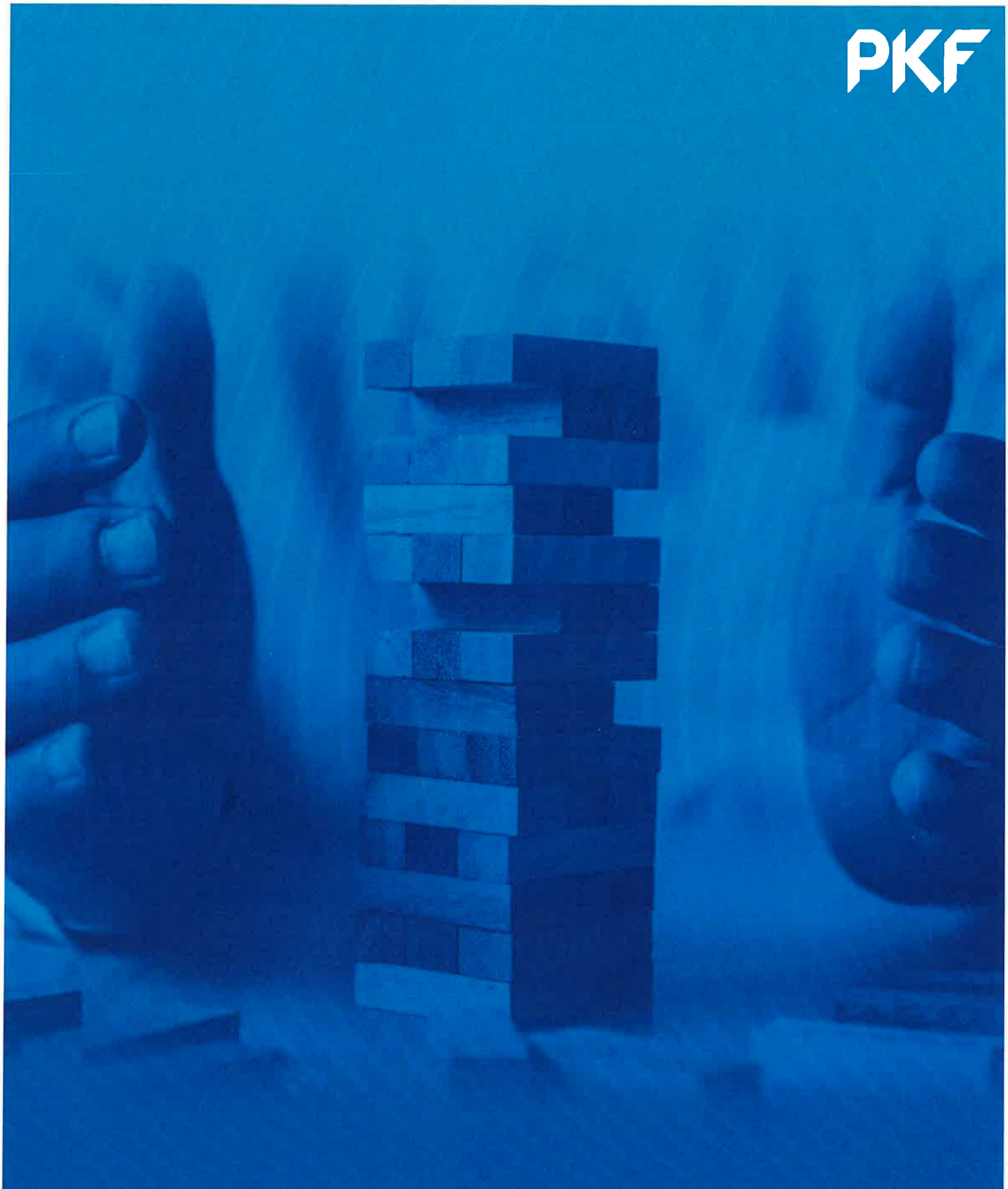
PKF



Federal Budget 2019

Introduction

Back to surplus … steady as she goes and a true re-election Budget

In handing down his maiden Federal Budget, Treasurer Josh Frydenburg outlined the government's pitch supporting its hope for re-election: a stronger economy and a secure future, announcing that Australia is "back in the black and back on track".

