DLK ADVISORY

BUDGET 2023: WHAT'S IN IT FOR SMALL BUSINESSES & HOUSEHOLDS

The 2023 Budget has been handed down by Treasurer Jim Chalmers. In addition to the cost-of-living and welfare measures leaked ahead of the Budget, the government also released new measures relating to businesses. The government has forecast a Budget surplus of $4.2bn in 2022-23, but an underlying cash deficit of $13.9bn is expected in 2023-24 and a $35.1bn deficit for 2024-25.

The Budget papers note that the global economic outlook has deteriorated and is highly uncertain with persistent inflation and rising interest rates expected to slow real GDP growth from 3.25% in 2022-23 to 1.5% in 2023-24, before rising to 2.25% in 2024-25. While inflation remains elevated at 6% for this year, it is expected to fall to 3.25% in 2023-24 and return to the RBA's target band of 2-3% in 2024-25.

Small Business

For small businesses, the government has proposed to temporarily increase the instant asset write-off threshold from 1 July 2023 to 30 June 2024. In previous years, the temporary full expensing effectively replaced the instant asset write-off regime and applied for assets held/first used/installed ready for use between 6 October 2020 to 30 June 2023. This allowed eligible businesses to immediately deduct the business portion of an asset's cost with no general limit, although specific cost limits on certain assets, such as cars, applied.

With the expiration of the legislated temporary full expensing, eligible small businesses with an aggregated annual turnover of less than $10m will be able to immediately deduct the full cost of eligible assets costing less than $20,000 that are first used or installed ready for use between 1 July 2023 and 30 June 2024. The $20,000 limit will apply on a per asset basis, so small businesses are able to 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. In addition, the "lock-out" rule that prevents small businesses from re-entering the simplified depreciation regime for 5 years if they opt-out will continue to be suspended until 30 June 2024.

The government has also announced a lodgement penalty amnesty program for small businesses (with an aggregate turnover of less than $10m). The amnesty will remit failure-to-lodge (FTL) penalties for outstanding tax statements lodged in the period from 1 June 2023 to 31 December 2023 that had original due dates between 1 December 2019 to 29 February 2022.

Currently, the FTL penalty is $275 per penalty unit. Small entities are liable to the FTL penalty at a rate of one penalty unit for each period of 28 days (or part thereof) that the return or statement is overdue, up to a maximum of 5 penalty units. For medium entities (ie a medium withholder for PAYG purposes or one who has assessable income or a current GST turnover of more than $1m and less than $20m) the penalty unit is multiplied by 2 and applies at the same rate as small entities. It is hoped that the amnesty will encourage small businesses to re-engage with the tax system.

In conjunction with the amnesty, the government will also be providing funding to the ATO from 1 July 2023 over 4 years to assist with engaging more effectively with businesses to address the growth of tax and superannuation liabilities. Specifically, the funding will facilitate ATO engagement with taxpayers who have high-value debts over $100,000 and aged debts (ie more than 2 years) of either public/multinational groups with aggregated turnover of greater than $10m, or privately owned groups or individuals controlling over $5m of net wealth.

Personal tax rates unchanged for 2023–2024

In the Budget, the Government did not announce any personal tax rates changes. The Stage 3 tax changes commence from 1 July 2024, as previously legislated.

The 2023–2024 tax rates and income thresholds for residents (unchanged since 2021–2022) are:

- taxable income up to $18,200 – nil;
- taxable income of $18,201 to $45,000 – nil plus 19% of excess over $18,200;
- taxable income of $45,001 to $120,000 – $5,092 plus 32.5% of excess over $45,000;
- taxable income of $120,001 to $180,000 – $29,467 plus 37% of excess over $120,000; and
- taxable income of more than $180,001 – $51,667 plus 45% of excess over $180,000.

Stage 3: from 2024–2025

The Budget did not announce any changes to the Stage 3 personal income tax changes, which are set to commence from 1 July 2024, as previously legislated. From 1 July 2024, the 32.5% marginal tax rate will be cut to 30% for one big tax bracket between $45,000 and $200,000. This will more closely align the middle tax bracket of the personal income tax system with corporate tax rates. The 37% tax bracket will be entirely abolished at this time.

