Federal Budget 2019–20

Insights and analysis into the Australian Federal Budget delivered on 2 April 2019

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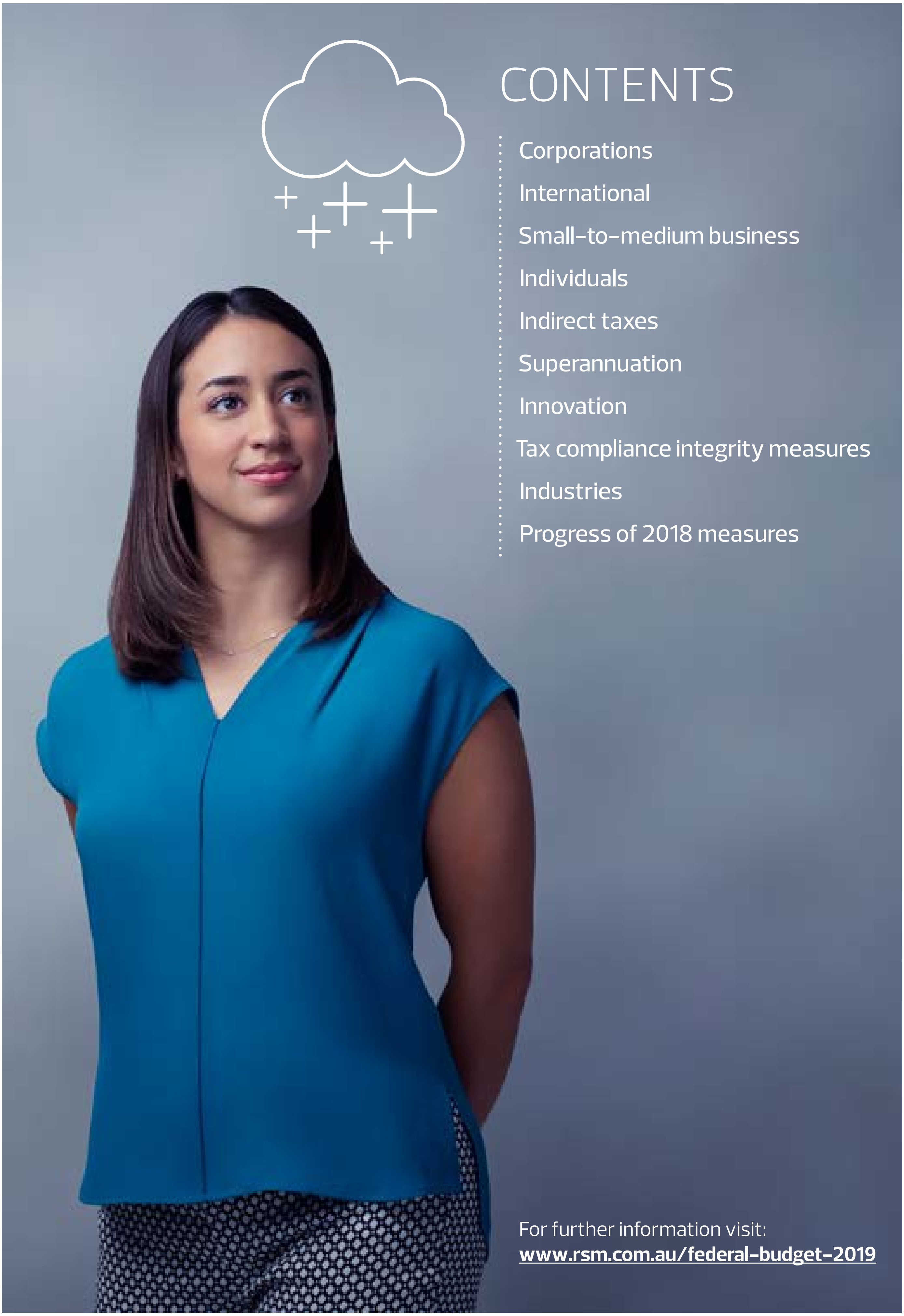

CONTENTS

- Corporations
- International
- Small-to-medium business
- Individuals
- Indirect taxes
- Superannuation
- Innovation
- Tax compliance integrity measures
- Industries
- Progress of 2018 measures

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Forecast of tax relief with an election overcast

The 2019-20 Federal Budget was brought forward from May to 2 April with the unabashed motive of improving the Coalition election prospects in May 2019. Roy Morgan's February 2019 poll puts the ALP at 52.5% and the Coalition at 47.5% of the two party preferred vote. The question remains - has the 2019-20 Budget done enough to turn around the Government's sentiment in the electorate and bridge the gap held by the Opposition?

The key phrase emphasised eight times in the Treasurer's Budget Speech was "without increasing taxes". No new tax measures were announced by the Treasurer. Indeed, further tax cuts and offsets were announced. These points will undoubtedly become a key point of note in the Coalition's campaigning and a contrast to increased tax measures proposed by Labor. Labor is, among other tax reform measures, proposing the removal of negative gearing for existing residential dwellings, a reduction in the capital gains tax (CGT) discount to 25% and the removal of franking credit refunds.

In the lead up to the election, the Coalition will advocate that it is a better manager of the economy than Labor.

The projected 2019-20 budget surplus is $7.1 billion — that's $5 billion higher than the surplus projected 11 months ago. If achieved, this will be the first time in 12 years that the budget has returned to surplus. The Government can be thankful for the higher than forecast commodity prices for contributing towards the improvement in the country's fiscal position and outlook. Budget surpluses totalling $45 billion are projected for the next four years, notwithstanding tax cuts and spending measures. The Government is aiming to eliminate its net debt by 2029-30.

Real GDP is projected to increase to 2.75 %, the CPI is projected to increase to 2.25 % and the unemployment rate is projected to remain constant at 5%. Some economists are projecting a slowdown in the world economy in the immediate horizon, and should this occur, the foundation on which this budget has been based would look shaky.

covering income bands between $45,000 and $200,000, will be reduced to 30%. This will result in 94% of Australians paying tax at a rate of no higher than 30%. The cost of these two measures is $158 billion to 2029-30.

Small to medium sized businesses will be assisted by an extension of the instant asset write-off. With effect from 2 April 2019 until 30 June 2020, businesses with a turnover of up to $50 million will be able to immediately write off for tax purposes a depreciable asset costing up to $30,000 (previously $25,000). This measure will have a $200 million impact on the 2019-20 budget but interestingly no impact over the forward estimates.

The Australian Taxation Office (ATO) will receive an extra $1 billion of funding over four years to expand the Tax Avoidance Taskforce that monitors compliance and undertakes reviews of multinationals, large public and private groups, trusts and high wealth individuals. The ATO will receive additional funding to develop data analytics tools that will enable them to get new perspectives on taxpayer data. Taxpayers should expect more regular and focused ATO reviews.

On the debit (expenditure) side of the budget the Government has announced a myriad of spending measures. Newly announced infrastructure spending on rail and road projects will cost $4.5 billion taking infrastructure spending to $100 billion over the next decade. Medicare is here to stay (to thwart Labor's big scare tactic at the last election). New health spending announcements will cost $2 billion over the forward estimates.

Only time will tell whether this Budget, and in particular the increased tax cuts and offsets to low and middle income Australians, will deliver the election triumph the Government is seeking. Labor's Budget reply is on Thursday. At that point, the punters (ie the electorate) will be able to contrast the differences in Labor and Coalition tax policy. If Labor wins the May election, this Budget becomes nothing more than a passing shower.

Major economic parameters

	OUTCOMES		FORECASTS		PROJECTIONS	
	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Real GDP	2.8	2.25	2.75	2.75	3	3
Employment	2.7	2	1.75	1.75	1.5	1.5
Unemployment Rate	5.4	5	5	5	5	5
Consumer Price Index	2.1	1.5	2.25	2.5	2.5	2.5
Wage Price Index	2.1	2.5	2.75	3.25	3.5	3.5
Nominal GDP	4.7	5	3.25	3.75	4.5	4.5

This Budget contained very few newly announced tax related measures.

