Nexia Australia

2018 Federal Budget Announcement

The Federal Budget for 2018-19 has been structured to achieve:

- The generation of opportunities for businesses and workers.
- Continued economic growth and employment growth.
- Reductions in tax payable for low to middle income earners.
- A fairer tax system by cracking down on the cash economy.
- A balanced budget in two years and then moving to surplus budgets to repay national debt.
- A more competitive economy with enhanced export potential.
- More aged care facilities and pensioner benefits.

This year's Budget is very pro-business mixed with some significant social measures to assist sectors such as aged care, education, health and indigenous well-being. Calling this a pre-election Budget would be simplistic and not a fair assessment of measures that have been announced to address important needs across the economic and social spectrums of the Australian community.

The following analysis details the tax and superannuation measures in this year's Federal Budget.

Individuals

1 The Government's three stage Personal Income Tax Plan

The Government is introducing a seven year Personal Income Tax Plan that will be rolled out in three stages.

This seven year Personal Income Tax Plan is to deliver major income tax relief for low and middle income taxpayers.

Stage 1: Immediate tax relief for low and middle income earners

What is the proposal?

The first stage of the Personal Income Tax Plan will provide permanent tax relief to low and middle income earners from 2018-19 to 2021-22. The Government will introduce the Low and Middle Income Tax Offset, which is a non-refundable tax offset of up to $530 per annum to Australian resident low and middle income taxpayers.

For low and middle income earners with taxable incomes of $37,000 or less, the tax offset will provide an annual benefit of up to $200.

For low and middle income earners with taxable incomes between $37,000 and $48,000, the value of the tax offset will increase at a rate of 3 cents per dollar to the maximum annual benefit of $530.

Taxpayers with taxable incomes from $48,000 to $90,000 will be eligible for the maximum annual benefit of $530.

For taxpayers with taxable incomes from $90,001 to $125,333, the offset will be phased out at a rate of 1.5 cents per dollar earned in excess of $90,000.

Importantly, the Low and Middle Income Tax Offset is in addition to the current Low Income Tax Offset.

What does this mean?

Additional income tax relief will be provided to taxpayers with taxable incomes up to $125,333. This non-refundable offset will reduce tax payable and will be received on assessment after the taxpayer lodges their income tax return. Eligible taxpayers will also receive the Low Income Tax Offset.

This proposal applies from 1 July 2018.

Stage 2: Preventing bracket creep

What is the proposal?

From 1 July 2018, the top taxable income threshold of the 32.5% personal income tax bracket will be increased from $87,000 to $90,000.

From 1 July 2022, the Low Income Tax Offset will be increased from $445 to $645.

The top taxable income threshold for the 19% personal income tax bracket will be increased from $37,000 to $41,000 to lock in benefits received from Stage 1. The Low Income Tax Offset will be withdrawn at a rate of 6.5 cents per dollar for taxable incomes between $37,000 and $41,000, and at a rate of 1.5 cents per dollar for taxable incomes between $41,000 to $66,667.

From 1 July 2022, the top taxable income threshold for the 32.5% personal income tax bracket will be increased from $90,000 to $120,000.

What does this mean?

Bracket creep for individuals in the 19% or 32.5% personal income tax thresholds will be prevented. Individual taxpayers who will benefit the most from Stage 2 of the seven year Personal Income Tax Plan are those who would have moved to a higher tax bracket had the taxable income thresholds not been expanded.

Increasing the taxable income thresholds will allow more taxpayers to receive income tax relief.

This proposal applies from 1 July 2018 to 1 July 2022.

Stage 3: Removal of the 37% tax bracket entirely

What is the proposal?

The Government will remove the 37% tax bracket by increasing the top taxable income threshold of the 32.5% personal income tax bracket from $120,000 to $200,000 in recognition of inflation and wage growth. The new 32.5% tax bracket will incorporate taxable incomes from $41,001 to $200,000. Taxpayers with taxable incomes exceeding $200,000 will pay the top marginal tax rate of 45%. That is, the top marginal tax rate will be payable on taxable incomes from $200,000 instead of the current $180,000.

