

# BusinessPlus+ Newsletter



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## Federal Budget Edition – May 2018

### 2018/19 Federal Budget Highlights Specifically Relating to Small/Medium Enterprises

Please note, most of the items discussed in this newsletter have not yet been legislated by Federal Parliament. The government must submit its budget to the House of Representatives and the Senate for debate and passing of the legislation before most of the items become law.

#### Budget Overview

The Federal Treasurer, Mr Scott Morrison, has handed down his third budget. Mr Morrison said that the Budget is focused on further strengthening the economy to “guarantee the essentials Australians rely on” and “responsibly repair the Budget”.

With a deficit of \$18.2 billion in 2017/18 and \$14.5 billion in 2018/19, the Budget is forecast to return to a balance \$2.2 billion in 2019/20 with a projected surplus of \$11 billion in 2020/21.

#### Individuals

A seven-year personal income tax plan will be implemented by the government in three steps to introduce a low and middle income tax offset, to provide relief from bracket creep and remove the 37% personal income tax bracket.

On completion, this would bring 94% of Australian taxpayers to a rate of 32.5% or less compared with 63% of taxpayers at current levels.

The Treasurer announced an immediate tax relief for low and middle income earners equivalent to around \$540 per year.

#### Medicare Levy

The government is not proceeding with the increase to the Medicare Levy from 2% to 2.5% which was announced in the 2017/18 Federal Budget.

The Medicare Levy low income thresholds for singles, families, seniors and pensioners will be increased from the 2017/18 income year.

## Research and Development

The Treasurer announced that the Federal government proposes cuts of \$2.4 billion from the Research and Development Incentive for businesses. The changes to be made to the treatment of research and development tax break are as follows:

- Companies with turnovers under \$20M

The government will introduce a \$4M annual cap on cash refunds. Any additional claims, past this amount, can be carried forward to later income years.

The refundable Research and Development Offset will be a premium of 13.5 percentage points above the company's tax rate with the offset capped at \$4M per annum. This means that, based on a company tax rate of 27.5%, the effective Research and Development Rebate will be 41% (currently 43.5%) of eligible research and development expenditure, subject to the company spending a minimum of \$20,000 that relates to eligible research and development expenditure in a financial year.

These changes will apply from 1st July 2018.

- Companies with turnovers over \$20M

Currently a 38.5% non-refundable tax offset is available for companies with turnovers over \$20M, subject to the minimum research and development expenditure being \$20,000 in the financial year.

The government is proposing significant changes for the calculation of the tax offset based on a "research and development intensity" percentage and the company's tax rate.

The changes in calculating the research and development tax incentive are based around the "research and development intensity percentage" for each company.

The research and development intensity percentage is based on the amount of research and development related expenditure as a percentage of a company's total expenditure.

The lower the research and development intensity percentage for the company, the lower the maximum available tax offset.

The marginal R & D premium will be the company's tax rate plus:

- 12.5% offset if more than 10% of total expenditure relates to research and development
- 9% offset if research and development intensity percentage is between 5% and 10%
- 6.5% offset if research and development intensity percentage is between 2% and 5%
- 4% offset if research and development entity percentage is between 0% and 2%

## Asset Acquisition

The \$20,000 instant asset write off will be extended for small businesses with aggregated turnover of less than \$10M by another year to 30 June 2019. The assets acquired must be installed and ready for use before 30th June 2019.

The current rules regarding accelerated depreciation for small businesses remain in place. These pooled assets can be depreciated at the initial rate of 15% in the first year.

## Income Tax Rates and Thresholds for 2018/19 Onwards

The table below summarises the announced personal tax rate and threshold changes (excluding the 2% Medicare Levy).

Rate	2018/19 to 2021/22	2022/23 and 2023/24	2024/25 onwards
0%	\$0 - \$18,200	\$0 - \$18,200	\$0 - \$18,200
19%	\$18,201 - \$37,000	\$18,201 - \$41,000	\$18,201 - \$41,000
32.5%	\$37,001 - \$90,000	\$41,001 - \$120,000	\$41,001 - \$200,000
37%	\$90,001 - \$180,000	\$120,001 - \$180,000	N/A
45%	\$180,001 +	\$180,001 +	\$200,001 +
LITO	Up to \$445	Up to \$645	Up to \$645
LMITO	Up to \$530		

*Medicare Levy to remain at 2%*

LITO – Low Income Tax Offset

LIMITO – Low and Middle Income Tax Offset

## Business Operations

- Non-compliant payments to employees and contractors are no longer deductible.

Businesses will no longer be able to claim deductions or payments to their employees, where they have not met their PAYG obligations.

Businesses will be denied deductions on certain payments to contractors which have not met PAYG obligations.

The current system is that, 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 Australian Taxation Office.

The changes foreshadowed by the Treasurer will mean that failure to do this correctly will render the entire payment non-deductible.

These changes will take effect from 1st July 2019.

- Taxable payments reporting system to be expanded.

The Taxable Payments Reporting System will be expanded from the 1st July 2019, by inclusion of the following industries:

- security providers and investigation services
- road freight transport
- computer system design and related systems

The first reports for these industries will be required to be submitted during August 2020.

- Large government contract tenderers required to be tax compliant

The Treasurer announced that businesses seeking to tender for contracts valued at over \$4M (including GST), with the Australian government will be required to provide information on the status of their tax obligations.

- Limit to the amount of cash that a business can receive

The government proposes to introduce a limit to the amount of cash that a business can receive to under \$10,000 from 1st July 2019.

This proposal will not affect transactions with financial institutions or consumer to consumer non-business transactions.

