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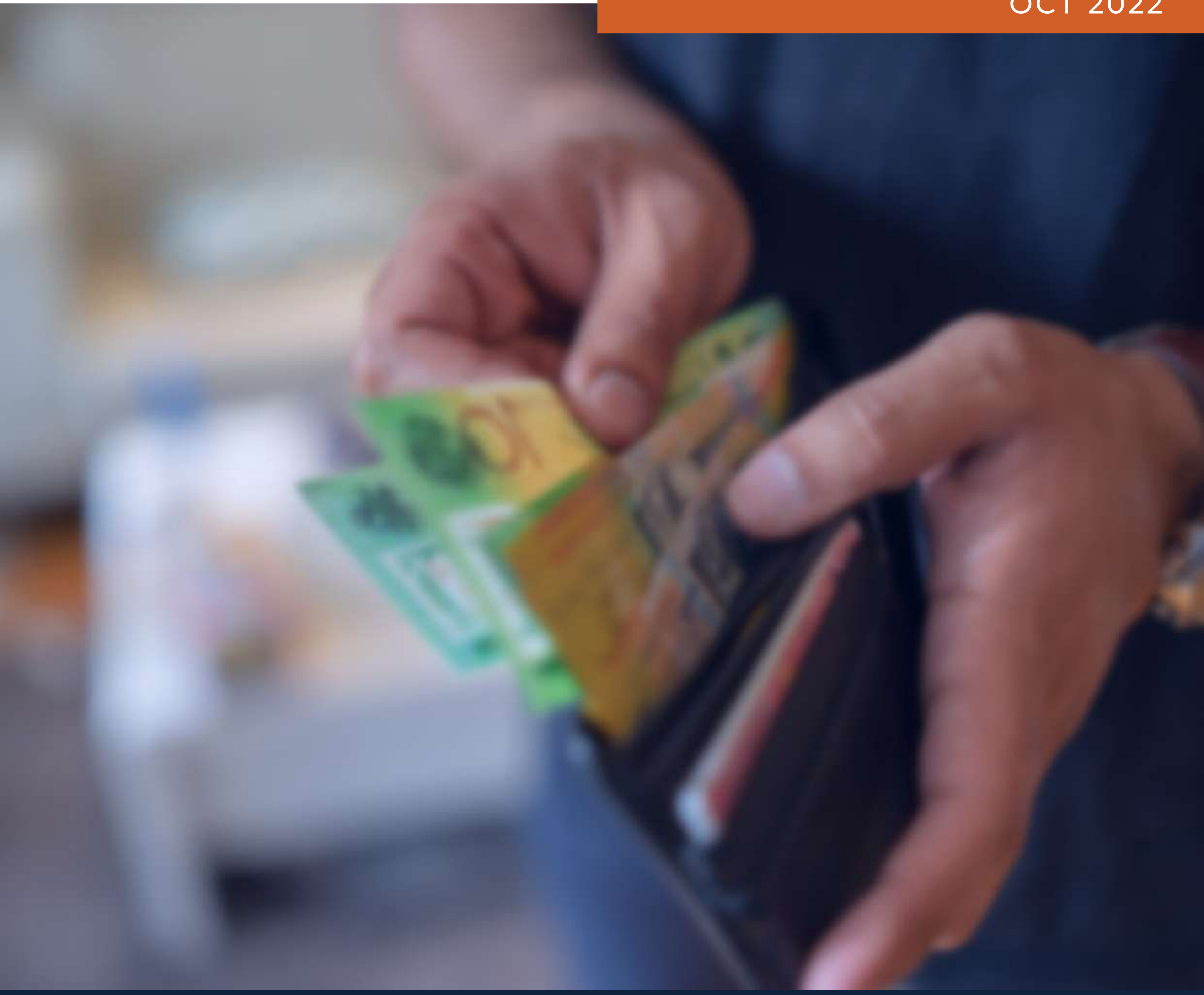
2022/23
FEDERAL BUDGET SUMMARY

OCT 2022



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2022/23 FEDERAL BUDGET SUMMARY

ON TUESDAY, 25 OCTOBER 2022, TREASURER JIM CHALMERS HANDED DOWN THE 2022-23 OCTOBER FEDERAL BUDGET, HIS FIRST 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 (and $44bn for 2023-24). While the economy is expected to grow by 3.25% in 2022-23, it is predicted to slow to 1.5% for 2023-24, a full percentage point lower than forecast in March 2022. Inflation is expected to peak at 7.75% later in 2022, but is projected to moderate to 3.5% through 2023-24, and return to the Reserve Bank's target range in 2024-25.

