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# Federal Budget

## 2023

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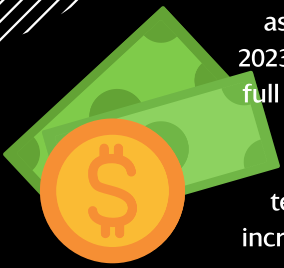


## $20k

threshold instant asset write- off for 2023 - 2024. With the full expensing gone, the threshold of $1,000 has temporarily been increased to $20,000

## Stage 3

tax changes

Commence from 1 July 2024 as previously legislated

## 20% bonus

deduction

Small businesses with annual turnover of less than $50 million will receive an extra 20% deduction on spending towards electrification and energy efficiency through the Small Business Energy Incentive

## Super

payday

Super to be paid on employees' payday from 1 July 2026

## Super

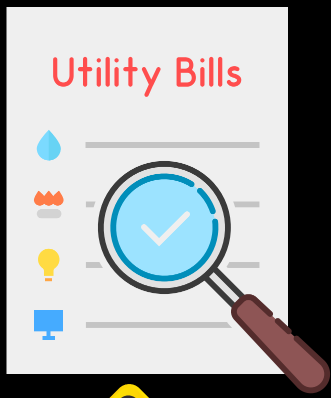
tax changes

for account balances over $3 million confirmed but no further details

## up to $500

energy cost relief

for families and small businesses




## Super

pensions

No reduction in minimum drawdowns for 2023-24: The temporary 50% reduction in the minimum annual payment amounts for superannuation pensions and annuities, which has been in effect for the 2019-20, 2020-21, 2021-22, and 2022-23 income years, will end on 30 June 2023.

## 15%

reduction

in build to rent withholding tax


## $289m

investment

in the creative sector

**FBT rules for electric vehicles**

Rules for plug-in hybrids to sunset: the Government plans to phase out the eligibility of plug-in hybrid electric cars from the FBT exemption for eligible electric cars starting from 1 April 2025

## $3.7b

National Skills Agreement

with states and territories to ensure greater access to vocational education

## $2b

investment

in the renewable hydrogen sector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# Introduction

Treasurer Jim Chalmers handed down the second Federal Budget from the new Labor Government last night. This budget delivers the first surplus in 15 years, since Peter Costello was the Treasurer.

Chalmers predicts that the Australian domestic economy will slow down to only 1.25% in 2023/24 from 3.25% this fiscal year. This is mainly due to the Reserve Bank of Australia's increase in interest rates by 375 basis points. This tightening is expected to have a positive effect on inflation, which Chalmers estimates will slow down to 3.25% by mid-2024 from its current rate of 7.0%. The government's relief package for energy bills is anticipated to reduce consumer price inflation by 0.75 percentage points in 2023/24. However, the higher interest rates have led to a significant increase in the cost of funding the government's debt, with debt repayments being the fastest-growing expense.

To provide relief without adding to inflationary pressures, the Treasurer has announced a range of cost-of-living measures. These include up to $3 billion in energy bill relief, $1.3 billion for home energy upgrades, extension of access to the Parenting Payment (Single), and increased payments for JobSeeker, Youth Allowance, and rent assistance. Additionally, small businesses will benefit from a temporary increase in the instant asset write-off threshold to $20,000 for 2023-24.

The budget is expected to have a surplus of $4.2 billion in 2022-23, but an underlying cash deficit of $13.9 billion is predicted for 2023-24. The global economic outlook is uncertain, with inflation and rising interest rates expected to slow real GDP growth to 1.5% in 2023-24 before rising to 2.25% in 2024-25. Inflation is expected to fall to 3.25% in 2023-24 and return to the Reserve Bank's target range of 2-3% in 2024-25, thanks in part to the government's cost-of-living measures.

The government is also taking steps to improve the sustainability of the tax system. This includes reducing tax concessions for superannuation balances over $3 million, timely payments of tax and superannuation, and reforms to tax settings for offshore liquefied natural gas projects.


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# For Individuals

## Tax Rates

The Government did not announce any personal tax rates changes. The Stage 3 tax changes commence from 1 July 2024, as previously legislated.

