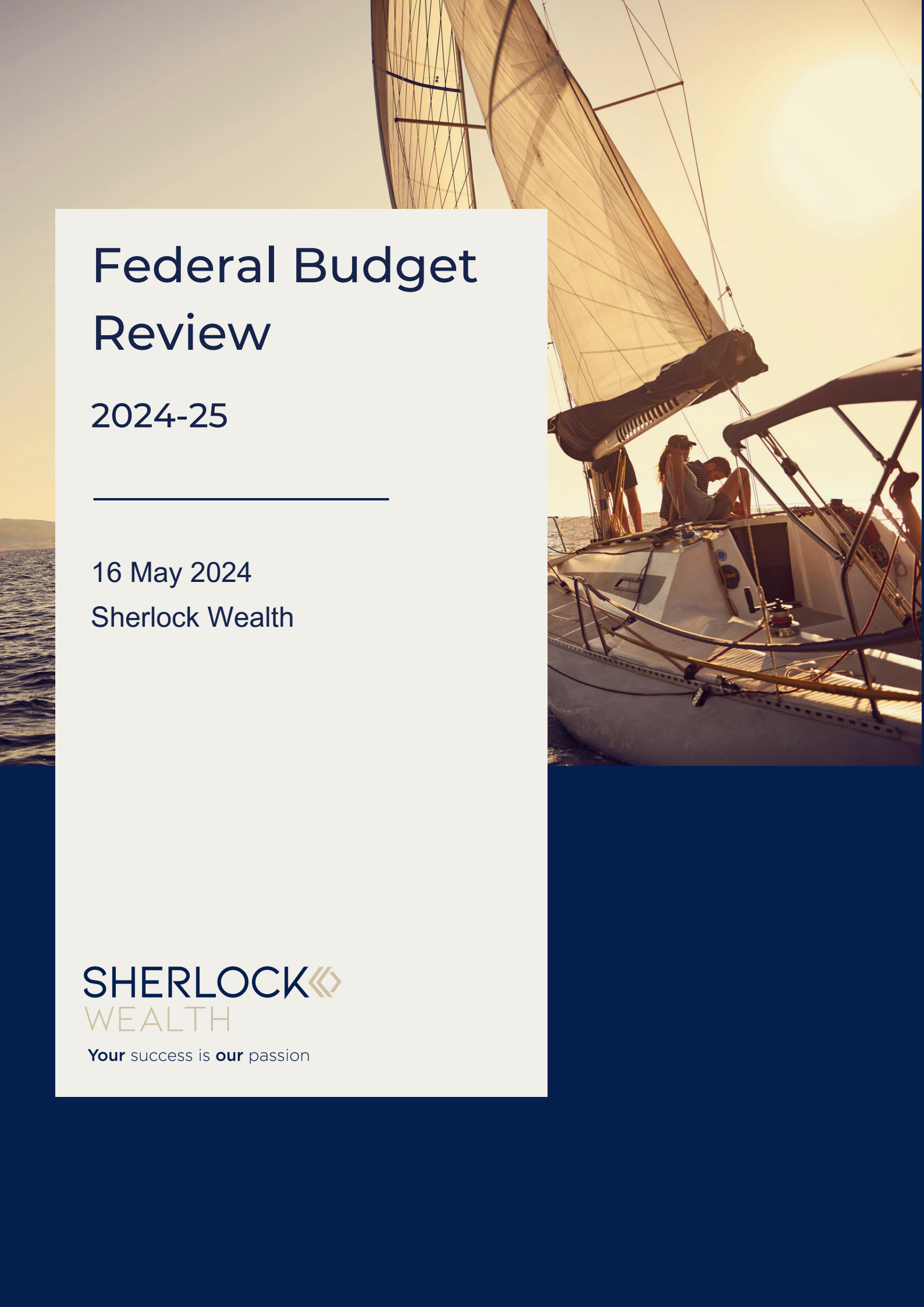




Federal Budget Review

2024-25

16 May 2024

Sherlock Wealth

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WEALTH

Your success is our passion

Federal Budget Report 2024-25

Executive Summary

As widely expected, Labor's third budget focused on mitigating the effects of inflation and cost of living pressures on all Australians. Many changes announced last night came as little surprise, with the most significant announcements made prior to the Budget's release.

To assist clients of Sherlock Wealth, we have prepared a summary of the major changes proposed. Please reach out to us if you have any questions or concerns regarding the implications of these changes on your personal situation.

Budget Overview

A budget surplus of \$9.3bn is forecast in 2023-24, but an underlying cash deficit of \$28.3bn and \$42.8bn is expected in 2023-24 and 2024-25 respectively. Real GDP is forecast to grow by 1.75% in 2023-24, 2% in 2024-25 and 2.25% in 2025-26.

While inflation is expected to remain elevated at 3.5% for 2023-24, it is anticipated to fall to 2.75% by 2024-25, within the RBA's target of 2-3%. The government believes the proposed energy bill relief and rent assistance measures will help to reduce inflation by 0.5% in 2024-25 and not add to inflationary pressures.

