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# Federal Budget

## 2025 - 2026

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**\$17b**

in tax cuts with each taxpayer to receive a tax cut of up to \$268 in the first year and up to \$536 in the second year



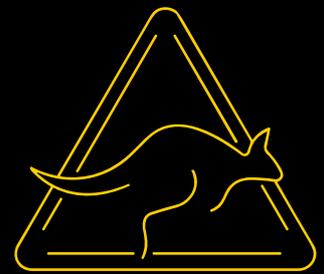
**20%**

cut to student loan debts alongside other reforms to the student loan repayment system



**\$20m**

investment on initiatives to boost Australian-made products



**622k**

Australian households to be upgraded from fibre to the node to full fibre internet



**\$150**

energy relief with the energy rebate extended until the end of 2025



**3 day**

childcare guarantee to replace activity test from January 2026

**\$2.6b**

wage increase for aged care nurses

**\$800m**

spending on lifting property price and income caps on the Help to Buy Scheme



**\$8.5b**

investment in Medicare to make more GP visits bulk billed for all Australians and train more doctors and nurses

**\$1.8b**

to list more life-changing medicines on the PBS

**Tradies and Apprentices**

Apprentices in construction trades, such as carpentry and bricklaying, can earn \$10,000 incentives for completing training as part of a \$629.9 million plan from Labor's December budget update. Employers in priority occupations may also receive a \$5,000 "priority hiring incentive," extended until December 31, 2025.



**\$400k**

remission cap and WET rebate cap from 1 July 2026

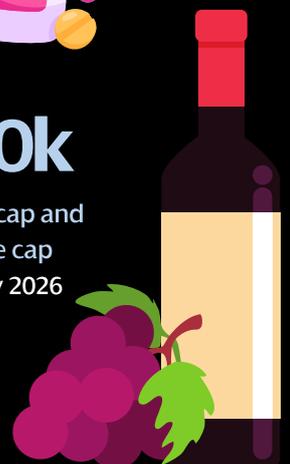
**3m**

workers on less than \$175k now no longer allowed to be held to non-compete clauses



**\$95m**

to freeze the alcohol excise on draught beer for two years.



# Introduction

On Tuesday, 25 March 2025, Treasurer Jim Chalmers handed down the 2025-26 Federal Budget.

The Budget's main priorities are based on helping with the cost-of-living, building more homes, and investing in education. The Budget also includes two new personal tax cuts for all Australian individual taxpayers, increased Medicare levy thresholds, a ban on foreign individuals buying existing homes and a proposed reduction to student debts.

Being the government's last Budget before this year's federal election, the start dates of a number of previously announced but unenacted tax measures have been deferred until amending legislation is enacted.

Described by the Treasurer as a "plan for a new generation of prosperity in a new world of uncertainty", the Budget did not include any new measures affecting the taxation or regulation of superannuation or new income tax measures affecting small businesses.

In his Budget, Chalmers projected a resilient Australian economy in the face of growing global headwinds. The economy expanded at the fastest pace in 2 years last quarter, while the unemployment rate stayed at a historically low of 4.1%.

A Budget deficit of \$27.6bn is forecast in 2024-25, to be followed by an underlying cash deficit of \$42.1bn in 2025-26 (and \$35.7bn in 2026-27 and \$37.2bn in 2027-28).

The Budget papers note that the global economic outlook remains volatile and unpredictable with the threat of a global trade war and tariff tensions. Real GDP growth is expected to be broad-based and increase from 1.5% in 2024-25 to 2.25% in 2025-26 and 2.5% in 2026-27.

Inflation is expected to be 2.5% through the year to the June quarter 2025.

On the revenue side, \$676.1bn in tax receipts are expected for 2025-26, representing 23.5% of GDP (down from 23.7% for 2024-25). Despite the proposed tax cuts from 1 July 2026, tax receipts will grow to \$778.3bn by 2028-29 (23.4% of GDP).



