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2024 Federal Budget Analysis

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Introduction

In his third budget, Treasurer Jim Chalmers has delivered on his promise of cost-of-living relief, with tax cuts for every Australian.

Against a backdrop of global uncertainty and a world of "churn and change", it's clear the focus is on addressing the areas that matter most to individual taxpayers, particularly when it comes to their concerns about inflation. From energy costs to housing availability, tertiary education fees, and health care expenses, the Budget homes in on what Australians value most.

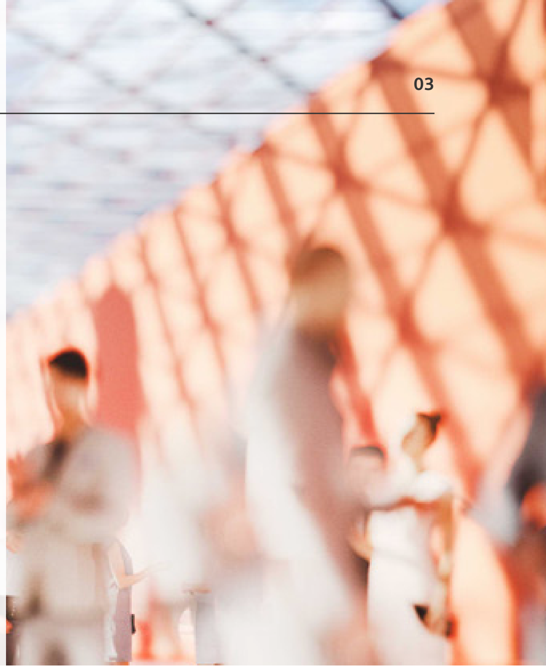
It's a budget positioned as delivering responsible economic management – back-to-back surpluses and a lowering of gross debt. Yet, the question now is whether something responsible for today will set the country up for success tomorrow.

In a budget that's picking winners by focusing benefits on certain sectors of the economy, the Government has signalled its priorities. What has not made the cut is funding for genuine tax reform to create a more efficient revenue collection system that doesn't stifle economic activity.

If the Government is committed to positioning Australia for "lasting transformational change", should a tax system that operates in the best interests of all Australians, with a reduction in red tape, not be part of the change?

"Providing cost-of-living relief and supporting Australia's green transition were clearly the Government's key priorities in crafting this year's budget, but what's missing are real business tax breaks, industry-neutral support and genuine tax reform."

Mark Molesworth
Partner, Tax



The backdrop for this year's budget

Amid global inflationary pressures, the Australian economy has experienced a period of price instability and low growth. As inflation in most advanced economies remains above central bank targets, fiscal measures used to apply downward pressure on the price of goods have strained disposable incomes, as everyday Australians experience a cost-of-living crisis.

Current domestic economic conditions

Economic activity slowed considerably in Australia with GDP growth under pressure, driven by higher interest rates as Australia's inflation target remains the Reserve Bank Board's highest priority. The softening in economic growth did not translate into weaker labour market conditions, with the unemployment rate recorded at 3.9% at the end of December 2023.

In the housing market, both housing prices and rents continue to rise as underlying demand exceeds supply, indicative of a rental crisis.

Given these indicators, the Federal Budget's cost of living relief and Stage 3 Income Tax cuts are an attempt to ease cost of living pressures on households aiming to boost medium-term economic growth.

Economic outlook

Real GDP growth is expected to decrease in 2024 to 1.2%, before recovering to 2.1% in 2025, according to RBA data.

It should be noted that the Government has presented a slightly more optimistic expectation on the short-term future of Australia's inflation compared to the Reserve Bank. In his speech, the Treasurer outlined an expectation of realising its inflation target in the second half of 2024 which contrasts to the central bank's expected timeline of June 2025 (as indicated just before the Budget).

In the labour market, unemployment is expected to increase gradually, reaching 4.3% by 2025. With this increase, wage growth is expected to soften over the same period.

It is mainly the additional revenue from continuing high commodity prices, including iron ore, and increasing tax revenues that have driven the forecasted surplus for the current year. However, this will slip into a deficit of approximately $28.3 billion in the following year.

BDO comment

The Government's budget presents an optimistic view of the economy overall.

Given the incentives offered by various cost-of-living relief measures are likely to boost the availability of cash and hence inflation, this budget reflects the difficulties in dealing with voters' expectations for subsidies and reliefs and constraining the inflationary pressures whilst encouraging optimistic growth.

