

PALMER & ASSOCIATES

CERTIFIED PRACTISING ACCOUNTANTS

Federal Budget Update

May, 2018

In this newsletter we have compiled some general information in relation to the recent Federal Budget to help keep you up to date with all of the changes. Please do not hesitate to contact us if you require further information regarding the content of this newsletter and how it may impact you.

Small Business

\$20,000 ACCELERATED DEPRECIATION EXTENDED

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.

\$10,000 LIMIT ON CASH TRANSACTIONS

A limit of \$10,000 will be introduced for cash payments made to businesses for goods and services from 1 July 2019. Payments above the threshold will need to be made through an electronic payment system or by cheque.

The measure does not impact on transactions with financial institutions or non-business consumer to consumer transactions. But, if you run a business, from 1 July 2019 you will not be able to accept cash transactions above \$10,000.

Superannuation

An exemption to the work test will be introduced from 1 July, 2019 for people aged 65 to 74 with superannuation balances below \$300,000, who make voluntary contributions to superannuation. The exemption applies in the first year that they do not meet the work test requirements.

Currently, the work test restricts the ability to make voluntary superannuation contributions for those aged 65-74 to individuals who work a minimum of 40 hours in any 30 day period in the financial year.

The maximum number of allowable members in new and existing SMSFs and small APRA funds will increase from four to six from 1 July 2019.

Individuals whose income exceeds \$263,157, and have multiple employers, will be able to nominate that their wage from certain employers are not subject to the superannuation guarantee(SG) from 1 July 2018.

Individuals

The 2017/18 Federal Budget measure to increase the Medicare levy from 2% to 2.5% of taxable income from 1 July 2019 will not proceed.

The ATO will be provided with \$130.8m from 1 July, 2018 to increase compliance activities targeting individual tax payers and their tax agents.

Income Tax

Payments to employees and contractors are no longer deductible where any amounts that are required to be withheld are not paid, from 1 July, 2019.

PERSONAL INCOME TAX CUTS

As has been mentioned in the media in the days leading up to the budget, personal income tax cuts will be delivered as part of a seven year plan resulting in the removal of one tax bracket from 1 July 2024. The end result will be that around 94% of taxpayers will be subject to a marginal tax rate of 32.5%.

The changes in the tax rates from 1 July 2018 and beyond are as follows:

Tax rate	Tax thresholds			
	Current	From 1 July 2018	From 1 July 2022	From 1 July 2024
0%	\$0 - \$18,200	\$0 - \$18,200	\$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%	>\$180,000	>\$180,000	>\$180,000	>\$200,000
Low and middle income tax offset		Up to \$530	-	-
LITO	Up to \$445	Up to \$445	Up to \$645	Up to \$645

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

As part of the Government's initiative to give low and middle income earners a tax break without directly benefiting those on larger incomes, an introduction of the Low and Middle Income Tax Offset (LIMITO) will take place 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

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

MEDICARE LEVY LOW INCOME THRESHOLD INCREASE

The Medicare levy low income thresholds for singles, families, seniors and pensioners will increase from the 2017-18 income years.

	2016-17	2017-18
Singles	\$21,655	\$21,980
Families	\$36,541	\$37,089
Single seniors and pensioners	\$34,244	\$34,758
Family threshold for seniors and pensioners	\$47,670	\$48,385
Each dependent child or student (increase to family threshold)	\$3,356	\$3,406