

BusinessPlus+ Newsletter



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Federal Budget Edition – May 2016

The Federal Budget 2016 – Executive Summary

The Federal Treasurer, Scott Morrison, has delivered his first budget for the Liberal National Party (LNP) government.

"This Budget is an economic plan. It's not just another Budget", Mr Morrison said.

Mr Morrison said, *"Small and medium businesses will not only be the key drivers of growth, they are also overwhelmingly Australian owned and more likely to reinvest their earnings in the future growth as they seek to build their businesses. This is the theme throughout the Budget presentation."*

This special edition of Business Plus+ refers to many of the matters contained in the Budget, which will affect small/medium enterprises and primary producers.

None of the items contained within the Budget will become law until the Budget is passed by the House of Representatives and the Senate and signed by the Governor General.

Highlights of the Budget that affect small/medium enterprises include:

- Company Tax rate for small/medium enterprises – from 28.5% to 27.5% from 1st July 2016 for companies with turnovers of less than \$10M.
- Superannuation changes include increase in tax on superannuation for taxpayers earning over \$250,000 per annum.
- The government has introduced a lifetime non-concessional superannuation contribution cap of \$500,000.
- The government proposes lowering the superannuation contribution cap to \$25,000 per annum for all people aged under 50. The same applies for people over 50.
- From 1st July 2016, the personal income tax threshold will be increased from \$80,000 to \$87,000. This will leave approximately 500,000 taxpayers in the 32.5% income tax bracket.
- Small business instant asset write-off extended for businesses with a turnover of less than \$10M.

Budget Overview

	Outcomes	Forecasts		
	2014/15	2015/16	2016/17	2017/18
GDP	2.2%	2.5%	2.5%	3%
Unemployment Rate	6.1%	5.75%	5.5%	5.5%
CPI	1.5%	1.25%	2%	2.25%

Start-Ups/Innovation

• Fintech

The new announcements mainly focused on Fintech with a \$200,000 commitment to promote Australian Fintechs on an international level and a reaffirmation of the pledge to create a "regulatory sandbox" to test new ideas for entrepreneurs.

Start-Ups (cont'd)

- **Innovation Companies**

The government made most of its announcements relative to innovation in last year's Budget. The previous announcements related to Early Stage Innovation Companies (ESICs) and Crowd Funding Equity Companies, which the government hopes will commence operations from 1st July 2016. The major income tax initiative for these types of companies is that the investor in an ESIC will obtain a 20% tax rebate on investments made each year, to a maximum rebate of \$200,000. The investor will also avoid Capital Gains Tax if the shares in the company are held for longer than 1 year and less than 10 years.

- **"Sandbox"**

The Treasurer indicated that the Australian Securities and Investments Commission (ASIC) will soon commence consultation on a "regulatory sandbox" that will allow fintech start-ups to test ideas for up to 6 months, with a limited number of retail clients.

- **"Block Chain Technology"**

The Treasurer also mentioned "block chain technology" and indicated that Data 61 will review opportunities for technology to be adopted in government and the private sector, including testing.

- **Digital Currencies**

The government also released a discussion paper that calls for submissions on options to address "double taxation" of digital currencies under the current GST regime. *"This moves us a step closer to delivering this important change that will ensure that consumers are no longer 'double taxed' when using digital currencies such as bitcoin to buy goods and services already subject to GST"*, Mr Morrison said.

- **Digital Transformation Office**

The government is allocating \$18.8M over 5 years, to enable the government's Digital Transformation Office (DTO) to create a digital marketplace to make it easier for small/medium enterprises and start-ups to deliver digital services to government, helping to support Australian innovators and entrepreneurs.

- **Insolvency Law Changes**

- The government's previous announcements relate to improving bankruptcy and insolvency laws to reduce the stigma associated with failure and foster enterprise innovation in Australia.
- The government believes that this will strike a better balance between encouraging entrepreneurship and protecting creditors.
- Increasing access to company losses through improvements in the tax system. This means that entrepreneurs and loss-making start-ups are encouraged to remain agile and seek out new opportunities to innovate and grow.

Entrepreneurship/Young Jobseekers

Youth Jobs and PATH Initiative

- \$840M investment over 4 years in a youth employment package to encourage up to 120,000 young people to secure jobs.
- Vulnerable jobseekers will be provided job readiness training and placed in businesses for work experience internships for 4 to 12 weeks, receiving an extra \$200 per fortnight payment.
- Wage subsidy gives employers \$6,500 and \$10,000 for taking on young jobseekers.

Under the first stage that applies from April 2017, young jobseekers will be required to participate in 6 weeks of pre-employment skills training, 5 months after registering with Job Active.

The first 3 weeks will focus on the presentation, computer skills and encouraging the jobseeker to work in a team. The remaining 3 weeks will send the jobseeker on advanced job preparation and job hunting.

As part of the third stage, employers who take on a jobseeker classified less than job-ready will receive a wage subsidy of \$10,000. Businesses that hire applicants who are more job-ready will receive a smaller subsidy of \$6,500.

Enterprise Initiative Scheme

From 1st December 2016, the government is launching a new enterprise incentive scheme. This scheme aims to increase access to self-employment training and mentoring for jobseekers not currently in employment, education or training.

As part of this initiative, "exploring my own boss" workshops and self-employment start-up packs, aimed at younger people, will be established, to help those unemployed explore and gain access to services and to help them start their own businesses.

Inclusive entrepreneurship facilitators will be appointed in areas with high youth unemployment, to collate and support start-up incubators and micro-finance services.

These facilitators will also be responsible for providing practical assistance, access to local mentors, business partners, finance, equipment and office space.

