If you need advice on any of the measures announced in this Budget Summary, please contact us!

For Business

$20k Accelerated Depreciation Extended

Date of effect	current until 30 June 2019

The ability for small business entities to claim an immediate deduction for assets costing less than $20,000 has been extended until 30 June 2019.

From 1 July 2019, the immediate deduction threshold will reduce back to $1,000.

There are no limits to the number of times you can use the immediate deduction assuming your cashflow supports the purchases.

If your business is registered for GST, the cost of the asset needs to be less than $20K after the GST credits that can be claimed by the business have been subtracted from the purchase price. If your business is not registered for GST, the value of each asset should be less than $ 20K including GST.

Second hand goods are also deductible. However, there are a number of assets that don't qualify for the instant asset write-off as they have their own set of rules. These include horticultural plants, capital works (building construction costs etc.), assets leased to another party on a depreciating asset lease, etc.

If you purchase assets costing $20,000 or more, the immediate deduction does not apply but small businesses have the ability to allocate the purchase to a pool and depreciate the pool at a rate of 15% in the first year and 30% for each year thereafter.

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Payment made to contractors by Security, Road Freight, And Computer Design Services Become ATO Black Economy Target

Date of effect	1 July 2019

Businesses in certain industries to report payments they make to contractors to the ATO. 'Payment' means any form of consideration including non-cash benefits and constructive payments.

From 1 July 2019 the following industries will be required to lodge annual reports to the ATO:

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

The building industry, cleaning and courier businesses are already required to provide this enhanced reporting to the ATO.

The first annual report for these industries is required by August 2020. Businesses in these industries will need to start collecting information on payments to contractors from 1 July 2019.

No More Salary & Wage Tax Deductions For Late Paying Employers

Date of effect	1 July 2019

Employers who do not pay tax withheld from employees' salary to ATO on time, they will not be able to claim a tax deduction for payments to employees (such as wages). This is a danger for employers. This is similar to superannuation payment not paid on time, employer cannot claim deduction for the payment of superannuation.

Businesses will also lose the ability to claim deductions for payments made to contractors where the contractor does not provide an ABN and the business does not withhold PAYG.

$10k Limit On Cash Transactions

Date of effect	1 July 2019

A limit of $10,000 will be introduced for cash payments made to businesses for goods and services from 1 July 2019. Payments above the threshold will need to be made through an electronic payment system or by cheque.

The measure does not impact on transactions with financial institutions or non-business consumer to consumer transactions. But, if you run a business, from 1 July 2019 you will not be able to accept cash transactions above $10,000.

Division 7A And Unpaid Present Entitlements

Date of effect	1 July 2019

Unpaid present entitlements will come directly within the scope of Division 7A.

An unpaid present entitlement arises where a trust appoints income to a corporate beneficiary but this amount has not actually been paid to the company. The measure seeks to ensure that the unpaid present entitlement is either required to be repaid to the private company over time as a complying loan or will be subject to tax as a dividend.

The Division 7A reforms announced in the previous budget have been delayed to include this latest measure as a consolidated package.

Regulators Target Phoenixing

Date of effect	No date specified

Corporation and tax laws will be reformed in an attempt to target phoenix activity. The reforms:

- Introduce new phoenix offences to target those who conduct or facilitate illegal phoenixing;
- Extend the Director Penalty Regime to GST, luxury car tax and wine equalisation tax, making directors personally liable for the company's debts;
- Expand the ATO's power to retain refunds where there are outstanding tax lodgements;
- 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; and
- Restrict the ability of related creditors to vote on the appointment, removal or replacement of an external administrator.

The current Director Penalty Regime includes unpaid superannuation guarantee and PAYG withholding amounts but does not include GST liabilities. These proposed changes will ensure that directors become personally liable in situations where the company has not satisfied its GST obligations as well as luxury car tax and wine equalisation tax liabilities.

Superannuation

3-Year Cycle For SMSF Audits

Date of effect	1 July 2019

SMSFs with a history of good record-keeping and compliance – that is, three consecutive years of clear audit reports and annual returns lodged on time, will only be required to have their fund audited every three years.

The Government has flagged consultation with key stakeholders on this measure (with no further details available at present).

The key issue with this measure is how the three-year cycle will work - is it an audit for one year in three or three years once?