As widely reported, the Federal Budget is forecasting a return to surplus for the first time in 12 years. At a predicted $7.1 billion though, the surplus is higher than expected with the next four Budget long range forecasts all projecting surplus results as well.

The Treasurer themed his Budget as one for all Australians and spruiked the return of fiscal responsibility and a strong fundamental economic base. In true pre-election style, this Budget has tax sweeteners and spending in high profile, vulnerable and politically significant areas. Low to middle income tax cuts have been fast-tracked under a revamped plan, continued infrastructure spending in critical locations has been flagged, with a focus on safety and ease of transport. Small business received further boosts in the extension of the instant asset write off and confirmation of tax rates transitioning down to 25%.

Instant support for taxpayers most in need has been announced including payments to combat utility price rises and drought relief.

There is no mistaking this Budget for what it is, there is very little in immediate tax reform and those reform measures that were hovering from previous announcements, particularly the potentially unpopular ones, have been ignored or deferred.

Tax reform rarely wins elections so we will need to wait a bit longer for sweeping changes. The absence of GST measures further highlights the sensitivity of this Budget.

Among the myriad of smaller items, minor superannuation reforms to increase accessibility and simplify processes, have also been announced.

The traditional losers in a Budget sense reappear this year – tax cheats face increased scrutiny, further ATO funding and additional integrity projects while big business and multinationals remain an ATO priority. Innovation was largely overlooked, with only an increase in funding for the EMDG program announced.

Socially, this Budget seeks to spend in the community, a hallmark of pre-election Budgets and the Treasurer sought to underline the support being offered to older Australians, healthcare infrastructure and education.

The start dates for many of the headline measures are deferred, reflecting the careful balance, steady hand and building block message the Treasurer wants to portray. All in all, the Government is taking advantage of the election war chest it has built, informally kicking off the 2019 campaign with measures aimed at demonstrating fiscally responsible management, targeted measures for the community, continued foundation spending on national infrastructure while promoting the fairness and equity principles the Government believes voters want to see.

PKF AUSTRALIA TAXATION COMMITTEE
3 APRIL 2019

Income tax

Personal Income Tax Plan changed to further lower taxes

The legislated Personal Income Tax Plan (the Plan) will be changed to further lower taxes for individuals, including changes to the low and middle income tax offset (LMITO), the low income tax offset (LITO) and the personal income tax (PIT) rates and thresholds.

PKF Comment

Some Individuals will enjoy further personal tax cuts or increased offsets in addition to the budget measures announced previously. Eligible taxpayers may access the increased tax offset upon lodgement and assessment of the 2019 FY income tax return, pending amended legislation. This announcement will likely be welcomed by the targeted taxpayers.

The broader revamp of the personal income tax plan will not have as an immediate impact to individual taxpayers as the proposed start date is 1 July 2024, being 5 years from the announcement.

Significant personal income tax cuts are coming, but before we get there, we have to get through two federal elections before we see the majority of the impact in 2024-25

Immediate changes to LMITO

The LMITO will be changed such that the reduction in tax it provides will increase from a maximum amount of $530 to $1,080 pa, and the base amount will increase from $200 to $255 pa for the 2018/19 to 2021/22 income years.

The LMITO will provide a reduction in tax of up to $255 for taxpayers with a taxable income of $37,000 or less. Between taxable incomes of $37,000 and $48,000, the value of the offset will increase at a rate of 7.5 cents per dollar to the maximum offset of $1,080. Taxpayers with taxable incomes between $48,000 and $90,000 will be eligible for the maximum offset of $1,080. From taxable incomes of $90,000 to $126,000 the offset will phase out at a rate of 3 cents per dollar.

The LMITO will be received after individuals lodge their 2018/19 tax returns and will continue to be provided in addition to the LITO.

Changes to 19% PIT bracket and LITO from July 2022

From 1 July 2022, the top threshold of the 19% PIT bracket will increase to $45,000 (up from $41,000 as legislated under the Plan).

