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McKinley Plowman Federal Budget Update 2025-26

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Introduction

The 2025–26 Federal Budget was handed down on Tuesday, 25 March 2025 by Treasurer Jim Chalmers of the Albanese Government. After two consecutive surpluses, this year’s Budget marks a return to deficit, with a forecast shortfall of \$42.1 billion for 2025–26.

This year marks another Budget with relatively little for businesses, particularly small to medium businesses, with a clear focus on individuals, families, and cost of living relief – perhaps not surprising with a Federal election around the corner.

Key priorities in this year’s “election” Budget include:

- **Modest personal income tax cuts** from 1 July 2026 and 1 July 2027
- **Further cost of living relief** via energy bill rebates
- **HELP Debt** to be reduced by 20% before indexation is applied on 1 June 2025
- **Significant investment in Medicare** (bulk billing, GP clinics, cheaper medicines)
- **Expanded housing initiatives**, including extending the Help to Buy scheme and banning foreign ownership of established dwellings
- **Further support for apprentices**, fee-free TAFE places, and small business

Note that these measures will require legislation to pass through Parliament, which may be called upon imminently due to the upcoming election. At McKinley Plowman, we’re dedicated to helping our clients make the most of the measures announced in the budget. If you require assistance or further information about the contents of the Budget, and how they might affect you or your business, please reach out. Our dedicated teams in the areas of [accounting](#), [taxation](#), [bookkeeping](#), [superannuation](#), and [finance](#) are on hand to assist.

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Businesses

\$150 energy relief for small business

The Government is extending energy bill relief into the second half of 2025, delivering an additional \$150 rebate to all households, and **around one million small businesses**. This will be applied automatically to electricity bills in two quarterly instalments of \$75 between 1 July 2025 and 31 December 2025.

This extended measure follows on from last year's relief, which totalled \$325 for eligible small businesses.

Non-compete clauses to be banned from 2027

In a move aimed at boosting workforce mobility and wages, the Government plans to ban employment contract non-compete clauses for workers earning less than the Fair Work Act high-income threshold (currently \$175,000) from 2027. The Government will also close loopholes in competition law that currently allow businesses to:

- fix wages by making anti-competitive arrangements that cap workers' pay and conditions, without the knowledge and agreement of affected workers; and
- use 'no-poach' agreements to block staff from being hired by competitors.

This ban will be prospective and is designed to reduce barriers to changing jobs or starting a new business.

Beer tax paused, and further benefits for wine and alcohol producers

Indexation on the draught beer excise and excise equivalent customs duty rates will be paused for two years from August 2025. This just means that the price of beer won't go up because of tax.

Support is also provided under the Excise remission scheme for manufacturers of alcoholic beverages increasing caps for all eligible brewers, distillers and wine producers to \$400,000 per financial year, from 1 July 2026 (up from \$350,000).

ATO enforcement of taxpayer compliance: increased funding

In now what is a standard feature of Budgets in recent years, the ATO is to receive yet another significant increase in funding to enforce taxpayer compliance. Specifically, the Government will provide \$999.0 million over 4 years for the ATO "to extend and expand tax compliance activities".

The additional funding includes the following.

- \$717.8 million over 4 years from 1 July 2025 for a 2-year expansion and a one-year extension of the Tax Avoidance Taskforce. This focuses on multinationals and other large taxpayers.
- \$155.5 million over 4 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 4 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.

- \$50.0 million over 3 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.

These measures are estimated to increase receipts by \$3.2 billion over 5 years from 2024-25, and increase payments by \$1.4 billion, including an increase in GST payments to the States and Territories of \$402.6 million and \$31.0 million in unpaid superannuation (to be disbursed to employees).

Support for small business franchisees

The Government will provide \$7.1m over 2 years from 2025-26 for the Australian Competition and Consumer Commission (ACCC) to strengthen regulatory oversight of the Franchising Code of Conduct and ensure a more transparent and effective regulatory framework for the franchising sector.

The Government will also provide \$0.8m in 2025-26 for Treasury, working with States and Territories to develop and consult on options to extend protections against unfair trading practices to small businesses and protect businesses regulated by the Franchising Code of Conduct from unfair contract terms and unfair trading practices.