What does this mean?

Removal of the 37% tax bracket allows for a simplified tax bracket system. Individual taxpayers who will benefit the most from the increase in the taxable income thresholds are those who have taxable incomes that would have made them subject to the 37% or 45% tax rate had the new thresholds not been applied- they will be able to access the lower tax rate of 32.5%. The Government estimates that 94% of all taxpayers will be subject to the 32.5% tax rate in 2024-25.

This proposal applies from 1 July 2024.

Rate	Thresholds in 2017-18	New Thresholds between 2018-19 to 2021-22 (Stage 2)	New Thresholds between 2022-23 to 2023-24 (Stage 2)	New Thresholds in 2024-25 (Stage 3)
Nil	Up to $18,200	Up to $18,200	Up to $18,200	Up to $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	N/A
45%	Above $180,000	Above $180,000	Above $180,000	Above $200,000

2 Retaining the Medicare levy rate at 2%

What is the proposal?

The Government will retain the Medicare levy rate at 2% of taxable income for eligible taxpayers. The Medicare levy will not be increased to 2.5% of taxable income as previously proposed from 1 July 2019 to assist in funding the NDIS. Changes to other tax rates that are linked to the top personal tax rate, such as the fringe benefits tax rate, will also not proceed.

What does this mean for you?

Taxpayers who pay the Medicare levy will continue to pay the Medicare levy at 2% of taxable income. Low income earners will receive additional relief from the Medicare levy.

This proposal applies from 1 July 2019.

3 Increasing the Medicare levy low-income threshold

What is the proposal?

The Government will increase the Medicare levy low-income thresholds for singles, families, seniors and pensioners from the 2017-18 income year. The increases in low-income thresholds are to account for recent movements in CPI so that eligible individuals will remain exempt from the levy.

- The threshold for singles will be increased from $21,655 to $21,980.
- The family threshold will be increased from $36,541 to $37,089.
- The threshold for single seniors and pensioners will be increased from $34,244 to $34,758.
- The family threshold for seniors and pensioners will be increased from $47,670 to $48,385.
- The family income thresholds increase by a further $3,406, increased from $3,356, for each dependent child or student.

What does this mean?

Increasing the low-income thresholds to take account of CPI movements will generally result in low-income earners continuing to be exempt from paying the Medicare Levy. This increase in the low-income threshold will mostly be beneficial to those taxpayers who may not have received relief from the Medicare levy based on the 2016-17 low-income thresholds.

Exemption from the Medicare Levy will help reduce financial pressures faced by low-income earners.

This proposal applies from 1 July 2017.

4 Children's Income from Testamentary Trusts

What is the proposal?

The Government intends to change the law so that the adult tax rates and tax free threshold available to children in receipt of certain income from testamentary trusts will be limited.

What does this mean?

The concessional tax rates allow minors (persons under 18 years of age) to access adult marginal tax rates in respect of income received from a testamentary trust – a trust arising from the will of a deceased person. Limiting access to the adult tax rates for minors will mean that only income derived from assets or funds arising from the deceased person's estate will be taxed concessionally.

This means that if other persons later add funds to the testamentary trust, the income from these new funds will be taxed at the normal tax rates for minors in receipt of passive income, e.g. where the income exceeds $416, tax is payable on the whole of the child's income at 45% plus Medicare Levy.

The measure will clarify the position on the taxation of income received by minors from testamentary trusts.

This proposal applies from 1 July 2019.

5 Taxation of income for high profile individuals

What is the proposal?

The Government will ensure that high profile individuals will no longer be able to take advantage of lower tax rates by licencing their fame or image to another entity. Under the current tax environment, high profile individuals such as sports people and actors can licence their fame or image to another entity such as a related company or trust. All income derived under this licence is assessable income to the entity that holds the licence. This has allowed these individuals to spread their income to decrease the rate of tax paid. The new proposal will ensure that all remuneration, including payments and non-cash benefits provided for the commercial exploitation of a person's fame or image, will be included in the assessable income of that individual.