The low and middle-income tax offset will more than double to $1,080 from 2018-19. Taxpayers earning up to $126,000 will be entitled to the offset. More than 10 million Australians will benefit from this offset. From 1 July 2024 the 32.5% rate,

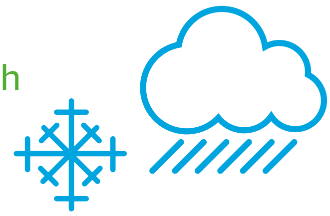
Simon Aitken
Director, Tax Services

CORPORATIONS

- **Being an election-focused Budget, the Government has deliberately directed tax concessions to small and medium sized businesses with turnover less than $50 million**
- **For larger businesses, a gloomier outlook, with the Budget offering no incentives or reforms, while providing additional funding for the ATO and some extensions to existing integrity measures**

FORECAST

Gloomy outlook with icy conditions, caution advised



Corporate tax rate reductions for all companies — the sun finally sets

The Budget clearly signals that the earlier proposals to progressively reduce the company tax rate for all companies to 25% has been fully abandoned.

The Coalition has long campaigned on the need to reduce the corporate tax rate from an increasingly uncompetitive rate of 30% to 25% over time, especially against the backdrop of the Trump-led tax reforms in the US, which has seen the federal tax rate reduced to 21% for all corporates. However the proposed laws to give effect to the reduction in tax for all corporates failed to pass the Senate during this term of government.

With this Budget, the proposal to reduce the corporate tax rate for larger businesses to 25% progressively over the period to 2026-27 has been dropped permanently from the Coalition's plans.

In essence, the Budget confirms a complex future of different corporate tax rates for companies with turnovers under or over $50 million. Under the new plan to bring forward the reduced 25% tax rate to 2021-22 for small to medium sized companies with a turnover of less than $50 million, there will be a 5% tax rate differential for different sized businesses commencing in just over a year's time.

Integrity measures and funding for the ATO

The Government claims to have implemented more than a dozen measures to strengthen the integrity of Australia's international tax framework. These measures include implementing the Multinational Anti-Avoidance Law (MAAL), the Diverted Profits Tax, the G20/OECD Base Erosion and Profit Shifting (BEPS) recommendations, increased tax penalties for large entities, and establishing a Tax Avoidance Taskforce within the ATO.

Since July 2016, the Government claims to have raised $12.9 billion in additional tax liabilities from large public groups and multinationals. The ATO estimates the MAAL alone will bring an additional $7 billion of sales revenue back into the Australian tax base each year.

The Budget provides additional funding to extend the ATO Tax Avoidance Taskforce to 2023, which will continue to have a focus on multinationals, big business and high net worth individuals.

The Budget also signals a focus on increasing the ATO's engagement and on time payment of tax and superannuation liabilities by large corporate entities and high net worth individuals, with additional funding to enable it to recover unpaid tax and superannuation liabilities. With the potential political sensitivity around the ATO's debt recovery tactics with small business, the Government specifically states that the measure will not extend to small businesses.

Specific measures – the unfinished business

In terms of the measures still being implemented, the Budget reaffirms its commitment to the following specific measures:

- tax reforms aimed at reducing the tax benefits achieved by "stapled security" structures
- reforming the Petroleum Resource Rent Tax (PRRT)
- extending GST to offshore sellers of hotel bookings in Australia

After a period of review and consultation, the Government announced proposed changes to the tax treatment of stapled security structures in March 2018 to improve the integrity of the provisions by limiting concessions available to foreign investors. The proposed changes are currently before the Senate.

Proposed reforms to the PRRT were announced in February 2019 and are currently before the House of Representatives.

The proposed reforms were intended to reduce uplift rates on carried forward expenditure designed to reduce future PRRT deductions on long-term projects. Onshore projects were also to be removed to simplify the PRRT regime, after proving not to generate any revenue. Both amendments were proposed to be prospective, applying from 1 July 2019.

With the final Parliament sitting days coming up, the stapled security and PRRT reforms may not have much chance of being enacted before Parliament dissolves for the election.

Proposed changes to bring offshore sellers of local hotel accommodation into the GST net are also contained in a bill before the House of Representatives that looks unlikely to be enacted before the election.

More tinkering with hybrid mismatch rules

The Government will make a number of minor amendments to Australia's hybrid mismatch rules to "clarify their operation".

The hybrid mismatch rules are designed to prevent multinational corporations from exploiting differences in the tax treatment of an entity or instrument under the laws of two or more tax jurisdictions.

The proposed changes will stipulate how the rules apply to Multiple Entry Consolidated (MEC) groups and trusts, clarify the meaning of foreign tax, and specify that the integrity rule can apply where other provisions in the tax law have applied.

This measure will apply to income years commencing on or after 1 January 2019, except for the amendments to the integrity rule, which will apply to income years commencing on or after 2 April 2019.

It is not expected that the proposed changes to the hybrid mismatch rules will raise any additional revenue over the forward estimates.

ATO Tax Avoidance Taskforce – more gains from targeted compliance activity

The Budget allocates an additional $1 billion over four years from 2019-20, to the ATO to extend the operation of the Tax Avoidance Taskforce.

This measure is estimated to produce a gain to the budget of $3.6 billion over the forward estimates, suggesting that the ATO considers that there is still significant upside from compliance programs aimed at large businesses, multinationals and high net worth individuals.

If you haven't already battened-down the hatches with strong tax governance processes – now might be the time.

WINNERS

The ATO

LOSERS

Big business, multinationals, and high net worth individuals

INTERNATIONAL

INTERNATIONAL TAX MEASURES

For a change, the international tax sphere has not been a key target of Australian Government new initiatives in the Budget.

No wonder there are no new initiatives targeting multinationals, the Government seems to have run out of steam considering the dozen measures it has recently implemented.

Based on the ATO's figures, it seems the recent measures may have started to pay off as the ATO has raised $12.9 billion in tax liabilities from large businesses, high net worth individuals and associated groups since 2016.

Perhaps encouraged by these collections, the Government has extended the Tax Avoidance Taskforce life span until 2023 as well as boosted its funding by an extra $1 billion. Clearly the increased funding makes sense given the Tax Avoidance Taskforce has collected $5.6 billion in extra tax in just the two years it has been established. The question however is whether the additional increased funding would deliver the expected collection of $3.1 billion over the forward estimates period given the original funding for the taskforce back in 2016 was to the tune of $679 million over four years.

The respite from new initiatives might be seen favourably by most multinationals, however a recap of the most recent measures shows multinationals have more than enough on their plates to deal with:

- Multinational Anti-avoidance Law (MAAL)
- Diverted Profits Tax
- Country-by-country Reporting
- Stronger transfer pricing rules
- Increased penalties for Significant Global Entities (SGEs)
- The Multilateral Instrument

FORECAST

Is it the eye of the storm for multinational companies?

Uncertainty in this space remains high given the number of tax bills that are yet to be actioned such as:

- The proposed introduction of tax on foreign originated digital products and services. The ATO is not alone in this delay, the OECD itself is struggling to meet the 2020 deadline
- Expanding the reach of the SGEs penalties to a Notional Listed Company Group, which includes groups that are headed by proprietary companies, trusts, partnerships and investment entities

WINNERS

The ATO with additional funding and the extension of the Tax Avoidance Taskforce lifespan

LOSERS

Multinationals along with big businesses and high net worth individuals as the increased funding to the ATO will mean increased scrutiny of their affairs and a possible increase in their compliance burden

DIGITAL TAX MEASURES

FORECAST

Cloudy with patches of fog

Budget silent on any implementation of new digital tax measures.

