



The 2015 Federal Budget

13/05/15

General Overview

This newsletter provides a brief summary of the Budget announcements that are potentially relevant to you. It should be noted that most measures are proposals only, legislation is still required to be passed with possible changes and clarification to be provided.

NSW Business Chamber Comments

The engine room of the national economy, the small business sector, has received a much needed boost in the Federal Budget, according to the State's peak business organisation, the NSW Business Chamber.

"Five years ago, the small business community wasn't even mentioned on budget night, but now it is front and centre of Budget commentary. In fact, this is a small business Budget," said Kellon Beard Regional Manager Mid North Coast NSW Business Chamber

Changes for Business and Tax

Changes effective Budget Night – 7.30pm (AEST) 12 May 2015

Expanding accelerated depreciation for small business

The government will significantly expand accelerated depreciation for small businesses. It will do this by allowing small businesses with aggregate annual turnover of less than \$2 million to immediately deduct assets, provided each asset costs less than \$20,000 (currently, an immediate write-off is generally available for assets costing less than \$1,000). This will apply for assets acquired and installed ready for use between 7.30pm (AEST) 12 May 2015 and 30 June 2017.

It would appear that in-house software, trading stock and horticultural plants are not qualifying assets.

Consequence: Represents a current or future tax saving to businesses which are taxable and can fund asset purchases.

Action: Acquire business assets before 30/06/15, 16 and 17. Unincorporated businesses should time the purchase so as to not waste the \$18,200 tax free threshold.

Assets valued at \$20,000 or more (which cannot be immediately deducted) can continue to be placed in the small business simplified depreciation pool ('the pool') and depreciated at 15% in the first income year and 30% each income year thereafter. The pool can also be immediately deducted if the balance is less than \$20,000 over this period (including the balance of existing pools).

Action: Write off pools at 30 June 15/16/17

The government will also suspend the current 'lock out' laws for the simplified depreciation rules until 30 June 2017. Currently, these 'lock out' rules prevent small businesses from re-entering the simplified depreciation regime for five years, if they opt out.

Action: Take the opportunity opt back in by 30/06/17

Changes effective 1 July 2015 (i.e., 2015/16 income year)

Tax cuts for small business

From the 2015/16 income year, the government will deliver a tax cut to all small businesses:

(a) Reduction in company tax rate – The company tax rate will be reduced to 28.5% (i.e., a reduction of 1.5%) for companies with aggregated annual turnover of less than \$2 million.

Companies with an aggregated annual turnover of \$2 million or above will continue to be subject to the current 30% rate on all their taxable income.

Note that, the current maximum franking credit rate for a distribution will remain at 30% for all companies, maintaining the existing arrangements for investors, such as self-funded retirees.

Consequence: Represent a tax saving to profitable small businesses

Action: Convert tax paid at 28.5% to 30% in the Franking Account

(b) 5% discount on tax payable for other business taxpayers – Individual taxpayers with business income from an unincorporated business that has an aggregated annual turnover of less than \$2 million will be eligible for a small business tax discount. The discount will be 5% of the income tax payable on the business income received by an unincorporated small business entity. The discount will be capped at \$1,000 per individual for each income year, and will be delivered as a tax offset.

Consequence: Represent a tax saving to profitable small businesses

Action: Ensure that Business ANZIC Codes are correct in Partnership, Trust and Individual Income Tax Returns in order to qualify for the tax offset.

Claiming car expense deductions – modernising the existing car expense claim methods

Currently, an individual or a partnership can claim car expense deductions in respect of a car owned or leased using one of the four methods (i.e., the 'cents per km method', the '12% of original value method', the 'one-third of actual expenses method' or the 'log book method').

From the 2015/16 income year, the government will modernise the methods of calculating work-related car expense deductions, as follows:

- The '12 per cent of original value method' and the 'one-third of actual expenses method' will be removed.
- The 'cents per kilometre method' will be modernised by replacing the three current cents per kilometre rates based on engine size, with one rate set at 66 cents per kilometre.

