FEDERAL BUDGET

MAY 2024

SUMMARY REPORT

SIP | Slomoi Immerman Partners

Contents

You will notice that we have included our own review system alongside each of the measures. They have been rated on a scale of 1 to 5, to broadly reflect the importance to private and family groups and the likely effectiveness of the measure to the broader taxpaying community.

Federal Budget Overview

The Treasurer, Dr Jim Chalmers, boldly promoted a 'future made in Australia' in tonight's Federal Budget. And while he acknowledged the delicate state of worldwide economic and social issues to which Australia is not immune, he provided assurance that Australia's economy was "among the best placed economies to manage these uncertainties" and introduced a raft of domestic focused policies to "maximise our opportunities". And he was quick to reiterate that this was a responsible budget and that the government's responsible economic management has already yielded improved economic results. It is a fine balance that he needs to tread between delivering on the cost-of-living relief and driving future growth on the one side of the ledger and an abundance of caution of poking the bear of inflation on the other.

The Treasurer described a soft economic environment with growth forecast at 1¾% in 2024 and just 2¼% for the next two calendar years. This still outperforms all the major economies such as Europe, the US, UK and Japan except for the powerhouses that are China and India, which are set to grow at 4¼% and 6½% respectively. This surely underpins the strategic importance of these Asia Pacific relationships to Australia's economic well-being.

There was seemingly good news though to announce – while inflation remains elevated, it has been cut to less than half of its peak in 2022 and is expected to return to within the RBA's much debated target band by the end of 2024. The labour market has also been steadfast with unemployment near its 50 year low at 3.8% and real wage growth for three consecutive quarters and expected continued growth by 1½% through to the end of the financial year. The Treasurer proudly pointed out too that the gross debt is now at $904 billion, $152 billion lower than anticipated, with the resulting saving is interest costs at $80 billion over the next decade.

The average Australian household budget has been squeezed with rising supermarket and energy prices over the past year and with 13 consecutive rate rises since May 2022. The heavily deliberated revamped Stage 3 tax cuts will provide welcome relief to all taxpayers (although undermining the carefully crafted structural tax changes initiated by the previous Federal treasurer) and $300 in energy rebates will no doubt also be gratefully received. We note that the Treasurer is at pains to stress that these measures will, surprisingly, not be inflationary. Further, the government has rightly rectified the indexation flaw that was exposed in student loans over the past year. Freezing PBS prescriptions to $31.60, strengthening NDIS controls and boosting wages in the care economy, importantly positively impacting mainly women who fill the majority of roles in these fields, round out the offerings at the individual level.

