

FEDERAL BUDGET – 2018

Welcome to the KSR edition of the Federal Budget overview.

Scott Morrison's 2018 budget to build a stronger economy for Australia is summarised in the following 5 points

1. Simplifying the individual tax systems and providing tax relief
2. Keeping Australians safe
3. Stronger growth to create more jobs
4. Guaranteeing the essential services that Australians rely on
5. Ensuring the Government lives within its means

The overall goal is to stay on track to build a stronger economy and to bring the budget back into balance.

We have summarised the points mentioned in the budget that will affect you and your business, including immediate tax reliefs for middle income earners, extending of the \$20,000 instant write-off, and legislating lower taxes for Australian businesses.

PERSONAL TAX

Individual taxes

A low and middle-income tax offset (LMITO) will be introduced as a non-refundable tax offset of up to \$530 per year for individuals earning less than \$90,000, gradually phasing out at 1.5 cents per dollar for individuals over the \$90,000 tax bracket.

From 1 July 2018, the top threshold of the 32.5% individual tax bracket will be increased from \$87,000 to \$90,000. The government has also proposed to remove the 37% individual tax bracket from 1 July 2024.

The Medicare levy low-income thresholds for singles, families, seniors and pensioners will be increased from the 2017/18 income year to allow singles earning less than \$21,980 and families earning less than \$37,089 in annual income to be exempt from Medicare levy.

Last year's Federal Budget measure to increase the Medicare levy from 2% to 2.5% of taxable income from 1 July 2019 will not proceed.

Consequential changes to other tax rates that are linked to the top personal income tax rate, such as the fringe benefits tax rate, will also not proceed.

Tax Integrity measures

From 1 July 2019, all remuneration provided for the commercial exploitation of a person's fame or image will be included in the assessable income of that individual. This integrity measure will ensure that high profile individuals are no longer able to take advantage of lower tax rates by licensing their fame or image to another entity on a lower tax bracket.

ATO will be providing extra funding to increase compliance activities targeting individual taxpayers and their tax agents.

This measure will allow the ATO to detect incorrect reporting of income and improve education to deter over-claiming of deductions.

BUSINESS INCOME TAX

Small Business Concessions

Small businesses with an aggregate turnover of less than \$10 million will continue to have access to the \$20,000 instant asset write-off for another 12 months.

The immediate deduction applies to assets costing less than \$20,000, installed and ready for use before 30 June 2019.

CGT Concessions will continue to be available to eligible small businesses with an aggregated turnover of less than \$2 million or net assets of less than \$6 million. However stricter integrity measures are in place to disallow concessions to partners that assign the rights to the future income of the partnership to an entity, without giving that entity any role in the partnership.

Companies with aggregated turnover of under \$50 million will pay tax at the 27.5% rate for the 2019 financial year through to the 2024 financial year.

Employee and contractor payments

Businesses will no longer be able to claim deductions for payments to their employees where they have not met their PAYG obligations by failing to report or remit PAYG to the ATO.

Current legislations require businesses to withhold the top marginal tax rate and remit this to the ATO if a contractor does not quote an ABN. Failure to withhold will render the entire contractor payment not tax deductible.

R & D Tax Incentive

The maximum cash refund for R & D claimants with aggregated annual turnover below \$20 million per annum will be capped at \$4 million per financial year.

The amount of R & D incentive available for companies with annual turnover above \$20 million will be based on an R & D intensity percentage which is the amount of R & D related expenditure as a percentage of total company expenditure. The lower the intensity percentage for the entity, the lower the maximum available tax offset.

Companies with annual turnover of less than \$20 million will now have a maximum refundable tax offset of 41% instead of 43.5% if it's a base rate entity.

Division 7A

The anticipated amendments to Division 7A announced in the 2017 Budget will be deferred from 1 July 2018 to 1 July 2019. This will enable all Division 7A amendments to be progressed as part of a consolidated package.

Testamentary Trusts

Currently income received by minors from testamentary trust is taxed at normal adult rates rather than the higher rates that apply to minors.

From 1 July 2019, the adult tax rates for minor beneficiaries will be limited to assets transferred from deceased estate and not from unrelated assets injected into the testamentary trust.

SUPERANNUATION MEASURES

Increased membership of SMSFs and small APRA funds

From 1 July 2019, the maximum number of members allowed for self-managed superannuation funds and small APRA funds will increase from four to six.

This applies to all new and existing SMSFs and small APRA funds.

