FAAA Federal Budget Wrap

9 May 2023

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OVERVIEW

The Economy

On Tuesday night the Treasurer Jim Chalmers presented a calming and cooling prescription for the Australian economy.

Pointing to ongoing inflationary pressures, higher interest rates than what Australians have recently been used to and some “strains” within the financial sector, he walked on a tightrope: presenting us a budget surplus while suggesting the outlook was far less rosy.

Australia’s economic growth is predicted to fall to 1.5 per cent next financial year and only recover to 2.25 per cent the year after. This comes despite a $125.9 billion improvement in the budget over five years and saving a huge $83 billion in interest over the next 12.

It was a budget that was big on cost-of-living relief, while aiming to iron out some highlighted social inequities including for single parents and seniors.

Central to this cost of living focus were power bill relief for more than five million low income families, and a $2.2 billion increase to medicines on the PBS.

All Australians on JobSeeker will receive an extra $40 per fortnight, and those aged 55 and over will now have access to increased payments that will bring them inline with those above 60.

Medicare will be bolstered with a $3.5 billion injection that will enable more free consultations to a further 11.6 million people.

For small business, there was the extension of the $20,000 instant asset write off, green subsidies to incentivise investment in power-saving opportunities and some initiatives to help SMEs adopt digital technologies.

Financial Planning

Worthwhile noting for members are changes to Non Arms Length Income (“NALI”) affecting some SMSF clients and small APRA funds. After wide-ranging consultation, the Government has chosen to go in a different direction for the NALI calculations by limiting them to twice the level of a general expense and exempting any that occurred before 2018-19.

On super, there was little surprise with the changes to tax concessions for those with balances of more than $3 million, and bringing the timing of the payment of super contributions into line with ordinary payroll from 2026, as previously announced.

Of interest to many would be the Financial Regulator Assessment Authority having its review cycle timing for the regulators more than doubled, with them to be undertaken now every five years as opposed to the current two.

Money laundering is also a focus of the government with $14 million being spent on programs and crackdowns.

There was no further detail released on the previously frozen ASIC levy.

SUPERANNUATION & RETIREMENT

Better Targeted Superannuation Concessions

As announced in March, the Government will reduce the tax concessions available to individuals with a total superannuation balance exceeding $3 million, from 1 July 2025.

Individuals with a total superannuation balance of less than $3 million will not be affected.

It will bring the headline tax rate to 30 per cent, up from 15 per cent, 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 per cent, or zero per cent 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 measure will not place a limit on the amount of money an individual can hold in superannuation. The current contribution rules continue to apply.

Securing Australians' Superannuation Package – increasing the payment frequency of the Superannuation Guarantee (SG) and investing in SG compliance

From 1 July 2026, employers will be required to pay their employees' SG entitlements on the same day that they pay salary and wages.

Currently, employers are only required to pay their employees' SG on a quarterly basis. By increasing the payment frequency of superannuation to align with the payment of salary and wages, this measure will both ensure employees have greater visibility over whether their entitlements have been paid, and better enable the ATO to recover unpaid superannuation. Increased frequency of payment will also support better retirement outcomes.

Changes to the design of the SG charge will also be necessary to align with increased payment frequency. The Government will consult with relevant stakeholders on the design of these changes, with the final design to be considered as part of the 2024–25 Budget.

Non-Arm's Length Income Changes

The government will 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
- exempting expenditure that occurred prior to the 2018-19 income year.

SOCIAL SECURITY & MEDICARE

Increase to Working Age Payments

The Government will increase support for people receiving working age payments including the JobSeeker Payment. This measure will:

- increase the base rate of working age and student payments by $40 per fortnight. This increase applies to the JobSeeker Payment, Youth Allowance, Parenting Payment (Partnered), Austudy, ABSTUDY, Disability Support Pension (Youth), and Special Benefit. It will commence on 20 September 2023
- extend eligibility for the existing higher single JobSeeker Payment rate for recipients aged 60 years and over, to recipients aged 55 years and over who are on the payment for 9 or more continuous months.

The increased support for recipients aged 55 years and over, the majority of whom are women, acknowledges the additional challenges older Australians face in re-entering the workforce, such as age discrimination or poor health.

Personal Income Tax – exempting lump sum payments in arrears from the Medicare levy

The Government will exempt eligible lump sum payments in arrears 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, 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. 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 per cent of the taxpayer's income in the year of receipt.

Personal Income Tax – increasing the Medicare levy low-income thresholds

The Medicare levy low-income thresholds for singles, families, seniors and pensioners will increase from 1 July 2022. The increase in thresholds provides cost-of-living relief by taking account of recent CPI outcomes so that low-income individuals continue to be exempt from paying the Medicare levy.

The threshold for singles will be increased from $23,365 to $24,276. The family threshold will be increased from $39,402 to $40,939. For single seniors and pensioners, the threshold will be increased from $36,925 to $38,365. The family threshold for seniors and pensioners will be increased from $51,401 to $53,406. For each dependent child or student, the family income thresholds will increase by a further $3,760 instead of the previous amount of $3,619.

Increased Support for Commonwealth Rent Assistance Recipients

The Government will increase the maximum rates of the Commonwealth Rent Assistance (CRA) allowances by 15 per cent to help address rental affordability challenges for CRA recipients.

