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"Making Your Business Count"

Federal budget | October 2022

On Tuesday, 25 October 2022, Treasurer Jim Chalmers handed down the 2022-23 October Federal Budget, his 1st Budget. While a Budget was handed down on 29 March 2022, this second Budget for 2022-23 updates economic forecasts and outlines the new Labor Government's priorities following the May 2022 Federal election. The Budget estimates an underlying cash deficit of $36.9 billion for 2022-23. The Treasurer (Dr Chalmers) has sought to exercise fiscal "restraint" so as not to put more pressure on prices. The Budget sets out a 5-point plan for cost-of-living relief in the areas of (i) child care; (ii) expanding paid parental leave; (iii) medicines; (iv) housing; (v) getting wages moving. The Budget does not contain major tax changes. Dr Chalmers said it does seek to begin some "Budget repair work" via tax integrity measures. "By making sure multinationals pay a fairer share of tax in Australia, by extending successful tax compliance programs, and by giving the ATO the resources they need to crack down on tax dodging"

PERSONAL TAXATION

Low income offset - LMITO not extended to 2022-23

Tax offsets (sometimes referred to as rebates) **directly reduce the amount of tax payable on your taxable income.** In general, offsets can reduce your tax payable to zero, but on their own they can't get you a refund.

The low and middle income tax offset (LMITO) is a maximum LMITO benefit up to $1,500 for 2021-22. Eligible taxpayers with incomes up to $126,000 will receive the additional LMITO benefit.

The 2022-23 October Budget did not announce any extension of the low and middle income tax offset (LMITO) to the 2022-23 income year. The LMITO has now ceased and been fully replaced by the low income tax offset (LITO)

The government did not announce changes to personal tax rates.

Personal tax rates unchanged for 2022-23

Stage 3 start from 2024-25 unchanged In the Budget, the Government did not announce any personal tax rates changes. The Stage 3 tax changes commence from 1 July 2024, as previously legislated.

Tax rates and income thresholds

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

BUSINESS TAXATION

Intangible assets depreciation: option to self-assess effective life dropped

The Government will not proceed with the proposal to allow taxpayers to self-assess the effective life of intangible depreciating assets. The effective lives of intangible depreciating assets will continue to be set by statute

Off-market share buy-backs: proposed integrity rules

The Government intends to align the tax treatment of off-market share buy-backs undertaken by listed public companies with the treatment of on-market share buy-backs

Cash payments proposal abandoned

In addition, the 2018-19 Budget measure that proposed introducing a limit of $10,000 for cash payments made to businesses for goods and services has been abandoned.

Increased funding for ATO compliance programs

The government intends to extend the Tax Avoidance Taskforce, Shadow Economy, and Personal Income

Taxation Compliance programs to improve the integrity of the tax system and take action to enforce tax payment by multinationals.

The penalty unit to increase 1 January 2023

The Government will increase the amount of the Commonwealth penalty unit (For eg for late lodgment of tax returns) from $222 to $275, from 1 January 2023. The increase will apply to offences committed after the relevant legislative amendment comes into force

For eg, for a small company the late lodgement penalty could be up to $1,375 and for a large company $6,875.

Thin cap: new earnings-based tests for limiting debt deductions

The Government will replace the safe harbour and worldwide gearing tests with earnings-based tests to limit debt deductions in line with an entity's profits. The thin cap rules will be amended to:

- replace the safe harbour test with a new earnings-based test which under which an entity's debt-related deductions will be limited to 30% of profits (using EBITDA as the measure of profit);
- allow deductions denied under the EBITDA test to be carried forward and claimed in a subsequent income year (up to 15 years);
- replace the worldwide gearing test and allow an entity in a group to claim debt deductions up to the level of the worldwide group's net interest expense as a share of earnings (which may exceed the 30% EBITDA ratio).

Digital currencies not foreign currency

The Government is to introduce legislation to clarify that digital currencies (such as Bitcoin) continue to be excluded from the Australian income tax treatment of foreign currency. The measure has already been released in draft legislation.

This will maintain the current tax treatment of digital currencies, including the CGT treatment where they are held as an investment.

Bitcoin will cease to be foreign currency from 1 July 2021.

