



TAX AND ACCOUNTING OVERVIEW

FEDERAL BUDGET 2019-20

What Does this Mean for you?

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Highlights

2019/20 Federal Budget Highlights

The Federal Treasurer, Mr Josh Frydenberg, handed down the 2019/20 Federal Budget at 7:30 pm (AEDT) on 2 April 2019.

Mr Frydenberg said the Budget is “back in the black”, announcing a budget surplus of \$7.1b, and forecasting a surplus of \$11b in 2020/21, \$17.8b in 2021/22 and \$9.2b in 2022/23. The budget focuses on “restoring the nation's finances”, further strengthening the economy to create more jobs and to “guarantee the essential services”.

The government proposes various changes to further lower individual taxes, including increasing the low and middle income tax offset, and lowering the 32.5% rate to 30% in 2024/25. More businesses will have access to immediate deductions for asset purchases, with the expansion of the instant asset write-off to businesses with an annual turnover of less than \$50m.

The full Budget papers are available at www.budget.gov.au and the Treasury ministers' media releases are available at ministers.treasury.gov.au.

The tax, superannuation and social security highlights are set out below.

Income tax

- The legislated Personal Income Tax 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.
- The instant asset write-off threshold for 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 to 30 June 2020.
- Businesses with an aggregated turnover of \$10m or more but less than \$50m will be able to immediately deduct purchases of eligible assets costing less than \$30,000 that are first used, or installed ready for use, from 7.30 pm (AEDT) on 2 April 2019 to 30 June 2020.
- The Medicare levy low-income thresholds for singles, families, seniors and pensioners will be increased from the 2018/19 income year.

- Payments to primary producers in the Fassifern Valley, Queensland affected by storm damage in October 2018 will be treated as exempt income.
 - An income tax exemption will be provided for qualifying grants made to primary producers, small businesses and non-profit organisations affected by the North Queensland floods.
 - Six more organisations have been approved as specifically-listed deductible gift recipients.
 - The list of countries whose residents are eligible to access a reduced withholding tax rate of 15% on certain distributions from Australian managed investment trusts (MITs) will be updated.
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Tax integrity and black economy

- Australian Business Number (ABN) holders will be required to lodge their income tax return and confirm the accuracy of their details on the Australian Business Register annually to retain their ABN status.
 - The start date of amendments to Div 7A will be delayed by 12 months to 1 July 2020.
 - Minor amendments will be made to the hybrid mismatch rules to clarify their operation from 2019.
 - The ATO's Tax Avoidance Taskforce will extend its operations and expand its activities, including increasing its scrutiny of specialist tax advisors and intermediaries that promote tax avoidance schemes.
 - The ATO will receive funding to increase activities to recover unpaid tax and superannuation liabilities with a focus on large businesses and high wealth individuals.
 - A dedicated sham contracting unit will be established within the Fair Work Ombudsman to address sham contracting behavior by some employers.
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Superannuation

- Members of regulated superannuation funds will not have to meet the work test after 1 July 2020 if they are 65 or 66 years of age.
- The restrictions on claiming the spouse contribution tax offset will be eased from 1 July 2020, giving 70 to 74 year old spouses eligibility.

- The calculation of exempt current pension income will be simplified for superannuation funds from 1 July 2020, allowing a preferred method of calculation and removal of some actuarial certificates.
 - Transitional tax relief for merging superannuation funds will become permanent from 1 July 2020.
 - SuperStream will be expanded from 31 March 2021 to include electronic ATO requests for release of superannuation funds and SMSF rollovers.
 - An expression of interest process will be undertaken to identify options to support establishment of a Superannuation Consumer Advocate.
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Indirect taxes

- For vehicles acquired on or after 1 July 2019, eligible primary producers and tourism operators will be able to apply for a refund of any luxury car tax paid, up to a maximum of \$10,000.
 - Access to refunds of indirect tax, including GST, fuel and alcohol taxes under the Indirect Tax Concession Scheme has been granted or extended.
-