Energy Price Relief Plan

The Government will allocate $1.5 billion over two years from 2023–24 to establish the Energy Bill Relief Fund. This Fund will support targeted energy bill relief to eligible households and small business customers, which includes pensioners, Commonwealth Seniors Health Card holders, Family Tax Benefit A and B recipients and small business customers of electricity retailers.

Parenting Payment (Single) – improved support for single parents

The Government will provide $1.9 billion over 5 years (and $0.5 billion per year ongoing) to extend eligibility for Parenting Payment (Single) 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.

Powering Australia – amendment to the Electric Car Discount

The Government will sunset the eligibility of plug-in hybrid electric cars from the fringe benefits tax exemption for eligible electric cars. This change will apply 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 Electric Car Discount.

AGED CARE

Improving Aged Care Support, home care, and funding model

The Government will introduce a new hoteling supplement of $10.80 per resident per day by separating out the existing hoteling component of the Australian National Aged Care Classification (AN-ACC) price (the $10 Basic Daily Fee Supplement) starting 1 July 2023. The Government will also adjust the care minute allocations within the AN-ACC funding model from 1 October 2023 to better align care minutes with resident needs.

The Government will provide:

- $487.0 million over 4 years from 2023–24 (and $133.6 million ongoing) to extend, and make ongoing, the Disability Support for Older Australians Program.
- $41.3 million over 4 years from 2023–24 (including $11.9 million in capital funding from 2022–23) to build a new place assignment system, allowing older Australians to select their residential aged care provider.
- additional funding to improve the in-home aged care system, including $166.8 million in 2023–24 to release an additional 9,500 Home Care Packages.

BUSINESS SUPPORT

Driving Collaboration with Small Business to Reduce the Time Spent Complying with Tax Obligations

There will be additional ATO funding to lower the tax-related administrative burden for small businesses, including:

- $12.8 million over 3 years from 2023–24 to trial an expansion of the ATO independent review process to small businesses (with aggregated turnover between $10 million and $50 million) subject to an ATO audit. The trial will commence on 1 July 2024 and run for 18 months.

- $9.0 million over 4 years from 2023–24 (and $1.4 million per year ongoing) for 5 new tax clinics from 1 January 2025 to improve access to tax advice and assistance for 2.3 million small businesses.

Additional reforms aiming to cut paperwork and reduce the time small businesses spend doing taxes include:

- from 1 July 2024, small businesses will be permitted to authorise their tax agent to lodge multiple Single Touch Payroll forms on their behalf, reducing paperwork for small businesses.
- from 1 July 2024, small businesses will benefit from faster, safer and cheaper income tax refunds by reducing the use of cheques.
- from 1 July 2025, small businesses will be given up to 4 years to amend their income tax returns, reducing the burden of making revisions.

Small Business Support – $20,000 instant asset write-off

A temporary extension of the instant asset write-off threshold of $20,000, from 1 July 2023 until 30 June 2024. Small businesses 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 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 continue to be placed into the small business simplified depreciation pool and depreciated at 15 per cent in the first income year and 30 per cent each income year thereafter.

Small Business Support – Small Business Energy Incentive

The Government has extended support for small and medium businesses to save on energy bills through incentivising the electrification of assets and improvements to energy efficiency.

Small and medium businesses (those with aggregated annual turnover of less than $50 million), will be able to deduct an additional 20 per cent of the cost of eligible depreciating assets that support electrification and more efficient use of energy. Up to $100,000 of total expenditure will be eligible for the Small Business Energy Incentive, with the maximum bonus deduction being $20,000.

A range of depreciating assets, as well as upgrades to existing assets, will be eligible for the Small Business Energy Incentive. These will include assets that upgrade to more efficient electrical goods such as energy-efficient fridges, assets that support electrification such as heat pumps and electric heating or cooling systems, and demand management assets such as batteries or thermal energy storage.

Eligible assets will need to be first used or installed ready for use between 1 July 2023 and 30 June 2024. Eligible upgrades will also need to be made in this period. Certain exclusions will apply such as electric vehicles, renewable electricity generation assets, capital works, and assets that are not connected to the electricity grid and use fossil fuels.

REGULATORS & OMBUDSMAN

Strengthening Australia’s Anti-Money Laundering Framework

The Government will provide $14.3 million over 4 years from 2023–24 to support policy and legislative reforms to harden Australia against illicit financing, and support evaluation of Australia’s anti-money laundering framework. Funding includes:

- $8.6 million over 3 years from 2023–24 to the Australian Transaction Reports and Analysis Centre (AUSTRAC) to develop and consult stakeholders on legislative reforms to modernise Australia’s anti-money laundering and counter-terrorism financing regime. It will also support preparation for, and participation in, the evaluation of Australia's regime compared with global standards by the Financial Action Task Force.

- $5.6 million over 4 years from 2023–24 in additional departmental resourcing for the Attorney-General's Department.

APRA

APRA will receive $5.0 million over 5 years from 2023–24 to continue a superannuation consumer advocate to improve members' outcomes, offset by an increase in the Superannuation Supervisory Levy administered by the Australian Prudential Regulation Authority

ACCC

The Australian Competition and Consumer Commission will establish the first phase of a complaints mechanism for designated consumer and small business advocacy groups to raise systemic issues under consumer law ('super complaints') within existing resourcing.

Financial Regulator Assessment Authority - FRAA

The frequency of Financial Regulator Assessment Authority reviews of ASIC and APRA will be reduced from every two years to every 5 years.