



mgiaustralasia

# Federal Budget

## 2022-2023

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October 2022 Budget

# LMITO 55 years

The Lower to Middle-Income tax offset will not be extended beyond 30 June 2022



**Eligibility age**  
To allow more Australians to avail themselves of the downsize contributions

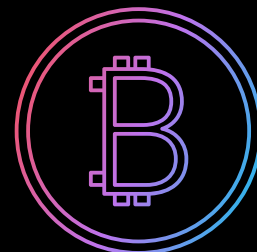


**Temporary Full Expensing**  
Will end on 30 June, 2023 and will see no further extension

**Seniors Health Care Card**  
Increases in thresholds for more self-funded retirees to access healthcare support



**Digital Currencies**  
Not considered foreign currency



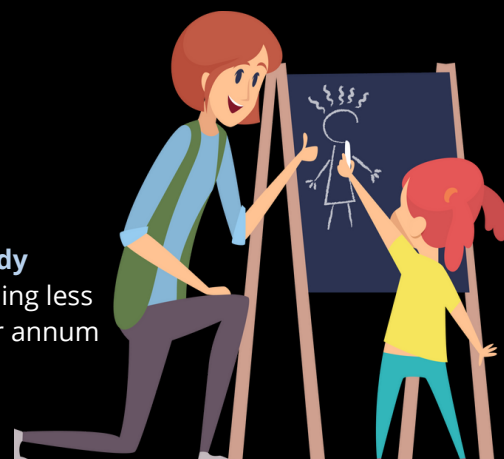
## \$80m

**Boost to ATO compliance activities**  
Renewed focus on a variety of compliance measures



## 90%

**Childcare Subsidy**  
For families earning less than \$80,000 per annum



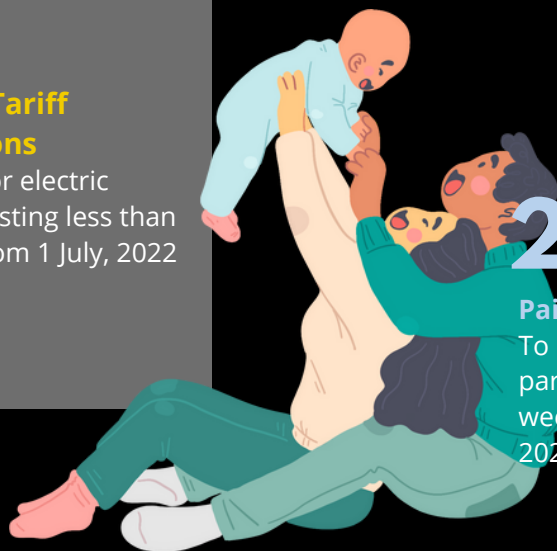
**FBT and Tariff exemptions**

To apply for electric vehicles costing less than \$84,916 from 1 July, 2022



## 26 weeks

**Paid parental leave**  
To be shared between both parents, phasing up by two weeks per year until 1 July, 2026



## \$4,000

**Increase to pensioners earning potential**  
Before benefits are affected to encourage seniors back into the workforce



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# Introduction

Treasurer Jim Chalmers handed down the first Federal Budget from this new Labor Government last night. This budget delivers a reallocation of resources and a shifting of focus by the government rather than any significant new measures. This budget is aimed at buffering the impact of global uncertainty being agitated by war, floods and the pandemic.

While there are measures included such as childcare subsidy changes that aim to relieve the cost of living pressures, these will still continue to be felt. Despite this being a “settling” budget, devoid of any significant spooks or stings, the economic outlook still requires us all to be aware and adaptive. Economic expectations outlined include:

- An inflation peak of 7.7% is anticipated in the December quarter and is expected to persist at higher rates until a projected easing in June 2024 quarter where inflation is projected to 3.5%.
- Real GDP is forecast to grow in 2022-3 to 3.25% and then retract to 1.5% in 2023-24,
- The labor market continues to be tight and wage growth of 3.75% by June 2023 is anticipated; with high inflation expectations, we are anticipated to see real wages falling over 2022-23 before rising slightly over 2023-24.
- The deficit sits at \$36.9 billion which is an improvement from the original estimated deficit. The deficit is however projected to expand to \$49.5 billion by 2025-26.