Super Guarantee: no change to legislated rate rise to 12% for 2025-26

The Budget did not announce any change to the timing of the next (and final) Super Guarantee (SG) rate increase. The SG rate is currently legislated to increase from 11.5% to 12% on 1 July 2025. It has been gradually increasing by 0.5% each year since it was 9.5% in 2020-21. The 12% rate from 1 July 2025 marks its final destination rate.

With the SG rate set to increase to 12% for 2025-26 (up from 11.5%), employers need to be mindful that they cannot use an employee's salary sacrificed contributions to reduce the employer's extra 0.5% of super guarantee. The ordinary time earnings (OTE) base for super guarantee purposes now specifically includes any sacrificed OTE amounts. This means that contributions made on behalf of an employee under a salary sacrifice arrangement (defined in s 15A of the Superannuation Guarantee (Administration) Act 1992 (SGAA)) are not treated as employer contributions for SG purposes.

There are no other significant changes announced in the Budget with respect to superannuation. Given the Payday Super is proposed to commence on 1 July 2026, employers will be required to pay their employees' SG contributions at the same time as their salary and wages. This will require planning and consideration of cashflows and accounting processes.

Family Trusts

There were no reforms to the taxation of family trust announced in the Budget despite various recent court cases creating uncertainty in this area.

Individuals

Personal income tax cuts

The Government has proposed to cut the personal income tax rate for the income threshold (\$18,200 - \$45,000) from 16% to 15% (from 1 July 2026) and 14% (from 1 July 2027).

The Government estimates a maximum saving of \$268 in 2026–27, increasing to \$536 from 2027–28 for individual taxpayers, on top of the already legislated cuts starting in 2024–25. Most taxpayers should see modest but meaningful cost of living relief.

The Government's proposed tax rate changes for 2026-27 and 2027-28 are summarised in the table as follows:

Taxable income (\$)	2024-25 & 2025-26 (legislated)	2026-27 (proposed)	2027-28 (proposed)
0 - 18,200	0%	0%	0%
18,201 - 45,000	16%	15%	14%
45,001 - 135,000	30%	30%	30%
135,001 - 190,000	37%	37%	37%
190,001+	45%	45%	45%

Resident rates and thresholds 2025-26

The 2025-26 tax rates and income thresholds for residents (as currently legislated and unchanged from 2024-25) are as follows.

Taxable income (\$)	Tax payable (\$)
0 - 18,200	Nil
18,201 - 45,000	Nil + 16% of excess over 18,200
45,001 - 135,000	4,288 + 30% of excess over 45,000
135,001 - 190,000	31,288 + 37% of excess over 135,000
190,001+	51,638 + 45% of excess over 190,000

Resident rates and thresholds 2026-27 (proposed)

The 2026-27 tax rates and income thresholds for residents will be as follows under the Government's proposal to reduce the tax rate from 16% to 15% for the first income threshold from 1 July 2026.

Taxable income (\$)	Tax payable (\$)
0 - 18,200	Nil
18,201 - 45,000	Nil + 15% of excess over 18,200
45,001 - 135,000	4,020 + 30% of excess over 45,000
135,001 - 190,000	31,020 + 37% of excess over 135,000
190,001+	51,370 + 45% of excess over 190,000

Resident rates and thresholds 2027-28 (proposed)

Taxable income (\$)	Tax payable (\$)
0 - 18,200	Nil
18,201 - 45,000	Nil + 14% of excess over 18,200
45,001 - 135,000	3,752 + 30% of excess over 45,000
135,001 - 190,000	30,752 + 37% of excess over 135,000
190,001+	51,102 + 45% of excess over 190,000

Foreign residents

The Government's proposal to reduce the resident income tax rate from 1 July 2026 (and 1 July 2027) for the income threshold (\$18,200 - \$45,000) is not expected to flow through and impact the income tax rates for foreign residents. This is because foreign residents are not entitled to the tax-free threshold or the first income tax threshold.

For 2025-26, the tax rates for foreign residents (unchanged from 2024-25) are:

- \$0 - \$135,000 - 30%;
- \$135,001 - \$190,000 - 37%;
- \$190,001+ - 45%.

