Budget Tax Alert

Australia's 2025-26 Federal Budget

25 March 2025

Budget Overview

At a glance

- 2025-26 Federal Budget delivered 25th March 2025
- Forecast deficit of $27.6b for this current year and increasing to a $42b deficit next financial year
- Pre-election budget sweeteners include predominantly $17b worth of personal tax cuts
- Investment Incentives - Building on the existing Future Made in Australia plan
- Extension of ATO tax compliance programs
- Deferral of clean building concessional MIT withholding tax rate extension
- Deferral of strengthening the foreign resident capital gains tax regime measures
- Two-year freeze on beer excise
- Announced but unlegislated previous key budget tax measures

On Tuesday 25th of March 2025, the Federal Treasurer Jim Chalmers handed down his fourth budget being the 2025-26 Federal Budget.

This Tax Alert focuses on the key announced tax measures that impact your business tax planning and compliance processes and business incentives. The broader economic and policy issues in the 2025-26 Federal Budget are on the EY Australia website (link here).

Last year's budget surplus of $15.8b has now become a forecast deficit of $27.6b for this current year and increasing to a $42b deficit next financial year. The Budget forecasts real spending growth of 6% this year, far exceeding economic growth which has been downgraded from 1.75% to 1.5% of GDP. It also assumes spending growth will drop to 3% next year and 0.5% the year after, a forecast which seems very hopeful to say the least. Gross government debt is now forecast to peak at 37% ($1.2 trillion) of GDP, up from 35% in last year's budget.

Given that we are only a few weeks away from an election, there are typical pre-election budget sweeteners to be found, and this year predominantly in the form of $17b worth of personal tax cuts amounting up to $268 in 2026-27 and up to $536 in 2027–28, relative to 2024-25.

When the Treasurer delivered last year's Budget in May last year, we said that the budget needed to do three things; prioritise fiscal discipline to ensure inflation remains under control; bring the structural budget closer to balance; and accelerate the pace of policy reform, including tax reform, to help boost our failing productivity. We were left disappointed on all three fronts in last year's Budget, and we remain disappointed on all three fronts in this year's Budget.

On the tax front, the government continues to avoid any genuine attempt at structural reform, leaving us with a highly uncompetitive corporate tax rate of 30% and a personal income tax system with a very high top marginal tax rate (with Medicare levy) of 47% which cuts in at a low dollar threshold by OECD standards.

This results in a very high proportion of Australia's tax revenues coming from income taxes, as opposed to consumption taxes, which therefore results in disincentives to productivity enhancing work and investments. In fact, the largest revenue raising measure in the Budget, raising some $3b over the forecast period, is additional funding of approximately $1b to the ATO to pursue revenue raising compliance activities, and so maximise the collection of the uncompetitive corporate and personal income tax rate structure that we have.

Australia desperately needs structural fiscal reform but neither side of politics seems to be able to deliver it. Perhaps it may remain to a hung Parliament and a deal with the Independents for us to eventually see it.

Investment Incentives - Building on the existing Future Made in Australia plan

This budget continues the government's $22.7b agenda to help Australians benefit from the global shift to cleaner, cheaper energy and secure Australia's position in a changing global economic and strategic environment. This includes $3.2b of additional funding to invest in the future of Australia's metals industry:

- $2b over 19 years for Green Aluminium Production Credits to provide production-based grants to support Australian aluminium smelters to transition to renewable electricity, announced in January 2025
- $1b over seven years for the Green Iron Investment Fund, including $500m for Whyalla Steelworks

The budget also reaffirmed the government's commitment to the previously funded initiatives including:

- $2b to recapitalise the Clean Energy Finance Corporation to invest in renewable energy, energy efficiency and low emissions technologies
- $13.7b in green hydrogen and critical minerals production tax incentives that is now legislated
- $1.5b for priority areas through the Future Made in Australia Innovation Fund

Tax Administration

Enhancing tax practitioner regulation and compliance

The government will strengthen the sanctions available to the Tax Practitioners Board (TPB), modernise the registration framework for tax practitioners and provide funding to the TPB to undertake additional compliance targeting high-risk tax practitioners over four years from 1 July 2025. This measure forms part of the government's response to the PwC matter and implements recommendations from the 2019 Independent Review of the TPB and the government will consult on the implementation details of the measure. The measure is estimated to increase receipts by $47m and increase payments by $27.4m over five years from 2024-25.

Government extending ATO tax compliance programs

The government is providing funding to the ATO to extend and expand tax compliance activities. Cumulatively, this will cost $999m over four years from 2025-26 but will raise additional $3.2b over five years from 2024-25. The programs covered are:

Tax Avoidance Taskforce

- The government is providing an additional $717.8m to the Tax Avoidance Taskforce over four years from 1 July 2025 for a two-year expansion and a one-year extension of the Taskforce, to support the ATO's scrutiny of multinationals and other large companies.

