

FEDERAL BUDGET 2024/25

Strengthening Foundations



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Is this Budget an economic plan to reduce inflation through responsible spending?

With the Australian economy the weakest it has been in 23 years, Labor has handed down its third Federal Budget delivering its second consecutive surplus, and setting the Government's agenda as we head into an election cycle.

While an election is expected by May next year and a pre-election Budget tipped for March 2025, this Budget's prime focus is on securing Australia's economic sovereignty, with initiatives such as the Future Made in Australia Act at the forefront.

The Government announced a \$9.3b surplus this year off the back of generous company tax receipts – a pleasant surprise after the \$1.1b deficit forecasted in the Mid-Year Economic and Fiscal Outlook in December. However, this will swing into a \$28.3b deficit in 2024-25, with greater deficits in the years following than previously forecasted. Net debt is sitting at \$499.9b, and NDIS spending has blown out by \$5.4b, to \$44.3b in 2023-24.

As part of the Government's \$22.7b Future Made in Australia initiative, which aims to support sovereign manufacturing, supply chains and the renewable energy transition, the Government pledged grants, loans and equity injections early on including \$1b for solar panels, \$1.4b for critical mineral projects, and \$2b for hydrogen. The Government has also announced \$940m in joint funding with the Queensland Government for tech startup PsiQuantum to build the world's first commercially used quantum computer.

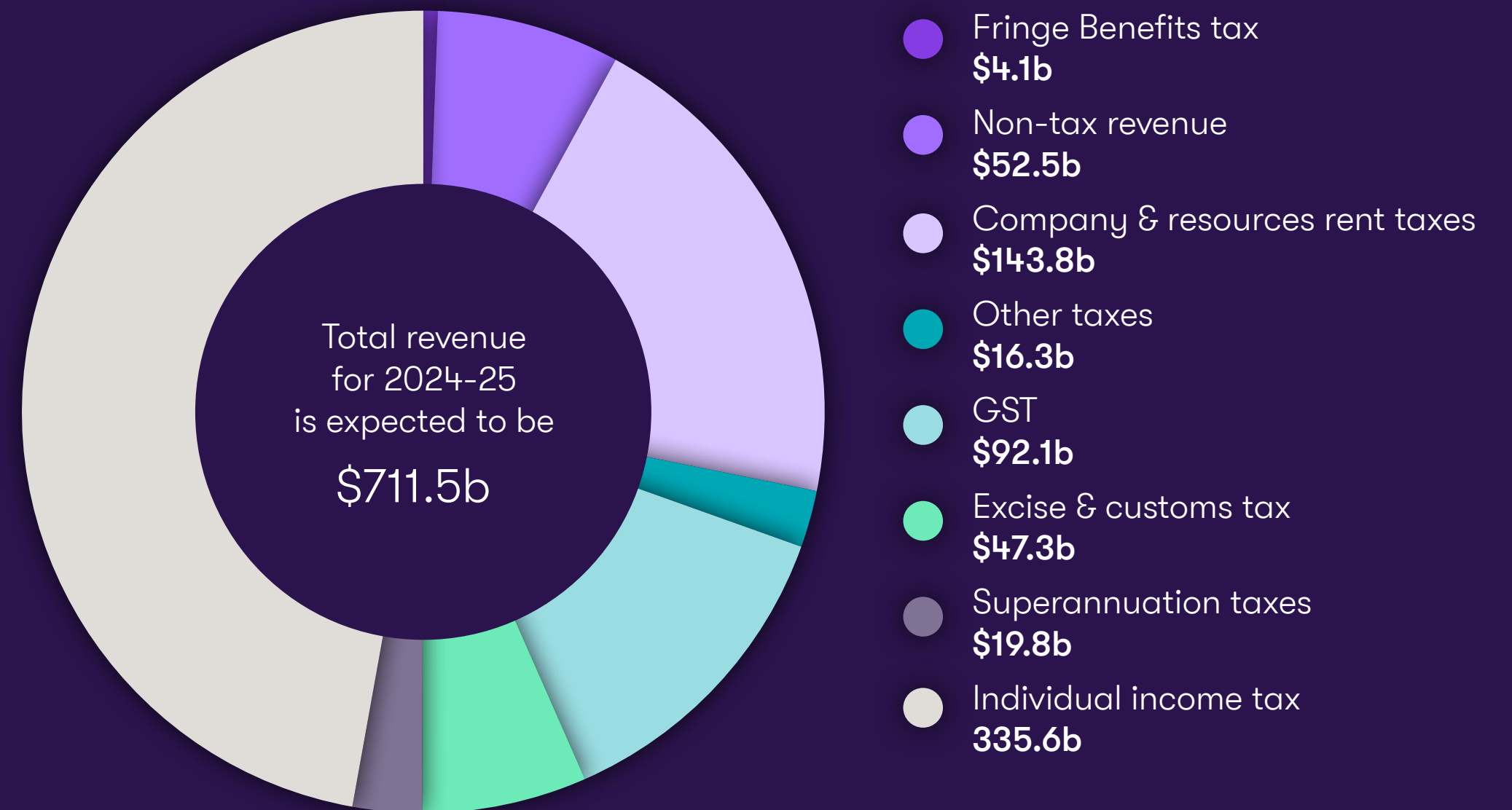
In an effort to ease the cost of living pressure on Australians while not stimulating stickier than expected inflation, this Budget implemented the Stage 3 tax cuts, among other initiatives already announced including paid superannuation on parental leave, \$3b for HECs reforms, and trainee teachers, nurses and social workers were also given a \$23m per year boost to cover their costs while undergoing placements.

