FEDERAL BUDGET 2023-24

By Colin Lewis
Head of Strategic Advice
9th May 2023

This paper focuses on proposed measures in the Budget that relate to personal financial planning and relevant small business support.

They are proposals only that must go through Parliament to become law.

In recent years, Federal Budgets have been getting progressively leaner in terms of announcements of measures impacting personal financial planning.

Unfortunately, this Budget is no different – in fact, this one takes the cake for being the leanest yet!

Personal Income Tax

Stage 3 tax cuts survived the razor – again!

Stage three involves abolishing the 37 per cent marginal tax bracket for those earning $120,000 to $180,000 and creating a flat rate of 30 per cent for those earning between $45,001 and $200,000.

From 1 July 2024, when the Government's Personal Income Tax Plan is fully implemented, about 95 per cent of taxpayers will have a marginal tax rate of 30 per cent or less.

Tax rate (%)	2022-23 & 2023-24 ($)	2024-25 onwards ($)
0	0 – 18,200	
19	18,201 – 45,000	
30		45,001 – 200,000
32.5	45,001 – 120,000	
37	120,001 – 180,000	
45	> 180,000	> 200,000
LITO	Up to 700	

The effective tax-free threshold for taxpayers under Age Pension age is **$21,884**.

For people eligible for the seniors and pensioners tax offset, the effective tax-free threshold is:

- **$33,088** for singles
- **$29,783** for couples (each), and
- **$32,088** for illness separated couples (each).

Be mindful of these thresholds when making a personal deductible contribution to superannuation as you don't want to be paying for the privilege of getting money into super – 15 per cent tax – by reducing income below the relevant amount.

Exempting lump sum payments in arrears from the Medicare levy

From 1 July 2024, the Government will exempt eligible lump sum payments in arrears from the Medicare levy.

This will ensure low-income taxpayers do not pay a higher Medicare levy as a result of receiving an eligible lump sum payment, e.g. compensation for underpaid wages.

Eligibility requirements will ensure that relief is targeted to taxpayers who are genuinely low-income and eligible for a reduced Medicare levy.

To qualify, taxpayers must be eligible for a reduction in the Medicare levy in the two 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.

Increasing the Medicare levy low-income thresholds

From 1 July 2022, the Government will increase the Medicare levy low-income thresholds for singles, families and seniors and pensioners.

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.

Small business support

$20,000 instant asset write-off

From 1 July 2023 until 30 June 2024, the Government is temporarily increasing the instant asset write-off threshold to $20,000.

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.

The provisions that prevent small businesses from re-entering the simplified depreciation regime for 5 years if they opt-out will continue to be suspended until 30 June 2024.

Small Business Energy Incentive

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

Small and medium businesses, 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 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.

Energy Bill Relief

Businesses with a turnover of up to $50 million will get a one-off payment of $650 off their power bills.

Superannuation

Only one new superannuation measure crept into the Budget Papers that had not been announced before Budget Night.

This concerned amending the former Government's controversial non-arm's length income and expenses (NALI and NALE) measures, to provide greater certainty. The Government was criticised for not addressing this in their first Budget last October.

Accordingly, the Government announced that the **NALI provisions** applying to expenditure incurred by self-managed superannuation funds (SMSFs) and small APRA-regulated funds (SAFs) will be amended.

Otherwise, the **better targeted superannuation concessions** and **payday super** measures announced prior to Budget Night were restated in the Budget Papers.

NALI provisions

The Government will amend the NALI provisions which apply to expenditure incurred by SMSFs and SAFs by:

- limiting the income of SMSFs and SAFs taxable as NALI to twice the level of a general expense
- excluding contributions from fund income taxable as NALI, and
- exempting expenditure that occurred prior to the 2018-19 income year.

Large APRA-regulated funds are exempted from the NALI provisions for both general and specific expenses of the fund.

Better targeted superannuation concessions

On 28 February 2023, the Government announced it would reduce the superannuation tax concessions available to individuals whose total superannuation balance (TSB) exceeded $3 million.

Key takeaways

- Commences in 2025-26 – but an individual's TSB on 30 June 2026 matters initially – and will not be retrospective.
- No limit applies on how much an individual can have in super.
- 'Earnings' – unrelated to a fund's actual taxable income – on balances greater than $3 million at the end of financial year (EOFY) will be taxed at an additional 15 per cent.
- The additional tax can be paid personally or released from super – similar to Division 293 tax.
- The Government has confirmed that interests in defined benefit schemes will be appropriately valued and have earnings taxed under this measure in a similar way to other interests – ensuring commensurate treatment.
- The $3 million threshold is not indexed – so, more Australians will be impacted over time.
    - In 30 years, Treasury predicts only the top 10 per cent will retire with super ≈ $3 million.
    - $3 million future value is $2.5 million now assuming 6 per cent inflation.

With more than two years and a Federal election before this proposed superannuation measure is due to commence, much can change, but as it stands currently, this is how it will work.

How will 'earnings' be calculated?

A fund's taxable income is irrelevant as the new rules look at movement in an individual's super measured by their TSB over the year.

Currently, TSB includes the outstanding balance of certain limited recourse borrowing arrangements and excludes structured settlement contributions.

An individual's TSB includes 'inherited' death benefit income streams.

'Earnings' formula

'Earnings' = TSB current FY – TSB previous FY + Withdrawals – Net Contributions

- Adjustments are made for:
    - **withdrawals** (lump sum and pension payments) which are added back as they are not captured in TSB at EOFY.
    - **contributions** which are excluded to ensure new money does not inflate 'earnings'.
        - Insurance proceeds where the policy is held by the fund and transfers into the fund, including family law splits, are excluded as contributions.
- Using this formula means that unrealised capital gains are captured in earnings.
- Where there's negative 'earnings', the individual will only be allowed to carry forward the loss to reduce future earnings – they don't get a tax refund.

