KPMG

GMS Flash Alert

2023-098 | May 12, 2023

Australia - Highlights of Federal Budget 2023-24

The Federal Budget 2023-24 was delivered by the Australian government on 9 May 2023.[1] The Budget includes measures such as employers paying their employees' superannuation at the same time as their salary and wages, a 30-percent concessional tax rate applied to future earnings for superannuation balances above $3 million, and increases in Visa Application Charges, amongst others.

This *GMS Flash Alert* focuses on the immigration, superannuation, and cost-of-living relief measures.

To access analysis of the key measures and financial announcements from the 2023-24 Federal Budget and what it means for businesses and the economy, see "Federal Budget 2023," a website of the KPMG International member firm in Australia dedicated to the Federal Budget.

(For coverage of last year's Budget, see *GMS Flash Alert* 2022-203, 11 November 2022.)

WHY THIS MATTERS

Overall, this Budget is a measured and balanced response to the challenge of supporting households in an environment of relatively high inflation and government debt.

No changes to earlier-proposed income tax cuts were announced, and these cuts are expected to come into effect on 1 July 2024 as planned, with some favourable impact on taxpayers by means of a reduction in their tax burden.

The superannuation payment frequency change should introduce greater regularity, certainty, and transparency for employees, while creating additional processing and administrative burdens for employers. Employers operating a host shadow payroll in Australia will need to monitor for further announcements, particularly in relation to the practical application of the new rules.

WHY THIS MATTERS (cont'd)

The higher tax rate on large-balance superannuation accounts' future earnings and the higher Superannuation Guarantee rate will create higher tax burdens for individuals with large balances and employers, respectively.

The immigration measures should introduce greater flexibility for international students and employers wishing to hire them, as well as for employers seeking to bring foreign skilled employees to Australia to live and work, all in the interest of making up for a skilled labour shortage in Australia, particularly in key sectors. While companies may be struggling with moving talent to Australia, the recent immigration announcements create new opportunities and pathways for employers and individuals.

Tax and Superannuation Key Highlights

Payday Superannuation

From 1 July 2026, employers will be required to pay their employees' superannuation at the same time as their salary and wages. Currently, compliance with mandatory superannuation contribution requirements is assessed on a quarterly basis.

The changes will require a redesign of the Superannuation Guarantee charge to align with increased payment frequency and the final design will be considered as part of the 2024-25 budget.

To further strengthen the superannuation system, the Australian Taxation Office (ATO) will receive additional resourcing of $40.2 million to help it detect unpaid superannuation payments earlier and the government will set enhanced targets for the ATO for the recovery of payments. (All dollar figures expressed are Australian dollars.)

KPMG INSIGHTS

Under current rules, Superannuation Guarantee contributions for each quarter must be made by 28 January, 28 April, 28 July, and 28 October. While some employers already contribute superannuation at or around the same time that salary and wage payments are made, many either align with the statutory due dates or undertake a reconciliation process to help ensure the minimum requirements have been met on a quarterly basis. In practice, due to the complexity of considering foreign payroll information, the quarterly due date has allowed employers with globally-mobile workforces some flexibility in the timing of superannuation contributions (provided the quarterly due dates are met).

As such, KPMG in Australia anticipates that the timing of contributions could be challenging where foreign compensation data is required to be analysed as an input to the calculation. We will be working with the government to help bring about practical implementation by employers with globally-mobile workforces.

Concessional Superannuation Tax Rate

Of potential relevance to senior executives, from 2025-26, the concessional tax rate applied to future earnings for superannuation balances above $3 million will be 30 percent. Currently, earnings from superannuation in the accumulation phase are taxed at a concessional rate of up to 15 percent. The 15-percent rate will continue for all superannuation accounts with balances below $3 million.

KPMG INSIGHTS

There is not expected to be an immediate impact to employers or employees as the increase in tax will apply within the fund.

