2024 FEDERAL BUDGET

Last week, the Treasurer brought down the 2024 Federal Budget which he described as a “responsible Budget that helps people under pressure today” but by others as a “Seinfeld” Budget: i.e. a Budget about nothing.

Not unexpectedly, the Federal Budget deliveries focused on the Government’s stated priorities in delivering cost of living relief and support for housing construction. The restatement of the modified Stage III tax cuts was included in the announcements together with the increase in Medicare levy thresholds (both measures already legislated). The Budget did nothing to raise the rate of payment of Family Tax Benefit A or Family Tax Benefit B.

The Budget papers also highlighted that the Government is anticipating an additional level of personal income tax receipts as a result of policy decisions over the next 10 years of $28 bn even after the effect of the modified State III tax cuts! Treasury also disclosed that the effect of the Stage III will be dissipated in four years.

In a first for the Federal Budget, Australia’s total income tax take will soar above $300 bn, climbing to $334.6 bn this financial year on the back of low unemployment and strong wages growth. The surge in tax revenues will mean that 52 per cent of the total federal tax base will be reliant on income tax this financial year, according to the fresh budget forecasts.

For reference, the tax scales to be applied from 1 July are as follows:

Financial year 2023-24		Financial year 2024-25	
Taxable income	**Tax rate**	**Taxable income**	**Tax rate**
$0 to $18,200	Nil	$0 to $18,200	Nil
$18,201 - $45,000	19%	$18,201 - $45,000	16%
$45,001 - $120,000	32.5%	$45,001 - $135,000	30%
$120,001 - $180,000	37%	$135,001 - $190,000	37%
$180,001 and over	45%	$190,001 and over	45%

The change in tax scales has also had an impact on the application of the Low Income Tax Offset (“LITO”) and the Senior and Pensioners Tax Offset (“SAPTO”) with effective tax free thresholds rising as per the following table:

Effective tax-free threshold	2023-24	2024-25
Client not eligible for LITO/SAPTO	$18,200	$18,200
Client eligible for LITO	$21,885	$22,575
Client eligible for LITO and SAPTO (single)	$33,089	$34,656
Client eligible for LITO and SAPTO (couple each[1])	$29,784	$31,006

[1] Does not include the provisions of unused SAPTO being transferred between spouses

Superannuation
The Superannuation sector received scant attention by the Government in this Budget. Despite a number of welcome smaller measures announced concerning the addition of superannuation guarantee payments on parental leave receipts (an overdue measure) and a restatement of the "payday super" rules (previously announced in the 2023-24 Federal Budget) requiring employers to pay their employees' SG entitlements at the same time as their salary and wages (again, an overdue measure, in fact, 30 years overdue).

The Budget was conspicuous in not dealing with a number of material superannuation matters that have been before the Government in a number of cases, for some years, without an adequate response from the Government. Chief amongst these issues is the continued lack of clarity around the division 296 tax (the tax to be applied to "earnings" on a member's total superannuation balance in excess of $3m). Despite significant lobbying of, in particular, the Senate crossbenchers, the Senate committee last week recommended that the bill containing the measure to proceed unamended, despite the significant concerns raised by the superannuation industry.

The only mention of the measure in the Budget papers is a provision of additional funding for the Commonwealth Superannuation Corporation and the Department of Finance to help meet the costs associated with implementing the measure for members of the Commonwealth defined benefit superannuation schemes (i.e. Federal public servants). Whilst the Government recognises the impost of the additional administrative costs associated with compliance with the measure, there was no recognition of the costs of this nature being replicated across the superannuation system given that all defined benefit schemes and contributory funds will need to comply with their obligations under the proposed tax.

From this allocation resources, we could readily infer the Government's firm intention to legislate the Division 296 as it stands in the draft legislation.

The Government has also failed to address outstanding issues such as:

- an amnesty for the commutation of various legacy pensions (originally announced in the 2021 Budget but with no substantive action since);
- non arm's length expenditure ("NALE") - specifically to 'Specific' expenditure nor a capital gains tax technical issue;
- the deductibility of financial advice fees from a member's interest in an SMSF;
- adjustment of the SMSF residency rules; or
- various opportunities for "Red Tape" reduction and practical opportunities for the simplification of the superannuation system.

Interestingly, another matter not addressed was the discrepancy in indexation treatments applied to varied superannuation thresholds. Of particular interest is the lack of indexation of the $500,000 total superannuation balance threshold which is referenced when considering eligibility for the "carry forward unused concessional contribution" rules, the Division 293 threshold and the $300,000 contribution amount under the "downsizer" rules. If we consider the $500,000 threshold, indexation at CPI would result in a threshold of approximately $604,565, a significant difference potentially drawing a greater range of eligible members able to take advantage of the capacity to utilise previously unused concession contribution entitlements. If we consider the lack of indexation, the threshold has reduced to an effective $413,520 in real terms.

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Of significant importance to higher income earners is the lack of indexation of the Division 293 threshold of $250,000. This additional tax was introduced to reduce the tax concessions available on concessional contributions for "high income" earners. A high income earner is currently any individual with "income" greater than $250,000 (prior to 1 July 2017 this threshold was $300,000). If we apply the same indexation methodology as above, the threshold at which this tax would apply is estimated at $302,282.

In the same way, the $300,000 downsizer contribution amount introduced in 2018 would have indexed to an estimated $355,935 thus allowing a greater contribution capacity for those over the age of 55 to contribute to superannuation without having to meet an upper age limit restriction or a work test and with the contribution also not being assessed against the non-concessional contributions cap (assuming that all other eligibility criteria are complied with).

The inconsistency in the application of indexation and the different indexation measures utilised within the superannuation environment needs an equitable resolution with the Government missing a valuable opportunity to address this matter of equity.