2022-23 October Budget Brief

Headline budget figures

The Budget is forecast to be in deficit over the forecast period, but the deficits are substantially smaller than previously forecast.

Year	2021-22 (actual)	2022-23	2023-24	2024-25	2025-26
Underlying cash balance ($bn)	-32.0	-36.9	-44.0	-51.3	-49.6
% of GDP	-1.4	-1.5	-1.8	-2.0	-1.8

Since the Pre-Election Fiscal Outlook (PEFO), and before policy decisions, there has been a $144 billion increase in revenue for the four years from 2022-23, and a $92 billion increase in payments, for a net improvement in the Budget position of $52 billion over the four year period. The net effect of policy decisions since PEFO was a worsening of the Budget position by $9.8 billion over four years ($13bn in tax increases and $22.8bn in spending increases).

Gross debt is forecast to be 43% of GDP in 2025-26 ($1,159bn), and net debt 28.5% of GDP ($767bn).

Other budget figures are below:

Year	2021-22 (actual)	2022-23	2023-24	2024-25	2025-26
Tax Receipts ($bn)	537	563	574	591	629
% of GDP	23.4	22.7	23.3	23.0	23.4
Payments ($bn)	616	644	665	694	729
% of GDP	26.8	25.9	27.0	27.1	27.1

Headline economic figures & forecasts

In general, the Budget is forecasting a deterioration in the economy during this financial year and next financial year, with particularly weak growth in 2023-24 mainly due to the difficult global outlook, cost of living pressures, and interest rate increases.

Year	Real GDP	Employment	Unemployment	CPI inflation
	% growth	% growth	%	% growth
2021-22 (actual)	3.9	3.3	3.8	6.1
2022-23	3.25	1.75	3.75	5.75
2023-24	1.5	0.75	4.5	3.5
2024-25	2.25	1.0	4.5	2.5
2025-26	2.5	1.25	4.25	2.5

Cross portfolio

A new Housing Accord

The Government has announced a new Housing Accord (the Accord) with state and local Governments, the Australian Local Government Association, institutional investors, including superannuation funds and representatives from the construction sector.

The Accord sets a target of one million new, well- located homes over 5 years from mid-2024.

The Accord has secured endorsement from institutional investors, including superannuation funds. Under the Accord, investors have agreed to:

- work constructively with Accord parties to optimise policy settings that facilitate institutional investment in affordable housing.
- build on constructive discussions to date
- develop workable financing approaches that will best leverage institutional capital to deliver more social and affordable housing.

The Accord also includes commitments from the Federal, State and Territory Governments to build up to 30,000 new homes.

Review of key policy settings affecting housing supply and affordability

The Australian Government has allocated $15.2 million to establish a National Housing Supply and Affordability Council, which will be responsible for:

- delivering advice on options to improve housing supply and affordability,
- reporting on key issues in housing policy, and
- promoting the regular collection and publication of data on housing supply, demand and affordability.

The National Housing Supply and Affordability Council will be commissioned to review barriers to institutional investment, and innovative financing models in housing (for example, Build to Rent).

Establishment of a Housing Australia Future Fund

The Australian Government has allocated $10 billion to establish the Housing Australia Future Fund (the Fund) to be managed by the Future Fund Management Agency to generate investment returns to fund 30,000 social and affordable homes over 5 years from 2022. Of these investment returns, $330 million will be allocated for acute housing needs. The Fund will also aim to draw in investments from state and territory governments and private capital providers.

Climate change reporting

- The Budget includes funding to Treasury and the Australian Accounting Standards Board to develop and introduce climate reporting standards for large businesses and financial institutions, in line with international reporting requirements ($6.2 million over 4 years from 2022-23).
- The Budget includes funding to restore the Climate Change Authority, including the requirement to produce an Annual Climate Change Statement to Parliament to report on progress of the emissions reduction targets of 43 per cent by 2030 and net zero by 2050 recently enshrined into law. This measure will cost $47 million over four years to 2022-23.

Superannuation

The Budget includes the following proposals:

- The cancellation of a proposal to require retirement income providers to report standardised metrics in product disclosure statements. This was originally announced in the 2018-19 Budget.
- Confirming a previous announcement that the minimum age of eligibility for downsizer contributions would be reduced from 60 years to 55 years. The cost of this measure if $20 million over four years from 2022-23.