A policy cloud continues to obscure the Government's intentions regarding the need for a separate new regime for taxing the digital economy. A Treasury consultation process closed in November 2018 and this Budget is silent on any new measures on this front.

Some countries have implemented similar regimes and now apply a withholding tax to outbound payments made to foreign businesses, particularly for advertising services beamed back into the country of source (e.g. Google, Facebook, etc). Under current tax settings, such advertising service payments are not subject to source state taxation.

Other countries are talking about introducing something similar. Recently, the EU withdrew a detailed proposal to introduce a Digital Services Tax after it could not reach agreement amongst member states. Some states are still pushing for its introduction.

In the US, following the Wayfair decision, State legislatures are now free to tax out of State trades who have a digital presence in a State. Internet-based traders interstate now have to account for tax on remote sales made to customers resident in those states.

Perhaps Australia feels the international climate is a little too unsettled for the introduction of a digital services tax at this point. However, if there is a change of government at the next election, it is likely Labor would repatriate David Bradbury from his senior role at the OECD, and he would be a perfect champion for the introduction of such a new tax regime.

WINNERS

Digital businesses operating in Australia

LOSERS

Government unable to increase revenues without a digital tax in place

CHANGES TO SIGNIFICANT GLOBAL ENTITY (SGE) RULES

FORECAST

Cloudy with future rain predicted

Widening of the applicability of SGE rules to capture large groups that are not headed by a corporate entity. This will impose greater penalties on these taxpayers and increase compliance costs for some.

Treasury Laws Amendment (Making Sure Multinationals Pay their Fair Share of Tax in Australia and Other Measures) Bill 2018 is currently with the House of Representatives, but is expected to lapse when the Parliament dissolves for the May election.

Included in the Bill are several somewhat obscure provisions, which will have the effect of significantly widening the applicability of many of Australia's draconian tax laws aimed at the very largest global multinationals – the SGEs.

To currently qualify as an SGE, the global group must be headed by a corporate entity. Many large family-controlled groups are not, and therefore avoid being classified as an SGE. However that is proposed to change – large groups not headed by a corporate are going to have to self-assess whether, if they were headed by a corporate, they would be classified as an SGE. If the answer is yes, then they are to be classified as an SGE and subject to all the SGE specific legislation provisions.

Also potentially caught under this proposed change are private equity and venture capital fund groups, aggregating separate financially unrelated investment structures. The current legalisation is based on clear accounting standards, which can be applied objectively and accurately. The proposed changes reverse the onus and require groups to self-assess their status, currently with very limited guidance.

It can be expected that these measures will be reintroduced into the next Parliament, irrespective of which party wins government.

WINNERS

The Government: increased compliance on multinationals provides the ATO with more information to assess a taxpayer's risk to the Australian tax base

LOSERS

More multinationals will be subject increased penalties

SMEs

INSTANT ASSET WRITE-OFF

- **Access to the instant asset write-off to be extended to taxpayers with turnover under $50 million**
- **The asset value threshold will also increase to $30,000**
- **Applicable to assets purchased after the Budget announcement (2 April 2019) and used, or installed ready for use, in a business before 30 June 2020**

Businesses with turnover of less than $50 million will now be able to claim an immediate deduction for depreciating assets costing less than $30,000.

This measure extends the Government's previous instant asset write-off scheme by:

- Extending access to the scheme to businesses with aggregated turnover of less than $50 million (was $10 million)
- Increasing the asset threshold (and immediate deduction) to assets costing less than $30,000 (was $20,000 with the Government previously announcing an increase to $25,000)
- Extending the operation of the scheme through to assets that are in use, or installed ready for use, by 30 June 2020

These measures may not pass Parliament prior to the federal election, therefore we recommend businesses not undertake unnecessary asset purchases prior to the federal election in May 2019.

WINNERS

Small to medium sized businesses looking to buy new equipment or upgrade existing equipment in the next 15 months

LOSERS

Businesses currently running at a tax loss will still get a deduction for assets purchased, but will not obtain a cash flow benefit from the deduction until carried forward tax losses are able to be recouped

FORECAST

Sunny skies and pots of gold at the end of the SME rainbow!

Case study

Perfect Pastries Pty Ltd has an aggregated turnover of $20 million and a taxable income of $800,000 for the 2019-20 income year. In previous years, Perfect Pastries Pty Ltd's turnover was too large, and it could not access the instant asset write-off. The Budget announcement will now allow Perfect Pastries to access the instant asset-write-off.

On 1 July 2019, Perfect Pastries purchases 10 new commercial ovens to allow for increased production, at a cost of $12,000 each.

Under the new $30,000 instant asset write-off scheme, Perfect Pastries would claim an immediate deduction of $120,000 for the purchase of the 10 ovens in the 30 June 2020 income year. The cashflow benefit of this tax deduction would be $33,000 ($120,000 x 27.5%), and the company will obtain the cashflow benefit (through a reduced income tax liability) when it lodges its tax return for the 2020 year.

If these assets were instead purchased on 1 July 2018 (prior to the Budget announcement), Perfect Pastries would depreciate the new ovens using an effective life of 15 years, claiming a tax deduction of $1,600 per oven (diminishing value), resulting in a total deduction of $16,000 for the 2018-19 income year. The cashflow benefit of this tax deduction for Perfect Pastries would only be $4,400 ($16,000 x 27.5%).

DELAY TO DIVISION 7A MEASURES

- **The commencement date for previously announced Division 7A measures will be delayed until 1 July 2020**
- **The Government will undertake additional consultation with various stakeholders to ensure the new rules are appropriately targeted and implemented with transitional arrangements**

The Division 7A rules are broadly designed to ensure that private companies do not make tax-free distributions to shareholders or associates by way of payments, loans or forgiveness of loans.

The rules have broadened significantly since their introduction in December 1997 to include certain arrangements involving trusts and private companies and use of private company assets for less than market value payment.

The Government had previously announced it would substantially overhaul the operation of the Division 7A rules as follows:

- simplifying the Division 7A loan rules to make it easier for taxpayers to comply, including the removal of the requirement for loan agreements to be in writing
- requiring all existing seven year and 25-year Division 7A loans, and all future Division 7A loans to have a loan duration of 10 years, while better aligning the calculation of the minimum interest rate with commercial transactions
- replacing the requirement to apply for ATO discretion for Division 7A mistakes and errors with a self-correction mechanism giving taxpayers the opportunity to voluntarily correct their Division 7A arrangements without penalty
- simplifying the private company asset use rules by introducing safe harbour measures
- ensuring that unpaid present entitlements from trusts will come within the scope of Division 7A

WINNERS

Private companies with significant existing Division 7A loan balances, and "quarantined" pre-Division 7A and pre-December 2009 unpaid present entitlements get an additional 12 months grace to transition to the new rules. RSM hopes that there will be further transitional relief available for these companies

LOSERS

Private companies who are left waiting for further guidance from the Government on what amendments will be made to the Division 7A rules

INDIVIDUALS

PERSONAL TAX

The Government will lower taxes for individuals by building on its Personal Income Tax Plan (the Plan). Immediate tax relief will be provided to low and middle-income earners, the flow-on effect will help maintain consumption growth in a slowing economy.

As a result of the Plan, 94% of Australian taxpayers will have a marginal tax rate of 30% or less in 2024-25. The balance of the taxpayers, who earn over $200,000 per annum, will face the current top marginal tax rate of 45% (before the Medicare levy). Taxpayers on the top marginal rate will pay 10 times more tax than a person earning $45,000.

However, a person who earns $200,000 in 2024 will be materially better off under the revised tax brackets, together with the lower rates, with an overall tax saving of about $11,500.

The 37% tax bracket currently applicable for taxpayers earning between $87,000 and $180,000 will be abolished.

