



# Federal Budget 2018

The item that may receive the most analysis from the whole of this year's federal budget will be the increase of the 32.5% tax bracket, and an expansion of the Low Income Tax Offset.

## About this newsletter

Welcome to Clarendon Partners client information newsletter, your monthly tax and super update keeping you on top of the issues, news and changes you need to know. Should you require further information on any of the topics covered, please contact us via the details below.

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A win for small businesses in this year's budget sees the retention of the \$20,000 instant asset write-off for another 12 months until 30 June 2019. Also a limit will be imposed on the amount of cash payments made to a business. There is also a change to the R&D tax incentives, as well as a deferral to some Division 7A changes.

Following last year's big changes to the superannuation rules, this year has seen smaller tweaks to the super system. We also note that there will be some compliance related changes to the deduction of personal contributions and the audit cycle of SMSFs.

## BUDGET 2018 Individuals

### BRACKET CHANGE PERSONAL INCOME TAXES

The upper threshold for the 32.5% marginal tax rate bracket will increase from \$87,000 to \$90,000. It will apply from 2018-19.

Implemented to address the issue of bracket creep, it is anticipated that the adjustment to the marginal tax bracket will stop a further 200,000 Australians from entering the 37% marginal tax rate bracket.

Moreover, from 1 July 2022, there will be further adjustments to the brackets. The upper income threshold for the 32.5% bracket will be increased from \$90,000 to \$120,000. In addition, the upper income threshold for the 19% rate will increase from \$37,000 to \$41,000. By 2024 the 37% bracket will be scrapped completely, leaving a 32.5% rate up to \$200,000.

### LOW AND MIDDLE INCOME TAX OFFSET

Introduction of a non-refundable tax offset of up to \$530 per annum targeted at low to middle income earners. It will affect individuals with taxable income of up to

\$125,333, and will apply from 2018-19 to 2021-22.

For taxpayers with taxable income of \$37,000 or less, the Low and Middle Income Tax Offset will provide a benefit of up to \$200.

Between a taxable income of \$37,000 and \$48,000, the value of the offset will increase by 3 cents in the dollar up to the maximum offset of \$530. It is noted that taxpayers with taxable incomes between \$48,000 and \$90,000 will be eligible to receive the \$530 maximum offset. The offset will phase out at a rate of 1.5¢ per dollar between taxable income between \$90,001 and \$125,333.

### MEDICARE LEVY

An increase in the Medicare levy low-income thresholds for singles, families, and seniors and pensioners. This will affect low-income earners and will apply 2017-18.

The various exemption thresholds for low-income earners will increase to take into account movements in the CPI. Further, the Government has confirmed that it will not be increasing the Medicare Levy rate from 2.0% to 2.5%.

## BUDGET 2018 Business

### \$20,000 INSTANT ASSET WRITE-OFF EXTENDED

The availability of the small business \$20,000 instant asset write-off has been extended for a further 12 months to 30 June 2019. This concession was previously due to expire on June 30, 2018.

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. Further, the small business simplified depreciation pool can also be immediately deducted if the balance is less than \$20,000 over this period.

### BETTER TARGETING THE R&D TAX INCENTIVE

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.

The maximum amount of R&D expenditure eligible for concessional R&D tax offsets will be increased from \$100 million to \$150 million per annum.

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. The changes will apply for income years starting on or after 1 July 2018.

### CASH PAYMENT LIMIT

The Government will introduce a limit of \$10,000 for cash payments made to businesses for goods and services. It is proposed to apply from 1 July 2019.

Currently, large undocumented cash payments can be used to avoid tax or to launder money from criminal activity. This measure will require transactions over a threshold to be made through an electronic payment system or cheque.

### REMOVING TAX DEDUCTIBILITY OF NON-COMPLIANT PAYMENTS

A tax deduction will not be allowed for the following where PAYG is not withheld:

- wages, and
- payments made by businesses to contractors where the contractor does not provide an ABN.

