

federal budget | May 2024

PERSONAL TAXATION

Personal tax rates: Stage 3 (as revised) confirmed from 2024–2025

In the 2024–2025 Federal Budget, the Government did not announce any further changes to the personal tax rates.

The Government's revised Stage 3 tax changes (as announced on 25 January 2024 and enacted into law by the *Treasury Laws Amendment (Cost of Living Tax Cuts) Act 2024*) commence from 1 July 2024. The Treasurer said all 13.6 million taxpayers will receive a tax cut from 1 July 2024. The average annual tax cut is \$1,888 (or \$36 a week).

The tax rates and income thresholds from the 2024-25 for residents (as already legislated) are:

- taxable income up to \$18,200 – nil;
- taxable income of \$18,201 to \$45,000 – nil plus 16% of excess over \$18,200;
- taxable income of \$45,001 to \$135,000 – \$4,288 plus 30% of excess over \$45,000;
- taxable income of \$135,001 to \$190,000 – \$31,288 plus 37% of excess over \$135,000; and
- taxable income of more than \$190,001 – \$51,638 plus 45% of excess over \$190,000.

This means, when compared to 2023–2024, that for 2024–2025 the 19% tax rate has been reduced to 16%; the 32.5% tax rate has been reduced to 30%; the 37% tax rate threshold has been increased from \$120,000 to \$135,000; and the 45% tax rate threshold has been increased from \$180,000 to \$190,000.

Low income tax offset (unchanged)

No changes were made to the low income tax offset (LITO) in the 2024–2025 Budget.

For completeness, and as a reminder, while the low and middle income tax offset (LMITO) ceased from 1 July 2022, low and middle income taxpayers remain entitled to the LITO.

The maximum amount of the LITO is \$700. The LITO is withdrawn at a rate of 5 cents per dollar between taxable incomes of \$37,500 and \$45,000 and then at a rate of 1.5 cents per dollar between taxable incomes of \$45,000 and \$66,667.

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- taxable income of \$135,001 to \$190,000 – \$31,288 plus 37% of excess over \$135,000; and
- taxable income of more than \$190,001 – \$51,638 plus 45% of excess over \$190,000.

Medicare levy low-income thresholds for 2023–2024

The Medicare levy low-income thresholds for 2023–2024 would normally have been announced in this 2024–2025 Budget. However, the Government released the 2023–2024 Medicare levy thresholds on 25 January 2024 when it announced the changes to the Stage 3 tax cuts. The new thresholds to provide cost-of-living relief were enacted by the *Treasury Laws Amendment (Cost of Living – Medicare Levy) Act 2024*.

From the 2023–2024 income year, the Medicare levy low-income threshold for singles has been increased to \$26,000 for 2023–2024 (up from \$24,276 for 2022–2023). For couples with no children, the family income threshold is \$43,846 (up from \$40,939 for 2022–2023). The additional amount of threshold for each dependent child or student is \$4,027 (up from \$3,760).

For single seniors and pensioners eligible for the seniors and pensioners tax offset (SAPTO), the Medicare levy low-income threshold is \$41,089 (up from \$38,365). The family threshold for seniors and pensioners is \$57,198 (up from \$53,406), plus \$4,027 for each dependent child or student (up from \$3,760).

HECS/HELP debt indexation changes

There are no further details contained in the Budget papers on the announced changes to the way that the indexation factor applied to HELP debts will be calculated.

Here is an outline of the recently proposed changes.

A student who receives a HELP loan under any of the student loan schemes has an “accumulated HELP debt” with the ATO. The loan is subject to yearly indexation, but is otherwise interest-free.

Loans that are covered by the system include the following:

- HECS-HELP;
- FEE-HELP;
- OS-HELP;
- SA-HELP;
- Student Start-up Loan (SSL) Scheme;
- ABSTUDY Start-up Loan (ABSTUDY SSL) Scheme; and
- Australian apprenticeship support loan (AASL) scheme (renamed from the Trade Support Loan (TSL) Scheme).