For the current year to 2024-25, before the transition to the lower tax rates, a low-and middle-income tax offset (LMITO) will be implemented. The reduction in tax from this offset will increase from a maximum of $530 to $1,080, while the base amount will increase from $200 to $255 per annum for the 2018-19, 2019-20, 2020-21, and 2021-22 income years.

To receive the LMITO, an individual will be required to lodge a personal tax return, with the tax benefit arising on the processing of their personal return.

Income Threshold	2018-19 Maximum LMITO	2019-20 Maximum LMITO	Difference
$0 - $37,000	$200	$255	$55
$37,001 - $48,000	$530	$1,080	$550
$48,001 - $90,000	$530	$1,080	$550
$90,001 - $125,999	Reduced by 1.5c per $	Reduced by 3c per $	Reduced by 1.5c per $
> $126,000	Nil	Nil	Nil

FORECAST

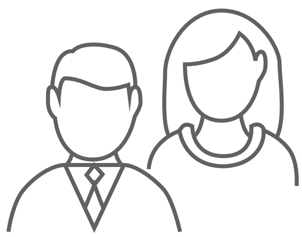
Long term forecast for clear skies and balmy weather

WINNERS

Low income earners in the short term (pre 1 July 2022); middle income earners; high income earners, from 1 July 2022

LOSERS

Low income earners post 1 July 2022



From 1 July 2022, the Government proposes to increase the maximum low-income tax offset (LITO) from $645 to $700.

From 1 July 2022, the personal tax rate of 19% will apply up to $45,000 (currently $41,000).

Tax Rate	2018-19 to 2021-22	2022-23 to 2023-24
0%	$0 - $18,200	$0 - $18,200
19%	$18,201 - $ 37,000	$18,201 - $45,000
32.5%	$37,001 - $90,000	$45,001 - $120,000
37%	$90,001 - $ 180,000	$120,001 - $180,000
45%	$180,001 +	$180,001 +

Tax Rate	From 2024-25
0%	$0 - $18,200
19%	$18,201 - $ 45,000
30%	$45,001 - $ 200,000
45%	$200,001 +

TAX-FREE ENERGY PAYMENTS TO PENSIONERS

A once-off Energy Assistance payment will be paid to eligible pensioners who are resident in Australia, to assist with their next energy bill and cost of living expenses. The payment is to pensioners who were eligible for qualifying payments on 2 April 2019. The amount to be received is $75 for singles and $125 for couples. The payment is exempt from income tax and will be paid automatically before the end of the financial year.

SINGLE TOUCH PAYROLL (STP)

As part of the roll out of STP, the Government will have real-time access to the employment earnings of all employees. The ATO will have employment income reported directly under STP and will share this information with the Department of Human Services (from 1 July 2019), allowing direct monitoring of welfare recipients. This will enable the Government to ensure welfare payments are based on employees' actual earnings, rather than estimates. This is also beneficial for welfare recipients as they are less likely to receive overpayments which need to be repaid after the event. This measure is expected to achieve savings of $2.1 billion over five years.

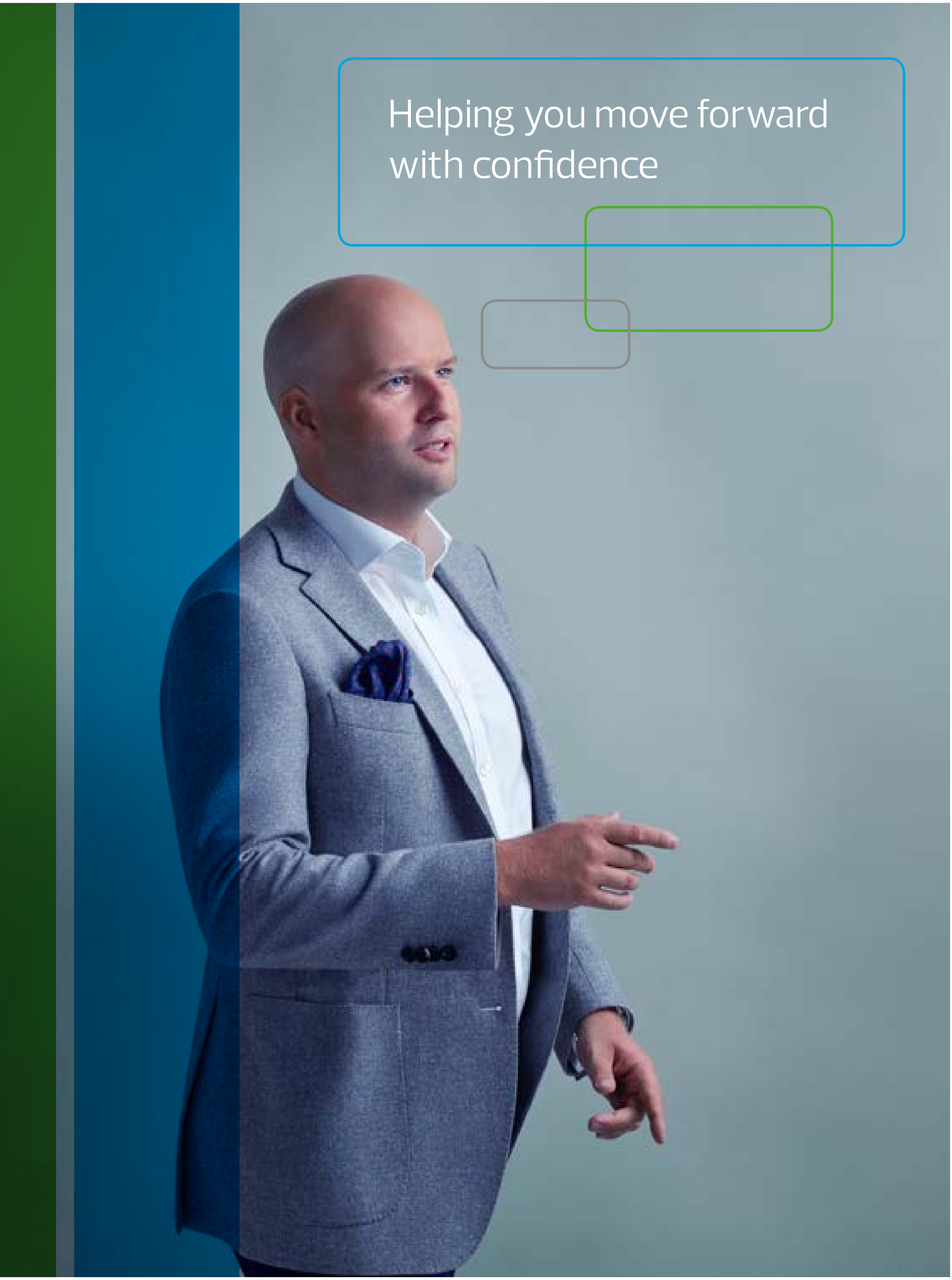
Case study

Edwina and Harry live together as a couple, with two dogs, Jock and Max. Edwina works full time as an employment lawyer, whereas Harry is studying part-time and works as a cleaner.

In the 2018-19 income year Edwina earns $150,000pa. and Harry earns $45,000pa.

From 1 July 2018, Harry receives a partial entitlement of the LITO and LMITO of $1,180 whereas Edwina is not eligible for any tax offsets. However, from 1 July 2024, Edwina will receive tax relief of $6,405, whereas Harry will receive tax relief of $1,405 which is not materially different to the current year.

