



## Special Federal Budget 2025 – 26 Edition

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### Budget Overview

On Tuesday 25 March 2025, the Treasurer, the Hon Dr Jim Chalmers MP, delivered the Federal Budget 2025–26 (**Budget**), his fourth budget.

The media consensus seems to be that it is a relatively low-key budget on the eve of the election (which will be held on Saturday 3 May 2025) with, unsurprisingly, few tax measures. There are ‘modest’ tax cuts (more information below), further help with power bills and significant investments in Medicare (to improve bulk billing rates) and the Pharmaceutical Benefits Scheme (**PBS**) to reduce the cost of medicines. Nearly \$5 billion will be invested in a universal early childhood education and care system.

Some of the key numbers revealed in the Budget are set out below.

- **Budget deficit:** a deficit of \$42.1 billion is projected for 2025–26, followed by continuing deficits of \$35.7 billion in 2026–27, \$37.2 billion in 2027–28 and \$36.9 billion in 2028–29.
- **Real GDP:** forecast to be 2.25% for 2025–26, rising to 2.5% for 2026–27 and 2.75% for 2027–28 and 2028–29.
- **Gross debt:** forecast to be \$1.022 trillion (35.5% of GDP) for 2025–26, rising to \$1.223 trillion (36.8% of GDP) by 2028–29.
- **Net debt:** forecast to be \$620.3 billion (21.5% of GDP) for 2025–26, rising to \$768.2 billion (23.1% of GDP) by 2028–29.

- **Unemployment:** the unemployment rate is forecast to be 4.25% for the June 2025 quarter and remain at that level through to 2028–29.
- **Inflation:** expected to be 2.5% through the year to the June quarter 2025 (this is 0.25 of a percentage point lower than the Mid-Year Economic and Fiscal Outlook 2024–25 (**MYEFO**) forecast in December 2024). Inflation is expected to rise to sustainably return to the RBA's target band (2–3%) around the middle of 2025, which is around six months earlier than anticipated.
- **Consumer price index:** expected to be 3% for 2025–26 then falling back to 2.5% for 2026–27 through to 2028–29.
- **Wage price index:** forecast to be 3.25% in 2025–26 and 2026–27, rising to 3.5% for 2027–28 and 3.75% for 2028–29.
- **Total tax receipts:** expected to be \$676.1 billion (23.5% of GDP) for 2025–26, rising to \$778.3 billion (23.4% of GDP) for 2028–29.
- **Total payments:** expected to be \$777.5 billion (27% of GDP) for 2025–26, rising to \$877.7 billion (26.4% of GDP) for 2028–29.

Yet unknown is the impact on the Australian and global economy of US President Trump's economic policies, including the imposition of tariffs on goods imported into the US. The Government hopes that a \$20 million Buy Australia campaign may help counter the impact of tariffs.

More information about the Budget papers can be found at [budget.gov.au](https://budget.gov.au).



## Tax Highlights

It was the quietest Budget from a tax perspective in more than two decades.

The ‘highlight’ is a personal income tax cut for all individual taxpayers, which reduces the 16% rate to 15% from 1 July 2026 then to 14% from 1 July 2027.

The Budget contained few tax measures affecting businesses (although sole traders will benefit from the tax cuts from 1 July 2026 and 1 July 2027). Measures were announced to help the hospitality sector.

Although not apparent in the Budget papers, in its Small Business statement, the Government reaffirmed its commitment to providing cash flow support to small businesses by extending the temporary increase in the instant asset write-off (**IAWO**) threshold.

The Budget also confirmed the proposed ban (announced in February 2025) on foreign persons (including temporary residents and foreign-owned companies) from purchasing established dwellings for two years from 1 April 2025, unless an exception applies. Exceptions will include investments that significantly increase housing supply or support the availability of housing on a commercial scale.

From an administration perspective, funding of \$999 million has been allocated to the ATO over four years to extend and expand its tax compliance activities.

Finally, if you are wondering why it seems quiet on the superannuation front – unusually, the Budget did not contain any announcements concerning superannuation.

## Tax Measures for Individuals

### Tax Cuts in 2026–27 and 2027–28

The Government announced that:

- from 1 July 2026 — the 16% rate will be reduced to 15%; and
- from 1 July 2027 — the 15% rate will be reduced further to 14%.

The effect of the further tax cuts in 2026–27 and 2027–28 (compared to the 2024–25 settings) is that every Australian taxpayer earning:

- between \$18,200 and \$45,000 will receive an extra tax cut of up to \$268 in each of 2026–27 and 2027–28 (up to just over \$5 per week); and
- more than \$45,000 — around 80% of taxpayers — will receive an extra tax cut of \$268 in each of 2026–27 and 2027–28 (just over \$5 per week).

The [enabling legislation](#) was passed by the Parliament the day after the Budget and became law before the election was called.