Superannuation Guarantee (Not Part of This Year's Federal Budget)

While not a Budget announcement from this year, it is worth remembering that the compulsory Superannuation Guarantee rate is currently legislated to increase to 12 percent with gradual incremental increases each financial year. So, the next increase in the rate will be from 10.5 percent to 11 percent from 1 July 2023.

KPMG INSIGHTS

This may increase assignment costs for employers depending on the structure of the international assignment package.

Personal Income Tax Rates

While mooted, the Budget did not defer Stage 3 of the tax cuts initially announced in 2018. As such, the legislated rate changes still stand such that from 1 July 2024, the 37-percent bracket will be removed entirely. The 32.5-percent bracket will be reduced to 30-percent. In addition, the threshold above which the top marginal rate of 45 percent applies will increase from $180,000 to $200,000.

Taxable income	**Current tax rates**
Up to $18,200	0
$18,201 to $45,000	19%
$45,001 to $120,000	32.5%
$120,001 to $180,000	37%
From $180,001	45%

Taxable income	**Tax rates from 1 July 2024**
Up to $18,200	0
$18,201 to $45,000	19%
$45,001 to $200,000	30%
From $200,001	45%

Source: KPMG in Australia

KPMG INSIGHTS

There continues to be speculation within the Australian media[2] about the ongoing viability of the legislated tax cuts and monitoring for changes in the lead up to 1 July 2024, is recommended. Global-mobility teams will need to be ready to update for the rate changes from 1 July 2024, including amendment of cost estimates and gross-up calculations.

Immigration Key Highlights

Increase in Visa Application Charges

In addition to the normal Consumer Price Index (CPI) increase, visa application charges will increase on 1 July 2023, by an additional 6 percent for visa applications, as well as an additional 15 percent for select visitor and temporary visa subclasses, and an additional 40 percent for business innovation and investment visas.

KPMG INSIGHTS

Employers will be expected to pay more to hire skilled foreign talent in the future. At a time of continuing labour market shortages, which are particularly acute in some industry sectors, the increase cost of hiring talent can be a significant burden for many employers.

Improved Pathways to Permanent Residence

The government will improve pathways to permanency for Temporary Skill Shortage (TSS) (subclass 482) visa holders. (For prior coverage, see *GMS Flash Alert* 2023-089, 1 May 2023.) Restrictions will be removed to enable TSS visa holders on the short-term stream to have access to permanent residence pathways through the Employer Nomination Scheme (subclass 186) visa. The limit of one onshore renewal for the short-term stream TSS visa will also be removed.

KPMG INSIGHTS

The government has recognised the pivotal role that a pathway to permanent residence plays in attracting and retaining skilled foreign talent (for prior coverage, see *GMS Flash Alert* 2023-089, 1 May 2023). The changes announced in the Budget are an effective means to incentivise talent already in Australia to remain with an employer that is willing to support the person's application for permanent residence. This initiative is also part of the government's desire to move away from a situation where foreign nationals are 'permanently temporary'.

The government announced separately that the eligibility criteria for the Temporary Residence Transition stream of the Employer Nomination Scheme (subclass 186) visa will be reduced from three years to two years of employment with the sponsoring employer. This change is expected to come into effect by the end of 2023.

Increased Enforcement and Compliance Measures

The government announced funding of $50 million over four years from 2023–24 (and $15.3 million per year ongoing) for additional enforcement and compliance activities to maintain the integrity of the migration system. Details of the measures to be introduced are yet to be announced.

KPMG INSIGHTS

With net overseas migration at higher-than-planned levels for the next two financial years,[3] and a labour market environment which will continue to rely on skilled foreign talent, the government investments in the enforcement and compliance areas of the migration program aim to foster the integrity of the program. Details of the exact measures are yet to be announced, but employers will need to establish that their workforce compliance measures are appropriate to the increased measures the government deploys into the future.

