

Federal Budget Summary 2018-19

- Budget deficit to be \$14.5bn for the 2018-19FY
- Budget deficit to be \$18.2bn for the 2018FY (previously forecast as \$29.4bn)
- GDP forecast growth at 2.75% for FY18 and 3.0% FY19 and FY20
- Unemployment rate forecast to reduce based on these growth rates
- Underlying budget cash balance expected to be neutral in 2019-20
- The Governments' fiscal strategy is based around tax receipts not exceeding 23.9% of GDP in the medium term
- "Big" ticket tax reform misses out

Key measures include:

- Low and middle income earners will benefit from tax savings of up to \$530 per person (or \$1,060 per couple)
- The Medicare Levy will remain at 2%
- The \$20,000 instant asset write-off for business with aggregate turnover less than \$10m will be extended until 30 June 2019
- R&D Tax Incentive to be overhauled & claims will face increased scrutiny
- Increase in maximum members of a SMSF from 4 to 6
- Funding for home care services and residential aged care will increase
- Voluntary super contributions for recent retirees will be made easier
- Deductions to be disallowed for holding vacant land
- Major changes to taxation of high profile individuals
- Several measures aimed at tackling the black economy
- Changes to assist older Australians accessing the pension
- Taxable Payments Reporting system expanded
- A firm stance on tax and super debts
- Super Guarantee opt-out for high-income employees who breach concessional caps

Budget Measures

- **Staged personal tax reform over 7 years from 2018-19:**
 - New non-refundable low & middle income tax offset from 2018-19 to 2021-22 of \$200 for incomes below \$37,000, increasing to \$530 for incomes from \$48,000 to \$90,000, phasing out at 1.5c in the dollar up to \$125,333. Will be received on lodgement of tax return.
 - Increase of top threshold of the 32.5% tax bracket from \$87,000 to \$90,000 from 1 July 2018.
 - From 1 July 2022:
 - the top threshold of the 32.5% bracket will increase from \$90,000 to \$120,000
 - the Low Income Tax Offset (LITO) will increase from \$445 to \$645. The increased LITO will be withdrawn at a rate of 6.5 cents per dollar between incomes of \$37,000 and \$41,000, and at a rate of 1.5 cents per dollar between incomes of \$41,000 and \$66,667.
 - the top threshold of the 19% bracket will increase from \$37,000 to \$41,000.
 - The top threshold of the 32.5% bracket will increase from \$90,000 to \$120,000
 - From 1 July 2024, the top threshold of the 32.5% bracket will increase from \$120,000 to \$200,000, removing the 37% tax bracket completely
- **\$20,000 instant asset write-off for SBE's extended by 12 months:** The current instant asset write-off (\$20,000 threshold) for small business entities (SBEs) will be extended by 12 months to 30 June 2019. (This applies to businesses with aggregated annual turnover less than \$10 million.)
- **Taxation of income for high profile individuals:** The Government will ensure that high profile individuals will no longer be able to take advantage of lower tax rates by licensing their fame or image to another entity. To apply from 1 July 2019.
- **Deductions disallowed for holding vacant land:** From 1 July 2019 deductions will be disallowed for expenses associated with holding vacant land where the land is not genuinely held for the purpose of earning assessable income.
- **Medicare Levy low-income thresholds for 2017-18:** Indexation changes for the 2017-18 income year.
- **Taxing digital business in Australia - discussion paper to be issued within weeks:** This will explore options for taxing digital businesses in Australia
- **R&D Tax Incentive Overhaul:** From 1 July 2018
 - 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**.
 - For companies with aggregated annual turnover of \$20 million or more, 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 will be available
 - the integrity of the R&D program will be further improved by implementing stronger compliance and administrative improvements
- **Application of Div 7A to UPEs clarified:** clarify the operation of Div 7A loans to ensure that unpaid present entitlements (UPEs) by trusts to companies come within the scope of Div 7A – from 1 July 2019.
- **Partnerships – enhancing integrity of concessions:** Partners that alienate their income by creating, assigning or otherwise dealing in rights to the future income of a partnership will no longer be able to

access the small business capital gains tax (CGT) concessions in relation to these rights. There are no changes to the small business CGT concessions themselves.

