Grant Thornton

FEDERAL BUDGET 2023/24

Renew & Restore

Foreword

A balancing act:
Insights from the Federal Budget

Labor has handed down its second Budget since being in power, amidst global economic uncertainty, a slowing economy with growth expected to wane to 1.5 per cent in 2024 and rising costs for individuals and businesses alike.

While Australia has experienced a period of rising inflation – the highest in forty years – along with the increasingly high cost of living, limited access to talent and persisting supply chain issues, inflation seems to be subsiding. Current data from the ABS confirms inflation has passed its peak.

The Federal Government this year had three priorities – cost-of-living relief, growing the economy and ensuring Australia's stability against international economic instability.

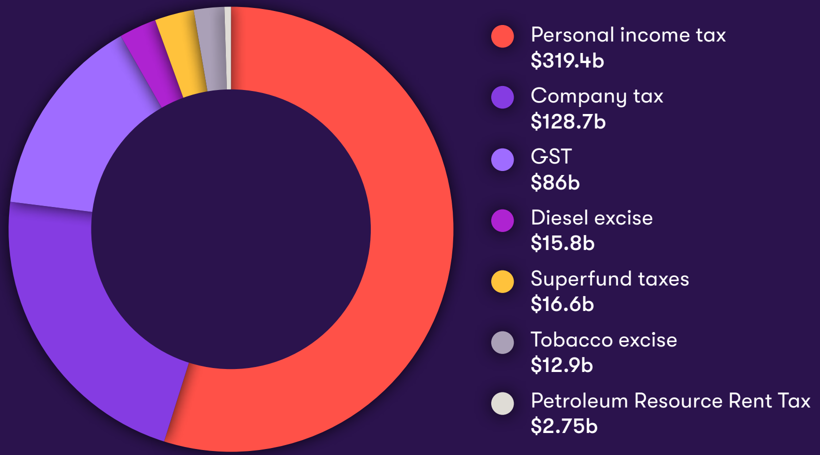
This year's Budget is the first in 15 years that the Federal Government has delivered a surplus with Labor reaching a surplus of $4b in 2022–23. This is thanks in large part to significant revenue from income tax, record low unemployment of 3.5 per cent, a lift in wage growth along with the return of migrant workers to Australia's shores and a tax revenue windfall from mining royalties. The deficit is then forecasted to increase to $13.9b for 2023–24, reaching $36.6b for 2025–26, before declining to $28.5b for 2026–27 – smaller deficits than initially forecasted in October.

VINCE TROPIANO
Partner – Corporate Tax

However, with government debt currently at $548.6b, it's a short-lived surplus. Future government debts are expected to blow out to nearly $1 trillion by 2027 due to the rising costs of NDIS (with the Government proposing sweeping reforms for the regime and lowering its growth rate in future years), health, defence spending pressures and the ballooning cost of aged care – including funding for a 15 per cent wage boost for aged care staff, decided by the Fair Work Commission last year, revealed to cost $11.3b over four years.

Forecasted federal debt interest payments have fallen by $10b over the four-year forward estimates since the Government's interim Budget. However, the debt interest is the second-fastest growing spending area, behind only the NDIS, with interest payments being $111.8b throughout this fiscal year and the next four forecasted years combined.

But is the Government pulling in enough tax revenue to fund these concerns? With an overreliance on income tax alongside an ageing population, the Government must look to other areas like business to receive revenue – a structural budgetary issue that was first reported back in 2002 in the first iteration of the Intergenerational Report. Whether Australia is politically ready for that tax conversation remains to be seen.



This Budget amended the Instant Asset Write Off, capping it to businesses with turnover of $10m or less (down from its previous $50m threshhold) and the loss carry-back scheme was not extended. While the savings from reducing these COVID-19 concessions or allowing them to expire will in effect strengthen Australia's ability to withstand economic shocks, some of these schemes – like the loss carry-back scheme – are already law in other countries.

Australia has used such schemes in the past to encourage investment, and while the COVID-19 pandemic has officially ended, we're still dealing with the ramifications of it. Maybe maintaining incentive schemes like the loss carry-back scheme is actually good business.

Pre-Budget, we saw the Government announce changes to the superannuation tax threshold for high income earners, and a focus on multinational tax transparency, alongside a consultation paper outlining changes to the Thin Capitalisation regime. While these are much needed changes to ensure large corporates are paying their fair share of tax, the focus on MNEs may create challenges when it comes to encouraging foreign investment into Australia. Essentially, businesses will need to be complying with additional hurdles in Australia while also managing competitiveness with a high corporate tax rate.

