy: The Budget includes an additional Child Care Subsidy (ACCS) that will provide $2.8 million in the next four years starting from 2023-24 to streamline delivery of the ACCS and expand the exceptional circumstances criteria. The Government will undertake additional payment integrity activities to safeguard the Child Care Subsidy program from fraud and non-compliance.

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.

Medicare plan

The Treasurer announced a $445 million plan to "enable doctors, nurses and allied health professionals to co-operate for better care" as well as a $3.5 billion bulk billing incentive to help GPs provide free consultations. The goal is to lessen the cost and broaden ease of access for those struggling to afford quality care and assistance.

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

How McKinley Plowman Can Help

If you would like more guidance or information about the measures announced in the Budget and how they might impact your business, superannuation, or personal finance, please do not hesitate to reach out to the McKinley Plowman team on 08 9301 2200 or contact us via our website.