DLK ADVISORY

BUDGET UPDATE

MAY 2018

WHAT'S NEW

FOR INDIVIDUALS

- Seven-year Personal Income Tax Plan
- Medicare Levy
- Retaining the Medicare levy at 2%
- Funding to ATO for compliance activities targeting individual taxpayers

SUPERANNUATION

- Increased membership of SMSFs and small APRA funds
- Three-yearly audit cycle for some SMSFs
- Preventing inadvertent concessional cap breaches
- Improving Integrity of personal contributions deductions

INCOME TAX

- R&D tax incentive changes
- $20,000 immediate asset write-off extended
- Tax integrity – deductions for vacant land to be denied
- Non-compliant payments to employees and contractors no longer deductible

BLACK ECONOMY MEASURES

- Reforms to combat illegal phoenixing and black economy
- Taxable payment reporting system to be expanded
- Cash receipt limit for businesses to be introduced

Partnering together to achieve your objectives

THE TAX RATES FOR 2018-19

From 1 July 2018, the Government will increase the top threshold of the 32.5 percent personal income tax bracket from $87,000 to $90,000.

Taxable Income	Tax Payable / Marginal Rate
Up to $18,200	Nil
$18,201 - $37,000	Nil + 19% of each dollar over $18,200
$37,001 - $90,000	$3,572 + 32.5% of each dollar over $37,000
$90,000 - $180,000	$20,796 + 37% of each dollar over $90,000
Over $180,000	$54,096 + 45% of each dollar over $180,000

PERSONAL INCOME TAX PLAN

The Government will introduce a seven-year Personal Income Tax Plan over three stages.

Step 1: Targeted tax relief to low and middle income earners

A Low and Middle Income Tax Offset will be introduced. The offset is:

- a non-refundable tax offset
- of up to $530 per annum
- available to Australian resident low and middle income taxpayers
- available for the 2018-19, 2019-20, 2020-21 and 2021-22 income years
- received as a lump sum on assessment after an individual lodges their tax return.

The offset will provide a benefit of:

- up to $200 for taxpayers with taxable income of $37,000 or less
- the value of the offset will increase at a rate of three cents per dollar to the maximum benefit of $530, for taxpayers with taxable income between $37,000 and $48,000
- the maximum benefit of $530 for taxpayers with taxable incomes from $48,000 to $90,000
- the offset will phase out at a rate of 1.5 cents per dollar for taxpayers with taxable incomes from $90,001 to $125,333.

The benefit of the offset is in addition to the existing Low Income Tax Offset (LITO).

Taxable Income	Offset benefit
< $37,000	$200
$37,000 - $48,000	$200 increase at 0.03 per dollar to a maximum of $530
$48,000 - $90,000	$530
$90,001 - $125,333	phase out at 1.5% per dollar

Step 2: Protecting middle income Australians from bracket creep

The top threshold of 32.5 per cent personal income tax bracket will be increased from $87,000 to $90,000. This measure takes effect from 1 July 2018.

Other measures include:

- LITO will be increased from $445 to $645 (and 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)
- 19 per cent personal income tax bracket will be extended from $37,000 to $41,000
- top threshold of the 32.5 per cent personal income tax bracket will be increased from $90,000 to $120,000.

These measures take effect from 1 July 2022.

Step 3: Ensuring Australians pay less tax by making the system simpler

The 37 per cent tax bracket will be removed entirely:

- top threshold of 32.5 per cent personal income tax bracket will be increased from $120,000 to $200,000.

Taxpayers will pay the top marginal tax rate of 45 per cent from taxable incomes exceeding $200,000 and the 32.5 per cent tax bracket will apply to taxable incomes of $41,001 to $200,000.

These measures take effect from 1 July 2024.

RETAINING THE MEDICARE LEVY RATE AT 2 PER CENT

The Medicare levy rate will no longer be increased from 2.0 to 2.5 per cent of taxable income from 1 July 2019.

MEDICARE LEVY LOW-INCOME THRESHOLD FOR FAMILIES

The Government will increase the Medicare Levy low-income threshold for singles, families and single seniors and pensioners from 2017-18 income year.

- The threshold for singles will be increased from $21,655 to $21,980.
- The family threshold will be increased from $36,541 to $37,089.
- For single seniors and pensioners, the threshold will be increased from $34,244 to $34,758.
- The family threshold for seniors and pensioners will be increased from $47,670 to $48,385.
- For each dependent child or student, the family income thresholds increase by a further $3,406, instead of the previous amount of $3,356.