As a reminder, for Australian tax residents, the 16% rate kicks in when taxable income exceeds \$18,200 and applies up to \$45,000 (the first \$18,200 of taxable income is tax-free — although the tax-free threshold is apportioned if you are a resident for only part of the income year).

Foreign residents do not qualify for the tax-free threshold, so the 16% rate applies to all taxable income up to \$45,000.

The Budget papers contain the below table which sets out the value of the tax cuts.

Taxable income	Value of first tax cut – 1 July 2026	Value of second tax cut – 1 July 2027
\$40,000	\$218	\$218
\$47,627 <sup>1</sup>	\$268	\$268
\$50,000	\$268	\$268
\$79,000 <sup>2</sup>	\$268	\$268
\$100,000	\$268	\$268
\$103,000 <sup>3</sup>	\$268	\$268
\$150,000	\$268	\$268
\$200,000	\$268	\$268

1. As of 1 July 2024, the national minimum wage is \$47,627.
2. Based on ABS data (November 2024), annualised average weekly earnings are around \$79,000.
3. Based on ABS data (November 2024), average ordinary full-time earnings are around \$103,000.



### Medicare Levy Thresholds

The Government announced that it would increase the Medicare levy low-income thresholds for 2024–25. This annual indexation was contained in the same [enabling legislation](#) as the tax cuts, so this measure has also become law.

The thresholds vary depending on whether the taxpayer is eligible for the senior and pensioners tax offset (**SAPTO**) and whether the taxpayer has dependent children or students.

The new thresholds are set out in the table below.

	Low-income threshold	Full Medicare Levy (2%) applies above*
Singles	\$27,222 (up from \$26,000)	\$34,027 (up from \$32,500)
Single seniors and pensioners	\$43,020 (up from \$41,089)	\$53,775 (up from \$51,361)
Families (not eligible for SAPTO)	\$45,907 (up from \$43,846) + \$4,216 for each dependent child	\$57,383 (up from \$54,807) + \$5,270 for each dependent child
Families (eligible for SAPTO)	\$59,886 (up from \$57,198) + \$4,216 (up from \$4,027) for each dependent child	\$74,857 (up from \$71,497) + \$5,270 for each dependent child

\* The Medicare levy phases in at 10 cents for each dollar above the relevant low-income threshold until the full 2% levy applies.

### Cutting Student Debt

The Government proposes to reduce all outstanding Higher Education Loan Program (**HELP**) and other student debts by 20% (before indexation is applied on 1 June 2025), subject to the passage of enabling legislation. This will remove \$16 billion from the student loan accounts of 3 million Australians.

### Foreign Resident CGT Regime

The start date of the proposed measure to strengthen the foreign resident capital gains tax (**CGT**) regime (announced as part of the Federal Budget 2024–25) will be extended from 1 July 2025 to the later of 1 October 2025 or the first 1 January, 1 April, 1 July or 1 October after the enabling legislation receives Royal Assent.

The Government previously announced that it would:

- clarify and expand the range of assets on which foreign residents are subject to CGT;
- change the point-in-time principal asset test to a 365-day testing period; and
- require foreign residents disposing of shares or other membership interests worth more than \$20 million in value to notify the ATO before the transaction is executed.



### Tax Deductible Donations

The following organisations will be specifically listed as deductible gift recipients (**DGRs**) for gifts received after 30 June 2025 and before 1 July 2030:

- Community Foundations Australia Ltd;
- Equality Australia Ltd;
- Foundation Broken Hill Limited;
- Social Enterprise Australia Ltd; and
- Sydney Chevra Kadisha.

The DGR status of the St Patrick's Cathedral Melbourne Restoration Fund will be extended by five years until 30 June 2032.

In addition, the Government will enable Foundation Broken Hill Limited and Lord Mayor's Charitable Foundation to retain their specific listing status in the tax law.



## Business Tax Measures

### Small Business Instant Asset Write-Off (IAWO) Threshold

The [enabling legislation](#) to set the IAWO threshold at \$20,000 for 2024–25 was passed by the Parliament the day after the Budget and has become law. The \$20,000 IAWO threshold has now been extended to 30 June 2025. So, if your business qualifies as a small business (aggregated annual turnover less than \$10 million) and you use the simplified depreciation rules, you can deduct outright the cost of any eligible depreciating asset your business has purchased in 2024–25 which costs less than \$20,000. You must start to use the asset, or install it ready for use, before 1 July 2025.

Without further legislative amendment, the threshold will revert to \$1,000 from 1 July 2025. There has been no announcement from the Government on the threshold for 2025–26.

### Managed Investment Trusts

The tax laws will be amended to clarify arrangements for managed investment trusts, to ensure legitimate investors can continue to access concessional withholding tax rates in Australia. This complements the ATO's strengthened guidelines to prevent misuse. This measure will apply to fund payments from 13 March 2025 (the date this measure was originally announced).



