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We enclose a summary of the 2019 Federal Budget
for the exclusive use of clients of
The Mischel & Co Group of Companies.

Wednesday 3rd April 2019

The 2019 Federal Budget

The Initial Commentary

The Federal Government in handing down the 2019 Federal Budget has appeared to turn the deficit into a surplus over the forthcoming years and in doing so provided numerous spending incentives including a tax related rebate of up to $1080 per person to low and middle income earners.

Economically the budget has predicted a surplus in the governments treasury and although that is good news as it reduces the governments interest bill it has failed to address the more important economic issue of individual and household debt that is the cause of financial stress within the economy.

If one considers the budget as a stand alone event then the budget fails to address and to deliver genuine tax reforms that are needed to improve the welfare of the Australian population.

Nothing has been proposed in regards to simplifying an overly complex taxation system.

The Budget has failed to direct its efforts at improving the general growth in jobs and un employment and does not introduce any real economic reform.

It is clear that the 2019 Federal Budget is being used as a tool to persuade the voting population that the coalition is a solid custodian of the country's purse and that spending is controlled and well directed and that the Labour Party has a history of poor fiscal management. Even though this may be true the fact that there will be an election with 60 days and a strong possibility of a new Labour Government the likelihood is that the majority of the government's promises in the 2019 Federal Budget will not pass through parliament and never be delivered unless it is agreed to by both the Liberal and Labour Parties .

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The 2019 Federal Budget is simply being used as a political lever to scare the population of an impending change in government and the fear of poor fiscal policy by a Labour Government wherein higher income earners will be targeted.

There is no doubt that a new Labour Government will bring about significant economic and tax changes and this has already been flagged by the Labour Party as their intention to make alterations to Capital Gains Discounts, Franking Credits , Negative Gearing and Income Tax Rates just to name a few areas. If the Labour party is elected there will be significant changes in reforms provided they are able to have the legislation approved and that will depend on what sort of majority they control in both houses of parliament.

Nevertheless the issue at hand is the Federal Budget that was delivered and whether it will be enacted, the fundamental principles are sound, with a potential surplus and increased welfare and social services hand outs to the needy but has it gone far enough to address the financial woes of the average household, does it address unemployment, and are the benefits being promised too far into future years to really make a difference now……it is hard to believe the budget is going to deliver what it has promised.

The Prime Minister and Treasurer of the present government have brought down a proposed budget that does very little to assist the needy in this country and simply provides an immediate tax benefit that is not addressing the financial and welfare issues of this country.

The 2019 Federal Budget is more about a political road show, a forthcoming election and it is very hard to envisage it being passed in parliament in its present form.

Pass mark 4/10

…………………………………..Henry Mischel,
Managing Partner
The Mischel & Co Group Pty Ltd

‘Back in black, and Australia is back on track’

Treasurer Frydenberg handed down his first Federal Budget on 2 April 2019, one that is remarkably low-key in nature and with few surprises.

As an election year, the Federal Budget signals a return to focussing on core policy topics including strengthening the economy, delivering tax relief, backing small business, investing in infrastructure and also in skills/education.

Also, of key priority are initiatives which guarantee essential services such as health care, plus improving the quality, safety and accessibility of aged care services so older Australians can age with dignity.

Additional funding will also be directed towards those acting as carers, with increased support being directed towards enabling young carers to have greater participation in education and training.

Contained below is an analysis of the Federal Budget measures we consider of key relevance to our clients:

Disclaimer – This analysis covers Federal Budget proposals that have not yet been legislated, and the material below should be viewed within that context.

The measures range from:

PERSONAL INCOME TAX

On personal taxation, the Government announced 2 significant changes designed to deliver $158 billion of additional tax relief:

- More than doubling the low and middle income tax offset up to $1,080 from 2018-19. Taxpayers earning up to $126,000 a year will receive this tax cut. The Treasurer said that for a single income family, this means up to $1,080 in their pocket per year. And for families on a dual income, up to $2,160. Mr Frydenberg said more than 10 million taxpayers will benefit, with 4.5 million receiving the full amount. This relief will be available to Australians after tax returns for the 2018-19 year are submitted from 1 July 2019.
- Lowering the 32.5% tax rate to 30% from 1 July 2024. This will cover all taxpayers earning between $45,000 and $200,000 and will mean that 94% of taxpayers will pay no more than 30 cents in the dollar.
- Increasing the Medicare Levy Low-Income thresholds

With the Government's announced changes, from 2024-25, there would only be 3 personal income tax rates – 19%, 30% and 45%.