The Budget does not announce any changes to superannuation contribution thresholds or the Transfer Balance Cap (TBC), so indexation of these thresholds will continue unchanged.

The Budget also does not have any announcement about tax changes relating to non-arm's length income/expenditure (NALI/E) for superannuation funds. The previous Government announced it would amend the law to address issues that funds have raised about NALI/E.

The Budget states that, since PEFO, superannuation fund tax receipts have been revised down by $3.1 billion in 2022-23 to $12.6 billion, but up by $1.7 billion over the four years to 2025-26. The main driver of the fall in 2022-23 is the utilisation of franking credits through dividends and offmarket share buybacks, as well as recent weakness in capital gains.

In future years, tax revenue of funds has been revised up due to higher expected compensation of employees. The tax measure relating to off market buybacks (see below) increases superannuation fund tax revenue by $400 million over the four years to 2025-26.

Managed Investments

The Budget announces $2.7 million for Treasury to support a review of the regulatory framework for Managed Investments Schemes (note this funding also covers the current RBA review).

Financial advice

- The Budget announces increased funding for ASIC to administer the financial adviser exam, to be 'partially cost recovered' from examination fees. The Budget does not disclose the amounts due to commercial sensitivities.

Life insurance

- The Budget includes funding of $7 million over two years from 2022-23 for the Youpla Group Funeral Benefits Program to meet unpaid funeral claims of a Youpla funeral expenses policy.

Taxation general

- The Budget announces that the Government will align the **tax treatment of offmarket share buybacks** of listed companies with the tax treatment of on-market buybacks. This measure is forecast to increase tax revenue by $550 million over four years from 2022-23.
    - This measure has effect from Budget night (25 October 2022).

    - We understand that this measure will mean that offmarket buybacks will no longer be able to have a component that is a franked dividend – for a share held on capital account, the proceeds will entirely be on capital account with no franked dividend component.
- The Budget provides various details of the previously announced **multinational tax measures**. Details of the measures are in the Attachment.
    - The thin capitalisation measure is forecast to raise tax revenue by $720 million over the four years from 2022-23.
    - The royalties measure is forecast to raise tax revenue by $250 million over the four years from 2022-23.
    - Details are in the Attachment.
- The Budget announces the deferral of the following previously announced measures to "allow sufficient time for policies to be legislated and implemented":
    - **Technical amendments to the TOFA rules** (announced in the 2021-22 Budget) – this will now commence from the income year after Royal Assent of legislation. This mainly relates to foreign exchange hedging rules.
    - The relaxation of **residency requirements for SMSFs** (announced in 2021-22 Budget) – this will now commence from the income year after Royal Assent.
- The Budget announces the cancellation of the following previously announced measures where legislation has not been enacted:
    - Amendments to **debt/equity rules** (announced in 2013-14 MYEFO)
    - Proposed changes to TOFA rules (announced in 2016-17 Budget, and delayed in 2018-19 Budget).
    - The introduction of a **limited partnership collective investment vehicle** (announced in 2016-17 Budget). The original intent was this vehicle would be introduced after the CCIV was legislated, this is now no longer the intent.
- The Budget announces the reversal of the measure allowing taxpayers to **self-assess the effective life of intangible depreciating assets** (previously announced in the 2021-22 Budget), raising $550 million over four years from 2022-23.
- The Budget announces an extension of several tax compliance programs, forecast to increase revenue by $3.7 billion over four years. The business tax component of this program is forecast to increase tax revenue by $2.8 billion over four years and cost $1.1 billion (in higher ATO expenditure).
- The Budget contains no measures to respond to the impending end of the Offshore Banking Unit (OBU) regime.

Other announcements

Paid parental leave

- The Budget confirms a substantial increase in Paid Parental Leave (PPL) to 26 weeks by 2026-27 at a cost of $531 million over four years from 2022-23. The Government does not make a commitment to provide superannuation guarantee on PPL.
    - The Budget has confirmed a review of the optimal PPL model by the Women's Economic Equality Taskforce (chaired by Sam Mostyn), where the issue of superannuation on PPL could be considered.

Treasury agencies

- The Budget includes increased funding of $80 million for the ATO and ASIC to deliver the modernised registry, and $86m for ASIC and ATO to deliver the Director Identification Numbers regime.