The Government will also defer the start date of the proposed measure to extend the clean building managed investment trust withholding tax concession (announced as part of the Federal Budget 2023–24), from 1 July 2025 to the first 1 January, 1 April, 1 July or 1 October after the relevant legislation receives assent.

### Hospitality and Alcohol Sectors

The Government will pause indexation on draught beer excise and excise equivalent customs duty rates for two years, from August 2025. This means that the biannual indexation of draught beer excise and excise equivalent customs duty rates due to occur in August 2025, February 2026, August 2026, and February 2027 will not occur. Biannual indexation will then recommence from August 2027.

The Government will also increase support available under the existing Excise remission scheme for manufacturers of alcoholic beverages (**the Remission scheme**) and Wine Equalisation Tax (**WET**) producer rebate (**Producer rebate**).

Currently:

- all eligible brewers and distillers can receive an excise remission under the Remission Scheme up to a cap of \$350,000; and
- all eligible wine producers can currently receive a WET rebate up to a cap of \$350,000 under the Producer rebate.

Both caps will increase to \$400,000 per financial year, from 1 July 2026.

### Tax Agents

The Government will strengthen the sanctions available to the Tax Practitioners Board (**TPB**), modernise the registration framework for tax practitioners and provide funding to the TPB to undertake additional compliance targeting high-risk tax practitioners over four years from 1 July 2025. This measure is designed to protect taxpayers from tax agent misconduct, including poor and unlawful tax advice, and maintain community confidence in the integrity of the tax system.

It will also support the sustainability of the tax profession by increasing the ease of re-entry for tax and BAS agents who take career breaks.



## Other Tax-Related Measures

### Compliance Activities

The Government will provide \$999 million to the ATO to extend and expand tax compliance activities, including:

- \$717.8 million over four years from 1 July 2025 for a two-year expansion and a one-year extension of the Tax Avoidance Taskforce. This supports the ATO's continued tax compliance scrutiny on multinationals and other large taxpayers;
- \$155.5 million over four years from 1 July 2025 to extend and expand the Shadow Economy Compliance Program to reduce shadow economy behaviour such as worker exploitation, under-reporting of taxable income, illicit tobacco and other shadow economy activity that enables non-compliant businesses to undercut competition;
- \$75.7 million over four years from 1 July 2025 to extend and expand the Personal Income Tax Compliance Program. This will enable the ATO to continue to deliver a combination of proactive, preventative and corrective activities in key areas of non-compliance;
- \$50.0 million over 3 years from 1 July 2026 to extend the Tax Integrity Program. This will enable the ATO to continue its engagement program to ensure timely payment of tax and superannuation liabilities by medium and large businesses and wealthy groups.



## Other Measures

### Energy Bill Rebates

The Government will extend the Federal Budget 2024–25 measure to continue to provide energy bill rebates of \$75 per quarter for eligible Australian households and small businesses until 31 December 2025. This will total \$150 for every household and around one million small businesses. The rebates will be automatically applied to electricity bills in two quarterly instalments.

### Employees' Rights

The Government proposes to ban non-compete clauses for workers earning less than the high-income threshold in the *Fair Work Act 2009* (currently \$175,000). This will take effect sometime in 2027.

The Government also proposes to close loopholes in competition law that currently allow businesses to:

- fix wages by making anti-competitive arrangements that cap workers' pay and conditions, without the knowledge and agreement of affected workers; and
- use 'no-poach' agreements to block staff from being hired by competitors.

### Foreign Investment In Housing

The Government will take action to ensure foreign investment in housing supports the Government's broader agenda to boost Australia's housing supply by:

- banning foreign persons (including temporary residents and foreign-owned companies) from purchasing established dwellings for two years from 1 April 2025, unless an exception applies. Exceptions to the ban will include investments that significantly increase housing supply or support the availability of housing on a commercial scale, and purchases by foreign-owned companies to provide housing for workers in certain circumstances;
- providing the ATO with \$5.7 million over four years from 2025–26 to enforce the ban; and
- providing the ATO and Treasury with \$8.9 million over four years from 2025–26 and \$1.9 million per year ongoing from 2029–30 to implement an audit program and enhance their compliance approach to target land banking by foreign investors.

The Government said that the enhanced compliance approach by the ATO and Treasury to target land banking will ensure foreign investors comply with requirements to put vacant land to use for residential and commercial developments within reasonable timeframes.

### Enforcement Activities

The Government will provide:

- \$207 million over two years from 2025–26 to continue the stabilisation of Australia's business registers and undertake targeted uplifts. This includes linking Director Identification Numbers (**director IDs**) to the Company Register, intended to improve the quality of information available to investors and creditors about directors. This will also further combat illegal phoenixing; and
- \$3.0 million over four years from 2025–26 for ASIC to improve its data analytics capability to better target enforcement activities to deter illegal phoenixing activities, particularly in the construction sector.

The Government will also provide an additional \$6.7 million to extend the operation of the National Anti-Scam Centre to continue protecting Australians from scam activity.

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