Housing was also a key theme of this year’s Budget – with \$6.2b in new investments for housing, along with \$88.8m provided to boost skilled workers in the construction sector to facilitate the Government’s goal of reaching 1.2 million more homes over the next five years. However, supply chain issues and raw material costs remain an issue for the construction sector, particularly for small businesses susceptible to collapse in this economic climate. It remains to be seen how the Government will tackle these issues.

More recently, the Government announced \$160m to push through Tranche 2 of the Anti-Money Laundering changes, and \$2b fund for business investment into South-East Asia. A review of Australia’s R&D scheme is welcome news, however there needs to be focus on attracting investment into Australia. It’s highly possible investment into Australia by multinational corporations may be stymied with the recent raft of reforms to multinational tax including thin capitalisation, exposure draft legislation on public Country-by-Country Reporting, and ATO court action in relation to royalties on IP and intangibles.

However, Labor has still not addressed the very real generational structural issues in the Budget, or the kind of ambitious tax reform that businesses and other stakeholders have been increasingly asking for. In a stark reminder of last year’s Budget, we’re still reliant on personal income tax as one of the main sources of incoming revenue, with 47.2 per cent – or \$335.6b – of Government revenue attributable to personal income tax – and this will only grow in coming years. The Henry Report brought this to the fore 14 years ago now. Such a reliance on personal income tax removes the incentive to work, invest and attract international talent and capital – the very things we need to maintain Australia’s competitive edge.

Where revenue comes from (2024-25)



This was recently echoed by the OECD, who urged Australia to address the structural Budget deficit through meaningful tax reforms. The OECD also suggested the world economy is lifting and inflation is expected to cool quicker than predicted in some countries, with China, India and the United State's growth improving better than expected. However, with global growth slowing due to an ageing global population, falling fertility rates, and limited labour supply, we're living in a very different world than we were pre-COVID.

The global economy and geopolitical environment has changed – and if our trading partners are facing the same supply side difficulties, inflation, and market forces we are here locally, how will that affect Australian businesses? Australia has put its support firmly behind our own sovereign capabilities by reinvigorating our manufacturing sector with the Made in Australia agenda. Is globalisation as relevant as it used to be – or are we going to see the trend of countries turning inward and focus on sovereign capabilities continue?

