



## **FEDERAL BUDGET 2019/2020**

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### **Business & Tax Summary**

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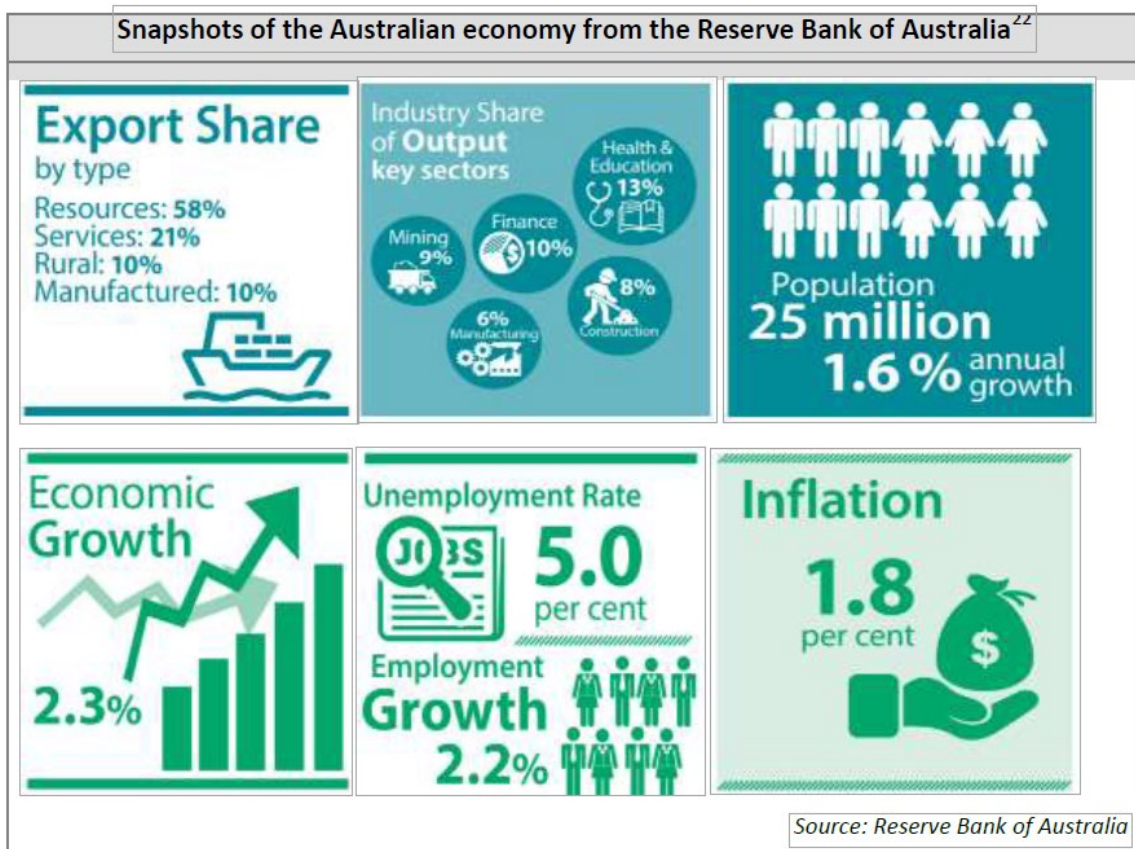
## Summary of Last year

This time last year, we thought that the nation had stalled, waiting for the next big thing that would bring the next wave of prosperity to Australia. The mining boom that had carried Australia for the last decade and a half was petering out and the Innovation Agenda, Malcom Turnbull's signature policy that was to kickstart an ideas boom<sup>1</sup> to drive the Australian economy, was, like Turnbull, floundering.

Then Turnbull himself was deposed in September 2018. There are many theories about the catalyst for this leadership change but the lack of unity in the Coalition and the ensuing inability to provide a policy platform that would persuade electors it was in the best interests of the whole country, rather than a few favoured sectors, meant that a challenge to Turnbull's leadership was inevitable. The timing of the change in leadership, the need to deliver a budget and the requirement to hold an election has created a political dynamic which can only result in the country continuing to be on hold for some months.

