2025/26 Federal Budget

On 25 March 2025, Treasurer Jim Chalmers presented the Government's 2025/26 Federal Budget.

Follow the links below to listen to our Pulse Check session to hear our thoughts on the Budget:

On the Innate Wealth YouTube channel

On the Innate Wealth Facebook page

Highlights

Reduced first marginal tax rate

First marginal tax rate will be reduced from 16% to 14% over 2 years, starting 1 July 2026.

Taxable Income	Tax rate in 2025/26	Proposed rate in 2026/27	Proposed rate in 2027/28
$0 to $18,200	Nil	Nil	Nil
$18,201 to $45,000	16%	15%	14%
$45,001 to $135,000	30%	30%	30%
$135,001 to $190,000	37%	37%	37%
$190,001 and over	45%	45%	45%

*Tax rates excluding Medicare Levy

How much is this worth?

Individual tax savings with the reduction is outlined below.

Taxable Income	2026/27	2027/28
$18,200 and below	Nil	Nil
$20,000	$18	$36
$25,000	$68	$136
$30,000	$118	$236
$35,000	$168	$336
$40,000	$218	$436
$45,000 and over	$268	$536

Cost of living proposals

Cost of living measures include:
- Energy rebates extended for another 6 months, applying $150 rebate to bills in quarterly instalments.
- Incentive for more medical practices to bulk bill all clients.
- Cheaper medicine, with the idea that four out of five medications on the PBS costing a maximum of $25.

HECS / HELP debt reduction

- 20% reduction in outstanding balances as at 1 June 2025.
- Increase to thresholds before repayment obligation arises.

Social Security

- 3 day guarantee for child care subsidy
- Unwinding of legacy pensions

Contribution caps for 2025/26

Not a budget measure but as a reminder:

Concessional contributions	$30,000 pa
Non-concessional contributions	$120,000 pa

Also worth a mention is SG contribution rates increasing to 12.0% from 1 July 2025.

Please read on for more details on the above as well as our commentary

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Cost of Living

Energy bill relief extended for 6 months

All Australian households and eligible small businesses will receive an additional energy rebate of $150 for the remainder of 2025 - delivered as $75 per quarter for the second half of the year.
A classic election sweetener you could say. Interestingly though, nothing on energy more broadly which will be a key election topic for voters...

Student loans to be cut

Student loans will be reduced by 20% before the annual indexation is applied on 1 June 2025. The changes will apply to all HELP Student Loans, VET Student Loans, Australian Apprenticeship Support Loans, Student Start-up Loans and the Student Financial Supplement Scheme.
While clearly pitched at younger voters, we see this as a well-targeted initiative aimed at a cohort facing some of the toughest financial headwinds over the coming decades.

Reduced student loan repayments

The income that can be earned before student loan repayments need to be made will be increased from $54,435 in 2024/25 to $67,000 in 2025/26. Repayments will also only be calculated on income earned above the $67,000 threshold, not on total income.
While you could argue this is kicking the can down the road in one sense, it also addresses immediate cost of living pressures.

Lower cap for PBS medicines

In what is, in our opinion, a well targeted measure that will benefit all as the cost of PBS medicines will reduce. The maximum cost of Pharmaceutical Benefits Scheme (PBS) medicines will decrease from $31.60 to $25 per script from 1 January 2026. Pensioners and Commonwealth concession cardholders will still only pay the subsidised rate of $7.70 per PBS script until 1 January 2030 under previously introduced measures.

Strengthening Medicare

From 1 November 2025, incentive payments will be introduced to expand bulk billing for all Australians. Additionally, a new Bulk Billing Practice Incentive Program will reward general practices that bulk bill every Medicare visit. The government will also fund an extra 50 urgent care clinics to reduce the stress on hospitals, bringing the total number of clinics to 137.
In our view, no Australian should be restricted to accessing health care when needed, so another commonsense policy introduction.

Taxation

Personal Tax Cuts

All taxpayers will receive modest tax cuts starting from 1 July 2026. The 16% tax rate on taxable income between $18,201 and $45,000 will reduce to:

15% from 1 July 2026, and
14% from 1 July 2027.

There will be no changes to the other marginal tax rates and thresholds.

The table below summarises the potential tax savings based on a range of taxable incomes:

Taxable income	Annual tax savings 2026/27 compared to current financial year	Annual tax savings 2027/28 onwards compared to current financial year
$25,000	$68	$136
$35,000	$168	$336
$45,000 or more	$268	$536

In our view, this is a classic election-year tax cut designed to win votes. But really, is a $536 tax saving in two years' time going to change how you vote? Surely a few more targeted and meaningful measures could have been considered.

Secondly, when are we actually going to have a discussion about tax reform which is so desperately needed!

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Social Security

'3-day guarantee' for Child Care Subsidy

Families will be eligible for at least 72 hours per fortnight (three days per week) of subsidised Early Childhood Education and Care (ECEC) without having to meet certain activity requirements (such as paid work, volunteering and studying). Those who do meet the activity test, care for a First Nations child, or have a valid exemption can continue to access up to 100 hours of subsidised care. A family income test limit ($533,280 in 2024/25) will still need to be met to qualify for subsidised care. This measure is legislated to start from 1 January 2026.

No doubt a win for almost all families and given the position the economy is in, getting as many people as possible into the workforce is another win for common sense.

Unwinding of legacy pensions

Legislation has already passed to say these legacy pensions can be cashed out, rather than needing to be held until the specified end date. Many of these pensions now have low balances, so giving individuals the flexibility to cash these out is, in our view, another practical step forward.

