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"Making Your Business Count"

Federal budget | May 2024

On Tuesday, 14 May 2024, Treasurer Jim Chalmers handed down the 2024-25 Federal Budget, his 3rd Budget. The Treasurer announced a package of measures, including tax incentives for the production of critical minerals and hydrogen to support the Government's Future Made in Australia agenda to boost business investment. The cost of living has also been targeted with the confirmation of the revised Stage 3 tax cuts – (13.6 million taxpayers will receive a tax cut from 1 July 2024 with an average annual tax cut of $1,888), $3.5b in energy bill relief (including a $300 energy rebate for every household) and $1.9bn for increased rent assistance.

Other tax measures included the $20,000 instant asset write-off for small businesses - extended to 30 June 2025; Foreign resident CGT rules - the types of assets that foreign residents will be liable for will be clarified and broadened; Super to be paid on Government-funded Paid Parental Leave (PPL) for births and adoptions on or after 1 July 2025 .

A Budget surplus of $9.3bn is forecast in 2023-24.

PERSONAL TAXATION

Personal tax rates: Stage 3 (as revised) confirmed from 2024-25

In the 2024-25 Budget, the Government did not announce any further changes to the personal tax rates. The Government's revised Stage 3 tax changes (as announced on 25 January 2024 and enacted into law by the Treasury Laws Amendment (Cost of Living Tax Cuts) Act 2024) commence from 1 July 2024. The Treasurer said all 13.6 million taxpayers will receive a tax cut from 1 July 2024. The average annual tax cut is $1,888.

The table below compares the rates for 2023-24 with the revised rates for 2024-25. The 19% tax rate has been reduced to 16%; the 32.5% tax rate has been reduced to 30%; the 37% tax rate threshold has been increased from $120,000 to $135,000; and the 45% tax rate threshold has been increased from $180,000 to $190,000.

Tax rates and income thresholds

Rate	2022-23 to 2023-24	From 1.7.24
Nil	$0-$18,200	$0-$18,200
16%	N/A	$18,201 - $45,000
19%	$18,201-$45,000	**N/A**
30%	N/A	$45,001- **$135,000**
32.50%	$45,001-$120,000	N/A
37%	$120,001-$180,000	**$135,000-$190,000**
45%	$180,001+	**$190,001 +**

SMALL BUSINESS TAXATION

$20K instant asset write-off for small businesses extended to 30 June 2025 (Not yet law)

Small businesses, i.e. those with aggregated annual turnover of less than $10 million, will be able to immediately deduct the full cost of eligible assets costing less than $20,000 (excluding GST) that are first used or installed ready for use between 1 July 2024 and 30 June 2025.

Assets valued at $20,000 or more can continue to be placed into the small business simplified depreciation 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 2025.

Changes to foreign resident CGT rules apply to CGT events commencing on or after 1 July 2025

The Government will amend the following areas of CGT as it applies to foreign residents, ie it will:

▪ clarify and broaden the types of assets that foreign residents will be liable for ie tax foreign residents on direct and indirect sales of assets with a close economic connection to Australian land;

- amend the point-in-time principal asset test to a 365-day testing period; and
- require foreign residents disposing of shares and other membership interests exceeding $20 million in value to notify the ATO, before disposal.

Critical Minerals and Hydrogen Production tax incentives: other Future Made in Australia incentives

The Government will provide 2 tax-related incentives relating to its Future Made in Australia program.

Critical Minerals Production tax incentive

A Critical Minerals Production Tax Incentive will operate from 2027-28 to 2040-41 to support downstream refining and processing of Australia's 31 critical minerals to improve supply chain resilience, at an estimated cost to the budget of $7.0 billion over 11 years from 2023-24 (and an average of $1.5 billion per year from 2034-35 to 2040-41).

Hydrogen Production tax incentive

A Hydrogen Production Tax Incentive from 2027-28 to 2040-41 to producers of renewable hydrogen to support the growth of a competitive hydrogen industry and Australia's decarbonisation, at an estimated cost to the budget of $6.7 billion over 10 years from 2024-25 (and an average of $1.1 billion per year from 2034-35 to 2040-41).

Intangible assets and Significant Global Entities (SGEs): 2022-23 Budget measure dropped, new regime implemented from 1 July 2026

The government is no longer proceeding with denying deductions for intangibles held in low tax jurisdictions.

The Government will introduce a new provision from 1 July 2026 that applies a penalty to taxpayers who are part of a group with more than $1 billion (SGEs) in global turnover annually that are found to have mischaracterised or undervalued royalty payments, to which royalty withholding tax would otherwise apply.