From 1 July 2022, the LITO will increase to $700 (up from $645 as legislated under the Plan). The increased LITO will be withdrawn at a rate of 5 cents per dollar between taxable incomes of $37,500 and $45,000 (instead of at 6.5 cents per dollar between taxable incomes of $37,000 and $41,000 as legislated under the Plan). The LITO will then be withdrawn at a rate of 1.5 cents per dollar between taxable incomes of $45,000 and $66,667.

Together, the increase to the top threshold of the 19% PIT bracket and the changes to LITO will lock in the reduction in tax provided by the LMITO when the LMITO is removed.

Further changes to PIT rates and thresholds from July 2024

From 1 July 2024, the 32.5% marginal tax rate will be reduced to 30%.

From 1 July 2024, the 37% bracket will also be abolished (as legislated under the Plan).

Table: summary of changes to PIT rates and thresholds

A summary of the above changes is provided in the tables below.

Rates from 2017/18 to 2023/24	Thresholds in 2017/18	New thresholds from 2018/19 to 2021/22	New thresholds from 2022/23 to 2023/24
Nil	Up to $18,200	Up to $18,200	Up to $18,200
19%	$18,201 – $37,000	$18,201 – $37,000	$18,201 – $45,000
32.5%	$37,001 – $87,000	$37,001 – $90,000	$45,001 – $120,000
37%	$87,001 – $180,000	$90,001 – $180,000	$120,001 – $180,000
45%	Above $180,000	Above $180,000	Above $180,000
LMITO	–	Up to $1,080	–
LITO	Up to $445	Up to $445	Up to $700

Rates from 2024/25	New thresholds from 2024/25
Nil	Up to $18,200
19%	$18,201 – $45,000
30%	$45,001 – $200,000
45%	Above $200,000
LITO	Up to $700

Instant asset write-off threshold increased and expanded to medium sized businesses

The instant asset write-off threshold for small businesses (with an aggregated turnover of less than $10m) will be increased to $30,000 for eligible assets that are first used, or installed ready for use, from 7.30 pm (AEDT) on 2 April 2019 (Budget night) to 30 June 2020.

PKF Comment

Extending this to $30,000 and making it available to businesses with turnovers up to $50 million presents an optimal tax planning tool for the 2019 financial year. Business owners will need to be careful spending the funds for the write off in the run up to 30 June 2019, before the legislation has been passed.

The current threshold as legislated is $20,000, applicable for assets costing less than $20,000 that are first used or installed ready for use by 30 June 2019. Proposed changes to this threshold were announced on 29 January 2019 and are contained in legislation before parliament (Treasury Laws Amendment (Increasing the Instant Asset Write-Off for Small Business Entities) Bill 2019). These proposed changes increase the threshold from $20,000 to $25,000 and extend it for an additional 12 months to 30 June 2020. When legislated, small businesses will be able to immediately deduct purchases of assets costing less than $25,000 that are first used or installed ready for use over the period from 29 January 2019 until Budget night.

The current rules in Div 328 of the Income Tax Assessment Act 1997 (ITAA 1997) regarding accelerated depreciation for small businesses will remain in place. Therefore, assets that cannot be immediately deducted will need to be pooled and depreciated at an initial rate of 15% in the first year and 30% in each subsequent year. Also, small business depreciation pools valued under the instant asset write-off threshold at the end of the income year can be immediately deducted. The current "lock out" laws for simplified depreciation rules, which prevent small

businesses from re-entering the pooling rules for five years if they opt out, will continue to be suspended until 30 June 2020.

Medium sized businesses (with aggregated annual turnover of $10m or more, but less than $50m) will also be able to immediately deduct purchases of eligible assets costing less than $30,000 that are first used, or installed ready for use, from Budget night to 30 June 2020. These businesses must also have acquired these assets after Budget night to be eligible as they have previously not had access to the instant asset write off. Medium sized businesses do not have access to the small business pooling rules and will instead continue to depreciate assets costing $30,000 or more (which cannot be immediately deducted) in accordance with the existing depreciating asset provisions in the tax law (Div 40 of ITAA 1997).

The changes proposed to the instant asset write-off thresholds are listed in the table below.

Medicare levy — low income thresholds to increase

The Medicare levy low-income thresholds for singles, families, seniors and pensioners will be increased from the 2018/19 income year.

