Tax News & Insights

26 March 2025 – Federal Budget Edition

OmniTax Professionals

With a federal election looming in May 2025, Treasurer Jim Chalmers delivered the 2025-26 federal budget last night. The federal budget forecasts a deficit of $42 billion for the 2025-26 year, with deficits expected until at least 2035. National debt has been projected to exceed $1 trillion by 2026.

Our key tax-related takeaways from the federal budget are summarised below:

Personal Income Tax Cuts

The $18,201-$45,000 income tax bracket is currently subject to tax at a rate of 16% (previously 19% in 2023-24). The budget proposes to:

- Reduce the rate to 15% from 1 July 2026; and
- Further reduce the rate to 14% from 1 July 2027.

No changes are proposed to tax rates for the 2024-25 income year (the current year) or the 2025-26 income year (the next year).

The impact of the above personal income tax cuts is summarised in the below table:

TAXABLE INCOME	2024-25 Tax Payable* ($)	Reduction in Tax Payable ($) [compared to enacted rates]		
		2025-26	2026-27	2027-28
$50,000	5,788	-	(268)	(536)
$100,000	20,788	-	(268)	(536)
$150,000	36,838	-	(268)	(536)
$200,000	56,138	-	(268)	(536)
$250,000	78,638	-	(268)	(536)
$300,000	101,138	-	(268)	(536)

* already enacted (no change to tax payable in federal budget announcement) and excludes Medicare Levy

Captive Managed Investment Trusts

Consistent with the announcement by the Assistant Treasurer on 13 March 2025, the income tax law is proposed to be amended to clarify that trusts that are ultimately owned by a legitimate single widely held investor (e.g., a foreign pension fund) will be able to access the MIT withholding tax concessions through a 'captive' MIT with effect from 13 March 2025. It is not clear whether the change in tax law will also allow such 'captive' MITs to make an election to deem a disposal of eligible investments to be on capital account.

Importantly, we expect that any change in income tax law to be narrow such that the Commissioner will still have power to apply Part IVA to non-commercial restructures to access MIT withholding tax benefits that involve characteristics set out in the recently released Taxpayer Alert TA 2025/1.

Delayed start to extended clean building MIT withholding tax concession

The 2023-24 Budget measures to extend the clean building MIT 10% withholding tax rate will be deferred from the previously proposed start date of 1 July 2025 to the start of the quarter after the Act containing the measures receives Royal Assent. These measures included:

- Extending the concession to data centres and warehouses if they meet relevant energy efficiency standards and construction starts after 9 May 2023; and
- Raising the minimum energy efficiency standards for clean buildings to a 6-star rating.

Delayed start to strengthening foreign resident CGT regime

The 2024-25 Budget measures to strengthen the foreign resident CGT regime will be deferred from the previously proposed start date of CGT events occurring on or after 1 July 2025 to CGT events occurring on or after the start of the quarter after the Act containing the measures receives Royal Assent. Based on previous announcements and consultation, these measures included:

- Broadening the types of assets which qualify as Taxable Australian Property (and therefore are subject to CGT for foreign residents);
- Changing the principal asset test to a 365-day testing period (rather than a point-in-time test); and
- Requiring foreign residents disposing of shares or membership interests exceeding $20 million in value to notify the ATO before executing the transaction.

Continued ATO Focus on Tax Compliance

The ATO will continue its focus on tax compliance. The federal budget announced additional funding of $999 million over the next four years to the ATO to 'extend and expand tax compliance activities' including scrutiny on multinationals and other large taxpayers, under reporting of taxable income, personal income tax compliance, and timely payment of tax and superannuation.

Interestingly, the federal budget projects additional revenue collections by the ATO from this focus on tax compliance of $52 million in 2025-26, $323 million in 2026-27, $564 million in 2027-28 and (a very large) $2,275 million in 2028-29.

On 13 March 2025, Deputy Commissioner Fiona Knight outlined various priorities for large and multinational businesses, including:

- Arrangements that are designed to avoid the inclusion of net capital gains in assessable income, consistent with TA 2020/4;
- Issues involving intellectual property and intangibles, including whether appropriate royalties are being paid, and income generated in Australia is being appropriately taxed;
- Tax implications relevant to complex and opaque offshore structures into unlisted investments across the investment lifecycle;
- Continued focus on businesses changing their arrangements to ensure compliance with ATO positions through early engagement and settlement of disputes;
- Moving to real-time engagement with the Top 100 public businesses; and
- Improving tax governance frameworks in line with ATO expectations and guidelines.

In February 2025, the ATO outlined various focus areas for small businesses including:

- Contractors omitting income (e.g., identified from data matching programs);
- History of failing to comply with GST obligations;
- Using business income and assets for personal benefit;
- Claiming deductions for non-commercial business losses;
- Application of the small business CGT concessions;
- Incorrect claiming of the small business boost measures ('skills and training boost' and 'technology investment boost'); and
- GST registration and income of taxi, limousine, and ride-sourcing services.

What was not in the Federal Budget?

Noting that all unenacted bills will lapse on calling the upcoming election, the federal budget did not contain any further details on various previously announced measures or recent tax developments including (inter alia):

- In the 2023-24 federal budget, it was announced that the general anti-avoidance rule in Part IVA would be expanded to apply to schemes that apply a lower withholding tax rate on income paid to non-residents, as well as schemes that achieve an Australian income tax benefit even where the dominant purpose was to reduce foreign income tax. In the previous 2024-25 federal budget, it was announced that this measure will only apply in income years commencing after the day that the Act containing the measures receives Royal Assent, though there would not be any grandfathering of existing schemes. No further announcement was made on this measure, including no grandfathering for existing schemes.

- No mention of Division 7A reform in relation to private company loans, despite the recent developments from the *Bendel* case and the uncertainty resulting from the Commissioner's interim decision impact statement.

- In the previous 2024-25 federal budget, it was announced that the $20,000 instant asset write-off would be extended until 30 June 2025. This measure is still not enacted. Though we expect this measure will get enacted (despite nothing being certain on any such announced but unenacted measures given the upcoming federal election), no further announcement was made to extend this measure beyond 30 June 2025.

- The FBT exemption for plug-in hybrid electric vehicles ends on 31 March 2025. There was no announcement to extend this exemption beyond this date. Note, the exemption continues to apply to eligible electric vehicles.

- In the 2023-24 federal budget, it was announced that an additional 15% extra tax would be imposed on superannuation earnings attributable to total superannuation balances of greater than $3 million. This announcement was proposed in a Bill before Parliament though was not enacted. No further announcement was made on this measure.

- In previous federal budgets, changes were proposed to the tax residency of companies incorporated outside Australia, and subsequent consultation on these measures considered expanding these changes to trusts and limited partnerships. No further announcement or clarity was provided in the 2025-26 federal budget on these measures.

Contact

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