Three-yearly audit cycle for some SMSFs

SMSFs with good record keeping and compliance history will only need to meet a three-yearly audit requirement as opposed to the current annual audit requirement.

Good record keeping, and compliance is defined as SMSF Trustees who have three consecutive years of clear audit reports and timely lodgements of the fund's annual returns. This measure will apply from 1 July 2019

Super work test exemption for recent retirees

Voluntary contributions to superannuation by people aged 65-74 with superannuation balances below \$300,000 will be exempt from the work test.

This gives the retirees the flexibility to get their financial affairs in order in the transition to retirement.

Currently, the work test requires individuals aged 65-74 to self-report as working a minimum of 40 hours over a 30-day period before being able to make voluntary superannuation contributions.

Changes to superannuation insurance arrangements and protection measures

Insurance within superannuation will now move from being a default framework to be offered on an opt-in basis for:

- Members with balance of less than \$6,000
- Members under the age of 25
- Members whose accounts have not received a contribution in 13 months and are inactive.

From 1 July 2019, this will allow affected members 14 months to decide if they will opt-in to their existing cover or allow it to switch off.

Passive fees charged by superannuation funds on accounts with balances below \$6,000 will be capped at 3%. All inactive superannuation accounts with balances below \$6,000 will be required to be transferred to the ATO, where it will work proactively to reunite the inactive superannuation accounts with the member's active account. Exit fees on all superannuation accounts will be also banned.

Integrity measures

Individuals will be able to nominate that their wages from specific employers are not subject to the superannuation guarantee if their income exceeds \$263,157 and have multiple employers.

This is put in place to avoid individuals accidentally breaching the \$25,000 annual concessional contributions cap due to the superannuation guarantee contributions made by multiple employers.

The employee can then negotiate to receive additional income, which will be taxed at their marginal tax rates.

From 1 July 2018, Individual income tax returns will now include a tick box for individuals with personal superannuation contributions to confirm that they have complied with the Notice of Intent (NOI) requirements, should they wish to take a tax deduction for their contributions.

This is to ensure that the individuals understand the requirements before they will be able to claim a deduction.

OTHER MEASURES

GST for Offshore Hotel Accommodation Sellers

From 1 July 2019, offshore hotel accommodation sellers will need to calculate the GST turnover in the same way as local sellers.

This follows the extension of GST to digital products and other services (1 July 2017) and to low value imported goods (1 July 2018).

Black economy reforms

The government will reform the corporations and tax laws and provide the regulators with additional tools to assist them to deter and disrupt illegal phoenix activity.

Additional funding to the ATO will also be provided over four years to implement new strategies to combat the black economy.

The government will also consult on and design a new regulatory framework for the Australian Business Number (ABN) system in 2018/19 to provide improved confidence in the identity and legitimacy of Australian businesses.

Large undocumented cash payments can be used to avoid tax or to launder money from criminal activity. The government will introduce a Black Economy Taskforce recommendation to limit cash receipts for a business to under \$10,000 from 1 July 2019.

Transactions with financial institutions, or consumer to consumer non-business transactions will not be affected.

Taxable payments reporting system to be expanded

The taxable payments reporting system (TPRS) will be expanded to the following industries from 1 July 2019:

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

The TPRS requires businesses to report to the ATO any payments made to contractors during an income year. This additional reporting to the ATO is in the form of an annual report which puts the reporting requirement for these payments in line with payments made for salaries and wages to employees. As the report is a yearly report for years commencing 1 July 2019, the first annual report will be required in August 2020.

These reporting requirements are identical to ones already in place for payments to contractors in the building and construction industry, as well as payments in the cleaning and courier industries, commencing 1 July 2018.

STATE BUDGET MEASURES

Eligible Victorian regional businesses will see a reduction in payroll tax rates from 3.65% to 2.425%, in effect they will pay tax at half the rate of their metro counterparts from 1 July 2018.

To access this concession, at least 85% of total Victorian wages for these employers must be paid to employees who work mainly in regional areas.

The annual payroll tax tax-free threshold will increase from \$625,000 to \$650,000 with effect from 1 July 2018 as announced in last year's budget. The current payroll tax rate remains the same at 4.85%

Even with the increase in the tax-free threshold, Victoria still has the second lowest tax-free threshold, the lowest being South Australia at \$600,000. Our state is still behind Queensland's threshold of \$1.1 million and New South Wales' threshold of \$750,000.

Please do not hesitate to contact the team here at KSR if you have any questions: 03 9830 1555

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