As the current level of inflation in Australia at 3.6% remains above its 2-3% target, it remains to be seen whether the Government's strong reliance on the RBA's monetary policy (i.e. interest rates) will be effective in easing the inflationary pressures.

A Future Made in Australia

A Future Made in Australia (FMIA) is the consolidation of numerous already announced measures, as well as some new and enhanced initiatives, under one banner. The goal of the $22.7 billion program is to compete with the US Inflation Reduction Act and similar international initiatives in a bid to incentivise advanced manufacturing and clean energy projects within Australia.

The focus of FMIA will be:

- Renewable hydrogen
- Critical minerals
- Green metals
- Low carbon liquid fuels
- Clean energy manufacturing.

New measures announced in the Budget:

- Introduction of a Production Tax Credit (PTC) for renewable hydrogen and critical minerals
- Introduction of the FMIA Innovation Fund
- Increased funding for Hydrogen Headstart.

Previously announced measures include:

- National Reconstruction Fund (NRF)
- Industry Growth Program
- Hydrogen Headstart
- Solar Sunshot
- Investment in Quantum Computing
- Buy Australian Plan
- Resourcing Australia's Prosperity.

New measures

Production Tax Credit

The Government has announced the introduction of a PTC from 2027-28 for hydrogen and critical minerals production in Australia. Whilst currently lacking in detail, we understand the proposed credit will be modelled on the US advance manufacturing tax credit. Companies will be able to access the PTC for costs that relate directly to the value-add processing of hydrogen and 31 critical minerals.

FMIA Innovation Fund

The Government has announced the introduction of $1.7 billion over ten years from 2024-25 for the FMIA Innovation Fund to support priority sectors, including renewable hydrogen, green metals, low carbon liquid fuels and clean energy technology manufacturing such as batteries. This funding will provide support for innovation, commercialisation, pilot and demonstration projects and early-stage development. From this language, it appears this funding will be focused on small and medium enterprises (SMEs) unlike the remainder of the FMIA.

Previously announced measures

National Reconstruction Fund

The Government has committed $5 billion to the National Reconstruction Fund. The fund, originally announced in October 2022 and established during 2023, has broad power to provide financial accommodations including debt, equity and guarantees for projects aligned to the Government's seven priority areas - resources, transport, medical science, Defence capability, renewables and low emission technologies, agriculture, forestry and fisheries and enabling capabilities. A further $10 billion is to be committed by 2029.

Industry Growth Program

This program provides an advisory service for startups and SMEs undertaking innovative commercialisation and/or growth projects within the priority areas of the Australian Government's NRF and provides grants of up to $5 million for commercialisation and growth projects. $382 million was committed to the program in the 2023-24 Federal Budget.

Hydrogen Headstart

Announced in the 2023-24 Federal Budget, the $2 billion Hydrogen Headstart program was designed to fund large-scale hydrogen production projects to accelerate the development of Australia's hydrogen industry. Six applicants have been shortlisted for funding, with the Government intending to announce funding recipients in late calendar year 2024. The Government announced an additional round of the Hydrogen Headstart program, which has extended the funding by $1.3 billion.

Solar Sunshot

In March 2024, the Government committed up to $1 billion in funding for the Solar Sunshot program to build Australia's solar photovoltaic (PV) manufacturing capabilities. Consultation for the program design is currently underway (closing 31 May 2024), with Round 1 expected to launch in August 2024.

Quantum computing

The Federal and Queensland Governments announced in April that they would each be investing $470 million through share purchases, grants and loans to PsiQuantum to relocate its regional headquarters to Brisbane in an attempt to build the world's first commercially useful quantum computer.

Buy Australian Plan

Originally announced in the 2022-23 budget, the Buy Australian Plan aims to improve the way government contracts work and build domestic industry capability through the Australian Government's purchasing power. The Australian Government will provide $18.1 million over four years from 2023-24 (and $1.5 million per year ongoing) to the Department of Finance to improve government procurement processes for businesses.

Resourcing Australia's Prosperity

Announced last week, the Government will invest $566.1 million over ten years from 2024-25 to deliver data, maps and other tools for use by the resources industry to assist with new discoveries and commit to the full mapping of Australia. The funding means Resourcing Australia's Prosperity (RAP) will be fully funded for 35 years. For the first time, RAP will map offshore areas of Australia and identify sites for carbon capture and storage, as well as possible sites for clean hydrogen projects.

