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FEDERAL BUDGET 2024-25

Insights and Analysis

EXECUTIVE SUMMARY

The Hon Dr Jim Chalmers delivered the 2024-25 Federal Budget at 7:30pm on 14 May. A surplus of $9.3 billion is expected for 2023-24 and a forecast deficit of $28.3 billion for 2024-25.

The key focus areas of the Budget are easing cost-of-living pressures and significant investment in what the Government has termed ‘Investing in a Future Made in Australia’, which focuses on a transition to clean energy and adding value to Australia’s natural resources.

For small business there is some relief including the extension of the $20,000 instant asset write-off scheme and energy rebates.

Other key measures in the Budget include relatively minor changes in relation to capital gains tax for non-residents and anti-avoidance measures for Significant Global Entities, being taxpayers who are part of a group with a global turnover of greater than $1 billion.

The revised Stage 3 tax cuts legislated by the previous Government and amended earlier this year remain the key tax measure for personal taxation in the coming fiscal year.

As announced in the lead up to the Federal Budget, superannuation guarantee will apply to paid parental leave from 1 July 2025.

The 2024-25 Budget did not announce any significant reforms to tax or superannuation.

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COST OF LIVING

Energy Bill Relief

The Government will provide $3.5 billion 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 to provide cost of living relief.

The eligibility of small businesses is subject to the annual electricity consumption threshold which is 100Mwh for businesses in NSW.

Credits will be automatically applied to the accounts of eligible households and small businesses.

As well as providing relief to those in need, these rebates put downward pressure on ‘headline inflation’, estimated to reduce the headline rate by half a percentage point for the fiscal year ending 30 June 2025. However, while any reduction in inflation is welcome, the Reserve Bank will also look at ‘underlying inflation’ and other measures in determining interest rate settings.

Commonwealth Rent Assistance

The Government will provide $1.9 billion over five years from 2023–24 (and $0.5 billion per year ongoing from 2028–29) to increase all Commonwealth Rent Assistance maximum rates by 10% from 20 September 2024 to help address rental affordability challenges for recipients.

This is on the back of the 15% increase announced in last year's budget.

Pharmaceutical Benefits Scheme

The Government has announced that there will be a one year freeze on the maximum Pharmaceutical Benefits Scheme (PBS) patient co payment for everyone with a Medicare card and a five year freeze for pensioners and other concession cardholders.

HECS-HELP

Although not a Budget measure, we note that the Prime Minister has announced changes to HECS-HELP and related schemes where the current method of indexation in line with CPI will be replaced with the lower of CPI or the Wage Price Index (WPI). Additionally, this change will be backdated to commence from the 2022-23 fiscal year. This means that indexation applied on 1 June 2023 will be reduced from CPI of 7.1% to WPI of 3.2%. The WPI for the quarter ended 31 March 2024 is 4.1% (compared to CPI of 4.7%), meaning that indexation at 1 June 2024 will also be based on the WPI.

Social Security Deeming Rates

The Government will freeze social security deeming rates at their current levels for a further 12 months until 30 June 2025, to support Age Pensioners and other income support recipients who rely on income from deemed financial investments, as well as their payment, to manage cost of living pressures.

Deeming rates are applied to assets held to arrive at a deemed income amount for the purposes of means testing various social security entitlements, including the Age Pension. The current deeming rates for singles are 0.25% for the first $60,400 of assets and 2.25% for assets above this threshold. For couples, the deeming rate is 0.25% for the first $100,200 of assets and 2.25% for assets above this threshold.

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INVESTING IN A FUTURE MADE IN AUSTRALIA

The Budget includes an investment of $22.7 billion over the next decade to build what the Government has termed a Future Made in Australia. These measures focus on a move to clean energy, adding value to Australia's natural resources and securing supply chains. The main elements of the Future Made in Australia investment are outlined below.

Innovation, Science and Digital Capabilities

The Government will provide $1.7 billion in funding over ten years from 2024–25 for investments in innovation, science, and digital capabilities to support a Future Made in Australia. Funding includes:

- $566.1 million over ten years from 2024–25 (and an average of $111.8 million per year from 2034–35 to 2058–59) for Geoscience Australia to map Australia's national groundwater systems and resource endowments to increase industry investment and identify potential discoveries of all current critical minerals and strategic materials.

