2023 FEDERAL BUDGET INSIGHTS

Shifting to a care economy

On 9 May 2023, Treasurer Jim Chalmers announced the 2023-2024 Australian Federal Budget. Only seven months since the last budget, we see a return to surplus, albeit only temporarily. A $4.2 billion 2023 budget surplus will be replaced with a deficit of $13.9 billion in 2023–24.

Economic recovery from the pandemic continues, with families and businesses faced with cost and inflationary pressures. Treasurer Chalmers delivered a budget with little tax reform, but instead a focus on easing cost-of-living pressures for families and curbing inflation.

Business remains steady with minimal tax reform or business tax concessions. A number of previous measures aimed at benefitting business have not been extended beyond 1 July 2023, providing little cost relief to business across Australia.

In contrast, the measures that aim to support families are substantial and include:

- decreasing household energy costs, with direct bill relief of up to $500 per year per eligible household and $650 per annum for businesses
- low-cost energy efficiency loans
- increasing Commonwealth rent assistance
- increasing Pharmaceutical Benefits Scheme listings
- increasing some Centrelink Payments ($40 a fortnight increase in the base rate for JobSeeker, Austudy and Youth Allowance)
- decreasing child care costs to families
- increasing bulk billed urgent care clinics
- increasing aged care workers' salaries
- increasing Medicare Bulk Billing incentives
- increasing airport departure tax ($70 up from $60)
- increasing the tobacco excise
- increasing single parenting payment eligibility until youngest child is 14 years of age (currently at 8).

Below we detail the budget items that relate to taxation reform, and we take time to reflect on the measures that will come to an end with no extension to these provided for within this budget.

Businesses

Small business instant asset write-off

Small businesses, with an annual turnover less than $10 million, will have access to an immediate tax deduction for eligible depreciable assets costing less than $20,000, provided the relevant assets are installed and ready for use between 1 July 2023, and 30 June 2024.

Small business energy incentive

Small businesses, with annual turnover of less than $50 million, will have access to a bonus 20% tax deduction for eligible assets supporting electrification and more efficient use of energy. This measure is set to apply from 1 July 2023 until 30 June 2024. Up to $100,000 of total expenditure will be eligible for the incentive, with the maximum bonus tax deduction being $20,000 per business.

Plug-in hybrid vehicles to lose FBT exemption

Since 1 July 2022, there has been a FBT exemption applied to eligible electric vehicles (also known as zero emissions vehicles) to encourage the up-take of electric vehicles, thereby reducing carbon emissions.

From 1 April 2025, the Government has proposed that plug-in hybrid vehicles cease to be eligible for the FBT exemption, as they will not be considered zero emissions vehicles. The exemption will only remain in place if the use of the vehicle was exempt before 1 April 2025 and there was a financially binding commitment to continue with the private use of the vehicle from that date (an optional extension of the agreement is not considered binding). Battery electric and hydrogen fuel cell electric vehicles will continue to be considered zero emissions vehicles eligible for the exemption.

Payday superannuation

Commencing from 1 July 2026, employers will no longer have the option of paying superannuation guarantee obligations on a quarterly basis. Instead, superannuation guarantee obligations will be required to be paid on the same day as employees are paid their salary and wages payments.

The increase in payment frequency is designed to enable the ATO to recover unpaid superannuation more effectively, particularly for those in lower-paid, casual, and insecure work, who are more likely to miss out on superannuation when it is paid less frequently. The final design of this measure is expected to be handed down in the 2024-2025 Budget.

Build to rent developments

For investors of newly constructed build-to-rent developments, the Government is:

- reducing the withholding tax rate for eligible fund payments from Managed Investment Trusts, attributable to newly constructed build-to-rent developments, from 30% to 15%, increasing the capital works tax deduction rate from 2.5% to 4% per year, and
- increasing the after-tax returns for newly constructed build-to-rent developments.

This measure is due to come into effect on 1 July 2024.

ATO funding and engagement activities

The ATO is expected to receive $588.8 million over four years from 1 July 2023 to continue the promotion of taxpayers' GST compliance, including the accurate reporting and remittance of GST. The funding is expected to be utilised to develop more sophisticated analytical tools to address GST risk. The increased funding is expected to increase GST receipts by $3.8 billion and other tax receipts by $3.8 billion over the five years from 2022-23.