BDO comment

Whilst FMIA has some welcome initiatives, in particular the PTC, its principles are a stark contrast to the open market-based economy espoused by the Hawke/Keating Labor Government. There is a clear risk of the Government creating businesses or even industries reliant on subsidies and an even bigger risk of the Government simply backing the wrong horse.

In addition, the PTC comes with little detail and is not due to kick off until 2027-28, after the next federal election. Ideally, the Government would be bolder and bring through these incentives given the existence of numerous critical mineral projects in the pipeline.

Whilst direct investment by Government can have its place, funding decisions need to be transparent and demonstrate value for money to the taxpayer, whilst being timely and efficient for business. Therefore, BDO strongly favours self-assessed tax incentives (with appropriate compliance monitoring) rather than direct grants and welcomes the new PTC for hydrogen and critical mineral projects.

Changes to the foreign resident capital gains tax regime

The Government has announced changes to the foreign resident CGT regime in a bid to raise revenue and improve compliance from those who do not ordinarily reside in Australia. The new rules will apply to asset sales from 1 July 2025.

Australia's CGT regime currently allows a foreign resident to disregard a capital gain or loss made on selling an asset, unless the CGT asset is taxable Australian real property (TARP). TARP includes a direct or indirect interest in Australian land, an asset used in carrying on a business through a permanent establishment in Australia, or rights and options in respect of those assets.

An 'indirect Australian real property interest' includes a significant interest (10% or more) in an entity whose underlying value is principally derived from Australian real property. Importantly, the principal asset test is used to determine whether an entity's underlying value is principally derived from Australian real property and is satisfied when the sum of the market values of an entity's assets that are TARP exceed the sum of the market value of the assets that are non-TARP.

Interestingly, the Government has stated that it intends to clarify and broaden the types of assets that foreign residents are subject to CGT on as well as amending the principal asset test to a 365-day test. At present, the principal asset test is examined based on asset values at a point in time. Unfortunately, no further details have been disclosed within the Budget.

Finally, it was also announced that foreign residents would be required to disclose to the ATO transactions that involve shares or other interests with a value of $20 million or more prior to the execution of the transaction.

The overarching aim of these measures is to ensure foreign residents are assessed on transactions that have a close economic connection to Australian land by ensuring the ATO knows about the transaction in real time.

BDO comment

Expanding the types of assets that are captured within the regime is a double-edged sword. While it collects more revenue, in the long-term, foreign investors will take the increased cost of investing in Australia into account when making capital allocation decisions.

Whilst changing the principal asset test to a 365-day test is good in theory, its application could be difficult in practice and increase the cost of compliance for taxpayers.

Consulting with the ATO prior to the completion of a transaction sounds positive in theory, but we have major concerns with how this would occur in practice. Whilst early engagement with the ATO and certainty over a tax position is always positive, being required to obtain ATO sign off prior to the execution of a transaction may significantly delay business activities.

The lack of detail in this announcement needs to be remedied rapidly. Appropriate consultation will be required to ensure the amendments deliver a benefit that is also practical for taxpayers to apply.

Amendments to existing measures

This Federal Budget contains changes the Government proposes to make to existing announced measures.

Tax integrity

In the 2023-24 Federal Budget, the Government proposed to expand the scope of the general anti-avoidance rule for income tax (Part IVA of the *Income Tax Assessment Act* 1936) so that it would apply to:

- Schemes that reduce tax paid in Australia by accessing a lower withholding tax rate on income paid to foreign residents
- Schemes that achieve an Australian income tax benefit, even where the dominant purpose was to reduce foreign income tax.

This year's Federal Budget further delays the start date of the 2023-24 Budget measure *Tax Integrity – expanding the general anti-avoidance rule* in the income tax law from income years commencing on or after 1 July 2024 to income years commencing on or after the day the amending legislation receives Royal Assent, regardless of whether the scheme was entered into before that date.

Streamlining excise administration for fuel and alcohol package

In the March 2022-23 Budget, the former Government announced a package of measures to streamline the administration of fuel and alcohol excise with a 1 July 2023 start date. While some measures have been legislated, others were either delayed or abandoned in the 2023-24 Budget and 2023-24 MYEFO. This year's Budget further delays the start date of the two remaining measures:

- Streamlining of applications and renewal requirements for licences to manufacture or store alcohol and fuel will now start on the later date of 1 July 2024 or following Royal Assent. The ATO will also establish a public register on its website containing the name and ABN of excise and customs warehouse licence holders
- Removal of regulatory barriers applying to bunker fuels for commercial shipping industries will now start on 1 January 2025.