Working holidaymakers

For 2025-26, the rates of tax for working holiday makers (unchanged from 2024-25) are:

- \$0 - \$45,000 - 15%;
- \$45,001 - \$135,000 - 30%;
- \$135,001 - \$190,000 - 37%;
- \$190,001+ - 45%.

Low income tax offset (unchanged)

No changes were made to the low income tax offset (LITO) in the 2025-26 Budget.

For completeness, and as a reminder, while the LMITO ceased from 1 July 2022, low and middle income taxpayers remain entitled to the low income tax offset (LITO).

Taxable income (\$)	Amount of offset
\$0 - \$37,500	\$700
\$37,501 - \$45,000	$\$700 - ([TI - \$37,500] \times 5\%)$
\$45,001 - \$66,667	$\$325 - ([TI - \$45,000] \times 1.5\%)$
\$66,668 +	Nil
\$0 - \$37,500	\$700

The maximum amount of the LITO is \$700. The LITO is withdrawn at a rate of 5 cents per dollar between taxable incomes of \$37,500 and \$45,000 and then at a rate of 1.5 cents per dollar between taxable incomes of \$45,000 and \$66,667.

Medicare levy low-income thresholds for 2024-25

For the 2024-25 income year, the Medicare levy low-income threshold for singles has been increased to \$27,222 for 2024-25 (up from \$26,000 for 2023-24). For couples with no children, the family income threshold is \$45,907 (up from \$43,846 for 2023-24). The additional amount of threshold for each dependent child or student is \$4,216 (up from \$4,027).

For single seniors and pensioners eligible for the SAPTO, the Medicare levy low-income threshold is \$43,020 (up from \$41,089). The family threshold for seniors and pensioners is \$59,886 (up from \$57,198), plus \$4,216 for each dependent child or student.

Medicare low-income thresholds

	2023-24	2023-24	2024-25	2024-25
	Low-income threshold	Full Medicare Levy (2%) applies above*	Low-income threshold	Full Medicare levy (2%) applies above*
Singles	\$26,000	\$32,500	\$27,222	\$34,027
Single seniors and pensioners	\$41,089	\$51,361	\$43,020	\$53,775
Families (not eligible for SAPTO)	\$43,846 (plus \$4,027 for each dependent child)	\$54,807 (plus \$5,034 for each dependent child)	\$45,907 (plus \$4,216 for each dependent child)	\$57,383 (plus \$5,270 for each dependent child)
Families (Senior and Pensioner)	\$57,198 (plus \$4,027 for each dependent child)	\$71,497 (plus \$5,034 for each dependent child)	\$59,886 (plus \$4,216 for each dependent child)	\$74,857 (plus \$5,270 for each dependent child)

*The Medicare levy phases in at 10 cents for each dollar above the relevant low-income threshold until the full Medicare levy at 2% applies. **Date of effect:** The increased thresholds will apply to the 2024-25 and later income years. Note that legislation is required to amend the thresholds.

Reduction of HELP debts

As announced in the Mid-Year Economic and Fiscal Outlook (MYEFO), Government has confirmed in the Budget that it will make changes that will reduce Higher Education Loan Program (HELP) and other student debts for more than 3 million Australians by around \$19bn. The measure will reduce outstanding student debts by 20% before indexation is applied on 1 June 2025 - subject to the passage of legislation.

The Government has also confirmed it will commit \$182.2m over 4 years from 2024-25 (and \$402.3m from 2028-29 to 2034-25) to reform the repayment system for the HELP and other student loan schemes. The reform aims to deliver a fairer student loan repayment system based on marginal rates and will increase the amount individuals can earn before they are required to start repaying their loan. It will take effect from **1 July 2025**, subject to the passage of legislation.

The Government has already legislated a cap on HELP indexation based on the lower of the Consumer Price Index or the Wage Price Index, with the change backdated to 1 June 2023, and has already reduced outstanding student debt by around \$3bn, according to the Government.

Help to Buy home scheme expanded

The Government has injected a further \$800 million into its Help to Buy shared equity scheme. Under this scheme, the Commonwealth will provide an equity contribution up to 40% of the purchase price to assist up to 40,000 eligible first home buyers to purchase a new or existing home.