Shadow Economy Compliance Program

- The government will provide $155.5m 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.

Personal Income Tax Compliance Program

- The government is providing $75.7m 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.

Tax Integrity Program

- The government is providing $50m over three years from 1 July 2026 to extend the Tax Integrity Program, to 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.

Personal Taxation

New tax cuts for Australian taxpayers

The government has announced that they will deliver new tax cuts to taxpayers from 1 July 2026. This measure is estimated to decrease receipts by $17.1b over three years from 2026–27.

The tax cuts are:

- From 1 July 2026 – Reduce the 16% rate to 15%
- From 1 July 2027 – Reduce the 15% rate to 14%

These adjustments follow the government's previously legislated tax cuts, which took effect from 1 July 2024.

Resident personal tax rates:

Resident Tax Rates	2024-25 to 2025-26 ($)	2026-27 thresholds ($)	2027-28 onwards ($)
0%	$0-$18,200	$0-$18,200	$0-$18,200
14%	-	-	$18,201-$45,000
15%	-	$18,201-$45,000	-
16%	$18,201-$45,000	-	-
30%	$45,001-$135,000	$45,001-$135,000	$45,001-$135,000
37%	$135,001-$190,000	$135,001-$190,000	$135,001-$190,000
45%	Over $190,000	Over $190,000	Over $190,000

*Rates do not include Medicare levy of 2% as applicable

The government has also announced that:

- From 1 July 2024, the Medicare levy low-income thresholds for singles, families, and seniors and pensioners will increase
- As previously announced, the government will increase the compulsory student loan repayments threshold from $54,435 to $67,000 from 1 July 2025, and reduce outstanding student debts by 20% before indexation is applied on 1 June 2025

There are no changes to the low-income tax offset (LITO).

Managed Investment Trusts

Deferral of clean building concessional MIT withholding tax rate extension

The government announced a deferral of the proposed extension of the 10% Clean Building managed investment trusts (MIT) withholding tax concession to cover data centres and warehouses where construction commences after 9 May 2023, originally announced in the 2023-24 Budget, from 1 July 2025 to the first 1 January, 1 April, 1 July or 1 October after the Act receives Royal Assent. There is no quantifiable cost to the revenue from the deferral.

Amendment to MIT rules to confirm foreign owned funds eligibility

The government previously announced that they will amend the income tax laws to confirm that MITs ultimately wholly-owned by widely-held foreign funds (e.g. foreign pension funds) can continue to access concessional withholding tax rates in Australia. The announcement followed the issue of taxpayer alert TA 2025/1 which highlighted the ATO's concerns with restructures of an existing inward investment structure to access the MIT withholding regime. However, TA 2025/1 also included a statement that the general anti avoidance rules in Part IVA of the Income Tax Assessment Act 1936 might potentially apply to MITs originally established which were indirectly wholly-owned by a single foreign entity. The amendments will not affect the ATO's power to apply Part IVA where non-commercial restructures are undertaken to inappropriately access the MIT regime. The measure will apply to fund payments from 13 March 2025 and there is no quantifiable cost to the revenue.

Real Estate/Infrastructure

Deferral of strengthening the foreign resident capital gains tax regime measures

The government announced a deferral of the proposed amendments to the foreign resident capital gains tax (CGT) regime announced in the 2024-25 Budget. It is proposed to clarify and broaden the types of assets that foreign residents are subject to CGT on, to amend the point-in-time principal asset test to a 365-day testing period and to require additional ATO notifications where foreign residents dispose of shares and other membership interests exceeding $20m in value.

The application date will be changed from CGT events that occur on or after 1 July 2025 to events that occur from the later of 1 October 2025 or the first 1 January, 1 April, 1 July or 1 October after the Act receives Royal Assent. The deferral is estimated to decrease receipts by $50m in 2025-26, while the original measure was estimated to increase receipts by $600m over the five years from 2023–24.

Restricting foreign ownership of housing

As previously announced, the government will ban 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 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.

Additional funding will be provided to the ATO and Treasury to enforce the ban and implement an audit program to enhance their compliance approach to target land banking by foreign investors, to ensure they comply with requirements to put vacant land to use for residential and commercial developments within reasonable timeframes.

Indirect Tax

Two-year freeze on beer excise

The government previously announced that they will freeze the excise on draught beer, for two years, starting from the next indexation date of August 2025 (indexation is currently applied twice a year). The brewers and distillers cap for full remission of any excise paid will also be increased from $350,000 to $400,000 per year for all eligible manufacturers and the Wine Equalisation Tax producer rebate cap will be increased to $400,000, from 1 July 2026. The government will consult with the sector on the implementation of this measure. The government has not frozen the excise on spirits. This measure is estimated to cost $165m over the 4 years from 2025-26.

