2023-24 Federal Budget

2023–24 Federal Budget Highlights

The Federal Treasurer, Dr Jim Chalmers, handed down the 2023–24 Federal Budget at 7:30 pm (AEST) on 9 May 2023.

The Budget forecasts the underlying cash balance to be in surplus by $4.2 billion in 2022–23, the first surplus since 2007–08, followed by a forecast deficit of $13.9 billion in 2023–24.

Putting forward a "responsible budget" for uncertain economic times, the Treasurer has described the tax measures as "modest, but meaningful", including changes to the Petroleum Resources Rent Tax and confirmation of a 1 January 2024 implementation of the BEPS Pillar Two global minimum tax rules.

A range of measures provide cost-of-living relief to individuals such as increased and expanded JobSeeker payments and better access to affordable housing. No changes were announced to the Stage 3 personal income tax cuts legislated to commence in 2023–24.

As part of the measures introduced for small business, a temporary $20,000 threshold for the small business instant asset write-off will apply for one year, following the end of the temporary full expensing rules.

Several tax measures of the former Coalition government have also been amended or dropped, including the patent box tax incentive measures.

The full Budget papers are available at www.budget.gov.au and the Treasury ministers' media releases are available at [ministers.treasury.gov.au.](ministers.treasury.gov.au) The tax, superannuation and social security highlights are set out below.

Individuals

Increased rate for income support payments

Income support payment base rates will be increased by $40 per fortnight.

The increase will apply to

- JobSeeker Payment,
- Youth Allowance,
- Parenting Payment (Partnered),
- Austudy,
- ABSTUDY,
- Disability Support Pension (Youth) and Special Benefit from 20 September 2023.

Sources: Budget Paper No 2, p 199; Budget Factsheet — Stronger foundations for a better future, p 17.

Expanded eligibility for higher Jobseeker Payment rate

The minimum age for which older people qualify for the higher JobSeeker Payment rate will be reduced from 60 to 55 years. This applies to those who have received the payment for 9 or more continuous months.

Eligible recipients will receive an increase in their base rate of payment of $92.10 per fortnight.

Sources: Budget Paper No 2, p 199; Budget Factsheet — Stronger foundations for a better future, p 17.

Workforce participation incentive measures extended

The workforce participation incentive measures to support pensioners who want to enter the workforce, or work more hours, without impacting their pension payments will be extended for another 6 months to 31 December 2023.

The measure provides age and veterans pensioners a once-off credit of $4,000 to their Work Bonus income bank and temporarily increases the maximum income bank.

Under this measure, pensioners can earn up to $11,800 before their pension is reduced.

Source: Budget Paper No 2, p 201

Improved support for single parents

Eligibility for Parenting Payment (Single) will be extended to support single principal carers with a youngest child under 14 years of age.

The existing eligibility provides support to single principal carers with a child aged under 8 years of age.

Improved support for single parents will provide wellbeing benefits particularly for single mothers, who are overwhelmingly the recipients of this payment, and their children. This measure recognises that caring responsibilities can act as a barrier to employment while also recognising that connections with the labour force are likely to improve economic outcomes throughout a carer's lifetime.

Source: Budget Paper No 2, p 202.

Increasing the supply of social and affordable housing and making it easier to buy a home

A number of housing measures will be introduced to increase support for social and affordable housing and improve access for home buyers, including:

- increasing the Government-guaranteed liability cap of the National Housing and Finance Investment Corporation (NHFIC) by $2.0 billion to $7.5 billion to enable NHFIC to increase its support for social and affordable housing through loans from the Affordable
- Housing Bond Aggregator
- amending NHFIC's Investment Mandate to require NHFIC to take reasonable steps to allocate a minimum of 1,200 homes to be delivered in each state and territory within 5 years of the Housing Australia Future Fund commencing operation
- expand the eligibility of the Home Guarantee Scheme to:
  - allow any 2 eligible people to be joint applicants for a guarantee beyond spouses and de facto partners
  - allow non-first home buyers who have not owned a property in Australia for at least 10 years to access the First Home Guarantee and Regional Home Guarantee
  - allow a single legal guardian of children to access the Family Home Guarantee
  - allow Australian permanent residents to access the Scheme
- redirecting interest earnings on unallocated NHFIC funds to support more social and affordable housing and delivery of housing priorities.