## Research Grants

The government has announced a number of grants to organisations where there could be some roll-on effect with small/medium enterprises including:

- \$20M in SME export hubs, in a bid to foster greater collaboration between businesses and identify new export opportunities.
- \$17M annually to help SMEs in the defence sector purchase essential equipment.
- \$200M for a third round of the Building Better Regions Fund to support regional infrastructure.
- The creation of a \$20M National Forestry Industry Plan to protect the forestry industry.
- \$140M for the Australian Film Industry
- Funding to support farmers and primary producers, with the allocation of \$51.3 million to expand the existing network of agricultural trade counsellors in high-growth export markets; \$6.3 million to access agricultural and veterinary chemicals; and \$4.7 million to improve collection of agricultural labour force data to boost efficiencies.

## GST

- Offshore hotel accommodation sellers.

The Treasurer announced that GST will be extended to offshore sellers of hotel accommodation in Australia from 1st July 2019. This change will require these types of businesses to calculate the GST amounts in the same manner that is utilised by other businesses in Australia.

## Capital Gains Tax

- No Small Business CGT Concessions for assignment of partnership rights

The Treasurer announced that the Small Business Capital Gains Tax Concessions will no longer be available to partners that alienate their income by creating, assigning or otherwise dealing in rights to the future income of the partnership.

## Developers

- Deductions for vacant land to be denied.

The Treasurer announced that, from 1st July 2019, tax inductions will not be allowed for expenses associated with holding vacant land. These expenses will include interest costs, rates and land tax. The measure will apply to land held for residential or commercial purposes.

The measure will not apply to expenses associated with holding land that are incurred after:

- a property has been constructed on the land, it has received written approval to be occupied and is available for rent; or

- the land is being used by the owner to carry on a business, including a business of primary production.

## Companies

- Unpaid present entitlements rules to be amended

The Treasurer announced that Division 7A of the Income Tax Act will be amended to clarify the circumstances which apply to unpaid present entitlements – where a private company becomes entitled to a share of trust income is a beneficiary, that is not being paid that amount. The amendments will apply from 1st July 2019.

## Superannuation

The Treasurer announced a number of changes relative to superannuation as follows:

- Increase in membership

New and existing Self-Managed Superannuation Funds (SMSFs) and small APRA Funds will be allowed to have a maximum of 6 members from 1st July 2019. The present membership limit for superannuation funds is 4 members.

- Change in audit requirements

The annual audit requirements for Self-Managed Superannuation Funds will be changed to a 3-yearly requirement for SMSFs with a history of good record-keeping and compliance. This change will apply from 1st July 2019.

- Preventing inadvertent concessional cap breaches

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 from 1st July 2018. The measure is intended to ensure eligible individuals can avoid unintentionally breaching the \$25,000 annual concessional contributions cap as a result of multiple superannuation contributions.

- Improving integrity of personal superannuation contributions

The Australian Taxation Office will modify individual income tax return forms to include a tick box for an individual to confirm that they have complied with the requirements to submit a "Notice of Intent" where they intend to take a tax deduction for personal superannuation contribution.

- Superannuation work test exemption for recent retirees

The government will introduce an exemption from the work test for voluntary contributions to superannuation from 1st July 2019 for people aged 65 – 74 with superannuation balances below \$300,000, in the first year that they do not meet the work test requirements.

- Annual cap on passive fees

3% annual cap will be introduced on passive fees charged by superannuation funds on accounts with balances below \$6,000. This change will occur from 1st July 2019.

- Banning of exit fees

The government intends to ban exit fees on all superannuation accounts. This change will occur from 1st July 2019.

- Some inactive superannuation account balances to be transferred.

The government will amend the regulations to ensure that all inactive superannuation accounts with balances under \$6,000 are transferred to the Australian Taxation Office. This change will occur from 1st July 2019.

## Anti-Phoenixing

The government will amend the required laws to provide regulators with additional tools to assist them to deter illegal phoenix activity.

The reforms will include:

- 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 Australian Taxation Office's power to retain refunds where there are outstanding tax lodgements.

## Alcohol Excise

- Changes to rates of excise on alcohol

The Alcohol Excise Refund Scheme will be increased from \$30,000 per financial year to \$100,000 commencing on 1st July 2019.

The refund will increase for domestic brewers, distillers and producers of draught beer and other fermented beverages.

Domestic brewers of beer will also receive additional relief in the form of a lower excise rate for smaller kegs. The threshold for this concessional rate will be lowered to kegs which are 8 litres and above.

## Trusts

- Anti-avoidance rules for circular trust distributions extended to family trusts  
A specific anti-avoidance rule that applies to closely held trusts engaging in circular trust distributions will be extended to family trusts.
- Testamentary trusts and injected assets  
From 1st July 2019, the concessional tax rates available for minors receiving income from testamentary trusts will be limited to income derived from assets that are transferred from the deceased estate, or the proceeds of the disposal or investment of those assets.

## Skills

- Skilling Australians fund  
The government will allocate \$250M to the Skilling Australians Fund to support vocational education and training to Australian workers.

## Luxury Car Tax

- Removal of Luxury Car Tax on re-imported cars following refurbishment overseas  
The Luxury Car Tax on cars reimported into Australia, following a refurbishment overseas, will be removed from 1st January 2019.

## Licensing of an Individual's Fame or Image

From 1st July 2019 all remuneration provided for the commercial exploitation of a person's fame or image will be included in the assessable income of that individual.

If you would like to discuss any of the items included in the Australian government's 2018/19 Budget, please do not hesitate to contact the accountant in our firm with whom you normally deal.

### 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.*

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