### Some facts about the Australian economy

The Reserve Bank of Australia released the following monochromatic snapshots of the Australian economy on 7 March 2019:



## Unfinished business

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There are currently 122 bills before Parliament; 79 bills are not proceeding. Depending on the outcome of the impending Federal election, many more bills will not proceed. The more significant tax measures that are now on hold or that may have to be re-introduced into Parliament include:

- The denial of the CGT main residence exemption for non-residents — this was announced as part of the 2017–18 Federal Budget and the planned transitional period will expire on 30 June 2019.
- Significant changes to the R&D incentive which will:
  - increase the expenditure threshold but link the R&D tax offset for refundable R&D tax offset claimants to their corporate tax rates plus a 13.5 percentage point premium;
  - cap the refundability of the R&D tax offset at \$4 million per annum; and
  - increase the targeting of the R&D tax incentive to larger R&D entities with high levels of R&D intensity.
- The SG amnesty which was to allow employers to self-correct their unpaid SGC amounts as far back as 1992 and make voluntary disclosure to the ATO during the period from 24 May 2018 to 23 May 2019.
- The proposed extension of the small business instant asset write-off to 30 June 2020 and the increase in the threshold from \$20,000 to \$25,000 which was to be effective from 29 January 2019.
- Amendments to limit concessions for foreign investors for passive income derived through Australian stapled structures.
- The targeted amendments to Div 7A which were proposed to operate from 1 July 2019.

## Superannuation

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### Reducing red tape for superannuation funds

- The Government has announced that, from 1 July 2020, superannuation fund trustees 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).
- The Government will also remove the requirement for superannuation funds to obtain an actuarial certificate when calculating ECPI using the proportionate method, where all members of the fund are fully in the retirement phase for all of the income year.

### Improving flexibility for older Australians

- The Government has announced that, from 1 July 2020, it will allow voluntary superannuation contributions to be made by individuals aged 65 and 66 without having to

meet the work test.

- Individuals aged 65 and 66 will also be able to make up to three years of non-concessional contributions under the bring-forward rule.
- Individuals up to and including age 74 will be able to receive spouse contributions.

## Companies

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### Delayed start date to allow further consultation on Division 7A amendments

- The Government has announced that it will defer the start date of proposed amendments to Div 7A of Part III of the *ITAA 1936* from 1 July 2019 to **1 July 2020**.
- Delaying the start date by 12 months will allow additional time to further consult with stakeholders on the complexities of the Div 7A provisions, and to refine the Government's implementation approach — including to ensure appropriate transitional arrangements so taxpayers are not unfairly prejudiced.

### Background

In October 2018, the Government released for consultation a paper<sup>64</sup> (the Consultation Paper) in which it sought submissions on amendments to improve the integrity and operation of Div 7A in Part III of *the ITAA 1936*. The consultation followed recommendations made by the Board of Taxation in its post-implementation review of Div 7A

In broad terms, the Consultation Paper proposed that the Government will amend Div 7A by:

- introducing **simplified loan rules** — pursuant to which the current 7-year and 25-year loan models will be replaced by a single 10-year loan model (subject to a two-year transitional period for existing loans of 1 July 2019 to 30 June 2021);
- requiring that **unpaid present entitlements** — i.e. amounts to which a private company is presently entitled from a trust and which are not paid to the company — are paid out or put on complying loan terms;
- allowing taxpayers to **self-correct** their arrangements without penalty;
- introducing legislative **safe harbour** rules for provision of assets for use; and
- making various technical amendments, e.g. clarifying that s. 109M (about loans in ordinary course of business) is confined to money lending businesses.

At the time the Consultation Paper was released, it was proposed that the amendments to Div 7A would apply from **1 July 2019**, which was consistent with the date specified in the 2018–19 Federal Budget.