ENSURING INDIVIDUALS MEET THEIR TAX OBLIGATIONS

The Government will provide $130.8 million to the ATO from 1 July 2018 to increase compliance activities targeting individual taxpayers and their tax agents.

The measure will also provide funding for new compliance activities, including additional audits and prosecutions, improving education and guidance materials, pre-filing of income tax returns and improving real time messaging to tax agents and individual taxpayers to deter over-claiming of entitlements, such as deductions by higher risk taxpayers and their agents.

R&D TAX INCENTIVE CHANGES

The calculation for entities claiming the R&D tax incentive will change commencing for income years beginning on or after 1 July 2018. Also, a maximum cash refund for “smaller" R&D claimants will be capped at $4m per financial year. A “smaller” R&D claimant is an entity with aggregated annual turnover below $20m.

The changes for calculating the R&D tax incentive are based around an "R&D intensity percentage" for each entity. The R&D intensity percentage is based on the amount of R&D related expenditure as a percentage of total company expenditure. The lower the R&D intensity percentage for the entity, the lower the maximum available tax offset.

Currently there is a limit on which a company can claim the accelerated rates for the R&D tax incentive. Above this limit, the R&D tax incentive can still be claimed but only at the entity's corporate tax rate. It is proposed in the budget that the maximum eligible expenditure to get the concessional rates will rise from $100m per entity per year to $150m.

Companies with annual turnover above $20m:

Currently: A 38.5% non-refundable tax offset is available with a minimum eligible R&D expenditure of $20,000 pa.

Proposed: Four levels of non-refundable tax offset based on an R&D intensity percentage and the entity's corporate tax rate.

- 40% or 42.5% offset if more than 10% of total expenditure relates to R&D
- 36.5% or 39% offset if R&D intensity percentage is between 5% and 10%
- 34% or 36.5% offset if R&D intensity percentage is between 2% and 5%
- 31.5% or 34% offset if R&D intensity percentage is between 0% and 2%.

Companies with annual turnover less than $20m

Currently: A 43.5% refundable tax offset is available with a minimum eligible R&D expenditure of $20,000 pa.

Proposed: A refundable tax offset of 13.5% percentage points above the entity's corporate tax rate. This will mean no change for some companies as the refundable tax offset will remain 43.5%.

However, "base rate entities" which have a lower corporate tax rate of 27.5% will now have a maximum refundable tax offset of 41%. Also, it is proposed that the maximum cash refund available is $4m. Any additional refunds past this amount can be carried forward to later income years.

SMALL BUSINESS - FURTHER EXTENDING THE IMMEDIATE DEDUCTIBILITY THRESHOLD

The $20,000 instant asset write-off will be extended by a further 12 months to 30 June 2019 for businesses with aggregated annual turnover less than $10 million.

Small businesses will be able to immediately deduct purchases of eligible assets costing less than $20,000 first used or installed ready for use by 30 June 2019. Only a few assets are not eligible (such as 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 small business simplified depreciation pool (the pool) and depreciated at 15 per cent in the first income year and 30 per cent 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).

DENY DEDUCTIONS FOR VACANT LAND

Expenses associated with holding vacant land will no longer be tax deductible. This measure is to ensure no deductions are claimed for vacant land that is not genuinely held for the purpose of earning assessable income.

This measure will take effect from 1 July 2019.

NON-COMPLIANT PAYMENTS TO EMPLOYEES AND CONTRACTORS NO LONGER DEDUCTIBLE

Businesses will no longer be able to claim deductions for payments to their employees where they have not met their PAYG obligations. This includes where the employer is required to withhold PAYG from gross payments, but fails to report or remit it to the ATO.

Additionally, the deduction for businesses on certain payments to contractors which have not met PAYG obligations will be removed. Currently, if a contractor does not quote an ABN in a business-to-business transaction, the purchaser is required to withhold an amount at the top marginal tax rate and remit this amount to the ATO. Failure to do this correctly will render the entire payment non-deductible.

Both of these measures will take effect from 1 July 2019.

SUPERANNUATION

INCREASING THE MAXIMUM NUMBER OF ALLOWABLE MEMBERS IN SELF-MANAGED SUPERANNUATION FUNDS AND SMALL APRA FUNDS FROM FOUR TO SIX

The maximum number of members permitted in new and existing self-managed superannuation funds and small APRA funds will be increased from four to six.

This measure will commence from 1 July 2019.

THREE-YEARLY AUDIT CYCLE FOR SOME SELF-MANAGED SUPERANNUATION FUNDS

Self-managed superannuation funds with a history of good record-keeping and compliance will be subject to a three-yearly audit requirement rather than an annual audit requirement.