- $466.4 million for a financing package of equity and loans provided by Export Finance Australia on the National Interest Account to PsiQuantum Pty Ltd to support the construction and operation of quantum computing capabilities and associated investment in industry and research development.

- $448.7 million over 11 years from 2023–24 (and an average of $43.2 million per year ongoing from 2034–35) establish Australia's partnership with the United States on the next generation of the Landsat satellite earth observation program (Landsat Next)

- $145.4 million over two years from 2024–25 to maintain the National Measurement Institute's core scientific measurement and ICT capabilities and to support current site operations and future planning.

Renewable Energy

The Government will provide an estimated $19.7 billion over ten years from 2024–25 to accelerate investment in Future Made in Australia priority industries, including renewable hydrogen, green metals, low carbon liquid fuels, refining and processing of critical minerals and manufacturing of clean energy technologies including in solar and battery supply chains.

Funding will catalyse clean energy supply chains and support Australia to become a renewable energy superpower. Funding includes:

- $7.1 billion over 11 years from 2023–24 (and an average of $1.5 billion per year from 2034–35 to 2040–41) to support refining and processing of critical minerals, including a Critical Minerals Production Tax Incentive ($7.0 billion).
- An estimated $8.0 billion over ten years from 2024–25 (and an average of $1.2 billion per year from 2034–35 to 2040–41) to support the production of renewable hydrogen, including A Hydrogen Production Tax Incentive from 2027–28 to 2040–41 to producers of renewable hydrogen ($6.7 billion) over ten years from 2024–25 (and an average of $1.1 billion per year from 2034–35 to 2040–41).

- $1.5 billion over seven years from 2027–28 (and an average of $125.0 million per year from 2034–35 to 2036–37) to the Australian Renewable Energy Agency to supercharge ARENA's core investments in renewable energy and related technologies.

- $1.7 billion over ten years from 2024–25 for the Future Made in Australia Innovation Fund, to be administered by the Australian Renewable Energy Agency, to support innovation, commercialisation, pilot and demonstration projects and early-stage development in priority sectors, including renewable hydrogen, green metals, low carbon liquid fuels and clean energy technology manufacturing such as batteries.

- $1.4 billion over 11 years from 2023–24 (and $66.8 million per year from 2034–35 to 2036–37) to support manufacturing of clean energy technologies.

- $835.6 million over ten years from 2024–25 (and $66.8 million per year from 2034–35 to 2036–37) to establish the Solar Sunshot program administered by the Australian Renewable Energy Agency to promote the development of solar manufacturing capabilities and improve the industry's supply chain resilience through production incentives and other forms of support.

- $549.0 million over eight years from 2023–24 to support battery manufacturing.

The Government will also make up to $1.2 billion in strategic investments in priority critical minerals projects including up to $655.0 million under the Critical Minerals Facility and up to $400.0 million through the Northern Australia Infrastructure Facility.

BUSINESS TAXATION

Instant Asset Write Off

The current Instant Asset Write Off program which allows small businesses with an aggregated turnover of less than $10 million to claim an immediate deduction for depreciating assets costing less than $20,000 is due to conclude on 30 June 2024. The Budget extends the operation of the Instant Asset Write Off program to 30 June 2025.

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% in the first income year and 30% each income year thereafter.

We note that the 2023-24 Instant Asset Write Off program, although due to expire soon, has not yet been passed by Parliament, i.e. it is not yet law. The Senate is seeking an increase in the turnover threshold for eligible businesses to $50 million and an increase in eligible assets to $30,000.

Foreign Resident Capital Gains

The Government will strengthen the foreign resident capital gains tax (CGT) regime to ensure foreign residents pay their fair share of tax in Australia and to provide greater certainty about the operation of the rules.

The amendments will apply to CGT events commencing on or after 1 July 2025 to:

- Clarify and broaden the types of assets that foreign residents are subject to CGT on;
- 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, prior to the transaction being executed.