Spending has been allocated to tackle the housing crisis and to assist vulnerable Australians including those in aged care or those in need of disability support as well as First Nations people and victims of family violence. Flood relief is also addressed.

All taxpayers should also note the government has also allocated an additional \$80 million to the ATO to extend compliance and anti-avoidance activities. This will be used by the ATO to increase focus on deductions, the cash economy, and multinational operations.

Should you wish to discuss how this budget impacts you or your business please feel free to contact your relevant MGI contact person.

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# For Individuals

## Tax Rates

Personal tax rates remain unchanged for 2022-23 with Stage 3 to start from FY 2024-25 unchanged. The significant change affecting individuals is that the Low- and Middle-Income Tax offset (LMITO) has not been extended beyond 2022-23. The LMITO has now ceased and has been fully replaced by the low-income tax offset (LITO).

The March 2022-23 Budget had increased the LMITO by \$420 for the 2021-22 income year so that eligible individuals (with taxable incomes below \$126,000) received a maximum LMITO up to \$1,500 for 2021-22 (instead of \$1,080).

With no extension of the LMITO announced in the October Budget, 2021-22 was the last income year for which the offset was available. As a result, low-to-middle income earners may see their tax refunds from July 2023 reduced by between \$675 and \$1,500 (for incomes up to \$90,000 but phasing out up to \$126,000), all other things being equal.

No changes were made to the LITO in the 2022-23 October Budget. The LITO will continue to apply for the 2022-23 income years and beyond.

### **Stage 3: rates and thresholds from 2024-25 onwards**

The Budget did not announce any changes to the Stage 3 personal income tax cuts that are set to commence from 1 July 2024.

Under the Stage 3 tax changes from 1 July 2024, as previously legislated, the 32.5% marginal tax rate will be cut to 30% for one big tax bracket between \$45,000 and \$200,000. The 37% tax bracket will be entirely abolished at this time.

Therefore, from 1 July 2024, there will only be 3 personal income tax rates - 19%, 30% and 45%. From 1 July 2024, taxpayers earning between \$45,000 and \$200,000 will face a marginal tax rate of 30%.

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# For Individuals

## Resident rates and thresholds for 2022-23

Taxable Income (\$)	Tax Payable (\$)
0 - 18,200	Nil
18,201 - 45,000	Nil + 19% of excess over 18,200
45,001 - 120,000	5,092 + 32.5% of excess over 45,000
120,001 - 180,000	29,467 + 37% of excess over 120,000
180,001 +	51,667 + 45% of excess over 180,000


## Resident rates and thresholds from 2024-25 onwards

Taxable Income (\$)	Tax Payable (\$)
0 - 18,200	Nil
18,201 - 45,000	Nil + 19% of excess over 18,200
45,001 - 200,000	5,092 + 30% of excess over 45,000
200,001 +	51,592 + 45% of excess over 200,000



# For Individuals

## Foreign residents rates for 2022-23



Taxable Income (\$)	Tax Payable (\$)
0 - 120,000	32.5%
120,001 - 180,000	37%
180,001 +	45%

## Foreign residents rates from 2024-25 onwards



Taxable Income (\$)	Tax Payable (\$)
0 - 200,000	30%
200,001 +	45%



# For Individuals

## Working holidaymakers rates for 2022-23

Taxable Income (\$)	Tax Payable (\$)
0 - 45,000	15%
45,001 - 120,000	32.5%
120,001 - 180,000	37%
180,001 +	45%

## Working holidaymakers rates from 2024-25 onwards

Taxable Income (\$)	Tax Payable (\$)
0 - 45,000	15%
45,001 - 200,000	30%
200,001 +	45%





# For Individuals

## Low-income tax offset for 2022 - 2023

Taxable Income (\$)	Amount of offset (\$)
0 - 37,500	700
37,501 - 45,000	$700 - ([TI - 37,500] \times 5\%)$
45,001 - 66,667	$325 - ([TI - 45,000] \times 1.5\%)$
66,668 +	Nil

## Deductible gift recipients

The Budget Papers state the following entities will be listed as deductible gift recipients (DGRs) for donations:

- Australians for Indigenous Constitutional Recognition for donations made from 1 July 2022 to 30 June 2025;
- Australian Women Donors Network for gifts made from 9 March 2023 to 8 March 2028.