With these factors in mind, the Treasurer has sought to exercise fiscal "restraint" so as not to put more pressure on prices, and make the Reserve Bank's job even harder.

Rather, the Budget sets out a 5-point plan for cost-of-living relief in the areas of:

- Child care;
- Expanding paid parental leave;
- Medicines;
- Housing; and
- Getting wages moving.

While the Budget does not contain major tax changes 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. Together, these initiatives save a further $4.7 billion over four years", Dr Chalmers said.

We have summarised key measures announced, and what they mean for you.

INDIVIDUALS

PERSONAL TAX RATES

The Government has left the previously legislated personal tax rate changes unchanged.

With no announcement of any changes to the personal tax rates, the Stage 3 tax changes will commence from 1 July 2024, as legislated. Under the Stage 3 tax changes, the 32.5% marginal tax rate will be reduced to 30% for the income bracket between $45,000 and $200,000. The 37% tax bracket will be completely removed from the 2024-25 income year.

TAX RATES & THRESHOLDS FOR 2022/23 (UNCHANGED FROM 2021/22)	
TAXABLE INCOME ($)	TAX PAYABLE ($)
0 - 18,200	NIL
18,201 - 45,000	NIL + 19% of excess over 18,200
45,001 - 120,000	5,092 + 32.5% of excess over 45,000
120,001 - 180,000	29,467 + 37% of excess over 120,000
180,001 +	51,667 + 45% of excess over 180,000

TAX RATES & THRESHOLDS From 2024/25 (AS LEGISLATED)	
TAXABLE INCOME ($)	TAX PAYABLE ($)
0 - 18,200	NIL
18,201 - 45,000	NIL + 19% of excess over 18,200
45,001 - 200,000	5,092 + 30% of excess over 45,000
200,001 +	51,592 + 45% of excess over 200,000

INDIVIDUALS

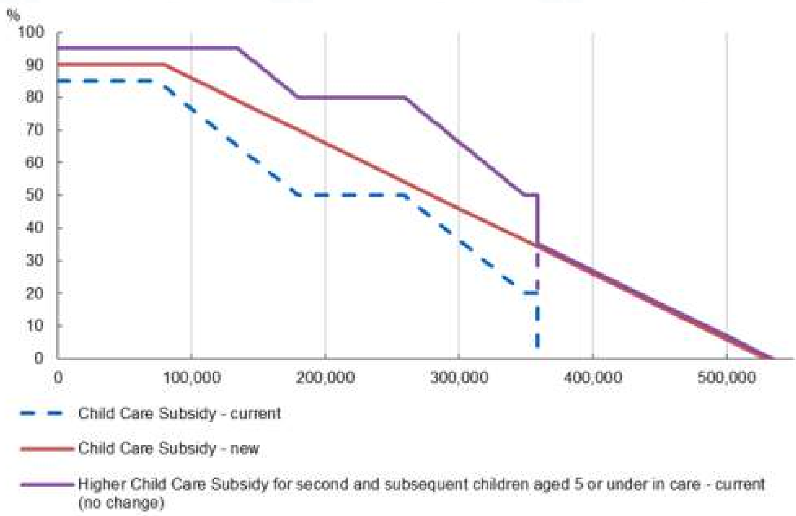
LOW-AND-MIDDLE INCOME TAX OFFSET

Originally introduced in the 2019 Budget, the low-and-middle-income tax offset (LMITO) was previously extended to the 2021-22 income year as a temporary tax relief measure for individuals whose taxable income was below $126,000. For the year ended 30 June 2022, eligible individuals were entitled to a non-refundable tax offset of up to $1,500 ($3,000 for couples) upon lodgement of their individual income tax returns.

No further extension of the LMITO was announced in this Budget. As such, the LMITO has now ceased (with the 2021-22 income year being the final year), and now replaced by the low-income tax offset.

