MOORE

FEDERAL BUDGET REPORT 2024-2025

MAY 2024

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OVERVIEW

Federal Treasurer, the Hon Dr Jim Chalmers MP handed down the 2024-25 Federal Budget on 14 May 2024.

The key focus areas of this Budget are around easing cost of living pressures, fighting inflation and investing in a "Future Made in Australia". No major tax changes have been announced but the Budget does include commitments towards support payments, creation of affordable housing and health.

No major changes have been announced for individual taxpayers. The Government has reiterated its commitment to the already legislated tax cuts, set to take effect from 1 July 2024, providing tax relief to all individual Australian taxpayers.

For businesses, the Government has announced the extension of the instant asset write off until June 2025 which applies to small businesses with an aggregated turnover of less than $10 million.

Our analysis of the budget papers is summarised below.

INDIVIDUALS

ENERGY RELIEF

The Government will provide $3.5 billion over three years from 2023–24 to extend and expand the Energy Bill Relief Fund offering a $300 rebate to **all** Australian households during 2024–25 aiming to provide cost of living relief.

STUDENT DEBTS - RELIEF

Although no further details were included in the Budget, the Government will cap the HELP indexation rate to be the lower of either the Consumer Price Index (CPI) or the Wage Price Index (WPI) with effect from 1 June 2023. By doing this, the Government estimates more than $3 billion in student debt will be "wiped out".

TAX RATES FROM 1 JULY 2024

The Government has previously legislated tax cuts, which will impact Australian taxpayers effective from 1 July 2024. A summary of the tax cuts is as follows:

- Lowering the lowest marginal tax rate from 19% to 16%.
- Reducing the 32.5% marginal tax rate to 30% targeting individuals earning between $45,000 - $135,000.
- Reinstating the 37% marginal tax rate which was going to be scrapped from 1 July 2024.
- The 45% marginal tax rate will apply to income earners with taxable income exceeding $190,000.
- Increasing the low-income threshold for Medicare levy purposes.

The following table summarises the tax rates for Australian resident individuals from 1 July 2024:

Tax Rate	Taxable income up to 30 June 2024	Taxable income from 1 July 2024
0%	$0 - $18,200	0 - $18,200
19%	$18,201 - $45,000	N/A
16%	N/A	$18,201 - $45,000
30%	N/A	$45,001 - $135,000
32.5%	$45,001 - $120,000	N/A
37%	$120,001 - $180,000	$135,001 – $190,000
45%	$180,001 and over	$190,001 and over

BUSINESSES

ENERGY RELIEF

The Government will provide a $325 rebate to eligible small businesses during 2024–25 aimed at easing cost of living pressures.

SMALL BUSINESS – INSTANT ASSET WRITE OFF

The Government has extended the $20,000 threshold for instant asset write off (IAWO) which is available to small businesses with an aggregated turnover of less than $10 million who use the simplified depreciation provisions. Eligible businesses will have access to the IAWO from 1 July 2023 – 30 June 2025.

Under these provisions, small businesses can:

- Claim the full cost of eligible assets purchased for less than $20,000 (on an asset-by-asset basis).
- Any assets purchased which exceed the $20,000 threshold are allocated to a simplified depreciation pool and depreciation is claimed at 15% in the year of purchase and 30% in subsequent years.

OUR THOUGHTS:

Governments, both past and present, have habitually tinkered with these thresholds each year and there is a growing call for a more stable, long-term approach to these changes. Furthermore, the IAWO extension for the 2023-24 year has still not been legislated, even though it was announced in the 2023-24 Federal Budget – May last year.

Delays in legislating budget announcements lead to uncertainty and making these changes permanent would go a long way in simplifying tax planning opportunities for small businesses.

It is also disappointing that the Government has not given medium sized businesses access to the IAWO which was one of the amendments passed by the Senate in respect of the IAWO for the 2023-24 income year. Whether or not those businesses will have access to the IAWO for the 2023-24 income year remains to be seen.

SMALL BUSINESS ENERGY INCENTIVE – NOT EXTENDED

The Small business energy incentive has not been extended to the 2024-25 income year.

OUR THOUGHTS:

Another measure announced in last year's budget is yet to be legislated and set to expire on 30 June 2024. The measure gave small businesses an additional 20% deduction on eligible expenditure capped at $100,000 in the 2023-24 income year. Given the limited support for small businesses in this year's budget, extending this measure for another year would have been sensible.

