



Your guide to the Federal Budget 2018

The Federal Treasurer Scott Morrison handed down his third Federal Budget on Tuesday 8 May 2018. With an upcoming election, this year's Budget contains a few apparent sweeteners to woo voters.

But what does this actually mean for us? How does this affect the pockets of 24 million or so Australians who pay taxes in one of the highest taxed countries in the world?

Here we give you a breakdown of some of the Budget measures, what you need to know and how it impacts you.

But first, an overview...

This year's Budget is a blend of some 37 measures, but no single big-ticket item such as the bank levy of last year.

The measures range from those that impact individuals (personal tax cuts over the next 7 years; tightening ATO oversight of deductions claimed) and small businesses (extension of the current \$20,000 instant asset write-off for small business entities) through to big businesses (broadening the definition of 'significant global entity' to ensure that Australia's multinational tax integrity rules operate as intended).

For those wondering about superannuation, mercifully there were no major changes this year.

Major tax measures at-a-glance

| Individuals | Businesses |
|--|--|
| <ul style="list-style-type: none"> • Phased reform of personal income tax relief for low and middle-income earners • Change to personal income brackets • New Low and Middle-Income Tax Offset introduced • No Medicare levy increase – stays at 2% • Additional funding being allocated to the ATO for compliance enforcement – which may mean targeting work-related expenses | <ul style="list-style-type: none"> • Small business \$20,000 instant asset write-off extended • Black economy and illegal phoenixing activities targeted through increase in ATO funding • Overhaul of the research and development (R&D) tax incentive |

Key financial outcomes

- Budget expected to return to a modest surplus of \$2.2 billion by 2019-20 and increase to projected surpluses of \$11.0 billion in 2020-21 and \$16.6 billion in 2021-22.
- Budget deficit forecast to drop to \$14.5 billion in 2018-19, after hitting \$18.2 billion in 2017-18.
- Unemployment will be 5.25% in 2018-19, down from 5.5% in 2017-18 and projected to fall to 5% in 2021-22.
- Inflation will be 2.25% in 2018-19, up from 2% in 2017-18 and projected to hit 2.5% in 2020-21.
- Revenue is estimated to be \$486.1 billion in 2018-19, up from \$456.2 billion in 2017-18 and projected to reach \$537.9 billion in 2020-21.

What is the Government focusing on?

This year's Budget was all about building a stronger economy, more jobs and guaranteeing essential services that all Australians rely on.

Here is a list of the Government's to-do's and what actions they have promised to carry out.

| The to-do's | The actions |
|---|---|
| <p>1. Provide tax relief to encourage and reward working Australians and reduce cost pressures on households, including lowering electricity prices.</p> | <p>Lower personal income tax and provide tax relief for low and middle-income earners as part of the Government's 7-year 'Personal Income Tax Plan'. By 2024-25, approximately 94% of taxpayers are projected to face a marginal tax rate of 32.5% or less.</p> |

| | |
|--|--|
| 2. Keep backing business to invest and create more jobs, especially small and medium sized businesses. | Legislating tax cuts for all businesses, prioritising small to medium businesses, delivering infrastructure that supports industries and jobs, and targeting incentives to promote research, development and new technology. |
| 3. Guarantee the essential services that Australians rely on, like Medicare, hospitals, schools and caring for older Australians. | Funding for hospitals and schools and a comprehensive approach to aged care for older Australians, guaranteed funding for disability services. |
| 4. Keep Australians safe, with new investments to secure our borders. | Strengthening security at Australian airports, enhancing intelligence capabilities and implementing smarter biosecurity systems to safeguard our border. |
| 5. Ensure that the Government lives within its means, keeping spending and taxes under control. | Government borrowings will continue funding critical infrastructure and defence spending. |



The Budget sweetener: lowering personal taxes

Low and middle-income earners have emerged as the winners from the Budget. The Government unveiled their 7-year 3-phase plan, focusing on reducing the tax burden on individual taxpayers from 1 July 2018.

The sweetener is clearly a plan to introduce what the Government hopes will entice voters – adjustments to personal income tax rates. 80% of the taxpaying population (all those earning up to \$87,000) will get some benefit from this change from 1 July 2018.

