Summary of the Federal Budget 2015-16

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The 2015-2016 Federal Budget has introduced a number of interesting developments to the Australia's taxation system. Specially, the Budget has introduced revised anti-avoidance measures targeting the diversion of profits from Australia by large multinational corporations. This year budget has actioned 1.5% promised tax cut for small businesses and also accelerated depreciation to encourage employment growth. This year the Budget has been focused on the incentives to small business.

The significant reforms of the Budget have been summarised below:

Personal Tax:

Marginal personal income tax rates for 2015-16:
Currently legislated tax rates for the 2015-16 year give effect to a second round of tax cuts which were provided for under the "Clean Energy" (carbon tax) package of compensation measures.

The adjustments to the tax scale for 2015-16 include:

- Increase tax free threshold from $18,200 to $19,400
- Increase of the 32.5 cent marginal rate to 33 cents
- Reduction of the Low Income Tax Offset from $445 to $300.

Taxable income	Tax on income $		Tax on income above lower threshold (Marginal rate) %
0 to $19,400	$0.00	Plus	$0.00
$19,401 to $37,000	$0.00	Plus	19% for over $19,400
$37,001 to $80,000	$3,344	Plus	33% for over $37,000
$80,001 to $180,000	$17,534	Plus	37% for over $80,000
$180,001 and over	$54,534	Plus	47% for over $180,000*****
Medicare levy & Medicare levy surcharge are applicable on top of the tax rates.			

***Levy on higher earner according to Budget 2014-15:** The Federal Budget 2014-15 contained a proposal for a Temporary Budget Repair Levy of 2% applicable on taxable income in excess $180,000. This in effect increases the highest marginal tax rate in the table above from 45% to 47% (before Medicare levy adjustment).

Family Package – Childcare subsidy:

The Budget introduces a simplified Child Care Subsidy (CCS) from 1 July 2017. A subsidy of 85 per cent of child care costs will be available to families with an annual income up to $60,000, tapering to 50 per cent for families with incomes over $165,000.
The subsidy will be uncapped for incomes below $180,000 and otherwise capped at $10,000 per child per year. Hourly fee caps will also apply.
These measures will replace the existing Child Care Benefit, Child Care Rebate and the Jobs, Education and Training Child Care Fee assistance payments.

Age Pension asset free threshold:

The Budget proposes three key measures designed to improve the integrity of the Age Pension and reduce expenditure. These are:
1. An increase to the asset free threshold;

2. An increase to the taper rate from $1.50 to $3 for every $1,000 of assets that exceed the assets free threshold; and
3. A cap to the amount of defined benefits income (for superannuants receiving a benefits income stream) that can be excluded from the income test at 10%

The Government does not intend to proceed with plans to index the Age Pension by CPI.

Tax Residency for Temporary Workers:

The Government will change the tax residency rules from 1 July 2016 to treat most temporary workers on working holiday visas in Australia as non-residents for tax purposes, regardless of how long they work in Australia. This means they will be taxed at 32.5 per cent from their first dollar of income. Currently, a working holiday maker can be treated as a resident for tax purposes if they satisfy the tax residency rules, typically that they are in Australia for more than six months.

Modernising the methods for calculating work-related car expense deductions:

The Government will remove the ‘12 per cent of original value’ and the ‘one-third of actual expenses’ methods of calculating work-related car expense deductions from the 2015-16 income year onwards.

The ‘cents per kilometre’ method will be modernised by replacing the three current rates based on engine size with one rate set at 66 cents per kilometre applicable to all motor vehicles. The ‘logbook method’ of calculating expenses will be retained.

These changes will not affect leasing and salary sacrifice arrangements.

Small Business

Accelerated Depreciation:

The Government will significantly expand accelerated depreciation for small businesses 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.

This measure will apply to assets acquired and installed ready for use between 7.30pm (AEST) 12 May 2015 and 30 June 2017. Assets valued at over $20,000 remain eligible 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. The pool can also be immediately deducted if the balance is less than $20,000 over this period (including existing pools).

From 1 July 2017, the thresholds for the immediate depreciation of assets and the value of the pool will revert back to existing arrangements.

Tax Cut:

The Government has announced two significant tax cuts to allow small businesses to improve their cash flows, encourage growth and competition, and allow for the hiring of additional employees.

The first is to reduce the company tax rate to 28.5% for companies with aggregated annual turnover of less than $2 million. The current maximum franking credit rate for a distribution will remain at 30% for all companies, maintaining the existing arrangements for investors, including self-funded retirees.

Rollover:
The Government has announced amendments to capital gains tax (CGT) roll-over provisions for small business, to recognise that the initial legal structure chosen by new small businesses may not be suitable when the business subsequently becomes more established.

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

Fringe Benefits Tax:
The Government will allow a FBT exemption from 1 April 2016 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 – such as a tablet and a laptop.
This change will expand the current exemption, where an FBT exemption can apply to more than one portable electronic device used primarily for work purposes, but only where the devices perform substantially different functions.

