



Monthly Information Newsletter – Tax & Super

May 2023

Federal Budget -what to watch out for

It's now only a few days until the Federal Budget which is to be handed down on 9 May.

Some of the things to look out this year potentially include:

Abolition of Temporary Full Expensing

Under current legislative settings, TFE (see earlier) is set to cease on 1 July 2023 with the write-off set to revert to just \$1,000 from that date. If no action is taken in the Budget to extend TFE, this will have a cashflow impact on businesses in the sense that depreciation deductions will be spread out over a number of years rather than being claimed upfront. Record keeping will also be more burdensome in this space.

Stage three tax cuts

The fate of these tax cuts is also expected to be revealed. This round of tax cuts follows the first two stages which are now law, and which largely benefited lower income earners. If the stage three tax cuts are to proceed, from 1 July 2024, they will abolish the current 37% tax bracket, lower the existing 32.5% bracket to 30%, and raise the threshold for the top tax bracket from \$180,001 to \$200,001. The following table illustrates how the rates and thresholds will change if the tax cuts proceed:

Tax Rate	Thresholds in 2022-23	Tax Rate	New thresholds in 2024-25
Nil	Up to \$18,200	Nil	Up to \$18,200
19%	\$18,201-\$45,000	19%	\$18,201-\$45,000
32.5%	\$45,001-\$120,000	30%	\$45,001-\$200,000
37%	\$120,001-\$180,000		
45%	\$180,001 and over	45%	\$200,001 and over

On the face of it, lowering the 32.5% to 30% and removing the 37% tax bracket altogether seems like a big win for middle and upper-middle income earners. But it will actually be a much bigger win for higher-income earners, in dollar terms. For example, an individual who earns:

- \$75,000 will be better off by \$750 per year compared to now
- \$125,000 will be better off by \$2,225
- \$200,000 will be better off by \$9,075.

Low and middle income tax offset (LMITO) replacement?

This \$1,500 tax offset ceased from 1 July 2022. The LMITO was introduced by the former Coalition government in 2018. It was only meant to be paid out once but was twice extended due to the COVID-19 pandemic. We will wait until Budget night to see what, if any, alternative tax relief is offered to low and middle income earners, or indeed whether the LMITO is reinstated. If not, then low-income earners may face an increased tax liability of up to \$1,500 when upcoming 2022/23 tax returns are lodged.

CGT concessions trimmed?

While it's unlikely the CGT main residence concession on the family home will be reduced, the 50% CGT discount for other investments held more than a year could be partially on the chopping block for some people. It's possible to imagine a reduction in the discount for capital gains over a certain threshold – say \$3 million, in line with the threshold for the recent increase to superannuation earnings – limiting the impacts to a smaller, wealthier cohort of individuals.

More information?

In the days following, please contact us if you have any questions around how the Budget may impact your business, investments, or you as an individual.

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