YOUR KNOWLEDGE

June '25 edition

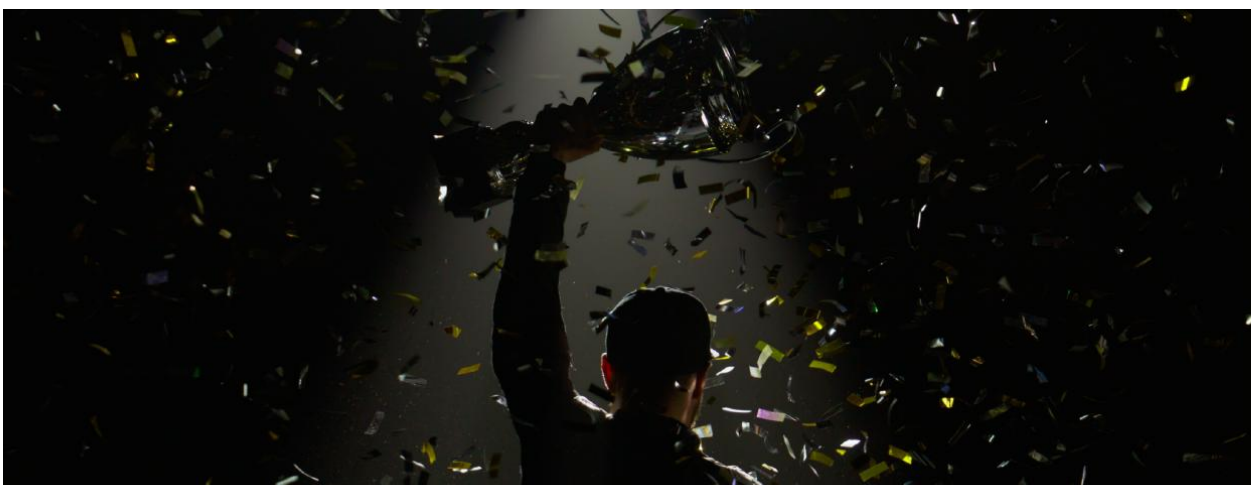
In this edition we cover:

- Labor's victory: unpacking the promises and priorities
- From air fryers to swimwear: tax claims to avoid
- ATO's new requirements for NFPs
- Economic crossroads: US shrinks, China stimulates, Australia holds steady

As always, please don't hesitate to reach out – we're here to help.

LABOR'S VICTORY: UNPACKING THE PROMISES AND PRIORITIES

As the Labor party settle back into their seats having secured a majority in the House of Representatives, we look at the campaign promises and the unfinished business from the last term.



Individuals

- Personal income tax cuts: the 2025-26 federal budget introduced a modest income tax cut for all taxpayers from 1 July 2026 and again from 1 July 2027.
- The tax rate for the $18,201-$45,000 tax bracket will reduce from its current rate of 16%, to 15% from 1 July 2026, then to 14% from 2027-28. The saving from the tax cut represents a maximum of $268 in the 2026-27 year and $536 from the 2027-28 year.
- Legislation enabling the tax cut passed Parliament on 26 March 2025.

$1,000 instant work related expenses tax deduction

- The Government has committed to providing taxpayers who earn labour income with a $1,000 shortcut work related deduction claim on their tax return.
- Taxpayers who are likely to have claims higher than $1000 can claim in the usual way.
- The simplified tax deduction is only available to those earning labour income. Those earning business or investment income only will not be able to claim this shortcut deduction.
- Taxpayers will be able to claim other non-work related deductions in addition to the instant work related deduction.

Energy rebate extended

The 2025-26 federal budget extended energy rebates. From 1 July 2025, households and small business will be eligible for a further $150 energy rebate until the end of the 2025 calendar year. The rebates will automatically apply to electricity bills in quarterly instalments.

Cheaper home batteries

The Government has committed to reducing the cost of home batteries from 1 July 2025. Through the scheme, households will be able to purchase a typical battery with a 30% discount on installed costs – saving around $4,000 on a typical battery. The initiative extends the existing Small-scale Renewable Energy Scheme.

5% deposit scheme for first home buyers

The Government has committed to a 5% deposit scheme for all Australian first home buyers. Under the scheme the Government will underwrite eligible first home buyers, enabling them to purchase a property with a 5% deposit without the need for Lenders Mortgage Insurance.

Expanding the existing first home buyer scheme, the media release says, “there will be higher property price limits and no caps on places or income, in a major expansion of the existing scheme.”

The existing Home Guarantee Scheme is limited in places and subject to income tests. The scheme is open to Australian citizens or permanent residents who have never owned property or land in Australia, or have not owned property or land in Australia in the last 10 years, and available to owner occupiers only.