BUSINESS OWNERS

- Increasing the instant asset write-off from $25,000 to $30,000, with effect from 7:30pm (AEDT) on 2 April 2019. The write-off threshold will also be extended to apply to businesses with a turnover of up to $50 million - this will only apply to 30 June 2020.
- Defer by 12 months start date of the proposed Div 7A amendments to 1 July 2020.
- Tax exemption for grants to primary producers, small businesses and non-profit organisations affected by the North Qld floods.
- Extra $1 billion in funding over 4 years to extend the operation of the Tax Avoidance Taskforce and expand its coverage.
- Strengthening the ABN system

SUPERANNUATION

- The current tax relief for merging super funds will be made permanent (it was due to expire on 1 July 2020).
- Exempt current pension income calculation to be simplified for super funds.
- Super contributions work test exemption extended to age 66;
- Spouse contributions age limit increased from 69 to 74 year of age

PERSONAL INCOME TAX CUTS

In a pre-election sweetener, the Coalition has built further on their Personal Income Tax Plan measures originally released in the 2018-19 Budget. The Government's multi-faceted approach aims to reduce cost of living pressures and simplify the individual income tax system for everyday Australians.

NON-REFUNDABLE LOW AND MIDDLE INCOME TAX OFFSET (LMITO)

In the Budget, the Government announced it will provide a further reduction in tax through the non-refundable low and middle income tax offset (LMITO). Under the changes, the reduction in tax provided by LMITO will increase from a maximum amount of $530 to $1,080 per annum and the base amount will increase from $200 to $255 per annum for the 2018-19, 2019-20, 2020-21 and 2021-22 income years.

- The LMITO will now 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 on assessment after the individual lodges their tax returns for the 2018/19, 2019/20, 2020/21 and 2021/22 income years. This is designed to ensure that taxpayers receive a benefit when they lodge returns from 1 July 2019.

The LMITO over the next four income years will be as follows:

TAXABLE INCOME BAND (TI)	LMITO – CURRENTLY PROPOSED	LMITO – CURRENTLY LEGISLATED
Nil - $37,000	$255	$200
$37,001 - $48,000	$255 + ([TI - $37,000] x 7.5%)	$200 + ([TI - $37,000] x 3%)
$48,001 - $90,000	$1,080	$530
$90,001 - $125,999	$1,080 – ([T1 - $90,000] x 3.0%)	$530 – ([T1 - $90,000] x 1.5%)
$126,000 plus	Nil	Nil

TAX BRACKETS GET CUT

Personal income tax changes from 1 July 2024

Under current legislation, the upper income threshold of the 19% personal income tax bracket is scheduled to increase from $37,000 to $41,000 on 1 July 2022. At the same time, the upper income threshold of the 32.5% personal income tax bracket will increase from $90,000 to $120,000.

In addition, the Government intends to reduce the current 32.5% marginal income tax rate to 30% from 1 July 2024. In conjunction with the measures announced by the Government during the 2018-19 Budget, these measures seek to align the middle income tax bracket for individuals with corporate income tax rates, thereby improving incentives for working Australians.

Further, the 37% personal income tax bracket will be removed from 1 July 2024.

The cumulative impact of these measures is expected to result in the following tax thresholds:

2017/18 THRESHOLDS	2017/18 TAX RATES	2024/25 TAX RATES	2024/25 THRESHOLDS
Nil - $18,200	0%	0%	Nil - $18,200
$18,201 - $37,000	19%	19%	$18,201 - $45,000
$37,001 - $90,000	32.5%	30%	$45,001 - $200,000
$90,001 - $180,000	37%	37% bracket removed	
$180,000 plus	45%	45%	$200,001 plus

LOW INCOME TAX OFFSET (LITO)

From 1 July 2022, the Government proposes to increase the low income tax offset (LITO) from $645, as currently legislated, to $700. 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 previously legislated. LITO will then be withdrawn at a rate of 1.5 cents per dollar between taxable incomes of $45,000 and $66,667.