HELP, VSL, SSL and AASL debts are repaid through the tax system (voluntary repayments can be made at any time).

The amount to be repaid each year is a percentage of the taxpayer's HELP repayment income (and is

notified on the income tax assessment for the year). The percentage increases as the HELP repayment income increases. The “HELP repayment income” is effectively the sum of taxable income, reportable fringe benefits total, net exempt foreign employment income, reportable superannuation contributions and total net investment losses.

Indexation is applied to any HECS/HELP debt that’s older than 11 months, once a year on 1 June. The CPI number is currently used to index debts and it was recently announced that debts will increase by 4.7% on 1 June 2024. In addition, inflation pushed the indexation rate for 2022–2023 debts to 7.1%, the highest since 1990. This generated much negativity and the Prime Minister subsequently announced that “there’d be help on HECS” as part of the Budget.

Indexation changes

The Government has flagged two proposed changes (which require legislative amendments to the *Higher Education Support Act 2003*).

First, the indexation factor will be the lower of the CPI or the Wages Price Index (WPI). The quarterly WPI measures change in the price of wages and salaries in the Australian labour market over time. In a similar way to the CPI, it follows changes in the hourly rate paid to a fixed group (or “basket”) of jobs. More can be found about it on the ABS website.

Second, the change will be backdated to 2022–2023, meaning the new system will apply to the 2022–2023, 2023–2024 and following years (noting again that the factor is applied to debts on 1 June, not 1 July).

The proposal has a number of possible ramifications (which can only be confirmed when the legislation is introduced into Parliament).

As the WPI was lower than the CPI in 2022–2023, the indexation that was applied on 1 June 2023 will be retrospectively cut from 7.1% to 3.2%. This means that students with an outstanding debt will have it reduced with effect from 1 June 2023. Those students who have subsequently paid off their debt based on the 7.1% rate presumably will be eligible for some sort of refund.

The March quarter WPI data is needed to calculate the 1 June 2024 indexation. This is not available until 15 May (the day after the Budget is handed down). The CPI rate is 4.7%, so the WPI rate has to be less for this for it to be applied to debts in place of the CPI rate. So, in summary, the indexation rate to be applied to 1 June 2024 debts is not known at the time of publication.

Energy relief payments extended: small business included

The Government will provide \$3.5 billion over three years from 2023–2024 to extend and expand the Energy Bill Relief Fund and provide a \$300 rebate to all Australian households and a \$325 rebate to eligible small businesses on 2024–2025 bills.

BUSINESS TAXATION

\$20,000 instant asset write-off for small business extended to 30 June 2025

The Government will extend the instant asset write-off concession for small businesses for another 12 months.

This will allow small businesses with turnovers capped at \$10 million to immediately deduct the full cost of eligible depreciating assets costing less than \$20,000 that are first used or installed ready for use for a taxable purpose between 1 July 2024 and 30 June 2025.

Small business entities that use the simplified depreciation rules in Subdiv 328-D of the *Income Tax Assessment Act 1997* are entitled to an outright deduction for the “taxable purpose proportion” of the “adjustable value” of a depreciating asset if:

- the asset is a “low cost asset” (and is not an excluded depreciating asset); and
- the taxpayer starts to hold the asset when the taxpayer is a small business entity (and, for a limited period, if the taxpayer also qualifies as a medium sized business).

The deduction is available in the income year in which the taxpayer first uses the asset, or first installs it ready for use, for a taxable purpose. The deduction is known as the “instant asset write-off”.

A depreciating asset is a low cost asset if its cost as at the end of the income year in which the taxpayer starts to use it, or installs it ready for use, for a taxable purpose is less than the relevant threshold.

Current status

In technicality, the increased instant asset write-off concession ceased on 30 June 2023. However, the Government announced last year in the 2023–2024 Federal Budget that it would be extended by one year, so as to finish on 30 June 2024.

