We enclose a summary of the 2015 Federal Budget
for the exclusive use of clients of
The Mischel & Co Group of Companies.

Wednesday 13th May 2015

The 2015 Federal Budget

The Initial Commentary

Recent research by the Business Council of Australia found that 94 per cent of those surveyed believe that Australia 'needs a better plan for its long-term future'. This year's Budget, arguably, has done little to address this view. While the measures proposed may pass through the Senate more easily than last year's Budget, one cannot help but feel like the Government is still to tackle the real problems – in tax reform, superannuation and welfare, and health.

Small Business Tax Package

Small business concessions have been within the tax system for quite some time already. These cover a range of tax issue, such as Capital Gains, stock valuation, prepaid expenses etc. A small business is any entity (individual, trust or company) that is operating a business with an annual turnover of less than $2,000,000 (when aggregated with the turnovers of associated entities).
The 2015 Federal Budget expanded some of the benefits enjoyed by the small businesses.

Tax Cut for Companies, with turnovers less than $2 million (effective from 1 July 2015)

For companies that are small business entities, the income tax rate will reduce from **30% to 28.5%** (on taxable income). For example, a "small business" company that derives $100,000 in taxable income will pay income tax of $28,500 (reduced from $30,000).

This is a positive for companies that remain under the $2,000,000 turnover threshold.

The dividend franking rate for small business companies will remain at 30%. This means the shareholders will still receive a 30% franking offset when they receive franked dividends. However, it appears that if a company is paying a lower amount of income tax, there will be fewer franking credits to pass on to shareholders.

Tax Cut for other entities, with turnovers less than $2 million (effective from 1 July 2015)

The Government has extended its tax cut concession to individuals who derive small business income from unincorporated entities, such as sole traders, trusts and partnerships. A 5% discount will be provided to individuals who receive business income from these unincorporated entities. The discount will be paid in the form of a tax offset, capped at $1,000 per individual per income year.

Capital Gains Tax (CGT) rollover relief (1 July 2016)

Small businesses will be able to move from any legal structure to another without incurring a capital gains tax liability, using a new rollover from the 2016-17 income year. This measure recognises that new small businesses might choose an initial legal structure that they later find does not suit them when the business is more established.

It is unclear how wide ranging these rollovers will be. However, based on statements in the Budget papers, it appears that all restructures will attract CGT rollover relief. This can potentially provide a great opportunity for a business to change the structure of an existing businesses to a more suitable one. For instance, a business run through a company may potentially be able to change to a trust and enjoy the benefits of 50% capital gains discount, which is available to trust but not he companies. Details on this measure will be available later.

On the other hand, the taxation of business restructures is the domain of both the Federal and State Governments. The Federal Government has addressed the CGT issues that arise from small business restructures. However, most State and Territory Governments apply stamp duty on transfers of dutiable property which may be held by a particular business, and there are no obvious reforms on the horizon in this regard.

Immediate deduction for professional fees for start-ups

The Government announced it will allow businesses to immediately deduct a range of professional expenses associated with starting a new business. Currently, some professional costs associated with a new business start-up are deducted over a five-year period as 'blackhole expenditure'. It is proposed that business establishment costs such as professional, legal and accounting advice will be deductible in full in the year when they were incurred.

Accelerated depreciation

Small businesses will be able to claim an immediate deduction for assets they start to use or install ready for use, where the asset costs less than $20,000. The $20,000 threshold will apply to assets acquired and installed ready for use between 12 May 2015 and 30 June 2017. From 1 July 2017, the thresholds revert back to $1,000 limit.

Existing assets placed in a small business pools can be immediately deducted if the balance of the pool falls below $20,000 during the financial year.

Accelerated depreciation will apply to the majority of capital asset types including cars, machinery and equipment. A small number of assets will not be eligible for the immediate write-off, including horticultural plants and in-house software.

Accelerated Depreciation for Primary Producers

For income years commencing on or after 1 July 2016, 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. In addition, the Government will also allow primary producers to depreciate over three years all capital expenditure on fodder storage assets, such as silos and tanks, used to store grain and other animal feed.

International Measures

Multinational Anti-Avoidance Law

Draft legislation has been released for this measure (referred to below as the 'Permanent Establishment avoidance rule'), which is intended to operate from 1 January 2016 following consultation in relation to its design (with submissions due by 9 June 2015). Broadly, the proposed amendments would allow the Commissioner to tax foreign entities as if the foreign entity had supplied goods or services to Australian customers from an Australian Permanent Establishment (PE). As a result, business profits attributable to the activities in Australia would be taxable in Australia and certain costs attributable to the deemed PE would be subject to withholding tax (eg interest and royalties).