Social security

- The Budget confirms an extension of the exemption from the assets test for home sale proceeds from pension assets testing from 12 months to 24 months, at a cost of $73 million over four years from 2022-23. The measure also includes changing the income test to apply the lower deeming rate to proceeds for the 24 months after sale.
- The Budget includes a previously announced measure to increase the pension work bonus by $4,000 for two years form 2022-23. This measure will increase payments by $62 million and reduce tax revenue by $15 million over the four years from 2022-23.

Skilled migration

- The Budget confirms the permanent migration program will be expanded by 35,000 places to 195,000 in 2022-23 (as announced in the Jobs and Skills Summit).
- The Budget provides an additional $42.2 million to accelerate visa processing, reduce visa processing times, and raise awareness of opportunities for high-skilled migrants in Australia's permanent Migration Program.
- The Budget announces that the Government will develop a Migration Strategy. The Government states:
    - The Strategy will be aimed at identifying changes to ensure the migration system serves Australia's national interests and complements the skills and capabilities of Australian workers.
    - The Strategy will focus on ways to grow Australia's economy and attract high-skilled migrants, while also furthering Australia's geostrategic interests, unlocking the potential of all migrants and providing clear pathways to permanent residency.

Foreign Investment

- The Budget confirms the already announced increase in foreign investment fees and penalties, which raise $457 million over four years from 2022-23.

Measuring what matters

- The Budget contains a new statement (ie chapter) providing broader measures of wellbeing, including income, wealth, housing, health and environment. The Government has announced that Treasury will do further work on developing these broader measures of the wellbeing of Australians.

Attachment – Multinational tax measures

The Budget announces the following details of the Government’s multinational tax package.

Thin capitalisation

The changes below commence from income years commencing on or after 1 July 2023.

The current thin capitalisation regime limits debt deductions up to the maximum of three different tests: a safe harbour (debt to asset ratio) test; an arm’s length debt test; and a worldwide gearing (debt to equity ratio) test.

The Budget announces the Government will replace the safe harbour and worldwide gearing tests with earnings-based tests to limit debt deductions in line with an entity’s activities (profits).

This measure includes changes to:

- limit an entity’s debt-related deductions to 30 per cent of profits (using EBITDA —earnings before interest, taxes, depreciation, and amortisation – as the measure of profit). This new earnings-based test will replace the safe harbour test.
- allow deductions denied under the entity-level EBITDA test (interest expense amounts exceeding the 30 per cent EBITDA ratio) to be carried forward and claimed in a subsequent income year (up to 15 years).
- allow an entity in a group to claim debt-related deductions up to the level of the worldwide group’s net interest expense as a share of earnings (which may exceed the 30 per cent EBITDA ratio). This new earnings-based group ratio will replace the worldwide gearing ratio.
- retain an arm’s length debt test as a substitute test which will apply only to an entity’s external (third party) debt, disallowing deductions for related party debt under this test.

The changes will apply to multinational entities operating in Australia and any inward or outward investor, in line with the existing thin capitalisation regime. Financial entities will continue to be subject to the existing thin capitalisation rules.

Note the Budget does not indicate if there will be any changes to the definition of ‘financial entity’.

Payments relating to intangibles

The Budget announces an anti-avoidance rule to prevent significant global entities (entities with global revenue of at least $1 billion) from claiming tax deductions for payments made directly or indirectly to related parties in relation to intangibles held in low- or no-tax jurisdictions.

For the purposes of this measure, a low- or no-tax jurisdiction is a jurisdiction with:

- a tax rate of less than 15 per cent or
- a tax preferential patent box regime without sufficient economic substance.

The measure will apply to payments made on or after 1 July 2023.

This measure is estimated to increase receipts by $250.0 million and increase payments by $6.7 million over the 4 years from 2022–23.

Improved tax transparency

The Budget announces the Government will introduce reporting requirements for relevant companies to disclose tax information to the public, for income years commencing from 1 July 2023.

The Government will require:
- large multinationals, defined as significant global entities, to prepare for public release of certain tax information on a country by country (CbC) basis and a statement on their approach to taxation, for disclosure by the ATO.
- Australian public companies (listed and unlisted) to disclose information on the number of subsidiaries and their country of tax domicile and
- tenderers for Australian Government contracts worth more than $200,000 to disclose their country of tax domicile (by supplying their ultimate head entity's country of tax residence).

This measure is estimated to have an unquantifiable impact on receipts and to increase payments by $5.1 million over the 4 years from 2022–23.