What does this mean?

High profile individuals such as sports people and actors will no longer be able to create opportunities to reduce the overall income tax paid on all remuneration received. This will result in higher tax being paid by these high profile individuals.

This proposal applies from 1 July 2019.

6 Income tax exemption for certain Veteran Payments

What is the proposal?

Payments received under the Veteran Payment plan are to be income tax exempt from 1 May 2018 to provide immediate short-term financial assistance to vulnerable people experiencing financial difficulty. Supplementary amounts of the Veteran Payment such as pension supplement, rent assistance and remote area allowance and full payments including the supplementary component made to the spouse or partner of a veteran who dies, are exempt from tax.

What does this mean?

Income tax exemption for those taxpayers who receive full or supplementary amounts on the Veteran Payment plan.

This proposal applies from 1 May 2018.

Businesses

1 Extending the $20,000 instant asset write-off by another 12 months

What is the proposal?

The government will extend the current $20,000 instant asset write-off available for small business entities (i.e. businesses with an aggregated turnover of less than $10 million).

What does this mean?

Small business entities will now be able to immediately deduct the cost of most new or second hand depreciating assets bought and used or installed ready for use in the business before 30 June 2019 – provided the asset costs less than $20,000.

> Whether GST should be included in working out whether the threshold is met depends on whether the purchaser is registered for GST or not:
>
> 1. If the purchaser is registered for GST – the GST exclusive amount is the cost of the asset; and
> 2. If the purchaser is not registered for GST – the GST inclusive amount is the cost of the asset.

However, assets costing $20,000 or more can be pooled in a general small business pool, treated as a single depreciating asset and depreciated at:

- 15% for such assets acquired in the first income tax year; or
- 30% each income year thereafter.

If the balance in the pool is less than $20,000, the pool can be immediately deducted.

After 30 June 2019 (i.e. from 1 July 2019) the immediate deductibility threshold will revert back to $1,000 (as opposed to the current $20,000) and the so-called "lock-out" rules[1] will apply again.

This proposal applies from 1 July 2018.

1 - The lock-out rules prevents a small business entity from using these favourable small business depreciation rates for a period of 5 years from the time they elected to no longer use the small business depreciation regime rates.

2 Changes to the R&D incentive

What is the proposal?

The government intends to make the following important changes to the research and development (R&D) tax incentive:

1. Increase the maximum amount of R&D expenditure eligible for the 43.5% refundable (for companies with turnover of less than $20 million) or 38.5% non-refundable offset (for companies with turnover of $20 million or more) from $100 million to $150 million;
2. For companies with an aggregated annual turnover of $20 million or more, the Government will introduce a marginal R&D premium that ties the rates of the 38.5% non-refundable offset to the amount of R&D expenditure incurred by a company (e.g. can qualify for a higher R&D incentive if the company does more R&D activities);
3. For companies with aggregated turnover below $20 million, the refundable R&D tax offset will be a premium of 13.5 percentage points above a company's tax rate.
4. Cap cash refunds from the refundable offset to $4 million per year (Note: R&D tax offsets in excess of the $4 million will be carried forward and become non-refundable tax offsets in future years);
5. Publicly disclose claimant details and the R&D expenditure they have claimed.

What does this mean?

Currently only R&D expenditure up to $100 million qualifies for either the 43.5% or 38.5% offset – expenditure in excess of $100 million will only qualify for a tax offset equal to the company tax rate (i.e. 30% or 27.5%). Under the proposal, an extra $50 million of expenditure (i.e. the difference between $150 million and $100 million) will qualify for higher offsets.

The introduction of the marginal R&D premium will benefit businesses with an aggregated turnover of $20 million or more with substantial R&D activities because such businesses will qualify for the higher offsets. This will be based on the incremental intensity of R&D

expenditure as a proportion of total expenditure for the year.

Businesses that qualify for refundable offsets of more than $4 million per year will lose the cash refund mechanism on the excess amounts because such excess refunds will become non-refundable in future years. Note however that refundable offsets from R&D expenditure on clinical trials will not count towards the cap.