Changes to existing measures : anti-avoidance from day after legislation receives assent; thin cap and forestry

The Budget Papers set out changes the Government proposes to make to existing measures.

Anti-avoidance The Government will amend the start date of the Pt IVA changes proposed in the 2023-24 Budget from 1 July 2024 to income years commencing on or after the day the amending legislation receives assent, regardless of whether the scheme was entered into before that date.

The Government proposed in the 2023-24 Federal Budget to extend Pt IVA to:

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

Thin cap changes: exemption for plantation forestry entities The Government will amend Australia's interest limitation (thin capitalisation) rules to exempt Australian plantation forestry entities from the new earnings-based rules, allowing these entities to continue to apply the former asset-based thin capitalisation rules.

SUPERANNUATION

Super to be paid on Government Paid Parental Leave from 1 July 2025

The Budget confirmed the proposal to pay superannuation on Government-funded Paid Parental Leave (PPL) for births and adoptions on or after 1 July 2025. From that time, the super guarantee (SG) rate will be 12% (up from 11.5% for 2024-25). Therefore, eligible parents will receive an additional payment (12% of their PPL payments) as a contribution by the Government to their superannuation fund.

The Paid Parental Leave Amendment (More Support for Working Families) Act 2024, which received assent on 20 March 2024, expanded the Paid Parental Leave Act 2010 to give families an additional 6 weeks of PPL. Effective from 1 July 2024, families will have access to an extra 2 weeks of leave (22 weeks total). This will increase to 24 weeks from July 2025 and 26 weeks from July 2026. There is a $350,000 family income test

OTHER MEASURES

Funding for new Administration Review Tribunal (replacement for the AAT)

The Government will provide $1.0 billion over 5 years from 2023-24 (with $210.8 million per year ongoing from 2028-29 and an additional $194.2 million from 2028-29 to 2035-36) to establish and support the sustainable operation of the new Administrative Review Tribunal ("ART"), replacing the AAT.

HECS/HELP debts: indexation factor will be the lower of the CPI or the Wages Price Index ("WPI")

Background

A student who receives a HELP loan under any of the student loan schemes has an "accumulated HELP debt" with the ATO. The loan is subject to yearly indexation and is interest-free.

Loans that are covered by the system include the following:

▪ HECS-HELP;

▪ FEE-HELP;

▪ OS-HELP;

▪ SA-HELP;

▪ Student Start-up Loan (SSL) Scheme;

▪ ABSTUDY Start-up Loan (ABSTUDY SSL) Scheme; and

▪ Australian apprenticeship support loan (AASL) scheme (renamed from the Trade Support Loan (TSL) Scheme).

HELP, VSL , SSL and AASL debts are repaid through the tax system (voluntary repayments can be made at any time)

The amount to be repaid each year is a percentage of the taxpayer's HELP repayment income (and is notified on the income tax assessment for the year). The percentage increases as the HELP repayment income increases. Indexation is applied to any HECS/HELP debt that's older than 11 months, once a year on 1 June. The CPI number is currently used to index debts and it was recently announced that debts will increase by 4.7% on 1 June 2024. In addition, inflation pushed the indexation rate for 2022-23 debts to 7.1%, the highest since 1990.

Changes to indexation factor

The indexation factor will be the lower of the CPI or the Wages Price Index ("WPI"). The quarterly WPI measures change in the price of wages and salaries in the Australian labour market over time. In a similar way to the CPI, it follows changes in the hourly rate paid to a fixed group (or "basket") of jobs.

This change will be backdated to 2022-23, ie the new system will apply to the 2022-23, 2023-24 and following years (noting again that the factor is applied to debts on 1 June, not 1 July).

As the WPI was lower than the CPI in 2022-23, the indexation that was applied on 1 June 2023 will be retrospectively cut from 7.1% to 3.2%. This means that students with an outstanding debt will have it reduced with effect from 1 June 2023. Those students who have subsequently paid off their HECS debt based on the 7.1% rate will be eligible for some sort of refund.

An average HECS debt of $26,500 will be reduced by $1,200 due to this measure.

Energy relief payments extended: small business included

The Government will provide $3.5 billion over 3 years from 2023-24 to extend and expand the Energy Bill Relief Fund to provide a $300 rebate to all Australian households and a $325 rebate to eligible small businesses on 2024-25 bills.

Phone: (02) 99072985 E: enquiry@carbonico.com.au