ausTALK

MAY 2017 – FEDERAL BUDGET EDITION

TAX NEWS, VIEWS & CLUES FROM AUSWILD & CO
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PERSONAL TAXATION

No change to personal tax rates; Budget deficit levy to end

The 2017–2018 Federal Budget contained no changes to the personal income tax rates and thresholds. This means that the 2% budget deficit levy on incomes over $180,000 will not be extended beyond its initial three years, and will cease on 30 June 2017.

The tax rates for foreign residents for 2017–2018 will be the same as those for 2016–2017, except that the top marginal rate will be 45%, reflecting the removal of the 2% temporary budget deficit levy.

The currently legislated low income tax offset (LITO) rates have not changed.

Medicare levy increase to 2.5% from 1 July 2019

The Government will increase the Medicare levy to 2.5% from 1 July 2019 (up 0.5% from the current 2% Medicare levy) to ensure the National Disability Insurance Scheme (NDIS) is fully funded and to guarantee Medicare. Other tax rates that are linked to the top personal tax rate, such as the FBT rate, will also be increased.

Low-income earners will continue to receive relief from the Medicare levy through the low-income thresholds for singles, families, seniors and pensioners. The current exemptions from the Medicare levy will also remain in place.

The increase in the Medicare levy is estimated to raise $8.2 billion over the forward estimates, being the net impact across all heads of revenue, not just the Medicare levy. The Government said it will credit $9.1 billion to the NDIS Savings Fund Special Account when it is established.

BUSINESS TAXATION

Major bank levy from 1 July 2017

The Government will introduce a major bank levy for authorised deposit-taking institutions (ADIs) with licensed entity liabilities of at least $100 billion from 1 July 2017. The threshold will be indexed to grow in line with nominal gross domestic product.

The levy is expected to raise $6.2 billion over the forward estimates period, net of interactions with other taxes (principally corporate income taxes). The Government believes this represents a fair additional contribution from Australia's major banks and will assist with budget repair.

Government commits to remainder of 10-year package to reduce company tax rate

The Budget confirmed the Government's intention to re-introduce the remaining elements of its 10-year Enterprise Tax Plan.

Legislative amendments already passed by the Senate will see the corporate tax rate reduced for companies with a turnover less than $50 million. These Senate amendments are set to be approved by the House of Representatives as part of the Budget sittings. The Government said it remains committed to its 10-year Enterprise Tax Plan to eventually reduce the company tax rate to 25% for all companies.

In the 2016–2017 financial year, the reduced corporate tax rate of 27.5% will apply for businesses with an aggregated turnover of less than $10 million; $25 million turnover in 2017–2018; and $50 million turnover from 2018–2019.

Higher instant asset write-off threshold for small business extended

The Government will extend the current instant asset write-off ($20,000 threshold) for small business entities (SBEs) by 12 months to 30 June 2018.

The threshold amount was due to return to $1,000 on 1 July 2017. As a result of this announcement, SBEs will be able to immediately deduct purchases of eligible depreciating assets costing less than $20,000 that are acquired between 1 July 2017 and 30 June 2018 and first used or installed ready for use by 30 June 2018 for a taxable purpose. Only a few assets are not eligible for the instant asset write-off (or other simplified depreciation rules), for example horticultural plants and in-house software.

Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the general small business pool (the pool) and depreciated at 15% in the first income year and 30% each income year thereafter. The pool can also be immediately deducted if the balance is less than $20,000 over this period (including existing pools).

The instant asset write-off threshold and the threshold for immediate deductibility of the balance of the pool will revert to $1,000 on 1 July 2018.

CGT small business concessions: restricted to assets used in business

The Government will amend the small business CGT concessions to ensure that the concessions can only be accessed in relation to assets used in a small business or ownership interests in a small business.

Division 152 of the *Income Tax Assessment Act 1997* provides four concessions to eliminate, reduce and/or provide a rollover for a capital gain made on a CGT asset used in a small business:

- the "15-year exemption";
- the "50% reduction";
- the "retirement exemption"; and
- the "roll-over" concession.

The concessions are designed to assist owners of small businesses by providing relief from CGT on assets related to their business which helps them to re-invest and grow, as well as contribute to their retirement savings through the sale of the business.

However, some taxpayers can access these concessions for assets unrelated to their small business, eg through arranging their affairs so that their ownership interests in larger businesses do not count towards the tests for determining eligibility for the concessions.

The amendments to avoid this are proposed to start on 1 July 2017.The small business CGT concessions will continue to be available to small business taxpayers with aggregated turnover of less than $2 million or business assets less than $6 million.

SUPERANNUATION

No major new super measures, but 1 July reforms loom large

The Government did not announce any new major superannuation measures in the Budget. This will be a welcome relief for the super industry, which already has enough on its plate with major reforms set to start on 1 July 2017. As is the case with any large-scale changes such as the 1 July 2017 super reforms, refinements are often necessary to address unanticipated consequences as part the implementation process.

Super changes announced

A range of superannuation measures were announced in the Budget, including:

- the current tax relief for merging superannuation funds will be extended until 1 July 2020;
- the non-arm's length income provisions will be amended from 1 July 2018 to reduce opportunities for members to use related-party transactions on non-commercial terms;
- limited recourse borrowing arrangements will be included in a member's total super balance and the $1.6 million pension transfer balance cap from 1 July 2017;
- a person aged 65 or over to make a non-concessional contribution of up to $300,000 from the proceeds of selling their home from 1 July 2018; and
- a first home super saver scheme will allow future voluntary contributions to superannuation to be made by first home buyers from 1 July 2017 to be withdrawn for a first home deposit, along with associated deemed earnings.

Super contributions of proceeds up to $300,000 from downsizing a home

The Government will allow a person aged 65 or over to make a non-concessional contribution of up to $300,000 from the proceeds of selling their home from 1 July 2018. These contributions will be in addition to those currently permitted under existing rules and caps and they will be exempt from the existing age test, work test and the $1.6 million total superannuation balance test for making non-concessional contributions (which applies from 1 July 2017). The measure will apply to sales of a principal residence owned for the past 10 years or more.

First home super saver scheme

The Government will encourage home ownership by allowing future voluntary contributions to superannuation made by first home buyers from 1 July 2017 to be withdrawn for a first home deposit, along with associated deemed earnings.

Under the measure up to $15,000 per year and $30,000 in total can be contributed, within existing caps. Contributions can be made from 1 July 2017. Withdrawals will be allowed from 1 July 2018 onwards.