

2018 BUDGET

FEDERAL BUDGET REVIEW

How does the Federal Budget affect you?



INDIVIDUALS

Personal Tax Rates

In the 2018-19 Budget, the Government announced staged tax relief for low and middle income earners. The Government is proposing a major 7-year, 3-step plan to reform personal income tax:

Step 1 will see a new non-refundable Low and Middle Income Tax Offset from 2018-19 to 2021-22, designed to provide tax relief of up to \$530 for each of those years. This will be in addition to the existing Low Income Tax Offset (LITO).

Step 2 will see a change in tax thresholds from 1 July 2018. In 2022-23, further threshold changes will occur and the LITO will increase from \$445 to \$645. The increased LITO will be adjusted for some thresholds.

Step 3 from 1st of July 2024, the top threshold of the 32.5% bracket will increase from \$120,000 to \$200,000, removing the 37% tax bracket completely.

The Government says this means that around 94% of all taxpayers are projected to face a marginal tax rate of 32.5% or less in 2024-25.

Tax Rates and Thresholds

Rate	2018-19 to 2021-22	2022-23 and 2023-24	2024-25 onwards
0%	\$0 - \$18,200	\$0 - \$18,200	\$0 - \$18,200
19%	\$18,201 - \$37,000	\$18,201 - \$41,000	\$18,201 - \$41,000
32.5%	\$37,001 - \$90,000	\$41,000 - \$120,000	\$41,001 - \$200,000
37%	\$90,000 - \$180,000	\$120,001 - \$180,000	N/A
45%	\$180,001 +	\$180,001 +	\$200,001 +

The above table reflects the Government's announced personal tax rate and threshold changes (highlighted in bold), excluding the 2% Medicare levy.

BUSINESS

\$20,000 instant asset write-off for Small Business Entities extended by 12 months

The Government will extend the current instant asset write-off (\$20,000 threshold) for small business entities (SBEs) by 12 months to 30 June 2019. This applies to businesses with aggregated annual turnover less than \$10 million.

The threshold amount was due to return to \$1,000 on 1 July 2018. As a result of this announcement, SBEs will be able to immediately deduct purchases of eligible depreciating assets costing less than \$20,000 that are acquired between 1 July 2017 and 30 June 2019 and first used or installed ready for use by 30 June 2019 for a taxable purpose. Only a few assets are not eligible for the instant asset write-off (or other simplified depreciation rules), eg horticultural plants and in-house software.

Assets valued at \$20,000 or more (which cannot be immediately deducted) can continue to be placed into the general small business pool (the pool) and depreciated at 15% in the first income year and 30% each income year thereafter. The pool can also be immediately deducted if the balance is less than \$20,000 over this period (including existing pools).

The current 'lock out' laws for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for 5 years if they opt out) will continue to be suspended until 30 June 2019.

The instant asset write-off threshold and the threshold for immediate deductibility of the balance of the pool will revert to \$1,000 on 1 July 2019.

Source: Budget Paper No 2, p 20.

Deductions disallowed for holding vacant land

The Government will disallow deductions for expenses associated with holding vacant land. Where the land is not genuinely held for the purpose of earning assessable income, expenses such as interest costs will be denied. It is hoped this measure will reduce the tax incentives for land banking which limit the use of land for housing or other development.

The measure will apply to both land held for residential and commercial purposes. However, the "carrying on a business" test would generally exclude land held for a commercial development. It will not apply to expenses associated with holding land that are incurred after:

- a property has been constructed on the land, it has received approval to be occupied and available for rent; or
- the land is being used by the owner to carry on a business, including a business of primary production.

Disallowed deductions will not be able to be carried forward for use in later income years. Expenses for which deductions will be denied could be included in the cost base if it would ordinarily be a cost base element (ie borrowing costs and council rates) for CGT purposes. However, if the denied deductions are for expenses would not ordinarily be a cost base element, they cannot be included in the cost base.

Date of effect: This measure applies from 1 July 2019.

Source: Budget Paper No 2, p 42.

TAX COMPLIANCE & INTEGRITY

No tax deduction for non-compliant PAYG and contractor payments

Measures will be enacted to ensure that taxpayers will not be able to claim deductions for payments to their employees such as wages where they have not withheld any amount of PAYG from these payments, despite the PAYG withholding requirements applying.

Similarly, the Government intends to remove deductions for payments made by businesses to contractors where the contractor does not provide an ABN and the business does not withhold any amount of PAYG (again despite the withholding requirements applying).

This was recommended by the Black Economy Taskforce.

The revenue expectations linked with this expenditure is quite modest, ie "a small unquantifiable gain to revenue over the forward estimates period".

Date of effect: The measure will commence on 1 July 2019 (ie next year).

Source: Budget Paper No 2, p 24.