# For Individuals

## Tax Cuts

Under the government's new tax cuts:

- From 1 July 2026, the 16 per cent rate will be reduced to 15 per cent
- From 1 July 2027, the 15 per cent rate will be reduced further to 14 per cent

The Federal Government announced \$17.1 billion in new tax cuts on Tuesday and announced other cost-of-living measures.

Through cutting the lowest tax bracket, a worker on average earnings will get a new tax cut of \$268 in the fiscal year ending June 2027 and \$536 in the following fiscal year, more modest than the \$1,654 relief in the tax cuts introduced this fiscal year.

## Resident rates and thresholds 2025-26

The 2025-26 tax rates and income thresholds for residents (as currently legislated and unchanged from 2024-25) are as follows:

<b>Taxable Income (\$)</b>	<b>Tax Payable (\$)</b>
0 - 18,200	Nil
18,201 - 45,000	Nil + 16% of excess over 18,200
45,001 - 135,000	4,288 + 30% of excess over 45,000
135,001 - 190,000	31,288 + 37% of excess over 135,000
190,001 +	51,638 + 45% of excess over 190,000



# For Individuals

## Resident rates and thresholds 2026-27 (proposed)

The 2026-27 tax rates and income thresholds for residents will be as follows under the Government's proposal to reduce the tax rate from 16% to 15% for the first income threshold from 1 July 2026.

Taxable Income (\$)	Tax Payable (\$)
0 - 18,200	Nil
18,201 - 45,000	<b>Nil + 15% of excess over 18,200</b>
45,001 - 135,000	4,020 + 30% of excess over 45,000
135,001 - 190,000	31,020 + 37% of excess over 135,000
190,001 +	51,370 + 45% of excess over 190,000



# For Individuals

## Tax rates and thresholds 2027-28 (proposed)

The 2027-28 tax rates and income thresholds for residents will be as follows under the Government's proposal to reduce the tax rate from 15% to 14% for the first income threshold from 1 July 2027.

Taxable Income (\$)	Tax Payable (\$)
0 - 18,200	Nil
18,201 - 45,000	<b>Nil + 14% of excess over 18,200</b>
45,001 - 135,000	3,752 + 30% of excess over 45,000
135,001 - 190,000	30,752 + 37% of excess over 135,000
190,001 +	51,102 + 45% of excess over 190,000



# For Individuals

## Foreign residents

The Government's proposal to reduce the resident income tax rate from 1 July 2026 (and 1 July 2027) for the income threshold (\$18,200 - \$45,000) is not expected to flow through and impact the income tax rates for foreign residents. This is because foreign residents are not entitled to the tax-free threshold or the first income tax threshold.

For 2025-26, the tax rates for foreign residents (unchanged from 2024-25) are:

<b>Taxable Income (\$)</b>	<b>Tax Payable (\$)</b>
0 - 135,000	30%
135,001 - 190,000	40,500 + 37% of excess over 135,000
190,001+	60,850 + 45% of excess over 190,000



# For Individuals

## Working holidaymakers

For 2025-26, the rates of tax for working holiday makers (unchanged from 2024-25) are:

Taxable Income (\$)	Tax Payable (\$)
0 - 45,000	15%
45,001 - 135,000	6,750 + 30% of excess over 45,000
135,001 - 190,000	33,750 + 37% of excess over 135,000
190,001 +	54,100 + 45% of excess over 190,000



# For Individuals

## Low income tax offset (unchanged)

No changes were made to the low income tax offset (LITO) in the 2025-26 Budget.

For completeness, and as a reminder, while the LMITO ceased from 1 July 2022, low and middle income taxpayers remain entitled to the low income tax offset (LITO).