Funds

Managed Investment Trusts – transitional period to apply to recently released rules:
Following the release of *A New Tax System for Managed Investment Trusts* draft legislation in April 2015, the Government has now announced a twelve month transitional period in relation to the rules.
The proposed rules will now apply from 1 July 2016. Managed Investment Trusts (MITs) can however choose to apply the rules from the earlier start date of 1 July 2015.
The provision of a transitional period responds to stakeholder feedback that many MITs require additional time beyond 1 July 2015 to make amendments to their trust deeds and IT systems. It was of particular importance given the regime under the current proposed drafting is not elective.
MITs and other trusts treated as MITs will continue to be allowed to disregard the trust streaming provisions for the 2015-16 income year. This will ensure that the interim arrangements for MITs continue to apply until the commencement of the new rules.

Superannuation

Despite fears of significant superannuation changes in the Budget, the Budget generally maintains the status quo on superannuation arrangements.
Relevantly, however, the Government will introduce measures which provide that a larger proportion of a superannuant's actual defined benefit income is taken into account when applying relevant social security income test. This is intended to achieve equity in payments and savings of $465.5 million over five years. Under this measure, the proportion of income that can be excluded from any income test (being the deductible amount) will be capped at 10% from 1 January 2016.
The Government has also identified that it will reduce red tape for superannuation funds and individuals by introducing measures to remove redundant reporting obligations, and to streamline lost and unclaimed superannuation administrative arrangements.
A range of other measures are detailed in the Budget in relation to superannuation, such as early release of superannuation funds in certain circumstances.

Tax Compliance

Serious Financial Crime taskforce:
The Government will provide $127.6 million over four years to establish a cross-agency Serious Financial Crime taskforce for investigations and prosecutions that will address superannuation and investment fraud, identity crime and tax evasion.
The aim of the taskforce is to maintain integrity and community confidence in Australian financial markets and regulatory systems. This follows on from, and expands the scope of, the successes of the Project Wickenby investigations, which end in 2015.
The measure is estimated to increase revenue by $419.7 million and expenses by $130.8 million with a net improvement to the Budget of $288.9 million in fiscal terms over the forward estimates period. The revenue includes an additional GST component of $3.2 million, which will be paid to the States and Territories.

Statutory remedial power for the Commissioner of Taxation:
The Government will provide the Commissioner of Taxation with a power to make a legislative instrument to modify the operation of the tax law to ensure that the law's purpose or object is achieved. The measure will have effect from the date of Royal Assent of the enabling legislation.
APRA and the ASIC already have similar powers. The approach of the Commissioner to this power will be very important to monitor.

Reforms to the Australian Taxation Office:
The Government will provide $130.9 million over four years to improve the experience of taxpayers in their dealings with the ATO.
Red tape will be reduced through investment in three key initiatives: a "digital by default" service for the provision of information and the making of payments, improvements to data and analytics infrastructure, and enhancing streamlined income tax returns through the myTax system for taxpayers with more complex tax affairs.
The costs of this measure will be met from within the existing resourcing of the ATO, and will have no net impact on total ATO resourcing.

Goods and Services Tax (GST)

GST to be imposed on digital products and services:
The Government proposes to expand the scope of GST so that it applies to cross border supplies of digital products and services (such as streaming or downloading of movies, music and apps, as well as the provision of consultancy and professional services) imported by Australian consumers from 1 July 2017.
Under current law, Australian suppliers of digital products to Australian customers have to charge GST while offshore suppliers do not.
Although rules exist to impose GST on certain services and other intangibles acquired by Australian businesses from overseas suppliers, these rules do not apply to Australian consumers who are not registered or required to be registered for GST. Consequently, such services and other intangibles acquired by Australian consumers from foreign suppliers are currently not subject to GST.
Draft GST legislation to enact the proposed changes has been released for review. The Government has said that the changes will require unanimous agreement of the states and territories.

The revenue from this initiative is expected to be $350 million over the next four years.

Three-year extension to GST compliance programme:
The Government will provide $265.5 million in funding to the ATO over three years from 2016-17 to continue a range of activities to promote GST compliance. The measure is estimated to derive a net improvement to the Budget of $445 million.

The Government will not proceed with the previously announced measure to replace the current GST-free treatment for supplies of going concerns and farmland with a reverse charge mechanism. The Government had previously announced that it would proceed with the measure in December 2013.

Corporate

Research and Development tax incentive — introducing a $100 million expenditure cap:
The Government has introduced a cap of $100 million on the amount of eligible research and development (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.

These changes apply in relation to assessments for income years commencing on or after 1 July 2014. This measure also includes provisions for the changes to be reviewed five years following Royal Assent and to sunset ten years following the start date of 1 July 2014.
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%.

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