Consequence: Results in a reduced tax deduction, an increase in taxable income and tax payable.

Action: Adjust method of Claim to comply

Better targeting of Zone Tax Offset ('ZTO') to exclude 'fly-in fly-out' and 'drive-in drive-out' workers ('FIFO/DIDO workers')

From 1 July 2015, the government will exclude FIFO/DIDO workers from the ZTO where their normal residence is not within a particular 'zone'. Furthermore, for those FIFO/DIDO workers whose normal residence is in one zone, but who work in a different zone, they will retain the ZTO entitlement associated with their normal place of residence.

Consequence: Essentially removes a taxpayer funded subsidy to multi-national companies and their employees.

Action: Apply ZTO to normal residential address only.

Immediate deduction for professional expenses on commencing a new business

Currently, some professional costs associated with commencing a new business (i.e., black hole expenditure) are deducted over a five-year period.

From 1 July 2015, the government will allow businesses to claim an immediate write-off for a range of professional expenses associated with starting a new business, such as professional, legal and accounting advice.

Consequence: Represent a tax saving to profitable small businesses

Action: Claim expenditure in full and consider whether you can claim any balance of prior year write-offs

Changes effective 1 July 2016 (i.e., 2016/17 income year)

CGT roll-over relief for changes to entity structure

From 1 July 2016, the government will allow small businesses with an aggregated annual turnover of less than \$2 million to change legal structure without attracting a CGT liability at that point.

Consequence: This removes CGT as a potential cost of, and disadvantage of restructuring.

Action: Apply CGT rollover as entitled

Accelerated depreciation for primary producers

For income years commencing on or after 1 July 2016 (i.e., from the 2017 income year), the government will allow all primary producers to:

- immediately deduct capital expenditure on fencing and water facilities such as dams, tanks, bores, irrigation channels, pumps, water towers and windmills; and
- Depreciate all capital expenditure on fodder storage assets such as silos and tanks used to store grain and other animal feed over three years.

Consequence: Represents a future tax saving to businesses which are taxable and can fund asset purchases.

Action: Spend on eligible items before 30 June annually

Changes to residency rules for temporary working holiday makers

Currently, a working holiday maker can be treated as a resident for tax purposes if they satisfy the tax residency rules, typically that they are in Australia for more than six months (unless it can be established that the person's usual place of abode is outside Australia and that there is no intention to take up residence in Australia). This means they are able to access the tax-free threshold, the low income tax offset and the lower tax rate of 19% for income above the tax-free threshold up to \$37,000.

The government will change the tax residency rules from 1 July 2016 (i.e., the 2017 income year) to treat most people who are temporarily in Australia for a working holiday as non-residents for tax purposes, regardless of how long they are here. This means they will be taxed at 32.5% from their first dollar of income (up to \$80,000).

Consequence: Aligns working visa workers with the tax position of other non-residents. Will make seasonal farm labour more expensive and therefore detrimental to farming businesses

Action: Withhold tax according to Non-resident tables

Relaxing the FBT exemption for work-related electronic devices

From 1 April 2016, the government will allow an FBT exemption for small businesses (with an aggregated annual turnover of less than \$2 million) that provide employees with more than one qualifying work-related portable electronic device, even where the items have substantially similar functions e.g. laptops and computers. It appears that, consistent with the current rules, the FBT exemption will only apply if the relevant item is primarily for use in the employee's employment.

Action: Claim as entitled. Incorporate in salary packages.

Capping threshold for salary sacrificed meal entertainment and entertainment facility

Currently, certain employers are capped on the amount of concessional tax fringe benefits they can provide to their employees, as follows:

(a) FBT-rebatable employers (e.g., certain societies, associations or clubs) are subject to a \$30,000 cap (increased to \$31,177 for the 2016 and 2017 FBT years due to the Temporary Budget Repair Levy) on the amount of fringe benefits (which are eligible for an FBT rebate) they can provide to each of their employees.

