Federal Budget Summary 2023

In this special report, our Head of Professional Standards & Technical Services, Craig Meldrum looks at the high level takeouts from the 2023 Federal Budget and what it means for individuals and businesses, for tax, superannuation and social security that may impact wealth creation and retirement funding strategies for Infocus' advisers and clients.

This was Treasurer, Dr Jim Chalmer's second budget since Labor came to power a year ago. And, unlike last year's October budget which was set against a backdrop of economic disruption, commodity-driven inflationary pressures, anaemic wages growth, skills shortages, underemployment and energy costs rising out of control during the current transition from fossil fuels to renewable energy (none of which has really changed in the last 9 months), the Treasurer was keen to spruik a modest return to surplus for the first time in 15 years (and the first by a Labor Government since Paul Keating) of $4bn for 2022-23. It might sound like wonderful economic management, but the Government has benefitted from a surge in revenue driven by high materials prices (iron ore, coal and gas), alongside record low unemployment (and some wages growth), a sustained increase in household spending and sustained corporate profits.

We'll get into some of the economic numbers in a moment. But if things are looking a bit better from a revenue perspective, does that mean that the Government is looking to splash some cash? A key pain point for most people is the sustained inflationary pressure affecting the cost of living, particularly energy, food and transport. And while subsiding from a high of 7.8%, we all continue to feel the financial strain.

But, no. The Treasurer was keen to make the point that we still have high inflation and the Government has been very keen not to make any spending decisions which might exacerbate inflation and cause more pain to families and potentially lead to a recession. The Treasurer referred to targeted, responsible, affordable cost-of-living relief for the most vulnerable – so there was really nothing in this budget for working and middle class families. The legislated Stage 3 tax cuts will only apply from 1 July 2024.

The high level

The announced targeted cost-of-living relief was very targeted indeed, aimed at eligible social security recipients. Around 5.5 million Australian households and one million businesses are set to receive financial support with their rising energy bills under a $14.6bn dollar package.

From July 2023, eligible households will receive up to $500 in electricity bill relief and eligible small businesses up to $650. The Government also announced low-cost loans for double glazing and solar panels to assist with managing the high cost of gas and electricity.

Looking further at the most vulnerable, the Treasurer announced an increase of $40 per fortnight for recipients of Job Seeker, Austudy and Youth Allowance, and noted the extra difficulties many people over 55 years old have getting work (many of whom are women) so announced that the higher rate of Job Seeker that currently applies to people over the age of 60 will now apply to those aged over 55. He also announced measures for Single Parenting Payment and for more affordable housing with a 15% increase in the rate of rental assistance.

Cited as the “centrepiece” of this budget to help ease cost of living pressures for the most vulnerable was the announcement of the tripling of the Medicare bulk-bill incentive to allow more people to seek medical care from their GP (which might also reduce the strain on hospital emergency departments).

The Treasurer also reiterated his pre-budget announcement regarding an $11.3bn package to provide 250,000 aged care workers with a 15% increase in the award wage.

Particular to small businesses, the Treasurer announced the Small Business Energy Incentive providing businesses with an annual turnover of less than $50 million with an additional 20 per cent bonus tax deduction on spending supporting “electrification and more efficient use of energy” where eligible assets are deployed/installed in FY24. The Government has also committed to the $20,000 instant asset write-off for FY24 to help improve cash flow and reduce compliance costs for small businesses.

Specific to superannuation, the Government had already announced the introduction of payday super which will require employers pay superannuation at the same time as salary and wages (with a proposed start date of 1 July 2026) in order to stop some employers underpaying super, particularly for short-term and casual staff.

The Treasurer also confirmed the announcement made in February that the government intends to increase the concessional tax rate applied to accumulation-phase earnings from 15 per cent to 30 per cent for individuals with super balances exceeding $3 million from the 2025–26 financial year. The Government expects the changes to apply to less than 80,000 individuals and should generate approximately $2 billion in additional revenue in the first 12 months of operation.

There was a range of other spending measures announced but none really relevant from a tax, superannuation or retirement income perspective. Looking at how the Government will pay for these proposals, the Treasurer was happy to quote a figure of $17.8bn in savings coming largely from increased taxes on smokers, multinationals, wealthy superannuants and gas producers – the LNG industry coming under the spotlight as part of a review of the Petroleum Resource Rent Tax (PRRT).

However, was there anything for individuals and businesses for tax, superannuation, social security or anything that we can really hang our hats on when looking at wealth creation and retirement funding strategies? Not really.

The macro

While the Treasurer was keen to talk about a small return to surplus for 2022-23, he did warn that the global economic outlook is not all rosy and Treasury expects that our $4bn surplus for 2022-23 will be followed by a deficit of $13.9bn in 2023–24. However, he noted that "lower deficits across the forward years compared to recent budgets leading to a $125.9bn improvement over 5 years and a much lower public debt burden."
He confirmed that gross debt to GDP is now expected to peak lower and earlier at 36.5 per cent of GDP in 2025–26, where it will be $154bn less than was expected in March 2022.

"And because we are returning most of the welcome improvement in revenue to the budget, debt will be almost $300 billion lower by the end of the medium term, saving $83 billion in interest costs over the next 12 years."

Conclusion and where to from here?

From a financial planning perspective, there has been really nothing in this budget to delve into. There were no visionary reforms to the taxation or superannuation laws or even minor tweaks. Of the spending measures announced, most Australians will not get any direct benefit and will need to rely on the inflation numbers continuing to trend downwards to realise some cost of living relief, plus the benefit of the Stage 3 tax cuts coming into play from July 2024.

The government had to face the hard task of what potentially irresponsible spending might do in a high-inflation environment and it has certainly chosen the more "responsible" and conservative route, targeting cost of living relief measures to the most vulnerable in our community.

As with all budget announcements, the measures are proposals only and need to be enacted by Parliament.

I urge readers to contact your financial adviser with any specific questions you may have.