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FEDERAL BUDGET EDITION 2023–24

Federal Budget 2023–24

Budget overview

On Tuesday 9 May 2023, the Treasurer, the Hon Dr Jim Chalmers MP, delivered the Federal Budget 2023–24 (**Budget**), his second budget.

The headlines focus on cost-of-living measures totalling more than $14 billion, measures to strengthen Medicare costing $5.7 billion and a projected $4.2 billion surplus (0.2% of GDP) for the 2022–23 financial year, the first surplus in 15 years.

The surplus, however, is a one-off and an underlying cash deficit of $13.9 billion (0.5% of GDP) is projected for 2023–24 (albeit $30.1 billion lower than forecast in the October 2022 updated Federal Budget 2022–23 (**October Budget**)). The deficit is expected to increase in 2024–25 (when the Stage 3 tax cuts are legislated to take effect) and 2025–26 before falling to $28.5 billion (1.0% of GDP) in 2026–27.

Gross debt is now projected to peak at 36.5% of GDP in 2025–26, 10.4 percentage points lower and 5 years earlier than projected in the October Budget, before declining to 32.3% by 2033–34.

Of course, Budget projections often prove to be inaccurate. You only have to look at the October Budget projections to realise how difficult it is to accurately project over a 12-month period, let alone 5 or 10 years. The Budget papers can be found at www.budget.gov.au.

Big picture highlights

The big picture projections in this year's Budget are:

Surplus/deficit: a $4.2 billion surplus (0.2% of GDP) is projected for 2022–23, but a deficit of $13.9 billion (0.5% of GDP) is projected for 2023–24, rising to $36.6 billion (1.3% of GDP) by 2025–26 and then falling to $28.5 billion (1% of GDP) at the end of the forward estimates (2026–27).

Gross debt: $887 billion (34.9% of GDP) for 2022–23 and $923 billion (35.8% of GDP) for 2023–24, rising to $1.067 trillion (36.5% of GDP) for 2026–27.

Net debt: $548.6 billion (21.6% of GDP) for 2022–23 and $574.9 billion (22.3% of GDP) for 2023–24, rising to $702.9 billion (24.1% of GDP) for 2026–27.

Economic growth: real GDP is forecast to grow by 3.25% in 2022–23 and 1.5% in 2023–24, rising to 2.75% in 2026–27.

Unemployment: the unemployment rate is forecast to be 3.5% for the June 2023 quarter and 4.25% for the June 2024 quarter, then fluctuating between 4.25% and 4.5% until the June 2027 quarter.

Inflation: domestic inflation peaked at 7.8% in the December 2022 quarter, fell to 7% in the most recent quarter and is expected to fall to 3.75% per cent by the June 2024 quarter and to 2.75% by the June 2025 quarter.

Wages: wages are forecast to increase by 3.75% in 2022–23, which is less than the forecast 6% inflation rate (as measured by the increase in the CPI), but to be between 0.5% and 1% higher than the inflation rate over the forward estimates (4 years from 2023–24).

Total tax receipts: expected to be $588.1 billion (23.1% of GDP) for 2022–23 and forecast to be $616.3 billion (23.9% of GDP) for 2023–24, rising to $680.7 billion (23.3% of GDP) for 2026–27.

Total payments: expected to be $631.4 billion (24.8% of GDP) for 2022–23 and forecast to be $682.1 billion for 2023–24 (26.5% of GDP), rising to $763.6 billion (26.1% of GDP) for 2026–27.

Tax and super highlights

It was a relatively unexpected Budget as far as tax and superannuation measures are concerned, some of which were announced by the Government before the Budget. The Budget contained a few measures to help small and medium businesses, but there was little for non-business individuals.

The Budget contains measures targeting large multinationals and includes changes to the Petroleum Resource Rent Tax.

Most of the superannuation changes were announced before the Budget was handed down but won't come into effect for at least a couple of years.

Here are some of the tax and superannuation 'highlights':

- the small business instant asset write-off threshold will temporarily increase to $20,000, from 1 July 2023 until 30 June 2024 (without this measure, the threshold would have reverted to the standard legislation threshold of $1,000 from 1 July 2023);

- the PAYG uplift factor for 2023–24 will be 6% (instead of the statutory rate of 12%);

- the Small Business Energy Incentive will provide businesses with an aggregated turnover of less than $50 million with an additional 20% deduction on spending that supports electrification and more efficient use of energy;

- a lodgment penalty amnesty will be available to small businesses for outstanding tax statements lodged from 1 June 2023 to 31 December 2023 that were due during the period from 1 December 2019 to 29 February 2022;

- lump sum payments in arrears received by low income taxpayers will be exempt from the Medicare levy from 1 July 2024;

- from 1 July 2026, employers will be required to pay their employees' superannuation guarantee contributions at the same time as their salary and wages;