Taxpayers may claim an income tax deduction for donations of \$2 or more to DGRs.



# For SMEs and Employers

## Thin cap: new earnings-based tests for limiting debt deductions

To address the risks to the corporate tax base caused by the use of excessive debt deductions, the government of Australia will strengthen the thin capitalisation rules. This measure will apply to income years commencing on or after 1 July 2023.

Australia's thin capitalisation rules limit deductions for interest to the extent that debt exceeds certain limits. The thin capitalisation rules affect both Australian and foreign entities that have multinational investments. Multinational taxpayers are currently limited by the following tests:

- The safe harbour (debt to asset ratio) test (60% of net assets)
- The arm's length debt test
- The worldwide gearing debt test (based on the debt ratio of the worldwide group)

With these proposed changes, the safe harbour and worldwide gearings tests would be replaced with an earnings-based test. Specifically, the measure includes modifications to:

- Replace the safe harbour test with a new earnings-based test, which the debt deductions will be limited to 30% of EBITDA (EBITDA - earnings before interest, taxes, depreciation, and amortisation)
- Allow deductions denied under the entity-level EBITDA test (interest expense amounts exceeding the 30% EBITDA ratio) to be carried forward and claimed in a subsequent income year (up to 15 years)
- Replace the worldwide gearing test, which allows an entity in a multinational group to claim debt deductions up to the level of the worldwide group's net interest expense as a share of earnings (which may exceed the 30% EBITDA ratio).
- The arm's length debt test will be retained as a substitute test which will apply only to an entity's external (third party) debt, disallowing deductions for related party debt.

In accordance with the existing thin capitalisation regime, the modifications will be applicable to multinational corporations operating in Australia as well as any foreign or domestic investor. The existing thin capitalization rules will continue to apply to financial institutions.



# For SMEs and Employers

## Intangible asset depreciation measure has been reversed

The Government has decided to reverse the 2021–22 Budget measure to allow taxpayers to self-assess the effective life of intangible depreciating assets. The statutory effective lives for intangible depreciating assets (e.g. patents, registered designs, copyrights and in-house software) set out in the table under s 40-95(7) of ITAA 1997 will continue to apply.

The Government states this reversal will increase receipts by \$500 million over the four years from 2022-23.

## Digital currencies (such as bitcoin) not foreign currency

The Government is to introduce legislation to clarify that digital currencies are not taxed as foreign currency. Digital currencies will continue to be taxed in the same way as before which is subject to capital gains tax if held as investments. Taxpayers will be entitled to the general 50% CGT discount on any profits realised if the digital currencies are held for more than 12 months but will no longer be entitled to claim a deduction for any losses against ordinary income unless they can show they hold the digital currencies on revenue account.

This measure removes uncertainty following the decision of the Government of El Salvador to adopt Bitcoin as legal tender and will be backdated to income years that include 1 July 2021. The Government states this measure is estimated to have no impact on receipts over the four years from 2022-23.

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# For SMEs and Employers

## FBT & tariff exemptions for electric vehicles

Electric vehicles under the luxury car tax threshold (\$84,916 for 2023FY) will be exempt from Fringe Benefits Tax and Import Tariffs. In order to qualify for the exemption, the electric vehicle must not have been held or used prior to 1 July 2022.

The exempt electric car fringe benefits will be subject to the Reportable Fringe Benefits regime, whereby will be reported on an employee's annual Income Statement.

This exemption provides an opportunity for individuals to purchase an electric vehicle under a salary sacrifice novated lease arrangement and will gain from the abolition of a 5% import tariff in addition to the FBT savings.

We note that the legislation introducing the FBT exemption is currently before the Senate and that only employees can benefit from this exemption, whereby sole traders and private individuals are not eligible.

## Fuel tax credits

The Heavy Vehicle Road User Charge rate will be increased from 26.4 cents per litre to 27.2 cents per litre of diesel fuel, effective from 29 September 2022.