That measure was contained in a Bill which is currently before Parliament (that is, it is not yet law). The *Treasury Laws Amendment (Support for Small Business and Charities and Other Measures) Bill 2023* was passed by the Senate on 27 March 2024 with one amendment relating to the instant asset write-off, which requires the approval of the House of Representatives.

The Senate amendment would:

- extend the coverage from small businesses to medium businesses, ie all entities with an aggregated turnover of less than \$50 million; and
- increase the threshold from \$20,000 to \$30,000.

It is important to note that these proposed amendments have not been reflected in the 2024–2025 Budget announcement, which indicates that the

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Government will not be supporting them in the House of Representatives.

It is yet to be seen whether the Government will incorporate the 2024–2025 Budget announcement into the *Small Business and Charities Bill 2023* or will reintroduce the measures for both years in a separate Bill.

Changes proposed (2023–2024 and 2024–2025)

The increased threshold applies to the cost of eligible depreciating assets, eligible amounts included in the second element of the cost of a depreciating asset, and general small business pools. Depreciating assets that are first used or installed ready for use for a taxable purpose on or after 1 July 2023 will be subject to the \$20,000 threshold.

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% in the first income year and 30% each income year thereafter.

Consequence for lock-out rule

The comments here are, like those above, subject to legislation which is either pending or yet to be seen.

The provisions that prevent small businesses from re-entering the simplified depreciation regime for five years if they opt out will continue to be suspended for the period of the instant asset write-off concession.

As a reminder, a small business entity that elects to apply the simplified depreciation rules in an income year, and then does not choose to apply the rules for a later income year in which the entity satisfies the conditions to make this choice (ie, the entity “opted out”), is not able to apply the simplified depreciation rules for a period of five income years. This restriction commences from the first of the later years for which the entity could have made the choice to apply the rules. This rule is commonly referred to as the “lock-out” rule.

The operation of the lock-out rule has been modified over recent years so that small business entities did not need to apply the lock-out rule to income years if any day in the year occurs on or after 12 May 2015 and on or before 30 June 2023.

The latest amendments will suspend the operation of the lock-out rule for a combined 24 months to 30 June 2025. As a result of this, small businesses can choose to apply the small business simplified depreciation rules and take advantage of the \$20,000 threshold while it applies without being locked out.

TAX COMPLIANCE AND INTEGRITY

ATO BAS notification period extended

The Government will extend the time the ATO has to notify a taxpayer if it intends to retain a business activity statement (BAS) refund for further investigation. The ATO’s mandatory notification period for BAS refund retention will be increased from 14 days to 30 days to align with time limits for non-BAS refunds.

The extended period will strengthen the ATO’s ability to combat fraud during peak fraud events like the one that triggered Operation Protego. Legitimate refunds will be largely unaffected. Any legitimate refunds retained for over 14 days would result in the ATO paying interest to the taxpayer (as is currently the case). The ATO will publish BAS processing times online.

Increased ATO funding to counter fraud

The Government will provide \$187.0 million over four years from 1 July 2024 to the ATO to strengthen its ability to detect, prevent and mitigate fraud against the tax and superannuation systems. Measures to be funded includes:

- upgrades to information and communications technologies to enable the ATO to identify and block suspicious activity in real time;
- a new compliance taskforce to recover lost revenue and intervene when attempts to obtain fraudulent refunds are made;
- improvements to the ATO’s management and governance of its counter-fraud activities, including improving how the ATO assists individuals harmed by fraud.

The Government will also provide \$0.4 million over four years from 1 July 2024 to the Department of Finance to undertake a Gateway Review process over the life of the proposal to ensure independent assurance, oversight and delivery of the measure.

Shadow Economy Compliance Program and Tax Avoidance Taskforce extended

The Government will extend the ATO Shadow Economy Compliance Program for two years from 1 July 2026. This measure is estimated to increase receipts by \$1.9 billion and increase payments by \$610.2 million over the 5 years from 2023–2024. This includes an increase in GST payments to the states and territories of \$429.6 million.