Social security

- There will be a one-off Energy Assistance Payment of \$75 for singles and \$62.50 for each member of a couple eligible for qualifying payments on 2 April 2019 and who are resident in Australia.
- Single Touch Payroll reports lodged by employers will be shared with social security agencies from 1 July 2020.
- Family Tax Benefit eligibility will be extended to the families of ABSTUDY (secondary) student recipients who are aged 16 years and over, and are required to live away from home to attend secondary school.
- From 1 July 2019, net income generated from the forced sale of livestock will be exempted from the Farm Household Allowance payment assessment, when that income is invested into a farm management deposit.
- The HELP debt incurred for recognised teaching qualifications after teachers have been placed in very remote locations of Australia for four years (or part time equivalent) will be

extinguished. Indexation on HELP debts of all teachers while they are placed in very remote locations will no longer accrue from 14 February 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.

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	

Sources: Budget Paper No 2, p 17 — 18; Budget Paper No 1, p 1–10 — 1–12; Glossy “Lower taxes – relief to encourage and reward hard-working Australians”, p 25.

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.

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.

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

Source: Budget Paper No 2, p 14 – 15.

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).

Source: Budget Paper No 2, p 19.

Income tax exemption for payments to Qld storm affected primary producers

Payments to primary producers in the Fassifern Valley, Queensland affected by storm damage in October 2018 will be treated as exempt income.

The tax treatment relates to payments distributed to affected taxpayers through a grant totalling \$1m to the Foundation for Rural and Regional Renewal, working with the Salvation Army and a local community panel.

Source: Budget Paper No 2, p 22.

Income tax exemption for North Queensland flood grants

An income tax exemption will be provided for qualifying grants made to primary producers, small businesses and non-profit organisations affected by the North Queensland floods.

Qualifying grants include Category C and Category D grants provided under the *Disaster Recovery Funding Arrangements 2018*, grants provided under the *On-Farm Restocking and Replanting Grants Program*, and the *On-Farm Infrastructure Grants Program*.

The exemption will apply where the grants relate to the monsoonal trough, which produced flooding that started on or after 25 January 2019 and continued into February 2019. The grants will be made non-assessable non-exempt income for tax purposes.

Source: *Budget Paper No 2*, p 19.

Deductible gift recipients list updated

Since the 2018/19 Mid-Year Economic and Fiscal Outlook, the following organisations have been approved as specifically-listed deductible gift recipients from 1 July 2019 to 30 June 2024:

- Australian Academy of Law
- China Matters Limited
- Foundation Broken Hill Limited
- Motherless Daughters Australia Limited
- Superannuation Consumers Centre Limited, and
- The Headstone Project (Tasmania) Incorporated.

Taxpayers may claim an income tax deduction for gifts of money or property to these organisations of \$2 or more.

Source: *Budget Paper No 2*, p 20.

International tax — list of information exchange countries to be updated

The government will update the list of countries whose residents are eligible to access a reduced withholding tax rate of 15%, instead of the default rate of 30%, on certain distributions from

Australian managed investment trusts (MITs). To be listed, countries must have established the legal relationship enabling them to share taxpayer information with Australia.

This update will add Curaçao, Lebanon, Nauru, Pakistan, Panama, Peru, Qatar and the United Arab Emirates to join 114 other jurisdictions already on the list. These new jurisdictions have entered into information sharing agreements since the previous update in 2018.

The updated list will be effective from 1 January 2020.

Source: Budget Paper No 2, p 16.

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.

Source: Budget Paper No 2, p 13.

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.

Source: Budget Paper No 2, p 25.

Tax integrity — clarifying the operation of the hybrid mismatch rules

Minor amendments will be made to the hybrid mismatch rules to clarify their operation.

The hybrid mismatch rules are intended to prevent multinational corporations from exploiting differences in the tax treatment of an entity or instrument under the laws of two or more tax jurisdictions.

Amendments will be made to stipulate how the rules apply to multiple entry consolidated (MEC) groups and trusts, and to limit the meaning of foreign tax, for income years commencing on or after 1 January 2019.