## Business

### Increasing and expanding access to the instant asset write-off

- The Government has announced that it will:
  - increase the instant asset write-off threshold from \$25,000 to **\$30,000**; and
  - expand the instant asset write-off to make it available to **medium-sized businesses** (aggregated annual turnover of \$10 million or more, but less than \$50 million), in addition to small business entities (SBEs).
  
- Assets eligible for the immediate write off assets must cost less than \$30,000 and be:
  - for SBEs — first used, or installed ready for use, from 7.30pm (AEDT) on 2 April 2019 until 30 June 2020;
  - for medium sized businesses — acquired and first used, or installed ready for use, from 7.30pm (AEDT) on 2 April 2019 until 30 June 2020.
  
- The Government will still proceed with its previously announced measure to allow SBEs an instant asset write-off for eligible assets costing less than \$25,000 (increased from the current threshold of \$20,000) that are first used or installed ready for use from 29 January 2019 until 7.30pm (AEDT) on 2 April 2019.

#### Summary of relevant dates for instant asset write-off

Dates first used, or installed ready for use	Instant asset write-off threshold	Eligible taxpayers
From 7.30pm (AEST) on 12 May 2015 to 28 January 2019	\$20,000	Small business entities (originally aggregated turnover less than \$2 million but this was increased to less than \$10 million from 1 July 2016)
From 29 January 2019 until 7.30pm (AEST) on 2 April 2019	\$25,000	Small business entities (aggregated turnover less than \$10 million)
From 7.30pm (AEST) on 2 April 2019 to 30 June 2020	\$30,000	All business with an aggregated turnover less than \$50 million
From 1 July 2020	\$1,000	Small business entities (aggregated turnover less than \$10 million) <sup>63</sup>

### Single Touch Payroll expansion

- The Government has announced that it will automate reporting of employment income for social security purposes through STP.
  
- STP data sharing arrangements with the Department of Human Services will reduce risks of

overpayment of income support benefits for recipients with employers using STP.

- More funding will be provided to the ATO and the Department of Veterans' Affairs to enable greater use of data collected through STP to be shared with Commonwealth Agencies.

## Individuals

### Building on the Personal Income Tax Plan

- The Government has announced that it will introduce amendments to build on its legislated seven-year Personal Income Tax Plan.
- The proposed changes consist of:
  - amendments to the low and middle income tax offset (LMITO) , which will increase the amount of the relief available to eligible individuals in the 2018–19 to 2021–22 income years;
  - an increase in the top threshold of the 19 per cent tax rate from \$41,000 to **\$45,000** from 1 July 2022;
  - an increase in the low income tax offset from \$645 to **\$700** from 1 July 2022; and
  - a reduction of the 32.5 per cent marginal tax rate to **30 per cent** from 1 July 2024.

### Immediate relief to low- and middle-income earners — amending the LMITO

The proposed amendments will provide a further reduction in tax through the non-refundable LMITO from the 2018–19 to 2021–22 income years by:

- increasing the maximum amount of the offset from \$530 to \$1,080 per annum;
- increasing the base amount of the offset from \$200 to \$255 per annum; and
- increasing the eligibility threshold from \$125,333 to \$126,000.

Resident marginal tax rates and thresholds (excluding Medicare Levy)

Current taxable income thresholds (from 1 July 2018)	Tax rate	From 1 July 2022	Tax rate	From 1 July 2024	Tax rate
Up to \$18,200	Nil	Up to \$18,200	Nil	Up to \$18,200	Nil
\$18,201 - \$37,000	19%	\$18,201 - \$45,000	19.0%	\$18,201 - \$45,000	19.0%
\$37,001 - \$90,000	32.5%	\$45,001 - \$120,000	32.5%	\$45,001 - \$200,000	30.0%
\$90,001 - \$180,000	37.0%	\$120,001 - \$180,000	37.0%	Removed	Removed
\$180,001 and over	45.0%	\$180,001 and over	45.0%	\$200,001 and over	45% of each dollar over \$200,000

## Increasing the Medicare levy low-income thresholds

- The Government has announced it will increase the Medicare levy low-income threshold from the 2018–19 income year for:
  - singles — from \$21,980 to \$22,398;
  - families — from \$37,089 to \$37,794;
  - single seniors and pensioners — from \$34,758 to \$35,418;
  - seniors and pensioners — families — from \$48,385 to \$49,304; and
  - each dependent child-student — from \$3,406 to \$3,471.
  
