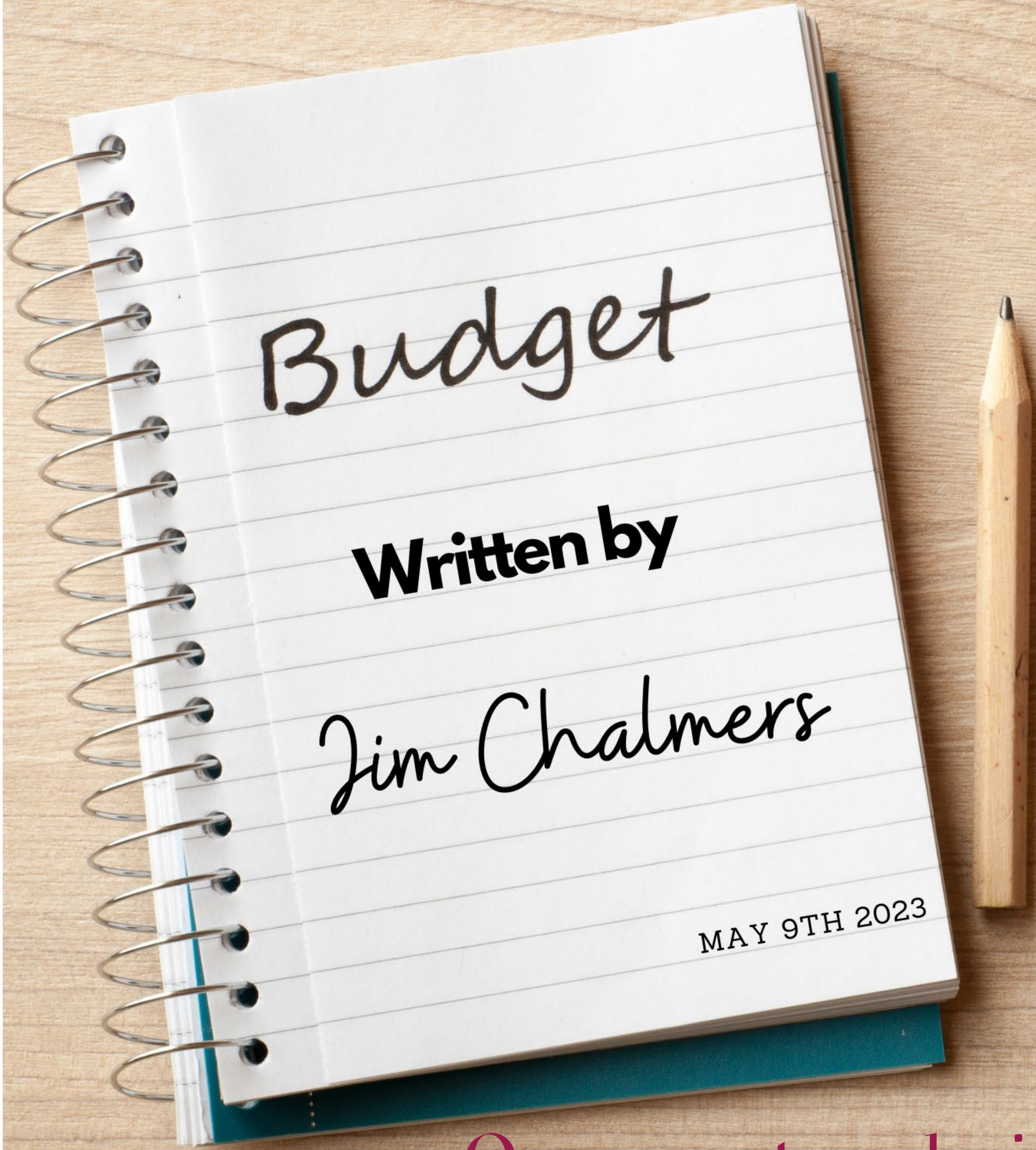
ESV Business advice and accounting



Our expert analysis

May 2023 Federal Budget White Paper

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Introduction

In Labor's first May budget in nine years Treasurer Jim Chalmers has handed down a surplus, the first in fifteen years which has been driven by higher commodity prices, low unemployment and wage growth.