Low income offsets

Low and middle income tax offset (not extended)

The 2023–2024 Budget did not announce any extension of the low and middle income tax offset (LMITO) beyond the 2021–2022 income year. The LMITO has now ceased and been fully replaced by the low income tax offset (LITO).

With no extension of the LMITO announced in this Budget, 2021–2022 was the last income year for which that 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.

Low income tax offset (unchanged)

While the LMITO has now ceased, low and middle income taxpayers remain entitled to the low income tax offset (LITO). No changes were made to the LITO in the 2023–2024 Budget, and so it will continue to apply for the 2023–2024 income year and beyond.

The LITO was intended to replace the former low income and low and middle income tax offsets from 2022–2023, but the new LITO was brought forward in the 2020 Budget to apply from the 2020–2021 income year.

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.

Medicare levy low-income thresholds for 2022–2023

For the 2022–2023 income year, the Medicare levy low-income threshold for singles will be increased to $24,276 (up from $23,365 for 2021–2022). For couples with no children, the family income threshold will be increased to $40,939 (up from $39,402 for 2021–2022). The additional amount of threshold for each dependent child or student will be increased to $3,760 (up from $3,619).

For single seniors and pensioners eligible for the seniors and pensioners tax offset (SAPTO), the Medicare levy low-income threshold will be increased to $38,365 (up from $36,925 for 2021–2022). The family threshold for seniors and pensioners will be increased to $53,406 (up from $51,401), plus $3,760 for each dependent child or student.

Medicare levy exemption for lump sum payments in arrears from 1 July 2024

The Government will exempt eligible lump sum payments in arrears from the Medicare levy from 1 July 2024. This measure seeks to ensure low-income taxpayers don't pay higher amounts of the Medicare levy as a result of receiving an eligible lump sum payment, for example as compensation for underpaid wages.

Eligibility requirements will ensure this relief is targeted to taxpayers who are genuinely on low incomes and should be eligible for a reduced Medicare levy. To qualify, taxpayers must be eligible for a reduction in the Medicare levy in the two most recent years to which the lump sum accrues.

They must also satisfy the existing eligibility requirements of the existing lump sum payment in arrears tax offset, including that a lump sum accounts for at least 10% of the taxpayer's income in the year of receipt.

Government to waive student loans impacted by delayed records transfer to ATO

The Government will forgo $5.4 million in receipts over five years from 2022–2023 (and $15.5 million over two years to 2033–2024) to support students affected by a delay in the transfer of some historical tertiary education loan records to the ATO. This will mean waiving the following debts for affected loans, as determined at the date of transfer to the ATO:

- historical indexation, as well as indexation that will be applied on 1 June 2023 on loans issued prior to 1 July 2022 under the Higher Education Loan Program, the VET Student Loans program, the Trade Support Loans program and on loans issued in 2017 and 2018 under the VET FEE-HELP program; and
- outstanding debt for VET FEE-HELP loans issued from 2009 to 2016.

Energy price relief plan

There has been much interest in the Government's plan to address rising energy prices, so although it's not directly linked to taxation, here is a brief outline.

The Government will provide $1.5 billion over five years from 2022–2023 (and $2.7 million per year ongoing) to reduce the impact of rising energy prices on Australian households and businesses by providing targeted energy bill relief and progressing gas market reforms.

Funding includes:

- $1.5 billion over two years from 2023–2024 to establish the Energy Bill Relief Fund to support targeted energy bill relief to eligible households and small business customers, which includes pensioners, Commonwealth Seniors Health Card holders, Family Tax Benefit A and B recipients and small business customers of electricity retailers;
- $14.7 million over five years from 2022–2023 (and $2.7 million per year ongoing) to the Australian Competition and Consumer Commission (ACCC) to administer and enforce compliance with a temporary cap of $12 per gigajoule on the price of gas and to develop and implement a mandatory gas code of conduct;
- $9.5 million over three years from 2022–2023 for the Australian Energy Regulator to monitor coal and gas markets across the National Electricity Market.

The Government will also provide funding to support the NSW and Queensland governments to implement a cap of $125 per tonne on the price of coal used for electricity generation.

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