The existing data sharing legislation involving the ATO and the Department of Home Affairs heightens the importance of employers appropriately setting their internal risk management and compliance measures.[4]

Temporary Working Hours Relaxation for Student Visa Holders

The government has recognised that there are some immediate labour market gaps which need to be addressed as the wider migration reform measures are progressed. The work-hour cap for international student visa holders will be reinstated from 1 July 2023, following its removal during the COVID-19 pandemic. It will be increased by eight hours from pre-pandemic levels to 48 hours per fortnight. International students working in the aged care sector will be exempt from the 48 hour per fortnight work limit until 31 December 2023.

KPMG INSIGHTS

While the “aged care and disability support” sector has grown, attracting and retaining workers have been challenging.[5] Only around half of people who enrol in a relevant vocational course end up employed in the sector. The government cites that about 60 percent of the aged care and disability support workforce have been working in their occupation for less than three years.[6] Attrition rates are particularly high for young people and are lower for older women.

The announcement to introduce uncapped working hours for international students employed in the aged care sector until 31 December 2023, to assist with increased demand is a short-term response by the government to meeting the labour demands of an industry sector in need of immediate assistance.

Student Graduate Visa Holders Granted Additional Work Rights

The government will grant an extra two years of post-study work rights to international higher education graduates of Australian institutions with eligible qualifications to strengthen the pipeline of skilled labour. This measure will apply from 1 July 2023. (For prior coverage, see *GMS Flash Alert* 2023-065, 27 March 2023.)

KPMG INSIGHTS

This is a change which will expand the availability of qualified skilled labour graduating from Australian tertiary institutions. The measure will also likely incentivise foreign student graduates to remain in Australia rather than immediately return to their home countries following graduation. Importantly, the expanded role of Jobs and Skills Australia will include a data driven approach to foster student graduates' prospects for employment post-graduation in their field of expertise and qualifications.

Increase in TSMIT

The government will increase the Temporary Skilled Migration Income Threshold (TSMIT) from the current rate of $53,900 to $70,000 from 1 July 2023. (For prior coverage, see *GMS Flash Alert* 2023-089, 1 May 2023.) This reflects the level it would have reached if it was indexed to wages when it was last adjusted 10 years ago. Resetting the income threshold is intended to help the skilled migration program remain focused on its objective of attracting skilled migrants who complement the skills of the Australian workforce.

KPMG INSIGHTS

Resetting the income threshold reinforces the skilled migration program's focus on its objective of attracting skilled migrants who complement the skills of the Australian workforce. The government has stated that the decision a decade ago to freeze the temporary skilled migration income threshold – the minimum salary an employer sponsor must pay to any temporary skills shortage visa holder – meant it was now below the earnings of 90 percent of Australia's full-time workers.

The government clarified separately that the increase in TSMIT will not affect existing visa holders and approved nominations lodged before 1 July 2023.[7]

Next Steps: Employer Considerations

In the case of tax equalised/protected employees on assignment in Australia, subject to Australian tax law, these changes should reduce the cost of the assignments to the employer in respect of those assignees in the medium-to-high-income earning range. Moreover, once the proposals come into effect, this may necessitate adjustments to tax equalisation and tax protection calculations, as well as international assignment cost projections and budgeting.

Given the impact of the superannuation changes to the operation of Australian payroll/shadow payroll, these changes should be communicated to relevant stakeholders as soon as possible, to help ensure that payroll processes and software can be updated in a timely fashion.

The increase in funding provided to the Immigration Department should result in quicker visa processing times but employers should plan for an increase in visa application charges. Employers could also consider alternate immigration pathways into Australia given the government's focus on filling the skills gap and be proactive in accessing alternate labour market options such as re-skilling existing workforce, accessing part-time or semi-retired labour, and options to redeploy existing labour.

