

FEDERAL BUDGET 2018 EDITION

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Highlights from the 2018 Federal Budget

Please note that the items contained within the Budget will not become law until the Budget is passed by the House of Representatives and the Senate and signed by the Governor General.

Personal Taxation

Low and Middle Income Tax Offset

- ▶ From 1 July 2018, the government will introduce the Low and Middle Income Tax Offset. This new non-refundable tax offset of up to \$530 per annum will be in addition to the existing Low Income Tax Offset.
- ▶ The offset will be available for the 2019, 2020, 2021 and 2022 income years and will be received as a lump sum on assessment after an individual lodges their tax return.
- ▶ Taxpayers with taxable incomes of \$37,000 or less will receive a benefit of up to \$200. Between \$37,000 and \$48,000, the value of the offset will increase at a rate of 3 cents per dollar to a maximum of \$530. Between \$48,000 to \$90,000 a \$530 offset applies. For taxable incomes from \$90,001 to \$125,333, the offset will phase out at a rate of 1.5 cents per dollar.

Changes to Personal Income Tax Rates

- ▶ From 1 July 2018, the government will increase the top threshold of the 32.5% personal income tax bracket from \$87,000 to \$90,000. All other marginal tax rate thresholds remain unchanged.
- ▶ From 1 July 2022, the government is proposing to extend the 19% marginal tax rate threshold from \$37,000 to \$41,000, as well as increasing the 32.5% marginal rate threshold from \$90,000 to \$120,000.
- ▶ From 1 July 2024, the government plans to remove the 37% tax bracket entirely. From this date the 32.5% tax bracket will apply to taxable incomes of \$41,001 to \$200,000. Taxpayers with taxable incomes exceeding \$200,000 will pay tax at the top marginal tax rate of 45%.

Increase in Medicare Levy Low-Income Threshold

- ▶ The Medicare Levy low-income thresholds will increase from 1 July 2018. The increased thresholds will be:

singles	\$21,980
families	\$37,089
single seniors and pensioners	\$34,758
family seniors and pensioners	\$48,385

Taxation of Income for an Individual's Fame or Image

- ▶ From 1 July 2019, high profile individuals (such as sportspeople and actors) will no longer be able to take advantage of lower tax rates by licensing their fame or image to another entity.
- ▶ Currently, high profile individuals can license their fame or image to another entity such as a related company or trust. Income from the use of their fame or image is derived by the entity that holds the license. The measure will ensure that all remuneration provided for the commercial exploitation of a person's fame or image will be included in the assessable income of that individual.



Business Taxation

Extending the \$20,000 Immediate Write-Off for Small Business

- ▶ The government will extend the \$20,000 immediate write-off for small business by a further 12 months to 30 June 2019 for businesses with aggregated annual turnover less than \$10 million.
- ▶ The immediate deduction applies to eligible capital assets costing less than \$20,000 first used or installed ready for use by 30 June 2019.

Removing Tax Deductibility for Payments where Withholding Tax Obligations have been Disregarded

- ▶ With effect from 1 July 2019 businesses will no longer be able to claim a deduction for the following payments:
 - Wage payments where no PAYG tax has been withheld (despite the PAYG withholding tax requirements applying);
 - Payments to contractors where the contractor does not provide an ABN and the business does not withhold any amount of PAYG tax (despite the PAYG withholding tax requirements applying).

Introduction of an Economy-Wide Cash Payment Limit

- ▶ From 1 July 2019, the government will introduce a limit of \$10,000 for cash payments made to businesses for goods and services. The limit is being put in place in order to counter tax avoidance and money laundering. The measure will require transactions over this threshold to be made through an electronic payment system or cheque.
- ▶ Transactions with financial institutions and consumer non-business transactions will not be affected.

Expanding the Contractor Payment Reporting System

- ▶ The contractor payment reporting system, was first introduced to the building and construction industry from 1 July 2012 and subsequently extended to the cleaning and courier industries from 1 July 2018. Commencing from 1 July 2019 the contractor payment reporting system will further extend to the following industries:
 - Security providers and investigation services;
 - Road freight transport; and
 - Computer system design and related services.