- the capital works deduction rate will increase from 2.5% to 4% per year for eligible new build-to-rent projects where construction commences after 9 May 2023;

- the withholding tax rate for eligible fund payments from managed investment trusts on income from newly constructed residential build-to-rent properties will be reduced (from 1 July 2024);

- the general anti-avoidance rules will be expanded to apply to certain schemes accessing a lower withholding tax rate on income paid to foreign residents or where the dominant purpose was to reduce foreign income tax;

- three patent box measures announced by the former Government will not proceed;

- a 15% global minimum tax and a 15% domestic minimum tax will be introduced for large multinationals (for income years commencing on or after 1 January 2024);

- general insurers will be able to use audited financial reporting information, which is calculated according to the new accounting standard AASB17, as the basis for their tax returns; and
- changes will be made to the Petroleum Resource Rent Tax (**PRRT**) rules, including limiting the proportion of PRRT assessable income that can be offset by deductions to 90%.

Tax measures for non-business individuals

Tax measures that affect individuals are outlined below.

Medicare levy thresholds

The Medicare levy low-income threshold for singles for 2022–23 is $24,276 ($23,365 for 2021–22). The family income threshold is $40,939 ($39,402 for 2021–22), increasing by $3,760 for each dependent child or student ($3,619 for 2021–22).

For single seniors and pensioners eligible for the senior Australians and pensioners tax offset (**SAPTO**), the Medicare levy low-income threshold for 2022–23 is $38,365 ($36,925 for 2021–22). The family threshold for seniors and pensioners eligible for SAPTO is $53,406 ($51,401 for 2021–22). The threshold increases by $3,760 for each dependent child or student ($3,619 for 2021–22).

No changes to tax rates

There were no changes to the income tax rates. The rates in the table below apply for the 2022–23 and 2023–24 income years.

Income tax rates 2022–23 and 2023–24 — residents

Taxable income	Tax rate
Up to $18,200	Nil
$18,201–$45,000	19%
$45,001–$120,000	32.5%
$120,001–$180,000	37%
$180,001 and over	45%

The Stage 3 tax cuts are legislated to apply from 2024–25. From 2024–25, there will be a single rate (30%) for taxable income between $45,001 and $200,000, doing away with the 32.5% and 37% rates. The top rate for taxable incomes above $200,000 will continue to be 45%.

Lump sum in arrears – Medicare levy exemption

The Government will exempt certain lump sum payments in arrears from the Medicare levy from 1 July 2024.

This measure is targeted at genuine low-income taxpayers. As a result, they will not pay a higher Medicare levy as a result of receiving an eligible lump sum payment, for example as compensation for underpaid wages.

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 (as a low-income earner). 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.

New deductible donations

The Government announced the following organisations (**DGRs**) will be eligible to receive tax deductible donations for the specified periods:

- The Voice No Case Committee – from the day after the entity is registered with the Australian Charities and Not-for-profits Commission to 30 June 2024;
- Justice Reform Initiative Limited – from 1 July 2023 to 30 June 2028;
- Susan McKinnon Charitable Foundation Ltd – from 1 July 2023 to 30 June 2028;
- Transparency International Australia – from 1 July 2023.

- The Government will also extend the following organisations' DGR endorsement for the following dates:
  - Victorian Pride Centre Ltd – from 9 March 2023 to 8 March 2028;
  - Australian Sports Foundation Charitable Fund – from 1 July 2023.

The listing of the Susan McKinnon Charitable Foundation Ltd is subject to the condition that DGR funds can only be used for purposes consistent with existing DGR categories in the tax law and it will maintain minimum annual distributions, consistent with the current requirements for ancillary funds.

The start date for the previously announced listing of 28 entities related to community foundations affiliated with the peak body Community Foundations Australia will be deferred from 1 July 2022 to the date on which the enabling legislation receives Royal Assent. In addition, the 30 June 2027 end date for the listing will be removed. DGR status for these foundations will be subject to ongoing endorsement by the ATO under new ministerial guidelines.

The listings of Lord Mayor's Charitable Foundation and Foundation Broken Hill Limited will be made consistent with that for other community foundations, including the removal of end dates where applicable.

Taxpayers may claim an income tax deduction for donations of $2 or more to eligible DGRs.

Student loans

The Government will forgo $5.4 million in receipts over 5 years from 2022–23 (and $15.5 million over 2 years to 2033–34) to support students affected by a delay in the transfer of some historical tertiary education loan records to the ATO. This will mean waiving the following debts for affected loans, as determined at the date of transfer to the ATO:

- Historical indexation, as well as indexation that will be applied on 1 June 2023, on loans issued prior to 1 July 2022 under the Higher Education Loan Program, the VET Student Loans program, the Trade Support Loans program and on loans issued in 2017 and 2018 under the VET FEE-HELP program.