The law is intended to apply where Australian customers enter a sales contract with a low tax country or tax haven and these businesses have local marketing, business support, product awareness and research & development functions based in Australia. That is, where the Australian operations are integral to the customer's decision to enter the contract, the ATO will have the power to reconstruct the tax position with effect that the overseas sales are recognised as Australian income. The intention is that tax will now be due on the profit arising from all the Australian economic activities of such groups. Furthermore, multinationals that are subject to an ATO determination under these new rules will be subject to up to a 100% tax penalty on a tax adjustment plus interest, unless a reasonably arguable position exists. The rules apply from 1 January 2016.

Expansion of the GST base to include offshore supplies and intangibles

GST will be levied on intangible supplies of digital products (such as downloading of movies, music, apps, games, e-books) to 'Australian consumers'. GST will also be levied on other services such as consulting and professional services undertaken offshore for 'Australian consumers'.

An 'Australian consumer' is defined as an Australian resident who is not registered or required to be registered for GST, or registered but not entitled to full input tax credit recovery. Business-to-business transactions will not be impacted by these changes.

The definition of 'Australian consumer' focuses on the overall tax residency of the consumer, rather than the physical location of the consumer at the time the supply is made.

Based on the wording of the Exposure Draft legislation, it is likely there will be other unintended consequences. For example, supplies made by an Australian supplier to an overseas entity which would not currently be subject to GST, may be brought within the GST net if the overseas entity is a supplier of digital content to consumers in Australia (and required to be registered for GST in Australia).

It is envisaged that these measures will commence on 1 July 2017.

Other GST items

The Government announced that it will be providing $265.5 million to the Australian Taxation Office over three years to continue a range of activities to promote GST compliance. The funding is to assist the Australian Taxation Office to identify activities such as under-reporting of GST, fraudulently obtaining GST refunds, failing to lodge GST returns and outstanding GST debts. It is expected that this measure will result in a net improvement to the Budget of $445 million with $1.8 billion in additional GST revenue being paid to the States and Territories.

Changes for Individual Taxpayers

Income Tax Rates

There have been no changes announced to the personal income tax rates for Australian tax residents or non-residents. Medicare levy remains at 2% (from 1 July 2014).

There was also no change to the temporary budget repair levy which continues to apply until 30 June 2017. The levy applies at a rate of 2 per cent on that part of an individual's taxable income exceeding $180,000.

The following table sets out the amount of income tax and temporary budget repair levy payable on a range of taxable income amounts of a resident individual, ignoring the Medicare levy and surcharge, the low income tax offset and any other tax offset entitlements.

Taxable income	2015-16 tax payable	Temporary Budget Repair Levy	Total
$37,000	$3,572	$0	$3,572
$50,000	$7,797	$0	$7,797
$75,000	$15,922	$0	$15,922
$100,000	$24,947	$0	$24,947
$150,000	$43,447	$0	$43,447
$180,000	$54,547	$0	$54,547
$200,000	$63,547	$400	$63,947
$300,000	$108,547	$2,400	$110,947
$400,000	$153,547	$4,400	$157,947

Zone Tax Offset Restricted

At present, a taxpayer is eligible for the zone tax offset if they reside or work in a specified remote area for more than 183 days in an income year. This concessional tax offset is currently available to individuals who reside in specific remote areas where the cost of living is higher due to isolation or harsh environmental factors.

The ZTO will be amended to exclude fly-in-fly-out (FIFO) and drive-in-drive-out (DIDO) workers whose normal residence is not actually in the eligible zones. This measure is effective from 1 July 2015.

Working Holiday Visa Holders – Now Taxed At Non-Resident Rates

The changes announced in the Budget look to remove the ability for people who are temporarily in Australia on working holidays to be classified as Australian tax residents, regardless of whether they meet the current tax residence requirements. This will mean that those affected will be taxed at 32.5% from the first dollar of income earned.

Employers who employ temporary working holiday makers will have to make sure that from 1 July 2016 they will need to deduct PAYG tax at the higher non-resident rates for these employees.

Changes to Work-Related Car Expenses

From 1 July 2015 taxpayers will only have two methods available to calculate and claim their work-related car expenses – the cents per kilometre and log book methods. Additionally, the sliding scale of deductions available under the cents per kilometre method based on vehicle engine size will be removed and replaced by a flat rate for all vehicles. No changes have been made to the existing substantiation requirements.

The proposal will remove different rates per kilometre and replace them with a flat rate of 66 cents per kilometre for all claims regardless of the engine size or type. This rate was derived from motoring association data of the average running costs for the top five selling motor vehicles.

Previously available methods of claiming work related car expenses – 12% of original value and one-third of actual expenses, will be removed from 1 July 2015.

The measures put an increased burden on taxpayers to maintain records in relation to work-related car expenses. Log books are valid up to a maximum of five years and should record car use over consecutive 12 weeks. It is strongly recommended to update the log books and to record the odometer readings on 30 June each year.

