

# BUDGET ANALYSIS

## 2025

# CONTENTS

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## The Economy and Markets

- 01. Deficit of \$27.6bn for FY25, a decade of deficits ahead

## Superannuation

- 02. Superannuation Guarantee increase to 12%
- 03. Div 296 – still no clarity
- 04. Payday superannuation on track

## Centrelink

- 05. Continued freezing of deeming rates

## Cost of Living Relief

- 06. Debt relief for those with University Loans
- 07. Lowering the cost of medicine and adding new medicines to the PBS
- 08. Further energy bill relief

## Tax

- 09. Silence on extending the large-scale instant asset write off measure of \$20,000
- 10. New tax cuts for every Australian taxpayer
- 11. Increasing the Medicare Levy Low-Income thresholds

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# THE ECONOMY AND MARKETS

## DEFICIT OF \$27.6BN FOR FY25

### ... A DECADE OF DEFICITS AHEAD

The Treasurer has projected that the Budget should see a deficit of \$27.6 billion for the current financial year ending in June, although he did estimate it to be \$28.3 billion in last year's Budget, so we are \$700 million better off than expected!

The Treasurer was not expecting to hand down a Budget prior to an anticipated Federal Election, however, Cyclone Alfred had different ideas and so Mr Chalmers had to deliver a Budget, that for the most part, is light on detail.

The projected forward estimates suggest a deterioration in cash balance of \$66.7 billion compared to that handed down last year. This will also see net debt increase from \$552.5 billion to \$620.3 billion, further increasing over the forward estimates. This will have implications for a key expenditure line of interest paid, which contributes to the cash deficits.

**Table 1.2: Budget aggregates**

	Actual	Estimates					Total(a)	Projections
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29		2035-36
	\$b	\$b	\$b	\$b	\$b	\$b	\$b	
<b>Underlying cash balance</b>	<b>15.8</b>	<b>-27.6</b>	<b>-42.1</b>	<b>-35.7</b>	<b>-37.2</b>	<b>-36.9</b>	<b>-179.5</b>	
Per cent of GDP	0.6	-1.0	-1.5	-1.2	-1.2	-1.1		0.0
<b>Gross debt(b)</b>	<b>906.9</b>	<b>940.0</b>	<b>1,022.0</b>	<b>1,092.0</b>	<b>1,161.0</b>	<b>1,223.0</b>		
Per cent of GDP	33.9	33.7	35.5	36.5	36.9	36.8		31.9
<b>Net debt(c)</b>	<b>491.5</b>	<b>556.0</b>	<b>620.3</b>	<b>676.3</b>	<b>714.1</b>	<b>768.2</b>		
Per cent of GDP	18.4	19.9	21.5	22.6	22.7	23.1		20.2

a) Total is equal to the sum of amounts from 2024–25 to 2028–29.

b) Gross debt measures the face value of Australian Government Securities (AGS) on issue and is presented as at the end of the financial year.

c) Net debt is the sum of interest-bearing liabilities (which includes AGS on issue measured at market value) less the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements) and is presented as at the end of the financial year.

Income tax receipts from individuals continues to grow, reflecting a combination of more citizens working and wages growth. The same is also true of company tax receipts, as corporates continue to deliver profits for shareholders and pay tax.

The Treasurer has forecast Australia will need to wait a decade before it returns to surplus. The country will face structural challenges along the way (we are at record low unemployment, and we are an aging population), with exogenous factors (iron ore prices and global demand) being the key to increased revenue and a return to surplus.

The Treasurer continues to navigate the knife edge of providing cost of living relief without stoking inflation. This Budget continues that important theme, with the announced \$1.8 billion extension in energy bill rebates to all households, further unexpected tax cuts, Medicare threshold adjustments, student debt reductions and Pharmaceutical Benefits Scheme (PBS) benefits.

The government is forecasting that headline inflation to be just below 3 per cent through the year to the June quarter 2026 and then within band for the forward estimates (refer to Chart 2.13).

# DEFICIT OF \$27.6BN FOR FY25

... A DECADE OF DEFICITS AHEAD

Chart 2.13: Headline inflation



## What are the risks to the Budget forecast?

Given that the Reserve Bank has its eye on inflation in setting interest rate policy, the investment markets will no doubt monitor upcoming data releases in response to these forecasts. Further, the global policy uncertainty may also weigh on the Reserve Bank's monetary policy setting, as tariffs and global labour mobility affect the economy and wages.

Australia is experiencing record low unemployment, so more people are in work and are therefore paying income tax (and in turn asking less of the government in terms of allowances and payments). The global policy uncertainty prevailing in the markets will no doubt weigh on the Reserve Bank's monetary policy settings.

## Profile's view

Our view has not changed much in 12 months. The saying that growing revenue solves all problems still exists. Revenue is growing, albeit on the back of a favourable economic environment and low interest rates. If unemployment were to rise due to a slowing global economy, the tax base would shrink and leave fewer taxpayers to generate revenue. The Government would then need to consider reversing the announced tax cuts (or even increase tax paid), which in turn slows the economy. Any increase in unemployment would also result in increased expenditure via welfare payments, thereby worsening the projected Budget deficit.

