2023-24 Federal Budget

Treasurer Jim Chalmers handed down the 2023-24 Federal Budget last night. This year's Budget is - rightly - focused on delivering much needed relief to individuals in the community struggling most with cost-of-living pressures. It does this while delivering the first cash surplus in 15 years, although the Budget is forecast to return to deficit in 2023-24. There's a commitment to improving Australia's clean energy future and on increasing investment to Overseas Development Assistance, as well as measures designed to improve the long-term sustainability of the health-care system. Our focus however is, as always, on the impact for small-medium businesses, and from that perspective there is less here of interest than in any Federal Budget in recent memory.

Here's the few highlights worthy of note.

- Small business instant asset write-off threshold 'increased'
- Small business energy incentives
- Payday super payments
- PAYG instalment uplift factor reduced to 6%
- Loss carry-back provision not renewed
- FBT exemption for hybrid-electric vehicles set to end
- Earnings for superannuation balances over $3 million to be taxed at 30%
- Stage 3 tax cuts unchanged
- LMITO not extended
- Low income Medicare changes

Business

- **Small business instant asset write-off threshold 'increased'** - Your take on this news may well depend on your perspective of the proverbial half-glass of water. Technically the small business instant asset write-off threshold will be increased from $1,000 to $20,000, commencing 1st July 2023 for eligible businesses with annual turnover of less than $10 million. The devil in the detail however is that this also signals the end of the temporary full expensing of assets, a COVID relief measure that allowed assets of any value to be fully deducted in the year of purchase. Further, this full expensing concession was allowed for eligible businesses with annual turnover of less than $5 billion! The lifespan of this generous measure was always likely to be limited (the word 'temporary' is included in its official title), however the rhetoric of this being a 'stimulus' for small business is a bit of a stretch. While the legislation provides for a threshold of $1,000 for the existing instant asset write-off, it was in practice last set at this level in 2015. Successive Budgets after this time increased the threshold to anywhere from $20,000 to $150,000. It was in fact set at $30,000 just prior to the emergency limit of $150,000 introduced in the first months of the pandemic. So, in short, not only is this announcement one that abolishes the temporary full expensing provision, in practice it also reduces the previous instant asset write-off limit for small businesses from $30,000 to $20,000.

Please note: This does mean however that there is an opportunity to buy eligible assets costing greater than $20,000 and claim the full value of the purchase price in the 2022-23 year, i.e. before 30th June this year. The benefit over the long term doesn't save tax, but it does provide a considerable cash flow advantage. If you are considering a significant asset purchase it may be worth ensuring you bring it forward to this financial year. Assets must be 'installed and ready for use' prior to 30th June (not simply ordered).

- **Small business energy incentives** - An additional deduction of 20% will be available for businesses with annual turnover of less than $50 million for spending that supports energy efficiency and electrification. More detail on qualifying assets is yet to come, but eligible assets will need to be installed and ready for use between 1st July 2023 and 30th June 2024. Eligible expenditure is capped at $100K so the maximum bonus deduction available is $20,000.

- **Payday super payments** - This measure could just as easily fall under our 'Superannuation' section, but in our view it relates as much to small business processes, systems and cash flow as it does individuals. From 1st July 2026, superannuation paid on behalf of employees will need to be paid on the same day as salaries and wages are paid. The goal is to ensure that employees - especially those who may be casual, seasonal, and/or move employers frequently - can better track whether their entitlements have been paid. Thankfully for most businesses these days, payroll is software-driven, and payment of superannuation obligations is automated via Superstream. For those employers who use a clearing house however, the administration of superannuation payments will likely increase - as will the transaction volume for most employers and employees. Another concern is the potential cash flow impact for employers, who in most cases will have to pay superannuation liabilities much sooner by having to do so progressively rather than at the end of the quarter.

- **PAYG instalment uplift factor reduced to 6%** - Each year a GDP 'uplift factor' is applied to PAYG instalment amounts paid by businesses, as well as some individuals, for the current tax year. For 2023-24 this uplift factor was set to be 12%, but has been reduced to 6%. While this is being promoted as a cash flow boost, the instalments are deducted from the relevant year's tax bill when due, so in fact it delivers no real savings.