This proposal applies from 1 July 2018

3 Phoenix Activity

What is the proposal?

Phoenix activity occurs when companies are deliberately left empty of assets and income to pay their debts to the ATO and other creditors including employees. This activity has come at a great cost to the Australian community with the knock-on effect of the Government not having the tax revenue to fund services and businesses to collapsing because they have not been paid by the phoenix companies.

At long last the Government will implement measures to make the directors of these companies personally liable. The corporations law and the tax law will be amended to make the deliberate avoidance of paying debts illegal. Regrettably, jail sentences are not being proposed for phoenix company directors unlike the laws enacted on those people involved in bottom-of-the-harbour schemes to evade company tax in the late 1970's/early 1980's.

What does this mean?

The new measures will target:

- People who conduct or facilitate illegal phoenixing.
- Directors deliberately backdating resignations to avoid liability or prosecution.
- Restrict the ability of related creditors to vote on a company to be liquidated.
- Directors to pay the avoided debts including income tax, GST and luxury car tax.
- Tax refunds which will not to be paid by the ATO.

The Budget papers do not announce a commencement date but hopefully the measures will be swiftly enacted to shut down this economically harmful activity.

4 Introduction of economy-wide cash payment limit

What is the proposal?

Undocumented cash payments are used to evade tax and to launder money derived from criminal activity.

To ensure a transparent audit trail is retained for large payments, the Government has proposed a $10,000 limit for cash payments made to businesses.

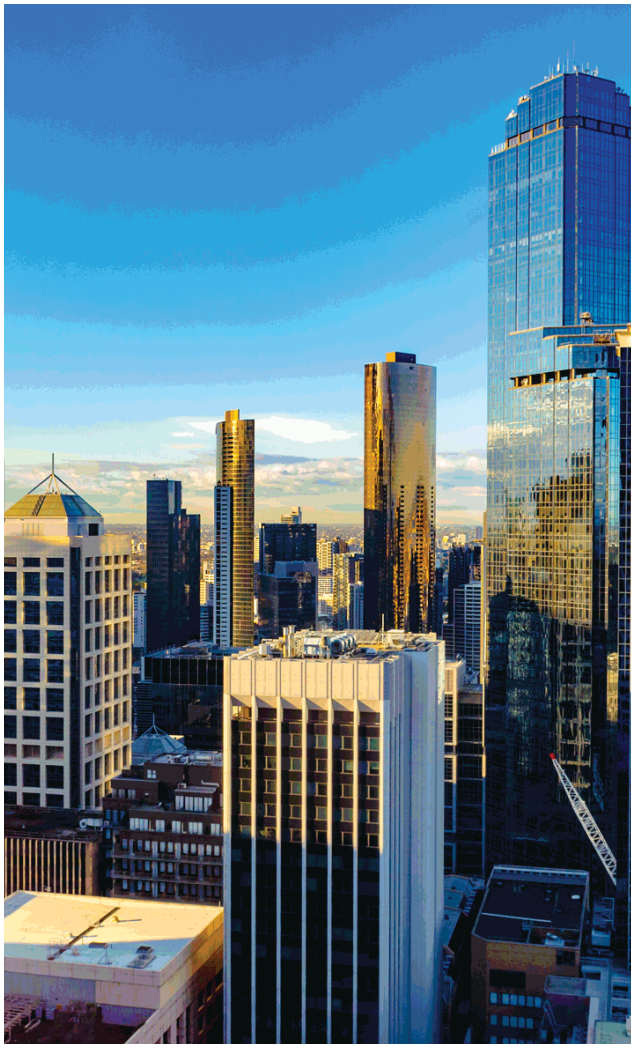
The Government has indicated further consultation will be conducted prior to implementation of this measure.

What does this mean?

Payments in excess of the $10,000 limit will only be permissible by electronic transfer (e.g. direct debit, BPAY, PayPal) or by cheque.

The restriction will not apply to transactions involving financial institutions e.g. banks, nor will it apply to consumer-to-consumer non-business transactions

This proposal applies from 1 July 2019.



