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2018 – 19 Budget Update

$20k immediate deduction extended

Date of effect	Current until 30 June 2019

The ability for small business entities to claim an immediate deduction for assets costing less than $20,000 has been extended until 30 June 2019.

From 1 July 2019, the immediate deduction threshold will reduce back to $1,000.

There are no limits to the number of times you can use the immediate deduction assuming your cashflow supports the purchases.

If your business is registered for GST, the cost of the asset needs to be less than $20,000 after the GST credits that can be claimed by the business have been subtracted from the purchase price. If your business is not registered for GST, it is the GST inclusive amount.

Second hand goods are also deductible. However, there are a number of assets that don't qualify for the instant asset write-off as they have their own set of rules. These include horticultural plants, capital works (building construction costs etc.), assets leased to another party on a depreciating asset lease, etc.

If you purchase assets costing $20,000 or more, the immediate deduction does not apply but small businesses have the ability to allocate the purchase to a pool and depreciate the pool at a rate of 15% in the first year and 30% for each year thereafter.

No deduction for late paying employers

Date of effect	1 July 2019

The Government really wants employers focussed on their tax obligations to the point where employers that fall behind will lose the right to claim employment related tax deductions.

Employers who do not keep up with their PAYG obligations will not be able to claim a tax deduction for payments to employees (such as wages).

Businesses will also lose the ability to claim deductions for payments made to contractors where the contractor does not provide an ABN and the business does not withhold PAYG.

Increasing the maximum number of SMSF members

Date of effect	1 July 2019

The maximum number of allowable members in new and existing SMSFs and small APRA funds will increase from four to six.

Personal income tax cuts

The anticipated personal income tax cuts will be delivered as part of a seven year plan culminating in the removal of one tax bracket from 1 July 2024. The Government states that the end result will be that around 94% of taxpayers will be subject to a marginal tax rate of 32.5%.

The focus right now however is the low and middle tax income brackets with changes to the tax brackets and the introduction of the Low and Middle Income Tax Offset.

From 1 July 2018:
• The top threshold of the 32.5% personal income tax bracket will increase from \$87,000 to \$90,000.
From 1 July 2022:
• The top threshold of the 19% personal income tax bracket will increase from \$37,000 to \$41,000. • The top threshold of the 32.5% personal income tax bracket will again increase from \$90,000 to \$120,000. • The Low Income Tax offset will increase from \$445 to \$645. The increased Low Income Tax Offset will be withdrawn at a rate of 6.5 cents per dollar between incomes of \$37,000 and \$41,000, and at a rate of 1.5 cents per dollar between incomes of \$41,000 and \$66,667.
From 1 July 2024:
• The 37% tax bracket will be removed. • The top threshold of the 32.5% personal income tax bracket will again increase from \$120,000 to \$200,000.

Low and middle income tax offset

Date of effect	From 2018-19 until 2021-22 income years

How to give low and middle income earners a tax break without directly benefiting those on larger incomes? The Government's solution to this conundrum is the introduction of the Low and Middle Income Tax Offset (LIMITO) from the 2018-19 income year.

Applied as a non-refundable tax offset after an individual lodges their income tax return, the tax offset provides:

Table income	Low and Middle Income Tax Offset (LIMITO)
\$0 - \$37,000	Up to \$200
\$37,000 - \$48,000	Offset increase of 3 cents per dollar up to \$530
\$48,000 - \$90,000	Up to \$530
\$90,001 to \$125,333	Offset phases out at a rate of 1.5 cents per dollar

Assuming the amending legislation passes Parliament, the offset is intended to be available for the 2018-19 to 2021-22 income years.

The Low and Middle Income Tax Offset is in addition to the existing Low Income Tax Offset.

If you are trying to work out what these changes mean to you, the Government has added a tax relief estimator on the front page of the budget website. For example, someone on an annual taxable income of \$65,000, would receive an annual benefit of around \$530 in the first few years and a total benefit of \$3,740.

3-Year audit cycle for SMSF

Date of effect	1 July 2019

SMSFs with a history of good record keeping and compliance – that is, three consecutive years of clear audit reports and annual returns lodged on time, will only be required to have their fund audited every three years.

The Government has flagged consultation with key stakeholders on this measure (with no further details available at present).

The key issue with this measure is how the three-year cycle will work - is it an audit for one year in three or three years once?

If the audit is only for the third year of the cycle, then there is a major risk of compliance issues going unnoticed. Having two years with no audits may present opportunities for 'creative' trustees to manipulate the superannuation system. It will be difficult for an auditor to sign-off on the third year without having a level of comfort as to what has transpired in previous years.

If the audit is for the prior three years, the benefit for members may be negligible as auditors will need to charge for three years of work. The measure is designed to reduce 'red-tape' for trustees but having three years of questions from auditors might just group three years into one.

Exit fees scrapped and fees capped

Date of effect	1 July 2019

A ban on exit fees from all superannuation funds will be introduced along with a 3% annual cap on passive fees on accounts with balances below $6,000 from 1 July 2019.

Superannuation funds will also be required to transfer all inactive superannuation accounts with balances below $6,000 to the ATO.

These changes create a gain of $1.1 billion in the underlying cash balance over the forward estimates. This gain is in part a timing issue reflecting the time taken to reunite lost super balances with their owners.