Post-COVID, businesses are feeling the pressure of inflation and the costs of doing business – this time without the safety net of the temporary insolvency initiatives implemented during COVID. While the Government extended the instant asset write-off for another year, announced energy bill relief, and \$290m in cash flow support and for small businesses, many businesses are already doing it tough. Now with increased sustainability and climate reporting requirements, and tighter labour rules coming in next financial year with Labor's industrial relations changes, the Government needs to think about how to mitigate additional pressures on businesses and stimulate productivity and growth.

The Government has been clear this Budget's aim was to alleviate cost of living pressures while not stimulating inflation, with a clear focus on housing, developing Australia's onshore capabilities and diversifying the economy. But does it support all facets of the economy? Majority of the tax reform seen in this Budget – so called 'tinkering around the edges' – are incentives for businesses in the Government's priority sectors, namely green energy and manufacturing – and it appears mid-size businesses have been overlooked. Of course, with the Government rising to power on the promise of developing Australia's sovereign manufacturing capabilities, this Budget centres on delivering that promise – but at what cost?

2024 top 5 priorities



Reducing cost of living



Investing in a Future Made Australia



Strengthening Medicare and the care economy



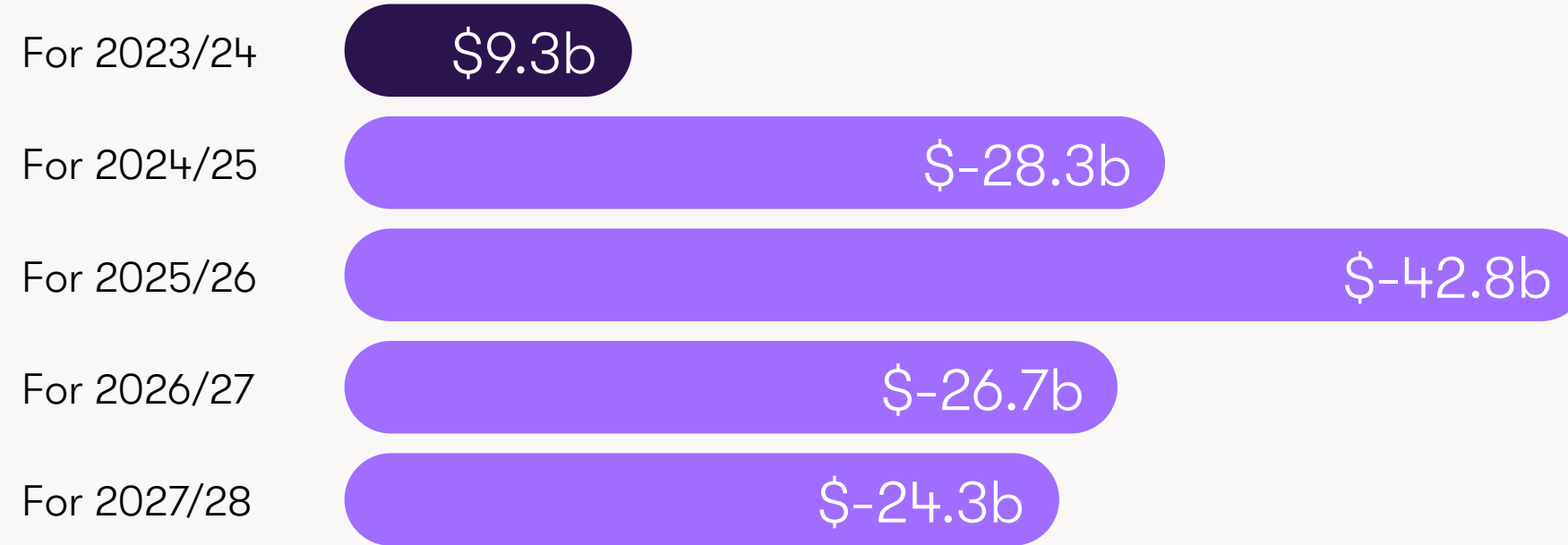
Building more homes for Australians



Responsible renewables and resource management

Snapshot

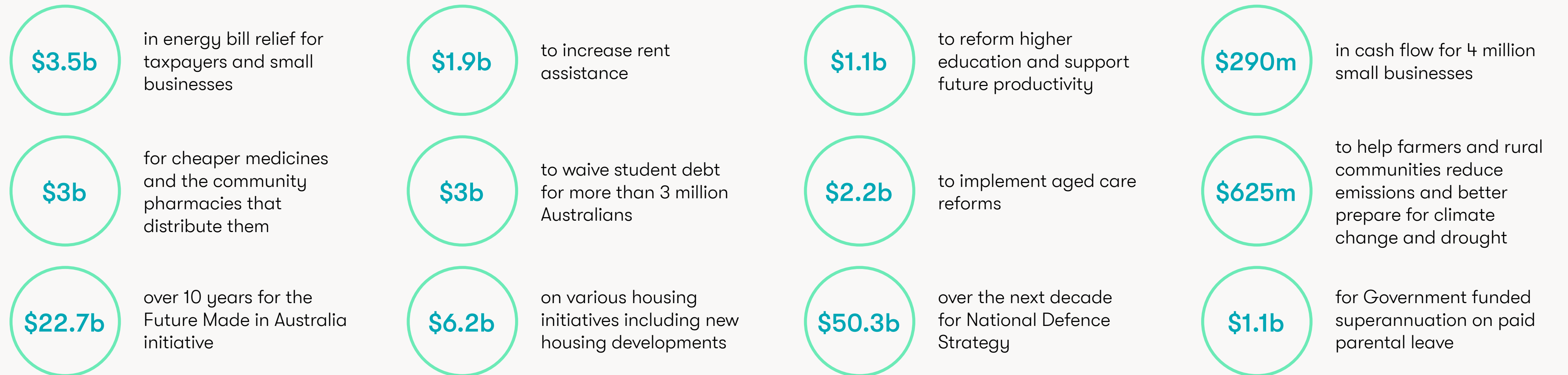
Budget deficit



Net debt



Spending highlights



Tax implications

International Tax

Thin capitalisation

The 2022-23 October Budget measure Multinational Tax Integrity Package, introduced to amend Australia's thin capitalisation rules, has been amended to exclude Australian plantation forestry entities from the new earnings-based rules (which broadly limit an entity's debt deductions to 30 per cent of its 'tax EBITDA'). These entities can continue to apply the former asset-based thin capitalisation rules, where debt deductions of more than 60 per cent of the average value of the entity's Australian assets are denied.