- Outstanding debt for VET FEE-HELP loans issued from 2009 to 2016.

Income tax and GST measures for business

Income tax and GST measures affecting businesses are outlined below. Some of these measures were first announced before the Budget was handed down.

Small business – instant asset write-off

The small business instant asset write-off threshold will be increased to $20,000, from 1 July 2023 until 30 June 2024. Without this measure, the threshold would have reverted to the standard legislation threshold of $1,000 from 1 July 2023.

Small businesses, with an aggregated turnover of less than $10 million, will be able to immediately deduct the full cost of eligible depreciating assets costing less than $20,000 that are first used or installed ready for use 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 assets.

Assets valued at $20,000 or more (which cannot be immediately deducted) can be placed into the small business general use pool and depreciated at 15% in the first income year and 30% each income year thereafter.

The provisions that prevent small businesses from re-entering the simplified depreciation regime for 5 years if they opt-out will continue to be suspended until 30 June 2024.

Readers are reminded that temporary full expensing, which allows an outright deduction for the total cost of eligible depreciating assets, ends on 30 June 2023.

Small and medium business – energy incentive

The Government will introduce the Small Business Energy Incentive to help small- and medium-sized businesses save on their energy bills.

The Small Business Energy Incentive will provide businesses with an aggregated turnover of less than $50 million with an additional 20% deduction on spending that supports electrification and more efficient use of energy. This will help small and medium businesses make investments like electrifying their heating and cooling systems, upgrading to more efficient fridges and induction cooktops and installing batteries and heat pumps.

Up to $100,000 of total expenditure will be eligible for the incentive, with the maximum bonus tax deduction being $20,000 per business.

Eligible assets or upgrades will need to be first used or installed ready for use between 1 July 2023 and 30 June 2024.

PAYG and GST instalments – uplift factor

The GDP-adjustment factor for PAYG and GST instalments will be 6% for the 2023–24 income year (instead of 12% under the statutory formula).

The 6% uplift factor will apply to small businesses and individuals who are eligible to use the relevant instalment methods (aggregated turnover up to $10 million for GST instalments and aggregated turnover up to $50 million for PAYG instalments), in respect of instalments that relate to the 2023–24 income year and fall due after the enabling legislation receives Royal Assent.

The PAYG and GST uplift factors for 2022–23 are 2%.

Franked distributions funded by capital raisings

The Government confirmed that the start date for the measure to prevent the distribution of franking credits, where a distribution to shareholders is funded by particular capital raising activities, will apply to relevant distributions made on or after 15 September 2022 rather than 19 December 2016.

This measure is contained in Schedule 5 to the *Treasury Laws Amendment (2023 Measures No 1) Bill 2023*, which contains the revised start date.

Lodgment amnesty for small business

A lodgment penalty amnesty program is to be provided for small businesses with aggregated turnover of less than $10 million to encourage them to re-engage with the tax system.

The amnesty will remit failure-to-lodge penalties for outstanding tax statements lodged in the period from 1 June 2023 to 31 December 2023 that were originally due during the period from 1 December 2019 to 29 February 2022.

Incentives to increase housing supply

The Government will provide the following incentives to help increase the supply of housing:

- the capital works deduction rate will be increased from 2.5% to 4% per year for eligible new build-to-rent projects where construction commences after 9 May 2023; and
- the withholding tax rate for eligible fund payments from managed investment trusts to foreign residents on income from newly constructed residential build-to-rent properties after 1 July 2024 will be reduced from 30% to 15% (although this is subject to further consultation on eligibility criteria).

This measure will apply to build-to-rent projects only if:

- the construction consists of 50 or more apartments or dwellings made available for rent to the general public;
- the dwellings are retained under single ownership for at least 10 years before being able to be sold; and
- landlords offer a lease term of at least 3 years for each dwelling.

Patent box measures abandoned

The Government will not proceed with 3 separate patent box measures announced by the former Government in the Federal Budget 2021–22 and Federal Budget 2022–23. These measures would have provided concessional tax treatment in relation to:

- new patents in the medical and biotechnology sectors;
- the commercialisation of patented technologies which have the potential to lower emissions; and
- practical, technology-focused innovations in the Australian agricultural sector.

Clean building withholding tax concession extended

The Government will extend the clean building managed investment trust (**MIT**) withholding tax concession to data centres and warehouses.

This measure will extend eligibility for the concession to data centres and warehouses that meet the relevant energy efficiency standard, where construction commences after 7:30pm (AEST) on 9 May 2023. This measure will apply from 1 July 2025.

This measure will also raise the minimum energy efficiency requirements for existing and new clean buildings to a 6-star rating from the Green Building Council Australia or a 6-star rating under the National Australian Built Environment Rating System. The Government will consult on transitional arrangements for existing buildings. These changes will support investment in energy efficient commercial buildings, and in turn, reduce energy usage and energy bills for commercial tenants.