Retirement Income Strategy For Super Fund Members

Date of effect	No time period noted

The *Superannuation Industry (Supervision) Act 1993* will be amended to introduce a retirement covenant that will require superannuation trustees to formulate a retirement income strategy for superannuation fund members.

The *Corporations Act 2001* will also be amended to require providers of retirement income products to report simplified, standardised metrics in product disclosure to assist customer decision making.

Preventing Inadvertent Breaches Of Concessional Caps

Date of effect	1 July 2018

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 (SG).

The measure will allow eligible individuals to avoid unintentionally breaching the $25,000 annual concessional contributions cap (and incurring excess contributions tax) as a result of multiple compulsory SG contributions.

It is anticipated that employees who use this measure will negotiate additional income in lieu of the 9.5% superannuation guarantee.

Exit Fees Scrapped, Fees Capped, And More Transferred To ATO

Date of effect	1 July 2019

A ban on exit fees from all superannuation funds will be introduced along with a 3% annual cap on passive fees on accounts with balances below $6,000 from 1 July 2019.

Superannuation funds will also be required to transfer all inactive superannuation accounts with balances below $6,000 to the ATO.

These changes create a gain of $1.1 billion in the underlying cash balance over the forward estimates. This gain is in part a timing issue reflecting the time taken to reunite lost super balances with their owners.

Opt-In Insurance Inside Super

Date of effect	1 July 2019

This means that these members will not automatically be provided with insurance inside their superannuation fund but instead will opt-in if they choose. The Government is concerned that automatic insurance cover is eroding savings with many unaware they have insurance within their fund or within multiple funds.

- members with low balances of 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 not prevent anyone who wants insurance from being able to obtain it — low balance, young, and inactive members will still be able to opt-in to insurance cover within super.

Work Test Exemption For Retirees

Date of effect	1 July 2019

If you have reached 65 years but not 75 years, you must have worked at least 40 hours within 30 consecutive days in a financial year before your super fund can accept contributions for you.

An exemption to the work test will be introduced for people aged 65 to 74 with superannuation balances below $300,000, who make voluntary contributions to superannuation. The exemption applies in the first year that they do not meet the work test requirements. This measure is really a reprieve for people transitioning to retirement to get their affairs in order.

Currently, the work test restricts the ability to make voluntary superannuation contributions for those aged 65-74.

Example from the Superannuation Work Test exemption for retirees fact sheet

At the age of 68, Bob retires from full-time work on 1 June 2020. As he would not meet the work test in the 2020-21 financial year, Bob would currently be prevented from making any voluntary super contributions after 30 June 2020.

As his total superannuation balance is $150,000 at the end of the 2019-20 financial year, Bob is eligible to make contributions under the work test exemption from 1 July 2020 to 30 June 2021.

As Bob had not reached his concessional contribution cap over the past 2 years, having contributed only $18,000 in 2018-19 and $12,000 in 2019-20, under the existing carry forward arrangements and new work test exemption Ob can contribute up to $45,000 at concessional tax rates in the 2020-21 financial year.

As a result of the work test exemption, Bob is also able to contribute up to $100,000 in non-concessional contributions in 2020-21.

Previously Announced Measures

Increasing the maximum number of members in an SMSF

Date of effect	1 July 2019

The maximum number of allowable members in new and existing SMSFs and small APRA funds will increase from four to six.

Investors

No Deductions For Vacant Land

Date of effect	1 July 2019

Deductions will be denied for expenses associated with holding vacant land. The Government is concerned that deductions are being improperly claimed for expenses, such as interest costs, related to holding vacant land, where the land is not genuinely held for the purpose of earning assessable income. They expect the measure will also help to prevent ‘land banking’, which denies the use of land for housing or other development.

Denied deductions will not be able to be carried forward for use in later income years. However, expenses which cannot be claimed as a deduction can form part of the CGT cost base of the property as long as they fall within specific categories (such as interest, borrowing expenses and council rates). This means that the expenses can reduce a capital gain made on future sale, although there are limitations on this which mean that holding costs cannot create or increase a capital loss and cannot generally be taken into account if the property was acquired before 20 August 1991.

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.

The measure applies to land held for residential or commercial purposes. However, the ‘carrying on a business’ test will generally exclude land held for commercial development.

