FEDERAL BUDGET

2025 - 2026

TAX OVERVIEW

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2025–26 Federal Budget Highlights

The Federal Treasurer, Dr Jim Chalmers, handed down the 2025–26 Federal Budget at 7:30 pm (AEDT) on 25 March 2025.

Guided by 5 main priorities, including helping with the cost-of-living, building more homes, and investing in education, the Budget includes 2 new personal tax cuts for all Australian individual taxpayers, increased Medicare levy thresholds, a ban on foreign individuals buying existing homes and a proposed reduction to student debts.

Being the government's last Budget before the expected federal election, the start dates of a number of previously announced but unenacted tax measures have been deferred until amending legislation is enacted.

Described by the Treasurer as a "plan for a new generation of prosperity in a new world of uncertainty", the Budget did not include any new measures affecting the taxation or regulation of superannuation or new income tax measures affecting small businesses.

The full Budget papers are available at www.budget.gov.au and the Treasury ministers' media releases are available at ministers.treasury.gov.au. The tax and tax-related highlights are set out below.

Individuals

- The marginal tax rate for the personal income tax threshold bracket from $18,201 to $45,000 will be reduced from 16% to 15% from 1 July 2026, and further reduced to 14% from 1 July 2027.
- The Medicare levy low-income thresholds for singles, families, and seniors and pensioners will be increased from 1 July 2024.
- Student loan debts will be cut by 20% and other reforms will be made to the student loan repayment system from 1 July 2025.
- The start date of the 2024–25 Budget measure to strengthen the foreign resident CGT regime will be deferred from 1 July 2025 to the later of 1 October 2025 or the first 1 January, 1 April, 1 July or 1 October after assent.
- Foreign ownership of housing will be restricted.

Tax administration

- Rules on managed investment trusts will be amended to ensure legitimate investors can continue to access concessional withholding tax rates from 13 March 2025.
- The start date of the 2023–24 Budget measure to extend the clean building managed investment trust withholding tax concession will be deferred from 1 July 2025 to the first 1 January, 1 April, 1 July or 1 October after assent.
- The ATO will be given $999 million in funding over 4 years to extend and expand its tax compliance activities.

Tax agents

- Tax practitioner regulation and compliance will be enhanced by strengthening sanctions available to the Tax Practitioners Board and modernising the registration framework.

Not-for-profits

- The deductible gift recipients list will be updated.

Indirect taxes

- Indexation on draught beer excise and excise equivalent customs duty rates will be paused for a 2-year period from August 2025.
- The excise remission cap is proposed to be increased from $350,000 to $400,000 each financial year for all eligible alcohol manufacturers from 1 July 2026. The Wine Equalisation Tax producer rebate would similarly increase from $350,000 to $400,000 each financial year from 1 July 2026.
- Additional tariffs on goods that are the produce or manufacture of Russia or Belarus will be extended by a further 2 years.

Individuals

Personal income tax cuts proposed

The marginal tax rate for the personal income tax threshold bracket from $18,201 to $45,000 will be reduced from 16% to 15% from 1 July 2026, and further reduced to 14% from 1 July 2027.

The applicable marginal tax rates and income thresholds for recent income years, as well as the proposed new rates, are depicted in the table below.

Personal income tax rates and thresholds

Threshold ($)	2024–25 and 2025–26 (%)	2026–27 (%)	2027–28 (%)
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
>190,000	45	45	45

Source: Budget Paper No 2, p 5; Budget Factsheet — New tax cuts for every Australian taxpayer, p 1; Prime Minister and Treasurer, “New cost of living tax cuts under Labor” [joint media release], 25 March 2025.

Medicare levy low-income thresholds to be increased

The Medicare levy low-income thresholds for singles, families, and seniors and pensioners will be increased from 1 July 2024.

The threshold for singles will be increased from $26,000 to $27,222. The family threshold will be increased from $43,846 to $45,907. The threshold for single seniors and pensioners will be increased from $41,089 to $43,020. The family threshold for seniors and pensioners will be increased from $57,198 to $59,886. The family income thresholds will increase by $4,216 for each dependent child or student, up from $4,027.

The applicable thresholds for 2023–24 and 2024–25 are depicted in the tables below.

Medicare levy low-income thresholds 2023–24

	Low-income threshold (above which levy begins to phase in)	**Full Medicare levy (2%) applies above***
Singles	$26,000	$32,500
Single Seniors and Pensioners	$41,089	$51,361
Families (not eligible for Seniors and Pensioner Tax Offset)	$43,846 (plus $4,027 for each dependent child)	$54,807 (plus $5,034 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)

* 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. This column shows the level of income at which the levy begins to be paid in full.