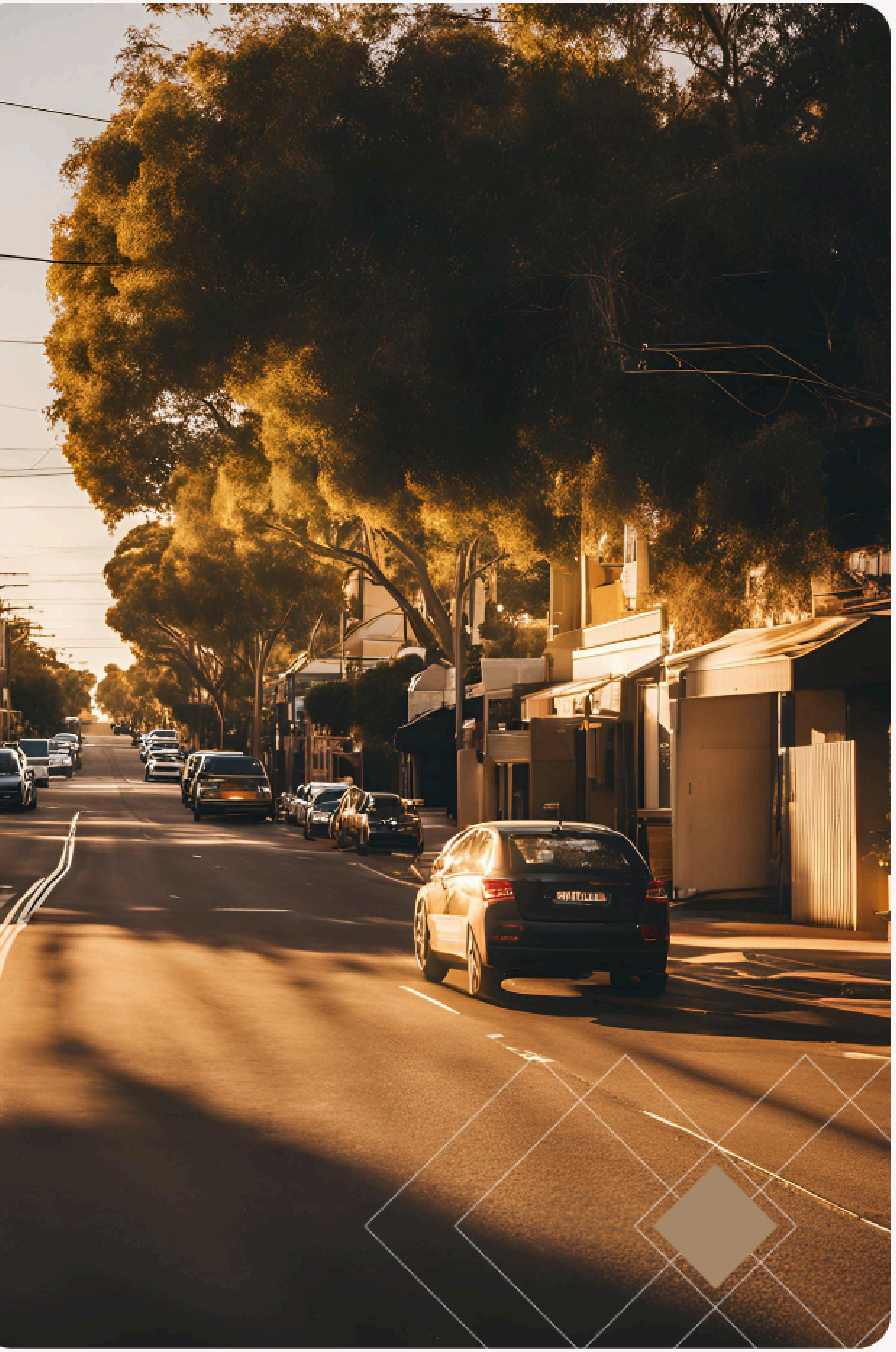
However, Australian small businesses have also endured tough conditions and there is very little respite or aspirational initiatives being offered in their direction. Surely the slightly higher $325 in energy rebates being offered to eligible businesses won't unfortunately do much for their budgets and the extension of the Instant Asset Write Off for another year, while welcome, is just more of the 'same ol' strategy. Other than some measures to help improve cash flow and reduce 'nuisance tariffs', there is very little other broad-based initiative to inspire small business owners.

The government has made much of its commitment to build 1.2 million homes in the next 5 years to try ease the rental crisis. The plan is admittedly ambitious, and the government will be wise to refer to Victoria's much vaunted plan to boost affordable housing stock which has already fallen behind schedule and has played havoc with the availability of much needed tradies to the private sector.

All being said, the Treasurer has been able to deliver on improved results from the depth of the COVID era crisis and the subsequent economic turbulence. However, whether the budget does enough to really ensure a future made in Australia - driven, inspired and motivated, particularly for small business, the backbone of the Australian economy - will remain to be proven. And this budget is likely to lay inflationary pressure on the RBA to have to keep under control, given the high level of handouts which will flow out into the economy. This budget has clearly been set with a Federal election in the next 12 months firmly in the Treasurer's sight.

Shane Binstock

Director, Taxation
Slomoi Immerman Partners



Tax Rates & Cost of Living

01

Stage Three Tax Cuts

Whilst the government has provided other cost-of-living measures in this year's budget, the Treasurer has called the tax cuts the "foundation stone" of broader assistance. New personal tax rates, already legislated in February 2024, will come into effect on 1 July 2024 as shown in the table below.