2019-20 Budget ABN proposals dropped

The 2019-20 Budget proposed imposing new compliance obligations for ABN holders to retain their ABN. Currently, ABN holders can retain their ABN regardless of whether they are meeting their income tax return lodgement obligation or the obligation to update their ABN details. The measure proposed that ABN holders:

- From 1 July 2021, with an income tax return obligation will need to lodge their income tax return; and
- From 1 July 2022, confirm the accuracy of their details on the Australian Business Register annually.

In this Federal Budget, the Government has announced that it will no longer proceed with this measure, and states that "integrity issues are being addressed through enhanced administrative processes implemented by the ATO".

Tax incentives to World Rugby

As an extension of the eight-year funding announced in the 2022-23 March Budget to support Australia's successful bid for the Rugby World Cup (2027 and 2029), the Government has announced additional tax incentives to World Rugby and related entities. Income tax exemptions will apply to income derived by World Rugby and related entities in relation to Rugby World Cup events, specifically Rugby World Cup 2027 (men's) and Rugby World Cup 2029 (women's) for the 2024 to 2031 income years. Interest, dividend and royalty withholding tax liabilities will also be exempt for payments relating to these Rugby World Cup events.

The support for the global sports event aligns with the Government's continued boost to improve tourism and infrastructure and create employment opportunities.

Agricultural levy

At the request of Australian Sweetpotato Growers Inc, the marketing component of the agricultural levy on sweet potatoes will be reduced from 1% of sale value to nil. The sweet potato marketing levy is a cost imposed on growers and has historically been applied to a range of activities to boost purchase and consumption of sweet potatoes.

Multinational Tax Integrity Package

The 2022-23 October Budget measure Multinational Tax Integrity Package – amending Australia's interest limitation (thin capitalisation) rules proposed changes to Australia's thin capitalisation rules for years starting on or after 1 July 2023 to bring Australian in line with the Organisation for Economic Cooperation and Development's recommended approach. The measure proposed changes to replace the safe harbour and worldwide gearing tests with an earnings-based test.

The Government has proposed to amend the previously announced budget measure to exempt Australian plantation forestry entities from the new earnings-based rules and allow these entities to continue to apply the former asset-based thin capitalisation rules.

Denying deductions for payments relating to intangibles held in low or no tax jurisdictions

The 2022-23 October Budget announced the adoption of rules preventing significant global entities (SGE) with annual global income in excess of $1 billion from claiming tax deductions made for payments made directly or indirectly to related parties in relation to intangible assets held in low or no tax jurisdictions.

These measures have been discontinued in the 2024-25 Budget on the basis that the implementation of Global Minimum Tax and Domestic Minimum Tax measures in line with Pillar Two of the international corporate tax reforms announced in the 2023-24 Budget will address these issues.

However, the Government also announced its intention to introduce penalties for SGEs that are found to have mischaracterised or undervalued royalty payments to which withholding tax would otherwise apply. This new additional penalty will only apply from 1 July 2026.

ATO's discretion to apply tax refunds against old tax debts

Historically, taxpayer debts that are considered uneconomical to pursue have been placed on hold. Despite this, the ATO is required to use future tax credits and refunds to offset the debt owed. The ATO has historically had no discretion under tax law to waive these amounts.

Following community concerns raised in relation to debts placed on hold prior to 2017, the Government has announced amendments to the tax law that allow the Commissioner of Taxation the discretion to not use tax credits and refunds of individuals, small businesses, and not-for-profits to repay debt amounts placed on hold prior to 1 January 2017.

BDO comment

These amendments to previously announced amendments highlight the poor state of tax reform in this country. The failure of successive governments to do more than propose measures with extremely limited details leads to a need to change the proposals as circumstances change.

Unfortunately, these announced measures are no different – being so light on detail as to be unusable by businesses for planning purposes.

In BDO's view, a bipartisan commitment to holistic tax reform, coupled with a body to make non-partisan public recommendations for administrative improvements to the tax system, is becoming ever more necessary.

Removing red tape for importers and assisting Ukraine

As part of its aim to facilitate trade and international relations, the Government has announced its intention to both:

- Permanently abolish 457 nuisance tariffs from 1 July 2024
- Extend the customs duty exemption for goods produced or manufactured in Ukraine for two years until 3 July 2026.

