CIB Accountants Federal Budget Report 2018

The Federal Treasurer, Scott Morison presented his third budget, a 'Blue Sky' budget stating the good fortunes of the Government's plan to building a strong economy, showing that the budget is back on path to surplus in 2019/2020, a year earlier than originally projected.

As this is Scott Morrison's last budget before the next election it definitely had a feel of an election budget, with a very positive outlook on the state of the economy and the Treasurer showing that the Government bringing the budget back into surplus, after over 10 years of deficits.

With the budget close to surplus the Treasurer is providing tax relief to all taxpayers with his budget centrepiece "Personal Income Tax Plan", which will provide immediate tax relief to low and middle income taxpayers, then gradually to all taxpayers from 2022 and onwards.

While there are no significant spending cuts or tax increases, there are several integrity measures intended to ensure that the system is fairer to all.

Key Economic Indicators

Financial year	2016/17 (Last Year Actual)	2017/18 (This Year Estimate)	2018/19 (Next Year Estimate)	2019/20 (Projection)	2020/21 (Projection)	2021/22 (Projection)
Cash Balance ($b)	(33.2)	(18.2)	(14.5)	2.2	11.0	16.6
Economic Growth (%)	2.1	2.75	3	3.00	3.00	3.00
Unemployment (%)	5.6	5.5	5.25	5.25	5.25	5
Inflation (%)	1.9	2.00	2.25	2.25	2.5	2.5
Wage Growth (%)	1.9	2.25	2.75	3.25	3.5	3.5

Included in this article, CIB Accountants & Advisers have highlighted and explained in clear and simple terms some of the key measures that will affect both your personal and business circumstances.

CIB will be working towards finding any opportunities regarding the budget measures for you and your business. Should you if you have any further queries please contact us on 9689 5333.

Personal

Personal Income Tax Plan

The Government will introduce a three-step plan over the next 7 years to reduce personal income taxes as follows:

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

The Government will introduce the **Low and Middle Income Tax Offset**, a *non-refundable* tax offset of up to $530 per annum to Australian resident low and middle income taxpayers. The offset will be available for the 2019-2022 income years and will be received as a lump sum when you income tax return is lodged.

The benefit of the proposed Low and Middle Income Tax Offset is as follows:

- Taxpayers with taxable incomes of $37,000 or less will receive a benefit of up to $200;
- For taxpayers with taxable incomes from $37,000 to $90,000 an offset up to $530 applies;
- For taxpayers with taxable incomes from $90,001 the offset will phase out at a rate of 1.5 cents per dollar, being fully phased out at $125,333

The benefit of the Low and Middle Income Tax Offset is *in addition to* the Low Income Tax Offset.

Step 2: Protecting middle income Australians from bracket creep

The Government has proposed the following changes to the **personal income tax rates,** these do not include the Medicare Levy:

Rate (%)	Current tax thresholds Income range ($)	New tax thresholds From 1 July 2018 Income range ($)	New tax thresholds From 1 July 2022 Income range ($)	New tax thresholds From 1 July 2024 Income range ($)
Tax free	0 - 18,200	0 - 18,200	0 - 18,200	0 - 18,200
19	18,201 - 37,000	18,201 - 37,000	18,201 - 41,000	18,201 - 41,000
32.5	37,001 - 87,000	37,001 - 90,000	41,001 - 120,000	41,001 - 200,000
37	87,001 - 180,000	90,001 - 180,000	120,001 - 180,000	Not Applicable
45	>180,000	>180,000	>180,000	>200,000

1. 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.

2. From 1 July 2022, the Government will:

   - extend the 19% personal income tax bracket from $37,000 to $41,000; and
   - further increase the top threshold of the 32.5% personal income tax bracket from $90,000 to $120,000.

The Government has also proposed an increase to the **Low Income Tax Offset** from $445 to $645 from 1 July 2022. This offset will reduce at a rate of 6.5 cents per dollar between incomes.

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

In the third step of the Personal Income Tax Plan, the Government will simplify and flatten the personal tax system by **removing the 37% tax bracket entirely**. From 1 July 2024, the Government will extend the top threshold of the 32.5% personal income tax bracket from $120,000 to $200,000. The 32.5% tax bracket will apply to taxable incomes of $41,001 to $200,000 and taxpayers with taxable incomes exceeding $200,000 will pay tax at the top marginal rate of 45%.

No increase in the Medicare levy

The Government has abandoned its commitment to increase the Medicare levy from 2-2.5% from 1 July 2019.

Increasing the Medicare levy low-income thresholds

The threshold for singles will be increased to $21,980. The family threshold will be increased to $37,089 plus $3,406 for each dependent child or student. For single seniors and pensioners, the threshold will be increased to $34,758. The family threshold for seniors and pensioners will be increased to $48,385 plus $3,406 for each dependent child or student.