Unfortunately, it appears that this measure may impact on those who incur holding costs in relation to land that is genuinely held for the purpose of producing assessable income, including where the owner is actively constructing a dwelling on the land that will be used as a rental property (Steele’s case and ATO ruling TR 2004/4 deal with this area). This is another example of where those doing the right thing will be impacted by the Government becoming fed up with those who aren’t.

It also remains to be seen how holding expenses that relate to land held as trading stock will be dealt with under the proposed changes.

Individuals & Families

Personal Income Tax Cuts

The anticipated personal income tax cuts will be delivered as part of a seven year plan culminating in the removal of one tax bracket from 1 July 2024. The Government states that the end result will be that around 94% of taxpayers will be subject to a marginal tax rate of 32.5%.

The focus right now however is the low and middle tax income brackets with changes to the tax brackets and the introduction of the Low and Middle Income Tax Offset.

	Tax thresholds			
Tax rate	**Current**	**From 1 July 2018**	**From 1 July 2022**	**From 1 July 2024**
0%	$0 - $18,200	$0 - $18,200	$0 - $18,200	$0 - $18,200
19%	$18,201 - $37,000	$18,201 - $37,000	$18,201 - $41,000	$18,201 - $41,000
32.5%	$37,001 - $87,000	$37,001 - $90,000	$41,001 - $120,000	$41,001 - $200,000
37%	$87,001 - $180,000	$90,001 - $180,000	$120,001 - $180,000	-
45%	>$180,000	>$180,000	>$180,000	>$200,000
Low and middle income tax offset		Up to $530	-	-
LITO	Up to $445	Up to $445	Up to $645	Up to $645

From 1 July 2018:

- The top threshold of the 32.5% personal income tax bracket will increase from $87,000 to $90,000.

Changes To Testamentary Trusts

Date of effect	1 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.

Currently, income received by minors from testamentary trusts is taxed at normal adult rates rather than the higher tax rates that generally apply to minors. The Government is concerned that some taxpayers are inappropriately obtaining the benefit of this lower tax rate by injecting assets unrelated to the deceased estate into the testamentary trust.

While the rules already contain some integrity provisions that are aimed at limiting the scope for inappropriately boosting the income earning capacity of testamentary trusts, the measure clarifies that minors will be taxed at adult marginal tax rates only in respect of the income a testamentary trust generates from assets of the deceased estate (or the proceeds of the disposal or investment of these assets).

Crackdown On Family Trust 'Round Robin' Arrangements

Date of effect	1 July 2019

Family trusts will be subject to a specific anti-avoidance rule that applies to other closely held trusts that engage in circular trust distributions.

Currently, where family trusts act as beneficiaries of each other in a 'round robin' arrangement, a distribution can be ultimately returned to the original trustee - in a way that avoids any tax being paid on that amount.

The measure would enable the ATO to impose tax on these distributions at a rate equal to the top personal tax rate plus the Medicare levy.

Taxing The Fame Or Image Of High Profile Sportspeople And Actors

Date of effect	1 July 2019

From 1 July 2019, high profile individuals will no longer able to take advantage of lower tax rates by licencing their fame or image to another entity.

Currently, high profile individuals can licence their fame or image to another entity such as a related company or trust. Income for the use of their fame or image goes to the entity that holds the licence – creating the opportunity to manipulate different tax treatments. For example, if the rights are held by a discretionary trust the income generated from the use of these rights can be distributed to other family members and can potentially be taxed at lower rates than if the income was taxed in the hands of the individual.

This measure ensures that all remuneration (including payments and non-cash benefits) provided for the commercial exploitation of a person's fame or image are included in the assessable income of that individual.

The ATO had previously released some draft guidelines (refer to PCG 2017/D11) in this area, possibly seeking to set some practical boundaries around the ability to split this type of income with others. Assuming the changes are legislated then these guidelines would appear to be redundant from 1 July 2019.

Encouraging Pensioner Financial Independence

Date of effect	From 2017-18

A range of measures seek to encourage pensioner financial independence:

- **Pension Work Bonus increase from $250 to $300 per fortnight** – allowing pensioners to earn up to $7,800 each year without impacting their pension. This is in addition to the income free area, which is currently $168 a fortnight for a single pensioner and $300 a fortnight (combined) for a pensioner couple. A single person with no other income will be able to earn up to $468 a fortnight from work and get the maximum rate of Age Pension.