Tax Rate	Thresholds 2023-24	Tax Rate	New Thresholds 2024-25
Nil	Up to $18,200	Nil	Up to $18,200
19%	$18,201 - $45,000	16%	$18,201 - $45,000
32.5%	$45,001 - $120,000	30%	$45,001 - $135,000
37%	$120,001 - $180,000	37%	$135,001 - $190,000
45%	$180,001 and over	45%	$190,001 and over

The above rates do not include the Medicare levy of 2%.

Before Labor's changes, the tax benefits under the stage three reforms primarily favoured higher-income brackets. However, following the revisions, individuals with taxable incomes ranging from $45,000 to $120,000 can anticipate a $804 increase in tax savings.

The tax liabilities and saving comparisons after the stage three tax cuts at varying income levels is illustrated below:

Taxable Income ($)	2023-24 Tax Liability ($)	2024-25 Tax Liability ($)	Annual Tax Saving from 1 July 2024 ($)
40,000	4,142	3,488	**654**
50,000	6,717	5,788	**929**
60,000	9,967	8,788	**1,179**
80,000	16,467	14,788	**1,679**
100,000	22,967	20,788	**2,179**
120,000	29,467	26,788	**2,679**
140,000	36,867	33,138	**3,729**
160,000	44,267	40,538	**3,729**
180,000	51,667	47,938	**3,729**
200,000	60,667	56,138	**4,529**

Source: The Tax Institute

Tax Rates & Cost of Living

01

Cost-of-Living Relief

Cost-of-living relief was a key focus in this year's Budget. Some of these measures include:

Help with power bills

$300 energy rebate will be delivered to all Australian households. This is not means tested and will be delivered by way of quarterly credits to electricity bills from 1 July 2024.

Change to Student Loan Calculations

The indexation rate will be capped to be the lower of either the Consumer Price Index or the Wage Price Index. The relief will be backdated to all HELP, VET Student Loan, Australian Apprenticeship Support Loan and other student support loan accounts that existed on 1 June 2023.

Increases in Income support for JobSeeker Payments and Commonwealth Rent Assistance.

Medicines

There will be a one-year freeze on the maximum Pharmaceutical Benefits Scheme (PBS) patient co-payment towards eligible prescription medicines for everyone with a Medicare card.

A golden opportunity missed to implement sustainable tax changes and incentives for private and family businesses. The extension of the IAWO is welcome but should be expanded so more businesses qualify for it. Unlike other Budgets and given the challenging economy being faced by many businesses, there were unfortunately no additional incentives or tax boosts to encourage investment.

SHANE BINSTOCK, DIRECTOR TAXATION

Stimulus measures for SME's

Energy Bill Rebate for Small Businesses

In addition to households, eligible small businesses will also receive a rebate to help cover the costs of their energy bills.

From 1 July 2024, the government will provide eligible small businesses with a $325 rebate. It is expected that approximately one million small businesses will benefit from the rebate.

To be eligible for the rebate, businesses must:

- Be on a separately metered business tariff.
- Meet their state and territory definition of an electricity 'small customer' by being below their annual electricity consumption threshold. For instance, in Victoria customers with annual electricity usage of less than 40MWh are considered an electricity 'small customer'.
- Not run their business from home.

Extension to the Instant Asset Write Off

SMEs looking to buy new equipment can continue to claim an immediate deduction for the full cost of eligible depreciating assets under the Instant Asset Write Off ("IAWO") rules. To be eligible:

- Business has an annual turnover of less than $10 million;
- The asset costs less than $20,000; and
- Asset purchased and ready for use before 30 June 2025.

This measure extends the IAWO announced in last year's budget which was scheduled to end as of 30 June 2024. For the 2024 financial year, it has been proposed to increase the IAWO threshold to $30,000 and expand eligibility to businesses with annual turnover of less than $50 million. While the extension to the IAWO for the 2025 financial year is welcomed, it's disappointing that the increased threshold and turnover have not been carried forward to 2025.