Source: Budget Paper No 2, p 212.

Increased support for Commonwealth rent assistance recipients

The maximum rates of the Commonwealth Rent Assistance (CRA) allowances will be increased by 15% to help address rental affordability challenges for CRA recipients.

Source: Budget Paper No 2, p 200.

Medicare low-income thresholds for 2022–23

The CPI indexed Medicare levy low-income threshold amounts for singles, families, and seniors and pensioners for the 2022–23 year of income have been announced. The new thresholds are:

	Medicare levy low income threshold (at or below which no Medicare levy payable)	
Class of people	**Single**	**Family**
Individual	$24,276 ($23,365)	$40,939 ($39,402)
Senior Australians and eligible pensioners	$38,365 ($36,925)	$53,406 ($51,401)
Threshold increment for each additional dependent child/ student	$3,760 ($3,619)	

Source: Budget Paper No 2, p 22.

Exempting lump sum payments in arrears from the Medicare levy

Eligible lump sum payments in arrears will be exempt from the Medicare levy from 1 July 2024.

This measure will ensure low-income taxpayers do not pay higher amounts of the Medicare levy as a result of receiving an eligible lump sum payment, eg as compensation for underpaid wages.

Eligibility requirements will ensure that relief is targeted to taxpayers who are genuinely low-income and should be eligible for a reduced Medicare levy. To qualify, taxpayers must be eligible for a reduction in the Medicare levy in the 2 most recent years to which the lump sum accrues. Taxpayers must also satisfy the existing eligibility requirements of the existing lump sum payment in arrears tax offset, including that a lump sum accounts for at least 10% of the taxpayer's income in the year of receipt.

Source: Budget Paper No 2, p 22.

Superannuation

Reducing tax concessions for superannuation balances exceeding $3 million

Superannuation earnings tax concessions will be reduced for individuals with total superannuation balances in excess of $3 million.

From 1 July 2025, earnings on balances exceeding $3 million will incur a higher concessional tax rate of 30% (up from 15%) for earnings corresponding to the proportion of an individual's total superannuation balance that is greater than $3 million. The change does not impose a limit on the size of superannuation account balances in the accumulation phase and it applies to future earnings, ie it is not retrospective.

Earnings relating to assets below the $3 million threshold will continue to be taxed at 15%, or zero if held in a retirement pension account.

Interests in defined benefit schemes will be appropriately valued and will have earnings taxed under this measure in a similar way to other interests.

Sources: Budget Paper No 2, p 15; Budget Factsheet — Stronger foundations for a better future, p 63; Treasurer's press release "Superannuation tax breaks", 28 February 2023.

Employers to be required to pay super guarantee on payday

Employers will be required to pay their employees' superannuation guarantee (SG) entitlements at the same time as they pay their salary and wages from 1 July 2026.

Employers are currently required to make SG contributions for an employee on a quarterly basis to avoid incurring a superannuation guarantee charge.

The proposed commencement date of 1 July 2026 is intended to provide employers, superannuation funds, payroll providers and other stakeholders sufficient time to prepare for the change.

Changes to the design of the superannuation guarantee charge will also be required to align with the increased payment frequency. The government will consult with relevant stakeholders on the design of these changes, with the final framework to be considered as part of the 2024–25 Budget.

In addition, funding will be provided to the ATO to, among other things, improve data matching capabilities to identify and act on cases of SG underpayment.

Sources: Budget Paper No 2, p 26; Budget Factsheet — Stronger foundations for a better future, p 62; Assistant Treasurer's press release "Introducing payday super", 2 May 2023.

Non-arm's length income (NALI) amendments

The non-arm's length income (NALI) measure announced by the Coalition government in 2022 will be amended to provide greater certainty to taxpayers.

The Coalition government announced on 22 March 2022 that the non-arm's length expense provisions would be amended to ensure they operated as intended from 1 July 2022.