The Government's proposed changes will operate to give low income earners an increased $55 maximum benefit from the previously planned offset. This is expected to take effect from 1 July 2022.

The cumulative impact of these measures is expected to result in the following tax thresholds:

2018-19 to 2021-2022		2022-23 ONWARDS	
Taxable Income (TI)	**LITO**	**Taxable Income (TI)**	**Updated LITO**
$0-$37,000	$445	$0-$37,500	$700
$37,001-$66,666	$445–([TI-$37,000] x1.5%)	$37,501-$45,000	$700-([TI-$37,500] x5%])
$66,667+	$Nil	$45,001-$66,667	$325-([TI-$45,000] x1.5%])
		$66,667+	$Nil

CHANGES TO THE MEDICARE LEVY LOW-INCOME THRESHOLDS

Finally, the Government has announced proposed increases to the low-income thresholds for the purposes of the Medicare Levy.

For the 2018-19 income year, the Medicare levy low-income threshold for singles will be increased to $22,398 (up from $21,980 for 2017-18). For couples with no children, the family income threshold will be increased to $37,794 (up from $37,089 for 2017-18). The additional amount of threshold for each dependent child or student will be increased to $3,471 (up from $3,406).

For single seniors and pensioners eligible for the SAPTO, the Medicare levy low-income threshold will be increased to $35,418 (up from $34,758 for 2017-18). The family threshold for seniors and pensioners will be increased to $49,304 (up from $48,385), plus $3,471 for each dependent child or student. The proposed changes are as follows:

	CURRENT THRESHOLD (2017/18)	PROPOSED THRESHOLD (2018/19)
Singles	$21,980	$22,398
Seniors & Pensioners (single)	$34,758	$35,418
Families	$37,089	$37,794
Seniors & Pensioners (family)	$48,385	$49,304
Dependant children	$3,406 per child/student	$3,471 per child/student

WHAT WILL IT LOOK LIKE GOING FORWARD?

With all these proposed changes in the works, here’s a snapshot of individual income tax rates going forward under the Government’s current proposals:

TAX RATE*	2017-18	2018-19 to 2021-22	2022-23 to 2023-24	2024 to 2025
0%	Nil - $18,200	Nil - $18,200	Nil - $18,200	Nil - $18,200
19%	$18,201 - $37,000	$18,201 - $37,000	$18,201 - $45,000	$18,201 - $45,000
30%				$45,001 - $200,000
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%	$180,000 plus	$180,000 plus	$180,000 plus	$200,000 plus
LMITO	Nil	Up to $1,080		
LITO	Up to $445	Up to $445	Up to $700	

**Medicare Levy excluded*

^Announced as part of the Government's 2018-19 Budget.

Whilst the Government’s pre-election sweetener aims to radically simplify Australia’s income tax system for individual taxpayers, the reality is that Australian taxpayers will need to endure another two election cycles before the benefits of this simplified system are realised. Taxpayers will also need to endure years of confusion around their relevant income tax bracket, and entitlements to the LMITO or LITO before any real clarity is obtained.

OTHER KEY FEATURES OF THE PROPOSED NEW MEASURES INCLUDED:

- Individuals who are foreign residents at the time a CGT event occurs to a dwelling (or for a compulsory acquisition a part of a dwelling) in which they have an ownership interest would not be entitled to the CGT main residence exemption.

- A trustee of a deceased estate would not be entitled to the CGT main residence exemption in respect of an ownership interest in a dwelling of a deceased individual if the deceased was a foreign resident at the time of death. A beneficiary of a deceased estate would not be entitled to the portion of the CGT main residence exemption in respect of an ownership interest in a dwelling of a deceased individual if the deceased was a foreign resident at the time of death.