However, the issue here lies in the Centrelink assessment of the proceeds if they are cashed out. For example, a legacy pension with a balance of $50,000 is likely to be assessed by Centrelink as a $25,000 asset – what happens here? Is the individual assessed to now have $50,000 instead of $25,000? That kind of shift could have implications for entitlements, and more clarity is definitely needed on this point.

Deeming rates

The budget made no mention of whether the deeming rate freeze (currently 0.25% and 2.25%) will be extended beyond 30 June 2025. These rates, historically linked to interest rates, were frozen as part of past cost-of-living relief measures.

With the freeze scheduled to end shortly, silence on the matter only leads us to assume that this freeze will not be extended. We see this having more of an impact on clients holding health care cards rather than the majority of age pensioners – if these clients were "deemed" to earn a higher level of income, this could result in them being above the income threshold and losing their health care card as a result.

Odds and Ends

Money for specific projects

While Jimbo handed out $17bn over 10 years for road and infrastructure projects, the key projects here in Victora were Sunshine station ($2bn), the Western Freeway ($1.1bn) and general road repairs to Melbourne and its suburbs ($1bn). Take note Jacinta Allen, this doesn't include additional funding for your suburban rail loop...

Get on the beers!

From August, the excise on beers will be frozen for 2 years. Given what we all pay for a beer at the pub already, this is a welcome relief for those wanting to celebrate making it to the end of this budget paper with a cold beer or two!

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Aged Care

Pay increases for Aged Care nurses

At a headline level, this increases the minimum award wages for registered and enrolled nurses employed in the aged care sector. Fair to say this is something we are in favour of given the number of people we need to attract to this space in the years ahead.

Don't forget however...

Significant reforms to aged care are coming into effect from 1 July 2025.

While we have already flagged these in our sessions previously, the essence of these changes are that user costs will increase, and the "bond" paid (Refundable Accommodation Deposit or RAD as it is more commonly known) is no longer fully refundable.

The difference between someone who enters pre-30 June versus post 1 July is going to be significant.

Housing

Ban on foreign ownership of established homes

From 1 April 2025, the government has banned foreign and temporary residents from buying established dwellings to prevent "land banking". The ban applies for two years but is subject to some limited exceptions.

Some will argue this is logical but others (Eg. Investment property owners) may view it as more external intervention in the property market that could drag down values. All in all, we view this as a sensible approach that will hopefully go some way to addressing the current housing crisis.

Expanded 'Help to Buy' program

The Help to Buy program was established to assist eligible individuals with the purchase of a principal place of residence. Expected to commence later this year, the Commonwealth will provide an equity contribution up to 30% of the purchase price of an existing home and up to 40% of the purchase price of a new home.

The income cap and property price caps used to determine eligibility will increase. For singles, the income cap will increase from $90,000 to $100,000. For joint applicants (and single parents), the income cap will increase from $120,000 to $160,000. The property price cap depends on the location of the property.

In our opinion, this falls into the "seems like a great idea" policy bucket but the reality is not many people actually access it. The rules are confusing and the idea of co-owing your home with the government is not one many younger Australian's find appealing – the bank of mum and dad seems like the preferred option. Not to mention you can't apply at the moment anyways...

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Superannuation

Nothing really!

There wasn't much in this year's budget relating to superannuation. The only direct mention was a $50 million allocation over three years to extend tax integrity programs. The focus of these are to ensure the timely payment of superannuation payments above all else.

Don't forget however...

- 12% employer contributions kick in from 1 July 2025, up from the current 11.5%.
- Division 296 legislation (proposed additional tax on super balances over $3 million) hasn't been passed yet, but it remains an outlined Labor policy. While the Liberal Party has indicated broad support for the idea, the sticking point continues to be how the tax is calculated; particularly the issue of taxing unrealised capital gains. With Labor unlikely to have a senate majority post the upcoming election, it is likely there will be further changes to this before it is passed.
- Pay day superannuation to come into effect from 1 July 2026. The current legislation only requires employers to pay superannuation entitlements on a quarterly basis if they desire. That flexibility will be gone, with super required to be paid at the same time as wages, making this a significant compliance shift for employers.
- There will be an increase in the total super balance (TSB) thresholds from 1 July 2025. This will allow individuals with higher superannuation balances to potentially contribute a higher amount into their accounts as per the table below:

Transfer balance cap and total super balance thresholds indexing 1 July 2025

Contribution caps unchanged, but expected to index 1 July 2026

Non-concessional contribution cap	Bring forward period	Total super balance as at 30 June 2024 (for current year contributions)	Total super balance as at 30 Jue 2025 (for contribution from 1 July 2025)
$360,000	3 years	<$1,660,000	<$1,760,000
$240,000	2 years	≥$1,660,000 and <$1,780,000	≥$1,760,000 and <$1,880,000
$120,000	1 year	≥$1,780,000 and <$1,900,000	≥$1,880,000 and <$2,000,000
$0	N/A	≥$1,900,000	≥$2,000,000

- This, in particular, is something we need to keep an eye on as contribution strategies may need adjusting in light of these changes and possible indexation of caps as per below.
- While not specific to this budget, it is also likely that the annual contributions caps will index again from 1 July 2026. These currently sit at $30,000pa for concessional contributions and $120,000pa for non-concessional contributions and will likely index to $32,500pa and $130,000pa respectively.

03 9999 4100 admin@ifsg.com.au innatewealth.com.au