On 24 January 2023, Treasury released a consultation paper on the following potential amendments to the NALI provisions:

- self-managed superannuation funds (SMSFs) and small APRA funds would be subject to a factor-based approach which would set an upper limit on the amount of fund income taxable as NALI due to a general expenses breach. The maximum amount of fund income taxable at the highest marginal rate would be 5 times the level of the general expenditure breach, calculated as the difference between the amount that would have been charged as an arm's length expense and the amount that was actually charged to the fund. Where the product of 5 times the breach is greater than all fund income, all fund income will be taxed at the highest marginal rate, and
- large APRA-regulated funds would be exempted from the NALI provisions for general expenses of the fund.

To provide greater certainty to taxpayers, the NALI provisions which apply to expenditure incurred by superannuation funds will be amended by:

- limiting income of SMSFs and small APRA regulated funds that are taxable as NALI to twice the level of a general expense.
- Additionally, fund income taxable as NALI will exclude contributions
- exempting large APRA regulated funds from the NALI provisions for both general and specific expenses of the fund, and
- exempting expenditure that occurred prior to the 2018–19 income year.

Source: Budget Paper No 2, pp 13–14

GST and other Indirect Tax

Tobacco excise measures to improve health outcomes and align the treatment of stick and non-stick tobacco tax

Tobacco excise and excise-equivalent customs duty will be increased by 5% per year for 3 years from 1 September 2023, in addition to ordinary indexation, to encourage smokers to quit.

The government will also align the tax treatment of tobacco products subject to the per kilogram excise and excise-equivalent customs duty (such as roll-your-own tobacco) with the manufactured per-stick rate, by progressively lowering the "equivalisation weight" from 0.7 to 0.6 grams. These progressive decreases will occur on 1 September each year from 2023, with the new weight coming fully into effect from 1 September 2026. This will raise the per kilogram duty accordingly.

The government will expand compliance activity to address illicit tobacco and work with relevant agencies and state and territory governments to develop an appropriate multi-jurisdictional approach.

These changes to tobacco excise are part of the government's response to the National Tobacco Strategy and related initiatives on vaping and smoking prevention and cessation, and an enhanced regulatory approach to vaping.

Source: Budget Paper No 2, p 11.

What isn't in the Budget

No announcement to extend halving of the pension minimums for another year

From 1 July 2023

The government did not announce any extension of the halving of the account-based pension and term allocated pension minimum drawdown requirements, which have been in effect since 2019-20. As a result, the minimum drawdown requirements are likely to revert to 100% of the standard minimum from 1 July for the following pensions (and annuities):

- Account based pensions
- Transition to retirement pensions
- Term allocated pensions.

Although the government could still announce an extension of the current halving of the minimum drawdown requirements for these pensions prior to the end of the year, given this wasn't announced in the Budget it is considered unlikely.

No announcement to freeze the transfer balance cap at its current level

From 1 July 2023

In February 2023, it was confirmed that the Transfer Balance Cap (TBC) would increase by $200,000 to $1.9m on 1 July this year due to indexation. However, since February there has been some industry speculation that the government may freeze the TBC at its current level of $1.7m in the Budget – which did not happen.

While it's still possible that the government could announce this before the end of the year, the fact it wasn't announced in the Budget suggests the TBC will increase to $1.9m on 1 July 2023 as expected.

Given this, clients with large super balances who plan to retire before 1 July 2023 and start their first retirement phase income stream, such as an account-based pension, may wish to consider delaying until 1 July 2023 to get the benefit of the full $200,000 indexation.

No announcement to allow legacy complying income stream products to be released

In the 2021/22 Federal Budget, the previous government proposed a two-year window to commute and roll the capital supporting certain complying income streams (including reserves) back into a super account in accumulation phase, allowing the member to then decide whether to commence an account-based pension, take a lump sum benefit, or retain the balance in the accumulation account.

The measure was proposed to affect:

- market-linked income streams (otherwise known as Term Allocated Pensions),
- complying life expectancy income streams, and
- complying lifetime income streams that were originally commenced prior to 20 September 2007.