What we need now is a balance of both supporting industry and supporting government revenue. Our corporate tax rate is already high. While there's global appetite for tax reform (especially with Pillar Two of the OECD's global minimum corporate tax rate of 15 per cent on the global agenda) we need a considerably broader conversation on tax reform if we're trying to both compete globally and fund future spending requirements.

Disappointingly, the R&D tax incentive was not mentioned at all tonight – a significant pillar of encouraging investment into Australia. Similarly, the Patent Box was not reintroduced, which much like the loss carry-back scheme, is a feature of many other countries innovation agendas.

Even though COVID-19 is mostly in the rearview mirror, the impacts around increased costs, supply chains and access to talent is still an issue felt around the country. While the population has increased and we've seen an influx of migrants return to the country, finding the right people to fill roles is a challenge many businesses face.

Add to this significant energy price increases, wage growth and the ramifications of inflation, many businesses are facing financial difficulties and insolvency at an alarming rate – particularly in industries like building and construction. Larger, cash-rich companies will be able to ride this out. With the Government's Small Business Energy Incentive, and investment in Australia's sovereign capabilities by way of the previously announced $15b National Reconstruction Fund and $40b in renewable energy initiatives to make Australia a 'renewable energy superpower', hopefully industry, SMEs and mid-sized businesses can too.

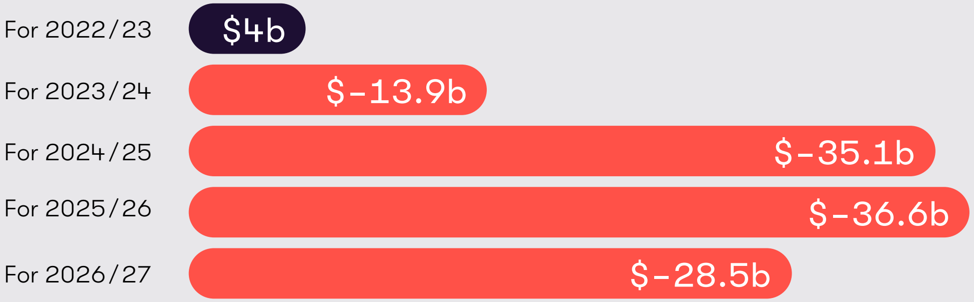
The Government has been clear that this Budget's main focus was to cautiously mitigate the risks of a possible recession and ease impacts of inflation. Real budget repair and expenditure will be a focus for future budgets, along with reducing the ballooning national debt. Let's hope they've alleviated enough of the cost pressures facing millions of families and businesses in the short term.

2023 **top 5** priorities

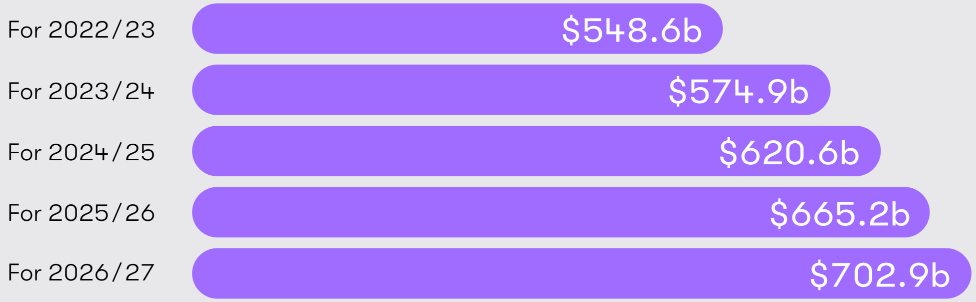
- Cost-of-living relief
- Strengthening the Health Care system and Medicare
- Growing a more secure economy
- Becoming a renewable energy superpower
- Ensuring Australia is more resilient to international shocks

Snapshot

Budget deficit



Net debt



Spending highlights

$10b Capacity Investment Scheme for renewable energy projects

$15b National Reconstruction Fund to develop green industries and manufacturing

$2b for a Hydrogen Headstart Program

$19b for Defence Strategic Review

$14.6b cost of living package:
$2.2b to increase the PBS
$5.7b for Medicare
$4.9b Jobseeker funding
$3b energy bill relief

$11.3b to fund a 15 per cent increase in aged care workers' wages

$72.4m to retain and recruit early childhood educators

$39.3m Driving the Nation Fund to build 117 fast electric vehicle chargers across Australia's national highways

$159.7m for the Urban Precincts and Partnerships Program

$211.7m for the Thriving Suburbs Program

$3.4b over 10 years to fund the Olympic and Paralympic Games

$286m investment in the creative sector

Tax implications

International tax

Implementation of a global minimum corporate tax and a domestic minimum tax

The Government has confirmed that it will implement Pillar Two of the OECD Two-Pillar Solution to address the tax challenges arising from digitalisation of the economy.