Foreign resident capital gains tax regime

The Government has introduced changes to the foreign resident capital gains tax ('CGT') regime to ensure foreign residents pay their fair share of tax in Australia. Currently, foreign residents are only subject to CGT when they dispose of assets which are Taxable Australian Property (broadly, real property situated in Australia).

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

- The proposed changes will clarify and broaden the types of assets that foreign residents are subject to CGT. This ensures the tax treatment of CGT assets with close economic connection to Australian land align more closely with the existing tax treatment applicable to Australian residents.
- Specifically for indirect interests in Australian real property, the point-in-time principal asset test is proposed to change to a 365-day testing period.
- Requiring foreign residents disposing of shares and other membership interests exceeding \$20m in value to notify the ATO prior to execution of the transaction. The 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.

Payments relating to intangibles held in low- or no-tax jurisdictions

Anti-avoidance measures were proposed to apply from 1 July 2023 to deny tax deductions to Australian Significant Global Entities (SGEs) in respect of payments for intangible assets to related party offshore group entities in low tax jurisdictions. SGEs are broadly taxpayers who are part of a group with more than \$1b in global turnover annually. This anti-avoidance measure will now be discontinued, as the integrity issues will now be addressed through the Global Minimum Tax and Domestic Minimum Tax measures currently being implemented by the Government as part of Pillar Two of the OECD/G20 Two-Pillar Solution.

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.

It's important all multinationals keep this in mind when it comes to considering the nature of their intangible-related payments, as its clear the Government is paying close attention to this area.