Year	Taxable Income	Tax Paid	Tax Relief
2018-19 (as legislated)			
Edwina	$ 150,000	$ 45,997	$ -
Harry	$ 45,000	$ 7,072	$ 765
2018-19 (per budget announcement)			
Edwina	$ 150,000	$ 45,997	$ -
Harry	$ 45,000	$ 7,072	$ 1,180
2022-23			
Edwina	$ 150,000	$ 43,567	$ 2,430
Harry	$ 45,000	$ 5,992	$ 1,405
2024-25			
Edwina	$ 150,000	$ 39,592	$ 6,405
Harry	$ 45,000	$ 5,992	$ 1,405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INDIRECT TAXES

- **No changes to Goods and Services Tax (GST)**
- **Limited change to Luxury Car Tax (LCT)**

Goods and Services Tax (GST)

There have been no changes affecting GST in this year's Budget, indicating clear skies for the foreseeable future.

Limited change to Luxury Car Tax (LCT)

LCT is a tax imposed on businesses for the purchase or importation of luxury cars. Based on the current definitions, a luxury car is a vehicle with a GST-inclusive price over $66,331 (or $75,000 for fuel-efficient vehicles).

Currently, primary producers and tourism operators may be eligible for partial refunds of LCT paid on certain four-wheel and all-wheel drive vehicles (8/33rds of the luxury car tax up to a maximum of $3,000). In what is bright sunshine for tourism operators and welcome rain for farmers, this Budget measure removes the partial refund and extends the maximum to $10,000. This will apply to vehicles acquired on or after 1 July 2019. There will be no changes to the eligibility criteria or vehicle types.

FORECAST

Bright sunshine for tourism operators, welcome rain for farmers

WINNERS

Primary producers and tourism operators

LOSERS

Other business purchasers of luxury motor vehicles – there was some speculation this Budget would eliminate LCT, however this has not happened

Case study

Case Study 1

ABC Tourism Pty Ltd acquires a four-wheel-drive for $120,000 (including GST). It currently pays LCT of $16,101. Under the existing legislation, ABC Tourism Pty Ltd would be entitled to a refund of $3,000, being the lower of the $3,000 and 8/33rds of the LCT paid.

Under the proposed Budget measures, ABC Tourism Pty Ltd will receive an LCT refund of $10,000.

Case Study 2

Farmer Unit Trust acquires an all-wheel-drive for $90,000 (including GST). LCT paid on this vehicle is $7,101. Under the current rules, Farmer Unit Trust is entitled to a refund of the LCT paid of $1,721, being the lower of the $3,000 threshold and 8/33rds of the LCT paid. Under the proposed Budget measures, the Trust would receive a full LCT refund of $7,101.

SUPERANNUATION

- **No substantial changes to superannuation, stable weather conditions!**
- **Proposed extended ability to contribute for 65 & 66 year olds, more flexibility**

No substantial changes to Superannuation system

The Government has announced no substantial changes to the superannuation system under the Budget. The only change with any major impact was announced prior to the Budget in relation to the eligibility age to contribute to superannuation.

Otherwise, the Government has left the superannuation system unchanged after the implementation of the last substantial reforms on 1 July 2017. This is welcome, as constant change can be counter productive for Australians engaged in retirement planning.

Extending time to contribute

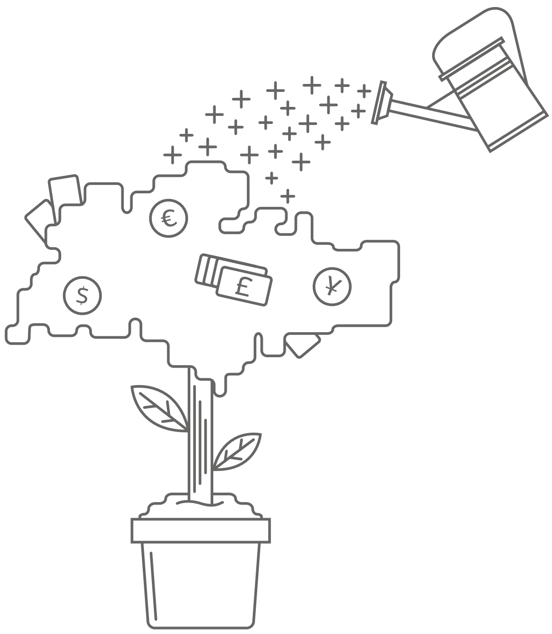
The Government is proposing that individuals will not be required to meet the work test until age 67 from 1 July 2020 (Age Pension age). This means that voluntary contributions can be made, and a tax deduction claimed up to the concessional limit of $25,000 to age 67.

Non-concessional contributions of $100,000 can also be made before age 67 without meeting the work test, and the three year bring forward rule can be applied before age 67. This improves flexibility for older Australians.

Another measure will allow spouse contributions to be received up to age 74 (previously 65). The contributing spouse can claim an 18% tax offset on contributions up to $3,000.

FORECAST

Sunny with clouds on the horizon depending on the election result



Exempt Current Pension Income (ECPI) streamlining

The Government has announced a streamlining of the calculation of ECPI for superannuation funds from 1 July 2020. This will simplify the current requirements, which will include the removal of the need for SMSFs that are wholly in pension phase to obtain an actuarial certificate.

This is a welcome announcement which will reduce the administrative red tape for many SMSFs.

2018 Budget announcements

Increasing maximum SMSF membership to six

This measure is currently before Parliament – to date this has not been voted on by either house. Given the proposed start date of 1 July 2019, if this does not pass before the election is called it is likely to be deferred.

SMSF audits every three years

A consultation paper was released by Treasury in relation to this measure. Significant negative feedback was provided by the industry in relation to the practical application of this measure. This proposal is likely to lapse after the election is called.

Contributions from multiple employers

The Bill to give effect to this change is before the Senate, but is not scheduled for debate during the sitting days this week.

WINNERS

Individuals born after 1 July 1955

Case study

Case Study 1

Margaret is 66 years of age and earns substantial income from an investment portfolio. For the year ending 30 June 2021, the removal of the work test will allow Margaret to contribute up to the concessional contribution limit (currently $25,000) to superannuation and claim a tax deduction. Depending on her total superannuation balance and Margaret's history of contributions, she may be eligible to contribute up to $300,000 of non-concessional contributions. Under the current contribution arrangements Margaret would not be eligible to contribute without passing the work test.

Case Study 2

Sandra (66) decides to contribute the maximum $3,000 to her retired husband Tom's (73) super fund, allowing her to claim a $540 tax offset.

Case Study 3

Phil is 65 years of age on 1 July 2021. During the 2021/22 financial year, he receives an inheritance of $500,000. Subject to his total superannuation balance and contribution history, Phil may be able to contribute $300,000 of the inheritance to superannuation as a non-concessional contribution. Under current contribution arrangements, the maximum contribution would likely be $100,000, subject to meeting the work test or other conditions.

INNOVATION

R&D TAX INCENTIVE AND INNOVATION

- **No changes to the current R&D tax incentive legislation (the changes announced in the 2018 Budget have been stalled in the Senate and there is no reference to it in the current Budget)**
- **Extra $60M funding for the Export Market Development Grant (EMDG)**

The government appears to have quietly abandoned the significant changes to the R&D tax incentive announced in the 2018 budget. The legislation for these changes was stalled in the Senate and, with the upcoming election, without further action will lapse.

As a result, the change to company tax rate for companies with turnover less than $50 million to 25% is significant for companies eligible to claim the R&D tax incentive.

For companies with less than $50 million turnover, the combination of no change to the R&D tax incentive and the reduced company tax rate results in an increased after-tax R&D benefit of 18.5% (up from 16% currently) for companies with under $20 million turnover and 13.5% (up from 11%) for companies with turnover between $20 million and $50 million.

The after-tax benefit for companies with over $50 million turnover remains at 8.5%

An additional $60 million has been provided in the Budget for EMDG which is a welcome boost for companies looking to develop exports.

