Budget Tax Alert

Australia's 2024-25 Federal Budget

Budget Overview

At a glance

- 2024-25 Federal Budget delivered 14 May 2024
- Underlying cash deficit of $28.3 billion in 2024-25 and ongoing deficits
- Pre-election budget positioning given various cost of living and other social welfare handouts
- Future Made in Australia initiative with significant funding through tax incentives
- Discontinuance of the proposed intangible integrity rule and introduction of new SGE Penalty
- Broadening of the CGT regime for foreign residents
- Small business instant asset write-off extended
- Funding to ATO to extend compliance programs
- Already enacted personal income tax changes
- Deferral of some announced measures

On Tuesday 14 May 2024, the Federal Treasurer Jim Chalmers handed down his third budget being the 2024-25 Federal Budget.

This Tax Alert focuses on the key announced tax measures that impact your business tax planning and compliance processes and business incentives. The broader economic and policy issues in the 2024-25 Federal Budget are on the EY Australia website (link here).

Although a budget surplus is forecast for 2023–24 of $9.3 billion, an underlying cash deficit of $28.3 billion is expected in 2024-25 and worse still in 2025-26 the underlying cash deficit increases to $42.8 billion and remains in deficit ongoing, highlighting the structural deficit embedded in our tax and transfer system.

Real GDP is forecasted to grow by only 1.75% in 2023–24 and to rise to 2% in 2024-25 and to 2.25% by 2025–26 but very little of this, if any, is attributable to productivity increases.

Inflation is expected to remain at around 3.5% for 2023–24 and expected to fall to 2.75% in 2024-25 and therefore within the Reserve Bank of Australia's (RBA) target band of 2 to 3%. The government believes that its energy bills and rent assistance relief measures will lead to a reduction of inflation by 0.5 percentage points in 2024–25 rather than add to inflationary pressures, but whether the RBA pays much credence to this remains to be seen. The significant ongoing budget deficits commencing very soon in the 2024-25 year and following years will also have an inflationary impact.

Overall, the budget seems to be a pre-election budget given the various cost of living and other social welfare handouts, with a real possibility that next year's election will be held before the next budget is due, and therefore before a string of unattractive deficits.

Tax-wise, the tax incentives are mainly aimed at the vote sensitive resources states of Western Australia and Queensland with tax credits for Hydrogen Energy and Critical Minerals and, more broadly, an extension of the instant asset write-off for small businesses. These fall well short of the type of incentives needed to promote productivity enhancing investments on an economy wide basis, or to help make Australia more internationally competitive, especially given our globally high corporate tax rate of 30%.

The Australian Taxation Office (ATO) continues to be well funded to pursue tax compliance activities that lead to significant revenue raising contributions into the budget computations.

This budget needed to do three things: prioritise fiscal discipline to ensure inflation isn't higher than it needs to be; bring the structural budget closer to balance; and accelerate the pace of policy reform to help boost our flailing productivity. Unfortunately, we were left disappointed on all three fronts.

Investment incentives – Future Made In Australia to support priority manufacturing Industries

The government will provide approximately $22.7 billion over ten years through the Future Made in Australia initiative to maximise the economic and industrial benefits of Australia's transition to net zero and ensure Australia is globally competitive in priority industries. The initiative will focus investment on industries including renewable hydrogen, critical mineral processing, green metals, low carbon liquid fuels, and clean energy technology manufacturing such as batteries and solar panels.

Key funding includes:

- $8.0 billion to support the production of renewable hydrogen including a $6.7 billion Hydrogen Production Tax Incentive and $1.3 billion for a second round of the Hydrogen Headstart Program *(refer section below)*
- $7.1 billion to support refining and processing of critical minerals including a Critical Minerals Production Tax Incentive *(refer section below)*
- $1.7 billion to establish a Future Made in Australia Innovation Fund administered by the Australian Renewable Energy Agency (ARENA), to support innovation, commercialisation, pilot and demonstration projects and early stage developments in priority sectors
- $1.5 billion of additional investment into ARENA's core areas including development, demonstration, commercialisation, manufacture and deployment of renewable energy and related technologies
- $1.4 billion through ARENA to support manufacturing of clean energy technologies including:
  - $835.6 million for the establishment of the Solar Sunshot Program to promote the development of domestic solar manufacturing capabilities
  - $523.2 million to establish the Battery Breakthrough Initiative to grow Australia's battery manufacturing and production capabilities through targeted incentives
- $1.2 billion in strategic investments through loans in priority critical minerals projects including:
  - $655 million under the Critical Minerals Facility
  - $400 million through the Northern Australia Infrastructure Facility
- $1.7 billion for other investments (largely already committed) in innovation, science, and digital capabilities.

