

2025-26 May Budget Brief

Key themes/major announcements

This budget provides little in the way of financial services policy announcements. This no surprises budget provides some certainty to industry going into the caretaker period.

The centrepiece theme of the budget is helping with cost of living. Primary cost of living measures include two new personal income tax cuts for every taxpayer (for more information see *Taxation* below), continued energy bill relief, funding more bulk billing, caps on PBS medicines, and student debt relief. Other key measures include:

- Housing measures to build more homes more quickly and expanding the Government’s Help to Buy scheme.
- Further investments in the Government’s Future Made in Australia policy to support the production of Australian-made resources which can contribute to the net zero transformation. Sectors include green metals like aluminium and iron.

The Government also announced a proposed ban on non-compete clauses, targeted at low- and middle-income workers.

See more detail about key policies in *Other Announcements* below

Headline budget figures

- The Budget is forecast to be in deficit by \$27.6 billion (1.0 per cent of GDP) in 2024-25 after recording the first back-to-back surpluses in almost two decades. The surplus in 2023-24 was \$15.8 billion.
- A deficit of 1.5 per cent of GDP (\$42.1 billion) is forecast in 2025–26, an improvement of 0.2 percentage points since MYEFO.
- The underlying cash balance has improved by a cumulative \$207 billion over the seven years to 2028–29, compared to projections at the PEFO. – Since MYEFO, the underlying cash balance has improved by \$1.6 billion over the five years to 2028–2.
- Gross debt as a share of the economy is expected to peak at 37.0 per cent of GDP in 2029–30, 7.9 percentage points lower than the peak in the PEFO, before declining to 31.9 per cent of GDP by 2035–36.

Year	2023-24 (actual)	2024-25	2025-26	2026-27	2027-28
Underlying cash balance (\$bn)	15.8	-27.6	-42.1	-35.7	-37.2
% of GDP	0.6	-1.0	-1.5	-1.2	-1.2

Other budget figures are below:

Year	2023-24 (actual)	2024-25	2025-26	2026-27	2027-28
Tax Receipts (\$bn)	633.4	645.2	676.1	707.6	735.9
% of GDP	23.7	23.1	23.5	23.6	23.4
Payments (\$bn)	672.8	731.5	777.5	801.7	834.6
% of GDP	25.2	26.2	27.0	26.8	26.5

Headline economic figures and forecasts

- Growth picked up at the end of last year and this momentum is expected to continue to improve with real GDP forecast to grow by 1½ per cent in 2024–25, 2¼ per cent in 2025–26 and 2½ per cent in 2026–27.
- The Budget notes the global economic environment is facing considerable uncertainty and growth is expected to remain subdued over the next three years.
- Inflation has moderated substantially across both headline and underlying measures. Headline inflation was 2.4 per cent over the year to the December quarter 2024, which is less than a third of the peak observed in 2022.
 - Inflation is now expected to be 2½ per cent by the middle of this year, ¼ of a percentage point lower than forecast at MYEFO.
 - Excluding the impact of fuel and energy rebates, inflation is expected to sustainably be in the RBA’s target band around the middle of 2025, earlier than the end of the year expected at MYEFO.
- The labour market has outperformed expectations with the unemployment rate near historic lows, the participation rate elevated and, since mid-2022, employment has grown by over one million people with 80 per cent in private sector jobs.
- The unemployment rate is forecast to gradually rise to reach a peak of 4¼ per cent, ¼ of a percentage point lower than forecast at MYEFO.

Year	Real GDP	Employment	Unemployment	CPI inflation
	% growth	% growth	%	% growth
2023-24 (actual)	1.4	2.2	4.0	3.8
2024-25	1.5	2.75	4.25	2.5
2025-26	2.25	1	4.25	3
2026-27	2.5	1.25	4.25	2.5
2027-28	2.75	1.5	4.25	2.5

Superannuation

- \$50.0 million over three 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. This measure is estimated to increase receipts by \$3.2 billion over five years from 2024–25, and increase payments by \$1.4 billion, including \$31.0 million in unpaid superannuation to be disbursed to employees.

Innovation

- The Government will provide \$6.7 million in 2025–26 to extend the operation of the National Anti-Scam Centre within the Australian Competition and Consumer Commission to continue protecting consumers and businesses from scam activity. This measure builds on the 2023–24 Budget measure titled Fighting Scams.
- \$5.3 million in 2025–26 to the OAIC to continue its regulatory oversight of the Digital ID and Identity Verification Service programs.

Managed Investments

- In an amendment to an existing measure the Government will amend the tax laws to clarify arrangements for managed investment trusts, to ensure legitimate investors can continue to access concessional withholding tax rates in Australia complementing the Australian Taxation Office’s strengthened guidelines to prevent misuse. This measure will apply to fund payments from 13 March 2025.
- The Government will also defer the start dates of the following measures:
 - The 2023–24 Budget measure Extending the clean building managed investment trust withholding tax concession from 1 July 2025 to the first 1 January, 1 April, 1 July or 1 October after the Act receives Royal Assent. This is estimated to have an unquantifiable impact on receipts over five years from 2024–25. The Government has already provisioned for the measure to clarify arrangements for managed investment trusts.
 - The 2024–25 Budget measure Strengthening the foreign resident capital gains tax regime 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 Act receives Royal Assent. This is expected to decrease receipts by \$50.0 million and decrease payments by \$0.3 million over five years from 2024–25.

Financial advice

- There were no budget measures announced relating to financial advice.