Superannuation

Super account balances above \$3m

The Budget did not reveal any further details on the Government's proposal to apply an additional 15% tax on superannuation earnings corresponding to the percentage of an individual's super balance that exceeds \$3m.

The government said they would provide \$9.2m over the forward estimates to the Commonwealth Superannuation Corporation and the Department of Finance to help implement the measure for members of the Commonwealth defined benefit superannuation scheme. The Bills and other relevant draft legislation are currently before the House of Representatives. The Senate Economics Legislation Committee published a report on 10 May 2024 recommending the Bills pass, but the Coalition and Greens Senators did not support them in their current forms.

Payday super – employer considerations

The government announced increased funding to help introduce payday superannuation. This funding aims to ensure that tech systems are equipped to handle the increased frequency of transactions that will come with the shift towards payday superannuation.

This change will be significant for employers, who should prepare ahead to ensure that the shift has minimal impact on business. Investing in automation to deal with the administrative demands that come with increased payment frequency and fully integrating super stream reporting into business processes will be crucial.

Comment from Andrew

The budget was relatively silent on any other superannuation changes, missing the opportunity to introduce the previous government's proposed amnesty that would allow members locked into old style legacy pension products to exit without incurring adverse tax or social security consequences. The Budget was also absent of any notable SMSF policy announcements. In particular, it did not advance on proposals to simplify the way SMSFs are managed when members move overseas.

Paid Parental Leave (PPL)

Subject to the passage of legislation, the government will pay superannuation guarantee contributions of 12% on Government funded Paid Parental Leave (PPL) for births and adoptions on or after 1 July 2025.

Comment from Andrew

This measure will help reduce the impact of parental leave on retirement savings, recognising the effect that time out of the workforce can have on one's superannuation balance.

Personal Income Tax

The government did not announce any further changes to the Stage 3 tax cuts announced in January 2024, confirming the following changes will commence from 1 July 2024.

Current tax rates compared to changes to commence from 1 July 2024

2023-24		2024-25 and future years	
Threshold	Rates	Threshold	Rates
\$0 to \$18,200	0%	\$0 to \$18,200	0%
\$18,201 to \$45,000	19%	\$18,201 to \$45,000	16%
\$45,001 to \$120,000	32.5%	\$45,001 to \$135,000	30%
\$120,001 to \$180,000	37%	\$135,001 to \$190,000	37%
Over \$180,000	45%	Over \$190,000	45%

*Rates do not include the Medicare Levy

Current tax payable compared to tax payable from 2024-25. The last column shows the amount of tax saved.

Taxable Income	Tax payable in 2023-24	Tax payable in 2024-25	Tax savings
\$30,000	\$1,542	\$1,188	\$354
\$45,000	\$4,767	\$3,963	\$804
\$70,000	\$13,217	\$11,788	\$1,429
\$100,000	\$22,967	\$20,788	\$2,179
\$150,000	\$40,567	\$36,838	\$3,729
\$190,000	\$56,167	\$51,638	\$4,529

*Rates do not include the Medicare Levy

Comment from Andrew

The reduction in the lowest tax rate from 19% to 16% will result in an increase in the effective tax-free thresholds, which is the level of taxable income a tax resident can receive before income tax becomes payable.

Aged Care

The government will continue to implement recommendations from the Royal Commission into Aged Care Quality and Safety, proposing funding for further reforms to the Aged Care Act under the Budget. As a result, the Act's commencement has been deferred to 1 July 2025.

Small Business Support - \$20,000 instant asset write-off

The budget has extended the \$20,000 small business instant asset write-off by a further 12 months until 30 June 2025. This will allow small businesses with turnovers capped at \$10 million to immediately deduct the full cost of eligible depreciating assets costing less than \$20,000. These assets must be first used or installed ready for use for a taxable purpose between 1 July 2024 and 30 June 2025.

Energy Bill Relief

The government announced it will provide a \$300 energy bill rebate to all Australian households to mitigate cost of living pressures in the 2024-25 financial year. The discount will be applied automatically to electricity bills in quarterly installments.

Additionally, small businesses will be eligible for a \$325 energy bill rebate in 2024-25.

Other

Securing Cheaper Medicines

From 1 July 2024

As part of a range of measures aimed at reducing the cost of medicines, the Government has announced a one-year freeze of the maximum Pharmaceutical Benefits Scheme (PBS) patient co-payment for everyone with a Medicare card and a face year freeze for pensioners and other concession cardholders.

This change means that no pensioner or concession card holder will pay more than \$7.70 (plus any applicable manufacturer premiums) for up to five years.

Reducing indexation of Student debt

The Government will cap the HELP indexation rate to be the lower of either the Consumer Price Index (CPI) or the Wage Price Index (WPI) with effect from 1 June 2023.

The Government will backdate this relief to all HELP, VET Student Loan, Australian Apprenticeship Support Loan and other student support loan accounts that existed on 1 June last year.

This will benefit all Australians with a HELP debt, fixing the issue of last year's spike in the CPI indexation rate of 7.1% and preventing growth in debt from outpacing wages in the future.

An individual with an average HELP debt of \$26,500 will see around \$1,200 wiped from their outstanding HELP loans this year, pending the passage of legislation.

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