Reducing compliance costs for general insurers

The Government will introduce legislation to amend the tax law to minimise the regulatory burden facing the general insurance industry.

The introduction of the new accounting standard, AASB17 Insurance Contracts, by the Australian Accounting Standards Board, has meant that the tax law is no longer aligned with accounting standards. This change to the tax law will allow general insurers to continue to use audited financial reporting information, which is calculated according to the new standard, as the basis for their tax returns.

The measure will have effect for income years commencing on or after 1 January 2023.

Global and domestic minimum tax

The Government will implement key aspects of Pillar Two of the OECD/G20 Two-Pillar Solution to address the tax challenges arising from digitalisation of the economy:

- a 15% global minimum tax for large multinational enterprises with the Income Inclusion Rule applying to income years starting on or after 1 January 2024 and the Undertaxed Profits Rule applying to income years starting on or after 1 January 2025; and

- a 15% domestic minimum tax applying to income years starting on or after 1 January 2024.

The global minimum tax and domestic minimum tax will be based on the OECD Global Anti-Base Erosion Model Rules, which are designed to ensure large multinationals pay an effective minimum level of tax on the income arising in each jurisdiction where they operate.

A global minimum corporate tax rate of 15% protects Australia's corporate tax base. The global minimum tax rules would allow Australia to apply a top-up tax on a resident multinational parent or subsidiary company where the group's income is taxed below 15% overseas.

A domestic minimum tax would give Australia first claim on top-up tax for any low-taxed domestic income. In a small number of instances, a large multinational company's effective Australian tax rate may fall below 15%. In these instances, the domestic minimum tax applies so that Australia collects the revenue that would otherwise have been collected by another country's global minimum tax.

The global minimum tax and domestic minimum tax will apply to large multinationals with annual global revenue of EUR750 million (approximately $1.2 billion) or more.

GST compliance

The Government will provide $588.8 million to the ATO over 4 years from 1 July 2023 to continue a range of activities that promote GST compliance.

These activities will ensure businesses meet their tax obligations, including accurately accounting for and remitting GST, and correctly claiming GST refunds. Funding through this extension will also help the ATO develop more sophisticated analytical tools to combat emerging risks to the GST system.

Superannuation Measures

Additional tax on earnings on superannuation balances exceeding $3 million

The Government will introduce an additional 15% tax on earnings on an individual's superannuation account, for total superannuation balances exceeding $3 million, from 1 July 2025. Individuals with a total superannuation balance of less than $3 million will not be affected.

This measure was previously announced by the Government on 28 February 2023.

This will bring the headline tax rate to 30% for earnings corresponding to the proportion of an individual's total superannuation balance that is greater than $3 million. Earnings relating to assets below the $3 million threshold will continue to be taxed at 15% or 0% 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. This will ensure commensurate treatment.

The additional tax on earnings imposed by this measure is expected to impact around 80,000 individuals in 2025–26 (approximately 0.5% of individuals with a superannuation account).

The measure will not place a limit on the amount of money an individual can hold in superannuation and the current contributions rules will continue to apply.

Payday super

From 1 July 2026, employers will be required to pay their employees' superannuation guarantee contributions at the same time as their salary and wages (i.e. on payday).

Payday super will make it easier for employees to keep track of their payments, and harder for them to be exploited by disreputable employers. The Treasurer said that, while most employers do the right thing, the ATO estimates that $3.4 billion worth of superannuation went unpaid in 2019–20.

In addition, the ATO will receive additional resourcing to help it detect unpaid superannuation payments earlier and the Government will set enhanced targets for the ATO for the recovery of payments.

The SG rate is legislated to increase from 10.5% to 11% from 1 July 2023, and thereafter by 0.5% per year until it reaches 12% from 1 July 2025.

Non-arm's length income

The Government proposes to amend the non-arm's length income (**NALI**) provisions which apply to expenditure incurred by superannuation funds by:

- limiting income of self-managed superannuation funds and small Australian Prudential Regulation Authority (**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.

Key tax dates

Date	Obligation
22 May 2023*	April 2023 monthly BAS due 2022–23 FBT return due
29 May 2023*	March 2023 quarter Superannuation Guarantee statement due
21 June 2023	May 2023 monthly BAS due
21 July 2023	June 2023 monthly BAS due
28 July 2023	June 2023 quarterly BAS due
	June 2023 quarterly PAYG instalment
14 Aug 2023	July 2023 monthly BAS due PAYG withholding annual report due if not reporting through STP
28 Aug 2022	June 2023 quarter Superannuation Guarantee statement due Taxable payments report due

*The next business day as the due day (21 May and 28 May) falls on a Sunday.