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$20k immediate deduction extended

Date of effect	Extended until 30 June 2018

The $20,000* immediate deduction threshold for assets purchased by businesses with an aggregated turnover of under $10 million will be extended until 30 June 2018. Assets will need to be used or installed ready for use by 30 June 2018 to qualify for the higher threshold.

Assets costing $20,000 or more can be allocated to a pool and depreciated at a rate of 15% in the first year and 30% for each year thereafter. If the closing balance of the pool, adjusted for current year depreciation deductions (i.e., these are added back), is less than $20,000 at 30 June 2018 then the remaining pool balance can be written off as well.

The instant asset write-off only applies to certain depreciable assets. There are some assets, like horticultural plants, capital works (building construction costs etc.), assets leased to another party on a depreciating asset lease, etc., that don't qualify.

The current 'lock out' laws for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for five years if they opt out) will continue to be suspended until 30 June 2018.

From 1 July 2018, the immediate deductibility threshold will revert back to $1,000.

** $20,000 exclusive of GST for GST registered businesses. $20,000 inclusive of GST for businesses not registered for GST.*

Over 65s encouraged to downsize

Date of effect	1 July 2018

If you are 65 or over, the Government will allow you to make a non-concessional contribution of up to $300,000 from the proceeds of selling your home from 1 July 2018. This non-concessional contribution will be excluded from the existing age test, work test, and the $1.6 million balance threshold (but will not be exempt from the $1.6m transfer balance cap).

Interestingly, the Government is enabling "both members of a couple" to take advantage of the concession for the same home. So, if you have joint ownership of the property and meet the other criteria, both people can make a non-concessional contribution up to $300,000 ($600,000 per couple).

The measure will apply to sales of a principal residence owned for the past ten or more years.

Sale proceeds contributed to superannuation under this measure will count towards the Age Pension assets test.

Depreciation deductions limited

Date of effect	1 July 2017 Grandfathering from 7:30pm, 9 May 2017

The Government is concerned that some plant and equipment items in residential rental properties are being depreciated by successive investors in excess of their actual value.

This integrity measure will limit plant and equipment depreciation deductions to outlays actually incurred by residential rental property owners. Acquisitions of existing plant and equipment items will be reflected in the cost base for CGT purposes for subsequent investors.

Investors who directly purchase plant and equipment for their residential investment property after 9 May 2017 will be able to claim depreciation deductions over the effective life of the asset. However, subsequent owners of a property will be unable to claim deductions for plant and equipment purchased by a previous owner of that property. The portion of the purchase price that reflects the value of these items will simply form part of the cost base of the property and will reduce capital gains made on future disposal of the property.

These changes apply on a prospective basis, with existing investments grandfathered. Plant and equipment forming part of residential investment properties at 9 May 2017 (including contracts already entered into) will continue to give rise to deductions for depreciation until either the investor no longer owns the asset, or the asset reaches the end of its effective life.

Plant and equipment items are usually mechanical fixtures or those that can be ‘easily’ removed from a property such as dishwashers and ceiling fans.

Deductibility of investment property travel costs to end

Date of effect	1 July 2017

The days of writing-off the costs of travel to and from your residential investment property are about to end. The Government has moved to disallow deductions for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property.

It seems that policing this area to ensure taxpayers apportion expenses correctly (and don’t claim a deduction for their holidays), just got too hard.

GST collection on property

Date of effect	1 July 2018

Under new integrity measures, property developers will no longer manage the GST on sales of newly constructed residential properties or new subdivisions. Instead, the Government will require purchasers to remit the GST directly to the ATO as part of the settlement process.

It seems that under current law (where the GST is included in the purchase price and the developer remits the GST to the ATO), some developers are failing to remit the GST to the ATO despite having claimed GST credits on their construction costs.

The Government expects that as most purchasers use conveyancing services to complete their purchase, they should experience minimal practical impact from these changes.

The practical effect for developers is that they will not have the GST they would have collected to assist with cash flow between the period between settlement and when they would normally remit it to the ATO.

Many new residential properties and subdivided lots are sold under the GST margin scheme which allows the developer to calculate the GST based on the difference between their purchase price and sale price rather than GST applying to the full sale proceeds. It is not clear how this will work under the proposed new rules and whether the purchaser will be able to rely on calculations performed by the developer to meet their obligations with the ATO.

