

Federal Budget Review

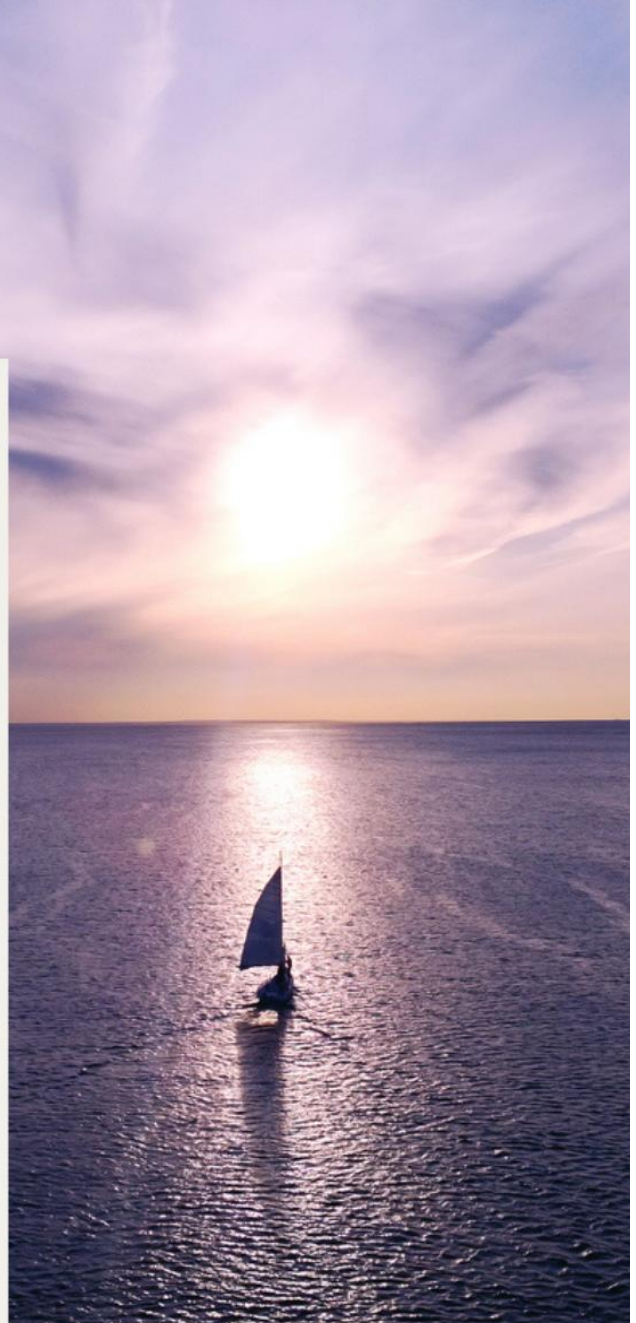
2025-26

26 March 2025

Sherlock Wealth

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Australian Federal Budget Update 2025-26

The Federal budget has been handed down by the Labor government with Treasurer Jim Chalmers and his government presiding over an underlying cash deficit of \$27.6 billion, with the budget coming on the eve of an election as the Albanese government pitches for a second term.

This budget comes on the back of consecutive budget surpluses and over the five years to 2028/2029 the forecast of the underlying cash balance has improved. But the improvement is immaterial against projected cumulative cash deficits of almost \$180 billion and \$283 billion of additional debt over that same period with public debt soon expected to surpass \$1 trillion.

The centrepiece of this budget is new personal income tax cuts for all Australians, costing \$17.1 billion over three years, which will see the lowest margin tax rate decline from 16% to 14% over two years. Other notable items included energy bill relief and more bulk billing at GPs.

The Albanese government has read the tea leaves with cost-of-living the primary concern of voters, enough to swing the election result in what is likely to be a tight contest. The cost-of-living focus is well evidenced by the long list of winners below, in contrast to the very small list of losers.

Effectively, the budget keeps the economy afloat due to extra revenue outside of the government's control, addresses cost-living pressures in the very short term, whilst lacking any real impetus for proper budget repair and structural reform, all things which have become too common place of late from both major parties managing to a 3-year election cycle.

