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tax alert

2015 Federal Budget Synopsis

Small Business

Small business tax rate cut to 28.5% AND tax discount for unincorporated small businesses

With effect from the 2015-16 income year (ie from 1 July 2015), a 1.5% cut in the company tax rate will apply to small businesses (turnover less than $2m). That would reduce the tax rate applying to those businesses to 28.5%.

As the tax cut will apply from 1 July 2015, companies with PAYG instalments can benefit from their first payment after 1 July 2015.

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

Only around 30% of small businesses are incorporated (ie around 70% are sole traders, trusts and partnerships), so the reduced 28.5% rate will have limited effect.

Accordingly, the Government said that, also with effect from 1 July 2015, individual taxpayers with business income from an unincorporated business that has an aggregated annual turnover of less than $2m will be eligible for a small business tax discount.

The discount will be 5% of the income tax payable on the business income received from an unincorporated small business entity.

The discount will be capped at $1,000 per individual for each income year, and delivered as a tax offset through their end of year tax return.

Immediate deduction for asset purchase

The Budget announced that small businesses would be able to immediately write off assets they start to use or install ready for use, provided the asset costs less than $20,000.

This will apply for assets acquired and installed ready for use between 7:30pm (AEST) 12 May 2015 and 30 June 2017.

It shou ld also be no ted that the thres ho ld app lies on a per asse t basis, so several assets each costing up to $20,000 would qualify for the write-off if installed ready for use before 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 and depreciated at 15% in the first income year and 30% each income year thereafter.

CGT roll-over relief for change to entity structure

The Government has confirmed that it will allow small businesses to change legal structure without attracting a CGT liability at that point.

The measure will be available for businesses that change entity type from the 2016-17 income year.

No FBT on work-related electronic devices

The Government will allow an FBT exemption for small businesses that provide employees with more than one qualifying work-related portable electronic device, even where the items have substantially similar functions.

These changes will take effect from 1 April 2016, ie the start of the 2016-17 FBT year (provided the usage is predominantly for business).

Immediate deductibility for professional expenses relating to start-up businesses

The Government has confirmed that it will allow businesses to immediately deduct a range of professional expenses associated with starting a new business, such as professional, legal and accounting advice.

For example, legal expenses with establishing a company, trust or partnership. Previously these expenses were deductible over a five year period.

GST on Foreign Supplied Services ("Netflix Tax")

The Government has announced that it will impose GST on offshore intangible supplies to Australian consumers with effect from 1 July 2017.

This change will result in supplies of digital products, such as streaming or downloading of movies, music, apps, games, e-books, as well as other services such as consultancy and professional services, receiving similar GST treatment whether they are supplied by a local or foreign supplier.

No changes announced to the low-value threshold for taxable importations

Currently, there is a GST threshold exemption of $1,000 that applies to purchases of imported goods (including online purchases).

The Government has flagged an intention to "explore" lowering the threshold.

Accelerated depreciation for primary producers re fencing, water facilities, etc

The Government will allow all primary producers to immediately deduct capital expenditure on fencing and water facilities such as dams, tanks, bores, irrigation channels, pumps, water towers and windmills.

The Government will also allow primary producers to depreciate over 3 years all capital expenditure on fodder storage assets such as silos and tanks used to store grain and other animal feed.

The changes will be for income years commencing on/after 1 July 2016.

Personal Taxation

Personal tax rates: no change; Budget deficit levy not to be extended

The 2015-16 Budget did not make any changes to the current personal tax rates, although in the lead- up to the Budget, the Treasurer indicated that the 2% Budget deficit levy (tax) on incomes over $180,000 would not be extended beyond its initial 3 years.

Personal tax rates

The currently legislated personal tax rates and thresholds (including the 2% temporary budget deficit levy, but excluding the 2% Medicare levy) are as follows:

Personal income tax rates and thresholds

	2014-15		2015-16 and 2016-17	
	Threshold	*Rate*	*Threshold*	*Rate*
1st rate	$18,201	19.0%	$19,401	19.0%
2nd rate	$37,001	32.5%	$37,001	33.0%
3rd rate	$80,001	37.0%	$80,001	37.0%
4th rate	$180,001	47.0%	$180,001	47.0%

With Medicare levy included, the top marginal rate is 49% from 1 July 2014 to 30 June 2017.

Work-related car expenses simplified: 2 methods discontinued; only one flat rate

Currently, there are 4 different methods by which taxpayers can claim the tax deduction for work- related car expenses based on cents per kilometre, logbook method, the 12% of original value method, and one-third of actual expenses incurred.

The last 2 methods will be discontinued as a means of streamlining the system and reducing compliance costs. The Government will set 66c/km as the rate for using the cents/km method, irrespective of a car's engine size.

The changes will apply from the 2015-16 income year.

Eligibility for zone tax offset restricted

"Fly-in fly-out" and "drive-in drive-out" (FIFO) workers will cease to be eligible for the zone tax offset where their normal residence is not within a "zone".

This measure will apply from 1 July 2015.

Temporary working holiday makers - tax residency rules to change

The Government will change the tax residency rules 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.

This measure will apply from 1 July 2016.

HELP debt - overseas student repayment obligations

The Government will introduce arrangements to ensure a fairer Higher Education Loan Programme (HELP) by requiring Australians residing overseas to repay their HELP debts.

Only those graduates living overseas and earning incomes above the minimum HELP repayment threshold (AUD$53,345 in 2014-15) will be required to make repayments towards their HELP debts.

The new arrangements will apply from 1 January 2016 to both new and existing debts. From this date, debtors going overseas for more than 6 months will be required to register with the ATO, while those already overseas will have until 1 July 2017 to register.

Repayment obligations will commence from 1 July 2017 (for income earned in the 2016-17 financial year).

FBT meal and entertainment concessions for Not For Profit employees to be capped

The Government will introduce a grossed-up cap of $5,000 per year on the FBT concessions for salary-sacrificed meal entertainment and entertainment facility leasing expenses (meal entertainment benefits) for employees of certain not-for-profit organisations (ie public and not-for-profit hospitals, public ambulance services, public benevolent institutions (except hospitals) and health promotion charities).

All meal entertainment benefits will also become reportable benefits and thus will count towards an employee's "reportable fringe benefits amount" for an income year.

These measures will apply from 1 April 2016.

Dividend imputation - no changes

Pre-Budget speculation about the dividend imputation system came to nought, as the Budget did not announce any changes.

Superannuation

No major super tax changes - but reform processes loom

The Government did not announce any major new superannuation measures in the Budget.

However, reform of the superannuation system has been flagged as part of the Murray report into the financial services system, as indicated by the Prime Minister in April 2015.

SMSFs and limited recourse borrowings - no change (yet)

The Murray report has recommended the restoration of the general prohibition on direct borrowings by superannuation funds (including SMSFs).

Further, the Murray report recommended that funds with existing borrowings would be permitted to maintain those borrowings.

However, funds disposing of a single acquirable asset purchased via an LRBA would be required to extinguish any associated debt at the same time.

Early access to super for terminal illness

The Government will amend the relevant regulations to change the life expectancy “certification period” from 12 months to 24 months.

According to the Government, this will give terminally ill patients earlier access to their superannuation.

The measure will apply from 1 July 2015.

For more information contact either Brendan Podevin or Cameron Wilson on 07 3360 9600 or visit hwone.com.au