Superannuation

Legislation enabling the proposed Division 296 tax on superannuation balances above $3m lapsed when Parliament dissolved. The question now is whether the Government will seek to push this reform through the Senate with the support of The Greens.

Greens Senator Nick McKim has previously advocated for the Division 296 threshold to be lowered to $2m and indexed to inflation. In addition, the Senator tied his support for the tax to a "prohibition for super funds to borrow to finance investments."

Originally intended to apply from 1 July 2025, if enacted, Division 296 will increase the headline tax rate to 30% for earnings on total superannuation balances (TSB) above $3m. The proposed calculation captures growth in TSB over the financial year allowing for contributions and withdrawals. This method captures both realised and unrealised gains, enabling negative earnings to be carried forward and offset against future years.

Small business

Extending the instant asset write-off for small business: An increase to the $1,000 instant asset write-off threshold has been a consistent feature of federal budgets by various governments as an incentive for small business investment.

The extension of the increased instant asset write-off threshold to $20,000 for the 2024-25 financial was passed by Parliament on 26 March 2025. The Government has committed to extending the $20,000 instant asset write-off threshold to 30 June 2026.

National small business strategy

The Government has released its National small business strategy for consultation. The strategy primarily addresses how different government jurisdictions work with small business and how to relieve some of the friction when dealing across government systems and requirements.

Energy

Green Aluminium Production Credit: The Government has $2bn set aside for a new Green Aluminium Production Credit to support Australian aluminium smelters switching to renewable electricity before 2036 (there are four of them).

If you are wondering why the aluminium industry has been singled out, the reason is two-fold; aluminium is the second most used metal in the world and according to the *Institute of Energy Economics and Financial Analysis*, represents about 10% of Australia's electricity demand - Tomago Aluminium just north of Newcastle in NSW, is the largest single user of electricity in the country with electricity making up about 40% of its costs. Transition from brown to green energy is not just a consumption issue for the industry, it's a recreation of the value chain.

Under the initiative, smelters will be able to negotiate an emissions linked credit contract payable per tonne of green aluminium produced for up to 10 years. The final credit rates will be based on individual facility circumstances and be dependent on reducing Scope 2 emissions. Scope 2 emissions are indirect greenhouse gas emissions associated with the purchase of electricity, steam, heat or cooling. They account for around 85% of emissions from aluminium smelting.

See: [Aluminium to forge Australia's manufacturing future] and Department of Industry, Science and Resources. [New Green Aluminium Production Credit will support the transition to green metals].

FROM AIR FRYERS TO SWIMWEAR: TAX DEDUCTIONS TO AVOID

With the 2025 tax season fast approaching the Australian Taxation Office (ATO) is reminding taxpayers to be careful when claiming work related expenses. This is in reaction to a spate of claims that didn't quite pass the 'pub test'. To give you a few examples of what didn't get through…

- A mechanic attempting to claim an air fryer, microwave, two vacuum cleaners, TV, gaming console and gaming accessories as work related expenses
- A truck driver seeking to deduct swimwear purchased during transit due to hot weather
- A fashion industry manager attempting to claim over $10 000 in luxury branded clothing and accessories for work related events

These claims were deemed personal in nature and lacked a sufficient connection to income earning activities. The advice here would be - if in doubt leave it out or run it by us.

2025 priorities

The ATO is focusing on areas where frequent errors occur including:

- Work related expenses: as above, claims must have a clear connection to income earning activities and be substantiated with records including receipts or invoices. Even if an expense seems to relate to income earning activities, it can't normally be claimed if it is a private expense. There are a wide range of common expenses that normally don't qualify for a deduction.
- Working from home deductions: taxpayers must prove they incurred additional expenses due to working from home. The ATO offers two methods for calculating these deductions: the fixed rate method and the actual cost method (more detail below).
- Multiple income sources: all sources of income, including side hustles or gig economy work must be declared. Each source may have different deductions available.

Working from home deductions

For those working from home there are two methods to calculate deductions:

- Fixed rate method: claim 70 cents per hour for additional running expenses such as electricity, internet and phone usage even if you don't have a dedicated home office. This method can only be used if you have recorded the actual number of hours you worked from home across the income year. A reasonable estimate isn't enough.
- Actual cost method: claim the actual expenses incurred, with records to substantiate the claims. This method potentially enables a larger deduction to be claimed, but the record keeping obligations are more onerous.

It's important to note that double dipping is not allowed. For instance, if you claim deductions using the fixed rate method you can't separately claim a deduction for your mobile phone costs.

As always, if you're unsure or need help with your tax return please reach out.

