



The Federal Budget

Our Analysis

2018

Altus Financial





Introduction

With one eye on the surplus and one eye on the 2019 election, last night's budget had some expected pre-election treats. This budget is an election focused budget designed to win the hearts and minds of Middle Income Earners of Australia through tax cuts and differentiation from Labor.

It's some tinkering without anything grand and it's really starting to target fringe items such as the black economy, R&D claims and splitting of income in partnerships.

Key themes in the budget that may impact our clients include:

- Medicare Levy to remain at 2%
- Individual tax rates and Middle Income Tax Offset
- Vacant land deductions denied
- Taxation of high profile individuals
- Instant asset write-off
- Changes to the R&D Tax Incentive
- Cash payments limited
- Integrity of concession in relation to partnerships
- Expansion of taxable payments reporting
- Work test exemption for recent retirees
- Three-year audit cycle for SMSFs

PART ONE Individuals



Individuals

The Government has announced a number of measures that seek to reduce personal income tax in three stages over the next seven years.

Medicare Levy to remain at 2%

The health of the budget has prompted the Government to determine expenditure on the NDIS will not require additional revenue to fund. As a result, the increase in the Medicare Levy from 2% to 2.5% from 1 July 2019 will not proceed. This will also affect other rates that were due to change, such as the fringe benefits tax rate which will also remain unchanged from 1 July 2019.

Individual tax rates and Middle Income Tax Offset

In an effort to assist individuals with cost of living pressures, the Government has proposed a multi-pronged approach. This is to be implemented through the introduction of a Low and Middle Income Tax Offset in conjunction with a slight flattening of the marginal tax brackets.

The Low and Middle Income Tax Offset will give an offset of \$200 for individuals with an income of \$37,000 or less. From \$37,000 to \$48,000 the offset will increase by 3 cents per dollar to a maximum of \$530 with incomes up to \$90,000 receiving the full \$530. The Offset will then reduce by a rate of 1.5 cents per dollar until fully extinguished at \$125,333.

Individuals

The flattening of rates will be implemented as follows:

Rate	Current	2018-2019 to 2021-2022	2022-2023 and 2023-2024	From 2024-2025
0%	\$0 - \$18,200	\$0 - 18200	\$0 - \$18,200	\$0 - \$18,200
19%	\$18,201 - \$37,000	\$18,201 - \$37,000	\$18,201 - \$41,000	\$18,201 - \$41,000
32.5%	\$ 37,001 - \$87,000	\$37,001 - \$90,000	\$41,001 - \$120,000	\$41,001 - \$200,000
37%	\$87,001 - \$180,000	\$90,001 - \$180,000	\$120,001 - \$180,000	\$ -
45%	\$180,001	\$180,001	\$180,001	\$ 200,001

The impact on tax would be as follows:

Taxable Income	Tax Payable			
\$100,000	\$ 26,631.81	\$26,116.81	\$25,261.81	\$25,261.81
\$200,000	\$ 67,231.81	\$67,096.81	\$65,341.81	\$25,261.81
\$300,000	\$114,231.81	\$114,096.81	\$112,341.81	\$107,141.81

Deny deductions on vacant land

In an effort to calm concerns around deductions for land banking, deductions for expenses such as interest and rates will be denied. However, the denial of deductions will not apply where the holder is carrying on a business (for example the land is held for commercial development) or the costs are incurred after:

- A property has been constructed on the land, it has received approval to be occupied and it is available for rent; or
- The land is being used by the owner to carry on a business, including a business of primary production.

In addition, the denied deductions will not be able to be carried forward for use in later income years nor be added to the cost base of the land where they would not ordinarily be a cost base item.

Taxation of fame or image

From 1 July 2019, high profile individuals will no longer be able to licence their fame or image to another entity. All payments (cash and non-cash) for the use of an individual's image will be included in the assessable income of the individual.

PART TWO

Small-to-Medium Business



Small-to-Medium Business

Instant asset write-off

The ability for small businesses with a turn over less than \$10 million to instantly write-off assets costing less than \$20,000 will be extended to 30 June 2019 currently set to expire 30 June 2018.

Changes to the R&D Tax Incentive

As widely predicted, there will be changes to the R&D tax incentive. The changes will impact both the refundable tax offset and the non-refundable offset.

Companies with turn over less than \$20 million

For companies with a turnover less than \$20 million, the offset rate will be tied to the companies tax rate and fixed at 13.5% above the tax rate. There will also be a \$4 million cap on the annual cash refund with any excess converted to a non-refundable tax offset that can be carried forward.

Companies with turn over of \$20 million or more

There will be an introduction of an R&D premium tied to the intensity of R&D expenditure as a proportion of total expenditure as follows:

R&D intensity (as a proportion of total company expenses)	Additional incentive above company's corporate tax rate
0 - 2%	4%
2 - 5%	6.5%
5 - 10%	9%
10%+	12.5%

Small to Medium Business

An illustration of this is where a company with a 30% tax rate has incurred \$120 million in R&D expenses with total expenses of \$300 million for a year would make a claim as follows:

Expenditure Band	Rate	Non-Refundable Offset
\$6 million	34%	\$2,040,000
\$9 million	36.5%	\$3,285,000
\$15 million	39%	\$5,850,000
\$90 million	42.5%	\$38,250,000
Total Non Refundable Offset		\$49,425,000

The above would result in a non-refundable offset of \$13,425,000.

Limit of cash payments

In an effort to fight the black economy, from 1 July 2019 there will be a limit of \$10,000 for cash payments to businesses for goods and services.

Integrity of concession in relation to partnerships

From 7:30pm (AEST) on 8 May 2018, partners of a partnership that alienate their income by creating, assigning or otherwise dealing in the rights to the future income of a partnership will no longer be able access the small business concessions.

Expansion of taxable payments reporting

An additional item to combat the black economy will require businesses to report payments from 1 July 2019 to contractors in the following industries:

- Security providers and investigation services;
- Road freight transport; and
- Computer system design and related services.

PART THREE

Superannuation





Superannuation

Work test exemption for recent retirees

From 1 July 2019, there will be an exemption from the work test for voluntary contributions to superannuation for people aged 65-74 with superannuation balances below \$300,000 in the first year they do not meet the work test requirements.

The intention is to give recent retirees additional flexibility to organise financial affairs in retirement.

Three-year audit cycle for SMSFs

From 1 July 2019, it is proposed SMSFs with a history of good record-keeping and compliance (three consecutive years of clear audit reports and lodged annual returns on time) will only be required to be audited every three years.

Increasing the maximum number of SMSF and small APRA funds from four to six

From 1 July 2019, SMSFs and small APRA funds will be able to increase members from four to six in an effort to provide greater flexibility for joint management of retirement savings.



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