WINNERS

Innovative companies with turnover under $50 million

Companies looking to grow their export markets

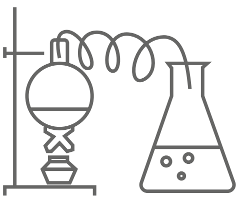
FORECAST

Storms passed to the south and sunny days ahead

Case study

"If company ABC is profitable and claiming the R&D tax incentive, with turnover of $15 million and spending $1 million on eligible R&D, their after-tax benefit will increase from $160k to $185k with no change to the R&D tax incentive legislation and a company tax rate of 25%.

This benefit will increase the resources available to invest in further innovation, grow their businesses and compete with overseas rivals."



TAX COMPLIANCE INTEGRITY MEASURES

- **New measure to match income tax compliance history to an ABN holder's ability to retain their ABN**
- **Further funding for ATO's debt recovery activities**
- **Increased funding for ATO's data analytics capabilities**

Going hand in hand with this Budget's mantra of 'all this without raising taxes' comes the necessary shoring up of the tax base by giving the ATO extra funding to ensure the integrity of the tax system and "shine a light" on taxpayers' tax affairs.

This Budget contains additional funding for the ATO to further strengthen the integrity of the tax compliance system.

Strengthening the Australian Business Number system

Aimed at disrupting the black economy without inconveniencing compliant businesses, the Government will strengthen the Australian Business Number system (ABN) by linking an ABN holder's ability to retain their ABN to their tax compliance obligations.

By July 2021, ABN holders with an income tax obligation will be required to lodge their income tax return in order to retain their ABN and from July 2022 they will be required to confirm the accuracy of their details on the Australian Business Register annually.

Debt recovery

The Budget provides further funding to assist with the ATO's debt recovery procedures. This is aimed specifically at encouraging the on-time payment of, and recovery of, unpaid income tax, GST and superannuation by medium and large taxpayers.

Increased funding for data analytics activities

The Government is increasing its data analytics abilities by more investment in its data processing capabilities.

The increased investment in the ATO's data analytics capabilities is, to a large degree, aimed at improving its extensive data matching abilities and goes hand in hand with the extension and expansion of the Tax Avoidance Taskforce (discussed in more detail in the Corporates section). Data-matching is a powerful administrative and law enforcement tool that the ATO uses to detect patterns and relationships between the ATO's highlighted risk areas and the data provided in, for example, a taxpayer's income tax return.

Establishment of the sham contracting unit

The Government will establish a dedicated sham contracting unit within the Fair Work Ombudsman to address sham contracting behaviour engaged in by some employers, who 'knowingly' or 'recklessly' misrepresent employment relationships as contractor relationships to avoid their statutory obligations.

FORECAST

Increased ATO surveillance – take cover!

WINNERS

The increased ability of the ATO to process and match data will result in an improved turnaround time for individuals and entities expecting refunds for their income tax returns

LOSERS

Businesses will face increased administrative requirements and a stricter compliance regime

INDUSTRY: AGRIBUSINESS

Welcome relief for drought and flood affected farmers with proposed small business tax changes the sweetener.

- **$6.3 billion in drought support and $3.3 billion for flood affected farmers**
- **Instant asset write-off extended to $30,000 from 2 April 2019 and expanded to businesses with a turnover less than $50 million**
- **Farm Household Allowance (FHA) eligibility extended for forced destocking sales**

The Government is providing $6.3 billion in drought assistance and concessional loans for farmers and farming communities. Flood-affected farmers in North Queensland will have access to up to $300 million in grants to rebuild farm infrastructure, replace livestock and replant crops.

The instant asset write-off will be welcomed by farmers and small business alike and will encourage investment in individual assets costing up to $30,000.

You will need to ensure the purchase is $29,999 or less exclusive of GST, and the asset must be installed and ready for use prior to 30 June to claim the deduction this year.

There is uncertainty with the upcoming election, but Labor's initial response indicates that they support this measure.

The FHA extension will ensure that FHA recipients will retain access to income support when net proceeds of forced livestock sales are invested into a Farm Management Deposit (FMD).

WINNERS

- All farming businesses with turnover under $50m
- Drought and flood assistance and concessional loans are welcome relief for struggling pastoralists dealing with high grain prices and extreme weather events across Australia
- Grain farmers in Eastern Australia struggling with prolonged periods of drought
- North Queensland farmers who will receive tax free grants and concessional interest free loans to assist in rebuilding

LOSERS

- While an extension of FHA access is positive, it is fraught with complexity as funds must be contributed to a complying FMD. This creates difficulty in managing taxes on withdrawal and is unlikely to be far-reaching in application

FORECAST

Perfect storm clears and the clean up begins

Case study

James Farm Trust, a grain farming enterprise is budgeting a loss of $400,000 for the 2018/19 financial year because of drought conditions. Mr James has $400,000 in an FMD and withdraws it in March 2019 to assist with cropping inputs.

Mr James is unable to offset the business loss of $400,000 against the personal income of $400,000 and accordingly has income tax of approximately $161,000 to pay whilst dealing with the cash flow effects of drought on the business.

Further alignment of these primary production tax measures with current drought and flood risk would be welcome relief for farmers.

WISHLIST

With approximately $6 billion in FMDs and increasing 'extreme' weather events, primary producers would benefit from changes to the FMD scheme, particularly in allowing the deposit to be made within a trading entity as opposed to an individual's name. This would allow business losses to be claimed against FMD income, effectively giving farmers the ability to drought-proof in a tax effective manner.

INDUSTRY:
HEALTH AND AGED CARE

- **$21.6 billion in 2019–20 to strengthen the safety, access to, and integrity of Australia's Aged Care system**
- **$1.3 billion over seven years to improve Australia's health and hospital system**
- **Increased investment in mental health**
- **Increased funding across a wide range of medical research**

The Government is aiming to boost health services across Australia by providing $1.3 billion over seven years from 2018–19 to the Community Health and Hospitals Program. This funding includes:

- $100 million for a comprehensive children's cancer centre in Sydney
- $80 million to establish a centre of excellence in cellular immunotherapy in Victoria
- $30 million for the construction of a new brain and spinal ward in South Australia

As part of a $1.1 billion dollar primary health care plan, the Government has matched Labor's commitment to end a freeze on the Medicare rebate for GP visits with effect from 1 July 2019.

The Government is prioritising mental health, providing $229.9 million over seven years from 2018–19 to improve mental health services, through strengthening social networks and peer groups, supporting social inclusion and increasing treatment options, including:

- $152 million to reduce waiting lists for 'Headspace'
- $110 million to extend Early Psychosis Youth Services program for two years
- $115 million to trial eight adult mental health centres
- $54 million to establish four specialist residential facilities for eating disorders

The Government is also continuing to invest in policies to support people staying at home longer. This will include:

- 10,000 additional home care packages across the four levels
- 13,500 additional residential aged care places

In addition, the Government will provide $5.9 billion over two years from 2020–21 to extend Commonwealth Home Support Programme (CHSP) funding arrangements. This programme contributes to essential home support services, assisting older people to keep living independently in their own home.

FORECAST
Sunny days ahead

Many of the funding measures announced for aged care focused on investment in new regulatory and compliance systems, including:

- mandatory quality indicators
- the Serious Incident Response Scheme
- increased home care compliance, including the design and implementation of an end-to-end compliance framework
- additional funding for compliance regarding the use of chemical restraint and antibiotics
- a new information sharing and risk targeting system

The Government has committed to invest in medical research through a $5 billion ten year investment plan for the Medical Research Future Fund. This investment spans four themes, patients, researchers, mission and translations. This will include:

- $614 million for rare cancers and diseases
- $220 million for cardiovascular health
- $605 million for clinical research
- $150 million for stem cell research
- $185 million to establish dementia, ageing and aged care mission

Through the haze of other expenditures, the Government will also provide $331 million for new and amended listings on the Pharmaceutical Benefits Scheme (PBS).

These investments demonstrate the importance of Australia's health and medical research sectors.