The abolition of the 457 nuisance tariffs marks the largest unilateral tariff reform in two decades and is intended to boost productivity, facilitate legitimate trade and reduce compliance costs.

The current framework and proposed changes

Under the *Customs Tariff Act 1995* (Cth) (CTA), Schedule 3 and Schedules 4A to 15 currently impose various rates of duty on a wide range of goods imported to Australia, including toothbrushes, hand tools, fridges, dishwashers, clothing and menstrual and sanitary products.

To streamline the importation of these products, the Government's measures will permanently set to 'free' the rate of duty within Schedule 3 and Schedules 4 to 15 (inclusive) of the CTA. These tariffs have been identified by the Simplified Trade System Implementation Taskforce as a nuisance to Australian businesses, imposing unnecessary administrative costs and compliance burdens. It is anticipated that abolishing these 457 nuisance tariffs will streamline the importation of $8.5 billion worth of goods annually and decrease receipts by $41 million over the next five years from 2023-24.

Separately, whilst goods produced or manufactured in Ukraine on or after 4 July 2022 are currently eligible for a duty exemption under the original measures, the extension of these measures until 3 July 2026 will ensure that most goods produced in Ukraine and imported into Australia will remain exempt from customs duty (excluding goods such as alcohol, fuel, tobacco and petroleum products which will remain subject to excise-equivalent customs duty).

BDO comment

BDO welcomes the Government's abolition of these nuisance tariffs as this will reduce unnecessary red tape on goods that are often already duty-free under a tariff concession instrument or where a free trade agreement applies.

The intention in entering into successive free-trade agreements is to facilitate foreign investment and remove compliance burdens. However, were these nuisance tariffs to remain, businesses under the current framework would continue spending unnecessary time and resources proving their imports are eligible under existing concessional tariff arrangements or passing the relevant free trade agreement tests.

Temporary extension of the instant asset write off

The Government has announced an additional temporary 12-month extension of the $20,000 instant asset write-off. Small businesses with aggregated annual turnover of less than $10 million will be able to immediately deduct the full cost of eligible assets costing less than $20,000, first used or installed ready for use between 1 July 2024 and 30 June 2025.

This measure is similar to the extension as announced in the 2023-24 Federal Budget, which temporarily increased the threshold to $20,000 for the year ending 30 June 2024.

BDO comment

Australian businesses require consistency and certainty to plan and invest in the future. BDO urges the Government to legislate a permanent increase in the instant asset write off threshold rather than this band-aid approach of ever-changing temporary threshold increases. BDO questions the restriction to small business entities and considers that all Base Rate Entities (i.e. entities with aggregated turnover of less than $50 million) should have access to the instant asset write off. It is time to legislate a permanent increase to the instant asset write off for all Australian businesses, with a practical and reasonable threshold.

Small business support measures

The Government has announced multiple measures aimed at supporting Australian small businesses. The announcements are focussed on improving cashflow and providing increased access to dispute remediation and support.

Payment Times Reporting Scheme

Under these measures, the Government has announced an additional $25.3 million in funding over four years from 2024-25 to implement reforms recommended by the statutory review including increased resourcing and upgrading ICT infrastructure for the Payment Times Reporting Regulator. This reporting is targeted at levelling the playing field to ensure large businesses embed fair payment terms for small businesses.

Small Business Debt Helpline

The Government has committed $10.8 million over two years from 2024-25 to extend the Small Business Debt Helpline and the NewAccess for Small Business Owners program. This funding will provide small businesses with further support including confidential financial counselling and mental health support.

Franchising

A further $3 million is provided for implementing reforms identified in the Review of the Franchising Code of Conduct, including investigating the feasibility of a licensing model in addition to remaking and updating the Franchising Code of Conduct prior to its expiration in April 2025.

Small Business Ombudsman

Finally, the Government has provided $2.6 million for the Australian Small Business and Family Enterprise Ombudsman to support unrepresented small businesses in navigating business-to-business disputes through alternative dispute resolution.

BDO comment

Small business owners are the backbone of Australia's economy and BDO welcomes support for these taxpayers. While these measures do not provide significant reform, BDO recognises they will help equip small business owners with the tools to become more resilient and improve the options available to help recover outstanding debts and improve cashflows.

Personal income tax – Stage 3 tax cuts

The Government has confirmed the following measures in the Budget, which were previously announced on 25 January 2024 as part of its revised Stage 3 tax changes.