Key points include:

1. Economic growth forecast to be 2.25% in 2025-26, up from 2.00% in 2024-25.
2. Business investment to remain weak, but expectations of a large surge in dwelling investment from 2025-26.
3. Employment growth to drop dramatically through to 2025/26.
4. Growth in government spending driven demand to outstrip private sector demand growth until 2026-27.
5. Personal income tax cuts of \$17 billion, with reductions in the lowest tax rate to 14% by July 2027.
6. 20% or \$16 billion reduction (forgiveness) in student debt.
7. \$7.9 billion to make 90% of GP visits bulk billed by 2030.
8. \$1.8 billion extension of energy bill relief to the end of this year.
9. \$785 million to cap pharmaceutical benefit scheme scripts.
10. Two-year ban on foreign buyers purchasing existing dwellings in addition to projections of a material drop in net overseas migration (though from a high base).

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The winners include:

- Taxpayers – every worker will be better off by \$5 a week next year, which will rise to a \$10 per week saving by mid-2027, costing \$17 billion.
 - Low-income households – the Medicare Levy low-income thresholds will be increased benefiting more than one million households.
 - Household budget – electricity bills will be \$150 cheaper, with an extension of the \$75 quarterly rebate until the end of this year, costing \$1.8 billion.
 - Medicines – the maximum price of prescription medicines will be reduced to \$25 a script.
 - Patients – GPs will receive high incentives to bulk bill patients, costing \$8.4 billion.
 - Public hospitals – will receive an extra \$1.8 billion in funding.
 - Students – outstanding university loan balances to be slashed by 20% this year, reducing the debt for three million by \$16 billion; free TAFE expanded to 100,000 places annually.
 - Public schools – funding lifted by an extra \$7.6 billion over the next 10 years.
 - Home buyers – the “Help to Buy” scheme for first home buyers to be expanded.
 - Drinkers – indexation of draught beer excise paused for two years.
 - Transport – road and rail projects to get \$1.7 billion over 10 years.
 - Internet users – the NBN will receive \$3 billion equity injection to complete fibre upgrades.
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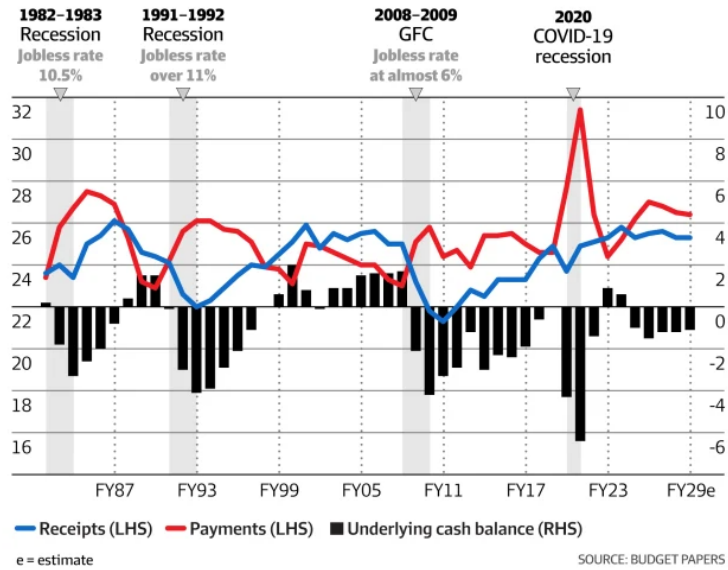
The losers include:

- Multinationals – the ATO gets almost \$1 billion over 5 years to extend its crackdown on domestic and multinational tax avoidance.
 - Consultants – large consultants will continue to have their access to government work constrained, cutting \$720 million.
 - Smokers - \$156 million to disrupt the illicit tobacco trade (largely caused by significant increases to tobacco excise).
 - NDIS fraudsters – funding to beef up investigatory powers given ballooning costs of fraud.
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Relevant charts shown below.