The measure was expected to commence from 1 July 2023, however it was not legislated prior to the calling of the Federal election last year.

No announcement to change legislated 'stage 3' tax cuts

From 1 July 2024

The former government legislated three stages of personal income tax cuts commencing from the 2018-19 financial year, with stage 3 of these tax cuts due to take effect on 1 July 2024. While the current government had previously ruled out any changes in this area, there has been ongoing speculation about whether it would be delayed, modified or cancelled given it comes at significant cost to the Budget and particularly benefits higher income earners.

With nothing new announced in last night's Budget regarding the stage 3 tax cuts, they remain legislated to take effect on 1 July 2024. However, it's worth noting that there is more than a year, and a further Federal Budget, between now and commencement.

As a reminder, the stage 3 tax cuts will change the income tax rates and thresholds (for resident taxpayers) as follows:

Current (2022–23) year and 2023-24 year		From 2024–25 year	
Taxable income	Marginal tax rate*	Taxable income	Marginal tax rate*
$18,200 to $45,000	19%	$18,200 to $45,000	19%
$45,001 to $120,000	32.5%	$45,001 to $200,000	30%
$120,001 to $180,000	37%		
$180,001 and over	45%	$200,001 and over	45%

*Excluding Medicare levy

No extension of LMITO

Ceased from 2022–23 financial year

The low and middle income tax offset (LMITO) was a temporary tax offset available from the 2018–19 to 2021–22 financial years. For its final year, a non-refundable offset of up to $1,500 was available to clients with taxable income below $126,000, with the maximum offset applying where taxable income was between $48,000 and $90,000.

The government made no announcement in the Budget about extending LMITO, and it is therefore legislated to no longer apply in this financial year or future years.

Business

Small business depreciation — instant asset write-off threshold of $20,000 for 2023–24

The instant asset write-off threshold for small businesses applying the simplified depreciation rules will be $20,000 for the 2023–24 income year.

Small businesses (aggregated annual turnover less than $10 million) may choose to calculate capital allowances on depreciating assets under a simplified regime in Subdiv 328-D of ITAA 1997. Under these simplified depreciation rules, an immediate write-off applies for lowcost depreciating assets. The measure will apply a $20,000 threshold for the immediate write-off, applicable to eligible assets costing less than $20,000 first used or installed between 1 July 2023 and 30 June 2024. The $20,000 threshold will apply on a per asset basis, so small businesses can instantly write-off multiple low-cost assets. The threshold had been suspended during the operation of temporary full expensing from 6 October 2020 to 30 June 2023.

Assets costing $20,000 or more will continue to be placed into a small business depreciation pool under the existing rules.

The provisions that prevent a small business entity from choosing to apply the simplified depreciation rules for 5 years after opting out will continue to be suspended until 30 June 2024.

Source: Budget Paper No 2, pp 27–28.

Increased deductions for small and medium business expenditure on electrification and energy efficiency

An additional 20% deduction will be available for small and medium business expenditure supporting electrification and energy efficiency.

The additional deduction will be available to businesses with aggregated annual turnover of less than $50 million. Eligible expenditure may include the cost of eligible depreciating assets, as well as upgrades to existing assets, that support electrification and more efficient use of energy. Certain exclusions will apply, including for electric vehicles, renewable electricity generation assets, capital works, and assets not connected to the electricity grid that use fossil fuels.

Examples of expenditure the measure will apply to include:

- assets that upgrade to more efficient electrical goods (eg energy-efficient fridges)
- assets that support electrification (eg heat pumps and electric heating or cooling systems), and
- demand management assets (eg batteries or thermal energy storage).

Total eligible expenditure for the measure will be capped at $100,000, with a maximum additional deduction available of $20,000 per business.

When enacted, the measure will apply to eligible assets or upgrades first used or installed ready for use between 1 July 2023 and 30 June 2024. Full details of eligibility criteria will be finalised in consultation with stakeholders.