- **Minor and testamentary trusts: concessional tax rates limit:** The concessional tax rates available for minors receiving income from testamentary trusts will be limited to income derived from assets that are transferred from deceased estates or the proceeds of the disposal or investment of those assets.
- **Increase in film location funding expenditure:** provides \$140 million over 4 years from 2019-20 to attract international investment in the Australian film production and related industries through a competitive incentive program.
- **Firm stance on tax and super debts:** An extra \$133.7 million for the ATO to continue to deliver on a range of strategies that sustain both an increase in debt collections and an improvement in the timeliness of debt collections
- **No tax deduction for non-compliant PAYG & contractor payments:** Removes tax deductions for payments by businesses where PAYG or Non ABN withholding was required and not done.
- **Black Economy – increase in ATO Funding:** \$318.5 million over 4 years for the ATO to implement additional strategies to combat the black economy – initiatives to be aimed at increased visibility and targeted enforcement.
- **Cash payments limit – payments to businesses:** From 1 July 2019 a limit of \$10,000 for cash payments made to businesses for goods and services will apply. Note – this is for business transactions only and not consumer to consumer transactions.
- **Reportable Payments system extended:** Taxable payments reporting will be extended to security providers, road freight transport and computer design from 1 July 2018 (currently applies to building and construction industry).
- **Illegal Phoenix Activities:** Package of reforms intended to "deter and disrupt" phoenix activity
- **SMSF member limit:** Maximum members allowed in a SMSF to increase from 4 to 6 from 1 July 2019
- **Personal Super Contributions:** Notice of Intention to deduct personal super contributions will be improved (Integrity Measure)
- **Superannuation Work Test exemption for recent retirees:** 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 will apply from 1 July 2019.
- **Super Guarantee opt-out for high-income employees who breach concessional caps:** Individuals whose income exceeds \$263,157 and have multiple employers to nominate that their wages from certain employers are not subject to the superannuation guarantee (SG) - from 1 July 2018.
- **SMSF Audit Cycle:** 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
- **Excise change for small brewers:** increase in the alcohol excise refund scheme cap to \$100,000 per financial year and extend the concessional draught beer excise rates to 8 litre or greater kegs
- **Additional funding for Single Touch Payroll:** An additional \$15 million over 3 years from 2018-19 will be provided to the ATO to support the modernisation of payroll and superannuation fund reporting. To be used to support small businesses with fewer than 20 employees during the transition to Single Touch Payroll Reporting from 1 July 2019.
- **Aligning eligibility of student payments with HELP:** Align the eligibility of student payments for higher education courses with eligibility for the Higher Education Loan Program (HELP) from the 2017-18 income year.

- **New carer support and income test threshold:** \$250,000 income test threshold to be introduced for the Carer Allowance Payment
- **Measures for Older Australians:**
 - increase the Age Pension Work Bonus income threshold from \$250 to \$300 per fortnight (ie \$7,800 a year) and extend the Bonus to self-employed retirees
 - amend the pension means test rules to encourage the development and take up of lifetime retirement income products
 - expand the Pension Loans Scheme to everyone over Age Pension age and increase the maximum fortnightly income stream by 150%
- **Aged care changes:** To support individuals who choose to access aged care services in their homes, the government will provide an additional 14,000 high level home care packages over four years from 1 July 2018. An extra 13,500 residential aged care places will also be released in the 2018–19 round. A comprehensive navigator service for the aged care system will be trialled.

The Government remains committed to pursuing its Ten Year Enterprise Tax Plan of company tax cuts which progressively extends the 27.5% corporate tax rate to all corporate tax entities by the 2023-24 income year and ultimately 25% (2026-27).

The Budget did not announce any measures in regard to work related expense claims. However the ATO recently announced that it will be closely examining claims for work-related car expenses in 2018 tax returns. They are concerned about taxpayers making mistakes or deliberately lodging false claims in relation to work-related car expenses. A particular focus will be on people "claiming things they're not entitled to". Claiming things like home to work travel or other private trips; making claims for trips they didn't actually undertake; or claiming expenses their employer has already paid for or reimbursed.

Note: These changes are proposals only and may or may not be made law.