Taxable Income (TI)	Amount of offset (\$)
0 - 37,500	700
37,501 - 45,000	$700 - [(TI - 37,500) \times 5\%]$
45,001 - 66,667	$325 - [(TI - 45,000) \times 1.5\%]$
66,668 +	Nil

The maximum amount of the LITO is \$700. The LITO is withdrawn at a rate of 5 cents per dollar between taxable incomes of \$37,500 and \$45,000 and then at a rate of 1.5 cents per dollar between taxable incomes of \$45,000 and \$66,667.



# For Individuals

## Medicare levy low-income thresholds for 2024-25

For the 2024-25 income year, the Medicare levy low-income threshold for singles has been increased to \$27,222 (up from \$26,000 for 2023-24). For couples with no children, the family income threshold is \$45,907 (up from \$43,846 for 2023-24). The additional amount of threshold for each dependent child or student is \$4,216 (up from \$4,027).

For single seniors and pensioners eligible for the SAPTO, the Medicare levy low-income threshold is \$43,020 (up from \$41,089). The family threshold for seniors and pensioners is \$59,886 (up from \$57,198), plus \$4,216 for each dependent child or student.

	2023 - 2024 <b>Low income threshold</b>	2023 - 2024 <b>Full Medicare Levy (2%) applies above*</b>	2024 - 2025 <b>Low income threshold</b>	2024 - 2025 <b>Full Medicare Levy (2%) applies above*</b>
Singles	\$26,000	\$32,500	\$27,222	\$34,027
Singles seniors and pensioner	\$41,089	\$51,361	\$43,020	\$53,775
Families (not eligible for SAPTO)	\$43,846 (plus \$4,027 for each dependent child)	\$54,807 (plus \$5,034 for each dependent child)	\$45,907 (plus \$4,216 for each dependent child)	\$57,383 (plus \$5,270 for each dependent child)
Families (Senior and Pensioner)	\$57,198 (plus \$4,027 for each dependent child)	\$71,497 (plus \$5,034 for each dependent child)	\$59,886 (plus \$4,216 for each dependent child)	\$74,857 (plus \$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 Medicare levy at 2% applies. The increased thresholds will apply to the 2024-25 and later income years. Note that legislation is required to amend the thresholds.

# For Individuals

## Reduction of Higher Education loan Program (HELP) debts

The government will reduce all outstanding Higher Education Loan Program (HELP) and other student debts by 20%, before indexation is applied on 1 June 2025. The cut will remove a total of \$16 billion in debt.

The student loan repayment system will also be reformed from 1 July 2025 by moving to a marginal repayment system with a higher minimum repayment threshold. The minimum repayment threshold is proposed to increase from \$54,435 in 2024–25 to \$67,000 in 2025–26. Both these reforms (which were previously announced in November 2024) will be subject to the passage of legislation.

The Government has already legislated a cap on HELP indexation based on the lower of the Consumer Price Index or the Wage Price Index (see Universities Accord (Student Support and Other Measures) Act 2024). The change was backdated to 1 June 2023, and has already reduced outstanding student debt by around \$3bn, according to the Government.



# For SMEs and Employers

## Measures for small business

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Measures will be introduced to assist Small Businesses as follows:

- extending energy bill relief to 31 December 2025, with around one million eligible small businesses able to access up to \$800 of energy bill relief since the 2023–24 Budget;
- promoting prompt 20-day payment times for contractors and subcontractors in the construction industry for work completed for Government Business Enterprises undertaking major construction activity, such as the NBN Co Ltd and Western Sydney Airport (WSA) Co Ltd;
- supporting the hospitality sector and alcohol producers by pausing indexation on draught beer excise and excise equivalent customs duty rates and by increasing support available under the existing Excise remission scheme for manufacturers of alcoholic beverages and Wine Equalisation Tax Producer rebate, estimated to decrease receipts by \$165.0 million over five years from 2024–25.