ATO'S NEW REQUIREMENTS FOR NFPS

If you are involved with running a not for profit (NFP) organisation it is important to be aware of key obligations and requirements. In particular, if the NFP qualifies as a tax exempt entity there are some specific conditions that need to be satisfied and a relatively new ATO reporting obligation which needs to be undertaken to maintain that income tax exempt status.

Annual NFP self-review return

From the 2023–24 income year, non-charitable NFPs with an active Australian Business Number (ABN) are required to lodge an annual NFP self-review return with the ATO. This return notifies the ATO of the organisation's eligibility to self-assess as income tax exempt.

The return has three sections:

- Organisation details: standard information on the NFP.
- Income tax self-assessment: confirmation of the organisation's income tax exempt status.
- Summary and declaration: acknowledgement of the information provided.

When the return is being completed the NFP must answer 'yes' or 'no' to the question: 'Does the organisation have and follow clauses in its governing documents that prohibit the distribution of income or assets to members while it is operating and winding up?' This requirement needs to be satisfied in order for the NFP to self-assess its position as a tax exempt entity.

If a NFPs governing documents don't have these clauses then it can still self-assess as income tax exempt for the 2024 income year as long as no income or assets have been distributed to members. As a transitional arrangement, the ATO is allowing NFPs until 30

June 2025 to update their governing documents. Failing to do this will mean that the organisation cannot self-assess as income tax exempt from 1 July 2024 for the 2025 income year, which would lead to the organisation being treated as a taxable entity that might then need to lodge a tax return.

Mandatory clauses in governing documents

Governing documents are the formal documents which set out the purpose of the organisation, its character and the rules and requirements for how decisions are made, how it operates and how long it operates for.

As noted above, NFPs must include specific clauses in their governing documents to self-assess as income tax exempt. These clauses must:

- Prohibit the distribution of income or assets to members during the organisation's operation and on winding up.
- Ensure that any surplus assets are transferred to another NFP with similar purposes upon dissolution.

NFPs should also ensure that there are sufficient controls in place to ensure that members don't receive income, property or assets which belong to the organisation, except where they are receiving remuneration for work performed for the entity or a reimbursement of expenses incurred on behalf of the organisation.

The advises that NFP governing documents should be reviewed at least annually or whenever there is a major change to the structure or activities of the organisation. An annual general meeting is a good time to review governing documents.

Taking a proactive approach helps identify any issues and reinforces your organisation's commitment to good governance.

ECONOMIC CROSSROADS: US SHRINKS, CHINA STIMULATES, AUSTRALIA HOLDS STEADY

The US economy experienced a notable slowdown in the first quarter of 2025. The latest GDP data showed the economy contracted at an annual rate of -0.3%. Businesses stockpiling goods (which increased import volumes) ahead of the implementation of President Trump's shemozzle of a tariff policy was one of the reasons for the contraction in GDP. The other was a decline in Government spending. Mr Trump's tariffs are deflationary for the world and inflationary for the US. The sharp weakening in soft economic data points to rising recession risks, although markets still only seem priced for a mild slowdown which now seems right given the backdown.

It is no surprise that China announced a new stimulus package including interest rate cuts and a significant liquidity injection, as the Government looks to boost an economy that has been hit by the collapse in the property market and now the trade war with the US. China's factory activity contracted at its fastest pace in 16 months in April following the frontloading of orders to beat the tariffs. Trade talks between the US and China have driven market optimism over the past few weeks and sentiment has turned positive. The US-China deal has 30% import taxes on Chinese goods, which could still stem trade flow. The trade announcement with the UK has disappointed many in the market as it kept the 10% tariff on imports into the US up from 3.4%. The EU hasn't even begun negotiations with the US.

In Australia, the election has come and gone fairly uneventfully for financial markets. We are waiting on GDP data to be released in the next few weeks which should confirm a sluggish economy given consumer spending remains weak. The RBA has cut interest rates and this should underpin mild growth.

The outlook for financial markets remains one of uncertainty reflected by the increase in volatility. Tight policy, lingering inflation risks and tariff-related drag still weighs on markets. What seems to have been achieved so far is a whole lot of volatility and the realisation the US needs China as much as China needs the US. Within the Australian share market there was a notable softening in outlook statements by company management in the recent reporting season. With full-year forecasts being revised lower, it is reasonable to suggest that market-wide earnings growth is slowing, with expectations moderating for the rest of this year and potentially into the next.

In this edition we've gone global and local to provide you with some key tax, governance and economic updates. As always, if there's anything that we can cover in future editions to help you or your business please let us know. Also reach out if we can help you navigate important decisions as the end of the financial year approaches.

Until next time, all the best.