## Resident rates and thresholds for 2023-24

The 2023-24 tax rates and income thresholds for residents (unchanged since 2021-22) are:

| Taxable Income ($) | Tax Payable ($) |
|---|---|
| 0 - 18,200 | Nil |
| 18,201 - 45,000 | Nil + 19% of excess over 18,200 |
| 45,001 - 120,000 | 5,092 + 32.5% of excess over 45,000 |
| 120,001 - 180,000 | 29,467 + 37% of excess over 120,000 |
| 180,001 + | 51,667 + 45% of excess over 180,000 |

# For Individuals

## Resident rates and thresholds from 2024-25 onwards

No changes to the Stage 3 personal income tax cuts scheduled to take effect from July 1, 2024 were announced in the Budget. These tax changes, already legislated, will result in a reduction of the 32.5% marginal tax rate to 30% for a single large tax bracket spanning from $45,000 to $200,000. This will bring the middle tax bracket for personal income tax closer to corporate tax rates, and the 37% tax bracket will be abolished entirely. This means that starting July 1, 2024, there will be only three personal income tax rates: 19%, 30%, and 45%. Taxpayers earning between $45,000 and $200,000 will be subject to a 30% marginal tax rate. These changes are projected to result in around 94% of Australian taxpayers facing a marginal tax rate of 30% or less.

| Taxable Income ($) | Tax Payable ($) |
|---|---|
| 0 - 18,200 | Nil |
| 18,201 - 45,000 | Nil + 19% of excess over 18,200 |
| 45,001 - 200,000 | 5,092 + 30% of excess over 45,000 |
| 200,001 + | 51,592 + 45% of excess over 200,000 |


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# For Individuals

## Foreign residents rates for 2023-24 (unchanged)

| Taxable Income ($) | Tax Payable ($) |
|---|---|
| 0 - 120,000 | 32.5% |
| 120,001 - 180,000 | 37% |
| 180,001 + | 45% |

## Foreign residents rates from 2024-25 onwards

| Taxable Income ($) | Tax Payable ($) |
|---|---|
| 0 - 200,000 | 30% |
| 200,001 + | 45% |

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# For Individuals

## Working holidaymakers rates for 2022-23 (unchanged)

| Taxable Income ($) | Tax Payable ($) |
|---|---|
| 0 - 45,000 | 15% |
| 45,001 - 120,000 | 32.5% |
| 120,001 - 180,000 | 37% |
| 180,001 + | 45% |

## Working holidaymakers rates from 2024-25 onwards

| Taxable Income ($) | Tax Payable ($) |
|---|---|
| 0 - 45,000 | 15% |
| 45,001 - 200,000 | 30% |
| 200,001 + | 45% |

# For Individuals

## Low-income tax offset for 2022 - 2023

The Budget for 2023-24 did not include any announcement of an extension for the low and middle income tax offset (LMITO) beyond the 2021-22 income year. As a result, the LMITO has now expired and has been entirely replaced by the low income tax offset (LITO), as explained below.

Since no extension of the LMITO was announced, it remains limited to the end of the 2021-22 income year by law. Consequently, low-to-middle-income earners might expect their tax refunds to decrease by between $675 and $1,500 from July 2023 (for incomes up to $90,000, but phasing out up to $126,000), all else being equal.

For completeness and as a reminder, low and middle-income taxpayers remain eligible for the low income tax offset (LITO), despite the LMITO being discontinued. No modifications were made to the LITO in the 2023-24 Budget, and it will continue to be applicable for the 2023-24 income year and beyond. The LITO was intended to replace the former low income and low-to-middle income tax offsets starting in the 2022-23 income year, but it was brought forward in the 2020 Budget and applies from the 2020-21 income year onwards.

| Taxable Income ($) | Amount of offset ($) |
| --- | --- |
| 0 - 37,500 | 700 |
| 37,501 - 45,000 | 700 - ([TI - 37,500] x 5%) |
| 45,001 - 66,667 | 325 - ([TI - 45,000] x 1.5%) |
| 66,668 + | Nil |

# For SMEs and Employers

## Instant asset write-off for small businesses: $20K threshold for 2023-24

The current unlimited instant asset write-off for businesses with a turnover of under $50 million will end on 30 June 2023.

The Government plans to raise the instant asset write-off threshold for small businesses to $20,000 from 1 July 2023 to 30 June 2024; essentially, reinstating the pre-COVID rules regarding depreciation for small businesses.

This means small businesses with an aggregated annual turnover of less than $10 million can immediately deduct the total cost of eligible assets valued below $20,000 that are first used or installed ready for use between the specified dates. Small businesses can apply the $20,000 threshold to multiple assets for an instant write-off. Assets valued above $20,000 can be added to the small business simplified depreciation pool and can be depreciated at 15% in the first year and 30% each year thereafter. The rules preventing small businesses that opt-out of simplified depreciation from re-entering the rules for 5 years will continue to be suspended until 30 June 2024.