Medicare levy low-income thresholds 2024–25

	Low-income threshold (above which levy begins to phase in)	**Full Medicare levy (2%) applies above***
Singles	$27,222	$34,027
Single Seniors and Pensioners	$43,020	$53,775
Families (not eligible for Seniors and Pensioner Tax Offset)	$45,907 (plus $4,216 for each dependent child)	$57,383 (plus $5,270 for each dependent child)
Families (Senior and Pensioner)	$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. This column shows the level of income at which the levy begins to be paid in full.

Source: Budget Paper No 2, p 5; Budget Factsheet — New tax cuts for every Australian taxpayer, p 1.

Higher education loan repayment changes

The government will reduce all outstanding Higher Education Loan Program (HELP) and other student debts by 20%, before indexation is applied on 1 June 2025. The cut will remove a total of $16 billion in debt.

The student loan repayment system will also be reformed from 1 July 2025 by moving to a marginal repayment system with a higher minimum repayment threshold. The minimum repayment threshold is proposed to increase from $54,435 in 2024–25 to $67,000 in 2025–26.

Both these reforms (which were previously announced in November 2024) will be subject to the passage of legislation.

Source: Budget Paper No 1, p 22; Budget Factsheet — Building Australia's Future, pp 17 and 37; Minister for Education, "Building a better and fairer education system to support a stronger economy” [media release], 25 March 2025; Making HELP and student loan repayments fairer and 20% reduction of student loan debt, Department of Education website.

Start date deferred for measure to strengthen foreign resident CGT regime

The start date for the 2024–25 Budget measure to strengthen the foreign resident capital gains tax (CGT) regime will be deferred from 1 July 2025 to the later of 1 October 2025 or the first 1 January, 1 April, 1 July or 1 October after assent of amending legislation.

The 2024–25 Budget proposed to:

- clarify and broaden the types of assets that foreign residents are subject to CGT on
- amend the point-in-time principal test to a 365-day testing period, and
- require foreign residents disposing of shares and other membership interests exceeding $20 million in value to notify the ATO prior to the transaction being executed (this notification process is intended to improve oversight and compliance with foreign resident CGT withholding rules where a vendor self-assesses their sale as not being taxable real property).

The start date for the measure has been deferred 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 amending legislation receives assent.

Source: Budget Paper No 2, p 4.

Restrictions on foreign ownership of housing

Measures will be introduced 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 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)
- providing the ATO with funding over 4 years from 2025–26 to enforce the ban, and
- providing the ATO and Treasury with funding from 2025–26 to implement an audit program and enhance their compliance approach to target land banking by foreign investors.

The enhanced compliance approach by the ATO and Treasury to target land banking will ensure foreign investors comply with requirements to put vacant land to use for residential and commercial developments within reasonable timeframes.

Source: Budget Paper No 2, p 6.

Tax administration

Managed investment trust rules to be amended

Amendments to clarify the arrangements for managed investment trusts (MITs) will be made to ensure legitimate investors can continue to access concessional withholding tax rates for fund payments from 13 March 2025.

In particular, trusts ultimately owned by a single widely-held investor will be able to access the MIT concessions. The proposed changes will ensure that genuine, foreign-based widely-held investors, such as pension funds, can still access concessional withholding tax rates on eligible distributions to members through MITs.

This measure will complement the ATO’s strengthened guidelines. The amendments will not affect the ATO's power to take action under the general anti-avoidance rules in Pt IVA of ITAA 1936 where "captive MITs" involve other characteristics of the kind set out in *Taxpayer Alert* TA 2025/1.

Source: Budget Paper No 2, p 4; Assistant Treasurer and Minister for Financial Services, Clarifying tax arrangements for managed investment trusts [media release], 13 March 2025.

Start date deferred for clean building MIT withholding tax concession for data centres and warehouses

The start date of the 2023–24 Budget measure to extend the clean building managed investment trust (MIT) withholding tax concession will be deferred from 1 July 2025 to the first 1 January, 1 April, 1 July or 1 October after assent of amending legislation.

A final withholding tax rate of 10% currently applies to payments from eligible clean building MITs made to foreign residents in countries with which Australia has effective exchange of information agreements. This applies to eligible trusts holding office buildings, retail centres and non-residential accommodation built after June 2012 that meet energy efficiency standards.

The 2023–24 Budget proposed to extend the concession to eligible data centres and warehouses from 1 July 2025, where construction commenced after 7:30 pm (AEST) on 9 May 2023. The start date for the proposal is deferred from 1 July 2025 to the first 1 January, 1 April, 1 July or 1 October after the amending legislation receives assent.