Change to personal income brackets

In later years, the number of brackets will be reduced from five to four with the elimination of the 37% rate. The top rate of 45% will only cut in at \$200,000.

| Current | | | Projected | | |
|----------------------|-------|--------------------------------|----------------------|-------|--------------------------------|
| Income bracket | Rate | % of taxpayers in this bracket | Income bracket | Rate | % of taxpayers in this bracket |
| \$0 - \$18,200 | Nil | 22% | \$0 - \$18,200 | Nil | 21% |
| \$18,201 - \$37,000 | 19% | | \$18,201 - \$41,000 | 19% | |
| \$37,001 - \$87,000 | 32.5% | 53% | \$41,001 - \$200,000 | 32.5% | 73% |
| \$87,001 - \$180,000 | 37% | 20% | \$200,000 + | 45% | 6% |
| \$180,000 + | 45% | 5% | | | |

Note! What remains unclear is the position for foreign residents and how they will be taxed.

New Low and Middle-Income Tax Offset

The Government has introduced a new Low and Middle-Income Tax Offset to deliver lower personal income taxes for low to middle-income earners through a 3-phase plan.

The benefit of the Low and Middle-Income Tax Offset is in addition to the existing Low-Income Tax Offset. This may result in a combined offset of up to \$975 per year for some taxpayers from 1 July 2018.

Phase 1:

Tax relief from 1 July 2018 to low and middle-income earners via a new non-refundable Low and Middle-Income Tax Offset, designed to provide tax relief of up to \$530 for each of those years.

From 2018-19 to 2021-22, taxpayers will receive the following non-refundable tax offsets.

- Alice earns \$35,000 and pays 19 cents in the dollar. She will have her tax reduced by up to \$200 on what she has paid in tax once the Low and Middle-Income Tax Offset applies. The average tax paid by Australians in this tax bracket is \$1,900 per year.
- Ben earns \$48,000 and pays 32.5 cents in the dollar. He will have his tax reduced by up to a maximum of \$530 per year once the Low and Middle-Income Tax Offset applies. The average tax paid by Australians in this tax bracket was \$10,400 per year in 2015-16. 4.4 million taxpayers with an income between \$48,000 and \$90,000 will receive the maximum tax relief of \$530.
- Claire earns \$95,000. The Low and Middle-Income Tax Offset will phase out at a rate of 1.5 cents per dollar, which means her tax relief reduces to zero at just over \$125,000.

Phase 2:**Protecting bracket creep by ensuring a pay rise, extra overtime or working more hours does not get eaten up by higher tax rates.**

In the 2016-17 Budget, the Government increased the top threshold for the 32.5% tax bracket from \$80,000 to \$87,000.

This threshold will now be set at \$90,000 from 1 July 2018.

In 2022-23, the \$37,000 threshold will be lifted to \$41,000, stopping half a million Australians from creeping into the next tax bracket and facing a marginal rate of 32.5%. The \$90,000 threshold will be raised again to \$120,000, preventing 1.8 million Australians paying 37 cents in the dollar.

Phase 3:**Simplifying and flattening the personal tax system in 2024-25 by scrapping the 37% tax bracket entirely.**

The top threshold of the 32.5% bracket will increase from \$120,000 to \$200,000, removing the 37% tax bracket completely. Taxpayers will pay the top marginal tax rate of 45% from taxable incomes exceeding \$200,000 and the 32.5% tax bracket will apply to taxable incomes of \$41,001 to \$200,000.

What are your savings per year?

| If you earn... | Your savings per year |
|-----------------------|--|
| \$37,000 or less | Up to \$200 |
| \$37,001 - \$47,999 | Between \$200 - \$530 |
| \$48,000 - \$90,000 | Up to \$530 |
| \$90,001 - \$125,333 | Up to \$530, gradually reducing to \$0 |

Work-related expenses: hidden target in Budget

A strong theme in the narrative accompanying the revenue measures in this year's Budget is the additional boost to funding being allocated to the ATO and related organisations. This is evident from a number of measures, including:

- Personal income tax measures to ensure individuals meet their tax obligations (\$130.8 million)
- Delivering on debt collections and improvement in timeliness of debt collections (\$133.7 million)

- Enhancing ATO enforcement against the Black Economy (\$318.5 million)
- R&D measure providing additional funding to the ATO and the Department of Industry, Innovation and Science (amount not specified)
- Assorted other measures relating to aspects of superannuation and payroll and superannuation fund reporting.