Personal income tax – Cost of Living Tax Cuts

The Government did not announce any further changes to the personal tax rates in the 2024-25 Budget. The Budget has instead confirmed what was previously announced on 25 January 2024.

The Government's revised Stage 3 tax changes, as enacted into law by the *Treasury Laws Amendment (Cost of Living Tax Cuts) Act* 2024, commence from 1 July 2024. The Government has legislated permanent tax cuts for all 13.6 million Australian taxpayers from 1 July 2024 with the average annual tax cut being $1,888 (or $36 a week).

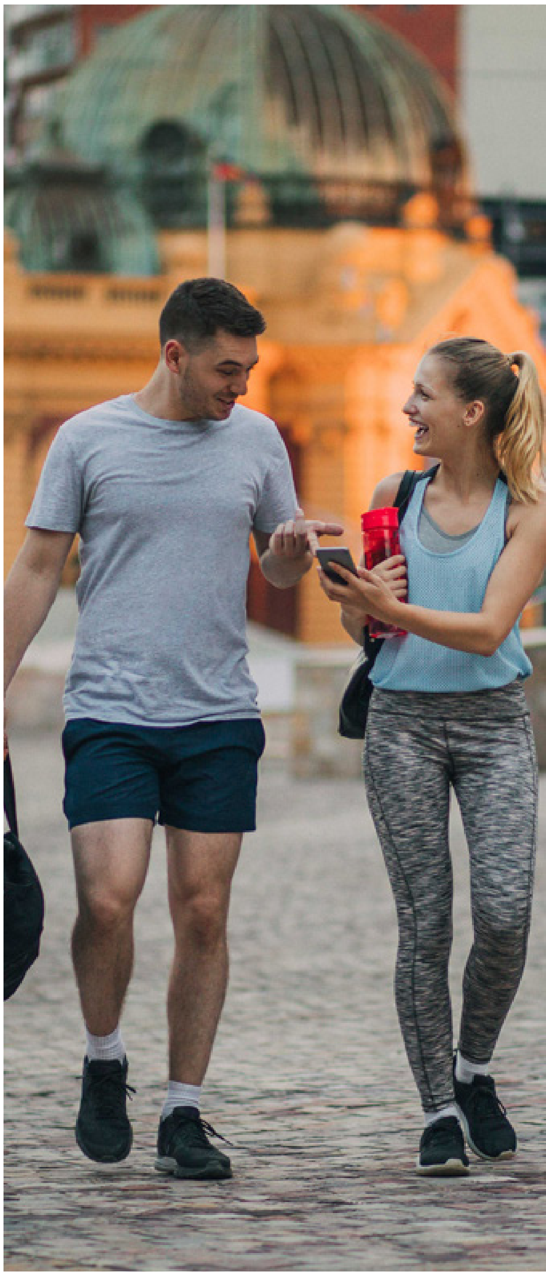
Under the Government's tax cuts from 2024-25:

- The 19% tax rate will be reduced to 16%
- The 32.5% tax rate will be reduced to 30%
- The income threshold above which the 37% tax rate applies will be increased from $120,000 to $135,000
- The income threshold above which the 45% tax rate applies will be increased from $180,000 to $190,000.

The table below compares the rates for 2023-24 with the revised rates for 2024-25.

This measure is estimated to decrease receipts by $1.3 billion over the five years from 2023-24.

Summary: Tax rates and income thresholds		
Rate	**2023-24**	**2024-25**
Nil	$0-$18,200	$0-$18,200
16%	NA	$18,201-$45,000
19%	$18,201-$45,000	**NA**
30%	NA	**$45,001 - $135,000**
32.5%	$45,001 - $120,000	NA
37%	$120,001 - $180,000	**$135,000 - $190,000**
45%	$180,001 +	**$190,001 +**



Medicare levy low-income thresholds for 2023-24

The Government also confirmed its increases to the Medicare levy thresholds announced on 25 January 2024. The new thresholds to provide cost-of-living relief were enacted by the *Treasury Laws Amendment (Cost of Living – Medicare Levy) Act* 2024.

The changes are as follows:

- From the 2023-24 income year, the Medicare levy low-income threshold for singles has been increased to $26,000 for 2023-24 (up from $24,276 for 2022-23)
- For couples with no children, the family income threshold is $43,846 (up from$40,939 for 2022-23)
- The additional amount of threshold for each dependent child or student is $4,027 for each dependent child or student (up from $3,760)
- For single seniors and pensioners eligible for the Seniors and Pensioners Tax Offset (SAPTO), the Medicare levy low-income threshold is $41,089 (up from $38,365).