The income cap for eligibility increases to \$100,000 for singles (up from \$90,000) and \$160,000 for joint or single-parent applicants (up from \$120,000). Property price caps will rise in line with regional median house prices: e.g. \$850,000 in Perth, \$1.3 million in Sydney, and \$1 million in Brisbane.

Energy bill relief extended

In addition to small businesses as outlined earlier, households will also receive an additional \$150 in credits on their energy bills between 1 July 2025 and 31 December 2025, applied automatically in two quarterly instalments. The Government states this extension aims to help with ongoing cost-of-living pressures.

Other Important Budget Items

Extending subsidies for apprentices and fee-free TAFE

The Government will provide \$722.8m over 4 years from 2025-26 to deliver increased support for apprentices. Funding includes:

- \$626.9m over 4 years from 2025-26 to reframe the New Energy Apprenticeships Program as the Key Apprenticeship Program and expand it to capture critical residential construction occupations;
- \$77.8m over 4 years from 2025-26 to extend the current interim Australian Apprenticeship Incentive System program settings for a further six months from 1 July 2025 to 31 December 2025;
- \$11.0 million over 4 years from 2025-26 to increase the Disability Australian Apprentice Wage Support subsidy; and
- \$7.0 million over 4 years from 2025-26 to increase the Living Away From Home Allowance.

As flagged in MYEFO, the Government will also provide \$253.7m over 2 years from 2026-27 (and an additional \$1.4bn from 2028-29 to 2034-25) to make Free TAFE a permanent program, funding at least 100,000 places annually from 1 January 2027. Legislation was introduced in November 2024 to give effect to this measure. Free TAFE will prioritise cohorts that typically face barriers to education and employment.

To help build much-needed housing stock, the Government has also announced an expansion of existing apprenticeships support under the new **Key Apprenticeship Program**, offering eligible apprentices in housing construction occupations up to \$10,000 over the course of their apprenticeships. A potential \$5,000 incentive for employers hiring apprentices in priority construction roles is also available. For more information on this and to keep up to date when developments occur, please visit the [Australian Apprenticeships](#) website.

Foreign ownership of housing

The Government has already announced the ban on foreign persons (including temporary residents and foreign-owned companies) from purchasing established dwellings for 2 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.

The ATO will be provided \$5.7 million over 4 years from 2025-26 to enforce the ban on foreign residents from purchasing established properties. In addition, the ATO and Treasury will be provided with \$8.9 million over 4 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.

Foreign resident CGT amendments (delayed)

From 1 July 2025, the way in which foreign residents interact with the tax system were scheduled to come into effect. These changes have now been delayed.

The start date for proposed amendments to the capital gains tax (CGT) rules for foreign residents has been delayed until 1 October 2025 at the earliest, and potentially later depending on the passage of the reforms through Parliament.

The changes would broaden the range of assets subject to CGT for foreign residents when they dispose of them, amend the rules which determine whether the sale of shares in a company or units in a trust that is land rich are subject to CGT and require foreign residents to disclose transactions involving shares or trust interests with a value of at least \$20 million to the ATO before they occur.

Cheaper medicines

The cost of medicines is also in the government's sights. The maximum cost of drugs on the Pharmaceutical Benefits Scheme (PBS) will be lowered for everyone with a Medicare Card and no concession card. From 1 January 2026, the maximum co-payment will be lowered from \$31.60 to \$25.00 per script and **remain at \$7.70 for pensioners and concession cardholders**. Four out of five PBS medicines will become cheaper for general non-Safety Net patients, with larger savings for medicines eligible for a 60-day prescription. An extra \$1.8 billion is also being invested to list new medicines on the PBS.

Please note these Budget measures are subject to the passage of legislation.

How McKinley Plowman Can Help

If you would like more guidance or information about the measures announced in the Budget and how they might impact your business, superannuation, or personal finance, please do not hesitate to reach out to the McKinley Plowman team on 08 9325 2411 (Perth), 08 9301 2200 (Joondalup), or contact us [via our website](#).