The charge is collected by reducing the Fuel Tax Credit amount claimed for fuel used by those operators of heavy vehicles travelling on public roads.



# For SMEs and Employers

## Additional COVID grants treated as NANE income

The Government has made the following State and Territory COVID-19 grant programs eligible for non-assessable, non-exempt (NANE) treatment. This will exempt eligible businesses from paying taxes on these grants.

- Business Costs Assistance Program Four – Construction (Victoria);
- Licenced Hospitality Venue Fund 2021 – July Extension (Victoria);
- License, Hospitality Venue Fund 2021 – Top Up Payments (Victoria);
- Business Costs Assistance Program Round Two – Top Up (Victoria);
- Business Costs Assistance Program Round Three (Victoria);
- Business Costs Assistance Program Round Four (Victoria);
- Business Costs Assistance Program Round Five (Victoria);
- Impacted Public Events Support Program Round Two (Victoria);
- Live Performance Support Program (Presenters) Round Two (Victoria);
- Live Performance Support Program (Suppliers) Round Two (Victoria);
- Commercial Landlord Hardship Fund 3 (Victoria);
- HOMEFRONT 3 (ACT); and
- Small Business Hardship Scheme (ACT).

## Temporary full expensing set to end 30 June 2023

An extension to the temporary full expensing measures currently available to eligible businesses was not included in the Budget.

Subject to any further announcements from 1 July 2023; it looks set that all accelerated depreciation measures will have ended, except for the instant asset write-off under the small business simplified depreciation measures. This is set to revert to a \$1,000 asset cost cap and is limited to those businesses with aggregated turnover of less than \$10 million.



# Super, Pension and SMSF

## Reducing the eligibility age for downsizer contributions

*Treasury Laws Amendment (2022 Measures No.2) Bill 2022*

The eligibility age to make downsizer contributions into superannuation is set to be reduced from 60 to 55 years of age. All other eligibility criteria will remain unchanged.

This change will boost the number of individuals eligible to make a one-off, post-tax contribution to their superannuation of up to \$300,000, using the sale proceeds of their family home – regardless of their superannuation balance.

## Increased Commonwealth Seniors Health Card income threshold

*SS and Other Legislation Amendment (Lifting the income limit for the Commonwealth Seniors Health Card) Bill 2022*

The Government has confirmed its commitment to increase the income threshold for Commonwealth Seniors Health Card eligibility from \$61,284 to \$90,000 for singles and \$98,054 to \$144,000 (combined) for couples.

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# Super, Pension and SMSF

## Freezing of deeming rates

0.25% for the first \$53,600, then 2.25% after on financial assets including super

The Government has also confirmed that it will freeze the social security deeming rates at their current levels until 30 June 2024.

This change will support older Australians who rely on income from deemed financial investments and the pension to deal with the rising cost of living.

## Incentives for Pensioners to Downsize

The current Centrelink asset test exemption for proceeds from selling a family home intended for purchasing a new home will be extended from 12 months to 24 months.

Additionally, for income test purposes, only the lower deeming rate (currently 0.25%) will apply to these exempted proceeds over the 24 months.

These changes will allow pensioners more time to purchase, build or renovate a new home before their pension is affected.



# Compliance & Integrity

## Personal Income Taxation Compliance Program

Funding of \$80.3 million will be provided to extend the Personal Income Taxation Compliance Program for two years from 1 July 2023. This will focus on key areas of non-compliance, including overclaiming of deductions and incorrect reporting of income. The funding will enable the ATO to modernise its guidance products, engage earlier with taxpayers and tax agents and target its compliance activity. This measure is estimated to increase receipts by \$674.4 million and increase payments by \$80.3 million over the four years from 2022-23.

## Shadow Economy Program

The Government will extend the existing ATO Shadow Economy Program for a further three years from 1 July 2023. This program was introduced to target shadow economy activity (dishonest and criminal) and protect revenue. This measure is estimated to increase receipts by \$2.1 billion over the four years from 2022-23. This includes an increase in GST payments to the States and Territories of \$442.3 million.