Hydrogen Production Tax Incentive for renewable hydrogen producers

As part of the Future Made in Australia initiative, the government has allocated an estimated $8.0 billion over ten years to support producers of renewable hydrogen in Australia. This includes $6.7 billion for a Hydrogen Production Tax Incentive which will become available from 2027/28 to 2040/41 to support the growth of a globally competitive renewable hydrogen industry. The Hydrogen Production Tax Incentive will provide a $2 incentive per kilogram of renewable hydrogen produced for up to ten years per project that reach final investment decision by 2030.

An additional $1.3 billion over ten years has been allocated for a further round of the Hydrogen Headstart Program to support early-mover renewable hydrogen projects in Australia.

Critical Minerals Production Tax Incentive to value-add and improve Australia's resilience in global supply chains

Under the Future Made in Australia initiative, a new Critical Minerals Production Tax Incentive will provide a production credit valued at 10% of relevant processing and refining costs. It is expected to cost a total of approximately $7 billion over an 11-year period for value-added processing of Australia's 31 critical minerals (including lithium, nickel, cobalt, rare earth elements, high purity alumina and graphite). The Critical Minerals Production Tax Incentive will apply for up to ten years of production from 2027/28 to 2039/40 and is applicable to projects that reach final investment decision by 2030.

International tax

Discontinuance of the Intangible integrity rule and introduction of a new SGE penalty

The measure, *Denying deductions for payments relating to intangibles held in low- or no-tax jurisdictions*, announced in the 2022–23 October budget and proposed to apply from 1 July 2023, will be discontinued.

The integrity issues which the measure was aimed at will now be addressed through the Global Minimum Tax and Domestic Minimum Tax being implemented by the government, which are effective from years commencing on or after 1 January 2024. Proposed law for Australia's adoption of those rules have recently been released for public consultation.

The government will also introduce a new provision from 1 July 2026 that applies a penalty to taxpayers who are part of a group with more than $1 billion in global turnover annually that are found to have mischaracterised or undervalued royalty payments, to which royalty withholding tax would otherwise apply.

Business tax

Expansion of General Anti-Avoidance Rule start date deferred

The start date of the 2023-24 budget measure to expand the Part IVA of the Income Tax Assessment Act 1936 anti-avoidance rules is deferred from income years commencing on or after 1 July 2024 to income years commencing on or after Royal Assent of the amending legislation. It is proposed to expand the scope of the rule, to apply to:

- Schemes that reduced tax paid in Australia by accessing a lower withholding tax rate on income paid to foreign residents
- Schemes that achieve an Australian tax benefit even where the dominant purpose of the scheme was to reduce foreign income tax.

When the rules commence they will apply regardless of whether the scheme was entered into before that date.

Broadening of the CGT regime for foreign residents

The government will amend the foreign resident capital gains tax (CGT) regime to:

- Clarify and broaden the types of assets that foreign residents are subject to CGT on
- Amend the point-in-time principal asset test to a 365-day testing period.

Foreign residents disposing of shares and other membership interests exceeding $20 million in value will be required to notify the ATO, prior to the transaction being executed, to improve oversight and compliance.

The changes will apply to CGT events that occur on or after 1 July 2025.

This measure is targeted at ensuring that Australia can tax foreign residents on the sale of assets with a "close economic connection to Australian land".

An expansion of the definition of taxable Australian property (TAP) may impact clients with economic interests in land which do not currently fall within the definition of TAP, such as profit a prendre and other economic rights derived from land.

The proposed amendment to the point-in-time principal asset test is an integrity measure to ensure that indirect interests remain TAP within a 365-day testing period.

The ATO notification prior to the transaction being executed may affect transaction timelines if the transaction is subject to detailed pre-deal ATO review. It would be helpful if the ATO were to commit to a streamlined process and engagement timeline for such pre-deal ATO reviews to ensure deal certainty.

The measure is estimated to increase receipts by $600 million over the five years from 2023–24. Government will consult on the implementation details of the measure.

Small business

Small business instant asset write-off extended

The increase in the instant asset write-off threshold for small businesses, originally announced in the 2023-24 budget, will be extended by a year for small businesses with aggregated turnover of less than $10 million per annum.

A $20,000 threshold will now apply (on a per asset basis) for assets acquired and first used or installed ready for use for taxable purposes between 1 July 2023 and 30 June 2025.

The existing small business accelerated depreciation rules (which include the small business simplified depreciation pool) will continue to apply for assets costing more than $20,000.