- A beneficiary of a deceased estate would be entitled to the portion of the CGT main residence exemption in respect of an ownership interest in a dwelling of a deceased individual if the deceased was a resident at the time of death. This would apply even if the beneficiary is a foreign resident at the time a CGT event occurs to the dwelling. However, the beneficiary would be denied any additional component of the main residence exemption that they would otherwise be entitled to in their own right if they are a foreign resident at the time a CGT event occurs to the dwelling.

What the Budget means for your business

HIGHER INSTANT ASSET WRITE-OFF FOR SMALL AND MEDIUM BUSINESS EXTENDED FOR 12 MONTHS. YET AGAIN.

The Budget contains important changes to the instant asset write-off rules. These changes are in addition to the measures contained in a Bill currently before Parliament (see below under "Arrangements prior to 2 April 2019").

There are 2 key changes.

First, the write-off has been extended to medium sized businesses, where it previously only applied to small business entities. The implications for each category of taxpayer are set out under the respective headings below.

The second important change is that the instant asset write-off threshold is to increase from $25,000 to $30,000. The threshold applies on a per asset basis, so eligible businesses can instantly write off multiple assets.

The threshold increase will apply from 2 April 2019 to 30 June 2020.

Small businesses

Small business entities (ie those with aggregated annual turnover of less than $10 million) 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 Budget night (ie 2 April 2019) to 30 June 2020.

Small businesses can continue to place assets which cannot be immediately deducted into the small business simplified depreciation pool and depreciate those assets at 15% in the first income year and 30% each income year thereafter. The pool balance can also be immediately deducted if it is less than the applicable instant asset write-off threshold at the end of the income year (including existing pools). The current "lock out" laws for the simplified depreciation rules (ie these prevent small businesses from re-entering the simplified depreciation regime for 5 years if they opt out) will continue to be suspended until 30 June 2020.

Medium sized businesses

Medium sized businesses (ie, those with aggregated annual turnover of $10 million or more, but less than $50 million) 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.

The purchase date is critical. The concession will only apply to assets acquired after 2 April 2019 by medium sized businesses (as they have previously not had access to the instant asset write-off) up to 30 June 2020.

Arrangements prior to 2 April 2019

The Treasury Laws Amendment (Increasing the Instant Asset Write-Off for Small Business Entities) Bill 2019 still before Parliament proposes to amend the tax law to increase the threshold below which amounts can be immediately deducted under these rules from $20,000 to $25,000 from 29 January 2019 until 30 June 2020, and extend by 12 months to 30 June 2020 the period during which small business entities can access expanded accelerated depreciation rules (instant asset write-off).

The changes in the Bill interact with the Budget changes. This means that, when legislated, small businesses will be able to immediately deduct purchases of eligible assets costing less than $25,000 that are first used or installed ready for use over the period from 29 January 2019 until 2 April 2019.

Summary of Asset Write Off Arrangements

there will be three different thresholds applicable for 2018/19 financial year:

1. $20,000 - assets acquired between 1 July 2018 – 28 January 2019
2. $25,000 - assets acquired between 29 January 2019 – 2 April 2019
3. $30,000 - assets acquired between 3 April 2019 – 30 June 2019, and continuing throughout the 2019/20 tax year.

SIMPLIFIED DEPRECIATION POOLS EXTENDED

This concession extends to allow small businesses to place assets which cannot be immediately deducted into the small business simplified depreciation pool. The small business simplified depreciation pool allows assets to be depreciated at 15% in the first year and 30% each income year thereafter. The pool balance can also be immediately deducted if it is less than the applicable instant asset write-off threshold during the income year.

The Government has not however opened the small business simplified depreciation pools to medium-sized businesses, and will instead continue to depreciate assets costing $30,000 or more, in accordance with existing depreciating asset provisions of the tax law.

'LOCK OUT' LAWS CONTINUE TO BE SUSPENDED

The legislation restricts a Small Business Entity (SBE) from re-entering the simplified depreciation regime for five years where they have opted out. However, the Government previously set aside these rules in conjunction with the instant asset write-off to allow universal access to the increased concessions for SBEs while they are available, and will extend their suspension of the 'lock out' laws until 30 June 2020.

