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federal budget | June 2015

PERSONAL TAXATION

Personal tax rates: budget deficit levy not to be extended

The 2015–2016 Budget did not make any changes to the current personal tax rates, although in the lead-up to the Budget, the Treasurer indicated that the 2% budget deficit levy (tax) on incomes over \$180,000 would not be extended beyond its initial three years.

The levy was announced in last year's Budget and applies for three years from 1 July 2014. It is due to cease at the end of the 2016–2017 financial year.

Work-related car expenses simplified

The Budget confirmed that the 12% of original value and one-third of actual expenses incurred methods would be discontinued. That means only the cents per km and logbook methods remain. The Government will set 66 cents per kilometre as the rate for using the cents per km method, irrespective of a car's engine size. The changes will apply from the 2015–2016 income year.

Medicare levy low-income thresholds for 2014–2015

From the 2014–2015 income year, the Medicare levy low-income threshold for singles will be increased to \$20,896 (up from \$20,542 for 2013–2014). For couples with no children, the threshold will be increased to \$35,261 (up from \$34,367 for 2013–2014). The additional amount of threshold for each dependent child or student will be increased to \$3,238 (up from \$3,156).

For single seniors and pensioners, the Medicare levy low-income threshold will be increased to \$33,044 (up from \$32,279). This threshold applies to those entitled to the seniors and pensioners tax offset (SAPTO). The measure will apply from 1 July 2014.

Temporary working holiday makers – tax residency rules to change

The Government will change the tax residency rules to treat most people who are temporarily in Australia for a working holiday as non-residents for tax purposes, regardless of how long they are here. This means they will be taxed at 32.5% from their first dollar of income.

This measure will apply from 1 July 2016.

SMALL BUSINESS

Tax rate cut to 28.5%

The Government announced, with effect from the 2015–2016 income year (ie from 1 July 2015), a 1.5% cut in the company tax rate applying to small businesses (turnover less than \$2 million), reducing the tax rate to 28.5%. Companies with an aggregated annual turnover of \$2 million or above will continue to be subject to the current 30% rate on all their taxable income. The current maximum franking credit rate for a distribution will remain unchanged at 30% for all companies.

Tax discount for unincorporated small businesses

The Government said that with effect from 1 July 2015 individual taxpayers with business income from an unincorporated business that has an aggregated annual turnover of less than \$2 million will be eligible for a small business tax discount. The discount will be 5% of the income tax payable on the business income received from an unincorporated small business entity, and will be capped at \$1,000 per individual for each income year.

Small business asset accelerated depreciation write-off

Small businesses would be able to immediately write off assets they start to use or install ready for use, provided the asset costs less than \$20,000. This will apply for assets acquired and installed ready for use between 7.30pm (AEST) 12 May 2015 and 30 June 2017. Assets valued at \$20,000 or more (which cannot be immediately deducted) can continue to be placed in the small business simplified depreciation pool. The Government will also suspend the current "lock out" laws for the simplified depreciation rules until 30 June 2017.

From 1 July 2017, the thresholds for the immediate depreciation of assets and the value of the pool will revert to existing arrangements.

Immediate deductibility for professional expenses re start-ups

The Government will allow businesses to immediately deduct a range of professional expenses associated with starting a new business, such as professional, legal and accounting advice. The measure will be available to businesses from the 2015–2016 income year.

CGT rollover relief for change to entity structure

The Government has confirmed that it will allow small businesses with an aggregated annual turnover of less than \$2 million to change legal structure without attracting a CGT liability at that point.

The measure recognises that new small businesses might choose an initial legal structure that they later find does not suit them when the business is more established, for example a sole trader changing its business structure to a trust. The measure will be available from the 2016–2017 income year.

No FBT on work-related electronic devices

From 1 April 2016, ie the start of the 2016–2017 FBT year, the Government will allow an FBT exemption for small businesses that provide employees with more than one qualifying work-related portable electronic device, even where the items have substantially similar functions.

Further ESS changes

Significant changes to the employee share schemes (ESS) rules were announced in October 2014.

Additional changes announced in the Budget will:

- exclude eligible venture capital investments from the aggregated turnover test and grouping rules (for the start-up concession);
- provide the CGT discount to employee share scheme interests that are subject to the start-up concession, where options are converted into shares and the resulting shares are sold within 12 months of exercise; and
- allow the Commissioner to exercise a discretion in relation to the minimum three-year holding period where there are circumstances outside the employee's control that make it impossible for them to meet this criterion.

These changes will take effect from 1 July 2015.

GST

“Netflix tax” to start 1 July 2017

The Government has announced that it will impose GST on offshore intangible supplies to Australian consumers with effect from 1 July 2017. The measure has been cited in the media as the “Netflix” tax. The Government released draft legislation which contains the details of the changes.

The key concept in determining if a supply is made to an Australian consumer is determining if the entity is an Australian resident. Broadly, for individuals, the term takes its ordinary meaning. Similarly, a company will be an Australian resident if the company is incorporated in Australia or if it is effectively owned or controlled by Australian residents.

CHILD CARE AND PENSION/WELFARE MEASURES

Major childcare payments revamp

The Government announced it will establish a new and simpler mainstream Child Care Subsidy from 1 July 2017. Key points include the following:

- Abolition of the current Child Care Benefit, Child Care Rebate and Jobs, Education and Training Child Care Fee Assistance programmes.
- A single means tested Child Care Subsidy for all families, subject to a new activity test, for up to 100 hours of subsidised care per child per fortnight.

Child care subsidies will remain linked to immunisation requirements strengthened, from 1 January 2016, under the Government's “no jab, no pay” policy.

Paid parental leave – no double-dipping

The Treasurer said the Government will stop people from claiming parental leave payments from both the Government and their employers – he said this was effectively double dipping. This would apply from 1 July 2016.

Age Pension assets test: threshold increased, taper rate tightened

The Government confirmed that the Age Pension assets test threshold for a single homeowner will be increased to \$250,000 (up from \$202,000) and \$375,000 for a homeowner couple (up from \$286,500) from January 2017. The assets test threshold (or assets free area) for non-homeowners will be increased to \$450,000 (single) and \$575,000 (couple).

The assets test taper rate at which the Age Pension begins to phase out will be increased from \$1.50 of pension per fortnight to \$3.00 of pension for each \$1,000 of assets over the relevant assets test threshold. The measures will commence from 1 January 2017.

The Government will also be dropping its 2014 Budget proposal to index the Age Pension to CPI.

SUPERANNUATION

Defined benefit super schemes: Government to close loophole

The Government confirmed that a 10% cap will apply to the “deductible amount” for pension income received from a defined benefit superannuation scheme for the purposes of the social security income test. Recipients of Veterans' Affairs pensions and defined benefit income streams paid by military superannuation funds are exempt from this measure. In addition, the measure will not affect the means test treatment of income streams purchased for retail providers of these products. The measure will apply from 1 January 2016.

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