LOW-INCOME TAX OFFSET FOR 2022-23 AND BEYOND (UNCHANGED)	
TAXABLE INCOME ($)	**TAX PAYABLE ($)**
0 - 37,500	700
37,501 - 45,000	700 - ([TI - $37,500] x 5%)
45,001 - 66,667	325 - ([TI - $45,000 x 1.5%)
66,668 +	NIL

CHILD CARE SUBSIDY



From 1 July 2023, Child Care Subsidy rates will increase from 85% to 90% for families earning less than $80,000. Subsidy rates will then taper down 1% for each additional $5,000 in family income, until the maximum income threshold of $530,000 is reached. Families will continue to receive the existing higher subsidy rates of up to 95% for their second and subsequent children in care, who are under age 5.

The graph to the left compares the proposed (new) subsidy rate with the current subsidy. The x axis represents family income.

INDIVIDUALS

PAID PARENTAL LEAVE

The government is proposing numerous changes to the Paid Parental Leave scheme.

EXTENDING THE NUMBER OF WEEKS

Currently, families can access 18 weeks of Paid Parental Leave under the scheme. This comprises of 16 weeks for the birth parent (or an adoptive parent) and 2 weeks for their partner.
It is proposed that the number of weeks will increase to 20 weeks in 2023-24, 22 weeks in 2024-25, 24 weeks in 2025-26 and 26 weeks from 2026-27.

INTRODUCING GREATER FLEXIBILITY

Here are some of the 1 July 2023 proposals aimed at making the scheme more flexible:

- Parents will be able to take government-paid leave up to the maximum number of weeks and can use it flexibly between them.
- Single parents will be able to access the full entitlement each year.
- Parents will be able to take government-paid leave in blocks as small as a day at a time, with periods of work in between, so they can use their weeks in a way that works best for them.
- There will be assigned 'use it or lose it' weeks for each parent, designed to encourage each of them to take that portion of the parental leave.
- Either parent will be able to claim Paid Parental Leave first and both parents can receive the payment at the same time as any employer-funded parental leave.

BROADENING ELIGIBILITY

Eligibility will be expanded through the introduction of a $350,000 family income test, which families can be assessed under if they don't meet the individual income test.

PHARMACEUTICAL BENEFITS SCHEME

From 1 January 2023, the government is proposing to decrease the maximum co-payment under the PBS from $42.50 to $30 per script, a 29% reduction.

PENSIONERS & SENIORS

FREEZE DEEMING RATES

The Budget looks to freeze income test deeming rates at their current levels for a further two years, until 30 June 2024.

PENSIONER RELIEF FOR DOWNSIZING

The Budget contains two key measures to incentivise pensioners to downsize their housing.

1. Extending the assets test exemption from 12 months to 24 months, following the sale of their principal dwelling. This will double the time pensioners have to use the sale proceeds to acquire a new principal dwelling, without these funds being counted towards the assets test.
2. Changing the income test treatment of principal dwelling proceeds, so that it will only apply the lower deeming rate (currently 0.25%) to these proceeds when calculating deemed income for 24 months after the sale.

AGE PENSION - WORK BONUS

The Work Bonus increases the amount an eligible pensioner can earn from work before it affects their pension rate.

Under a recent proposal, a one-off $4,000 credit will be made from December 2022 to the Work Bonus income bank for pensioners. This one-off top-up will increase the amount pensioners can earn from $7,800 to $11,800 this financial year, before their pension is reduced. It will need to be used in the current 2022-23 financial year, meaning the Work Bonus income bank from 1 July 2023 resets to $7,800.

COMMONWEALTH SENIORS HEALTH CARD

LIFTING INCOME THRESHOLDS

The income threshold for the Commonwealth Seniors Health Card will be increased from $61,284 to $90,000 for singles and from $98,054 to $144,000 (combined) for couples.

SUPERANNUATION

DOWNSIZER CONTRIBUTIONS

The government will allow more people to make Downsizer superannuation contributions, by reducing the minimum eligibility age from 60 to 55 years. This measure will take effect from the start of the first quarter after Royal Assent of the enabling legislation. The maximum Downsizer contribution continues to be $300,000 per eligible person.

Other conditions that need to be satisfied to make a downsizer contribution are:

- You, or spouse, must have owned the main residence for at least 10 years; and
- The contribution is made to the superannuation fund within 90 days of settlement

DEFERRING RELAXATION OF RESIDENCY REQUIREMENTS - SMSFS

The government will defer the 1 July 2022 start date of the 2021–22 Budget measures which proposed relaxing the residency requirements for self-managed funds. The revised start date is the financial year commencing on or after the date of Royal Assent of the enabling legislation. This aims to provide some certainty to fund trustees and advice practitioners.