The measure seeking to ensure individuals meet their tax obligations alone is estimated to raise some \$1.1 billion over the forward estimates. This could be read principally as a reference to ensuring that taxpayers do not over-claim work-related expenses.

Medicare levy untouched

The Medicare levy will remain at 2%. In last year's Budget, the Government had proposed to increase the Medicare levy from 2% to 2.5% from 1 July 2019 but has decided not to go ahead with this.

Medicare levy low-income thresholds

The Medicare levy low-income thresholds for singles, families and seniors and pensioners will increase for the 2018-19 year.

| | |
|---------------------------------------|---|
| Singles | \$21,980 (up from \$21,655) |
| Couples with no children | \$37,089 (up from \$36,541) |
| Families with children | \$37,089 (up from \$36,541) + \$3,406 for each dependent child or student (up from \$3,356) |
| Single seniors/pensioners | \$34,758 (up from \$34,244) |
| Seniors/pensioners with family | \$48,385 (up from \$47,670) + \$3,406 for each dependent child or student. |

What about older Australians?

The Government will introduce a range of measures to enhance the standard of living of older Australians. These measures will commence on 1 July 2019.

- Expanding the Pension Work Bonus from \$250 to \$300 per fortnight (ie up to \$7,800 a year)
- Pension Loans Scheme opened to all older Australians to include self-employed retirees who will be able to earn up to \$300 per fortnight without impacting their eligibility for the pension
- Expanding the Pension Loans Scheme so that older Australians can use the equity in their homes to increase their incomes
- Changes to pension means test rules to help older Australians manage their life savings.



Small business \$20,000 instant asset write-off extended

The \$20,000 instant asset write-off is being extended for another 12 months for businesses with an aggregated turnover of less than \$10 million so that it will now expire on 30 June 2019.

The measure will improve cash flow for small businesses, providing a boost to small business activity and investment for another year.

The threshold amount was originally due to return to \$1,000 on 1 July 2018. However, as a result of the Budget announcement, small businesses will be able to immediately deduct purchases of eligible depreciating assets costing less than \$20,000 that are acquired between 1 July 2017 and 30 June 2019 and first used or installed ready for use by 30 June 2019 for a taxable purpose. Only a few assets are not eligible (such as horticultural plants and in-house software).

On 1 July 2019, the threshold will reduce to \$1,000.

Note! Don't forget that purchases will only qualify if they total \$19,999.99 or less!

The \$20,000 instant asset write-off explained

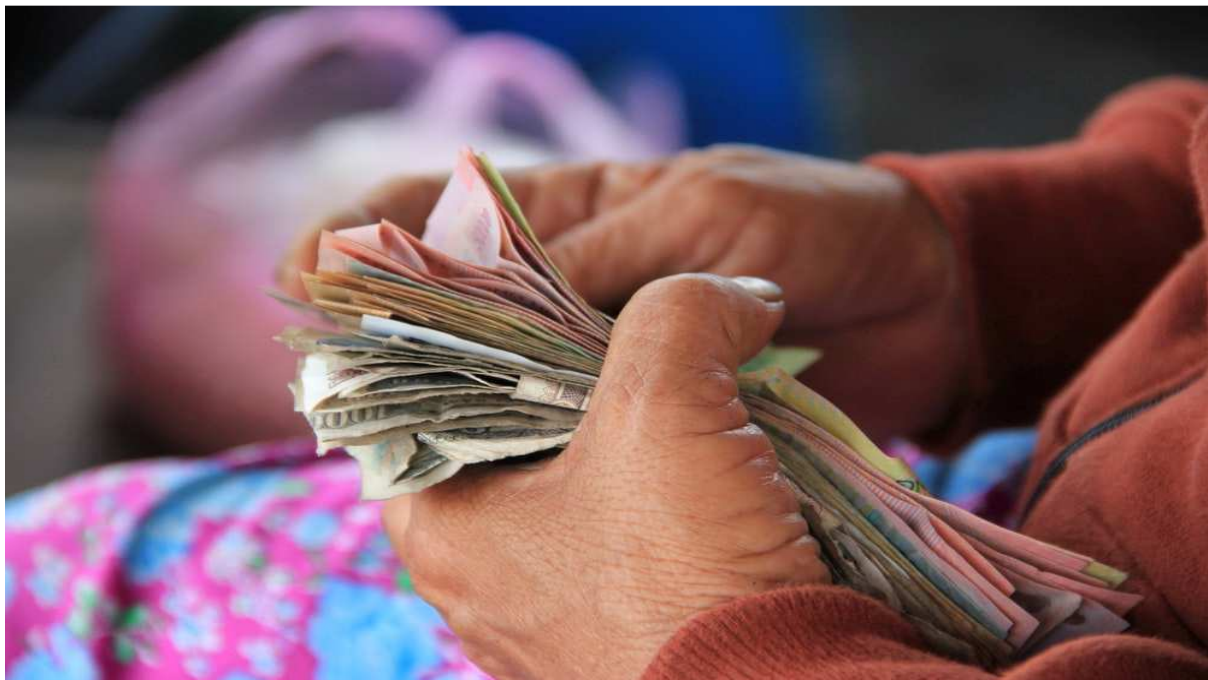
If you buy an asset to use for business purposes and it costs less than \$20,000, you can immediately deduct the business portion of the cost in your tax return. This deduction is used for each asset that costs less than \$20,000. You would then claim the deduction through your tax return, in the year the asset was first used or installed ready for use.

