Our Expert Analysis

March 2025 Federal Budget White Paper

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Introduction

Treasurer Jim Chalmers has handed down his fourth Federal Budget – he took the opportunity to soft-launch Labor's election campaign by announcing a number of measures aimed at assisting individuals with cost of living support. Overall, from a business perspective, the Federal Budget passed by without any significant announcements or changes to the laws.

The Federal Budget has a long list of cost of living support measures, however, taxpayers need to take a long and hard look at whether the measures actually deliver any real benefit or are merely politicians playing politics in an election year.

The Federal Budget's deficit ended a run of two consecutive surpluses and has been pitched as providing "cost of living" support for individuals with a view to avoiding inflationary pressures, however, the Treasurer along with many of his predecessors has failed to address the structural problem with the Federal Budget. The fact that structural tax reform was ignored again, given current pressures on living standards is not surprising, however, the question remains as to when this will be addressed by either side of politics.

The widely unexpected income tax cuts are the centre piece to the cost of living support provided to taxpayers in the Treasurer's pre-election budget, however, whether the Treasurer has pulled a rabbit out of his hat will be determined on or before 17 May when we head to the polls. The Coalition have indicated that they will not support the proposed tax changes however have not ruled out tax cuts on their terms, setting the scene for the election. As such, we will need to wait and see whether the Coalition have any hats and rabbits.

Whilst the news is about the cost of living support, taxpayers need to keep their eyes on both political parties' rabbits and hats given the additional funding provided to the ATO and the anticipated resultant increase in the collection of tax.

The question for the Australian public is whether they think the Treasurer (and the Federal Government) have provided real tangible cost of living support or whether they are really all smoke, mirrors and rabbits.

The Federal Budget has a long list of cost of living support measures, however, taxpayers need to take a long and hard look at whether the measures actually deliver any real benefit or are merely politicians playing politics in an election year.

Personal Tax

Cost of Living Support

The Federal budget contains ongoing cost of living support designed to help households through the following measures:

- Income Tax cuts - a reduction in income tax rates applied to the $18,200 to $45,000 rate band over two income years.
- Extension of the energy bill relief to 31 December 2025 (a measure which is mirrored by the Federal Opposition) - $150 discount applied across quarterly instalments.
- Expansion of funding for the health system through a combination of a reduction in the cost of the majority of medicines listed on the PBS from $31.60 to $25 and a program to encourage doctors to bulk bill.
- Increase in the eligibility scope (higher income thresholds and property prices) to participate in the Help to Buy schemes under which the Federal Government own a percentage of an individual's home.
- Student debts to be reduced by 20% as part of a suite of changes with a view to easing cost of living pressures for young Australians together with a reduction in the minimum loan repayment thresholds to $67,000 for 2025-26. The changes to the repayment mechanism provide for a repayment based on the excess over the threshold.
- Foreign Home ownership – already announced but included within the Federal Budget is a ban on foreign persons (including temporary residents and foreign-owned companies) from purchasing established dwellings for 2 years from 1 April 2025, unless an exception applies.

1

Income tax cuts for the $18,200 – $45,000 rate band.

2

Extension of the energy bill relief.

3

Student debts to be reduced by 20%.

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Income Tax

In a surprise move, the Treasurer handed down two tax cuts for individuals (or one tax cut in two stages?) through a reduction in the lower rates. Pitched as top up tax cuts, the savings are a relatively modest $268 from 1 July 2026 increasing to $536 per year from 1 July 2027 but still welcome.

The Treasurer did not change any of the tax bandings and as such the current proposed tax rate changes are summarised in the table as follows:

Australian tax residents (excluding Medicare)

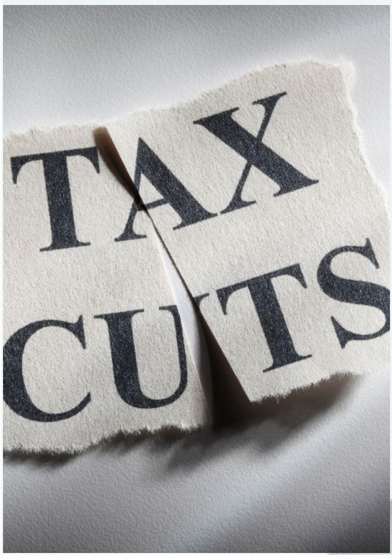
Taxable Income ($)	Legislated 2025-26 Tax payable ($)	Proposed 2026-27 Tax payable ($)	Proposed 2027-28 Tax payable ($)
0 - 18,200	Nil	Nil	Nil
18,201 - 45,000	Nil + 16% of excess over 18,200	Nil + 15% of excess over 18,200	Nil + 14% of excess over 18,200
45,001 – 135,000	4,288 + 30% of excess over 45,000	4,020 + 30% of excess over 45,000	3,752 + 30% of excess over 45,000
135,001 – 190,000	31,288 + 37% of excess over 135,000	31,020 + 37% of excess over 135,000	30,752 + 37% of excess over 135,000
Over 190,001	51,638 + 45% of excess over 190,000	51,370 + 45% of excess over 190,000	51,102 + 45% of excess over 190,000

Foreign residents

The Government's proposals do not change the income tax rates for foreign residents as they are already not entitled to the tax-free threshold or the first income tax threshold.

