ESV Business advice and accounting

2024 Federal Budget

Our expert analysis

May 2024 Federal Budget White Paper

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Introduction

Treasurer Jim Chalmers has handed down his third Budget with a second surplus, again driven by higher commodity prices, low unemployment, and wage growth.

The media spin in the week preceding the Budget was for a balancing act between “cost of living” support for individuals whilst avoiding inflationary pressures. The Treasurer was bold in his predictions that his Budget would not drive inflationary pressures and has provided sound bites that the RBA are incorrect with inflation forecasts.

The next six months will see whether the Treasurer is better than Michele Bullock at predicting the impact of the changes, especially given the stage 3 tax cuts and the already legislated changes to the superannuation guarantee. Will the Treasurer’s Budget be the solution or create further problems? Only time will tell.

The Budget has additional expenditure slated for housing and infrastructure across the country, which is designed to reduce the pressures on housing affordability through increased supply when combined with a reduction in migration of 50%.

The timing and application of the cost-of-living measures would appear to show this is a pre-election budget, designed to give voters a stimulus prior to the next Federal election. The energy bill relief measure is a short-term fix designed to reduce inflation and give the RBA room to move on interest rates generating a feel-good factor in an election year.

There are no fundamental changes to Australia’s tax framework arising from the Budget. It is disappointing that yet again the structural problem with the Budget has been ignored. Whilst the last two Budgets have delivered a surplus of approximately $31.4bn, these should be put into perspective by the deficit forecasted for next year of $28.3bn and a further deficit in 2024-25 of $42.8bn. Spending continues to outstrip revenue at an alarming rate. The question no one is prepared to answer. How will the gap be addressed and who will pay for it?

The timing and application of the cost-of-living measures would appear to show this is a pre-election budget, designed to give voters a stimulus prior to the next Federal election.

Personal Tax

Cost of Living Support

The Budget centre piece is a suite of cost-of-living measures which, according to the Treasurer, are designed to help households through a combination of a cut in income tax paid and the provision of cost reductions whilst decreasing inflation.

Stage 3 Tax Cuts

The revised stage 3 tax cuts are being rolled out to help in the battle against the cost-of-living pressures. The changes to the previously legislated tax cuts have been well publicised given the failure of the current government to stand by an election promise.

High income earners have lost out on previously promised tax cuts with lower income earners benefiting with bigger savings. Whilst this realignment has clear merits, the impact of the changes on inflation will need to be closely monitored given the generally accepted position that lower income earners spend proportionally more of any tax benefits they receive.

The stage three tax cuts (version 2.0) will roll out from 1 July 2024.

Australian tax residents (excluding Medicare)

2023-2024 thresholds	Rates	2024-2025 thresholds	Rates
0 - 18,200	Tax free	0 – 18,200	Tax free
18,201 - 45,000	19	18,201 – 45,000	16
45,001 – 120,000	32.5	45,001 – 135,000	30
120,001 – 180,000	37	135,001 – 190,000	37
Over 180,000	45	Over 190,000	45

Non- residents

2023-2024 thresholds	Rates	2024-2025 thresholds	Rates
0 – 120,000	32.5	0 – 135,000	30
120,001 – 180,000	37	135,001 – 190,000	37
Over 180,000	45	Over 190,000	45

1

The Budget centre piece is a suite of cost-of-living measures.

2

High income earners have lost out on previously promised tax cuts with lower income earners benefiting with bigger savings.

3

Stage 3 Tax Cuts version 2.0 roll out from 1 July 2024.

Energy Bill Relief

The Federal Government have announced a $300 energy bill relief measure for all Australian households meaning that the $300 benefit is not targeted.

This measure is to be deployed evenly over four quarters with the additional, but also important benefit, being the inclusion of this credit when measuring inflation. In other words, the credit is designed to artificially suppress inflation on energy bills which have been one of the main drivers of inflationary pressures. The measure achieves this by making a payment to energy companies (rather than households) therefore reducing the revenue the energy companies need. When the rebate is withdrawn the prices will go back up and therefore inflation will increase.

Rent Relief

The Budget includes further support for individuals who are eligible for Commonwealth Rent Assistance by increasing this by a further 10% (this is in addition to the 15% increase in the prior year Budget).

This is designed to provide approximately a $70 per week maximum increase.

HELP

As previously announced a cap has been introduced to cap the Higher Education Loan Program (HELP) indexation rate to the lower of either the Consumer Price Index (CPI) or the Wage Price Index (WPI). This is to be back dated to have effect from 1 June 2023.

