2018 Budget Briefing - How it impacts you

Islamic estate planning, deceased estate management, business succession planning, business advisory, trusts and trust planning, tax and tax planning, accounting services.

Speak to us about your taxation returns.

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The information contained in this Budget Briefing is general in nature. You should speak to an appropriately qualified person before acting on any of the information contianed herein.

Contents

This briefing only includes selected extracts from the proposed budget.

Personal tax rates

The government announced a 7 year plan to reduce personal income taxation.

Low and Middle Income Tax Offset (LAMITO)

The plan commences with the introduction on 1 July 2018 of a Low and Middle Income Tax Offset (LAMITO) for persons earning less than $90,000.

Income band	Maximum offset
$37,000 or less	$200
$37,001 to $48,000	$200 plus 3 cents in the dollar for every dollar above $37,000 - up to a maximum offset of $530
$48,001 to $90,000	$530
$90,001 up to $125,333	Tax offset will gradually reduce from $530 to $1 ($530 less 1.5 cents per dollar of income over $90,000)

LAMITO will only be in operation for 4 years – from 1 July 2018 until 30 June 2022.

A tax offset directly reduces tax payable, and is therefore, more valuable on a dollar for dollar basis than a tax deduction. LAMITO is a non refundable tax offset. Employees will not see any savings on a weekly basis, the offset will only be used when tax returns are filed. A taxpayer who reduces his or her taxable income to zero but still has some low and middle-income tax offset available will not get the remainder as a refund.

The Low Income Tax Offset (LITO) will continue to apply, alongside the LAMITO. LITO amounts to $445 and cuts off for incomes above $66,667.

Increase in upper income limit for 32.5% tax bracket

The Treasurer also announced an increase to the upper tax limit for the 32.5% bracket - from $87,000 to $90,000. About 210,000 taxpayers earning between $87,000 and $90,000 will be spared from being pushed up into the 37% tax bracket thanks to the change. It will also provide a marginal benefit to all earning above $90,000.

Other income tax rate measures

Government announced a number of other personal tax cuts - but these will not benefit taxpayers for six years. The 7 year plan includes adjustments to tax brackets and the elimination of the 37% tax rate. These measures will need to be negotiated through the Senate (and are three elections away). They are not discussed in this briefing.

Business tax

$20,000 instant asset write off extended

The Government is extending the current instant asset write-off ($20,000 threshold) for small business entities (SBEs) by 12 months to 30 June 2019.

This is a valuable concession for small businesses with an aggregated annual turnover of less than $10m. The asset must be first used or installed ready for use by 30 June 2019 for a taxable purpose.

The threshold amount was due to return to $1,000 on 1 July 2018.

Assets valued at $20,000 or more can continue to be placed into the small business simplified depreciation pool and depreciated at 15% in the first income year and 30% each income year thereafter.

Deduction denied for payments to employees where no PAYG withheld

From 1 July 2019, businesses will no longer be able to claim deductions for payments to:

- Employees where they have not withheld any amount of PAYG from these payments, despite the PAYG withholding requirements applying;
- Contractors where the contractor does not provide an ABN and the business does not withhold any amount of PAYG despite the withholding requirements applying.

Other measures

- The Government will consult on and design a new regulatory framework for the Australian Business Numbers (ABN) system.
- From 1 July 2019, businesses with Australian Government procurement contracts over $4 million (including GST) will require an ATO compliance statement.
- The Government has announced new measures to tackle the illicit tobacco trade.

- From 8 May 2018, partners that alienate their income by creating, assigning or dealing in rights to the future income of a partnership will no longer be able to access the small business CGT concessions on the capital gain made in relation to the right.

Vacant land

Deductions for holding vacant land will no longer be allowed. The measure will apply to land held for residential or commercial purposes. Where the land is not genuinely held for the purpose of earning assessable income/carrying on a business, expenses such as interest costs, will be denied.

The proposal could impact a large number of taxpayers. It aims to cut off certain deductions where land is being held with no intent of carrying on a business.

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 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.

Disallowed deductions will not be able to be carried forward for use in later income years.