RESIDENCY TESTS

To gain favourable tax concessions, superannuation funds must satisfy some residency tests, including the Central Management & Control Test, and the Active Member Test. Failing these tests results in the fund being classed as non-complying, meaning its income and assets are taxed at 45%.

The 2021-22 Budget proposed to relax the residency requirements for SMSFs by extending the time trustees can be temporarily absent from Australia while continuing to meet the Central Management & Control Test (from two to five years). In addition, the 2021-22 Budget proposed to abolish the Active Member Test altogether, as this test unfairly restricts contributions being made to an SMSF when members are overseas. Under the proposals, members of SMSFs will have the opportunity to continue contributing to their preferred fund when undertaking work or pursuing other activities overseas.

BUSINESSES

SUPPORTING SMALL BUSINESS OWNERS' WELLBEING

From 1 January 2023, the Government will provide $15.1 million to support the financial and mental wellbeing of small business owners. The Government will extend the mental health support and financial counselling programs, NewAccess for Small Business Owners and the Small Business Debt Helpline.

COVID-19 BUSINESS GRANTS TAX EXEMPT

The Budget Papers contain a listing of further State and Territory COVID-19 grant programs eligible for non-assessable, non-exempt treatment.

This means that eligible businesses will be exempt from paying tax on these grants.

DEPRECIATION OF INTANGIBLE DEPRECIATING ASSETS

The reversal of previously announced option to self-assess effective life for certain intangible assets (eg intellectual property and in-house software).

The effective lives of such assets will continue to be set by statute.

FBT AND IMPORT TARIFF EXEMPTION FOR ELECTRIC CARS

From 1 July 2022, the Government proposes to exempt battery, hydrogen fuel cell and plug-in hybrid electric cars from Fringe Benefits Tax and Import tariffs. The exemption will apply if the car's first retail price is below the luxury car tax threshold for fuel-efficient cars, being $84,916 (incl GST) for the 2022-23 financial year.

The electric car must not have been held or used before 1 July 2022. Employers will need to include exempt electric car fringe benefits in an employee's reportable fringe benefits amount. The enabling Bill has passed the House of Representatives, and is currently before the Senate.

INTERNATIONAL

MULTINATIONAL TAX INTEGRITY PACKAGE

Two integrity measures were announced to begin from 1 July 2023 relating to multinationals' use of intangibles and intellectual property.

DENIAL OF DEDUCTIONS FOR PAYMENTS FOR INTANGIBLES

Significant global entities (SGE) (entities within a group with group-wide global revenue of $1 billion or more) will be prevented from claiming tax deductions for payments made to related overseas parties in relation to intangible assets that are held in low- or no-tax jurisdictions.
For the purposes of this measure, low- or no-tax jurisdiction refers to jurisdictions with:

- a tax rate of less than 15% or
- a tax preferential patent box regime without sufficient economic substance.

MULTINATIONAL TAX TRANSPARENCY

The Government will introduce reporting requirements for certain entities to improve the quality of the tax information that they disclose to the public.

The Government will require:

1. SGEs to prepare for public release certain tax information on a country by country basis, including a statement on their approach to taxation, for disclosure by the ATO;
2. Listed and unlisted Australian public companies to disclose information on the number of subsidiaries and their country of tax domicile; and
3. Tenderers for Australian Government contracts worth more than $200,000 to disclose their country of tax domicile (by supplying their ultimate head entity's country of tax residence).

THIN CAPITALISATION

Fundamental reform is proposed to the thin capitalisation rules, with effect for income years commencing on or after 1 July 2023. The thin capitalisation rules deny interest deductions to multinational or foreign-owned groups where one of three tests is not satisfied. The changes will shift the focus from the balance sheet to the income statement for the purposes of determining when debt deductions are excessive.

SAFE HARBOUR

Currently, the first test is a safe harbour amount where the entity does not exceed a debt/equity ratio of 1.5 to 1. This will be replaced by a safe harbour test where a company's debt-related deductions do not exceed 30% of EBITDA. However, deductions denied in an income year because the 30% threshold is exceeded will be able to be carried forward and used in the next 15 future income years where there is sufficient thin capitalisation capacity.