For businesses with a turnover exceeding $10 million, the threshold of $1,000 will come into play again from 2023-24.

## Small Business Energy Incentive: 20% bonus deduction

According to the Budget papers, small businesses with annual turnover of less than $50 million will receive an extra 20% deduction on spending towards electrification and energy efficiency through the Small Business Energy Incentive. This was announced by the Treasurer on 30 April 2023 and will cover various depreciating assets and upgrades, including energy-efficient fridges, heat pumps, electric heating or cooling systems, batteries and thermal energy storage.

There are some exceptions, such as electric vehicles, renewable electricity generation assets, capital works, and assets that use fossil fuels and are not connected to the electricity grid. The maximum bonus tax deduction for the incentive will be $20,000 per business, with a total expenditure cap of $100,000.

The eligible assets or upgrades must be first used or installed ready for use between 1 July 2023 and 30 June 2024. The specific eligibility criteria will be confirmed after consultation.

# For SMEs and Employers

## Small business lodgment penalty amnesty and integrity measure to target unpaid tax and super

To encourage small businesses with an aggregate turnover of less than $10 million to re-engage with the tax system, the Government has announced a lodgment penalty amnesty program. Under this program, failure-to-lodge penalties for outstanding tax statements will be remitted, provided they were originally due between 1 December 2019 and 29 February 2022, and lodged between 1 June 2023 and 31 December 2023.

Furthermore, from 1 July 2023, the Government will provide additional funding over 4 years to the ATO to address the growth of tax and superannuation liabilities. The ATO will engage more effectively with taxpayers who have high-value debts over $100,000 and aged debts older than 2 years. This measure is expected to increase receipts by $718m and payments by $275.4m over 5 years from 2022-23. The increase in payments includes $12.3m in unpaid superannuation to be disbursed to employees, and $181m in GST payments to the States and Territories, in addition to the $82.1m in funding for the ATO. This measure will apply to public and multinational groups with an aggregated turnover of greater than $10 million, as well as privately owned groups or individuals controlling over $5 million of net wealth.

## Scope of Pt IVA to expand to catch 2 additional types of schemes

The Australian Government plans to broaden the reach of the general anti-avoidance provisions in Part IVA of the ITAA 1936. This expansion will include schemes that exploit a lower withholding tax rate on payments made to foreign residents to reduce taxes paid in Australia, and schemes that aim to gain an Australian income tax benefit, even if their primary purpose was to lower foreign income tax.

This amendment will come into effect for income years beginning on or after 1 July 2024, irrespective of the date on which the scheme was put in place.

# For SMEs and Employers

## Build-to-rent properties: building allowance up, MIT withholding rate down

The Budget Papers have confirmed the PM's announcement of measures aimed at boosting the supply of housing. For eligible new build-to-rent projects with construction beginning after 7:30 PM (AEST) on 9 May 2023, the Government will increase the capital works tax deduction rate 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%. To qualify, build-to-rent projects must have 50 or more apartments or dwellings for rent to the public and be held under single ownership for at least 10 years before sale, with a minimum lease term of 3 years for each dwelling.

The current Div 43 of the ITAA 1997 permits a deduction for capital expenditure incurred in constructing income-producing buildings, with a rate of 2.5% for buildings constructed after 27 February 1992 (excluding short-term traveller accommodation and industrial buildings).

The reduced MIT withholding tax rate for residential build-to-rent will apply from 1 July 2024. The MIT withholding tax rules impose tax on the income recipient and require payers to withhold and remit the tax to the ATO. The changes made to the MIT withholding tax arrangements in 2019 set a 30% MIT withholding tax rate for non-concessional MIT income (NCMI) and income and gains from investments in residential housing. Exceptions may be made for certain build-to-rent projects to qualify for a 15% rate.

## FBT rules for Electric Vehicles: rules for plug-in hybrids to sunset

According to the Budget papers, the Government plans to phase out the eligibility of plug-in hybrid electric cars from the FBT exemption for eligible electric cars starting from 1 April 2025. However, plug-in hybrid electric cars that were acquired between 1 July 2022 and 31 March 2025 will remain eligible for the Electric Car Discount.