The headlines will focus on "cost of living" support, but careful examination of how and when this arrives should be undertaken, noting that the Treasurer needs to balance this with the prospect of adding further fuel to the inflation fire. The cost of living support is forecast to inject $20bn into the economy. The next few months will see whether Philip Lowe agrees with the Treasurer's view that this injection will not have an inflationary pressure.

Previous budgets have failed to correct the structural problem with the Federal Budget (where the government expenditure exceeds revenue) and this Budget does not buck the trend with the surplus relying on outside factors helping us to muddle through (think commodity prices and tax paid by you and me). Structural tax reform was ignored again given the political pressures of Labor changing (increasing?) taxes and the current cost of living pressure on households.

The surplus is not predicted to last though and a return to deficit is forecasted for 2023/24 and subsequent years, however, if commodity prices stay high and unemployment low, then this may not be the case.

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Personal Tax

Personal Tax Rates

There are no changes (as yet) to the individual income tax rates. They remain as follows:

Australian tax residents (excluding Medicare)

Rate (%)	Current thresholds Income range ($)	Thresholds from 1 July 2024 Income range ($)
Tax free	0 - 18,200	0 - 18,200
19	18,201 - 45,000	18,201 - 45,000
30	N/A	45,001 - 200,000
32.5	45,001 - 120,000	N/A
37	120,001 - 180,000	N/A
45	> 180,000	> 200,000

Non-residents

Rate (%)	Current thresholds from 1 July 2020 Income range ($)	Thresholds from 1 July 2024 Income range ($)
Tax free	N/A	N/A
19	N/A	N/A
30	N/A	0 - 200,000
32.5	0 - 120,000	N/A
37	120,001 - 180,000	N/A
45	> 180,000	> 200,000

As expected, no changes were announced to the Stage 3 personal income tax cuts in this Budget. Labor remains under pressure to wind back the legislated cuts, set to cost more than $20 billion a year - they still have time to do this in next year's Budget.

1

No changes to the Stage 3 Tax Cuts (yet).

2

Labor remains under pressure to wind back these legislated cuts.

3

Let's see what happens in next year's budget.

Superannuation

Changes to superannuation rules have already been announced with balances over $3m being subject to an additional charge. The changes will not kick in until 2025, however, the effect is scheduled to bring in $2bn of additional revenue (tax) every year.

The Budget did not indicate a movement away from the existing proposal under which unrealised gains will be taxed. Please refer to our article on the proposed changes.

Please refer to the business section of this document, for comments in relation to the proposed change in timing of employee superannuation payments.

Superannuation Non Arms Length Income (NALI)

The proposals released earlier this year in respect of changes to the rules for Self Managed Superannuation Funds (SMSF's), concerning the impact of NALI have been refined such that:

- Fund income taxable as NALI will exclude contributions;
- SMSF's would be subject to a factor based approach setting an upper limit on the amount of fund income that would be taxable as NALI, due to a general expenses breach. The original proposal was five times the level of the general expense, however, this has been reduced to twice the level.

Cost of Living Packages

The Budget was flagged to contain cost of living support, however, the Treasurer has sought to avoid providing cash through providing a reduction in costs with a view to mitigating potential inflationary pressures. This approach may result in parts of the community who need support, missing out.

Power Relief

- The much vaunted $3bn power price relief package previously announced in December has been repackaged as a cost of living budget measure. The power price relief package will not arrive in the form of a cheque for people to spend but in the form of a one-off reduction in power bills and subsidies for low income households to move from gas to electricity.
- The power bill relief will be targeted at Pensioners and households receiving Family Tax Benefit A and B. Depending on the number and age of children, families can lose access to Family Tax Benefit at $108,000 to $140,000.