(b) Public benevolent institutions and health promotion charities are subject to a \$30,000 cap (increased to \$31,177 for the 2016 and 2017 FBT years) on the amount of FBT-exempt benefits they can provide to each of their employees.

(c) Public and non-profit hospitals, and ambulance services, are subject to a \$17,000 cap (increased to \$17,667 for the 2016 and 2017 FBT years) on the amount of FBT-exempt benefits they can provide to each of their employees.

Certain benefits are currently excluded from these caps, such as the following:

- Meal entertainment-related benefits (e.g., restaurant meals); and
- EFLEs (e.g., holiday accommodation, and venue hire for a special event, such as a wedding).

From 1 April 2016, the government will introduce a separate single grossed-up cap of \$5,000 for salary sacrificed meal entertainment and EFLEs (meal entertainment benefits). Where these benefits exceed the separate grossed-up cap of \$5,000, they can also be counted in calculating whether an employee exceeds their existing (relevant) cap.

Furthermore, all meal entertainment benefits will become reportable.

Consequence: Not-for-profit FBT concessions are being tightened to increase “fairness” and to reduce the tax leakage.

Action: Report as required. Review salary packages.

GST-related measures

- (a) **Cross border supplies of digital products and services** – From 1 July 2017, GST will be extended to cross border supplies of digital products and services imported by consumers. Some media reports indicate this is a general imported goods measure. Clarification to follow.
- (b) **GST Compliance** – The government will provide \$265.5 million to the Australian Taxation Office over three years from 2016/17 to continue a range of activities to promote GST compliance.

Consequence: Increased GST collections and a levelling of playing field for ‘bricks and mortar’ retailers.

Action: Expect increased GST audit activity

- (c) **GST-free treatment for supplies of going concerns and farmland** – The government will not proceed with the previously announced but unenacted measure to replace the current GST-free treatment for supplies of going concerns and farmland with a reverse charge mechanism.

Consequence: Simplifies GST applications.

Recovery of HELP repayments from overseas debtors

The government will extend the Higher Education Loan Programme (‘HELP’) repayment framework to debtors residing overseas for six months or more if their worldwide income exceeds the minimum repayment threshold at the same repayment rates as debtors in Australia.

The new arrangements will apply from 1 January 2016 to new and existing debts. From this date, debtors going overseas for more than six months will be required to register with the ATO, while

those already overseas will have until 1 July 2017 to register. Repayment obligations will commence from 1 July 2017.

Consequence: Closure of a tax loophole exploited by Hi-net worth individuals

Action: Ensure registration and payments are made.

Income tax relief for Australian Defence Force personnel deployed overseas

The government will provide income tax relief for Australian Defence Force personnel deployed. A full income tax exemption will be provided to personnel on Operation AUGURY and the overseas forces tax offset will be available to personnel on Operation HAWICK.

Consequence: Tax savings for ADF personnel to partly offset reduced pay increases.

Medicare levy low income thresholds for 2014/15

For 2014/15, the Medicare Levy low income thresholds will be as follows:

- Individuals \$20,896 (previously \$20,542)
- Families \$35,261 (previously \$34,367)

The families income threshold (i.e., \$35,261) will be increased by \$3,238 (previously \$3,156) for each dependent child or student.

For single seniors and pensioners, the threshold will be increased to \$33,044 (previously \$32,279).

Consequence: Effectively a CPI measure to prevent "bracket creep".

Research and Development ('R&D') tax incentive – introducing a \$100 million expenditure cap from 1 July 2014

The government has introduced a cap of \$100 million on the amount of eligible R&D expenditure for which companies can claim a tax offset. Expenditure beyond the \$100 million cap will receive a lower offset at the company tax rate.

Consequence: A restriction to tax incentives. Restriction of a tax loophole exploited by multi-national exploited by multinational companies.