HECS indexation

Also as previously announced, HECS debts will be indexed at the lower of the CPI or average weekly ordinary time earnings (AWOTE) from June 2023. This will lead to a substantial reduction in many HECS debts, as indexation at June 2023 was calculated based on CPI, and the AWOTE indexation will result in a much lower increase.

BDO comment

There is nothing new and exciting to see here as all the measures discussed are in line with previous announcements. While the cuts will lead to more money in the pockets of every Australian who pays tax, the relentless nature of bracket creep means we will be here again soon – unless the Government commits at some point to index the tax thresholds as well as HECS debts.

Energy Price Relief Plan extension

The Government is addressing the continued rise in energy prices by extending the Energy Price Relief Plan introduced in the 2023-24 Budget for households and small businesses.

As part of this announcement the Government will provide $3.5 billion over three years from 2023-24 to support targeted energy bill relief to eligible households and small businesses.

Households

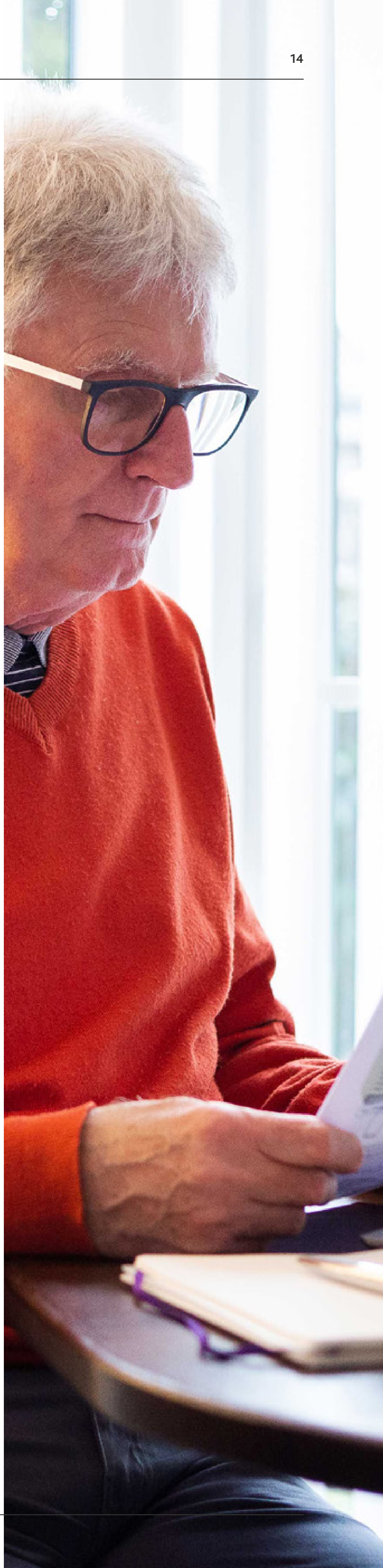
All Australian households are eligible for a $300 annual rebate that will be applied in quarterly instalments to electricity bills from 1 July 2024.

Small businesses

Small businesses must meet their state and territory definition of electricity 'small customer', as determined by their annual electricity consumption threshold, to be eligible for a $325 annual rebate.

BDO comment

Cost of living pressures continue to be front of mind for all Australians and it is likely the extension of the assistance package to households will be welcomed. We question, however, the value that a $325 credit will provide to small businesses facing significant energy pricing increases. BDO considers the Government should do more to help ease the ever-increasing costs faced by Australia's small businesses by reducing red tape and engaging in productivity enhancing tax reform.



Superannuation contributions to apply to Paid Parental Leave

As expected, the Government has announced that Paid Parental Leave (PPL) payments will be subject to superannuation guarantee contributions at the rate of 12%, under the proposed measure. Super contributions will apply to PPL for births and adoptions on or after 1 July 2025.

The Commonwealth Government funds a PPL scheme that is currently not subject to super contributions. This proposed measure will change that position.

Measures were announced in the October 2022-23 Budget regarding enhancements to the PPL scheme. The proposed measure to apply super contributions to the PPL scheme builds on these previously announced measures.

BDO comment

The announcement of this Budget measure was previously released by the Government on 7 March 2024. It was announced alongside the release of the Working for Women strategy, which focuses on achieving gender equality. BDO is pleased to see the announcement of this measure, which will reduce the impact on retirement incomes for women who take time out of paid work to care for children.