This measure will ensure that Australia can tax foreign residents on direct and indirect sales of assets with a close economic connection to Australian land, more in line with the tax treatment that already applies to Australian residents.

A new ATO notification process will improve oversight and compliance with the foreign resident CGT withholding rules, where a vendor self-assesses their sale is not taxable real property.

These reforms will also improve certainty for foreign investors by aligning Australia’s tax law for foreign resident capital gains more closely with OECD standards and international best practice.

The Government will consult on the implementation details of the measure.

Intangibles Assets and Significant Global Entities (SGEs)

The 2022-23 Budget contained measures to deny SGEs (i.e. entities part of a group with a turnover of $1 billion or more) from claiming tax deductions for payments relating to intangibles held in low tax jurisdictions. This measure will be discontinued and as the integrity issues will now be addressed through the Global Minimum Tax and Domestic Minimum Tax being implemented by the Government.

The Government will also introduce a new provision from 1 July 2026 that applies a penalty to SGEs that are found to have mischaracterised or undervalued royalty payments, to which royalty withholding tax would otherwise apply.

ATO's discretion to apply tax refunds against old tax debts

The Government will amend the tax law to give the Commissioner a discretion to not use a taxpayer's refund to offset old tax debts, where the Commissioner had put that old tax debt on hold prior to 1 January 2017.

This discretion will apply to individuals, small businesses, and not-for-profits, and is stated to be maintaining the Commissioner's current administrative approach.

Shadow Economy

The Government will extend the ATO Shadow Economy Compliance Program for two years from 1 July 2026.

This extension of the Shadow Economy Compliance Program will enable the ATO to continue to reduce shadow economy activity, thereby protecting revenue and preventing non-compliant businesses from undercutting competition.

This measure is estimated to increase receipts by $1.9 billion and increase payments by $610.2 million over the 5 years from 2023–24.

Tax Avoidance Taskforce

The Government will extend the ATO Tax Avoidance Taskforce for two years from 1 July 2026.

The Taskforce focuses on tax avoidance risks, with a focus on multinationals, large public and private businesses, and high-wealth individuals.

This measure is estimated to increase receipts by $2.4 billion and increase payments by $1.2 billion over the 5 years from 2023–24.

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PERSONAL TAXATION

Stage 3 Tax Cuts

The previously legislated stage 3 tax cuts remain the key measure for personal tax for the coming year. From 1 July 2024, personal income tax rates will change as follows:

- The 19% tax rate will be reduced to 16%
- The 32.5% tax rate will be reduced to 30%
- The income threshold above which the 37% tax rate applies will be increased from $120,000 to $135,000
- The income threshold above which the 45% tax rate applies will be increased from $180,000 to $190,000.

On average, taxpayers will receive an annual tax cut of $1,888 or $36 per week.

Personal Income Tax Compliance Program

The Government will extend the ATO Personal Income Tax Compliance Program for one year from 1 July 2027. This extension will enable the ATO to continue to deliver a combination of proactive, preventative, and corrective activities in key areas of non-compliance, including overclaiming of deductions and incorrect reporting of income.

This will enable the ATO to continue its focus on emerging risks to the tax system, such as deductions relating to short-term rental properties.

This measure is estimated to increase revenue by $180.3 million over the 5 years from 2023–24.

SUPERANNUATION

Superannuation on Paid Parental Leave

As previously announced by the Treasurer on 7 March, the Government will provide Superannuation Guarantee of 12% on paid parental leave from 1 July 2025. The cost of this measure is estimated as $1.1 billion over four years from 2024–25 (and $0.6 billion per year ongoing). Legislation giving effect to this change received royal assent on 20 March 2024.

Other changes to Paid Parental leave include extending the number of weeks of paid leave from the current 20 weeks to 22 weeks from 1 July 2024, 24 weeks from 1 July 2025 and 26 weeks from 1 July 2026.

Division 296

The Budget contains no further information on the proposed Division 296 of the 1997 Tax Act which aims to impose an additional 15% tax on earnings, including unrealised capital gains for superannuation balances greater than $3 million. Draft legislation has been released and Bills to implement the changes are currently before the House of Representatives. The proposed start date for this measure is 1 July 2025.