Broadly, this will result in a 15 per cent global minimum tax for large multinational enterprises with the relevant measures applying to income years starting on or after 1 January 2024.

The minimum tax will be achieved essentially through a top-up tax usually at the ultimate parent company level. This is to ensure the overall tax liability of the group in respect of profits in each country where it operates is at an effective tax rate of 15 per cent.

Australia will also implement a 15 per cent domestic minimum tax that will apply to income years starting on or after 1 January 2024. The domestic minimum tax will give Australia first claim on top-up tax for any low-taxed domestic income. It is recognised that in a small number of instances a large multinational company's effective Australian tax rate may fall below 15 per cent. In these instances, the domestic minimum tax applies so that Australia collects the revenue that would otherwise have been collected by another country's global minimum tax.

The global minimum tax and domestic minimum tax will apply to large multinationals with annual global revenue of EUR750 million (approximately A$1.2b) or more.

It is noted the Government made no announcement in respect of Pillar One, which seeks to reallocate some of the taxing rights over the largest and most profitable multinationals to the countries where their goods and services are consumed. These rules would only apply where a multinational has global revenues exceeding EUR20 billion per annum (approximately A$32.5b).

Corporate tax

Build to rent

The Federal Government aims to encourage investment and construction in the build-to-rent sector to increase Australia's housing supply by increasing the rate of capital works deduction to 4 per cent per year; and reducing the final withholding tax rate on eligible fund payments from managed investment trust investments from 30 per cent to 15 per cent from 1 July 2024.

Extending the clean building managed investment trust withholding tax concession

The Government will extend the clean building managed investment trust withholding tax concession (i.e. a concessional rate of 10 per cent on fund payments instead of the standard 15 per cent withholding rate) to data centres and warehouses. This measure will apply to data centres and warehouses where construction commences after 7.30 pm AEST on 9 May 2023, which satisfy the relevant energy efficiency standards and will apply from 1 July 2025.

This measure will also raise the minimum energy efficiency requirements for existing and new clean buildings to a 6-star rating from the Green Building Council Australia or a 6-star rating under the National Australian Built Environment Rating System.

Clarifying the tax treatment of 'exploration' and 'mining, quarrying and prospecting rights'

The Government will amend the Petroleum Resource Rent Tax legislation to clarify that 'exploration for petroleum' is limited to the 'discovery and identification of the existence, extent and nature of the petroleum resource' and does not extend to 'activities and feasibility studies directed at evaluating whether the resource is commercially recoverable'.

This measure also clarifies that mining, quarrying and prospecting rights cannot be depreciated for income tax purposes until they are used (not merely held) and will limit the circumstances in which the issue of new rights over areas covered by existing rights lead to tax adjustments. This measure applies to all expenditure incurred from 21 August 2013 and is consistent with ATO tax ruling TR 2014/9.

Tax integrity – expanding the general anti-avoidance rule

Government will improve the integrity of the tax system by expanding the scope of the general anti-avoidance rule for income tax (Part IVA) so that it can apply to schemes that reduce tax paid in Australia by accessing lower withholding tax rate on income paid to foreign residents and schemes that achieve an Australian income tax benefit, even where the dominant purpose was to reduce foreign income tax.

The rules will apply to income years commencing on or after 1 July 2024, regardless of when the scheme was entered into.

Personal tax

Personal income tax rates

- Individual income tax rates unchanged for 2023–24.
- The Stage 3 tax changes will apply from 1 July 2024 as previously announced:

Tax rates and income thresholds – from 2024–25 onwards

Taxable income ($)	Tax payable ($)
0 – 18,200	Nil
18,201 – 45,000	Nil + 19 per cent of excess over 18,200
45,001 – 200,000	5,092 + 30 per cent of excess over 45,000
200,001+	51,592 + 45 per cent of excess over 200,000

Extending the personal income tax compliance program

- The ATO will receive $89.6m and the Treasury $1.2m to extend the Personal Income Tax Compliance Program for two years from 1 July 2025 and expand its scope from 1 July 2023.
- The ATO is to use the extension to continue delivering a combination of proactive, preventative and corrective activities in key areas of non-compliance.

Superannuation

$3m Superannuation Cap – effective date 1 July 2025

Individuals with a balance of more than $3m at 30 June 2026 will incur an additional 15 per cent tax (in addition to the 15 per cent paid in superannuation) on earnings corresponding to the portion of an individual’s total superannuation balance that is greater than $3m. Earnings relating to assets below the $3m threshold will continue to be taxed at 15 per cent, or 0 per cent if held in a pension account, within the superannuation fund.