Amendments will also be made to specify that the integrity rule can apply where other provisions have applied for income years commencing on or after 2 April 2019.

Source: Budget Paper No 2, p 24.

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.

Source: Budget Paper No 2, p 24 – 25.

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.

Source: Budget Paper No 2, p 25.

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.

Source: Budget Paper No 2, p 147.

Superannuation

Acceptance of superannuation contributions allowed for 65 and 66-year old

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.

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.

Source: Budget Paper No 2, p 22.

Spouse contribution tax offset eligibility extended

Restrictions relating to an individual claiming a spouse contribution tax offset are proposed to be reduced from 1 July 2020. The easing of the rules is by giving spouses aged 70 to 74 eligibility if they meet the work test. Also, in line with other budget measures, spouses aged 65 and 66 will not need to meet the work test at all.

Although eligibility criteria has been extended for some spouses, there is no change announced to the:

- amount of the offset
- income limits of the spouse
- restrictions relating to the spouse's contributions caps, or
- non-refundable attribute of the offset itself.

Source: Budget Paper No 2, p 22.

Exempt current pension income calculation streamlined for super funds

Superannuation fund trustees will be allowed to calculate exempt current pension income (ECPI) on a preferred method basis from 1 July 2020.

Currently, some superannuation funds have a restriction on whether they can use the segregated method or proportionate method when calculating the ECPI. Also, funds which stop using the segregated method in an income year cannot go back to using it. From the 2020/21 financial year, all superannuation funds have the option to choose a preferred method of calculation.

Also, from 1 July 2020, an actuarial certificate will not be required for superannuation funds which have solely retirement phase accounts.

Source: Budget Paper No 2, p 23.

Merging super funds to have permanent tax relief

Since December 2008, tax relief has been available for qualifying superannuation funds that have merged. This allowed a deferral of capital gains or losses, similar to other scrip-for-scrip rollovers.

This tax relief will be made permanent from 1 July 2020, which moves the rules from the *Income Tax (Transitional Provisions) Act 1997* to the *Income Tax Assessment Act 1997*.

Source: Budget Paper No 2, p 23.

SuperStream to be expanded

SuperStream will be expanded to include the transfer of information and money between employers, superannuation funds and the ATO. This change will take effect from 31 March 2021.

Currently, SuperStream is used as an information reporting mechanism between employers and superannuation funds. The most common transactions used in SuperStream are for employer contributions and member rollovers between funds. From 31 March 2021, the ATO will have the ability to send electronic requests via SuperStream to superannuation funds for the release of money from a member's account. A number of superannuation payment arrangements may be affected.

To coincide with this change, SMSF rollovers in SuperStream will be delayed until 31 March 2021 as well.

Source: Budget Paper No 2, p 169.

Superannuation Consumer Advocate

The government will undertake an expression of interest (EOI) process to identify options to support the establishment of a Superannuation Consumer Advocate.

This EOI would assist the government in understanding whether the advocate would be necessary, as well as whether industry bodies have capacity to assist in the role. The Advocate would assist in superannuation policy discussions by acting on behalf of superannuation consumers (or members). Additionally, the Advocate would be given financial assistance to be a leader in the superannuation system by providing education and assistance to members as they navigate the superannuation system.

Source: Budget Paper No 2, p 171.

Indirect taxes

Increased luxury car tax refunds for primary producers and tourism operators

Luxury car tax refund arrangements will be amended to provide further relief to farmers and tourism operators.

For vehicles acquired on or after 1 July 2019, eligible primary producers and tourism operators will be able to apply for a refund of any luxury car tax paid, up to a maximum of \$10,000.

Currently, primary producers and tourism operators may be eligible for a partial refund of the luxury car tax paid on eligible four-wheel or all-wheel drive cars, up to a maximum refund of \$3,000. The eligibility criteria and types of vehicles eligible for the current partial refund will remain unchanged under the new refund arrangements.

Source: Budget Paper No 2, p 18.