	Threshold up to 30/06/2018	Threshold From 01/07/2019
Single	$21,655	$21,980
Family	$36,541 (plus $3,356 for each depend child)	$37,089 (plus $3,406 for each depend child)
Single Senior/Pensioner	$34,244	$34,758
Family Senior/Pensioner	$47,670 (plus $3,356 for each depend child)	$48,385 (plus $3,406 for each depend child)

Deductions denied for vacant land

From 1 July 2019, the Government will deny deductions for expenses associated with **holding vacant residential or commercial land**, including interest incurred to finance the acquisition of the land. Deductions for expenses associated with holding the land will be available once a building has been constructed on the land, it has received approval to be occupied and is available for rent. Denied deductions will not be able to be carried forward for use as a deduction in later income years, but denied deductions can be included in the cost base of the land.

Compliance activities targeting individuals and their tax agents

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 ATO has identified a number of significant compliance issues for individual taxpayers.

Business

Extending the $20,000 immediate deduction for small businesses

The Government will extend the $20,000 immediate write-off for small business for another year till **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).

Expanding the contractor payment reporting system

The contractor payment reporting system was first introduced in the building and construction industry and extended to the cleaning and courier industries from 1 July 2018. Under the contractor payment reporting system, businesses are required to report payments to contractors to the ATO. This brings payments to contractors in these industries into line with wages, which are reported to the ATO. The Government has announced it will further expand the contractor payment reporting system to the following industries:

- security providers and investigation services;
- road freight transport; and
- Computer system design and related services.

Businesses will need to ensure that they collect information **from 1 July 2019**, with the first annual report required in **August 2020**. A new online form will make the reporting process easier.

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. This measure will require transactions over a threshold to be made through an electronic payment system or cheque. Transactions with financial institutions or *consumer-to-consumer non-business transactions* will not be affected.

Reforms to combat illegal Phoenixing

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:

- **Extend the Director Penalty Regime to GST**, luxury car tax and wine equalisation tax, making
- directors personally liable for the company's debts;
- expand the ATO's power to **retain refunds** where there are outstanding tax lodgements;
- 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; and
- restrict the ability of related creditors to vote on the appointment, removal or replacement of an external administrator.

Research and development tax incentive

The Government will amend the research and development (R&D) tax incentive to better target the program and improve its integrity and fiscal affordability with effect 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. R&D tax offsets that cannot be refunded will be carried forward as non-refundable tax offsets to future income years. Refundable R&D tax offsets from R&D expenditure on clinical trials will not count towards the cap.

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.

Removing tax deductibility of payments where withholding obligations have been disregarded

From 1 July 2019, businesses will no longer be able to claim a deduction for the following payments:

- Payments to their employees such as wages where they have not withheld any amount of PAYG from these payments (i.e., despite the fact the PAYG withholding requirements apply).
- Payments made by businesses to contractors where the contractor does not provide an ABN and the business does not withhold any amount of PAYG (despite the withholding requirements applying).

Superannuation

Work test exemption
From 1 July 2019 the Government will be introducing an exemption from the work test for voluntary contributions to superannuation. It will be available for the following retirees:

- Aged between 65 and 74,
- Having their superannuation balances less than $300,000
- in the first financial year that they do not meet the work test.
- The exemption will be available for one year from the end of the financial year in which they last met the work test.

Currently, the work test requires individuals who are 65-74 to have worked at least 40 hours within 30 consecutive days in a financial year before they can make any personal contribution to superannuation.

Three-yearly audit cycle for some SMSFs
From 1 July 2019, the Government will change the annual audit requirement to a three-yearly requirement for SMSFs with a history of good record-keeping and compliance. This measure will reduce red tape for SMSF trustees that have a history of three consecutive years of clear audit reports and that have lodged the fund's annual returns in a timely manner.

SMSF member limit to increase from 4 to 6
From 1 July 2019, the Government will increase the maximum number of allowable members in new and existing SMSFS and small APRA funds from four to six. This will provide greater flexibility for joint management of retirement savings, in particular for large families.

Preventing inadvertent concessional cap breaches by certain employees
From 1 July 2018, 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 (SG). 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. Employees who use this measure could negotiate to receive additional income, which is taxed at marginal tax rates.

Deductions for personal contributions
The Government intends to improve the integrity of the 'notice of intent' ('NOI') processes for claiming personal superannuation contribution tax deductions. Currently, some individuals receive deductions on their personal superannuation contributions but do not submit a NOI, despite being required to do so. This results in their superannuation funds not applying the appropriate 15% tax to their contribution. As the contribution has been deducted from the individual's income, no tax is paid on it at all. The additional funding will enable the ATO to develop a new compliance model, and to undertake additional compliance and debt collection activities. From 1 July 2018, the ATO will modify income tax returns to alert individuals to the NOI requirements with a tick box to confirm they have complied.