It will also extend the ATO Tax Avoidance Taskforce for two years, also from 1 July 2026. The Taskforce focuses on multinationals, large public and private businesses and high-wealth individuals. This measure is estimated to increase receipts by \$2.4 billion and increase payments by \$1.2 billion over the five years from 2023–2024.

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SUPERANNUATION

Paying super on Government paid parental leave from 1 July 2025 confirmed

The Budget confirmed the proposal to pay superannuation on Government-funded paid parental leave (PPL) for births and adoptions on or after 1 July 2025. From that time, the super guarantee (SG) rate will be 12% (up from 11.5% for 2024–2025). Therefore, eligible parents will receive an additional payment (12% of their PPL payments) as a contribution by the Government to their superannuation fund.

As previously announced by the Treasurer on 7 March 2024, this measure seeks to build on the Government's work to "modernise" PPL and expand the payment to a full six months by 2026.

The *Paid Parental Leave Amendment (More Support for Working Families) Act 2024*, which received assent on 20 March 2024, expanded the *Paid Parental Leave Act 2010* to give families an additional six weeks of PPL. Effective from 1 July 2024, families will have access to an extra two weeks of leave (for 22 weeks total). This will increase to 24 weeks from July 2025 and 26 weeks from July 2026. At the time, the Treasurer said this builds on changes which commenced in July 2023 to give more families access to the payment, including through a "more generous" \$350,000 family income test.

The Government will provide \$1.1 billion over four years from 2024–2025 (and \$0.6 billion per year ongoing) to pay the 12% superannuation on the government-funded PPL scheme from 1 July 2025. The Government will also spend \$10 million over two years from 2024–2025 to provide additional support for small business employers in administering PPL. Another \$1.4 million will be provided over two years from 2023–2024 to update communication products and documents for potential PPL recipients.

Example

Courtney earns around \$70,000 per year and takes 22 weeks of PPL after her child is born in July 2026, while her partner takes four weeks of PPL. Based on projected future payment rates, the Government says Courtney's family will receive around an additional \$5,790 of parental leave pay due to the expansion of the PPL scheme to a total of 26 weeks by 1 July 2026. Both partners are also entitled to superannuation on their PPL payment. They do not have to do anything additional to receive their super payment. Courtney will receive around \$2,500 as a contribution to her superannuation account. According to the Government, this means Courtney will retire with a superannuation balance around \$4,250 (or 1.15%) higher.

Payday super: no further details but funding to improve unpaid super in bankruptcy

The Budget papers did not reveal any further details on the Government's proposal to require all employers to pay their employees' super guarantee (SG) at the same time as their salary and wages from 1 July 2026. However, the Government said it will provide \$111.8 million over four years from 2024–25 (and \$12.4 million per year ongoing) to progress its workplace relations agenda, including:

- *Payday super*: \$60 million will be provided over four years from 2024–2025 to increase the Productivity, Education and Training Fund to support practical activities by employer and worker representatives to boost workplace productivity and engage in tripartite cooperation. The Government said this will also support workplaces to implement policy changes such as payday super.
- *Unpaid super in bankruptcy and liquidations*: the Government intends to recalibrate the Fair Entitlements Guarantee Recovery Program to pursue unpaid superannuation entitlements owed by employers in liquidation or bankruptcy from 1 July 2024. This is expected to achieve efficiencies of \$13 million over four years from 2024–2025.
- *Fair Work non-compliance by large corporates*: \$27.5 million over four years from 2024–2025 will be provided to enable the Office of the Fair Work Ombudsman to continue targeting non-compliance with the *Fair Work Act 2009* by large corporate employers.
- *Small business support for workplace law changes*: \$20.5 million over four years from 2024–2025 will be provided to boost funding for the Office of the Fair Work Ombudsman to support small business employers to comply with recent changes to workplace laws.
- *National labour hire regulation model*: \$2 million in 2024–2025 will be provided for the Victorian Government to establish a project office and progress a national labour hire regulation model through harmonisation of state and territory laws. Costs will be partially offset by not proceeding with the 2019–2020 Federal Budget measure for a National Labour Hire Registration Scheme to protect vulnerable workers.