Stimulus measures for SME's

Other Measures Aimed at Small Businesses

Unfortunately, there weren't many other significant measures announced to support SMEs. Some of the proposals to support SMEs in the Budget include:

- $7.7 million will be allocated to assist with providing tailored, free and confidential mental health support to small business owners through the 'NewAccess for Small Business Owners' program. Additionally, $3.1 million will be put towards extending the Small Business Debt Helpline, a national, free and confidential phone-based financial counselling service for small business owners.

- $41.7 million to support small businesses to be secure online and harness digital opportunities through the Small Business Cyber Resilience Service and online Cyber Health Check tool.

- The Government is investing $288.1 million to expand and enhance the Digital ID system. This will lower the administrative burden on small businesses by reducing the amount of ID data they need to store and protect their customers and employees.

- In response to the 2023 Review of the Franchising Code of Conduct, the Government is contributing $3 million to remake and improve the Code, promote best practice conduct between franchisors and franchisees and make it easier for small businesses to operate in the sector including through better access to dispute resolution.

- Providing small businesses with better access to justice, by contributing $2.6 million to expand the Australian Small Business and Family Enterprise Ombudsman's services to offer a broader range of low-cost legal advice and assistance navigating business disputes.

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"Apart from extending the $20,000 instant asset write-off for 12 months, no further meaningful measures were announced to support private and family business which are the heartbeat of our economy.

The Government's changes to the Stage 3 tax cuts are a key element of the Budget, halving the tax break for wealthier taxpayers. Whilst the Budget forecasts a surplus of $9.3 billion in 2023-24, this will be followed by deficits of $28.3 billion in 2024-25 and $42.8 billion in 2025-26. Spending cuts and increased taxes are unfortunately likely to be an important feature of future budgets to address the structural deficits."

LAURENCE SLOMOI, DIRECTOR

ATO Compliance & Integrity Measures

03

As in recent Budgets, funding has been earmarked for the ATO for a raft of compliance and integrity measures to increase collection of taxes.

Personal Income Tax Compliance Program

- ATO to extend the Personal Income Tax Compliance Program for an additional year from 1 July 2027 and continue to deliver a combination of proactive, preventative, and corrective activities in key areas of non-compliance.
- Key areas of non-compliance include overclaiming of deductions, incorrect reporting of income and inappropriate tax agent influence.
- ATO to continue its focus on emerging risks to the tax system, such as deductions relating to short-term rental properties eg. holiday rentals.

Tax Avoidance Taskforce

- ATO to extend this program for an additional two years from 1 July 2026. This is expected to bring in an additional $2.4 billion of tax revenue (at a cost of $1.2 billion).
- Enables the continued pursuit of key tax avoidance risks, with the focus on multinationals, large public and private businesses, and high-wealth individuals.

We have assisted a number of our clients who have been subjected to Top 500 and Next 5,000 reviews under this program.

Outstanding Tax Debts

- The ATO began contacting taxpayers about debts previously classed as 'uneconomic to pursue' following the response by the Australian National Audit Office. Taxpayers were surprised to find out that future refunds were now going to be applied against these old debts.
- Amendments to tax legislation is proposed to provide the Commissioner with a discretion over the treatment of old tax debts on hold from before 1 January 2017.
- This discretion will apply to individuals, small businesses, and not-for-profits, and will maintain the Commissioner's current administrative approach whereby he can choose whether or not to apply refunds against the old debts.

Counter Fraud Measures

- The ATO has been given additional funding to prevent and mitigate fraud against the tax and superannuation systems. The new funding will be provided over four years to strengthen tax compliance in three key areas:
  - Upgrades to information and communications technologies to enable identifying and blocking suspicious activity in real time;
  - New compliance taskforce to recover lost revenue and intervene when fraudulent refunds are made; and
  - Improvement to the ATO's management of its counter-fraud activities, including improving how the ATO assists individuals harmed by fraud.