The government is forecasting that the cost-of-living relief measures will genuinely assist families and those in need, and that it will not lead to more disposable income for people to spend and stoke inflation.

# SUPERANNUATION

## NO NEW MEASURES, BUT STILL WORTH KNOWING ABOUT

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### **Superannuation Guarantee increase to 12%**

Employers will be mandated to increase the amount they contribute to employees nominated superannuation funds from 11.5% to 12% from 1 July 2025 onwards.

It is important to note that there is no minimum salary on which Superannuation Guarantee (SG) contributions are required to be paid (removed from 1 July 2022) and the maximum salary is \$65,070 per quarter \$260,280 per annum).

#### ***What this means for you***

You will need to speak with your employer to ascertain if the extra 0.5% will be exchanged for your wages, or if your employer will increase your wages by 0.5% to ensure your take home pay remains the same (after any announced income tax).

If you are making personal contributions or extra salary sacrifice contributions, you will need to ensure you make the appropriate adjustments to remain within the concessional contribution cap (currently \$30,000 per annum).

### **Div 296 – still no clarity**

The government were silent on the draft legislation to reduce tax concessions available to individuals with total superannuation balances exceeding \$3 million with effect from 1 July 2025.

This is possibly due to the pending federal election and the fact that it has not been a priority for the government.

#### ***What this means for you***

The fact that the draft legislation was due to take effect on 1 July 2025 and nothing has passed presents possible structural challenges for those affected. The proposed tax on unrealised gains is unprecedented, which also presents challenges for calculation and collection. The government will no doubt need to provide guidance after any election result to provide certainty for those taxpayers affected.

### **Payday superannuation on track**

Draft legislation was released by Treasury on 14 March 2025 which will see the removal of the current quarterly due dates, with the liability for employers to be 7 days from when employees are paid. Unlike current provisions, the revised Superannuation Guarantee charge (SGC) will be tax deductible. However, any late payments will attract the non-deductible general interest charges and penalties.

#### ***What this means for you***

You will be receiving superannuation contributions more often which may mean reviewing your existing re-balancing strategies within your super fund. If you are an employer, you will need to ensure that your business has sufficient cashflow and liquidity to meet the revised payment schedule.

# CENTRELINK

## NO MEASURES ANNOUNCED TO BOOST PAYMENTS

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### **Continued freezing of deeming rates**

While not explicitly announced in the federal Budget, the Department of Social Services has confirmed that the freeze to deeming rates announced by the Coalition in 2022 until 30 June 2025 will continue for another year.

The deeming rates are 0.25% for the first \$62,600 for a single and \$103,800 for a couple. The deeming rate then increases to 2.25% for anything above those thresholds.

This measure is estimated to benefit 460,000 age pensioners whose rate of payment is impacted by deeming. Rates usually track in line with the RBA cash rate, which is currently 4.10%. It is estimated that a 1 percentage point increase in deeming rates saves the government about \$1.8 billion over the four-year estimates, or \$450 million a year.

### ***What this means for you***

If you have an income stream that is not deemed, the amount of income assessed by Centrelink may increase and impact your benefits. It is important to note that deeming is based on a market valuation that you advise Services Australia, and this may still impact your payments if it has increased. It is a welcome measure that should assist those recipients assessed under the income test.

# COST OF LIVING RELIEF

## BILLIONS THROWN TO EASY COST OF LIVING PRESSURES

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### **Debt relief for those with University Loans**

Last Budget saw the announcement that three million Australians will see \$3 billion wiped from their student debt (Higher Education Loan Program (HELP), formerly known as HECS). The changes included a change to future indexation, as well as a refund for those debts indexed at 7.1% (when the Consumer Price Index (CPI) was at that level), instead of the Wage Price Index (WPI) of 3.2%. The legislation to implement the announcement was passed through Parliament on 26 November 2024.

The Treasurer announced the Stage 2 reforms, costing an estimated \$16 billion, which includes cutting outstanding student loans by 20%, as well as raising minimum repayment thresholds for student loans and the level of repayment rates. This measure is subject to the passage of legislation.

The repayment income threshold will increase from \$54,435 in 2024/25 to \$67,000 in 2025/26.

The Budget discloses that there is \$38 billion (across 2,932,349 HELP debtors) as at 30 June 2024 with an average term to repayment of 9.9 years.

#### ***What this means for you***

The HECS debt reduction would come into effect on 1 June this year (if legislation is passed and labour wins the election), which is just before the next round of indexation in August.

Given that 70% of the people required to repay a HELP debt are 35 or younger, it should assist with their cashflow due to the increase in the income threshold. The increase in the threshold for when the repayment kicks in should save a HELP debtor \$125.65. Also, the outstanding loan balance will be less on which future indexation is applied, and hence more of the repayment will reduce the loan balance.

The Government have started to address student loans and it would be a welcome measure if they announced an incentive to accelerate repayments by offering a discount (which was the case until 2017).