This measure will start on 1 July 2019.

PREVENTING INADVERTENT CONCESSIONAL CAP BREACHES BY CERTAIN EMPLOYEES

Individuals whose income exceeds $263,157 and have multiple employers will be able to nominate that their wages from certain employers are not subject to the superannuation guarantee (SG) from 1 July 2018.

The measure will allow eligible individuals to avoid unintentionally breaching the $25,000 annual concessional contributions cap as a result of multiple compulsory SG contributions.

This measure will commence from 1 July 2018.

BETTER INTEGRITY OVER DEDUCTIONS FOR PERSONAL CONTRIBUTIONS

Funding will be provided to the ATO to improve the integrity of the 'notice of intent' (NOI) processes for claiming personal superannuation contribution tax deductions. Currently, some individuals are claiming the deduction without submitting the NOI. As a result, no tax is paid on the contribution amount.

This measure will commence from 1 July 2018.

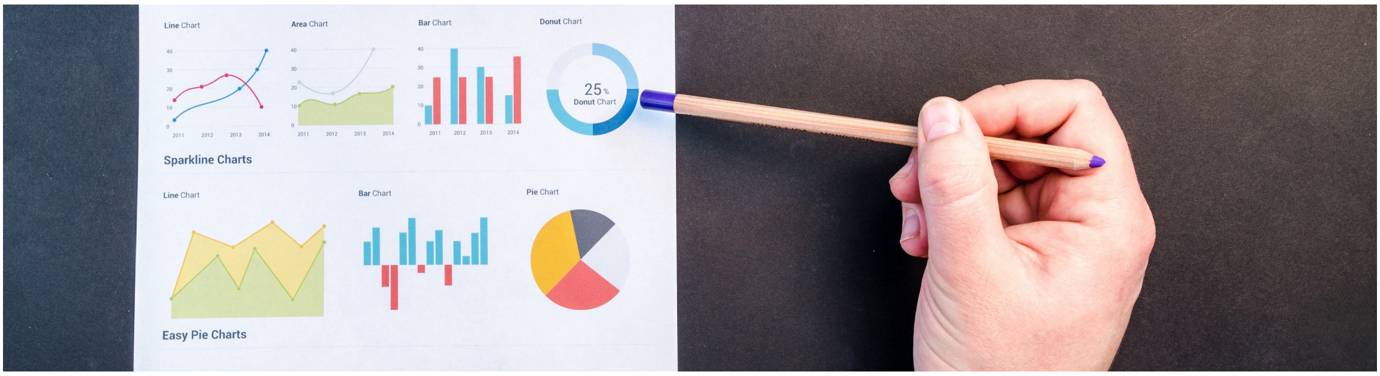
BLACK ECONOMY MEASURES

REFORMS TO COMBAT ILLEGAL PHOENIXING AND BLACK ECONOMY

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. The package includes reforms to:

- introduce new phoenix offences to target those who conduct or facilitate illegal phoenixing
- prevent directors improperly backdating resignations to avoid liability or prosecution
- limit the ability of directors to resign when this would leave the company with no directors
- restrict the ability of related creditors to vote on the appointment, removal or replacement of an external administrator
- extend the Director Penalty Regime to GST, luxury car tax and wine equalisation tax, making directors personally liable for the
- company's debts, and
- expand the ATO's power to retain refunds where there are outstanding tax lodgements.

Additional funding to the ATO will also be provided over four years to implement new strategies to combat the black economy. The ATO will implement a new and enhanced enforcement strategy that brings together new mobile strike teams and an increased audit presence, a Black Economy Hotline that will allow for the community to report black economy and illegal phoenix activities, improved government data analytics, and educational activities.



The government will also consult on and design a new regulatory framework for the Australian Business Number (ABN) system in 2018/19. This measure implements a recommendation of the Black Economy Taskforce — Final Report that the ABN system be strengthened to provide improved confidence in the identity and legitimacy of Australian businesses.

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, and puts 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.

CASH RECEIPT LIMIT FOR BUSINESSES TO BE INTRODUCED

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 a cash receipt 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.

The Black Economy Taskforce measures include additional funding for the Department of Treasury to enable stakeholder consultation to help with details on the measure. Also, the ATO will receive enhanced funding that will help with enforcement of these proposed measures.

CONTACT

If you have any queries, please feel free to contact us:

Ben Melin
ben.melin@dlkadvisory.com.au

David Lilja
david.lilja@dlkadvisory.com.au

DLK Advisory
Level 6, 2 Russell Street
Melbourne VIC 3000
T: +61 3 9923 1222