The threshold for singles will be increased to $22,398 (up from $21,980 in 2017/18). The family threshold will be increased to $37,794 (up from $37,089 in 2017/18). For single seniors and pensioners, the threshold will be increased to $35,418 (up from $34,758 in 2017/18). The family threshold for seniors and pensioners will be increased to $49,304 (up from $48,385 in 2017/18). For each dependent child or student, the family income thresholds increase by a further $3,471 (up from $3,406 in 2017/18).

Instant asset write-off threshold

Asset first used or installed ready for use between:	Small business (turnover less than $10m)	Medium business (turnover less than $50m)
1 July 2018 to 28 January 2019	< $20,000	n/a
29 January 2019 to Budget night	< $25,000	n/a
Budget night to 30 June 2020	< $30,000	< $30,000

Tax integrity and black economy

Requirements for Australian Business Number holders to retain their status

To disrupt black economy behaviour, Australian Business Number (ABN) holders:

- with an income tax return obligation will be required to lodge their income tax return, from 1 July 2021, and
- will be required to confirm the accuracy of their details on the Australian Business Register annually, from 1 July 2022.

Currently, ABN holders are able to retain their ABN regardless of whether they are meeting their income tax return lodgment obligation or the obligation to update their ABN details.

Further consultation to Div 7A amendments; reforms delayed again

The start date of amendments to Div 7A of the Income Tax Assessment Act 1936 will be delayed by 12 months to 1 July 2020. The proposed amendments announced in the 2018 and 2016 Federal Budgets will undergo further consultation with stakeholders following feedback from stakeholders to a consultation paper issued in October 2018. The amendments in the consultation paper included replacing the existing seven-year and 25-year model with a single 10-year model without a requirement for a formal written loan agreement and clarification as to when unpaid present entitlements come within the scope of Div 7A.

PKF Comment

As expected, these changes have been deferred another year. This is a topic which does not seem to be a vote-winner and so never seems to get the attention it deserves - the public don't really understand the nuances and action on Division 7A does not present an obvious sound-bite for election purposes. It remains to be seen whether in a year's time the Government of the day will look to make meaningful changes in this area or will continue to kick the can down the road and focus on more popular issues/imbalances in the tax system.

Tax integrity — extension and expansion of Tax Avoidance Taskforce

The ATO will be given additional funding to extend the operation of the Tax Avoidance Taskforce and to expand the Taskforce's programs and market coverage.

The Taskforce undertakes compliance activities targeting multinationals, large public and private groups, trusts and high wealth individuals. It will use the additional funding to expand these activities, including increasing its scrutiny of specialist tax advisors and intermediaries that promote tax avoidance schemes and strategies.

PKF Comment

The ATO have been given additional funding of $1bn with an expectation of raising $3.6bn in taxes from multinationals, large public and private groups, trusts and high wealth individuals. The low hanging fruit has probably been picked already in this regard so you can expect additional and more sustained audit activity across a broader range of clients with increasing pressure on the ATO to find issues and seek to raise revenue (either by way of settlement or formal court proceedings) in order to justify the Government spend. This may prompt more aggressive

audit activity from the ATO.
imbalances in the tax system.

Tax integrity — ATO to focus on recovery of tax and super from large businesses

The ATO will receive additional funding to increase activities to recover unpaid tax and superannuation liabilities. These activities will focus on larger businesses and high wealth individuals to ensure on-time payment of their tax and superannuation liabilities. The measure will not extend to small businesses.

Sham contracting unit to be established

A dedicated sham contracting unit will be established within the Fair Work Ombudsman to address sham contracting behaviour engaged in by some employers, particularly those who knowingly or recklessly misrepresent employment relationships as independent contracts to avoid statutory obligations such as superannuation guarantee and other employment entitlements.

Superannuation

Members of regulated superannuation funds have zero restrictions for making voluntary contributions prior to reaching 65 years of age. However, from 1 July 2020 the government intends to increase this age limit and allow 65 and 66 year olds to contribute.