Bulk Billing

- There will be an increase in the bulk billing incentive for GPs. The bulk billing incentive will be tripled for the most common consultations for children under the age of 16, pensioners and other Commonwealth concession card holders and include face-to-face, telehealth and videoconference consultations.

Single Parent Payment

- The Budget restores the Single Parenting Payment to single parents until their youngest child turns fourteen, up from eight years old. This reverses a reduction made by the Gillard Government.

Business Tax

The Treasurer's pre Budget announcements indicated that "small business operators will be front and centre", however, the overall flavour only seemed to tinker with the challenges facing small business.

Continued additional funding to the ATO will drive increased collections and ATO interactions.

Small Business Energy Incentive

A Small Business Energy Incentive has been announced which will provide businesses with an annual turnover of less than $50 million, an additional 20% deduction on spending "that supports electrification and more efficient use of energy".

The incentive is focused on small business investing in "eligible assets or upgrades" which are to be first used or installed ready for use between 1 July 2023 and 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.

The additional deduction appears to be of the same type as those previously utilised by the Liberals when they sought to drive training and digital technologies and effectively unwinds when profits are extracted from the company.

Small businesses will also be eligible for a one-off discount of $650 on their power bills.

Instant Asset Write Off

Small business (aggregated turnover of less than $10m) will receive an extension of the instant asset write off for one year. As such, assets acquired for $20,000 or less will be able to be written off instantly in the 2023-24 year. Without the extension the threshold would have reverted to $1,000.

Note that the temporary full expensing regime expires for all taxpayers on 30 June 2023 and therefore the depreciation regime is reverting to normal methodologies.

PAYG Instalments

In a sign of the increasing pressures on business cashflow, businesses will receive a benefit from a halving of the GDP increase in PAYG adjustment factor, for tax instalments. The GDP factor will be reduced to 6% from the existing 12% for the 2023-24 year.

1

Have small business operators been front and centre?

2

Overall flavour only seems to tinker with the challenges.

3

Continued additional funding to the ATO will drive increased collections and ATO interactions.

Payday Superannuation

The Budget confirmed changes are proposed to the timing of when employers are required to pay employees their superannuation. Employers will be required to pay superannuation on the day that wages are paid rather than the existing quarterly requirement. The proposed changes are forecasted to make younger Australians better off by up to $50,000 by the time they retire due to the additional earning capacity of the funds whilst in superannuation.

For businesses, the change in timing of superannuation payments will result in cashflow impacts accelerating outflows compared to historical norms at a time when cashflows are already under pressure. Businesses will need to plan for this impact to cashflow.

The changes are scheduled to apply from 1 July 2026 with the lead time intended to provide employers, super funds and payroll providers with sufficient time to prepare for the change. Consultation with stakeholders on how this transition will occur, is scheduled for the second half of 2023.

The proposed changes will result in consequential changes to the design of the Superannuation Guarantee charge, due to the increased payment frequency. The final look and feel of the changes will be considered as part of the Federal Budget 2024–25.

Natural Gas Producers

In an effort to raise funds from the large end of town, the Treasurer has targeted gas producers with changes to the petroleum resource rent tax (PRRT). There are numerous changes flagged to be made to PRRT with the largest being the capping of annual deductions for expenditure to 90% of the project's income for each year.

This capping is designed to raise approximately $2.4bn in revenue over a four year period which, when compared to the change in superannuation scheme rules which are forecasted to bring in $2bn per year, begs the question as whether changes can be better targeted.

Multi Nationals

Consistent with previous announcements, the Government are to implement key aspects of Pillar Two of the OECD/G20 Two-Pillar Solution. The proposals are based on the OECD Global Anti-Base Erosion Model Rules (GloBE Rules) that seek to ensure that large multinationals pay an effective minimum level of tax on income arising in the jurisdictions in which they operate and apply to multinationals with annual global revenue of $1.2bn.