This builds on the Government's previously announced commitments, including:

- providing cash flow support to small businesses through extensions to the instant asset write-off up to \$20,000;
- \$25.9 million to support the mental health and financial wellbeing of small business owners through the NewAccess for Small Business Owners program and the Small Business Debt Helpline;
- the \$33.4 million investment to improve payment times for small businesses, including \$25.3 million in the 2024–25 Budget to support the overhauled Payment Times Reporting Scheme and enhance the Regulator's ability to deliver better payment outcomes for small businesses;
- \$693.2 million co-funded with the states and territories to support disaster-affected small businesses and not-for-profits;
- more than \$60 million to help small businesses uplift their digital and cyber security capabilities through the Digital Solutions program, Cyber Wardens program, Small Business Cyber Resilience Service and the Cyber Health Check;
- helping small and medium businesses compete for and win more Government contracts through the Buy Australian Plan, updating the Commonwealth Procurement Rules to increase significantly the small and medium business participation target, and improving AusTender to make it easier to identify small and medium businesses on government panels;
- partnering with the states and territories to deliver more than \$1.5 billion in funding for Free TAFE over 2023 to 2026, and investing a further \$1.6 billion in making Free TAFE permanent from 2027;
- supporting apprentices and their employers by increasing the maximum incentive payments for eligible housing construction apprentices, maintaining the 2025 Priority List and extending current payment settings, and increasing the Living Away From Home Allowance and Disability Australian Apprentice Wage Support;
- the \$56.7 million Energy Efficiency Grants for Small and Medium Sized Enterprises program which is providing up to \$25,000 to eligible businesses to fund a range of energy upgrades.

# Super, Pension and SMSF

## No major changes announced

The Government did not announce any new major superannuation measures in the Budget. The only super item of note was some additional funding to extend an ATO Tax Integrity Program which is expected to raise an extra \$31 million in unpaid superannuation from medium and large businesses and wealthy groups over 5 years from 2024-25.

## Proposed Div 296 regime - uncertainty remains

While no new major super measures were announced in the Budget, the super industry has enough on its plate at the moment in terms of navigating the uncertainty surrounding the proposed Division 296 regime for superannuation account balances above \$3 million from 1 July 2025.

To date, the Australian Labor Party (ALP) has insisted on passing the Div 296 Bills in their current form and rejected concerns about the taxing of unrealised gains and the \$3 million threshold not being indexed. If the ALP is returned to Government at the May election, it is likely that the Bills would be re-introduced, although the proposed 1 July 2025 start date may be delayed.



# Super, Pension and SMSF

## Super Guarantee: no change to legislated rate rise to 12% for 2025-26

The Budget did not announce any change to the timing of the next (and final) Super Guarantee (SG) rate increase. The SG rate is currently legislated to increase from 11.5% to 12% on 1 July 2025. It has been gradually increasing by 0.5% each year since it was 9.5% in 2020-21. The 12% rate from 1 July 2025 marks its final destination rate.

With the SG rate set to increase to 12% for 2025-26 (up from 11.5%), employers need to be mindful that they cannot use an employee's salary sacrificed contributions to reduce the employer's extra 0.5% of super guarantee. The ordinary time earnings (OTE) base for super guarantee purposes now specifically includes any sacrificed OTE amounts. This means that contributions made on behalf of an employee under a salary sacrifice arrangement are not treated as employer contributions which reduce an employer's charge percentage.

## SG opt-out for high-income earners

The increase in the SG rate to 12% from 1 July 2025 also means that the SG opt-out income threshold will decrease to \$250,000 from 1 July 2025 (down from \$260,870). High-income earners with multiple employers can opt-out of the SG regime in respect of an employer to avoid unintentionally breaching the concessional contributions cap (\$30,000 for 2024-25 and 2025-26). Therefore, the SG opt-out threshold from 1 July 2025 will be \$250,000 (\$30,000 divided by 0.12).



# Other Measures

## Managed investment trust rules to be amended

Amendments to clarify the arrangements for managed investment trusts (MITs) will be made to ensure legitimate investors can continue to access concessional withholding tax rates for fund payments from 13 March 2025.