### **Lowering the cost of medicine and adding new medicines to the PBS**

The cost of medicines on the Pharmaceutical Benefits Scheme (PBS) is proposed to reduce from 1 January 2026. The maximum co-payment will decrease from \$31.60 to \$25.00 per script for non-concession cardholders and remain capped at \$7.70 for concession cardholders. The freeze on co-payments for general patients will be for a year and up to five years for concession cardholders.

The Government is looking to include medication to treat endometriosis and menopause as part of the new additions to the PBS.

#### ***What this means for you***

This should translate to more money remaining in the bank for those with medical needs. The saving of \$6.60 sounds minor, but in the world of rising costs, any relief is welcomed and allows recipients to decide whether they spend the additional money or put it away for a rainy day.

The decision to include women's health is also a welcome announcement that should be commended.

# COST OF LIVING RELIEF

## BILLIONS THROWN TO EASY COST OF LIVING PRESSURES

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### **Further Energy bill relief**

An additional \$1.8 billion will be extended on top of the \$5 billion announced in last year's Budget. This will see households and approximately one million small business receive a further two \$75 rebates directly off their electricity bills through to December 2025.

### ***What this means for you***

There has been a lot of debate about the fact that all households receive the benefit. While everyone always enjoys a gift (of sorts), perhaps those households who don't necessarily "need" the relief could consider donating the \$150 to a charity of their choice that assists those households who are in need of assistance. Or better still, give another household you know who needs it \$150 to relieve the cost of living pressures they are feeling.

Like last year, the Government has strategically positioned this measure to assist it to shave off a quarter of a percent from CPI, given that energy is a key input to the CPI basket of goods (that households will not be paying). No doubt we will read commentators "adjusting" for this measure as CPI is released over the next 9-12 months.

# TAX

## ... ELECTION.....WHAT ELECTION?

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There has been very little in the form of tax reform announced in this year's Budget. It is important to note that the Budget has allocated additional funding of \$75.7 million over the next four years from 1 July 2025 to extend and expand the ATO's 'Personal Income tax Compliance Program.' This means that taxpayers should exercise even more vigilance and compliance in dealing with the ATO. The ATO are especially targeting excessive or unusual work-related deductions and unreported income from those working in the "gig" economy. Further, rental property expenses will be under the spotlight. This is all aimed at clawing back revenue that the Government feels it should be receiving to assist with the Budget deficit.

In addition, the Government have boosted the ATO Tax Avoidance Taskforce for businesses by \$717.8 million.

## Businesses

### **Silence on extending the large-scale instant asset write off measure of \$20,000 beyond 30 June 2025**

The 2025 Federal Budget did not explicitly extend the measure beyond 30 June 2025. This means that businesses with annual turnover less than \$10 million will only be able to instantly depreciate assets up to \$1,000 (down from the current \$20,000).

#### ***What this means for you***

There is significant uncertainty and small business may look to accelerate any asset purchases prior to 30 June 2025 to take advantage of the measures in place.

No doubt there will be significant lobbying and negotiations to make the measure a permanent fixture in the legislation to provide small business with the boost in cashflow and confidence moving forward.

# TAX

## ELECTION.....WHAT ELECTION

### Individuals

#### New tax cuts for every Australian taxpayer

The Government has announced new tax cuts that will come into effect from 1 July 2026. These are in addition (and unexpected) to the first round of tax cuts legislated last year and which have been rolling out since 1 July 2024.

The table below illustrates where the cuts have been made, which are in the first income threshold for those with taxable incomes between \$18,201 and \$45,000. Each 1% tax cut for this tax bracket equates to \$268 per annum (or the touted \$5 per week).

Taxable Income (\$)	Current tax rates 2024-25 & 2025-26	New tax rates 2026-27	New tax rates 2027-28
0 - 18,200	Nil	Nil	Nil
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%

#### What this means for you

The tax bracket targeted by the Government is important when we look at employing superannuation strategies for clients. This is because superannuation is taxed at a maximum of 15%. Therefore, the tax differential is marginalised with the change in tax rate. Having said that, a saving is a saving, and we will work with you on what should work best for you, taking into account factors such as your age, your discipline with savings and your overall wealth accumulation strategy.

#### Increasing the Medicare Levy Low-Income thresholds

The Government will increase the thresholds across all categories, being singles, families, seniors and pensioners from 1 July 2024. It is expected that more than one million Australians on lower incomes will continue to be exempt from the Medicare Levy or continue to pay a reduced levy rate under this cost-of-living measure.

The new thresholds will be:

	2023/24	2024/25
Singles	\$26,000	\$27,222
Families	\$43,846	\$45,907
Single seniors and pensioners	\$41,089	\$43,020
Family seniors and pensioners	\$57,198	\$59,886

The family income thresholds will increase by \$4,216 for each dependant child or student, up from \$4,027.

#### What this means for you

This cost of living measure benefits those in need, as the income thresholds shown above do not facilitate a comfortable lifestyle and therefore could be seen as a more targeted measure to assist those who need assistance.



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