The Government is also aiming to produce a more active population across Australia by providing $386 million over six years from 2018–19 to build on Sports 2030. This funding includes:

- $150 million for female change room facilities at sporting grounds and community swimming facilities
- $41 million to provide free sport-based activities for school students through the Sporting Schools Program

WINNERS
Older Australians, universities and research institutions

INDUSTRY: INFRASTRUCTURE

In a bid to further strengthen the economy, the Government has announced they will increase expenditure on new infrastructure initiatives. After all, a strong economy requires ongoing investment in roads, rail, bridges, dams and ports. The objectives of these new infrastructure projects will be to:

- **Ease congestion in our cities**
- **Unlock the potential of our regions**
- **Better manage population growth**
- **Improve safety on our roads**

Overall, the Government will allocate $100 billion towards infrastructure spending over the next decade.

Summary of national initiatives

- New Road Safety Package of $2.2 billion has been announced to improve local road safety and provide upgrades across local road networks.
- An Urban Congestion Fund to be spread across the different states, with spending increased from $1 billion to $4 billion, including a new Commuter Car Park Fund totalling $500 million. These funds will focus on immediate, practical measures to cut travel times for commuters and improve access to public transport hubs.
- Roads of Strategic Importance funding will be increased from $3.5 billion to $4.5 billion to be spread across the different states. The funding will support works on regional roads, inter-regional and interstate highways that address pinch points and other impediments to freight movements.
- Allocation of $250 million towards a Major Project Business Case Fund.

Other initiatives and major projects

- Central to the Government's plan is a long-term fast-rail vision for Australia. $2 billion will be provided in the Budget to deliver a fast rail between Melbourne and Geelong which is proposed to slash travel time in half. Fast rail corridors in other areas of Australia are also being planned and include:
  - Sydney to Newcastle
  - Sydney to Wollongong
  - Sydney to Parkes
  - Melbourne to Shepparton
  - Melbourne to Albury Wodonga
  - Melbourne to Traralgon
- $5 billion has also been committed to build the Melbourne airport rail link.

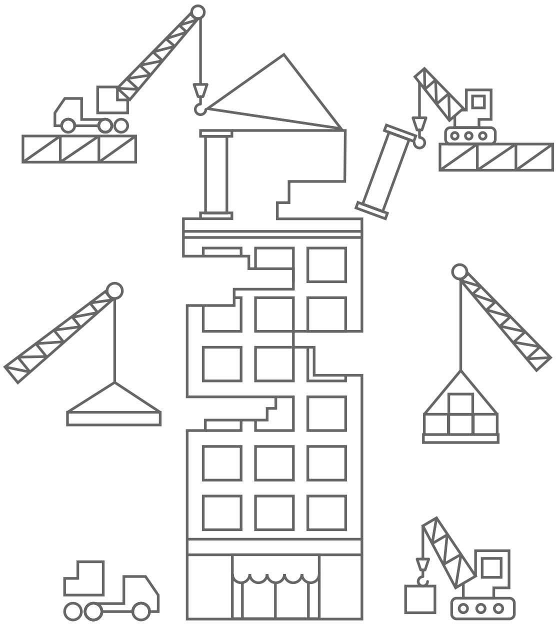
WESTERN AUSTRALIA

- Regional & Urban Transport Infrastructure $932.6m
- Urban Congestion Fund $121.8m
- Roads of Strategic Importance $535m

SOUTH AUSTRALIA

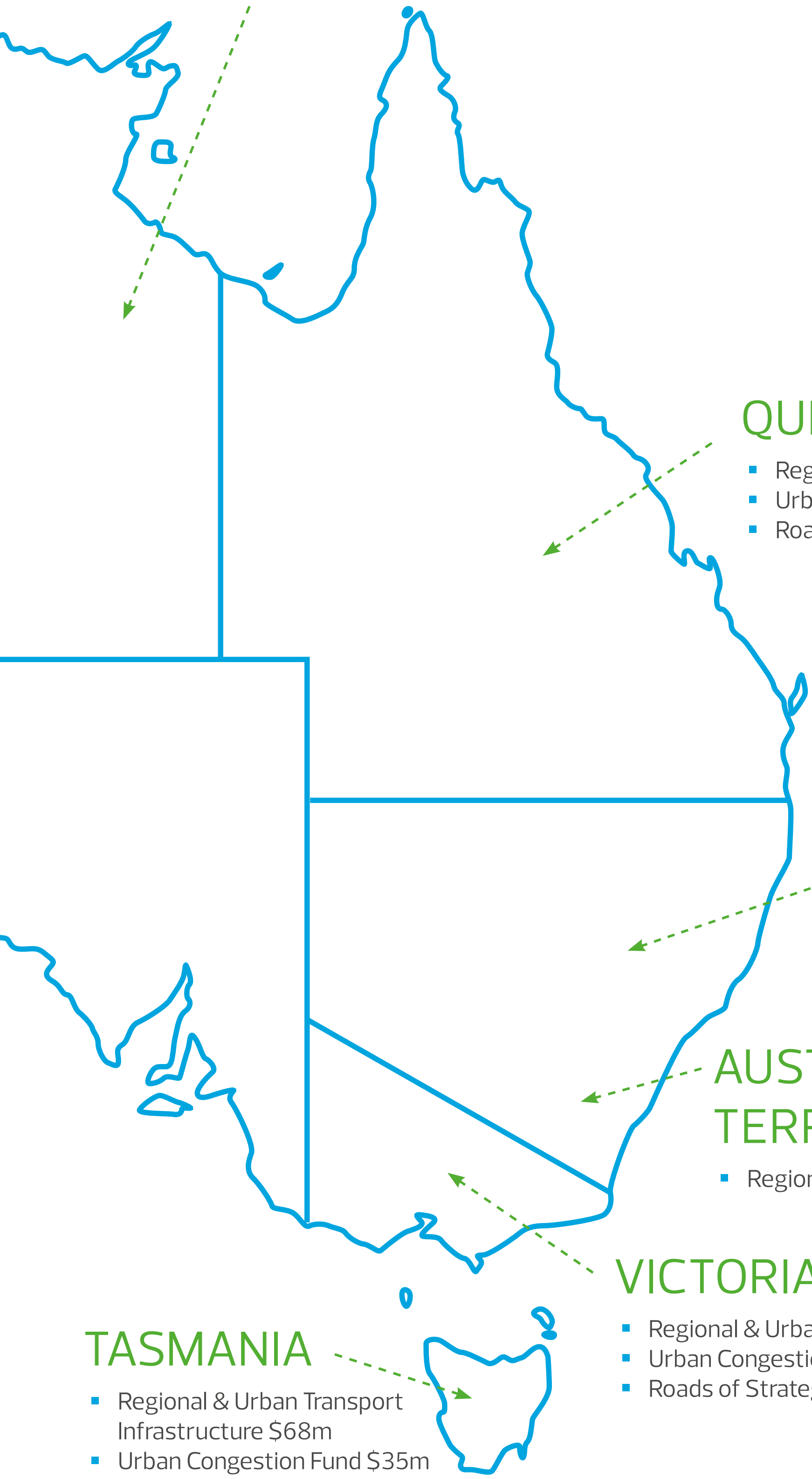
- Regional & Urban Transport Infrastructure $1.8b
- Urban Congestion Fund $341m
- Roads of Strategic Importance $220m

The following diagram summarises the budget spending allocation between the different states on the various infrastructure initiatives.