Australian Federal Budget Update 2025-26

Budget receipts, payments and underlying cash (% GDP)



Effect of policy decisions on the federal budget bottom line

Over the four-year forward estimates

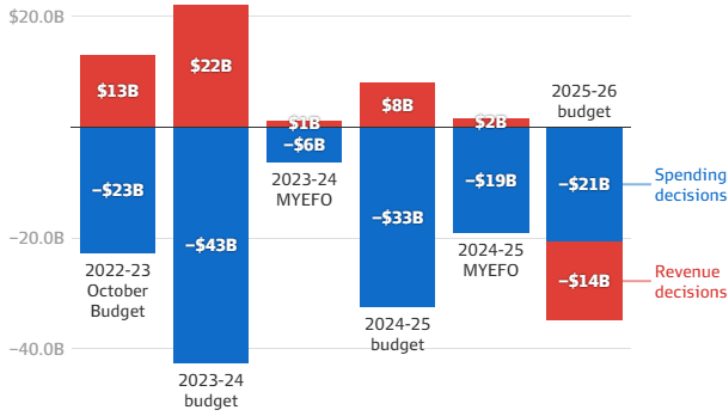
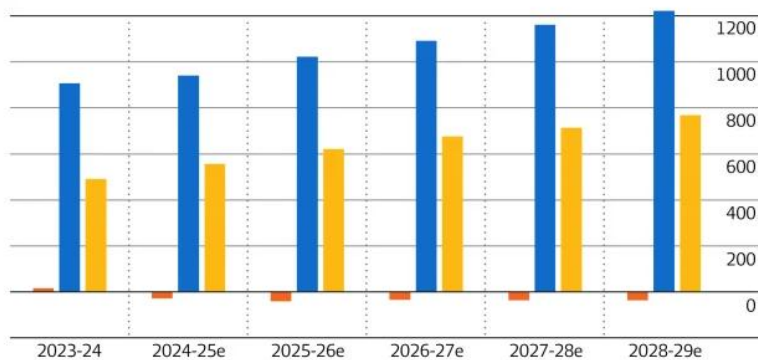


Chart: Michael Read, AFR • Source: Treasury

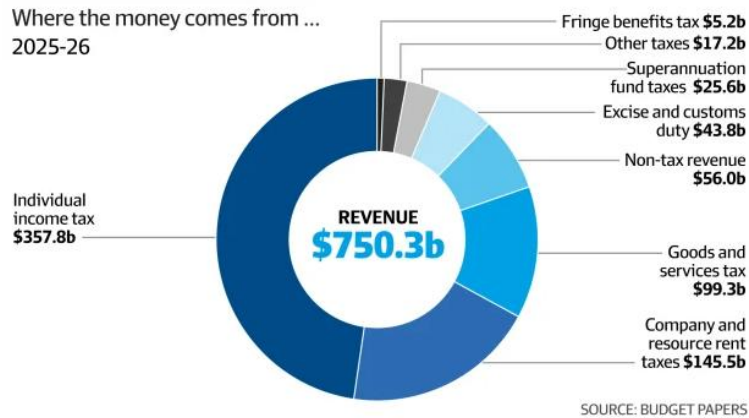
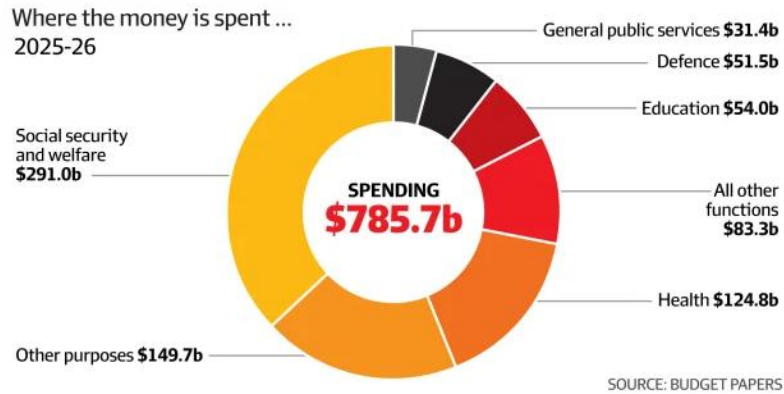
Budget aggregates (\$b) ■ Underlying cash balance ■ Gross debt (a) ■ Net debt (b)



(a) Value of Australian Government Securities on issue (b) Sum of interest-bearing liabilities (including AGS) less the sum of selected financial assets

SOURCE: BUDGET PAPERS

Australian Federal Budget Update 2025-26



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