Small Businesses

Unincorporated Businesses

From 1st July 2016, unincorporated businesses turning over less than \$5M per annum will be eligible for an 8% personal income tax “discount” (currently 5%). The unincorporated tax discount remains capped at \$1,000. The unincorporated tax discount will continue to increase to a final rate of 16% by 1st July 2026.

Company Tax Cuts

From 1st July 2016, companies with turnover of up to \$10M per annum will be liable for a tax rate of 27.5%. This cut is part of the government’s “10-year enterprise tax plan”, which will involve phased-in company tax cuts for all companies by 2026-27.

The Budget includes an extension of the \$20,000 instant asset write-off and other tax concessions for businesses with turnovers of up to \$10M

Businesses with turnovers of under \$10M will be able to access benefits such as accelerated depreciation for eligible equipment and simplified stock rules (businesses will now have the option to avoid an end of year stocktake if the value of the value is changed by less than \$5,000).

- There’s no change in the negative gearing rules.
- There’s no change in the CGT rules, however the key turnover figure for CGT purposes remains at \$2M.
- Small businesses now have in effect 3 tax threshold amounts:
 - \$2M for CGT
 - \$5M for unincorporated businesses
 - \$10 for companies
- The government is proposing changes to the GST rules, which will mean the GST will be payable on goods imported into Australia if the vendor has an Australian turnover of \$75,000 or more. This will mean the GST will be charged irrespective of the sales value of those goods.
- The proposed backpacker tax hasn’t been dealt with. It’s understood that further reviews of the implications of the introduction of the backpacker tax are being discussed within the government.
- The option to account for GST on a cash basis and pay GST instalment (this will have significant cashflow benefits for small businesses adopting the cash basis).
- Companies with turnovers of under \$10M will also be eligible for Fringe Benefits Tax (FBT) concession and immediate deductibility of professional expenses. There are exemptions for car parking and portable electronic devices.

The government is also proposing cash bonuses for employers that offer internships and hire eligible young jobseekers.

Superannuation

- The budget tightens superannuation contribution rules for wealthy individuals.
- From 1st July 2017, the government will introduce a \$1.6M cap on the amount of superannuation that can be withdrawn tax free in retirement.
- There will be a decrease in the threshold at which the 30% tax applies to concessional contributions, from \$300,000 to \$250,000.
- The government has introduced a lifetime non-concessional superannuation contribution cap of \$500,000, which takes into account all contributions made on or after 1st July 2007. The lifetime cap will replace the existing annual cap on non-concessional contributions and comes into effect immediately.
- Taxing the earnings on transition to retirement pensions.

Superannuation will be made more flexible by a number of measures, including:

- From 1st July 2017, people with superannuation balances of less than \$500,000 will be able to carry forward unused concessional caps for 5 years. This will let people with broken career patterns (eg catch up on their super savings).
- From 1st July 2017, people aged 65-74 will no longer have to satisfy a work test to make superannuation contribution.
- Superannuation will be made more equitable by introducing a low income tax superannuation tax offset of up to \$500 for people earning less than \$37,000, to avoid situations in which low income earners pay more tax on superannuation contributions than on their wages. This measure will replace the low income superannuation contribution when it expires on 30th June 2017.
- Spouse tax offset will be extended to allow more families to support each other in accumulating superannuation – income threshold for receiving spouse lifted from \$10,800 to \$37,000.

Primary Producers

Wineries

The government is proposing a \$300M reduction in the Wine Equalisation Tax (WET) rebate, a concession that flows to small wineries. There will be tighter eligibility criteria for the rebate. Only wine producers who own a winery or have a long-term lease over a winery and sell packaged branded wine domestically will be eligible.

Primary Producers (cont'd)

Spirit Producers

From 1st July 2017, producers of whisky, vodka, gin, liqueur and cider will be eligible for an excise refund, currently available only to breweries. Small spirit producers will be able to apply for a refund of up to 60% of excise up to a cap of \$30,000.

The scheme will not be extended to alcopop producers.

Concessional Loan

From 1st July 2016, the government is proposing \$2B in concessional loan (10-year period), to establish the national water infrastructure loan facility. Loan recipients will make interest only payments for up to the first 5 years and have further 10 years to repay principal and any additional interest.

Other Rural Initiatives

- \$9.5M for the national water infrastructure development fund, to fund water infrastructure feasibility studies in Northern Australia, with the cost being met by redirecting funds from the rural research and development for profit program.
- \$7.1M to fund additional rural financial counsellors who will provide free financial advice to farmers in drought affected areas.
- \$15M over 4 years for a Carp control program.
- A 2-year pilot program to improve access for farmers to training and information about cooperative collective bargaining and innovative business models, with the cost being met from existing departmental resources.

Grants and Incentives

R&D Tax Incentive

The government is not proposing any changes to the R&D Tax Incentive.

For companies with turnover of less than \$20M, the tax rebate will continue at 45% of eligible R&D expenditure.

For companies with turnover in excess of \$20M, the tax rebate will continue at 40%.

Industry Skills Fund

Whilst the Industry Skills Fund will continue over the next 4 years, the available funding will reduce by \$247M over the 4-year period. Skills Development Fund will continue to operate up to at least 2020, however with reduced funding of approximately \$207M spread over 4 years.

Professional Advice

If you have any queries on any item in the Federal government's Budget, please contact us.

An Important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.

Contact us:

CMA Collins Melody

P: 03 9836 1533

F: 03 9836 3025

E: admin@colmel.com.au

W: <http://www.colmel.com.au>

259 Whitehorse Rd, Balwyn, VIC, 3103