Access to Indirect Tax Concession Scheme granted or extended

Access to refunds of indirect tax, including GST, fuel and alcohol taxes under the Indirect Tax Concession Scheme (ITCS) has been granted or extended as follows:

- new access to refunds will be granted to the diplomatic and consular representations of Sudan in Australia.
- upgraded access to the ITCS will be granted to the Commission for the Conservation of Southern Bluefin Tuna.
- the ITCS access for Laos, Mauritius and Samoa has been extended to include construction and renovation relating to their current and future diplomatic missions and consular posts.

Each of these changes has effect from a time specified by the Minister for Foreign Affairs.

Source: Budget Paper No 2, p 15.

Social security

Energy Assistance Payment

There will be a one-off Energy Assistance Payment of \$75 for singles and \$62.50 for each member of a couple eligible for qualifying payments on 2 April 2019 and who are resident in Australia.

Qualifying payments are the Age Pension, Carer Payment, Disability Support Pension, Parenting Payment Single, the Veterans' Service Pension and the Veterans' Income Support Supplement, Veterans' disability payments, War Widow(er)s Pension, and permanent impairment payments under the *Military Rehabilitation and Compensation Act 2004* (including dependent partners) and the *Safety, Rehabilitation and Compensation Act 1988*.

This measure builds on the 2017/18 Budget measure "Energy Assistance Payment".

Source: Budget Paper No 2, p 159.

Social security payments reporting to be verified by Single Touch Payroll

Individuals who receive income support payments from the Department of Human Services (DHS) will have their reported income matched with Single Touch Payroll (STP) reports from 1 July 2020. Under this arrangement, DHS will be able to verify on a more frequent basis the ability for the recipient to make a claim.

The requirement to report income on a regular basis will still lie with the individual recipient. However, current arrangements require this regular reporting (mainly fortnightly) to be data matched with income tax return lodgments. Implementing verification of payments with STP reports will allow DHS to make amendments to an individual's entitlement in a more efficient manner. This reduces the chance of long outstanding debts to accrue.

Source: Budget Paper No 2, p 158.

Family Tax Benefit extended to ABSTUDY students away from home

Family Tax Benefit eligibility will be extended to the families of ABSTUDY (secondary) student recipients who are aged 16 years and over, and are required to live away from home to attend secondary school.

The measure aims to improve access to secondary education for indigenous Australians to help reduce the gap in outcomes between indigenous and non-indigenous Australians in high school completion.

Source: Budget Paper No 2, p 159–160.

Income from forced sale of livestock invested into farm management deposit

From 1 July 2019, net income generated from the forced sale of livestock will be exempted from Farm Household Allowance (FHA) payment assessment, when that income is invested into a farm management deposit.

The measure is to ensure that FHA recipients who are destocking retain access to income support and are able to make long-term financial plans for their future.

Source: Budget Paper No 2, p 46–47.

HELP debt for teachers in remote communities to be extinguished

To encourage teachers to work in remote communities, the Higher Education Loan Program (HELP) debt incurred for recognised teaching qualifications after teachers have been placed in very remote locations of Australia for four years (or part time equivalent) will be extinguished. To be eligible, the four year placement must commence on or after the start of the 2019 school year.

Additionally, from 14 February 2019 indexation will no longer accrue on the HELP debts of all teachers while they are placed in very remote locations.

These measures form part of the Indigenous Youth Education Package for the government's initiative, *Closing the Gap refresh*. *Source: Budget Paper No 2, p 153.*



Need advice on anything discussed in the Budget Document?

Are complex tax issues taking up too much of your time?

At Ashdan Partners we're committed to helping you manage every aspect of your business. We've gone beyond traditional accounting practices to develop an innovative, client-focused firm that's committed to seeing your business succeed.

How can we help you?

As tax advisory experts we can assist in the following areas

- | | | |
|-------------------------------|---------------------|------------------|
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| - GST | - Consolidations | - Tax Planning |
| - Fringe Benefit Tax | - Payroll Tax | - Superannuation |
| - ATO Disputes | - PSI | - Land Tax |
| | - Employment Tax | |

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