Changes for Families

Changes to Parental Leave Pay ('PLP')

From 1 July 2016, the government will remove the ability for individuals to 'double dip', by taking payments from both their employer and the government.

Consequence: Remove taxpayer subsidy for Public Servants and other Hi-net worth employees.

Child care (workforce participation stream)

A new single Child Care Subsidy ('CCS') will be introduced on 1 July 2017. Families meeting the activity test with annual incomes up to \$60,000 (2013/14 dollars) will be eligible for a subsidy of 85% of the actual fee paid, up to an hourly fee cap. The subsidy will taper to 50% for eligible families with annual incomes of \$165,000.

The CCS will have no annual cap for families with annual incomes below \$180,000. For families with annual incomes of \$180,000 and above, the CCS will be capped at \$10,000 per child per year. Eligibility will be linked to a new activity test.

Introduction of a new Interim Home Based Carer Subsidy Programme, which is a limited pilot programme to subsidise care provided by a nanny in a child's home from 1 January 2016.

Consequence: Incentive for senior employees to return to the workforce early. Retention of industry knowledge to assist employers and reduce costs.

Cessation of the Large Family Supplement of Family Tax Benefit (FTB) Part A and reduced portability

The government will cease payment of the additional FTB Part A Large Family Supplement from 1 July 2016.

The government will also reduce the amount of time FTB Part A will be paid to recipients who are outside Australia. From 1 July 2016, families will only be able to receive FTB Part A for six weeks in a 12 month period while they are overseas.

Consequence: removal of taxpayer funded subsidy for overseas residents.

Release of superannuation for terminal medical condition

From 1 July 2015, the government will extend access to superannuation for people with a terminal medical condition by extending the above certification period (i.e., the period within which the individual is likely to die) from one year to two years.

Action: Claim as entitled to assist with getting family financial affairs in order.

Changes for seniors

Change to the asset test thresholds for the aged pension

From 1/1/17 the government will increase the asset test thresholds at which pensions are reduced once the threshold is exceeded, as follows:

- For a single person – a full pension may be received if the relevant value of included assets is less than \$250,000 for a homeowner (currently \$202,000).
- For a pensioner couple – a full pension may be received if the relevant combined value of included assets is less than \$375,000 for a homeowner (currently \$286,500).

Proposed assets test cut-off to be reduced for singles \$547,000 (currently 775,500) and couples \$823,000 (currently \$1,151,500)

Non-home owner pensioners will also benefit by an increase in their threshold to \$200,000 more than homeowner pensioners.

However, the current 'taper rate' at which the age pension begins to phase out will be increased from \$1.50 to \$3 for every \$1,000 of assets over the relevant assets test threshold.

Pensioners who lose pension entitlements on 1 January 2017 as a result of these changes will automatically be issued with a Commonwealth Seniors Health Card or a Health Care Card for those under Age Pension age.

Consequence: These measures are intended to make the age pension fairer and base it on the real "financial need of the pensioner". Singles with included assets less than \$301,000 and couples with less than \$452,000 will be better off.

Action: Ensure you are reassessed by Centrelink. Pensioner Bonus Scheme registrants should consider claiming before 1/1/17 lower threshold takes effect.

Defined benefit superannuation schemes

From the 1/1/16 the Centrelink income that will include up to 90% of the income stream received.

Consequence: Public Servants and other defined benefit pensioners will be eligible for NIL or lower age pensioners. Limiting double dipping and reducing taxpayer subsidies.

Value of penalty unit to increase

The government will increase the value of all Commonwealth penalty units from \$170 to \$180, with effect from 31 July 2015. The government will also introduce ongoing indexation of penalty units based on the CPI. Indexation will occur on 1 July every three years, with the first indexation occurring on 1 July 2018.

Consequence: Encouraging older Australian's to contribute their knowledge to the workforce.

Action: Ensure the new rate is applied

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