Increase to the Medicare Levy Low-Income Thresholds

From July 2014, the Government will increase the Medicare levy low-income threshold to reflect CPI, so low-income taxpayers will continue to be exempt from paying the Medicare Levy. The threshold for singles will be increased to $20,896 (up from $20,542) while the threshold for couples with no children will be increased to $35,261 (up from $34,367). The additional threshold amount for each dependent child or student will be increased to $3,238 (up from $3,156). The applicable threshold for seniors and pensioners will be increased to $33,044 (up from $32,279).

Other Tax Changes and Related Measures

Fringe Benefits Tax (FBT) Capping and Reporting of Entertainment Benefits for FBT

One separate grossed-up cap of $5,000 per employee for salary sacrificed meal entertainment and entertainment facility leasing expenses is proposed to apply to not-for-profit employers from 1 April 2016. Further, the measure states that all meal entertainment benefits will become reportable, for all employers, not just in not-for-profit sector.

For small businesses (less than $2 million aggregate turnover), there will no longer be a limit of one portable electronic device per employee per year in order to access the exemption from FBT. The provision of all electronic devices, so long as primarily used for work related purposes, will be exempt.

Statutory Remedial Power for the Commissioner of Taxation

The Government has announced that it "will provide the Commissioner of Taxation with a power to make a legislative instrument to modify the operation of Tax Law to ensure that the law's purpose or objective is achieved".

This statutory remedial power will allow the Commissioner to administer taxation law consistently with its purpose or object where:

- It has a beneficial outcome for affected taxpayers
- It has no more than a negligible budget impact.

This has been previously foreshadowed as a way to give greater flexibility to the Commissioner in dealing with legislative inconsistencies that cannot be resolved by way of interpretation.

A legislative instrument made by the Commissioner will be required to undergo extensive consultation and will be subject to disallowance by Parliament.

New Child Care Subsidy

From 1 July 2017, a new Child Care Subsidy ('CCS') with a new activity test will be introduced as summarised below:

ANNUAL FAMILY INCOME (ESTIMATED FOR 2017-18)	CCS PER CHILD	CCS ANNUAL CAP
Up to $65,710	Lower of 85% of actual fee or benchmark price	No
$65,711 to $170,710	Lower of between 85% to 50% of actual fee or benchmark price	No
$170,711 to $185,710	Lower of 50% of actual fee or benchmark price	No
Over $185,710	Lower of 50% of actual fee or benchmark price	Yes - $10,000 per child

The CCS will replace the current Child Care Benefit, Child Care Rebate and Jobs, Education and Training Child Care Fee Assistance programs.

Paid Parental Leave

The Government announced that it will remove double-dipping from Parental Leave Pay (PLP) from 1 July 2016. Previously, individuals could receive taxpayer funded PLP in addition to any employer-provided parental leave entitlements. Access to PLP will now be limited to individuals whose employer does not provide parental leave entitlements. In cases where individuals get less generous parental leave entitlements from their employer, the Government will top up the amount paid to be equal to the full amount available under the existing scheme.

Superannuation conditions of release changes

From 1 July 2015, the Government will allow people with a terminal medical condition to access their superannuation funds at an earlier date. At present, taxpayers are able to access superannuation funds where certified medical specialists affirm that life expectancy is less than 12 months. The amendment will allow access to superannuation funds where life expectancy is less than 24 months.

Age Pension Asset Test

The Government has confirmed its previous announcement on 7 May 2015 that the Age Pension asset test thresholds will be increased from $202,000 to $250,000 for a single homeowner and $375,000 (up from $286,500) for a couple as at 1 January 2017. However, the assets test taper rate at which the Age Pension begins to phase out will be reduced. This results in the maximum value of assets that a homeowner couple can hold and qualify for a pension will be reduced from $1.15 million to $823,000.

Furthermore, the Government has announced that any pensioners that lose pension entitlements as an effect of these changes will be automatically issued with a Commonwealth Seniors Health Card.

Penalty units increase

From 31 July 2015, the Government will increase the value of all Commonwealth penalty units from $170 to $180. Ongoing indexation of penalty units based on the CPI will also be introduced, with indexation occurring on 1 July every three years commencing 1 July 2018.

This will directly impact ATO imposed penalties calculated as a multiple of a penalty unit. These include the failure to lodge penalty, false or misleading statement penalty (where there is no tax shortfall amount) and a host of penalties associated with the failure to meet other tax obligations.

The content of this information memorandum does not reflect all the announcements outlined in 2015 Federal Budget but simply highlights those points which are most likely to affects our clients.

The Mischel & Co Group Pty Ltd
Accountants and Business Advisors
Suite 102 First Floor 41 Cecil Street Southbank Vic 3006
Ph: 96849999 Fx: 96849988 Email: admin@mischco.com.au
Postal Address: P.O Box 1380 St Kilda South Vic 3182