This is in addition to the $40.2 million which will be provided to the ATO in 2023-24 to improve Superannuation Guarantee data matching capabilities, consultation, and co-design. A further $89.6 million will be provided to the ATO to extend the Personal Income Tax Compliance Program. Additional funds will also be provided to the ATO to enable engagement with taxpayers with debts over $100,000 and aged debts over two years (applicable to public or multinational enterprises) with aggregated turnover more than $10 million, or high net wealth private groups/individuals controlling net wealth of over $5 million.

The lodgement penalty amnesty program for small businesses (with an aggregated turnover of less than $10 million) is expected to encourage small businesses to re-engage with the tax system. Failure-to-lodge penalties for Activity Statements lodged in the period from 1 June 2023 to 31 December 2023 (originally due 1 December 2019 to 29 February 2022) will be remitted as part of the amnesty program.

Taxpayers are likely to be the subject of an increase in ATO review activities, including correspondence arising from various ATO data matching analysis. This serves as a timely reminder to taxpayers to ensure tax lodgements and payments are appropriately substantiated and up to date, with effective internal controls implemented to mitigate the associated compliance risks.

Global minimum tax and domestic minimum tax

For large multinational enterprises with annual global revenue of € 750 million or more, the Government proposes to apply the OECD Global Anti-Base Erosion Model Rules, which seek to ensure they pay a minimum level of tax on income earned in each jurisdiction. This measure comprises a 15% global minimum tax and a 15% domestic minimum tax, with the aim of safeguarding Australia's corporate tax base. In the case where a multinational group's income is taxed below 15% overseas, the measure allows Australia to impose a top-up tax on a multinational parent or subsidiary company that is an Australia tax resident.

These measures are proposed to take effect for:

- income years commencing on or after 1 January 2024, applying to the Income Inclusion Rule
- income years commencing on or after 1 January 2024, applying Domestic Minimum Tax
- income years commencing on or after 1 January 2025, applying to the Undertaxed Profits Rule.

Multinational enterprises are likely observe an increase in tax compliance requirements resulting in increased income tax obligations in Australia.

Measures to be discontinued or abandoned

The following tax measures will either not commence, or cease to be effective, from 30 June 2023:

- Temporary Full Expensing rules that have provided a outright tax deduction to businesses for the cost of eligible depreciating assets
- The loss carry back provisions that provided tax relief to companies
- In the 2021-22 Budget, the Government announced that taxpayers would be able to self-assess the effective lives of intangible assets acquired on or after 1 July 2023. This will not proceed.
- The 2021-22 Budget measures relating to Patent Box concessions will also be abandoned.

Individuals

Additional tax on superannuation

The Government has reaffirmed its commitment to impose an additional 15% tax on earnings for superannuation fund members with balances over $3 million from 1 July 2025. This measure, that affects approximately 80,000 of the wealthiest Australians, applies to both accumulation and pension accounts. The proposed measure will include both realised and unrealised investment gains in the determination of the additional tax liability.

Payday superannuation

Commencing from 1 July 2026, employers must pay your superannuation guarantee on the same day as your salary and wages.

The increase in payment frequency is designed to enable the ATO to recover unpaid superannuation more effectively, particularly for those in lower-paid, casual, and insecure work, who are more likely to miss out on super when it is paid less frequently. It is also allowing the super to work for you sooner. The final design of this measure is expected to be handed down in the 2024-2025 budget.

Measures be discontinued or abandoned

The following tax measures will not be effective from the budget:

- The low- and middle-income tax offset 'LMITO', which came to an end on 30 June 2022, will not be extended
- The temporary 50% reduction in the minimum pension drawdowns, applicable from the 2020 to 2023 income years, will not be extended beyond 30 June 2023.

Measures be continued

- As widely expected, the Stage 3 tax cuts have been kept in place. The biggest beneficiaries will be those individuals earnings more than $200,000 per year. Whilst those earnings between $45,000 and $200,000 will also benefit. This measure is set to apply from 1 July 2024
- Low Income Tax Offset (LITO) remains in place for the 2022-23 financial year.