The tax will be assessed personally with the option to fund the payment out of superannuation fund assets upon the approval of a successful release authority. The measure will not place a limit on the amount of money an individual can hold in superannuation, and the current contributions rules continue to apply. Although an additional tax is to be imposed, the rate remains lower than the top marginal rate of 45 per cent, with superannuation still remaining a concessional taxed environment.

Securing Australians’ superannuation

From 1 July 2026, employers will be required to pay their employees’ Superannuation Guarantee (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. This will allow employees greater visibility over whether their entitlements have been paid, as well as better enable the ATO to recover unpaid superannuation. A start date of 1 July 2026 will allow all involved ample time to make necessary system changes and cash flow.

The Government will also provide $27m to the ATO in 2023–24 to improve data matching capabilities to identify and act on cases of SG underpayment by employers. This package will particularly benefit those in lower paid, casual and insecure work who are more likely to miss out when super is paid less frequently.

Innovation incentives

To build the foundations of a strong economy, targeted Government investments into innovation to create new industries and renew existing capabilities have been flagged in the Budget, including:

- $61.4m to support the establishment and operation of the $15b allocated to the National Reconstruction Fund
- $2b will be invested in the Hydrogen Headstart program focused on accelerating the development of hydrogen energy technologies with Australia already hosting the largest global pipeline of renewable hydrogen projects
- A further $1.3b will be allocated to the Powering the Regions program to support emissions reduction and clean energy development, and $57.1m will be used to develop a Critical Minerals International Partnerships program
- $392.4m to establish a new Industry Growth Program aimed at supporting innovative Australian startups and SMEs via grants and mentorships to take their new products and services from idea through to commercialisation
- $3.4b will be invested over the next decade to establish the Advanced Strategic Capabilities Accelerator within the Department of Defence. The accelerator will support and drive innovation to deliver cutting edge technologies that are most relevant to the Australian Defence Force and strengthening our national security.
- $101.2m over the next 5 years will support technologies that are enabling capabilities with an initial focus on growing Australia's quantum and artificial intelligence ecosystem.

Missed opportunities include the previously proposed patent box measures that will not proceed and the Export Market Development Grant (EMDG) program, which will have a $61m reduction in funding over four years. Both initiatives actively encourage business investment in innovation and support economic growth. Interestingly, there was no mention of the Federal Government's flagship innovation support program – the R&D Tax Incentive – in this Federal Budget.

Indirect tax

GST compliance program extension

The Government has announced additional funding of $588.8m to the ATO to continue GST compliance activities over the next four years from 1 July 2023.

The ATO is currently conducting GST assurance programs to confirm that taxpayers are accurately remitting GST and correctly claiming GST refunds. Additional funding will help the ATO develop more sophisticated analytical tools to combat emerging risks to the GST system.

The Government estimates that this measure will increase tax receipts by $7.6b over the five years from 2022–23.

Business tax

Small business lodgement penalty amnesty

The Government will announce a lodgement amnesty program for small businesses with aggregate turnover of up to $10m and will remit failure-to-lodge penalties for outstanding tax statements lodged in the period from 1 June 2023 to 31 December 2023 that were originally due during the period from 1 December 2019 to 29 February 2022.

Small business support – $20,000 instant asset write-off

Small business with aggregated turnover of less than $10m 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. A $20,000 threshold will apply on a per asset basis, so multiple assets can be written off.

Assets valued at $20,000 (which will not be eligible for instant asset write-off) or more can continue to be placed into the small business simplified depreciation pool, where they will be depreciated at 15 per cent for the first income year and 30 per cent for 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. This is estimated to decrease receipts by $290m over the next 5 years.

Small business energy incentive

Government will support small and medium businesses to save on energy bills through incentivising the electrification of assets and the improvement of energy efficiency. This will apply to those with aggregate turnover of less than $50m and will allow an additional deduction of 20 per cent of the cost of eligible depreciation of assets that support electrification. Up to $100,000 of total expenditure will be eligible with a maximum bonus deduction being $20,000.

Eligible assets will need to be first used or ready for use between 1 July 2023 and 30 June 2024. The full details of eligibility criteria are yet to be finalised. The incentive will apply to a range of depreciating assets including assets that upgrade to more efficient electrical goods such as energy-efficient fridges, assets that support electrification such as electric heating or cooling systems and demand management assets such as batteries. Exclusions include electric vehicles, renewable electricity generation assets, capital works and assets not connected to the electricity grid and use fossil fuels.

This measure is estimated to decrease receipts by $310m and increase payments by $4.2m over 5 years from 2022–23.

Small business support – managing tax instalments and improving cash flow

The Government will amend the tax law to set the GDP adjustment factor for PAYG and GST instalments to 6 per cent, a reduction from 12 per cent under the statutory formula. The reduced factor will provide cash flow support to small businesses and other PAYG instalment taxpayers.

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