- **Loss carry-back provision not renewed** - Another COVID-relief measure that now officially comes to an end is the loss carry-back concession for eligible companies. This measure allows for the offset of current year losses against prior year profits, delivering a cash flow boost for struggling enterprises. With the announcement, the final year of eligible losses will be the year ended 30th June 2023. It's a pity there wasn't a more long-term view taken for this measure, as it has merit beyond mere crisis-management, and in fact had been a permanent initiative of the previous Labor government before being revoked by the Coalition.

- **FBT exemption for hybrid-electric vehicles set to end** - From 1st April 2025, the Fringe Benefits Tax (FBT) exemption for eligible electric vehicles will no longer apply to the purchase of new hybrid-electric vehicles. This appears to be a 'sunsetting' provision, which means arrangements relating to hybrid vehicles entered into prior to 1st April 2025 should continue to receive the exemption.

Superannuation

- **Earnings for superannuation balances over $3 million to be taxed at 30% -** This announcement had been foreshadowed in the months leading up to the Federal Budget, and it received a lot of media coverage. Essentially it means that earnings (such as dividends and interest) attributable to the proportion of a superannuation balance that exceeds $3 million will be taxed at 30% rather than 15% from 1st July 2025. While the merits of this change may be debated (and indeed it's worth noting that even at 30%, the rate of tax remains lower than the top personal rate of 45%), the most controversial aspect of this proposal is that 'earnings' will include unrealised gains, i.e. the growth in capital value of assets that have not yet been sold. Not only does this have the potential to increase tax bills through taxing income that has not technically (and actually) been earned, but it may also create cash flow issues for funds that, for whatever reason, don't have the liquidity to pay the tax bill on a gain that has not been realised yet in the form of income. The tax payable can be paid personally or by the fund, but both of these situations may create cash flow issues for various reasons. There's likely to be a lot more discussion on this issue, and the final form of the proposal may end up a little different, so watch this space.

Personal tax

- **Stage 3 tax cuts unchanged -** There was no announcement, as some were anticipating, about the former Coalition Government's 'Stage 3' income tax cuts, which are due to commence from 1st July 2024. At this stage that means the cuts, which primarily affect middle and higher-level income earners, will proceed unchanged. There remains one more Federal Budget before the commencement date however, so it's possible that the Government may have kicked this controversial political can down the road for another year. Personal income tax rates for the 2023-24 financial year will remain unchanged.

- **LMITO not extended -** Likewise, the Budget did not include any news of an extension to the Low and Middle Income Tax Offset (LMITO) beyond the 2021-22 year. As such, the 2021-22 financial year will be the last that this offset can be claimed, although the confusingly-named Low Income Tax Offset (LITO) will remain for eligible taxpayers.

- **Low income Medicare changes -** The low income Medicare levy thresholds for singles and families, as well as seniors and pensioners, will increase for the 2022-23 financial year. In addition, eligible lump sum payments paid in arrears for low-income earners will be made exempt from the Medicare levy from 1st July 2024.

Our take...

This is a Budget for the times. To some extent it's to be expected that the combination of a first term Government and growing economic stress means there's not a lot of vision to it. Measures relating to the encouragement of a more energy-efficient future are perhaps the one exception. But even so, there is a lost opportunity here to deliver relief to those in the equally struggling business sector.

Perhaps the most significant announcement for small-medium business is yet another increase in funding for Australian Taxation Office (ATO) compliance activities. Successive Governments have clearly identified some easy ROI in this area, as such announcements have become a staple of Federal Budgets year after year. The formula for Government is a relatively simple one of cost vs recouped tax, however while no reasonable person would suggest that tax evasion is good for the economy, these measures fail to take into account the significant cost to business in simply responding to the increasingly aggressive enquiry activities of the ATO. For most, there is likely to be no tax shortfall discovered through such activity, but there is often a lot of work required to respond to the ATO and give it the information it is seeking - both by the taxpayer and their accountant. As such, these 'boosts' to funding are low-hanging fruit for raising revenue but are ultimately short-sighted when not accompanied by wider reform to the system.

Aside from the potential taxation of unrealised gains for some superannuation balances, there's very little to offend anyone, and perhaps that's the point. But from the perspective of small-business owners, there's very little to inspire either, and almost nothing to help them navigate the difficult economic waters ahead.

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