BUSINESSES: MULTINATIONALS

THIN CAPITALISATION – PLANTATION FORESTRY ENTITIES

Amendments will be made to the 2022–23 October Budget measure Multinational Tax Integrity Package – amending Australia's interest limitation (thin capitalisation) rules to exempt Australian plantation forestry entities from the new earnings-based rules and these entities will be allowed to apply the former asset-based thin capitalisation rules.

SIGNIFICANT GLOBAL ENTITIES – PAYMENTS FOR INTANGIBLES

The Government will not go ahead with the measure which would have denied deductions for payments relating to intangibles held in low, or no tax jurisdictions.

These 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 taxpayers who are part of a group with more than $1 billion in global turnover annually that are found to have mischaracterised or undervalued royalty payments, to which royalty withholding tax would otherwise apply.

INDUSTRY SPECIFIC

RENEWABLE ENERGY – CRITICAL MINERALS

The following tax incentives have been announced in relation to renewable projects:

- A Critical Minerals Production Tax Incentive from 2027–2028 to 2040–2041 to support downstream refining and processing of Australia's 31 critical minerals to improve supply chain resilience.
- A Hydrogen Production Tax Incentive from 2027–2028 to 2040–2041 to producers of renewable hydrogen to support the growth of a competitive hydrogen industry and Australia's decarbonisation.

OTHER

STRENGTHENING THE FOREIGN RESIDENT CGT REGIME

The Government will strengthen the foreign resident capital gains tax (FRCGT) regime to ensure foreign residents pay their fair share of tax in Australia which will apply to CGT events arising on or after 1 July 2025.

The amendments will:

- 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.
- 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.

OUR THOUGHTS:

Foreign residents are generally only taxable on the disposal of Taxable Australia Property (TAP) which typically includes (but is not limited to) direct and indirect interests in real property in Australia, mining rights etc.

Whilst no detail is included in the Budget Papers, it remains to be seen how far reaching their amendments will be and whether the Government is going to change the definition of TAP to include other classes of assets.

The announcement does however mention that the measure will ensure that Australia can tax foreign residents on direct and indirect sales of assets with a close economic connection to Australian land. Australia's ability to tax foreign residents on capital gains should always be considered in light of any applicable Double Tax Agreements, some of which limit Australia's taxing right to gains on Australian real property.

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

OUR THOUGHTS:

Whilst most land sales require clearance certificates from the ATO, the sale of certain assets does not require a clearance certificate if the vendor self-assesses their asset as not taxable Australian property. A new ATO notification process will be set up to improve compliance and oversight of this self-assessment.

The Government also announced changes to the FRCGT regime towards the end of last year and from 1 January 2025, the withholding rate will increase from 12.5% to 15% and the withholding threshold will be reduced from $750,000 to $0.

COMMISSIONER DISCRETION – TAX DEBTS

The Commissioner of Taxation will be granted a discretion not to use a taxpayer's refund to offset old tax debts if the Commissioner had suspended that debt prior to 1 January 2017.

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

TAX COMPLIANCE PROGRAMS

The following has been announced in respect of ATO audit / compliance programs:

- The Personal Income Tax Compliance Program has been extended and will enable the ATO to continue its focus on keys areas of non-compliance including overclaimed tax deductions, incorrect reporting of income and key areas of emerging risks such as deductions relating to short term rental properties (eg. holiday homes).
- Funding will be provided in respect of the ATO Counter Fraud Strategy to strengthen the ATO's ability to detect, prevent and mitigate tax and superannuation fraud.
- The Shadow Economy Compliance Program will be extended for a further two years.
- The Tax Avoidance Taskforce will also be extended for a further two years.

PART IVA – ANTI AVOIDANCE

Changes to Part IVA were announced in the 2023-24 Budget measure 'Tax Integrity'. The start date has been amended to income years commencing on or after 1 July 2024 to income years commencing on or after the day the amending legislation receives Royal Assent, regardless of whether the scheme was entered into before that date.

PAID PARENTAL LEAVE – SUPERANNUATION GUARANTEE

Superannuation will be payable on Commonwealth government-funded Paid Parental Leave (PPL) for births and adoptions on or after 1 July 2025.

Eligible parents will receive an additional payment based on the Superannuation Guarantee (12% of their PPL payments), as a contribution to their superannuation fund.

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