Superannuation

Paid Parental Leave
In another previously announced measure, the Federal Government will pay superannuation on the government-funded Paid Parental Leave.

Superannuation Guarantee
Whilst not announced in the budget as a change, employees and employers should be aware that the Superannuation Guarantee percentage changes with effect from 1 July increasing to 11.5% from the current level of 11%.

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 likely have an increase in costs which they are likely to seek to pass onto customers resulting in inflationary pressures.

The final scheduled increase to the superannuation guarantee is from 1 July 2025 when it goes to 12%.

Employers should also note that the maximum super contribution base has increased to $65,070 per quarter (up from $62,270 in 2022-2023).

Capital Gains Tax (CGT)

Continuing from the prior Budget there is an emphasis on raising revenue from non-residents. The Budget contains an announcement concerning the expansion of CGT to non-residents.

Please refer to the Business Taxes section for further details.

Business Tax

Small and medium business tax measures

The Instant asset write off for small businesses (aggregated annual turnover of less than $10m) has been extended until 30 June 2025.

The measure enables small businesses to 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. Consistent with the prior regime, the asset threshold applies on a per asset.

It is noted that the prior Budget announcement for this measure ($30,000 threshold for small and medium businesses) has still not been legislated.

Energy Bill Relief

In line with the relief provided to individuals, small business will receive $325 in the form of an energy bill relief measure.

General Anti Avoidance

The Budget includes the previously announced changes to the general anti avoidance provisions known as Part IVA. The proposals expand on Part IVA to address:

- Schemes that reduce tax paid in Australia by accessing a lower withholding tax rate on income paid to foreign residents.
- Schemes that achieve an Australian income tax benefit, even where the dominant purpose was to reduce foreign income tax.

The start date of the changes has been delayed and are now slated to apply for income years commencing on or after the legislation receives Royal Assent.

1

The Instant asset write off for small businesses has been extended until 30 June 2025.

2

A number of changes will be made to the provisions relevant for the application of CGT to non-residents.

3

More ATO funding in a bid to increase tax revenue.

Non-resident CGT

A number of changes will be made to the provisions relevant for the application of CGT to non-residents.

Under the current provisions, non-residents are generally not subject to Australian CGT except where the assets are “taxable Australian Property” (think land directly or indirectly held).

The Budget did not include a large amount of detail as to the proposed changes; however, it is understood that the amendments will “clarify and broaden the types of assets that foreign residents are subject to CGT on”. The changes are designed to ensure that foreign residents are taxed on direct and indirect sales of assets with a close economic connection to Australian land.

Under the current rules, where land is held indirectly, there is a principal asset test which examines whether land is the principal asset. The changes propose to make this test over a 365-day testing period rather than a specific point in time. This will more closely align the principal asset test with equivalent treaty concepts in recent treaties.

In addition to the above, a new notification process is to be introduced where foreign residents dispose of shares and other membership interests exceeding $20m even if the taxpayer has self-assessed that the disposal is not subject to Australian CGT. Currently, there is no notification required to be given to the ATO.

The new measures are proposed to apply to CGT events on or after 1 July 2025 (for the 2025-26 tax year onwards).

Intangible Assets

The prior Budget included a proposed measure to deny tax deductions for certain payments made in relation to intangibles held in low or no tax jurisdictions. These measures have now been dropped as this will now be addressed through the Global Minimum Tax and Domestic Minimum Tax currently being implemented which are focused on Significant Global Entities.

Further ATO Funding

In a continued effort to increase tax revenue, the Budget provides additional funding for the ATO to target four areas as follows:

- Personal income tax compliance.
- Countering fraud with measures to detect, prevent and mitigate fraud.
- Expansion of the Shadow Economy Compliance Program.
- Expansion of the Tax Avoidance Taskforce with a continued focus on multinationals, large public and private businesses, and high wealth individuals.

Future Made in Australia

The Budget includes a suite of announcements as part of the Future Made in Australia program. The measures include two tax related incentives as follows:

- A Critical Minerals Production tax incentive – which is designed to encourage downstream refining and processing of Australian critical minerals; and
- A Hydrogen Production tax incentive - this is designed to support the growth of producers of renewable hydrogen.

Both of the above measures are to apply for the income years 2027-28 to 2040-41.

ESV Services

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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."

David Prichard
Partner
02 9275 0249
davidp@esvgroup.com.au

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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