The Australian Government's Digital ID System: Enhancing security and privacy

In an increasingly digital world, secure and reliable identification is crucial for accessing government services, conducting business transactions and protecting personal information.

The Government has committed $288.1 million over four years, starting from 2024–25, to expand and improve the existing Digital ID system. This investment aims to enhance security, streamline processes and empower Australians to fully realise the economic and privacy benefits of Digital ID.

The key funding components include:

- **ATO enhancement**
  The ATO will receive $155.6 million over two years to continue operating and improving the Government's Digital ID platform – myGovID – to help ensure secure interactions with Government agencies
- **Services Australia identity exchange**
  Services Australia will receive $46 million over two years to enhance the identity exchange component of the Australian Government Digital ID System
- **Department of Finance leadership and governance**
  The Department of Finance will receive $35.2 million over two years to continue providing policy leadership and governance for the Digital ID program
- **Piloting digital wallets and verifiable credentials**
  A total of $23.4 million over two years will be allocated to the ATO, Department of Finance and Services Australia for piloting government digital wallets and verifiable credentials
- **Credential Protection Register enhancement**
  The Attorney-General's Department will receive $11 million over four years to enhance the existing Credential Protection Register in an effort to help individuals manage their digital credentials securely and protect against identity-related crime
- **Data standards functions**
  The Treasury will receive $7.8 million over two years to deliver the data standards functions required under the Digital ID legislation to ensure interoperability and consistency across the system

- **Privacy oversight**
  The Office of the Australian Information Commissioner will receive $5.6 million in 2024–25 to provide privacy oversight under the Digital ID legislation
- **Security assessments**
  ASIO will receive $3.5 million over two years to conduct security assessments of entities seeking accreditation or participation in the Australian Government Digital ID System.

BDO comment

We welcome the Government improving the Digital ID system and continuing to provide a more secure, efficient and user-friendly digital experience for Australians. However, a significant pain point is the poor application of the current system to non-residents. BDO is disappointed that the Government has not explicitly committed to improving the experience for foreign residents who require a Digital ID to comply with their reporting obligations in Australia.

Tax compliance crackdown

In an effort to combat non-compliance and tax evasion, the Government has announced an extension of the personal tax and shadow economy compliance programs along with an extension to the tax avoidance taskforce.

Shadow Economy Compliance Program and Tax Avoidance Taskforce

The Government will extend the Tax Avoidance Task Force and the Shadow Economy Compliance Program for two years from 1 July 2026. These initiatives will receive an additional $200 million in funding each year. The extension of the Shadow Economy Compliance Program focuses on combating shadow economy activities, safeguarding revenue and preventing non-compliant businesses from gaining an unfair advantage. Extending the Taskforce ensures the ATO remains well-equipped to address critical tax avoidance risks, particularly amongst multinationals, large businesses, and high net wealth individuals. This extension is estimated to increase receipts by $4.3 billion and increase payments by $1.8 billion over the five years from 2023-24.

Income Tax Compliance Program

The Government will extend the ATO Personal Income Tax Compliance Program for one year, starting from July 2027. This extension allows the ATO to address non-compliance issues, including overclaimed deductions, incorrect income reporting, and undue tax agent influence. The Program will also focus on emerging risks related to short-term rental property deductions. During the next five years, this measure is expected to increase receipts by $180.3 million and payments by $44.3 million.

Countering fraud

This year's budget has allocated an additional $187 million over four years to strengthen the ATO's ability to detect, prevent and mitigate fraud against the tax and superannuation systems. The majority of these funds will be used for upgrading the ATO's information and communications systems to improve the ability to identify and block suspicious activity along with implementing a new taskforce to recover lost revenue.

In addition, the Government intends to enhance the ATO's ability to combat fraud by extending the ATO's mandatory notification period for BAS refund retention from 14 days to 30 days to align with time limits for non-BAS refunds.

BDO comment

Fraudulent manipulation of the tax system should not be tolerated, and BDO supports the additional funding allocated to the various ATO defence taskforces. In the digital age, the ATO will need to ensure it remains up to date with advanced data-matching to safeguard against another mass scam similar to the TikTok GST scam of 2023, under which it is speculated the ATO lost $2 billion.

Taxpayers doing the right thing will also be affected by these announcements. It appears that dealing with the ATO is simply a cost of doing business in Australia.

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NEW SOUTH WALES

NORTHERN TERRITORY

QUEENSLAND

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