## Tax Avoidance Taskforce

The Government has boosted funding for the ATO Tax Avoidance Taskforce by around \$200 million per year over four years from 1 July 2022, in addition to extending this Taskforce for a further year from 1 July 2025. The boosting and extension of the Tax Avoidance Taskforce will support the ATO to pursue new priority areas of observed business tax risks, complementing the ongoing focus on multinational enterprises and large public and private businesses. This measure is estimated to increase receipts by \$2.8 billion and increase payments by \$1.1 billion over the four years from 2022-23.

## Penalty unit to increase 1 January 2023

The Government will increase the amount of the Commonwealth penalty unit from \$222 to \$275 from 1 January 2023. The increase will apply to offences committed after the relevant legislative amendment comes into force.



# Other Measures

## Child Care Subsidy Increase

From 2022-23, the previously announced maximum Child care subsidy (CCS) rate will increase from 85% to 90 % for families earning less than \$80,000. The higher rates currently afforded to families with multiple children aged 5 or over in child care will be maintained, with higher CCS rates to cease 26 weeks after the older child's last session of care, or when the child turns six years old.

The CCS increase also brings a greater focus on the industry with compliance activities aimed at stamping out fraudulent claims for care not received.

## Paid Parental Leave Reforms

The previously announced changes to the Paid Parental Leave Scheme (PPL) will proceed from 1 July 2023 in order to make the scheme more flexible for families, allowing either parent to claim the payment. Both birth parents and non-birth parents will be allowed to receive the payment if they meet the eligibility criteria. Parents will also be able to claim weeks of the payment concurrently, so they can take leave at the same time. Eligibility will also be expanded with the introduction of a \$350,000 family income test, which families can be assessed under.

From 1 July 2024, the Government will commence expansion of the scheme from the current 18 weeks by two additional weeks a year until it reaches a full 26 weeks from 1 July 2026. Both parents will be able to share the leave entitlement, with a proportion maintained on a "use it or lose it" basis, to encourage and facilitate both parents to access the scheme and to share the caring responsibilities more equally. Sole parents will be able to access the full 26 weeks.

## Encouraging Pensioners back to the workforce

From 2022-23, Age and Veteran Pensioners will be able to work and earn more before benefits are affected. The Government is providing a one-off \$4,000 Work Bonus income bank increasing the amount pensioners can earn to \$11,800 before pensions are reduced.

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# Other Measures

## Health Measures

Global healthcare has faced unprecedented pressures in recent years as a result of the COVID-19 pandemic. The virus has required significant and ongoing investment in health and put many other sectors under pressure such as aged care, support for the disabled and mental health support services. This government brings a focus on supporting the vulnerable in our community.

Aged care has been allocated \$458.1 million over five years from 2021-22 to provide additional COVID-19 to the sector.

Spending of \$303.2 million will be directed over five years from 2021-22 to provide mental health stage 2 reforms through the five pillars of the National Mental Health and Suicide Prevention Plan. These pillars:

- Prevention and early intervention,
- Suicide prevention,
- Mental Health Treatment,
- Support for Vulnerable Australians,
- Workforce and Government Support.

The Government is also planning to provide additional funding to the Medical Research Future Fund and continues to support treating and preventing cancer. The majority of this funding will be delivered to establish the West Australian Comprehensive Cancer Centre in Perth,

Public dental care and after-hours health care services are also to receive funding boosts.



# Other Measures

## Affordable Housing Measures

The announcement of a “Housing Accord” aims to build one million homes in five years from 2024-25. The measures outlined are as follows:

- \$350 Million commitment over five years from 2024-25 to support the funding of an additional 10,000 affordable homes. States and Territories have agreed to collectively match this target,
- The “Help to Buy Scheme” is to be established and has been awarded \$324.6 million in order to provide an equity contribution for low to middle-income taxpayers purchasing a new or existing home,
- \$10 billion “Australia Future Fund” has been established to generate returns that will fund 30,000 social and affordable homes over five years. Funding in the initial period of the funds' creation will be targeted to funding acute housing needs for remote First Nations communities, women and children fleeing family violence and veterans at risk of homelessness. \$1.6 billion of the fund will be directed to long-term housing for women and children fleeing family violence and older women at risk of homelessness.

The government has shifted focus from assistance to those entering the market but also addressing the supply issue in the Australian property market.