Testamentary Trusts and Injected Assets

- ▶ From 1 July 2019, the concessional tax rates available for minors receiving income from testamentary trusts will be limited to income derived from assets that are transferred from the deceased estate, or the proceeds of the disposal or investment of those assets.
- ▶ Currently, the income received by minors from testamentary trusts is taxed at normal adult rates rather than the higher tax rates that generally apply to minors. However, some taxpayers are able to obtain the benefit of this lower tax rate by transferring assets unrelated to the deceased estate into the testamentary trust.

Deductions Denied for Vacant Land

- ▶ Deductions for expenses associated with holding vacant residential or commercial land will be denied with effect from 1 July 2019. The denied deductions will include interest incurred to finance the acquisition of the land. Deductions for expenses associated with holding the land will be available once a property has been constructed on the land and it has received approval to be occupied and is available for rent.
- ▶ Denied deductions will not be able to be carried forward for use in later years, however the denied deductions, will in most circumstances, be included in the cost base of the land.
- ▶ The proposed measure is intended to apply to all types of entities. An exclusion will however apply to vacant land that is held by an entity that is carrying on a business, which would include a business of primary production.
- ▶ The measure is being put in place to reduce the tax incentive for land banking which limits the use of land for housing or other development.

Division 7A Changes

- ▶ Commencing 1 July 2019, the government will ensure that unpaid present entitlements (UPE's) come within the scope of Division 7A of the ITAA. This will apply where a related private company is made entitled to a share of trust income as a beneficiary but has not been paid. This measure will ensure the UPE is either required to be repaid to the private company over time as a complying loan or subject to tax as a dividend.
- ▶ The start date of the amendments to Division 7A that were announced in the 2017 Budget, are being deferred from 1 July 2018 to 1 July 2019.

Research and Development Tax Incentive Overhaul

- ▶ With effect from 1 July 2018 the government will make changes to the research and development (R &D) tax incentive scheme.
- ▶ For companies with aggregated annual turnover of \$20 million or more, the government will introduce an R & D premium that ties the rates of the non-refundable R & D tax offset to the incremental intensity of R & D expenditure as a proportion of total expenditure for the year.
- ▶ For companies with aggregated annual turnover below \$20 million, the refundable R & D offset will be a premium of 13.5 percentage points above a claimant's company tax rate. Cash refunds from the refundable R & D tax offset will be capped at \$4 million per annum. R & D tax offsets that cannot be refunded will be carried forward as non-refundable tax offsets to future income years.



Superannuation Related Changes

Increase in the Maximum Number of Allowable Members in a Self Managed Superannuation Fund (SMSF)

- ▶ From 1 July 2019, the government will increase the maximum number of allowable members in new and existing SMSF's from four to six. This will provide greater flexibility for larger families.

Exemption from the 'Work Test' for Voluntary Super Contributions

- ▶ From 1 July 2019, for people aged 65-74 with superannuation balances below \$300,000, the government will introduce an exemption from the work test for voluntary superannuation contributions.
- ▶ Under current law the work test (minimum of 40 hours in any 30 day consecutive period in the financial year) must be satisfied by those aged 65 to 74 years in order to make voluntary contributions.

Preventing Inadvertent Concessional Cap Breaches by Certain Employees

- ▶ From 1 July 2019, the government will allow individuals whose income exceeds \$263,157, and who have multiple employers, to nominate that their wages from certain employers are not subject to the superannuation guarantee. The measure will allow eligible individuals to avoid unintentionally breaching the \$25,000 annual concessional superannuation cap threshold.
- ▶ Employees who make this nomination will need to arrange with their employer for the forgone superannuation to be paid as additional wages and taxed at marginal tax rates.

Superannuation Supervisory Levies Increase

- ▶ For the 2018/2019 year there will be an increase in the supervisory levies. At the time of writing the government had not specified the amount of the increases.

SMSF Audit Cycle of 3 Years for Funds with Good Compliance History

- ▶ From 1 July 2019, the government will change the annual audit requirement to a three-yearly requirement for SMSF's with a history of good record-keeping and compliance. The measure will apply to SMSF's that have 3 consecutive years of clear audit reports and have lodged their annual tax returns on time.
- ▶ Accrue will nevertheless in the meantime seek to identify and advise in this regard as required.

If you have any questions in respect of the Federal Budget announcements and how they may impact your circumstances please contact our office.

Disclaimer

This publication is a guide only and does not represent advice. Anybody intending to apply the information to practical circumstances should contact our office in order to receive advice specific to your circumstances.