DIVISION 7A CHANGES DEFERRED

The Budget in 2016 featured promises by the Federal Government to improve the operation and administration of Division 7A of the Income Tax Assessment Act 1936 ('Division 7A'). Three years and two pushed-back deadlines later and the Government is no closer to coming to a decision regarding these changes.

In this Budget, the Government announced that it has deferred the 2018-19 measure to clarify the operation of Division 7A from 1 July 2019 to 1 July 2020.

The Government released a consultation paper in October 2018 seeking feedback on their proposed amendments, the most controversial of which were the proposed changes to bring the quarantined Division 7A loans & Unpaid Present Entitlements (UPEs) into the tax net. The Government has acknowledged that the feedback they have received is enough to warrant further consideration.

The proposed amendments draw on recommendations from the Board of Taxation and include:

- simplified Division 7A loan rules to make it easier for taxpayers to comply;
- a self-correction mechanism to assist taxpayers to promptly rectify breaches of Division 7A by giving them the opportunity to voluntarily correct their arrangements without penalty;

- safe harbour rules for the use of assets to provide certainty and simplify compliance for taxpayers;
- technical amendments to improve the integrity and operation of Division 7A while providing increased certainty for taxpayers; and
- clarification that unpaid present entitlements (UPEs) come within the scope of Division 7A;
- amended rules, with appropriate transitional arrangements, regarding complying Div 7A loans, including having a single compliant loan duration of 10 years and better aligning calculation of the minimum interest rate with commercial transactions

TAX INTEGRITY MEASURES

The Government will provide $42.1 million over 4 years to the ATO to increase activities to recover unpaid tax and superannuation liabilities. These activities will focus on larger businesses and high wealth individuals (HWI) to ensure on-time payment of their tax and superannuation liabilities. However, the measure will not extend to small businesses.

In underlying cash balance terms, the measure is estimated to have a gain to the budget of $103.6 million over the forward estimates.

SUPPORTING SMALL BUSINESSES INVOLVED IN TAX DISPUTES

The Government confirmed in this Budget that it will support small businesses involved in disputes with the Australian Taxation Office (ATO) by providing funding to help small businesses resolve their tax disputes.

These measures were previously announced by the Government prior to the package commencement date of 1 March 2019.

SMALL BUSINESS CONCIERGE SERVICE

A Small Business Concierge Service will be established within the Australian Small Business and Family Enterprise Ombudsman's office to support small businesses without legal representation by providing advice regarding the Administrative Appeals Tribunal (AAT) process.

The services to be provided will include the following:

- Prior to applying to the AAT, one hour of legal advice for unrepresented small businesses upon payment of $100
- After applying to the AAT, unrepresented small businesses may receive another hour of free legal advice.

A dedicated Small Business Taxation Division will also be created within the AAT to provide the following support services:

- dedicated case manager throughout the process
- lower standard application fee of $500
- fast-tracked decisions made within 28 days of the hearing.

It is expected that the AAT hearings will be conducted without legal advisers. However, where the ATO engages external legal counsel and the small business does not have legal representation, the ATO will cover the cost of providing the small business with equivalent legal representation.

If the AAT decision is appealed to the Federal Court, the ATO will pay the small business's reasonable costs.

DISRUPTION OF BLACK ECONOMY TO CONTINUE

The Government will expand its 2018-19 Black Economy Budget measures, announcing in this Budget that it will make ABN holders more accountable to the ATO.

From 1 July 2021, ABN holders will be stripped of their ABN if they do not meet their income tax lodgement requirements. Further, they will be required to annually confirm the accuracy of their details on the Australian Business Register from 1 July 2022, at the time of lodging their income tax return.

Under the current law, ABN holders can continue to hold their ABN regardless of whether or not their income tax obligations are up to date.

This measure is estimated to contribute $22.2 million to the Budget over the forward estimate, although this is only expected to translate to cash collections of $4.7 million over the same time frame.

SINGLE TOUCH PAYROLL EXPANSION

The Government has announced that over four years, from 1 July 2019, the Budget will provide $82.4 million to support the expansion of data collected through Single Touch Payroll (STP) by the ATO and enhance data matching capabilities for Commonwealth agencies.