Payday super background

The "payday super" measure was originally announced as part of the 2023–2024 Budget. Scant details were provided at that time pending consultation with industry and stakeholders.

A consultation paper was released on 9 October 2023 to tackle the age-old problem of what happens when employers do not pay the correct SG entitlements to their employee's nominated fund by the quarterly payment due date. Generally, employers become

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liable for the SG charge (payable to the ATO) but such SG liabilities often remain unpaid for extended periods of time, which is stated to be exacerbated by the current design of the SG system.

This is a major problem when, for example, employers enter liquidation without having paid their SG obligations. The ATO states that businesses often enter liquidation or bankruptcy before the underpayment is identified, limiting its ability to conduct effective compliance activities and recover unpaid superannuation.

Options for implementation

The consultation paper mooted two models for the Payday Super proposal:

- An employer payment model, based on a requirement that the employer make the payment of an SG contribution on payday. Where a payment is not made on payday, an employer would become liable to pay the SG charge from this date. This model would require a new reporting and data mechanism to be established to provide the ATO oversight of the day that SG contributions are made – as the current reporting and data mechanisms do not provide a verifiable payment date data point that could be used to monitor compliance in real-time.
- A due date model, which would maintain the current model whereby an employer becomes liable to pay the SG charge if their employee's superannuation contribution is not with their fund by a specified due date. Consultation with industry has suggested a feasible due date for superannuation contributions to reach the fund would be between eight days and 13 days after payday. This is based on an assumption that the current payment process would be streamlined and the Bulk Electronic Clearing System is still the main payments platform – although the document notes that if new payments technologies are adopted the time for SG payments to reach the fund could be less than three days.

Compliance mechanisms

The Government is stepping up investment in the ATO's data matching capabilities, to increase SG compliance. The ATO is investing in creating a new unified database which matches Single Touch Payroll (STP) data from employers and Member Account Transaction Service (MATS) data from superannuation funds at scale. The Government also intends to set unpaid SG recovery targets for the ATO, which will be reported annually, as part of its *Securing Australians' Superannuation* package.

In the longer term, the ATO will use enhanced reporting by employers and funds to ensure that superannuation payments have been paid on payday or received by the fund by the due date. The ATO will initiate SG charge assessments through its own compliance activities more frequently – with lower reliance and need for cases to be raised through employee notifications.

Issues for employers to consider

While the benefits of payday super are clear for employees, it will represent a significant change for employers compared to the current requirements. The following issues for employers to consider ahead of the proposed changes have previously been flagged:

- *Investing in automation:* increased payment frequency requires more payroll hours, particularly for businesses with weekly or fortnightly payrolls. Employers who are still completing super reporting manually will need to invest in automation and take advantage of the existing digitization now available for fully integrated super stream reporting in order to effectively deal with the administrative demands of payday super.
- *Management of cash flows:* employers will need to carefully plan their cash flows, as SG payments would have to be made on payday rather than having an option to defer the payment until the quarterly due date.
- *Improving processes for new employees:* employers will need to review and tighten their onboarding processes since the increased payment frequency may significantly reduce the time in which new employees must provide their superannuation fund details, as well as the need for employers to request their stapled fund details. This reduced time may result in late SG payments.
- *Returned super:* SG contributions refunded to employers due to inaccurate information may not become known to the employer until several days or weeks after the payment date. Increased payment frequency may result in a higher volume of returned SG contributions to reprocess, resulting in late SG payments.
- *Out-of-cycle pays:* employers will need to reassess their existing out-of-cycle pay policies, as payday super compliance may create additional administrative work.
- *Increased compliance cost:* under the current rules, employers that fail to make an SG payment by the due date must pay the SG charge (SGC), which includes interest charges, administrative costs, and the loss of income tax deductibility for the SG contribution. While it is unclear whether the regulations around SGC will be affected as a result of payday super, the increased frequency of SG payments will make employers susceptible to incurring SGC.

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