Funding Support for the Australian Tax Office

ATO Counter Fraud Strategy

From 1 July 2024, the Government has announced \$187m in funding over the next four years for the ATO to bolster its ability to detect, prevent and mitigate fraud against tax and superannuation systems. This funding will upgrade information and communication technologies, establish a new compliance taskforce and improve the ATO's management and governance systems.

This will include extending the ATO's timeframe for notifying taxpayers of its intention to retain a business activity statement refund for additional investigation from 14 days to 30 days, aligning with time limits for non-BAS refunds.

The ATO is taking clear steps to address and mitigate the risk of the recent years' fraud incidents, such as the GST-based Operation Protego, from occurring again and re-establish consumer confidence.

Extending Shadow Economy Compliance Program

Extended for another two years from 1 July 2026, will enable the ATO to continue targeting shadow economy activity, to protect revenue and prevent non-compliant businesses from undercutting competition. Estimate increase in receipts by \$1.9b and increase payments by \$610.2m over 5 years from 2023-24 and increase in GST payments to the states/territories by \$429.6m.

Extending Tax Avoidance Taskforce

Extended for another two years from 1 July 2026, will ensure the ATO continues to be well-resourced to pursue key tax avoidance risks, focusing on multinationals, large public and private businesses, and high-wealth individuals. There is an estimated increase in receipts by \$2.4b and increase payments by \$1.2b over 5 years from 2023-24. Clients in these areas can expect continued ATO attention in the next two years.

Personal Tax

The Government's Stage 3 Tax Changes are estimated to reduce tax receipts to the Government by \$1.3b over 5 years from 2023-24. Below are the new personal tax rates and thresholds which will apply for 2024-25 onwards:

2023-24		2024-25 onwards	
Taxable Income (\$)	Tax Payable (\$)	Taxable Income (\$)	Tax Payable (\$)
0 – 18,200	Nil	0 – 18,200	Nil
18,201 – 45,000	Nil + 19% of excess over 18,200	18,201 – 45,000	Nil + 16% of excess over 18,200
45,001 – 200,000	5,092 + 30% of excess over 45,000	45,001 – 135,000	4,288 + 30% of excess over 45,000
200,001+	51,592 + 45% of excess over 200,000	135,001 – 190,000	31,288 + 37% of excess over 135,000
		190,001+	51,638 + 45% of excess over 190,000

Extending the personal income-tax compliance program

- The ATO Personal Income Tax Compliance Program was previously extended for two years from 1 July 2025 in the previous budget. It will now be extended for one year from 1 July 2027.
- ATO will use the extension to continue delivering a combination of proactive, preventative and corrective activities in key areas of non-compliance.
- This measure is estimated to increase receipts by \$180.3m and increase payments by \$44.3m over the 5 years from 2023–24.

Medicare

The threshold for singles has been increased from \$24,276 to \$26,000. The family threshold has been increased from \$40,939 to \$43,846. For single seniors and pensioners, the threshold has been increased from \$38,365 to \$41,089. The family threshold for seniors and pensioners has been increased from \$53,406 to \$57,198. The family income thresholds will now increase by \$4,027 for each dependent child, up from \$3,760.

Business Incentives

Small business new power bill relief

Under the new power bill relief, from 1 July 2024, the Government will deliver rebates of \$325 to around one million small businesses across the country.

Small business instant asset write-off

The Government will be extending the \$20,000 instant asset write-off to small businesses to help improve cash flow and reduce compliance costs. Small businesses with an aggregated annual turnover of less than \$10m will be able to immediately deduct eligible depreciating assets costing less than \$20,000, which are first used or installed ready for use by 30 June 2025. The asset threshold applies on a per asset basis, so small businesses can instantly write off multiple assets. This measure is only available for smaller businesses.