Federal Budget 2018: Business cont

The measure will take effect from 1 July 2019. PAYG reporting and tax withholding requirements provide integrity to the tax system. The Black Economy Taskforce recommended this action as a further financial disincentive for businesses to engage in black economy behaviour and ensure greater compliance with tax obligations.

**TARGETED AMENDMENTS TO DIVISION 7A DEFERRED**

The start date of the measures to make targeted amendments to Division 7A, that were announced in the 2016-2017 Federal Budget, originally earmarked to take effect 1 July 2018, has been deferred to 1 July 2019.



## Superannuation

**MAXIMUM NUMBER OF SUPER MEMBERS**

The maximum number of allowable members in new and existing self-managed superannuation funds (SMSFs) and small APRA funds is proposed to be increased from four to six. This measure will commence from 1 July 2019

This will provide greater flexibility for joint management of retirement savings, in particular for large families.

**DEDUCTIONS FOR PERSONAL CONTRIBUTIONS**

The integrity of the “notice of intent” processes for claiming personal superannuation contribution tax deductions is proposed to be improved. This measure will commence from 1 July 2018.

Currently, some individuals receive deductions on their personal superannuation contributions but do not submit a notice of intent, 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.

**VOLUNTARY CONTRIBUTIONS TO SUPER FUNDS**

An exemption is proposed to be introduced from the work test for voluntary contributions to superannuation, for people aged 65-74 with superannuation balances below \$300,000, in the first year that they do not meet the work test requirements. The start date of the said measures is 1 July 2019.

**APPLICATION OF DIVISION 7A TO UNPAID PRESENT ENTITLEMENTS**

The Government is proposing to tighten the rules regarding the application of the provisions of Division 7A to an unpaid present entitlement of a private company. This will commence from 1 July 2019

The measure will ensure the unpaid present entitlement is either required to be repaid to the private company over time as a complying loan or subject to tax as a dividend.

Currently, the work test restricts the ability to make voluntary superannuation contributions for those aged 65-74 to individuals who self-report as working a minimum of 40 hours in any 30 day period in the financial year.

**THREE-YEARLY AUDIT CYCLE FOR SMSFS**

The annual audit requirement is proposed to be changed to a three-yearly requirement for SMSFs with a history of good record-keeping and compliance, to commence from 1 July 2019.

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.

**RECOVERY OF TAX & SUPERANNUATION DEBTS**

The Government will provide \$133.7 million to 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

This will extend, and roll into ongoing funding, the measure announced in the August 2013 economic statement addressing the level of unpaid tax and superannuation in the community that would otherwise terminate on 30 June 2018.

The measure will ensure the ATO can continue to target those taxpayers gaining an unfair financial advantage over those who pay their fair share of tax and superannuation.

## **BUDGET 2018** Health/Aged care

### MEDICAL SERVICES IN RURAL AND REMOTE AREAS

Financial assistance is proposed to be increased for the Royal Flying Doctor Service to improve the delivery and availability of dental, mental health and emergency aeromedical services in rural and remote areas.

This is part of measures to achieve stronger rural, regional and remote health outcomes by aligning the distribution of the health workforce to areas of greatest need and building the capability of Australia's medical practitioner workforce.

### NATIONAL IMMUNISATION PROGRAM

Certain vaccines are proposed to be listed on the National Immunisation Program from 1 July 2018. Vaccinations introduced on the list include those to prevent whooping cough in pregnant women, influenza in people aged over 65, and the prevention of meningococcal in children.

### ACCESS TO AGED CARE AT HOME

The Government proposes to increase the number of high level home care packages by 14,000 over four years. It will be introduced over four years from 2018-19. The intention is to support the choice of older Australians who wish to stay at home and avoid going into residential care.

### NEW LISTINGS ON THE PHARMACEUTICAL BENEFITS SCHEME (PBS)

The Government has introduced new and amended listings on the PBS, including Spinraza for the treatment of spinal muscular atrophy. Changes will apply over various dates from 1 January to 1 July 2018.