NORTHERN TERRITORY

- Roads of strategic importance $492m



QUEENSLAND

- Regional & Urban Transport Infrastructure $2.6b
- Urban Congestion Fund $378.8m
- Roads of Strategic Importance $1b

NEW SOUTH WALES

- Regional & Urban Transport Infrastructure $6.1b
- Urban Congestion Fund $254m
- Roads of strategic importance $496m

AUSTRALIAN CAPITAL TERRITORY

- Regional & Urban Transport Infrastructure $50m

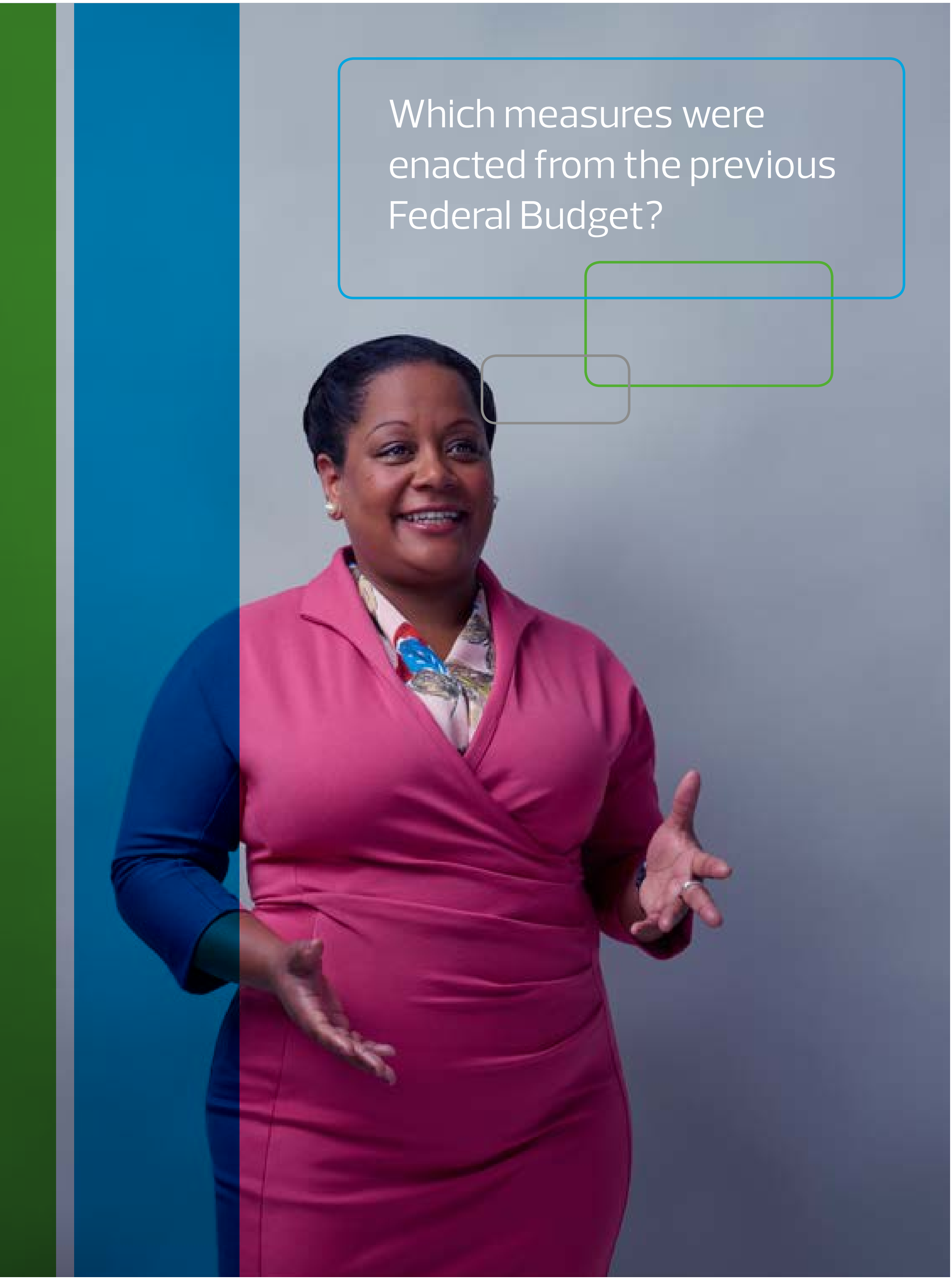
VICTORIA

- Regional & Urban Transport Infrastructure $2.8b
- Urban Congestion Fund $396.3m
- Roads of Strategic Importance $490m

TASMANIA

- Regional & Urban Transport Infrastructure $68m
- Urban Congestion Fund $35m
- Roads of Strategic Importance $210m

Which measures were enacted from the previous Federal Budget?



PROGRESS OF 2018 FEDERAL BUDGET MEASURES

Measure	Summary	Date of effect	Status
INNOVATION			
R&D tax incentive changes	Significant changes to the calculation of the R&D tax incentive which aims to benefit companies who have a larger degree of R&D activities.	1 July 2019	Measure deferred
PROPERTY			
Vacant land tax – limiting deductions	Tax deductions denied for expenses associated with holding vacant residential or commercial land. Does not extend to land used in carrying on a business.	1 July 2019	Exposure Draft
SUPERANNUATION			
New retiree contributions	Work test requirement will be removed for retirees (over 65) the first year they don't meet the test requirements, if they have a balance less than $300,000.	1 January 2019	Enacted
Increased maximum membership of SMSFs	Maximum Self-Managed Superannuation Funds (SMSFs) membership increased from four to six.	1 July 2019	Bill introduced
Yearly SMSF audit	The annual audit requirement for SMSFs will be changed to a three-yearly requirement for SMSFs with a history of good record keeping and compliance.	1 July 2019	Consultation Paper
Contributions from multiple employers	Individuals whose income exceeds $263,157, and have multiple employers, will be able to nominate that their wages from certain employers are not subject to the superannuation guarantee (SG).	1 July 2019	Bill introduced
CORPORATIONS			
Thin capitalisation	Various changes to thin capitalisation provisions, including the alignment of asset values to financial statements and change in investor classifications.	1 July 2019	Bill introduced
INDIRECT TAXES			
GST extended to offshore hotel accommodation sellers	Change to calculation of GST turnover by offshore online sellers of hotel accommodation which will increase the chances of exceeding the GST registration threshold.	1 July 2019	Bill introduced
INTERNATIONAL			
SGE definition expanded	Definition of Significant Global Entity (SGE) expanded to include members of large multinational groups owned by private companies, trusts and partnerships with global turnover greater than $1 billion.	1 July 2019	Bill introduced
Reduced withholding tax rate for MITs	Residents of countries that have entered into an Exchange of Information with Australia will have withholding tax reduced to 15% for certain distributions from Managed Investment Trusts (MIT).	1 January 2019	Bill introduced
New tax for foreign digital businesses	New tax proposed on foreign digital businesses. The new tax would be between 3-6%.	N/A	Measure deferred
SMALL TO MEDIUM BUSINESSES			
$20,000 asset write off extended	Instant write off for capital purchases not exceeding $20,000 extended by 12 months until 30 June 2019. (Revised in Budget)	1 July 2018	Enacted
Treatment of UPEs	Division 7A will be amended to clarify the circumstances in which it applies to Unpaid Present Entitlements (UPE).	1 July 2019	Consultation Paper
Deductions for wages and contractors may be denied	Businesses will no longer be able to claim deductions for payments to their employees or certain payments to contractors where they have not met their PAYG obligations.	1 January 2019	Enacted
INDIVIDUALS			
Personal income tax plan	Various changes to individual tax brackets and introduction of tax offsets for low-to-middle income earners. (Revised in Budget)	1 July 2018 onwards	Enacted
Superannuation fee protection measures	Various changes to restrict fees and other costs on low-balance superannuation accounts.	13 March 2019	Enacted
Circular trust distributions to Family Trusts	Integrity provision to prevent Family Trusts from deferring income through 'round robin' distributions.	1 July 2019	Exposure Draft
Removing CGT discount for MITs and AMITs	MITs and Attribution MITs (AMIT) will be unable to apply the 50% Capital Gains Tax (CGT) discount at the trust level.	N/A	No further update

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