We note the previous 2023-24 budget proposal to increase the write-off for 1 July 2023 to 30 June 2024 is currently in a bill before Parliament (Treasury Laws Amendment (Support for Small Business and Charities and Other Measures) Bill 2023). Amendments to the bill made in the Senate which would have extended the instant asset write-off concession to medium businesses with an aggregated turnover of less than $50 million per annum and increase the threshold to $30,000 per asset were not reflected in the 2024-25 budget announcement and were not subsequently agreed to by the House of Representatives.

Funding payment times reporting reform

The government is providing $25.3m over four years from 2024–25 to support the Payment Times Reporting Regulator to implement reforms recommended by the statutory review of the Payment Times Reporting Act 2020, which includes increased resourcing for the Regulator to deliver its expanded functions and upgrading their ICT infrastructure.

Tax administration

Government extending ATO tax compliance programs

The government is providing funding to the ATO to extend and strengthen a series of tax compliance programs. Cumulatively, this will raise additional revenue of nearly $4.8 billion, and will cost the government around $2.1 billion over the five years from 2023-24.

- Extending the Tax Avoidance Taskforce
  - The government is providing an additional $1.2 billion of funding to the Tax Avoidance Taskforce to extend it for two years to pursue key tax avoidance risks, with a focus on multinationals, large public and private businesses, and high-wealth individuals. This

funding is estimated to generate $2.4 billion in revenue over the five years from 2023-24.

- Extending the Shadow Economy Compliance Program
  - The government is extending the Shadow Economy Compliance Program for two years from 1 July 2026 to enable the ATO to reduce shadow economy activity and prevent non-compliant businesses from undercutting competition. This is estimated to generate $1.9 billion in revenue over the five years from 2023-24, but increase expenditure by $610 million.
- Australian Taxation Office Counter Fraud Strategy
  - The government is providing $187 million to the ATO over four years from 1 July 2024 to strengthen its ability to detect, prevent and mitigate fraud against the tax and superannuation systems. This is estimated to increase receipts by $302.2 million over the five years from 2023-24.
- Extending the Personal Income Tax Compliance Program
  - The government is extending the Personal Income Tax Compliance Program for one year from 1 July 2027, which is estimated to increase revenue by $180.3 million over the five years from 2023-24.

Personal taxation

Enacted replacement personal tax rate changes

The budget includes the already enacted changes to personal income tax rates, to replace the previous government's enacted "Stage 3 tax cuts" with new rates which provide low and middle income taxpayers with a greater tax cut from 1 July 2024.

Resident personal tax rates:

Resident Tax Rate (%)	2023-24 thresholds ($)	2024-25 thresholds ($)
0	$0-$18,200	$0-$18,200
16		$18,201-$45,000
19	$18,201-$45,000	
30		$45,001-$135,000
32.5	$45,001-$120,000	
37	$120,001-$180,000	$135,001-$190,000
45	Over $180,000	Over $190,000

*Rates do not include Medicare levy of 2% as applicable.

No changes were made to the low income tax offset (LITO).

The Medicare levy low-income thresholds have been adjusted from 1 July 2024. We also note the previous announcement to make eligible lump sum payments in arrears exempt from the Medicare levy from 1 July 2024 where a taxpayer qualifies for a reduced Medicare levy.

Indirect tax

Government abolishing 457 tariffs

The government has confirmed it is permanently abolishing 457 nuisance tariffs from 1 July 2024. The government consulted on the removal of these tariffs in March this year, in an effort to reduce compliance costs for businesses and ease the cost of living for Australian families.

This measure will permanently set to 'free' the rate of duty in Schedule 3 and Schedules 4A to 15 inclusive of the Customs Tariff Act 1995 on 457 tariffs, streamlining the importation of $8.5 billion worth of goods annually. This measure will eliminate tariffs on a wide range of imported goods including toothbrushes, hand tools, fridges, dishwashers, clothing, and menstrual and sanitary products.

Removing these tariffs will save businesses over $120 million over the next four years and decrease revenue by $41 million over the five years from 2023-24.

Further delayed start date for streamlining of Australian Border Force and ATO systems

Following a 12-month delay to 1 July 2024 in the start date of previously announced measures aimed at streamlining user experience and administration of excise and excise equivalent regulatory requirements, components that streamline licence application and renewal requirements will now commence the later of 1 July 2024 or the day following Royal Assent.

Requirements for the ATO to publish on its website a public register of excise licences and excise equivalent warehouse licences will apply from 30 days after the commencement of the legislation.

ATO retention of BAS refunds

The time the ATO has to notify a taxpayer if it intends to retain a business activity statement (BAS) refund for further investigation will be increased from 14 days to 30 days to align with time limits for non-BAS refunds. Will apply from start of first financial year after Royal Assent of the amending legislation.

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