Announced But Unlegislated Previous Key Budget Tax Measures

We note that there are still a number of tax related government announcements made over the past three years in Budgets and Mid-Year Economic and Fiscal Outlook statements (MYEFOs), which are yet to be enacted. Some measures are in Bills before Parliament, which if not passed before will lapse with the calling of the Federal Election, while many others are yet to be developed. Key measures include:

2023-24 Budget

- Additional 15% tax on earnings from an individuals' superannuation balance that is greater than $3m (from 1 July 2025, in a Bill)
- Expansion of the general anti-avoidance rule to withholding tax schemes and schemes where dominant purpose is to reduce foreign income tax (start date subsequently deferred to years on/after Royal Assent)
- Clean building concessional MIT withholding tax rate extension (from 1 July 2025 – now deferred, see above)

2023-24 MYEFO

- Deny deductions for ATO interest charges (years from 1 July 2025, in a Bill)
- Modernise the luxury car tax for fuel-efficient vehicles (from 1 July 2025, in a Bill)

2024-25 Budget

- ATO retention of BAS refunds time limit increase (after Royal Assent, in a Bill)
- Extension of $20,000 instant asset write-off for small business (to 30 June 2025, proposed addition to a Bill)
- Strengthening the foreign resident capital gains tax regime (CGT events from 1 July 2025 – now deferred, see above)
- New penalty for significant global entities (SGEs) that have mischaracterised or undervalued royalty payments, to which royalty withholding tax would otherwise apply (from 1 July 2026)

2024-25 MYEFO

- Changes to the research and development tax incentive to exclude eligibility of activities relating to gambling and tobacco (from years on/after 1 July 2025)
- Ensure tax scheme penalties apply to taxpayers who are in a loss position (from 1 July 2026)
- Expand 2024-25 Budget measure to penalise SGEs that mischaracterise or undervalue interest or dividend payments to which withholding tax would otherwise apply (from 1 July 2026)

For more information please contact:

Oceania Tax & Law Leader
Scott Grimley
Tel: +61 8 9429 2409
scott.grimley@au.ey.com

BTS Tax Services (BTS)
Jamie Munday
Tel: +61 2 9276 9087
jamie.munday@au.ey.com

International Tax and Transaction Services (ITTS)
Daryn P Moore
Tel: +61 2 9248 5538
daryn.moore@au.ey.com

ITTS Transfer Pricing
Joe Lawson
Tel: +61 8 9429 2489
joe.lawson@au.ey.com

International Corporate Tax Advisory
Lachlan Cobon
Tel: +61 2 9248 4496
lachlan.cobon@au.ey.com

Financial Services
Antoinette Elias
Tel: +61 2 8295 6251
antoinette.elias@au.ey.com

Global Compliance & Reporting
Belinda Townsend
Tel: +61 8 9429 2374
belinda.townsend@au.ey.com

Indirect Tax
Gavin Shanhun
Tel: +61 8 9429 2209
gavin.shanhun@au.ey.com

People Advisory Services
Anne Giugni
Tel: +61 3 8650 7624
anne.giugni@au.ey.com

Private Capital
Dianne Cuka
Tel: + 61 3 8650 7555
dianne.cuka@au.ey.com

Built Environment and Resources
Mark McKenzie
Tel: + 61 8 9217 1831
mark.mckenzie@au.ey.com

Private Tax
Craig Whiteman
Tel: + 61 8 8417 1770
craig.whiteman@ey.com

Government, Health and Life Sciences
Todd Wills
Tel: +61 2 6267 3876
todd.wills@au.ey.com

Tax Controversy
Fiona Moore
Tel: +61 2 9248 5931
fiona.moore@au.ey.com

BTS Tax Policy Services
Alf Capito
Tel: +61 2 8295 6473
alf.capito@au.ey.com

Tony Merlo
Tel: +61 3 8575 6412
tony.merlo@au.ey.com

Tax Technology & Transformation (TTT)
Peter Sanders
Tel: +61 410 667 161
peter.sanders@au.ey.com

Consumer
Sean Monahan
Tel: +61 2 8295 6226
sean.monahan@au.ey.com

Law
John Knox
Tel: +65 6 3098 755
john.knox@sg.ey.com

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multi-disciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

About EY's Tax Services

Your business will only succeed if you build it on a strong foundation and grow it in a sustainable way. At EY, we believe that managing your tax obligations responsibly and proactively can make a critical difference. Our 50,000 talented tax professionals, in more than 150 countries, give you technical knowledge, business experience, consistency and an unwavering commitment to quality service – wherever you are and whatever tax services you need.

SCORE NO 002467-25-AUNZ
ED None

ey.com