ATO Compliance & Integrity Measures

03

Change to BAS Refund Notifications

The ability of the ATO to manage "peak fraud events" such as the massive GST-fraud scam that started on Tik-Tok and led to Operation Protego, has been strengthened in this year's budget.

Currently, if the ATO intends to retain a Business Activity Statement (BAS) refund for further investigation, it must notify the Taxpayer within 14 days. This notification period will increase to 30 days to align with the time limits for non-BAS refunds.

Legitimate refunds will be largely unaffected, where the ATO may pay interest if legitimate refunds are held for greater than 14 days.

Foreign Capital Gains Tax Regime

The foreign resident capital gains tax (CGT) regime will be amended to ensure foreign residents pay their "fair share" of tax in Australia.

The amendments will apply to CGT events commencing from 1 July 2025 to:

- Clarify & broaden the types of assets on which foreign residents are subject to CGT;
- Amend the point-in-time *principal asset test* to a 365-day testing period (typically for interests held in entities with Australian property);
- Require foreign residents disposing of shares and other membership interests exceeding $20 million in value to notify the ATO, prior to the transaction being executed.

These amendments will tax foreign residents on direct and indirect sales of assets with a close economic connection to Australian land, to be more in line with tax rules in foreign jurisdictions.

A 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.

Superannuation

Paid Parental Leave Scheme (PPL)

Superannuation will now be paid in respect of Government-funded PPL for births and adoptions on or after 1 July 2025. The PPL payments cover 20 weeks and this additional amount will be paid at the 12% Superannuation Guarantee (SG) rate.

Contribution Caps

Although not part of the Budget, the caps will increase with effect from 1 July 2024, as follows:

CONTRIBUTION CAPS	2023-24	2024-25
Concessional contributions	$27,500	$30,000
Non-Concessional contributions	$110,000	$120,000
*Non-Concessional Bring Forward 3 years Arrangement (*where eligible)*	$330,000	$360,000
Transfer Balance Cap	$1,900,000	$1,900,000

Superannuation

Division 296 Tax -
Super and the $3 Million threshold

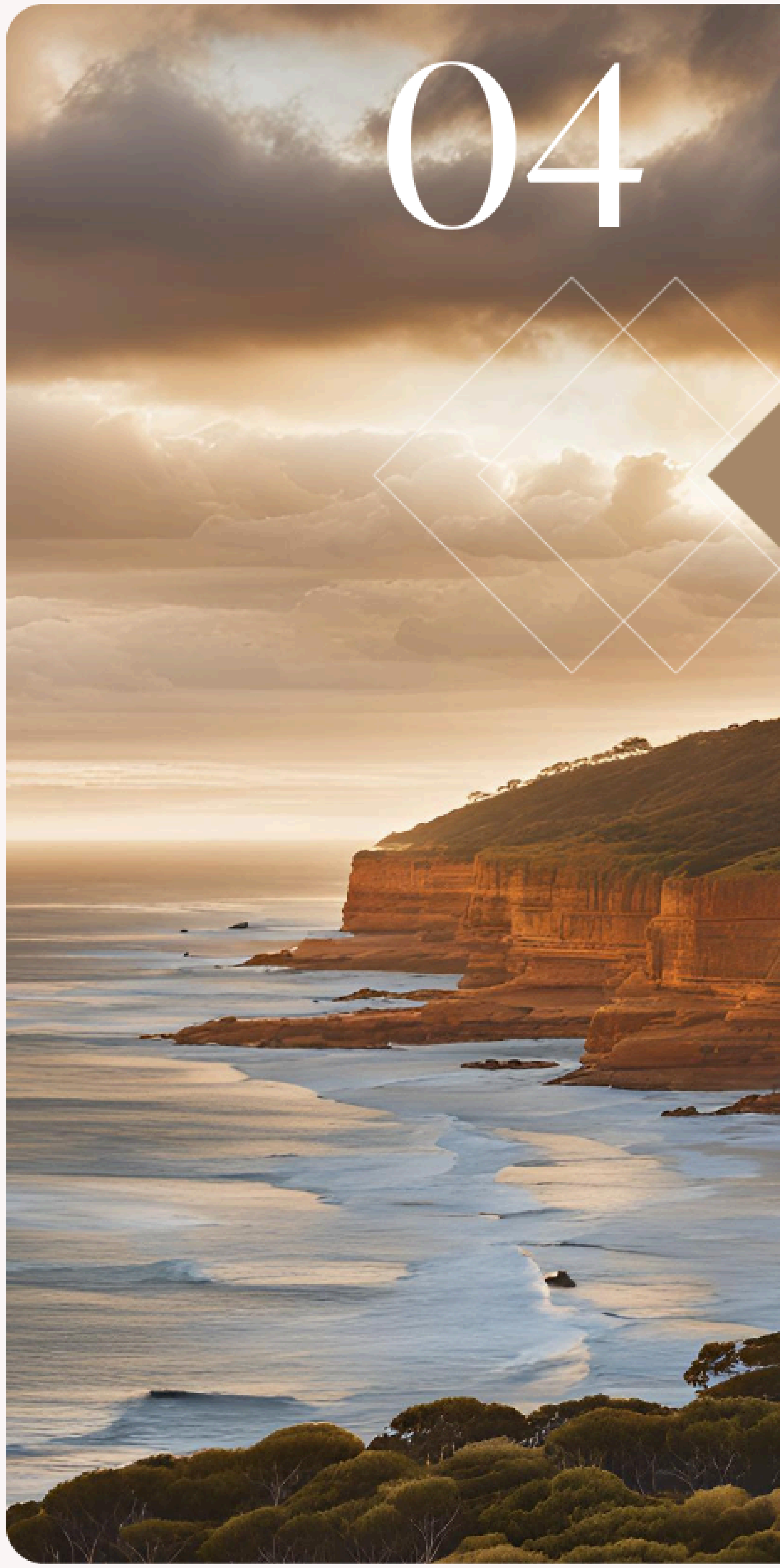
Whilst there was nothing further announced in the budget, what we already know on this significant measure can be summarised below:

- The Senate Economics Legislation Committee report was released on 10 May 2024 and recommended the Better Targeted Superannuation Concessional Bill be passed without amendments.
- Disappointingly the widespread industry backlash around taxing of unrealised capital gains, the liquidity issues around lumpy fixed assets, the impact on the property market, the inability to receive a refund on any negative earnings and no indexation of the $3 Million threshold has fallen on deaf ears.
- It would seem that both Treasury and the Committee have failed to comprehend the far-reaching consequences of this new tax.
- It is hoped that as the legislation moves through Parliament, the crossbench senators will ask further questions and request rework in consultation with stakeholders and the wider industry.

Whilst many people are scrambling to act prior to 1 July 2025, there may still be benefits for holding investments in the super environment such as:

- Those in pension phase will find the effective tax rate paid by the superfund is not 15%, as the pension exemption and possible franking credits will reduce the overall effective tax rate, hence the overall 30% tax is not accurate.
- Similalrly those not in pension phase with franking credits, will not be paying an effective tax rate in the fund of 15%, hence the overall 30% tax is not accurate.
- Capital gains in a superfund for assets held for > 12 months are taxed at 10%, whilst any capital gain distributed to an individual from a trust, may be subject to a 50% discount, however this will be taxed at the individual's marginal tax rate.
- If assets are moved from the SMSF environment to either a trust or company, the income in either entity will generally result in at least a tax rate of 30% if it ultimately ends up in a company.
- The additional 15% tax on the unrealised capital gains, payable by the member is not a flat 15% tax on the associated earnings but rather it is based on the proportionate balance in excess of $3 Million of each member's Total Super Balance.

It goes without saying that no two circumstances are ever the same, hence each case needs to be considered on its own merits. Don't forget the Bill has not yet passed both houses and is therefore not yet legislation. Once investments are withdrawn from your SMSF you will not be able to unwind what has been done.