Source: Budget Paper No 2, p 4.

ATO funding to strengthen compliance activities

The ATO will be given $999 million in funding over 4 years to extend and expand its tax compliance activities.

Additional funding includes:

- $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, to support compliance scrutiny 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

- $75.7 million over 4 years from 1 July 2025 to extend and expand the Personal Income Tax Compliance Program, to enable the ATO to deliver a combination of proactive, preventative and corrective activities, and
- $50 million over 3 years from 1 July 2026 to extend the Tax Integrity Program, to continue the ATO's engagement program to ensure timely payment of tax and superannuation liabilities by medium and large businesses and wealthy groups.

Source: Budget Paper No 2, p 7.

Tax agents

Tax practitioner regulation and compliance to be enhanced

Tax practitioner regulation and compliance will be enhanced by strengthening the sanctions available to the Tax Practitioners Board (TPB), modernising the registration framework for tax practitioners and providing funding to the TPB to undertake additional compliance targeting high-risk tax practitioners over 4 years from 1 July 2025.

The measure will protect taxpayers from tax agent misconduct, including poor and unlawful tax advice, and maintain community confidence in the integrity of the tax system. The measure will also support the sustainability of the tax profession by increasing the ease of re-entry for tax and business activity statement agents who take career breaks.

The measure forms part of the government's response to the PwC matter and implements recommendations from the 2019 Independent Review of the Tax Practitioners Board.

The government will consult on the implementation details of the measure.

Source: Budget Paper No 2, pp 4–5.

Not-for-profits

Deductible gift recipients list to be updated

The list of specifically listed deductible gift recipients (DGRs) will be updated to list the following organisations as DGRs:

- Community Foundations Australia Ltd for gifts received after 30 June 2025 and before 1 July 2030
- Equality Australia Ltd for gifts received after 30 June 2025 and before 1 July 2030
- Foundation Broken Hill Limited for gifts received after 30 June 2025 and before 1 July 2030
- Social Enterprise Australia Ltd for gifts received after 30 June 2025 and before 1 July 2030
- St Patrick's Cathedral Melbourne Restoration Fund for gifts received after 30 June 2027 and before 1 July 2032, and
- Sydney Chevra Kadisha for gifts received after 30 June 2025 and before 1 July 2030.

In addition, Foundation Broken Hill Limited and Lord Mayor's Charitable Foundation will retain their specific listing status in the tax law, allowing them to undertake charitable activities unique to their communities that would otherwise fall outside the community charity DGR category. They will no longer be included on a list of entities for DGR endorsement by the ATO as a community charity.

Source: Budget Paper No 2, pp 7–8.

Indirect taxes

Freezing indexation on draught beer excise and excise equivalent customs duty rates

Indexation on draught beer excise and excise equivalent customs duty rates will be paused for a 2-year period from August 2025.

Biannual indexation of draught beer excise and excise equivalent customs duty rates due to occur in August 2025, February 2026, August 2026, and February 2027 will not take place. Biannual indexation will recommence from August 2027.

The Coalition announced on 1 March 2025 that, if elected, it would also freeze indexation on draught beer excise for 2 years.

Source: Budget Paper No 2, p 8; Prime Minister and Treasurer, Albanese Labor Government to freeze draught beer excise [joint media release], 1 March 2025; Shadow Treasurer, Coalition backs struggling hospitality sector left in ruins by Labor [media release], 1 March 2025.

Excise remission cap and WET producer rebate to increase for alcohol manufacturers

The excise remission cap is proposed to be increased from $350,000 to $400,000 each financial year for all eligible alcohol manufacturers, including brewers and distillers, from 1 July 2026. The Wine Equalisation Tax (WET) producer rebate would similarly increase from $350,000 to $400,000 each financial year from 1 July 2026.

Source: Budget Paper No 2, p 8; Prime Minister, Treasurer and Minister for Trade and Tourism, Albanese Government provides tax relief to support investment and jobs [joint media release], 22 February 2025.

Additional tariffs to be extended on goods from Russia and Belarus

Additional tariffs on goods that are the produce or manufacture of Russia or Belarus will be extended by a further 2 years, to 24 October 2027.

The temporary measure continues to deny Russia and Belarus access to the most favoured nation status through the application of an additional 35% tariff on goods that are the produce or manufacture of Russia or Belarus and had not left for direct shipment to Australia from a place of manufacture or warehouse before 25 April 2022.

Source: Budget Paper No 2, p 3.