Improving Payment Times Reporting for small businesses

The Government will provide \$25.3m over four years from 2024–25 to improve payment times for small businesses and ensure the Payment Times Reporting Regulator can deliver its expanded functions, which include naming slow paying big businesses, and fund fit-for-purpose ICT infrastructure for an overhauled Payment Times Reporting Scheme. Supporting confidence and resilience in the small business sector.

Other incentives for Small Businesses include a \$10.8m over two years for mental health support; and \$3m over two years to review and enhance the franchising code of conduct.

Modernising and digitalising industries

The Government will invest \$39.9m to progress Australia’s regulatory response to ensure safe and responsible development and deployment of AI and release a National Robotics Strategy to promote the responsible production and adoption of robotics and automation technologies in Australia. The Government will invest \$288.1m to support the further delivery and expansion of Australia’s Digital ID System so more Australians can realise the economic, security and privacy benefits of Digital ID.

Innovation Incentives

This Budget outlined a clear commitment to fostering an innovative, globally competitive, and sustainable nation, including the \$22.7b in Future Made in Australia package. Priority industry streams outlined include:

Net zero transformation	Economic resilience and security
Renewable hydrogen	Critical minerals processing and refining
Green metals	Manufacturing clean energy technologies
Low carbon liquid fuels	

Research and development tax incentive

The announcement of increased Government investment in R&D is welcome news to increase the competitiveness and sustainability of industries within Australia. Government payments are expected to increase by \$499m in 2024–25 and \$2.6b over five years (from 2023–24 to 2027–28). This growth is due to expected increased R&D expenditure in mining, construction, professional, scientific and technical services industries.

Critical minerals production tax incentive

A \$7b incentive to support downstream refining and processing of Australia’s 31 listed critical minerals to improve supply chain resilience. The production incentive will be for critical minerals processed between financial years 2027-28 to 2040-41 (up to 10 years per project) and valued at 10 per cent of relevant processing and refining costs.

Hydrogen production tax incentive

A \$6.7b incentive for producers of renewable hydrogen to support the growth of a competitive hydrogen industry and Australia’s decarbonisation. The production incentive will be for renewable hydrogen produced between financial years 2027-28 to 2040-41 and valued at \$2 per kilogram.

Government Grants

\$3.2b in Australian Renewable Energy Agency

- \$1.5b over seven years for continued core investment;
- \$1.7b over ten years from 2024-25 for the Future Made in Australia Innovation Fund (supporting innovation, commercialisation, pilot and demonstration projects and early-stage development in priority sectors as above)
- \$835.6m over ten years from 2024-25 to establish the Solar Sunshot program, promoting development of solar manufacturing capabilities through production incentives and other support (program consultation open until end of May)
- \$523.2m over seven years from 2024-25 to establish the Battery Breakthrough Initiative, to develop battery manufacturing capabilities through production incentives.

Powering Australia Industry Growth Centre and Future Battery Industries Cooperative Research Centre

\$20.3m over five years from 2023-24 to enhance industry and research collaboration, including workforce training for battery research, manufacturing, transport and recycling.

Continued strategic critical minerals investments

Up to \$655m under the Critical Minerals Facility and up to \$400m through the Northern Australia Infrastructure Facility.

Net Zero Economy Authority

\$209.3m over four years from 2024-25 to expand the Net Zero Authority to coordinate policy and deliver across Government, broker investments to create jobs in the regions, and support workers affected by the net zero transition.

Defence Industry Development Grant

\$165.7m over five years from 2023-24 to establish new program for Australian defence industry, supporting Australian businesses to increase their scale and competitiveness to respond to Defence capability requirements.

National Reconstruction Fund and Industry Growth Program

This was announced in the 2023-24 Budget to continue investing in projects aligned to the key priority areas.

In addition, the Federal Government also unveiled a strategic review of Australia's R&D system, aiming to align it better with priority sectors and enhance onshore innovation and R&D outcomes. With Australia consistently falling behind the OECD average for public and business R&D expenditure, this policy review becomes crucial to supercharging our innovation efforts.

While a review of the Federal Government's Export Market and Development Grant program was announced in March 2024, no further updates to the review were provided in the Budget.



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