It is important to note that the cost of an asset includes both the amount you paid for it and any additional amounts you spent on transporting and installing it.

What about assets valued at \$20,000 or more?

Assets valued at \$20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool (the pool) and depreciated at 15% in the first income year and 30% each income year thereafter. The pool can also be immediately deducted if the balance is less than \$20,000 over this period (including existing pools).

The current 'lock out' laws for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for five years if they opt out) will continue to be suspended until 30 June 2019.



Major crackdown on the Black Economy

The Government will introduce 3 new key measures targeting Black Economy activities and illegal phoenixing. These are:

- Limiting cash payments within Australia to \$10,000
- Disallowing deductions to businesses for payments to employees where PAYG could have been withheld and payments to contractors where an ABN is not provided and the business does not withhold any tax
- Expanding the Taxable Payments Reporting system to cover contractor payments in the security providers and investigation services industry, road freight transport and computer system design and related services industry.

These measures will be reinforced by the \$318 million being given to the ATO over 4 years to implement new strategies targeting the Black Economy and phoenixing activities.

With the boost in funding from the Government, the ATO plans to improve data analytics and data matching, implement new "mobile strike teams", increase information sharing between government enforcement agencies and increase its audit presence.

The funding will commence on 1 July 2018.

Why the crackdown?

This measure is in response to the Black Economy Taskforce findings that contractors in these industries have been identified by the ATO as being at higher risk of not complying with their tax obligations.

Under the taxable payments reporting system (TPRS), businesses are required to report payments to contractors to the ATO. This brings payments to contractors in these industries into line with wages which are reported to the ATO.

Businesses will need to ensure that they collect information from 1 July 2019, with the first annual report required in August 2020. A new online form will make the reporting process easier.

Stay compliant!

It is expected that the Government's revenue bottom line will be better off by \$3 billion over the forward estimates period and there will be an extra \$2.5 billion in underlying cash receipts. These numbers suggest some robust enforcement from the ATO is coming to the Black Economy. All taxpayers need to ensure they are fully compliant with the law or they may find themselves entangled in these enforcement strategies.

Reforms to combat illegal phoenixing

Illegal phoenix activity is when a new company is created to continue the business of a company that has been deliberately liquidated to avoid paying its debts, including taxes, creditors and employee entitlements. This illegal phoenix activity impacts the business community, employees, contractors, the Government and environment.

The Treasurer reinforced in his Budget speech that the Government is making sure small businesses don't get ripped off by other businesses who deliberately go bust to avoid paying their bills, with tough new anti-phoenixing measures.

Additional funding will be given to the ATO from 1 July 2018 to bolster compliance activities and better target those who participate in illegal phoenixing.



One last thing!

Talk to your tax agent or tax adviser about any questions you may have regarding what impact the Budget measures will have on your personal circumstances!

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