

# Newsletter

June 2015

## 2015/16 Budget

### 1. Changes effective Budget Night – 7.30pm (AEST) 12 May 2015

#### 1.1 Expanding accelerated depreciation for small business – immediate write-off and small business pool

The government will significantly expand accelerated depreciation for small businesses. It will do this by allowing small businesses with aggregate annual turnover of less than \$2 million to immediately deduct assets they start to use or install ready for use, provided the asset costs **less than \$20,000** (currently, an immediate write-off is generally available for assets costing less than \$1,000). 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 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 government will also suspend the current 'lock out' laws for the simplified depreciation rules until 30 June 2017. Currently, these 'lock out' rules prevent small businesses from re-entering the simplified depreciation regime for five years, if they opt out.

From 1 July 2017, the thresholds for the immediate depreciation of assets and the value of the pool will revert back to existing arrangements (which are currently based on a 'less than \$1,000' threshold).

### 2. Changes effective 1 July 2015 (i.e., 2015/16 income year)

#### 2.1 Tax cuts for small business – 1.5% tax cut for small companies and 5% discount on income tax payable for unincorporated small business activity

From the 2015/16 income year, the government will deliver a tax cut to all small businesses: (a) **Reduction in company tax rate** – The company tax rate will be reduced to 28.5% (i.e., a reduction of 1.5%) for companies with aggregated annual turnover of less than \$2 million.

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.

Note that, the current **maximum franking credit rate** for a distribution will **remain at 30%** for all companies, maintaining the existing arrangements for investors, such as self-funded retirees.

(b) **5% discount on tax payable for other taxpayers** – 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 by an unincorporated small business entity. The discount will be capped at \$1,000 per individual for each income year, and will be delivered as a tax offset.

#### 2.2 Claiming car expense deductions – modernising the existing car expense claim methods

Currently, an individual (or a partnership which includes at least one individual partner) can claim car expense deductions in respect of a car owned or leased (e.g., by the individual) using one of the four methods in Division 28 of the ITAA 1997 (i.e., the 'cents per km method', the '12% of original value method', the 'one-third of actual expenses method' or the 'log book method').

From the 2015/16 income year, the government will modernise the methods of calculating work-related car expense deductions, as follows:

The '12 per cent of original value method' and the 'one-third of actual expenses method' (which are used by less than 2% of those who claim work-related car expenses) will be removed.

### **2.3 Better targeting of Zone Tax Offset ('ZTO') to exclude 'fly-in fly-out' and 'drive-in drive-out' workers ('FIFO/DIDO workers')**

From 1 July 2015, the government will exclude FIFO/DIDO workers from the ZTO where their normal residence is not within a particular 'zone'. Furthermore, for those FIFO/DIDO workers whose normal residence is in one zone, but who work in a different zone, they will retain the ZTO entitlement associated with their normal place of residence.

### **2.4 Immediate deduction for professional expenses on commencing a new business**

Currently, some professional costs associated with commencing a new business (i.e., black hole expenditure) are deducted over a five-year period under S.40-880 of the ITAA 1997.

From 1 July 2015, the government will allow businesses to claim an immediate write-off for a range of professional expenses associated with starting a new business, such as professional, legal and accounting advice.

### **2.5 Release of superannuation for terminal medical condition – relaxing the release criteria**

## **3. Changes effective 1 July 2016 (i.e., 2016/17 income year)**

### **3.1 CGT roll-over relief for changes to entity structure**

CGT roll-over relief is currently available for individuals who incorporate, but other entity type changes have the potential to trigger a CGT liability. From 1 July 2016, the government 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.

### **3.2 Changes to residency rules for temporary working holiday makers**

The government will change the tax residency rules **from 1 July 2016** (i.e., the 2017 income year) 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 (up to \$80,000).

## **4. FBT announcements**

### **4.1 Relaxing the FBT exemption for work-related electronic devices**

Currently, an FBT exemption under S.58X of the FBT Act applies in respect of eligible work-related items (e.g., a portable electronic device, an item of computer software, and a tool of trade).

**From 1 April 2016**, the government will allow an FBT exemption for small businesses (with an aggregated annual turnover of less than \$2 million) that provide employees with more than one qualifying work-related portable electronic device, even where the items have substantially similar functions.

### **4.2 FBT – Capping threshold for salary sacrificed meal entertainment and entertainment facility leasing expenses ('EFLEs')**

(a) **FBT-rebatable employers** are subject to a \$30,000 cap

(b) **Public benevolent institutions** and **health promotion charities** are subject to a \$30,000 cap

(c) **Public and non-profit hospitals**, and **ambulance services**, are subject to a \$17,000 cap

**From 1 April 2016**, the government will introduce a separate single grossed-up cap of \$5,000 for salary sacrificed meal entertainment and EFLEs.

## 5. Other Budget announcements

### 5.1 GST-related measures announced by the government

The government has announced various GST-related measures, broadly as follows:

(a) **Cross border supplies of digital products and services** – From 1 July 2017, GST will be extended to cross border supplies of digital products and services imported by consumers.

### 5.2 Recovery of HELP repayments from overseas debtors

The government will extend the *Higher Education Loan Programme* ('HELP') repayment framework to debtors residing overseas for six months or more if their worldwide income exceeds the minimum repayment threshold at the same repayment rates as debtors in Australia.

### 5.3 Changes to Parental Leave Pay ('PLP')

From 1 July 2016, the government will remove the ability for individuals to 'double dip', by taking payments from both their employer and the government.

### 5.4 Child care (workforce participation stream)

A new single Child Care Subsidy ('CCS') will be introduced **on 1 July 2017**. Families meeting the activity test with annual incomes up to \$60,000 (2013/14 dollars) will be eligible for a subsidy of 85% of the actual fee paid, up to an hourly fee cap. The subsidy will taper to 50% for eligible families with annual incomes of \$165,000.

### 5.5 Change to the asset test thresholds for the aged pension

- **For a single person** – a full pension may be received if the relevant value of included assets (i.e., assets other than excluded assets) is less than \$250,000 for a homeowner (currently \$202,000).

- **For a pensioner couple** – a full pension may be received if the relevant combined value of included assets is less than \$375,000 for a homeowner (currently \$286,500).

### 5.6 Medicare levy low income thresholds for 2014/15

For 2014/15, the Medicare Levy low income thresholds will be as follows:

- Individuals \$20,896 (previously \$20,542)
- Families \$35,261 (previously \$34,367)

### 5.7 Research and Development ('R&D') tax incentive – introducing a \$100 million expenditure cap from 1 July 2014

Currently, under the R&D tax incentive, companies can claim a refundable tax offset of 43.5% if their turnover is less than \$20 million, or a non-refundable tax offset of 38.5%.

The government has introduced a cap of \$100 million on the amount of eligible R&D expenditure for which companies can claim a tax offset at a concessional rate under the R&D tax incentive. Expenditure beyond the \$100 million cap will receive a lower offset at the company tax rate.

## **6. Disclaimer**

This newsletter is of a general nature and for general information only. Do not act on this information before getting specific advice. Other factors or individual circumstances may influence the result.

### **OBRIEN ACCOUNTANTS**

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