The proposals will introduce a 15% global minimum tax for large multinational enterprises. The rules would allow Australia to levy a 15% tax under:

- The Income Inclusion Rule (applied at the parent level) for income years starting on or after 1 January 2024; and
- The Understated Profits Rule for income years starting on or after 1 January 2025.

In addition, the Budget proposes to introduce a 15% domestic minimum tax for income years starting on or after 1 January 2024. The object of this tax is that it will enable Australia to collect revenue that would otherwise have been collected by another country's global minimum tax.

Introduce a 15% global minimum tax for large multinational enterprises.

ATO Funding

The Treasurer has continued to invest in the compliance programs of the ATO with more funding provided. The additional funding in this year's budget will focus on:

- An extension of the Personal Income Tax Compliance Program by 2 years to 2027 and a widening of its scope from 1 July 2023.
- A four year extension of the GST compliance program with a focus on the development of more sophisticated analytical tools to address emerging risks.
- Debt recovery funding for the ATO to engage with taxpayers who have a debt over $100,000 and aged debts over two years. This team will focus on public or multi national groups with an aggregated turnover of more than $10m or privately owned groups with a net wealth of $5m.
- An expansion of the scope of the general anti-avoidance rules for income tax to include schemes that:
  - Reduce tax paid in Australia by accessing a lower withholding tax rate on income paid to foreign residents; and
  - Achieve an Australian income tax benefit, even where the dominant purpose was to reduce foreign income tax.

The above continues to highlight the drive to raise revenue via collections and not by changing the law. It also reinforces commentary in the prior budget where the majority of the tax gap was not due to multi nationals but rather the community at large.

Other Measures

As part of the Budget there are a number of other clarification measures or technical changes which include:

- The FBT exemption for eligible plug-in hybrid electric cars will end from 1 April 2025.
- Medicare Levy & Lump Sum payments in arrears - eligible lump sum payments in arrears will be exempt from 1 July 2024. This is designed to ensure that low-income taxpayers do not pay higher amounts of the Medicare levy as a result of receiving an eligible lump sum payment, e.g. as compensation for underpaid wages.
- The changes first outlined in 2016/17 to the availability of franking credits funded by capital raising will be delayed from 19 December 2016 to 15 September 2022 reflecting the time it has taken for this change to be implemented.
- Housing – build to rent developments have improved incentives with an increased deduction under the capital works regime from 2.5% to 4% and a reduction in the final withholding tax rate to 15% for payments made by eligible managed investment trusts (MIT's).
- Patent Box Regime – the previously announced changes will not proceed.
- A range of measures increasing excise and customs duty on tobacco in addition to ordinary indexation.

ESV Services

At ESV, we know how important your business is to you. We'll work closely with you on the parts of your company that matter most, taking a client-focused, hands-on approach to all of your business and accounting needs.

Coming from a range of business and financial backgrounds globally, our Partners have extensive experience working alongside businesses of all shapes and sizes. These include some of the world's largest organisations and multinationals to fast-paced start-ups and successful family businesses.

This breadth of experience – coupled with their specialist knowledge in a wide range of accounting and business services – allows our partners to take a proactive approach to all your needs, no matter how challenging.

Our services include:

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  - Fraud and risk management
  - Due diligence
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  - M&A assistance
  - Budgeting and cash flow forecasting
  - Investment / property modelling
  - Family Office management
  - Governance, risk and compliance management solutions
  - Outsourced CFO / CFO support
  - Succession and estate planning
- Taxation
  - Tax structuring & transactional advice
  - Tax mitigation and risk reviews
  - Strategic tax planning
  - Outsourced Tax Director
- Process improvement
- Fraud & risk management
- Director services
- Not for profit
- Doing business in Australia

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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