STP requires employers to electronically report salary and wages information (including superannuation data and PAYG withholding amounts) to the ATO in real time at the time of each pay run. The purpose of STP is to improve data matching completed between employer, employee and superannuation funds. Originally introduced to apply to businesses with a headcount of 20 employees or more, from 1 July 2019 STP will be mandatory for all employers (deferrals may be available in limited situations).

Some of the measures announced in the Budget will fund the reporting of income details to the Department of Human Services for recipients of income support. This is expected to reduce the risk that an income support recipient also in receipt of employment income will end up with a requirement to repay overpaid income support payments.

The balance of the funding goes toward supporting the expansion of data collected through STP so as to reduce the requirement some employers may have to report information to multiple Government agencies.

Additionally, it is our view that the data collected under the STP system will be used by the ATO to review compliance with employment tax obligations—in particular superannuation guarantee compliance.

Two measures were announced in relation to Superannuation Fund administration. The first measure relates to providing tax relief to merging superannuation funds. The second measure relates to streamlining of various administrative processes for superannuation funds.

Superannuation funds have been enjoying tax relief on mergers since December 2008. This relief has allowed superannuation funds to defer taxation consequences on gains and losses from revenue and capital assets, that would otherwise arise when transferring to a new merged fund.

This tax relief is seen as an incentive to encourage consolidation in the superannuation industry. Originally introduced as a short-term measure, this tax relief has been extended on various occasions in the past. This new measure will ensure that the tax relief is now available permanently.

Further, the Government has announced administration relief to commence from 1 July 2020, as follows:

- Superannuation Funds with interests in both the accumulation and retirement phases during an income year will be able to choose their preferred method of calculating exempt current pension income (‘ECPI’)
- When calculating ECPI using the proportionate method, where all members of the fund are fully in retirement phase for the full income year, superannuation funds will no longer be required to obtain an actuarial certificate (being currently a redundant requirement).

From 1 July 2020, the Government proposes to introduce several measures that will provide more opportunity for older individuals to make personal superannuation contributions - both concessional contributions (CCs) and non-concessional contributions (NCCs).

Changes to eligibility for the work test

Currently, individuals aged 65-74 must work at least 40 hours in any 30-day period in the financial year in which the contributions are made (the "work test") in order to make voluntary personal contributions.

The proposed extension of the work test exemption means that individuals aged 65 or 66 who don't meet the work test, because they may only work one day a week or volunteer, will be able to make voluntary contributions to superannuation, giving them greater flexibility as they near retirement. Around 55,000 people aged 65 and 66 are expected to benefit from this reform in 2020-21.

The Treasurer said the proposed change will align the work test with the eligibility for the Age Pension, which is scheduled to reach age 67 from 1 July 2023.

The ITAA 1997 will also be amended to extend to those aged 65 and 66 access to the bring forward arrangements for non-concessional contributions. The bring forward rules currently allows individuals aged less than 65 years to make 3 years' worth of non-concessional contributions (which are generally capped at $100,000 a year) in a single year. This will be extended to those aged 65 and 66. Otherwise, the existing annual caps for concessional contributions and non-concessional contributions ($25,000 and $100,000 respectively) will continue to apply.

Extension of the bring-forward provisions

Currently, individuals aged 64 or less at any time during a financial year can, subject to their contribution caps and total super balance (TSB), make NCCs of $100,000 or $300,000 under the bring-forward provisions.

The Government is proposing to extend eligibility to the bring-forward provisions to individuals aged 65 or 66.

Change to eligibility for spouse contributions

Currently, an individual may be eligible for a tax offset of up to $540 on superannuation contributions made on behalf of their spouse.

To be eligible, the recipient spouse must be an Australian resident, under age 70, with total income less than $40,000, who has not exceeded their NCCs cap and has a TSB less than $1.6 million at 30 June in the preceding financial year. If age 65 to 69, they must also satisfy the work test (or the work test exemption).

The Government proposes to increase the qualifying age from age 69 to 74.

Notably, the proposal only applies to increase the qualifying age of the recipient spouse. All other eligibility criteria continue to apply.