FOOTNOTES:

1 For the Budget and related documents, see: https://budget.gov.au/index.htm .

2 For example see D. Southwell, "What it means for your bank account if the Albanese government DITCHES huge tax cuts which would put thousands of dollars back in your pocket - as experts warn Australia 'just can't afford this'," *Daily Mail* (online) (5 October 2022) at: https://www.dailymail.co.uk/news/article-11285261/Tax-cuts-2024-25-Australia-explained-New-tax-rate-ditched-Anthony-Albanese.html . *Please note that by clicking on this link, you are leaving the KPMG website for an external site (non-KPMG, non-governmental), that KPMG is not affiliated with or nor does KPMG endorse its content. The use of the external site and its content may be subject to the terms of use and/or privacy policies of its owner or operator*.

3 See N. Al Nashar, "Australian migrant population growth hits all-time high as borders reopen," *ABC NEWS* (online) (28 April 23) at: https://www.abc.net.au/news/2023-04-29/australian-migrant-population-growth-hits-all-time-record-high/102281798 . *Please note that by clicking on this link, you are leaving the KPMG website for an external site (non-KPMG, non-governmental), that KPMG is not affiliated with or nor does KPMG endorse its content. The use of the external site and its content may be subject to the terms of use and/or privacy policies of its owner or operator.*

See A. Davies, "Australia's post-pandemic surge in net overseas migration temporary, federal budget predicts," *The Guardian* (online) (9 May 2023) at: https://www.theguardian.com/australia-news/2023/may/10/australias-post-pandemic-surge-in-net-overseas-migration-temporary-federal-budget-predicts . *Please note that by clicking on this link, you are leaving the KPMG website for an external site (non-KPMG, non-governmental), that KPMG is not affiliated with or nor does KPMG endorse its content. The use of the external site and its content may be subject to the terms of use and/or privacy policies of its owner or operator.*

4 See "Department of Home Affairs visa – October 2015 to 2022–23 financial years" on the ATO website.

5 See Department of Health "2020 Aged Care Workforce Census Report" at: https://www.health.gov.au/sites/default/files/documents/2021/09/2020-aged-care-workforce-census.pdf .

National Skills Commission, "Care Workforce Labour Market Study" (September 2021) at: https://www.nationalskillscommission.gov.au/sites/default/files/2022-10/Care%20Workforce%20Labour%20Market%20Study.pdf .

For related coverage, see *GMS Flash Alert* 2023-065, 27 March 2023.

6 Budget Strategy and Outlook: Budget Paper No. 1, p. 145.

7 Department of Home Affairs, News Archive, "Increase in the Temporary Skilled Income Threshold (TSMIT) to $70,000 and expanded pathways to permanent residence" (5 May 2023).

*   *   *   *

A$1 = US$0.66
A$1 = €0.61
A$1 = £0.53
A$1 = ¥90.18

Source: www.xe.com

People Services in Australia

Sydney, New South Wales **Ablean Saoud** Partner – People Services Mobile: +61 421 052 596 asaoud@kpmg.com.au	**Perth, Western Australia** **Dan Hodgson** Partner – People Services Mobile: +61 416 017 131 dghodgson@kpmg.com.au
Melbourne, Victoria **Ursula Lepporoli** Partner – People Services Tel.: +61 3 8626 0967 udlepporoli@kpmg.com.au	**Brisbane, Queensland** **Hayley Lock** Partner – People Services Mobile: +61 477 764 638 hlock@kpmg.com.au
Sydney, New South Wales **Jackie Shelton** Partner – People Services Mobile: +61 412 291 846 jsshelton@kpmg.com.au	**Sydney, New South Wales** **Mark Wright** Principal Director – People Services Mobile: +61 411 220 354 mwright15@kpmg.com.au

Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm Australia:

Dan Hodgson (in Perth)
Tel. +61 8 9278 2053
dghodgson@kpmg.com.au

Hayley Lock (in Brisbane)
Tel. +61 7 3434 9176
hlock@kpmg.com.au

Mark Wright (in Sydney)
Tel. +61 2 9295 3884
mwright15@kpmg.com.au

Special contributors: Kelly Stephen and Samantha Panchal.

The information contained in this newsletter was submitted by the KPMG International member firm in Australia.

www.kpmg.com

kpmg.com/socialmedia