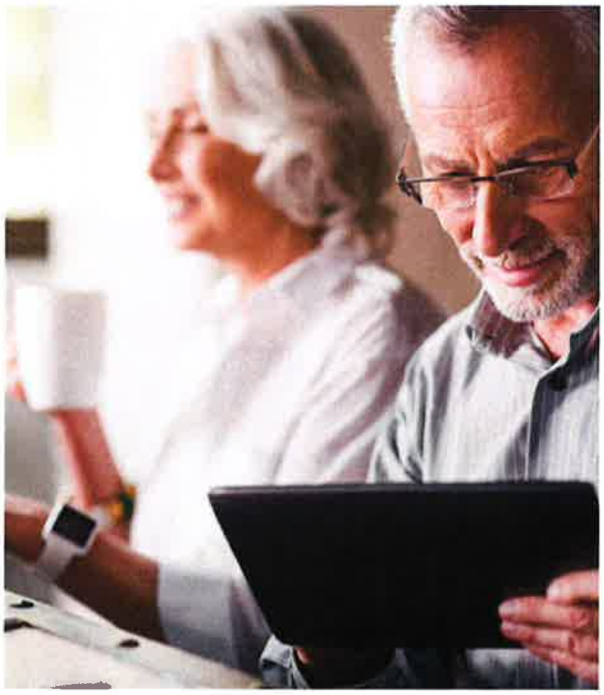
PKF Comment

The upside to the removal of the work test for that those transitioning to retirement, is greater flexibility in how often they work (or don't work) up to 66, this also brings the work test in line with age pension eligibility ages which from 1 July 2023 will be 67 years of age for those born after 1 January 1957.

Under the current SIS Regulations, members over 65 years of age must declare they have met the work test. This self-reported declaration must state that the member has worked for 40 or more hours in any 30 consecutive day period during that financial year.

The changes to the contribution rules apply to both concessional and non-concessional contributions. As no restrictions will apply for 65 and 66 year olds, this also means the three-year "bring-forward" contributions will be allowed. Therefore, more members will be entitled to make up to three years of non-concessional contributions in one financial year.

It is important to note, however, that individuals are currently eligible to make bring-forward contributions for part of the year they are 65. As long as an individual is 64 at the beginning of the year, they may make a contribution after turning 65 (as long as they meet the work test). The extension of this rule by two years may mean an individual who is 66 at the beginning of 1 July 2020 would be eligible for bring-forward contributions.



About PKF

Everything we do, we do to help our clients get closer to their goals by providing high quality audit, accounting, tax, and business advisory solutions.

We are a respected global family of legally independent firms bound together by a shared commitment to quality, integrity and the creation of clarity in a complex regulatory environment.

Get closer to specialist expertise, to sustainable growth and to success.

Sydney
Level 8, 1 O'Connell St
Sydney, NSW 2000
+61 2 8346 6000

Melbourne
Level 12, 440 Collins St
Melbourne, VIC 3000
+61 3 9679 2222

Brisbane
Level 6, 10 Eagle St
Brisbane, QLD 4000
+61 7 3839 9733

Central Coast
4/172-176
The Entrance Rd,
Erina, NSW 2250,
+61 2 4367 8955

Perth
Level 5, 35 Havelock St
West Perth
WA 6005
+61 8 9426 8999

Adelaide
Level 9, 81 Flinders St
Adelaide, SA 5000
+61 8 8373 5588

Canberra
Level 7, 28 University Ave
Canberra City
ACT, 2600
+61 2 6257 7500

Hobart
NAB House,
27 Elizabeth Street
Hobart, TAS 7000
+61 3 6231 9233

Newcastle
755 Hunter St
Newcastle West
NSW 2302
+61 2 4962 2688

Gold Coast
Level 6
RSL Centre, 9 Beach Rd
Surfers Paradise
QLD 4217
+61 7 5553 1000

Tamworth
22-24 Bourke St
Tamworth, NSW 2350
+61 2 6768 4500

Rockhampton
8 East St
Rockhampton
QLD 4700
+61 7 4927 2744

Walcha
12n Derby St
Walcha, NSW 2354
+61 2 6777 2377

pkf.com.au

Sydney | Melbourne | Brisbane | Perth | Adelaide | Canberra | Hobart
Newcastle | Gold Coast | Tamworth | Rockhampton | Walcha | Central Coast

Please note that this report has been prepared with the support of Wolters Kluwer and CCH International.