Note: The SIS Regulations were amended on 7 December 2018 to implement the 2018-19 Federal Budget measure to provide a 1-year exemption from the work test from 1 July 2019 for superannuation contributions by recent retirees aged 65-74 with total superannuation balances less than $300,000: While the SIS Regulations have been amended to give effect to this measure, other draft amendments proposed in relation to the bring forward rule are yet to be introduced.

What this means for you

• These measures provide a further 12 months to make additional Concessional Contributions of $25,000 and / or Non-Concessional Contributions of $100,000 (or $300,000 if the proposed change to the bring-forward provision is legislated), without having to satisfy the work test.

• The increase to the qualifying age for spouse contributions from age 69 to 74, will provide couples with more flexibility to equalise balances, or to maximise both individual's $1.6 million Transfer Balance Cap.

STRENGTHENING ISRAELI BUSINESS TIES

On 28 March 2019, the Australian Government signed its new Double Tax Agreement with Israel. The treaty will work to generate mutually beneficial investment opportunities and generate bilateral trade for both countries.

The new treaty includes the following key features:

- Reduced withholding tax rates to bring rates in line with other tax treaty countries
- Provisions to reduce potential double taxation on employment income
- Integrity measures regarding the taxation of business profits, including G20 Base Erosion and Profit Shifting (BEPS) measures
- Providing a legal basis for the exchange of taxpayer information between tax officials in the respective countries.

With the addition of eight further countries to the EOI list, this measure makes the MIT regime more attractive to a number of new international investors whilst also reinforcing the Government's commitment to international tax transparency.

LUXURY CAR TAX RELIEF FOR FARMERS AND TOURISM OPERATORS

The Government announced it will provide increased luxury car tax refunds to primary producers and tourism operators on vehicles purchased on or after 1 July 2019. Eligible primary producers and tourism operators will be able to apply for a refund of luxury car tax of up to $10,000, more than tripling the current maximum refund of $3,000.

The eligibility criteria and types of vehicles eligible for the refund will remain unchanged. The definition of primary producers and tourism operators has also not changed.

To determine relief eligibility, primary producers are defined as those carrying on a primary production business, including a business of:

- Cultivating or propagating plants, fungi or their products or parts
- Maintaining animals for the purpose of selling them or their bodily produce
- Manufacturing dairy produce from raw material that you produced
- Felling trees in a plantation or forest.

EXPANDING LIST OF EXCHANGE OF INFORMATION COUNTRIES

The Government has announced the expansion of the Exchange of Information (EOI) list allowing residents in listed countries to gain access to the reduced rate withholding tax rate of 15% rather than the default 30%, in respect of qualifying distributions from Australian Managed Investment Trusts (MIT).

The current Australian MIT regime provides for the reduced withholding tax rate for 114 listed countries which have established a legal relationship with Australia enabling them to share taxpayer information.

This expansion will add Curacao, Lebanon, Nauru, Pakistan, Panama, Peru, Qatar and the United Arab Emirates to the list and will be effective from 1 January 2020.

FURTHER $1.35 BILLION CUT TO THE R&D TAX INCENTIVE

Although proposed amendments to the R&D Tax Incentive from 1 July 2018 have been put on hold, the Government has still significantly revised down the expected cost of the programme over the forward estimates. This is despite no new announcements in the 2019-20 Budget

R&D - 2018-19 BUDGET PROJECTIONS ($M)				
2018-19	**2019-20**	**2020-21**	**2021-22**	**TOTAL**
2,373	2,466	2,566	2,689	10,094
R&D - 2019-20 BUDGET PROJECTIONS ($M)				
2018-19	**2019-20**	**2020-21**	**2021-22**	**TOTAL**
1,967	2,237	2,249	2,292	8,745
CHANGE IN PROJECTIONS FROM 2018-19 BUDGET TO 2019-20 BUDGET ($M)				
2018-19	**2019-20**	**2020-21**	**2021-22**	**TOTAL**
-406	-229	-317	-397	-1,349

The information contained in this newsletter is a combination of the interpretation and thoughts of this firm together with the various government, institutional and professional association reporting that has been made available since The 2019 Federal Budget was tabled.

The content of this information memorandum does not reflect all the announcements outlined in 2019 Federal Budget but simply highlights those points which are most likely to affects our clients.

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