## First Nations People

This budget sees an allocation of \$75.1 in preparation for a referendum to enshrine a First Nations Voice to Parliament in the Constitution, an additional \$314.8 to support First Nations peoples' health and well-being outcomes as well as \$100 million for housing and essential infrastructure in the Northern Territory communities.



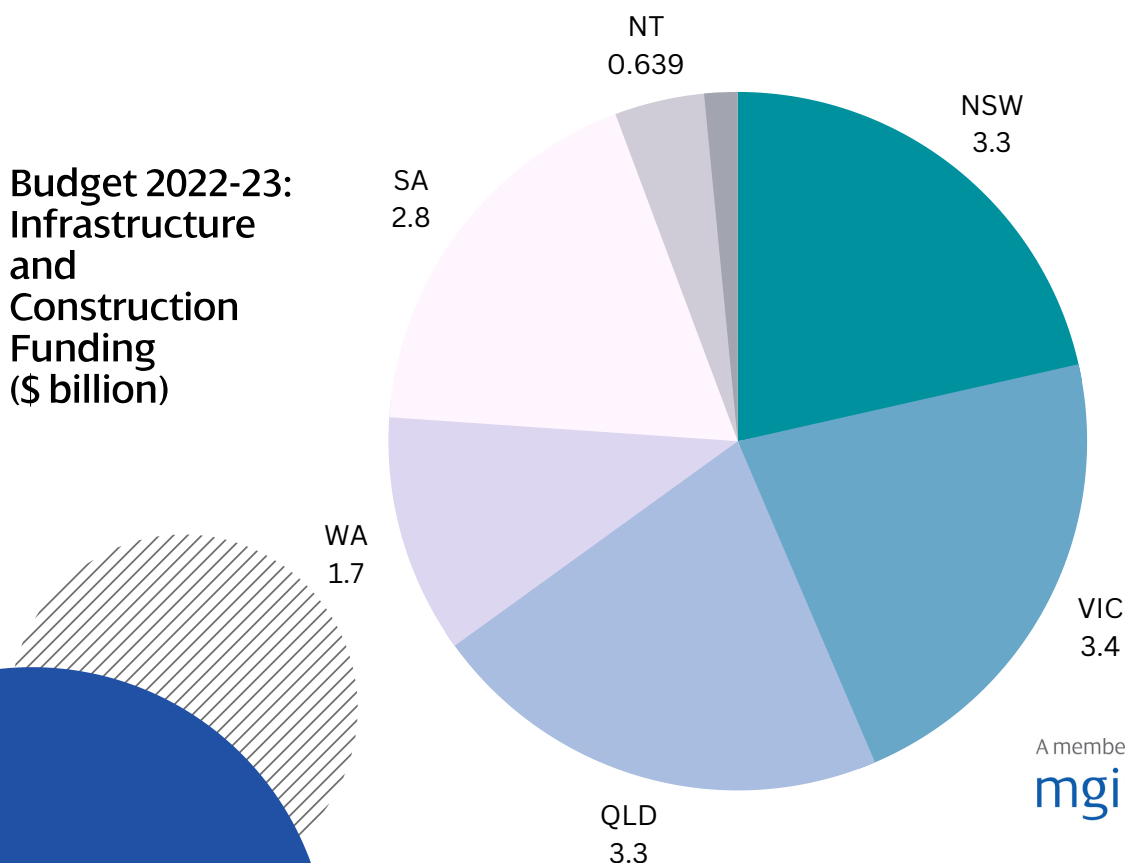
# Other Measures

## Community Batteries for Household Solar

The Government will provide \$224.3m over 4 years from 2022-23 to deploy 400 community batteries across Australia. A related solar initiative will see an additional \$102m committed to establishing a Community Solar Banks program for the deployment of community-scale solar and clean energy technologies. This initiative is aimed at regional communities, social housing, apartments, rental accommodation, and households that are traditionally unable to access rooftop solar.

## Infrastructure and Transport

Included in this budget is funding announced to support “priority road and rail projects” across the country at a total cost of \$17.9 billion over 10 years. State by state the funding delivers a number of projects with the allocation of funding as shown below:





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