For 2025-26, the tax rates for foreign residents (unchanged from 2024-25) are:

Taxable income ($)	2025-26 (legislated %)
0 – 135,000	30
135,001 – 190,000	37
Over 190,000	45



Medicare Levy

The Federal Budget includes a measure to increase the Medicare levy low-income threshold for singles and couples to $27,222 and $45,907 respectively for the 2024-25 income year. The additional amount of threshold for each dependent child or student is also increased to $4,216.

There are also modest increases for single seniors and pensioners eligible for the SAPTO.

Superannuation Guarantee

In the final step of the previously legislated changes, the Superannuation Guarantee percentage changes with effect from 1 July 2025 will see an increase to 12% from the current level of 11.5%.

As such, for employees on all-inclusive packages, this could result in a decrease in take home pay unless the employers offset the change with a pay increase. Where employees are on a plus superannuation package, employees take home will not be adversely impacted by the superannuation increase.

In both scenarios, employers will have an increase in costs which they are likely to seek to pass onto customers resulting in inflationary pressures.

There are no further scheduled increases for the superannuation guarantee.

Proposed Div 296 regime - uncertainty remains

While no new major super measures were announced in the Federal Budget, the previously announced Division 296 still remains as a spectre hanging over the superannuation industry.

Whilst the bills currently before Parliament will lapse once the Prime Minister calls the Federal election (if not passed prior), the ultimate outcome for taxpayers remains uncertain. If the Federal Government is re-elected, then it's anticipated that the bills will be revived but may have a delayed start date. The Coalition are not in favour of the measures.

Business Tax

ATO funding

The ongoing funding provided to the ATO is to receive yet another significant increase in funding with a view to driving taxpayer compliance. The Federal Budget will provide $999m over four years for the ATO "to extend and expand tax compliance activities".

The areas specifically in focus as part of this funding include:

- $718 million for a two-year expansion and a one-year extension of the Tax Avoidance Taskforce. This focuses on multinationals and other large taxpayers.
- $156 million to extend and expand the Shadow Economy Compliance Program which will focus on a variety of practices including illicit tobacco which has impacted the tax revenue from tobacco.
- $76 million to extend and expand the Personal Income Tax Compliance Program. This will enable the ATO to continue to deliver a combination of proactive, preventative and corrective activities in key areas of non-compliance.
- $50m over three years from 1 July 2026 to extend the Tax Integrity Program. This will enable the ATO to continue its engagement program to ensure timely payment of tax and superannuation liabilities by medium and large businesses and wealthy groups.

In recent years, the increased funding of the ATO has become a regular feature of the Federal Budget. The budget papers disclose an expected return on this ATO funding of $3.2 billion over 5 years from 2024-25.

The message is clear from the Federal Government, that strict adherence to the law is required and that taxpayers have "not been doing their bit" under the self-assessment regime to pay the correct amount of tax. Taxpayers should also be expecting a tough stance to be adopted by the ATO in respect to the collection of debts and imposition of interest and penalties.

$999m over four years for the ATO to "extend and expand tax compliance activities."

Small and medium business tax measures

The Instant asset write off for Small Business ends on 30 June 2025. Businesses with an aggregated annual turnover of less than $10 million can immediately deduct the full cost of eligible assets costing less than $20,000 that are first used or installed ready for use by 30 June 2025.

As such, the unwinding of this measure (and other similar measures such as temporary full expensing) will be expected to increase the ongoing tax liabilities of business over the next few years as accounting depreciation outstrips tax depreciation.

Payday Superannuation

Payday Super is proposed to commence on 1 July 2026 with the exposure draft legislation released on 14 March 2025. With the upcoming Federal Election, it is difficult to see the legislation being passed before 1 July 2025 at the earliest, leaving businesses very little time to determine and plan for the impact of the changes to business cashflows and processes.

Non-Compete Clauses

The Federal Budget included a measure to ban non-compete clauses. The ban on non-compete clauses will apply to workers earning less than the high-income threshold in the Fair Work Act (currently $175,000).