Homes for Australia Plan

The Government has committed a further $6.2 billion in this budget to address underinvestment in new housing. These measures include:

- An ambitious plan to build 1.2 million new homes over the next 5 years. That is 200,000 more than last year's plan!
- Increase in the Commonwealth Rental Assistance for tenants.
- Funding 40,000 new social and affordable homes.
- Implementing a regulatory requirement for universities to deliver more purpose-built student accommodation.
- Supporting 20,000 new fee-free training places, including increased access to pre-apprenticeships programs, in courses relevant to the construction sector.
- Increasing the financial support to apprentices, trainees and their employers with the increase of incentive payments to $5,000 from 1 July 2024 for both payments for apprentices and hiring incentives from priority occupation employers.

Whilst the exact mechanism is not yet known, the plan to streamline development approvals should be welcomed by developers. However, tighter requirements for evictions and limiting rent increases may reduce developer participation in the build-to-rent market.

The plan to invest $88.8 million to grow the pipeline of construction workers is seen as a necessity.

There was unfortunately no mention of relief measures to assist builders who are trapped with fixed price construction contracts whilst the cost of building materials has soared.

Homes for Australia Plan

05

Built-to-Rent Residential Projects ("BTR")

There was no change to the BTR measures announced in the last Budget that are to apply to eligible BTR projects where construction commenced after 9 May 2023. The Government does however plan to lower foreign investment application fees for new BTR developments.

As a refresher, the BTR concessions include:

- Increased capital works depreciation rate from 2.5% to 4%.
- Reduced withholding tax rate for eligible fund payments from Managed Investment Trusts (for non-resident investors) from 30% to 15%.
- 50 or more dwellings that are made available for rent to the general public, retained under single ownership, for at least 15 years.

Home Ownership and Housing Affordability

The Government has committed $5.5 billion to assist people on low to moderate incomes to purchase a home by providing an equity contribution of 40% for new homes and 30% for existing homes. It is hoped that this will assist 40,000 Australians purchase a home.

Future Made in Australia

A central pillar of this year's Budget is the 'Future Made in Australia' package. As part of Australia's commitment to reach net zero by 2050, and in the wake of Covid-19 and global supply chain issues, the $22.7 billion initiative aims to maximise Australia's economic and industrial resources, while also securing Australia's place as a significant part of a changing global economy.
The package aims to realise Australia's potential as a renewable energy superpower and strengthen our economic security by investing in priority industries and infrastructure. Additionally, it will create new jobs and facilitate significant private sector investment.

Some key elements of the plan include:

- Identifying and investing in key industries that focus on a net zero transformation. The Government will create a Future Made in Australia Act and establish a National Interest Framework that ensures investments are responsible and targeted.

- Unlocking Australia's potential to produce abundant renewable energy so Australians can benefit from cheaper, cleaner energy sooner.

- Implementing Tax Incentives such as:
  - *Critical Minerals Production Tax Incentive* from 2027–28 to support downstream refining and processing of Australia's critical minerals – 10% of relevant processing and refining costs; and
  - *Hydrogen Production Tax Incentive* from 2027–28 for producers of renewable hydrogen – a $2 incentive per kilogram of renewable hydrogen produced.

- Delivering a 10-year extension of funding to the Australian Renewable Energy Agency.

- Committing $44.4 million to the Energy Industry Jobs Plan and $134.2 million to develop skills and employment support in key regions.

- Working closely with trading partners to drive supply chains and boost demand for Australia's green exports, such as renewable hydrogen and low-carbon liquid fuels.

- Reach net zero greenhouse gas emissions by 2050 by focusing on 6 areas: electricity and energy, transport, industry, resources, agriculture and land, and the built environment.

Based on the Treasurer's references to the Future Made in Australia project throughout the Budget address, we can expect this framework to drive a lot of the government's decisions and policy over the coming years. Naturally, we hope that there will be a role for innovative SMEs to play in this space.