Example

Ray's TSB grew from $2.9 million on 30 June 2025 to $3.3 million on 30 June 2026.

During 2025-26, Ray took $100,000 in pension payments and made a $20,000 concessional contribution and $300,000 non-concessional contribution.

Ray's 'earnings' will be:

$$\$3.3\text{ million} - \$2.9\text{ million} + \$100{,}000 - \$17{,}000 - \$300{,}000 = \$183{,}000$$

But not all of this 'earnings' will be subject to the new 15 per cent tax.

How much 'earnings' will be taxed?

$$\textbf{Proportion of Earnings} = \frac{\textbf{TSB EOFY} - \textbf{\$3 million}}{\textbf{TSB EOFY}}$$

Example cont.

Ray's TSB is $2.9 million on 30 June 2025 and $3.3 million on 30 June 2026.

Only the proportion of 'earnings' over $3 million is subject to the additional tax.

$$\frac{\$3.3\text{ million} - \$3\text{ million}}{\$3.3\text{ million}} = 9\%$$

NB. Ray's TSB at the start of the year, which was less than $3 million, is irrelevant.

Bringing it all together

Tax liability = 15% x Earnings x Proportion of Earnings

Example cont.

Ray's extra tax will be:

15% x $183,000 x 9% = **$2,470.50**

This tax bill will be sent to Ray, but he can have the money released from super.

Say Ray has a balance of $3 million in his SMSF and $300,000 in a retail fund, he could pay $2,000 from his retail fund and $470.50 from his SMSF.

Payday super

On 2 May 2023, the Government announced that from 1 July 2026, employers will be required to pay their employees' super at the same time as their salary and wages.

Payday super will make it easier for employees to keep track of their payments and harder for them to be exploited by disreputable employers. Historically, as you may know, the money hasn't made it into the super funds of many employees.

This change also reduces the risk of unpaid superannuation debts when a company collapses into bankruptcy. It can be a nightmare when an employer goes into administration / receivership as unpaid super may take years to recover.

When Award Super was introduced in the mid to late 1980's and the compulsory Superannuation Guarantee in 1992, payroll systems were not as advanced as they are today. So, it was reasonable for super to be paid on a quarterly basis, but it is hard to justify in this day and age.

By switching to payday super, a 25-year-old median income earner currently receiving their super quarterly and wages fortnightly could be around $6,000 or 1.5 per cent better off at retirement.

The start date will provide employers, super funds, payroll providers and other parts of the superannuation system with sufficient time to prepare for this change.

Observations

The Budget Papers specifically stated that "The current contributions rules continue to apply."

No news is good news in that the Government has not moved to freeze the indexation of the transfer balance cap from $1.7 million to $1.9 million on 1 July 2023.

The Government made no mention of extending the 50 per cent reduction in minimum pension drawdowns for account-based pensions and annuities, allocated pensions and annuities and market-linked pensions and annuities, which ceases on 30 June 2023. In the past, however, we have seen this temporary reduction extended after Budget Night – even as late as 28 June.

Social Services

Expanding access to Parenting Payment (Single)

The Government is expanding eligibility for Parenting Payment (Single) to single principal carers until their youngest child turns 14 – up from the current cut-off age of eight.

Eligible single parents (91 per cent women) will transition to a higher basic rate of **$922.10 per fortnight** – an increase of $176.90 per fortnight compared to current payments.

Increasing the rate of eligible payments

On 20 September 2023, the Government is increasing 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.

Currently, a single JobSeeker recipient with no children receives $693.10 a fortnight.

The Government is also extending eligibility for the existing higher JobSeeker Payment rate of **$745.20 per fortnight**, previously only available to recipients aged 60 and over, to singles aged 55 to 59 (the majority of whom are women) who have been on the payment for nine or more continuous months.

Energy Bill Relief

The Energy Bill Relief Fund will deliver $500 rebates to low-income households.

Increasing Commonwealth Rent Assistance

From September 2023, the maximum rates of Commonwealth Rent Assistance will increase by 15 per cent for eligible recipients – the largest increase to Commonwealth Rent Assistance in over 30 years.

Many people will receive the combined benefit of increases to income support payments, energy bill relief and Commonwealth Rent Assistance.

Cheaper childcare and Paid Parental Leave

From July 2023, Child Care Subsidy rates will increase up to 90 per cent for eligible families and up to 95 per cent for any additional children in care aged 5 and under.

The Government's new Paid Parental Leave (PPL) scheme commences on 1 July 2023. Families will be able to receive the payment for up to 20 weeks and will have greater flexibility in how they use it. The Government is expanding eligibility and gradually increasing the amount of PPL each year up to a total 26 weeks by 2026.

Pharmaceutical Benefits Scheme

The Government is doubling the maximum dispensing quantity to 60 days for over 300 Pharmaceutical Benefits Scheme (PBS) medicines. Some patients will be able to buy two months' worth of medicine for stable, chronic conditions, saving both time and out-of-pocket costs.

This builds on the October Budget measure to reduce the PBS general co-payment to $30 from 1 January 2023.

The Government is also adding to and amending listings on the PBS to ensure affordable access to new medicines.

person. Before acting on the information, investors should consider its appropriateness having regard to their own objectives, financial situation and needs and obtain professional advice. No liability is accepted for any loss or damage as a result of any reliance on the information. Past performance is not a reliable indicator of future performance. Future performance and return of capital is not guaranteed. The information may be confidential and is intended solely for the addressee. If you are not the intended recipient, any use, disclosure or copying of this information is unauthorised and prohibited. If you receive this document in error, please notify the sender and delete the document.