- The increase adjusts the thresholds to take into account increases in the CPI.

The Medicare levy low-income thresholds are detailed in the table below.

Income year	Individuals	Families	Pensioners below age pension age	Senior Australians	Seniors and pensioners — families	+ amount for each dependent child/student
2018–19	\$22,398	\$37,794		\$35,418	\$49,304	\$3,471
2017–18	\$21,980	\$37,089		\$34,758	\$48,385	\$3,406
2016–17	\$21,655	\$36,541		\$34,244	\$47,670	\$3,356
2015–16	\$21,335	\$36,001		\$33,738	\$46,966	\$3,306
2014–15	\$20,896	\$35,261		\$33,044	\$46,000	\$3,238
2013–14	\$20,542	\$34,367		\$32,279	\$46,000	\$3,156
2012–13	\$20,542	\$33,693		\$32,279	\$46,000	\$3,094
2011–12	\$19,404	\$32,743	\$30,451	\$30,685	\$44,500	\$3,007
2010–11	\$18,839	\$31,789	\$30,439	\$30,685	\$44,500	\$2,919

## Social Security one-off energy assistance payment

- Recipients who are eligible for qualifying payments on 2 April 2019 and who are resident in Australia will receive a one off energy assistance payment of:
  - \$75 for singles
  - \$125 for couples (\$62.50 per member of a couple)
  
- **Qualifying Payments** include:
  - Age Pension, Carer Payment, Disability Support Pension, Parenting Support Supplement, Veterans' disability payments, War Widow(er)s Pension, and permanent impairment payments under the *Military and Compensation Act 2004* and the *Safety Rehabilitation and Compensation Act 1988*.

## Compliance

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### 2019-20 Federal Budget - Tax Integrity - Increasing engagement and on-time payment of tax and superannuation liabilities

As part of the 2019–20 Federal Budget, the Government announced that it will provide \$42.1 million over four years to the ATO to increase activities to recover unpaid tax and superannuation liabilities.

The activities to be conducted will focus on larger businesses and high wealth individuals to ensure on-time payment of tax and superannuation liabilities; they will not extend to small businesses.

### 2019-20 Federal Budget - Addressing sham contracting

- The Government has announced that it will establish a sham contracting unit — within the Fair Work Ombudsman — to address sham contracting behaviour engaged in by some employers.
- The new unit will focus on employers who knowingly or recklessly misrepresent employment relationships as independent contracts to avoid statutory obligations and employment entitlements.

#### Definition

‘Sham contracting’ occurs when a standard employment relationship is wrongly presented as an independent contracting arrangement. This can be employer initiated, where the motivation is to avoid having to pay award wages, PAYG withholding, payroll taxes and superannuation contributions.

### More funding for the ATO Tax Avoidance Taskforce

- The Government has announced funding of \$1 billion over four years from 2019–20 to extend the operation of the ATO Tax Avoidance Taskforce to:
  - expand its programs and market coverage; and
  - increase its scrutiny of specialist tax advisers and intermediaries that promote tax avoidance schemes and strategies.
- This measure is expected to have a gain to the Budget of \$3.6 billion.

### Black Economy - Strengthening the Australian Business Number (ABN) System

- The Government has announced that it will strengthen the Australian Business Number (ABN) system to disrupt Black Economy behaviour by:
  - from 1 July 2021 — requiring ABN holders, with an income tax return obligation, to lodge their income tax return; and
  - from 1 July 2022 — requiring ABN holders to confirm the accuracy of their details on the Australian Business Register annually.