Stocktake of Recent Budget Measures

07

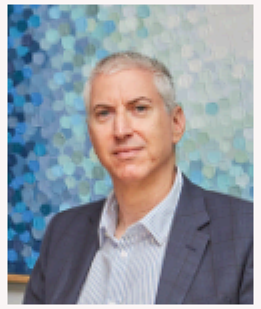
MEASURE	PROGRESS	DESCRIPTION
Small Business Skills and Training Boost	This is now law.	• Small businesses (aggregated annual turnover < $50 million) can claim a bonus deduction for eligible expenditure on external training provided to their employees. • The bonus deduction is 20% of eligible expenditure. • Applies to eligible expenditure incurred between 29 March 2022 and 30 June 2024.
Small Business Energy Incentive	Not yet law. Legislation before parliament.	• Small businesses (aggregated annual turnover < $50 million) will be able to claim a bonus deduction for eligible expenditure on assets and improvements that supports electrification and more efficient energy use. • The bonus deduction will be 20% of eligible expenditure, up to $100,000 (ie. max deduction of $20,000). • Meant to apply to eligible expenditure incurred between 1 July 2023 and 30 June 2024.
New Thin Capitalisation Rules – Earnings-Based Approach	This is now law.	• Aims to restrict excessive interest deductions purportedly used to shift profits to related parties outside of Australia. • Existing tests that determine maximum allowable interest deductions have been replaced with earnings-based tests. • Applies from 1 July 2023.

Stocktake of Recent Budget Measures

07

MEASURE	PROGRESS	DESCRIPTION
Minimum tax rate for multinationals	Not yet law. Draft legislation stage.	• In line with the OECD's Base Erosion & Profit Shifting (BEPS) reforms, the Government is introducing a 15% global and domestic minimum tax rate for large multinational enterprises. • Aims to ensure that large multinationals paying an effective minimum rate of tax on the income arising in each jurisdiction in which they operate.
Off-Market Share Buy-Backs	This is now law.	• Aligns the tax treatment of off-market share buy-backs with on-market share buy-backs by listed public companies. • Shareholders will no longer receive franked dividends for off-market share buy-backs. This will reduce the attractiveness of off-market share buy-backs, particularly for Self-Managed Super Funds as they can no longer get a refund of excess franking credits. • Applies to off-market share buy-backs offered by listed public companies from 25 October 2022.
Franked Distributions Funded by Capital Raising	This is now law.	• Distributions made outside the company's ordinary dividend cycle will not be frankable (ie. franking credits cannot be used) if it is funded directly or indirectly from capital raising activities. • Capital raising activities include issuing new shares. • Applies to relevant distributions made on or after 28 November 2023.
Tax Treatment of Cryptocurrency	Not yet legislation.	• Although not yet legislated, the ATO has released guidance materials stating that crypto currencies (such as Bitcoin) won't be treated as foreign currency for tax purposes. • Crypto will be taxed in the same way as other financial assets, such as shares, ie. taxed as a capital gain unless being actively traded.

Contributors



Shane Binstock

Director
Taxation

Shane has over 20 years of experience, having worked within the tax consulting practices of leading mid-tier firms. He joined Slomoi Immerman Partners in February 2020 to lead their tax practice, drawn in by a company that shares his commitment to client service. Shane's focus has primarily been advising large private and family owned Groups, including high-net-wealth individuals. Shane also works closely with a number of managed funds and collective investment vehicles. He advises on a broad range of tax issues, and with developments to Australia's business landscape, he has recently been advising clients looking to expand overseas or structure their start-up enterprises. Outside of work, Shane enjoys tracking down Melbourne's best coffee and supporting his beloved Carlton football team. With two daughters and identical twin boys, Shane is kept very busy on weekends by his beautiful family.

I would like to acknowledge the contribution of my fellow directors and additional team members:

- Felicity Bellmunt
- Simon Roth
- Daniel Sneider
- Gareth Verberne
- Ada Li
- Sharon Gdanski
- Gary Immerman
- Chamath Senanayake

Everyone has helped to produce this publication overnight and this is a testament to the team at Slomoi Immerman Partners – it's never about us personally but what we can do for our colleagues and clients.

Shane Binstock

Director, Taxation
Slomoi Immerman Partners