Taxation

Personal Income Tax Cuts

- The Government is delivering tax cuts for every Australian taxpayer in 2026 and 2027. Every Australian taxpayer will receive an extra tax cut of up to \$268 from 1 July 2026 and up to \$536 every year from 1 July 2027, compared to 2024-25 tax settings.
 - Last year, the Government cut two rates and lifted two thresholds to deliver tax cuts for all Australian taxpayers, including cutting the rate that applies to taxable income earned between \$18,201 and \$45,000 to 16 per cent. The Government will cut income taxes further over two years by reducing the rate to 15% from 1 July 2026 and to 14% from 1 July 2027.

- Combined with the first round of tax cuts, the average annual tax cut will increase to \$2,229 in 2026–27 and \$2,548 in 2027–28 – around \$50 per week.
- The Government will also increase the Medicare levy low-income thresholds by 4.7 per cent for singles, families, and seniors and pensioners from 1 July 2024. This means over one million Australians on lower incomes will continue to be exempt from paying the Medicare levy or pay a reduced levy rate.

Tax Integrity Measures

- The Government will provide \$999.0 million over four years to the Australian Taxation Office (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.

Other Announcements

Banning non-compete clauses for low- and middle-income workers

- The Government will ban non-compete clauses for low- and middle-income workers. Research suggests the reforms could lift wages of affected workers by up to 4 per cent or \$2,500 per year.
- The Productivity Commission has estimated this reform could increase annual GDP by \$5 billion.

Restricting foreign ownership of 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 Australian Taxation Office (ATO) \$5.7 million over four years from 2025–26 to enforce the ban.

- Providing the ATO and Treasury \$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.
- This measure is estimated to decrease receipts by \$90.0 million and increase payments by \$14.6 million over five years from 2024–25

Energy Bill Relief

- The Government will provide \$1.8 billion over two years from 2025–26 to continue energy bill rebates of \$75 per quarter for eligible Australian households and small businesses until 31 December 2025 to provide cost-of-living relief.
- This measure extends the 2024–25 Budget measure titled Energy Bill Relief Fund – extension and expansion.

Student Debt Relief

- The Government will, this year, reduce all student debt balances by 20%. There are no specific budget measures associated with this announcement.

Housing Support

- The Government will provide \$58.8 million over five years from 2024–25 to increase support for housing, including:
 - \$54.0 million over four years from 2024–25 to increase the supply and adoption of prefabricated and modular housing construction, including: \$49.3 million over two years from 2025–26 to support states and territories to scale up existing projects for prefabricated and modular housing construction
 - \$4.7 million over four years from 2024–25 to develop a voluntary certification and rating scheme for prefabricated and modular housing manufacturers. Costs for the scheme will be recovered from industry from 2028–29 onwards.
 - \$4.9 million over four years from 2025–26 to continue the Regional Home Guarantee and Family Home Guarantee streams of the Home Guarantee Scheme.
- The Government will also provide \$0.8 billion in additional investment in the Help to Buy program, bringing total equity investments to \$6.3 billion, through increasing property price caps and increasing income caps from \$90,000 to \$100,000 for singles and from \$120,000 to \$160,000 for joint applications. This measure builds on the 2024–25 Budget measure titled *Housing Support*.

Building Australia's Future

- The Government will provide \$3.2 billion over 19 years from 2024–25 to invest in the future of Australia's metals industry. Funding includes:
 - \$2.0 billion over 19 years from 2024–25 for Green Aluminium Production Credits to provide production based grants to support Australian aluminium smelters switching to renewable electricity before 2036. This would be provided to eligible Australian Aluminium production facilities over a period of 10 years

- \$1.0 billion over seven years from 2024–25 for the Green Iron Investment Fund to fund green iron projects through capital grants to support producers to establish or transition into low emissions facilities in Australia, including up to \$500 million earmarked to transform the Whyalla Steelworks.

Implementing Aged Care Reforms

- The Government will provide \$291.6 million over five years from 2024–25 (and an additional \$12.7 million in 2029–30) to continue the delivery of aged care reforms and the implementation of recommendations from the Royal Commission into Aged Care Quality and Safety. Funding includes:
 - \$116.1 million in 2025–26 in additional funding for the Aged Care Quality and Safety Commission to deliver its regulatory functions under the Aged Care Act 2024 from 1 July 2025
 - \$47.6 million over four years from 2025–26 (and an additional \$12.7 million in 2029–30) to support First Nations organisations to deliver culturally appropriate aged care assessments for First Nations people
 - \$24.4 million in 2024–25 for additional Commonwealth Home Support Programme assessments to meet new requirements under the Aged Care Act 2024

Climate Change

- The Government will provide \$2.0 billion to recapitalise the Clean Energy Finance Corporation to invest in renewable energy, energy efficiency and low emissions technologies. The Government has already provided funding for this measure.
- The Government will achieve savings of \$100.3 million over four years from 2024–25 by redirecting funding across the Climate Change, Energy, the Environment and Water portfolio. Savings include:
 - \$75.0 million from the partial reversal of the 2022–23 October Budget measure titled Powering Australia – Driving the Nation Fund – establishment, by reducing uncommitted funding from the Hydrogen Highways program
 - \$14.7 million from the partial reversal of the 2021–22 Budget measure titled Emissions Reduction and New Investments under the Technology Investment Roadmap, including reducing funding from the Strategic International Partnerships Investment Stream program
 - \$10.6 million from the partial reversal of the 2020–21 Budget measure titled JobMaker Plan – securing Australia’s liquid fuel stocks, including reducing uncommitted funding for diesel storage projects not taken up by industry.