INTERNATIONAL

THIN CAPITALISATION

ARM’S LENGTH DEBT TEST

The second test is the arm’s length debt test, which will be restricted to require that the relevant debt is not only on arm’s length terms and conditions but is also provided only by unrelated third parties. Deductions for related-party debt, even if on arm’s length terms, would be denied if relying on this test is necessary. The Budget papers are silent on whether there will be grandfathering for existing funding arrangements.

WORLDWIDE GEARING TEST

The third test is the worldwide gearing test, which provides that debt deductions will not be denied to Australian entities in a multinational group where the indebtedness of the Australian entities is at a lower level than that of the multinational group as a whole. Currently, the relative indebtedness of the Australian entities and the multinational group as a whole are compared using debt/equity ratios. However, under the proposed new law the comparison will be done by comparing net interest expense as a share of earnings, similarly to the changes to the first test.

We note that there are special thin capitalisation rules for banks and other financial entities. It appears that these rules will not change.

OTHER MEASURES

DIGITAL CURRENCIES NOT TAXED AS FOREIGN CURRENCY

The Government will be introducing legislation to confirm that digital currencies will not be taxed as foreign currency. This maintains the current tax treatment of digital currencies, including under the capital gains tax rules where held as an investment.

This measure will not apply where digital currencies are issued by, or under the authority of, a government agency. In this situation, digital currencies will continue to be taxed as foreign currency

INCREASED ATO COMPLIANCE ACTIVITY & PENALTIES

The Government has announced that the Australian Taxation Office (ATO) will extend compliance programs to further target non-compliance in three key areas:

- Personal income taxation, over claiming of deductions and incorrect reporting of income;
- Businesses that operate in the Shadow Economy; and
- Tax avoidance by Multinationals, large public and private enterprises.

IMPROVING THE INTEGRITY OF OFF-MARKET SHARE BUY-BACKS

Under current law, off-market share buy-backs include a deemed dividend component in the buy-back price. This has been used by a range of large public companies to offer their shareholders the opportunity to sell their shares into an off-market buy-back at a discount to the current share price.

This is attractive to low-rate taxpayers, particularly superannuation funds, where the value of the refundable franking credits attached to the deemed dividend component outweighs the disadvantage of selling their shares at a discount.

The Government has announced that from Budget night, the tax treatment of off-market share buy-backs will be aligned with that of on-market share buy-backs. There is no deemed dividend component in the buy-back price for an on-market share buy-back. This means that the capital management initiative discussed above, which historically has been a popular strategy for superannuation funds, is no longer possible from Budget night, 25 October 2022.

OTHER MEASURES

PREVIOUSLY ANNOUNCED BUT UNACCENTED TAX AND SUPER MEASURES

Several tax and superannuation-related measures announced by the previous Government, but never legislated, will be abandoned, including:

- The 2013-14 Mid-Year Economic and Fiscal Outlook (MYEFO) measure that proposed to amend the debt/equity rules;
- The 2018-19 measure that proposed changes to the annual audit requirement for certain self-managed superannuation funds (SMSFs); and
- The 2018-19 budget measure that proposed to introduce a $10,000 limit for cash payments to businesses for goods and services.

In addition, some previously announced measures will have a deferred start date, including:

- The 2021-22 budget measure that proposed a relaxation of the residency requirements for self-managed superannuation funds, which, if implemented, would extend the central management and control test safe harbour and remove the active member test. This was originally proposed to commence 1 July 2022, but will now apply to the income year commencing on or after the date of Royal Assent of the enabling legislation; and
- The 2019-20 MYEFO measures that proposed the introduction of a share economy reporting regime for ride sourcing and short-term accommodation (deferred until 1 July 2023) and all other reportable transactions such as asset sharing, food delivery and tasking-based services (deferred until 1 July 2024).

HOUSING

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.

In other measures, the Government will invest $10 billion in the newly created "Housing Australia Future Fund", to be managed by the Future Fund Management Agency. Its aim will be to generate returns to fund the delivery of 30,000 social and affordable homes over 5 years and allocate $330 million for acute housing needs.

The Government will also "broaden the remit" of the National Housing Infrastructure Facility to directly support new social and affordable housing in addition to financing critical housing infrastructure.

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