Empirical evidence suggests that this measure should result in increased wage growth, however, smaller businesses may be concerned by the changes should employees take clients and start up their own competing business.

The changes are scheduled to take effect from 2027 following consultation.

Non-resident CGT

Whilst no new measures and changes were announced in the Federal budget it is worth noting that changes already announced are proposed to impact non-residents. The three proposed changes (released as part of a consultation paper in July 2024) are as follows:

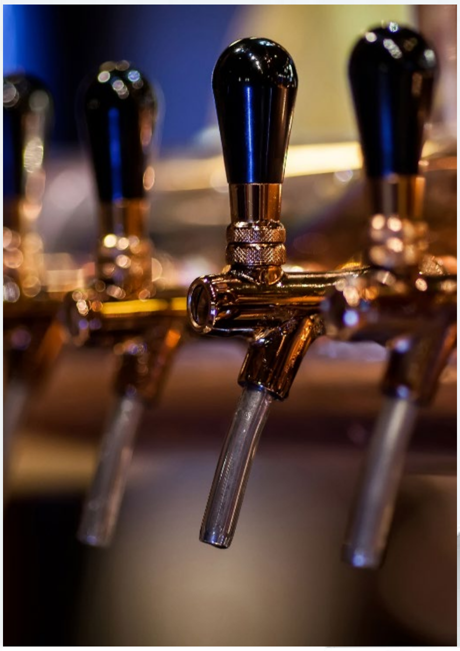
- Clarify and broaden the types of assets that foreign residents are subject to CGT on – it is considered that provisions create uncertainty and potentially different tax treatment of land-based assets across different Australian States and/or Territories and the changes seek to address this.
- Amend the point-in-time principal asset test ("PAT") to a 365-day testing period – a technical amendment to rectify the current point-in-time approach which is stated to present an integrity risk.
- Require foreign residents disposing of shares and other membership interests exceeding $20 million in value to notify the ATO – enabling the ATO to ensure the collection of CGT liabilities as appropriate.

No draft legislation has been released on the above measures. The proposed start date has been deferred until the later of 1 October 2025 or the start of the relevant quarter (eg 1 January, 1 April etc) after the Act receives Royal Assent.

Brewers

In what is pitched as a support measure for brewers and the hospitality industry the Federal Budget contains a measure to pause indexation on draught beer excise. Whilst this sounds exciting for beer drinkers, the freeze results in a saving of 1 to 2 cents.

In addition, it needs to be remembered that this only applied to draft (ie tap) beer and therefore the excise rates on bottled beer in hotels and bottle shops will still be increased. In addition, increases on non-beer beverages (wines and spirits) remains subject to bi-annual indexation.



Excise Remission Schemes and WET

The Government will increase support available under the existing Excise remission scheme for manufacturers of alcoholic beverages (the Remission scheme) and Wine Equalisation Tax (WET) producer rebate to $400,000 per financial year, from 1 July 2026.

Small Business Franchisees

Additional funding is to be provided to the Australian Competition and Consumer Commission to strengthen regulatory oversight of the Franchising Code of Conduct and ensure a more transparent and effective regulatory framework for the franchising sector.

Other previously announced measures

There have been no proposed changes to a number of previously announced but unenacted measures, including:

- Changes to the general anti-avoidance rules which apply to schemes that access a lower withholding tax rate or have a dominant purpose of obtaining a foreign tax benefit.
- Penalties for mischaracterised or undervalued royalty payments, dividends or interest payments.

1

Increase support available under the existing Excise remission scheme for manufacturers of alcoholic beverages.

2

Strengthen regulatory oversight of the Franchising Code of Conduct.

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Your Budget Expert

"Understanding tax consequences can have a significant impact on your business and cash flow."

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David leads ESV's Tax Consulting practice and is a market leader in providing taxation services to large and mid-sized businesses, family groups and high net wealth individuals. He has over 25 years' experience in the provision of taxation services including time at the 'Big 4' accounting firms in the UK and Australia and an 'in-house' stint at one of Australia's largest FMCG companies.

His specialist services include Corporate and Family Groups, Private Client Services, Tax Consolidations, Trusts, Structuring and Restructuring, International Tax including Thin Capitalisation, Due diligence for Mergers and Acquisitions and IPO, Tax Governance and Risk Management, Taxation of Financial Arrangements, Tax Controversy, Capital Gains Tax and Tax Training. David also acts for a number of clients in the role of 'Outsourced Tax Director' to provide specialist tax advice when a team needs it most.

David has extensive experience working with clients in a wide variety of industries including manufacturing and distribution, FMCG, IT and technology, professional services, energy, resources and property.

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