In particular, trusts ultimately owned by a single widely-held investor will be able to access the MIT concessions. The proposed changes will ensure that genuine, foreign-based widely-held investors, such as pension funds, can still access concessional withholding tax rates on eligible distributions to members through MITs.

This measure will complement the ATO's strengthened guidelines. The amendments will not affect the ATO's power to take action under the general anti-avoidance rules in Pt IVA of ITAA 1936 where "captive MITs" involve other characteristics of the kind set out in Taxpayer Alert TA 2025/1.

## Start date deferred for clean building MIT withholding tax concession for data centres and warehouses

The start date of the 2023–24 Budget measure to extend the clean building managed investment trust (MIT) withholding tax concession will be deferred from 1 July 2025 to the first 1 January, 1 April, 1 July or 1 October after assent of amending legislation.

A final withholding tax rate of 10% currently applies to payments from eligible clean building MITs made to foreign residents in countries with which Australia has effective exchange of information agreements. This applies to eligible trusts holding office buildings, retail centres and non-residential accommodation built after June 2012 that meet energy efficiency standards.

The 2023–24 Budget proposed to extend the concession to eligible data centres and warehouses from 1 July 2025, where construction commenced after 7:30 pm (AEST) on 9 May 2023. The start date for the proposal is deferred from 1 July 2025 to the first 1 January, 1 April, 1 July or 1 October after the amending legislation receives assent.



# Other Measures

## ATO funding to strengthen compliance activities

The ATO will be given \$999 million in funding over 4 years to extend and expand its tax compliance activities.

Additional funding includes:

- \$717.8 million over 4 years from 1 July 2025 for a 2-year expansion and a one-year extension of the Tax Avoidance Taskforce, to support compliance scrutiny on multinationals and other large taxpayers
- \$155.5 million over 4 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
- \$75.7 million over 4 years from 1 July 2025 to extend and expand the Personal Income Tax Compliance Program, to enable the ATO to deliver a combination of proactive, preventative and corrective activities, and
- \$50 million over 3 years from 1 July 2026 to extend the Tax Integrity Program, to continue the ATO's engagement program to ensure timely payment of tax and superannuation liabilities by medium and large businesses and wealthy groups.

## More funding for ASIC to deter illegal phoenixing

The Government will provide \$3 million over 4 years from 2025-26 for the Australian Securities and Investments Commission (ASIC) to improve its data analytics capability to better target enforcement activities to deter illegal phoenixing activities, particularly in the construction sector.



# Other Measures

## ABRs: further funding and linking DINs to company register

The Government will provide \$207 million over 2 years from 2025-26 to continue the stabilisation of Australia's business registers and undertake targeted uplifts. This includes linking Director Identification Numbers (DINs) to the Company Register, intended to improve the quality of information available to investors and creditors about directors. It is also intended to further combat illegal phoenixing.

## Restrictions on foreign ownership of housing

The ATO will be provided \$5.7 million over 4 years from 2025-26 to enforce the ban on foreign residents from purchasing established properties. In addition, the ATO and Treasury will be provided with \$8.9 million over 4 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 has already announced the ban on foreign persons (including temporary residents and foreign-owned companies) from purchasing established dwellings for 2 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.

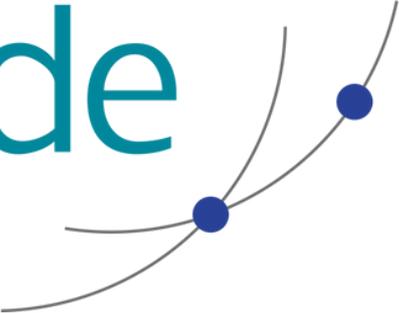
The enhanced compliance approach by the ATO and Treasury to target land banking will ensure foreign investors comply with requirements to put vacant land to use for residential and commercial developments within reasonable timeframes.





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