# For SMEs and Employers

## Super to be paid on employees' payday from 1 July 2026

The Government's plan to make it mandatory for employers to pay their employees' super guarantee at the same time as their salary and wages from 1 July 2026 has been confirmed in the Budget papers. This initiative, known as the payday super measure, was originally announced by the Treasurer on 2 May 2023.

However, the Budget papers provide limited information on the specifics of this measure. It is expected that Treasury and the ATO will collaborate with the industry and stakeholders to discuss the proposed changes in the latter half of 2023. The final design will then be assessed as part of the 2024-25 Budget.

## Other Measures: Up to $500 energy cost relief

According to earlier predictions made ahead of the budget announcement, direct relief for energy bills is in store for potentially one million small businesses. A total of $1.5 billion will be allocated over the next two years specifically for the purpose of providing targeted energy bill relief to eligible households and small businesses. Treasurer Jim Chalmers has stated that these payments will offer up to $500 of direct bill support per customer.


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# Super, Pension and SMSF

## Super tax changes for account balances above $3m confirmed, but no further details

The Government plans to introduce new superannuation tax changes starting from 1 July 2025, which will affect individuals with super account balances exceeding $3 million, including those under defined benefit schemes. The Budget Papers didn't provide further details.

Under the proposed changes, which were announced on 28 February 2023, individuals with total superannuation balances exceeding $3 million will be subject to an additional tax of 15% on earnings from 1 July 2025. The additional tax will apply to earnings calculated based on the difference between superannuation balances at the start and end of the financial year, adjusting for withdrawals and contributions, with any notional gains or losses included.

While fund earnings from superannuation in the accumulation phase are currently taxed at up to 15%, this tax rate will continue for those with super balances below $3 million.

## Super fund NALI to be capped at twice general expense under NALE rules

The government plans to amend the non-arm's length income (NALI) related to non-arm's length expenses (NALE), limiting the income taxable as NALI for SMSFs and small APRA funds to twice the level of a general expense. Moreover, contributions will be excluded from fund income taxable as NALI, thus exempting large APRA-regulated funds from the NALI provisions for general and specific expenses.

The changes come in response to concerns raised by the industry over LCR 2021/2's interpretation of the NALE provisions and its implications for both APRA-regulated funds and SMSFs. The date of effect is not specified, but proposed amendments are expected to apply from 1 July 2023, following the expiry of the ATO's transitional compliance approach for general expenses (PCG 2020/5) from 2018-19 to 2022-23.



# Super, Pension and SMSF

## Super pensions: No reduction in minimum drawdowns for 2023-24

The temporary 50% reduction in the minimum annual payment amounts for superannuation pensions and annuities, which has been in effect for the 2019-20, 2020-21, 2021-22, and 2022-23 income years, will end on 30 June 2023. Despite expectations, the Budget did not announce a further extension of the reduction to the 2023-24 income year. As a result, superannuation trustees and members should start planning to meet the minimum annual payment requirements for account-based, allocated, and market-linked pensions for 2023-2024.

Minimum drawdowns for 2023-24

| **Age of beneficiary (years)** | **Standard percentage factor (%) 2023 - 2024** |
|---|---|
| 0 - 64 | 4 |
| 65 - 74 | 5 |
| 75 - 79 | 6 |
| 80 - 84 | 7 |
| 85 - 89 | 9 |
| 90 - 94 | 11 |
| 95 + | 14 |

No maximum annual payments apply, except for transition to retirement pensions which have a maximum annual payment limit of 10% of the account balance at the start of each financial year.

# Other Measures

## Cash for AI Adoption

The federal government is looking at AI, and this is evident in the 2023 budget papers. $101.2 million has been allocated to help small businesses incorporate AI and quantum technologies into their operations. The funding will be used to encourage the adoption of artificial intelligence by SMEs to enhance their business processes and trade competitiveness. Additionally, some of the funds will be directed towards expanding the National AI Centre.

## Price hike for Visa Application Charges (VACs)

Starting from 1 July 2023, the government will be raising the Visa Application Charges (VACs), with a particular emphasis on Business Innovation and Investment Visas, which will require an additional 40 percentage points. This means that overseas investors and venture capitalists who wish to invest in Australia will face higher expenses.

## $392 million Industry Growth Program

The government has allocated $392 million to aid startups and small-to-medium enterprises in commercializing their concepts and expanding their operations. The Minister for Industry and Science, Ed Husic, confirmed this budget, which will include grant funds and mentoring programs.

In addition, $39.6 million over four years has been designated for the continuation of the Single Business Service, which assists SMEs in engaging with the government.

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