Cash payments limit: payments made to businesses

The Government will introduce a limit of \$10,000 for cash payments made to businesses for goods and services.

This measure will require transactions over a threshold to be made through an electronic payment system or by cheque. Logically it would seem that this threshold amount should be \$10,000, but this is not spelt out in the Budget papers or the media release.

The rules will not apply to transactions with:

- financial institutions; or
- consumer-to-consumer non-business transactions.

This measure was recommended by the Black Economy Taskforce. It is designed to support other measures designed to counter the black economy. There is no revenue impact associated with it.

Date of effect: Limit will apply from 1 July 2019. The Government will consult further as part of the implementation process.

Source: Budget Paper No 2, p 23; Minister for Revenue media release, 8 May 2018

Reportable payments system extended: security providers, road freight transport and computer design

The Government will extend the taxable payments reporting system (TPRS) to the following industries:

- security providers and investigation services;
- road freight transport; and
- computer system design and related services.

This will extend the TPRS requirements already applying to the building and construction industry. The TPRS requirements will also be extended, from 1 July 2018, to the cleaning and courier industries under measures contained in the Treasury Laws Amendment (Black Economy Taskforce Measures No 1) Bill 2018 (see 2018 WTB 6 [148]).

Date of effect: The reporting requirements will apply from 1 July 2019, with the first annual report required in August 2020.

Source: Budget Paper No 2, p 22

Countering illegal phoenix activities

The Government has flagged a package of reforms intended to "deter and disrupt" phoenix activity. The package includes:

- introducing new phoenix offences to target those who conduct or facilitate phoenixing;
- preventing directors improperly backdating resignations to avoid liability or prosecution;
- limiting the ability of directors to resign when this would leave the company with no directors;
- restricting the ability of related creditors to vote on the appointment, removal or replacement of an external administrator;
- extending the Director Penalty Regime to GST, luxury car tax and wine equalisation tax, making directors personally liable for the company's debts; and
- expanding the Tax Office's power to retain refunds where there are outstanding tax lodgments.

Date of effect: No date of effect for any measure is specified in the Budget papers.

Source: Budget Paper No 2, p 37.

SUPERANNUATION

SMSF member limit to increase from 4 to 6 - law to be amended

The Budget confirmed that the maximum number of allowable members in new and existing self-managed superannuation funds (SMSFs) and small APRA funds will be expanded from 4 to 6 members from 1 July 2019. This measure was originally flagged on 27 April 2018 by the Minister for Revenue and Financial Services, Kelly O'Dwyer.

Date of effect: 1 July 2019.

Source: Budget Paper No 2, p 40.

Superannuation work test exemption for contributions by recent retirees

The Government will introduce an exemption from the work test for voluntary superannuation contributions by individuals aged 65-74 with superannuation balances below \$300,000 in the first year that they do not meet the work test requirements.

Date of effect: This measure will apply from 1 July 2019.

Source: Budget Paper No 2, p 30.

SMSF audit cycle of 3 years for funds with good compliance history

The annual audit requirement for self-managed superannuation funds (SMSFs) will be extended to a 3-yearly cycle for funds with a history of good record-keeping and compliance.

The measure will apply to SMSF trustees that have a history of 3 consecutive years of clear audit reports and that have lodged the fund's annual returns in a timely manner.

Date of effect: This measure will start on 1 July 2019. The Government said it will undertake consultation to ensure a smooth implementation.

Source: Budget Paper No 2, p 41

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Super borrowings - No Budget changes to LRBA's but restrictions growing

The Budget did not reveal any changes for limited recourse borrowing arrangements (LRBAs).

Draft legislation has proposed to include a member's share of any outstanding LRBA (entered from 1 July 2018) in their "total superannuation balance" (TSB). This 2017-18 Budget measure (yet to be legislated as at 8 May 2018) will also effectively curtail the future use of LRBA's for some individuals. Those with a TSB of \$1.6m or more are now also prevented from making further non-concessional contributions, so this proposed measure would effectively restrict the future use of large LRBA's (or at least require more sophisticated contributions planning to address the extra complexity over the life of a LRBA).

Super trustees required to formulate retirement income strategy for members

The Superannuation Industry (Supervision) Act 1993 (SIS Act) will be amended to introduce a retirement covenant that will require superannuation trustees to formulate a retirement income strategy for fund members. This requirement appears to be aimed at supporting the Government's proposed development of a comprehensive income product for retirement (CIPR) framework.

Currently, the SIS Act includes covenants requiring trustees to formulate, review regularly and give effect to an investment strategy and an insurance strategy.

Date of effect: Not specified.

Source: Budget Paper No 2, p 185.



27 Twelfth Street, Gawler South SA 5118
PO Box 1847, Gawler SA 5118
T (08) 8522 2633 F (08) 8522 2934
admin@symes.com.au www.symes.com.au