The medicines are intended to treat or prevent spinal muscular atrophy, breast cancer, refractory multiple myeloma, relapsing-remitting multiple sclerosis or HIV.

## **BUDGET 2018** Infrastructure

### GREAT BARRIER REEF

The Government will provide \$535.8 million over five years from 1 July 2018 to accelerate the delivery of Reef 2050 Plan activities. The plan aims to help protect the Great Barrier Reef from climate change and pollution.

### SPACE PROGRAM

The Government will provide \$41.0 million over four years from 2018-19 to grow the Australian space industry, including by establishing a National Space Agency. This will coordinate domestic space activities for Australia and the International Space Investment project, which will provide grants to strategic space projects that generate employment and business opportunities for Australians

### TRANSPORTATION

The Government will provide \$24 billion for various transport projects throughout Australia, starting from 1 July 2018. It plans to fund key transport projects all around Australia – with commitments to road and rail in Western Australia (\$3 billion), an airport rail link for the Melbourne airport in Victoria (\$5.1 billion) and the Sydney freight rail (\$400 million), amongst other projects.

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This information has been prepared without taking into account your objectives, financial situation or needs. Because of this, you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs.

## BUDGET 2018 Tax administration

### BLACK ECONOMY: COMBATTING ILLICIT TOBACCO

Importers of tobacco will be required to pay all duty and tax liabilities upon importation, applying from 2019-20. For tobacco products that are held in licensed warehouses at the commencement of the measure on 1 July 2019, transitional arrangements will apply. Current weekly settlement arrangements will no longer apply to imported tobacco.

Other measures to target the black economy include the formation from 1 July 2018 of an Illicit Tobacco Task Force to target illicit tobacco smuggling, and further funding will be provided to the ATO to bolster its capabilities to detect and destroy domestically grown illicit tobacco crops.

From 1 July 2019, permits will be required for all tobacco imports (except for tobacco imported by travellers within duty free limits).

The ATO will upgrade and modernise its excise and excise equivalent goods payment systems beginning 2020-21 to replace the outdated paper lodgment system.

### BLACK ECONOMY: TAXABLE PAYMENTS REPORTING

The Government will expand the taxable payments reporting system (TPRS) from 2019-20 to three additional industries – security providers and investigation services, road freight transport, and computer system design and related services

Under the TPRS, businesses are required to report payments to contractors to the ATO. 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 is expected to make the reporting process easier.

### TAX INTEGRITY

High profile individuals, for example sportspeople and actors, will from 2019-20 no longer be able to licence their fame or image to another entity such as a related company or trust. The Government notes that the licencing structure has created opportunities to take advantage of different tax treatments and that it facilitates misreporting and incorrect tax outcomes.

### TAX COMPLIANCE FUNDING

The Government has set aside \$130.8 million for the ATO to increase its compliance activities conducted towards taxpayers and their tax agents.

The funding, from 2018-19, is intended to provide the ATO with the resources needed to undertake new compliance activities, including additional audits and prosecutions, improving education and guidance materials, pre-filling of income tax returns and improving real time messaging to tax agents and individual taxpayers to deter over-claiming of entitlements.

It is expected that the increased compliance activities will generate revenue of \$1.1 billion in fiscal balance terms over the forward estimates period.

### DENIAL OF DEDUCTIONS FOR VACANT LAND

The Government will deny deductions for expenses associated with holding vacant land from 2019-20. Denied deductions will not be able to be carried forward for use in later income years.

This is an integrity measure to address concerns that deductions are being improperly claimed for expenses, such as interest costs, related to holding vacant land, where the land is not genuinely held for the purpose of earning assessable income.

### COMBATTING ILLEGAL PHOENIX ACTIVITY

The Government will introduce a package to deter and disrupt illegal phoenix activity. This measure follows on from the Black Economy taskforces. The package introduces new phoenix offences to target those who conduct or facilitate illegal phoenixing. It will 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. ■