Superannuation

Work Test - for persons aged between 65 and 74

Persons older than 65 currently can only contribute to superannuation if they are gainfully employed on at least a part-time basis (40 hours over a consecutive 30 day period). The budget is introducing a concession from 1 July 2019 permitting persons over 65 to continue contributing to super without meeting the work test for 12 months after they stopped working if they have a super balance below $300,000.

This is a good option for impacted persons to increase their super before retiring.

The full $25,000 concessional cap (plus catch-up concessional contributions), and the $100,000 non-concessional cap will be available.

Self Managed Superannuation Fund (SMSF) - membership increase

From 1 July 2019, SMSFs and small APRA funds can have a membership of 6, instead of the current 4. This will be welcomed by many who have been constrained by the limit of 4 - especially large families.

Other measures:

- **SMSFs with a good compliance track record** need only be audited every three years - instead of the current annual requirement. Effective from 1 July 2019. This will reduce compliance costs.
- **Elimination of exit fees** when a fund member changes super funds. This measure will take effect from 1 July 2019.

- **Consolidation of dormant superannuation funds**. The ATO will work to proactively reunite Australians' dormant superannuation funds with their active account. All inactive super accounts with balances less than $6000 will be transferred to the ATO.
- **Formulation of retirement income strategy**. The Government will amend the *Superannuation Industry (Supervision) Act 1993* to introduce a retirement covenant that will require superannuation trustees to formulate a retirement income strategy for superannuation fund members.
- **Insurance within superannuation** will move from being a default framework to being offered on an opt-in basis for:
  - members with low balances — less than $6,000
  - members under the age of 25 years, and
  - members whose accounts have not received a contribution in 13 months and are inactive.

  The changes will take effect on 1 July 2019 and affected people will have a period of 14 months to decide whether they will opt-in to their existing cover or allow it to switch off.

Trusts

Circular family trust distributions

The Government indicated that from 1 July 2019 it intends to extend the operation of the Trustee Beneficiary Reporting rules to family trusts that engage in circular trust distributions (or 'round robin' arrangements) in a way that avoids any tax being paid on the amount distributed.

The introduction of this measure will allow the ATO to impose a tax on such distributions at a rate equal to the top personal tax rate plus the Medicare levy.

Application of Div 7A to unpaid distributions to private companies

Be careful if you have made distributions to a private company as a beneficiary for tax purposes, but have not yet paid the amounts to the private company (referred to as unpaid present entitlements). From 1 July 2019, the Government intends that unpaid present entitlements come within the scope of Division 7A of the *Income Tax Assessment Act 1936.* This means that these amounts could be taxed as dividends unless they are structured as Division 7A complying loans or another exception applies.

It is common practice for trusts to distribute profits to beneficiaries to secure a lower tax rate (in the case of a company, up to a maximum of 30%) but these distributions are accumulated within the trust for reinvestment purposes or made available to another beneficiary. The ATO will be cracking down on these arrangements and will be seeking a commercial application.

Testamentary Trusts

Currently, any income arising from assets left by a deceased for his/her minor children in a testamentary trust are taxed at adult and not the punitive minor tax rates. This arrangement will continue but only for income derived from assets that are transferred from the deceased estate or the proceeds of the disposal or investment of those assets. Any additional assets added post death will not be taxed at adult rates.

Other Measures:

- **Introduction of an economy-wide limit of $10,000** for cash payments made to businesses for goods and services from 1 July 2019.
- **A focus on the black economy**.
- **Protection for older Australians**:
  - Increasing the number of home care places by 14,000 over four years
  - Expansion of the Pension Loans Scheme to pensioners who meet the age criteria for the government aged pension. This is a reverse mortgage facility. Pensioners will be able to use the value of their homes to get extra income under a plan where the government will provide finance at a rate of 5.2%. The government will have a charge over the house. This arrangement will suit retirees that are asset rich, but cash poor who want to fund their own retirement and continue to live in their homes. It also has the potential to reduce values inherited by beneficiaries.
  - Expansion of Pension Work Bonus. From 1 July 2019, the Work Bonus will increase to $300 per fortnight, rather than the current $250 a fortnight. The first $300 of fortnightly income from employment will not count towards the Age Pension income test.
- **The Government will provide $130.8 million to the ATO from 1 July 2018 to increase compliance activities targeting individuals and their tax agents**.
- Research and development tax overhaul.