First Home Owners Super Saver Scheme

Date of effect	1 July 2017 – contributions 1 July 2018 – withdrawals

Under the *First Home Super Savers Scheme*, would be first home owners will be able to withdraw voluntary contributions they make to super for a deposit. In practice, first home buyers will be able to save for a deposit by salary sacrificing into their superannuation fund over and above their normal compulsory superannuation contributions.

If the individual is self-employed or their employer will not allow contributions to be salary sacrificed the Government will allow these people to claim a deduction for voluntary contributions made under the scheme.

The Government will allow future voluntary contributions to superannuation made by first home buyers from 1 July 2017 to be withdrawn for a first home deposit, along with associated deemed earnings. The earnings that can be released will be calculated using a deemed rate of return based on the 90-day Bank Bill rate plus 3 percentage points (the same way the Shortfall Interest Charge is calculated).

Concessional contributions and earnings that are withdrawn will be taxed at marginal rates less a 30% offset. Combined with the existing concessional tax treatment of contributions and earnings, this is intended to provide an incentive that will enable first home buyers to build savings more quickly for a home deposit. In reality, the benefits of using the scheme could be relatively small for those on low income levels as salary sacrificing arrangements and additional deductions tend to be much more beneficial for those on higher incomes.

Under the measure, up to $15,000 per year and $30,000 in total can be contributed within existing caps. Withdrawals will be allowed from 1 July 2018 onwards. Both members of a couple can take advantage of this measure to buy their first home together.

It will be interesting to see how popular this scheme is with first home buyers. Some individuals may be wary of contributing additional funds into superannuation especially if they are not absolutely confident that they will be able to save a deposit for a home in the near future.

Higher education fees increased

Date of effect	From 1 July 2018 • Rate will begin increasing • Threshold will decrease

Student contributions to the *Higher Education Loan Program* will increase by 7.5% over 4 years from 1 January 2018.

Old Threshold	New Threshold
$55,000	$42,000

In addition, the threshold at which students start to pay back student loans will be reduced from 1 July 2018. A new minimum threshold of $42,000 will be established with a 1% repayment rate and a maximum threshold of $119,882 with a 10% repayment rate.

Changes are also being made to the Commonwealth Grants Scheme with an efficiency dividend of 2.5% introduced in 2018 and 2019. In addition, access to the CGS will end for permanent residents and to most New Zealand residents – these students will be able to access concessional loans instead. The changes apply to students enrolled from 1 January 2018.

Family Tax Benefit A changes

Date of effect	1 July 2018

A consistent 30 cents in the dollar income test taper for Family Tax Benefit Part A families with a household income in excess of the Higher Income Free Area (currently $94,316) will apply from 1 July 2018.

In addition, the increase to the Family Tax Benefit A announced as part of the 2015-16 Mid-Year Economic review will not proceed.

Increases to the Medicare Levy

Date of effect	1 July 2019

From 1 July 2019, the Medicare Levy will increase to 2.5% of taxable income (up from 2%) raising an estimated $8.2 billion across the 3 years from introduction.

Old Levy	New Levy
2.0%	2.5%

Other tax rates that are linked to the top personal tax rate, such as the fringe benefits tax rate, will also be increased.

Low-income earners will continue to receive relief from the Medicare levy through the low-income thresholds for singles, families, seniors and pensioners. The current exemptions from the Medicare levy will also remain in place.

The measure is to inject funds into a savings fund for the National Disability Insurance Scheme.

Courier and cleaning contractors face greater compliance

Date of effect	1 July 2018

The building industry has faced enhanced compliance and reporting for some time through the taxable payments reporting system. Now it's the turn of contractors in the courier and cleaning industry.

Under the taxable payments reporting system, businesses are required to report payments they make to contractors (individual and total for the year) to the ATO.

Businesses in these industries will need to collect information from 1 July 2018, with the first annual report required to be lodged in August 2019. Details required to be maintained by the business include:

- ABN (where known)
- Name
- Address
- Gross amount you paid for the financial year (this is the total amount paid including GST)
- Total GST included in the gross amount you paid.