SUPERANNUATION

SMSF residency changes delayed - Central management and control safe harbour test extended for SMSFs

Currently, an SMSF will remain an Australian superannuation fund where the members/trustees of the SMSF are overseas temporarily for a period not exceeding 2 years. The government has announced a proposal to extend this safe harbour test to 5 years

The Government confirmed that the changes to the SMSF residency rules, previously announced in the 2021-22 Budget to commence from 1 July 2022, will now start from the income year commencing on or after the date of assent of the legislation (yet to be introduced).

3-year cycle for SMSF audits will not proceed

The Government **will not** proceed with the former government's proposal to change the annual audit requirement for certain self-managed superannuation funds (SMSFs) to allow a 3-yearly cycle for funds with a history of good record-keeping and compliance.

Standardised disclosure for retirement income products

The Government also announced that it **will not** proceed with the proposal to report standardised metrics in product disclosure statements (PDS) for retirement income products.

Super downsizer contributions eligibility age reduction to 55 confirmed

The Government said that the minimum eligibility age for making superannuation downsizer contributions will be lowered to age 55 (from age 60). This measure will have effect from the start of the first quarter after assent to the enabling legislation.

The proposed reduction in the eligibility age will allow individuals aged 55 or over to make an additional non-concessional contribution of up to $300,000 from the proceeds of selling their main residence outside of the existing contribution caps. Either the individual or their spouse must have owned the home for 10 years. As under the current rules, the maximum downsizer contribution is $300,000 per contributor (ie $600,000 for a couple), although the entire contribution must come from the capital proceeds of the sale price. A downsizer contribution must also be made within 90 days after the home changes ownership (generally the date of settlement).

OTHER MEASURES

New Housing Accord endorsed by super funds: $350m in Government funding

The Government announced that it has struck a new national Housing Accord between State and Territory governments, investors and other key stakeholders. The new Housing Accord sets an initial, aspirational target of 1 million new homes over 5 years from 2024..

The Government said it has secured endorsement from institutional investors, including superannuation funds, for the Accord. Investors will work constructively with Accord parties to optimise policy settings that facilitate institutional investment in affordable housing

Regional First Home Buyers Guarantee Scheme; Housing Australia Future Fund; other housing measures

The Government has announced that it will establish the "Regional First Home Buyers Guarantee". Its aim will be to encourage home ownership in regional locations.

It will apply to eligible citizens and permanent residents who have lived in a regional location for more than 12 months to purchase their first home in that location with a minimum 5% deposit. It aims to reach 10,000 places per year to 30 June 2026. It will fund this by redirecting funding from the Regional Home Guarantee component of the 2022-23 March Budget measure titled Affordable Housing and Home Ownership

The Home Guarantee Scheme ensures part of an eligible buyer's home loan is guaranteed by the Government, enabling Australians to buy a home sooner with a smaller deposit and without needing to pay lenders mortgage insurance.

Paid parental leave to be expanded

The Government will expand the Paid Parental Leave (PPL) scheme from 1 July 2023 so that either parent is able to claim the payment and both birth parents and non-birth parents are allowed to receive the payment if they meet the eligibility criteria. Parents will also be able to claim weeks of the payment concurrently so they can take leave at the same time.

From 1 July 2024, the Government will start expanding the scheme by 2 additional weeks a year until it reaches a full 26 weeks from 1 July 2026. Both parents will be able to share the leave entitlement, with a proportion maintained on a "use it or lose it" basis, to encourage and facilitate both parents to access the scheme and to share the caring responsibilities more equally. Sole parents will be able to access the full 26 weeks

Child care measures: increased CCS rate for household income up to $530,000

The Government provide cheaper child care and reduce barriers to workforce participation.

- increase the maximum Child Care Subsidy (CCS) rate from 85% to 90% for families for the first child in care and increase the CCS rate for all families earning less than $530,000 in household income. From July 2023, CCS rates will lift from 85% to 90% for families earning less than $80,000. Subsidy rates will then taper down one percentage point for each additional $5,000 in income until it reaches 0% for families earning $530,000. Families will continue to receive existing higher subsidy rates for their second and subsequent children aged five and under in care, up to 95%;
- maintain current higher CCS rates for families with multiple children aged 5 or under in child care, with higher CCS rates to cease 26 weeks after the older child's last session of care, or when the child turns 6 years old;

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