Sources: Budget Paper No 2, p 28; Treasurer's press release "Small Business Energy Incentive", 30 April 2023

FBT exemption for eligible plug-in hybrid electric cars to end

The FBT exemption for eligible plug-in hybrid electric cars will end from 1 April 2025.

Arrangements involving plug-in hybrid electric cars entered into between 1 July 2022 and 31 March 2025 remain eligible for the exemption.

This measure was originally introduced in the Treasury Laws Amendment (Electric Car Discount) Act 2022.

Source: Budget Paper No 2, p 25.

Accelerated deductions and reduced MIT withholding tax for new build-to-rent projects

An increased capital works deduction rate and reduced withholding on managed investment trust (MIT) payments will apply to eligible new build-to-rent projects where construction commences after 7:30 pm (AEST) on 9 May 2023.

The capital works deduction rate will increase from 2.5% to 4% per year for eligible new build-to-rent projects. Taxpayers can claim a deduction for capital expenditure incurred in constructing capital works, such as income-producing buildings, under Div 43 of ITAA 1997. Currently, the capital works deduction rate of 4% per year only applies in relation to income-producing buildings used mainly for industrial activities and certain buildings providing short-term traveller accommodation.

The final withholding tax rate on fund payments from eligible MIT investments will be reduced to 15% for income from new residential build-to-rent projects. Fund payments to non-residents attributable to MIT residential housing income are currently subject to a final withholding tax rate of 30%. The reduced rate will apply to income attributable to eligible residential build-to-rent projects from 1 July 2024. The reduction was previously proposed in 2019 as part of a Labor party pre-election announcement.

The measure will apply to build-to-rent projects consisting of 50 or more apartments or dwellings made available for rent to the general public. The dwellings must be retained under single ownership for at least 10 years before being able to be sold and landlords will be required to offer a lease term of at least 3 years for each dwelling. Consultation will be undertaken on implementation details, including any minimum proportion of dwellings being offered as affordable tenancies and the length of time dwellings must be retained under single ownership.

Sources: Budget Paper No 2, pp 19–20; Minister for Housing's press release "Billions to boost social and affordable rental homes", 28 April 2023.

Clean building MIT withholding tax concession to be extended

The clean building managed investment trust (MIT) withholding tax concession will be extended from 1 July 2025 to eligible data centres and warehouses, where construction commences after 7:30 pm (AEST) on 9 May 2023.

A final withholding tax rate of 10% applies to fund payments from eligible clean building MITs that are made to non-residents in information exchange countries. An eligible clean building MIT refers to a withholding MIT that holds one or more clean buildings. A clean building MIT cannot derive assessable income from any taxable Australian property other than its clean buildings and assets "reasonable incidental to" those clean buildings.

Eligibility for the concession will be extended to data centres and warehouses that meet the relevant energy efficiency standard, where construction commences after 7:30 pm (AEST) on 9 May 2023. The measure will also raise the minimum energy efficiency requirements for existing and new clean buildings to a 6-star (currently 5-star) rating from the Green Building Council Australia or a 6-star (currently 5.5-star) rating under the National Australian Built Environment Rating System. Consultation will be undertaken on transitional arrangements for existing buildings.

The measure will apply from 1 July 2025 when enacted.

Source: Budget Paper No 2, p 18.

Franked distributions funded by capital raisings — start date postponed

The start date of a measure to prevent franked distributions funded by certain capital raisings announced in the 2016–17 Mid-Year Economic and Fiscal Outlook (MYEFO) has been postponed to 15 September 2022.

Certain distributions funded by capital raisings made on or after 15 September 2022 will be prevented from being frankable. The measure ensures such arrangements cannot be put in place to release franking credits that would otherwise remain unused where they do not significantly change the financial position of the entity.

When originally announced, the 2016–17 MYEFO measure was to apply for distributions made after 12:00 pm (AEDT) on 19 December 2016.

The measure was introduced in sch 5 to the Treasury Laws Amendment (2023 Measures No 1) Bill 2023 with a revised application date of 15 September 2022, to align with the release of the exposure draft legislation for the measure on 14 September 2022. The Bill is currently before the Senate.

Source: Budget Paper No 2, p 13.