2018/19 BUDGET ANNOUNCEMENTS

The Federal budget announcement on 8 May 2018 was fairly conservative, light on any major tax reform and heavy on long term tax relief for many low and middle income Australians. The Government was a beneficiary of higher than forecasted tax collections with a deficit forecast for 2017/18 of $18.2b (less than half the deficit reported 2 years ago), with modest falls in the deficit until the budget is forecasted to return to a modest surplus in 2019-20 of $2.2b.

The Government growth projections are forecasted at 3% (the same growth rate compared to last year's budget) with the Government's forecasted assumptions looking reasonable and realistically achievable (key commodity prices forecasted to fall slightly over the next few years along with terms of trade) with the improved budget forecasted on stronger job numbers and improved wage growth.

The Government's key budget policy revolves around a major 7 year 3 step plan to provide personal income tax relief to the majority of low and middle income taxpayers by flattening of tax rates and significant expansion of existing tax brackets.

Some of the key measures from the 2018-19 budget are outlined below:

TAX RATES AND THRESHOLDS FOR 2018-19 ONWARDS

The following table reflects the Government's announced personal tax rate and threshold changes excluding the 2% Medicare Levy.

RATE	2018 - 2019 TO 2021 - 2022	2022 - 2023 AND 2023 - 2024	2024 - 2025 AND BEYOND
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	$41,001 - $120,000	$41,001 - $200,000
37%	$90,000 - $180,000	$120,001 - $180,000	-
45%	$180,001 +	$180,001 +	$200,001 +

PERSONAL TAX MEASURES

Tax relief for low and middle income earners introduced over a 7 year 3 step plan by flattening of tax rates and significant expansion of existing tax brackets:

STEP 1 introduction of a new non-refundable low and middle income tax offset from FY 2018/19 to FY 2021/22.

STEP 2 **increase** in the threshold of the **32.5% tax bracket** from **$87,000 to $90,000** from **1 July 2018.** From **1 July 2022** the **32.5% tax bracket** will then increase from **$90,000 to $120,000** and the threshold of the **19% tax bracket** will increase from **$37,000 to $40,000.**

STEP 3 from **1 July 2024** the threshold of the **32.5% tax bracket** will be increased from **$120,000 to $200,000** replacing the existing 37% tax bracket.

MEDICARE

- Proposed 0.5% increase in Medicare from 2% to 2.5% from 1 July 2019 has been scrapped leaving Medicare levy at 2% for the time being.
- For 2017-18 the Medicare Levy low income threshold for singles will be increased to $21,980 ($21,655 for 2016/17). For couples with no children the family income threshold will be increased to $37,089 ($36,541 for 2016/17). The threshold is increased for each dependent child or student by $3,406 ($3,356 for 2016/17).
- For SAPTO eligible taxpayers the Medicare Levy low income threshold will be increased to $34,758 ($34,244 for 2016/17). The family threshold for SAPTO taxpayers will be increased to $48,385 ($47,670 for 2016/17), plus $3,406 for each dependent child or student.
- The Government will provide $130.8 million to the ATO to fund increased compliance activities targeting individuals and tax agents.

SMALL BUSINESS

- The $20,000 instant asset write-off has been extended by another year to till 30 June 2019, coupled with the expected increase in the small business turnover test (subject to passing in parliament), small businesses with aggregated annual turnover of less than $25m can immediately write off any business assets purchased with a cost less than $20,000.
- Cash payments to businesses will be limited to $10,000.
- Significant changes have been made to the R&D tax incentive (RDTI) along with increased enforcement activity through stronger compliance and administration requirements. Small businesses (turnover less than $20m p.a.) which are eligible for the refundable RDTI will have an annual $4m cap on cash refunds. Large businesses receiving RDTI will be subject to an R&D intensity test, with those businesses spending a larger proportion of their expenses on R&D receiving a larger proportion of RDTI.
- Division 7A changes announced in the 2016-17 Federal budget will be deferred until 1 July 2019.
- Anti Avoidance measures have been introduced for round-robin family trust circular distributions where the distributions will be taxed at the highest marginal rate. These measures apply from 1 July 2019.
- Taxpayers will not be able to claim deductions for payments to their employees where they have not withheld any amount of PAYG from these payments, where the PAYG withholding legislation require amounts to be withheld. Similarly the Government will 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 (where the PAYG withholding legislation requires amounts to be withheld). This measure comes into effect from 1 July 2019.
- The Reportable Payments system which currently applies to the building and construction industry will be expanded to the following industries:
- The Reportable Payments system which currently applies to the building and construction industry will be expanded to the following industries:
  - Security providers and investigation services;
  - Road freight transport; and
  - Computer system design and related services

  The reporting requirements will apply for the above industries from 1 July 2019 and extends from the cleaning and courier industries included in last year's budget which will need to report from 1 July 2018.
- Additional measures were introduced to deter and disrupt phoenix activities which include:

  Introduction of new phoenix offences for those conducting or facilitating phoenix activities;
  - 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, LCT and WET making directors personally liable for company's debts; and
  - Expanding the ATO's power to retain refunds where there are outstanding tax lodgements.

SUPERANNUATION

- SMSF member limit to be increased to 6 members from 4 members.
- Increased compliance to ensure notice of intention forms to deduct superannuation contributions are completed and forwarded to the superannuation provider so the 15% contributions tax is deducted from the superannuation contributions. Interestingly the Government is expected to gain $430m from this measure, which equates to taxpayers not informing a total $2.867 billion of superannuation contributions to their superannuation provider of their intent to claim a tax deduction.
- Taxpayers aged 65-74 with superannuation balances below $300,000 will be exempt from the work test in the first year they do not meet the work test requirements. This measure will apply from 1 July 2019.
- Individuals whose income exceeds $263,157 and have multiple employers to nominate their wages from certain employers not being subject to superannuation guarantee from 1 July 2018 so taxpayers do not inadvertently breach the annual concession cap of $25,000.
- SMSF's with a clear audit history and have lodged their tax returns in a timely manner will only be required to undertake an audit every three years. This measure will start on 1 July 2019.
- All inactive superannuation accounts with balances below $6,000 will be consolidated by the ATO and will proactively consolidate superannuation accounts for members and seek out members with lost superannuation. This measure will commence from 1 July 2019.

OTHER INTERESTING BUDGET MEASURES

- Concessional tax rates for minors receiving income in testamentary trust will be limited to the income derived from assets that were transferred from the deceased estate. Assets injected into the testamentary and subsequent income derived from these assets will not be eligible for the concessional tax treatment.
- High profile individuals (eg actors, sports people) are no longer able to licence their fame or image to another entity and receive favourable tax treatment for income derived through licencing agreements.
- Small business CGT concessions no longer apply to partners that alienate their income by creating, assigning or otherwise dealing in rights through future income of a partnership through "Everett" assignments.
- 3% annual cap introduced on passive fees charged by superannuation funds on accounts with balances less than $6,000 and exit fees on all superannuation accounts will be banned.
- Insurance arrangements for certain superannuation members will be changed from being a default option to an opt in basis.
- The Pension Loan Scheme has been widened to include all Australians of age pension age who own their own property. From 1 July 2018, applicants will be able to borrow against the equity in their home (i.e. a reverse mortgage) and receive up to 50% of the maximum rate of the full Age Pension per year (an amount of $11,799 for single pensioners and $17,787 for couple pensioners). The loan repayments are set at an interest rate of 5.25% which is approximately 1% cheaper than existing reverse mortgages in the marketplace.

For further information on any of these budget changes and how they may impact your business or you please contact one of our accountants in North Sydney, Crows Nest or Chatswood.

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