ausTALK

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TAX NEWS, VIEWS & CLUES FROM AUSWILD & CO

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Personal tax rates: staged seven-year reform plan starting from 2018–2019

In the 2018–2019 Budget, the Government announced staged tax relief for low and middle income earners. The Government is proposing a major seven-year, three-step plan to reform personal income tax.

Step 1 will see a new, non-refundable low and middle income tax offset from 2018–2019 to 2021–2022, designed to provide tax relief of up to $530 for each of those years. The offset will be delivered on assessment after an individual submits their tax return, and will be in addition to the existing low income tax offset (LITO).

The low and middle income tax offset will provide a benefit of up to $200 for taxpayers with taxable income of $37,000 or less. Between $37,000 and $48,000 of taxable income, the value of the offset will increase at a rate of three cents per dollar to the maximum benefit of $530. Taxpayers with taxable incomes from $48,000 to $90,000 will be eligible for the maximum benefit of $530. From $90,001 to $125,333 of taxable income, the offset will phase out at a rate of 1.5 cents per dollar.

Step 2 will increase the top threshold of the 32.5% tax bracket from $87,000 to $90,000 from 1 July 2018. In 2022–2023, the top threshold of the 19% bracket will increase from $37,000 to $41,000 and the LITO will increase from $445 to $645. The increased LITO will be withdrawn at a rate of 6.5 cents per dollar between incomes of $37,000 and $41,000, and at a rate of 1.5 cents per dollar between incomes of $41,000 and $66,667. The top threshold of the 32.5% bracket will increase from $90,000 to $120,000 from 1 July 2022.

Step 3: from 1 July 2024, the top threshold of the 32.5% bracket will increase from $120,000 to $200,000, removing the 37% tax bracket completely. Taxpayers will pay the top marginal tax rate of 45% from taxable incomes exceeding $200,000 and the 32.5% tax bracket will apply to taxable incomes of $41,001 to $200,000.

The Government says this means that around 94% of all taxpayers are projected to face a marginal tax rate of 32.5% or less in 2024–2025.

Medicare levy, 2017–2018 tax rates unchanged

The Government had proposed to increase the Medicare levy from 2% to 2.5% from 1 July 2019, but has decided not to proceed with this.

$20,000 instant asset write-off for SBEs extended by 12 months

The Government will extend the current instant asset write-off ($20,000 threshold) for small business entities (SBEs) by 12 months to 30 June 2019. This applies to businesses with aggregated annual turnover less than $10 million.

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 2019 and first used or installed ready for use by 30 June 2019 for a taxable purpose.

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.

Anti-avoidance rules: family trust circular distributions

The Government will extend specific anti-avoidance rules that apply to other closely held trusts that engage in circular trust distributions to family trusts.

Currently, where family trusts act as beneficiaries of each other in a round-robin arrangement, a distribution can ultimately be returned to the original trustee in a way that avoids any tax being paid on that amount. The measure will allow ATO to pursue family trusts that engage in these arrangements and impose tax on such distributions at a rate equal to the top personal rate plus the Medicare levy.

This measure applies from 1 July 2019.

Deductions disallowed for holding vacant land

The Government will disallow deductions for expenses associated with holding vacant land. Where the land is not genuinely held for the purpose of earning assessable income, expenses such as interest costs will be denied.

The measure will apply to both land held for residential and commercial purposes.

This measure applies from 1 July 2019.

No tax deduction for non-compliant PAYG and contractor payments

Measures will be enacted to ensure that taxpayers will not be able to claim deductions for payments to their employees such as wages where they have not withheld any amount of PAYG from these payments, despite the PAYG withholding requirements applying.

Similarly, the Government intends to remove deductions for payments made by businesses to contractors where the contractor does not provide an ABN and the business does not withhold any amount of PAYG (again despite the withholding requirements applying).

The measures will commence on 1 July 2019.

Cash payments limit: payments made to businesses

The Government will introduce a limit of $10,000 for cash payments made to businesses for goods and services.

This measure will require transactions over a threshold to be made through an electronic payment system or by cheque.

The rules will not apply to transactions with:

- financial institutions; or
- consumer-to-consumer non-business transactions.

SMSF member limit to increase from four to six

The Budget confirmed that the maximum number of allowable members in new and existing self managed superannuation funds (SMSFs) and small APRA funds will be expanded from four to six members from 1 July 2019.

The proposed increase to the maximum number of SMSF members seeks to provide greater flexibility for large families to jointly manage retirement savings.

Extra SMSF members to provide flexibility

Currently, s 17A(1)(a) of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) requires an SMSF to have fewer than five members. In addition, each member must be a trustee of the fund (or a director of the corporate trustee). This seeks to ensure that all members are fully involved and equally responsible for fund decisions and investments.

The Government's proposal to allow up to six SMSF members may assist those with larger families to implement intergenerational solutions for managing long-term, capital intensive investments, such as commercial property and business real property. For example, allowing an extra two members provides an opportunity to improve a fund's cash flow by using the contributions of the younger members to make pension payments to the members in retirement phase, without needing to sell a long-term investment.

As each member must be a trustee of the fund, a decision to add extra members should not be taken lightly as it can add complexity to the fund's management and investment strategy.

Superannuation work test exemption for contributions by recent retirees

The Government will introduce an exemption from the work test for voluntary superannuation contributions by individuals aged 65–74 with superannuation balances below $300,000 in the first year that they do not meet the work test requirements.

Currently, the work test in reg 7.04 of the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations) restricts the ability to make voluntary superannuation contributions for those aged 65–74 to individuals who self-report as working a minimum of 40 hours in any 30-day period in the financial year. The measure will give recent retirees additional flexibilities to get their financial affairs in order in transition to retirement. It will apply from 1 July 2019.

SMSF audit cycle of three years for funds with good compliance history

The annual audit requirement for SMSFs will be extend to a three-yearly cycle for funds with a history of good record-keeping and compliance.

The measure will apply to SMSF trustees that have a history of three consecutive years of clear audit reports and that have lodged the fund's annual returns in a timely manner.

This measure will start on 1 July 2019.

Super fees to be capped at 3% for small accounts, exit fees banned

Passive fees charged by superannuation funds will be capped at 3% for small accounts with balances below $6,000, while exit fees will be banned for all superannuation accounts from 1 July 2019.

Superannuation insurance opt-in rule for younger and low-balance members

The Government will change the insurance arrangements for certain cohorts of superannuation members from 1 July 2019. Under the proposed changes, insurance within superannuation will move from a default framework to be offered on an opt-in basis for:

- members with low balances of less than $6,000;
- members under the age of 25 years; and
- members with inactive accounts that have not received a contribution in 13 months.

These changes seek to protect the retirement savings of young people and those with low balances by ensuring their superannuation is not unnecessarily eroded by premiums on insurance policies they do not need or are not aware of.