5 Further expansion of taxable payments reporting

What is the proposal?

Currently, under the Taxable Payments Reporting System (TPRS), businesses in the building and construction industry are required to report payments to contractors to the ATO.

The 2017 Budget extended the TPRS to the cleaning and courier industries with effect from 1 July 2018.

In this year's Budget the Government has proposed to expand the TPRS to include businesses in the following industries:

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

Businesses will be able to report the payments to the ATO via an online portal.

What does this mean?

Like the other measures targeting the 'black' or cash economy, the aim of this measure is to reduce the incidence of tax evasion by contractors.

Because contractors are not generally subject to PAYG withholding tax on their earnings, unlike ordinary wage and salary earners, some have taken advantage of the lower level of tax compliance and evaded tax.

This measure reduces this inequity between contractors and wage and salary earners by aligning the reporting obligations of these two income-earning groups, at least in the five industries targeted.

This will expand the compliance burden to businesses not previously subject to these obligations.

The Government expects that this measure will yield an additional $605.8 million in revenue.

This proposal will take effect from 1 July 2019 with the first annual report required in August 2020.

6 Removing tax deductibility of non-compliant payments

What is the proposal?

The Government proposes to disallow tax deduction claims by businesses for payments to employees and contractors where the business has failed to comply with PAYG withholding obligations. This applies to wages and salaries paid to employees, and payments to contractors where the contractor has failed to provide an ABN to the business.

What does this mean?

This measure will diminish the ability of employees and contractors to evade income tax. Businesses will be effectively penalised for failing to withhold the appropriate amount of tax. The measure will function as a deterrent to otherwise non-compliant businesses.

This proposal applies from 1 July 2019.

7 New and enhanced ATO enforcement against the Black Economy

What is the proposal?

To ensure the government agencies are sufficiently resourced to effectively administer and enforce provisions aimed at combatting the black economy, the Government has proposed increased funding for the ATO, the Director of Public Prosecutions (DPP) and the Treasury, of $318.5 million.

With this funding the Government will introduce 'mobile strike teams', an increased audit presence and a Black Economy Hotline to improve the detection and reporting of black economy activities such as company 'phoenixing'.

The measure is a response to the notion that legal barriers to illicit activity are ineffective as deterrents unless supported by visible and rigorous enforcement.

The measure is expected to yield an additional $3 billion in tax revenue over the next 4 years by reducing the incidence of tax evasion by those engaged in the black economy.

What does this mean?

The Government expects that the funding of these resources will diminish the ability of those operating in the black economy to evade tax.

The aim of the measure is to provide a more equitable tax burden among participants in the economy broadly.

This proposal applies from 1 July 2018.

8 Stopping circular family trust distributions

What is the proposal?

The Government will extend a specific anti-avoidance measure to prevent family trusts form making circular trust distributions (e.g. where family trusts act as beneficiaries of one another and avoid paying taxes by making "round robin" distributions).

What does this mean?

Family trusts currently engaged in making such circular trust distributions should pay close attention to this proposed measure. Distributions caught by this anti-avoidance measure will be subject to tax at a rate equal to the top personal marginal tax rate plus the Medicare levy.

This proposal applies from 1 July 2019.

9 Increased difficulty for partners to access small business CGT concessions

What is the proposal?

Partners who alienate their partnership income by creating, assigning or otherwise deal in rights to the future income of the partnership will no longer be able to qualify for small business CGT concessions in relation to these rights.

What does this mean?

Partners of partnerships will no longer be able to inappropriately access these small business CGT concessions when they assign their right to the future income of the partnership to an entity that does not have any role in the partnership.

This proposal applies from 8 May 2018.

10 Defer start date of previously proposed Division 7A measures

What is the proposal?

In the 2016-17 Budget, the Government proposed some new rules to Division 7A (e.g. a self-correction mechanism if Division 7A was inadvertently triggered, new safe harbour rules and a new option of a single compliant loan of 10 years) that were due to apply from 1 July 2018.

In this budget the Government extended the start date of these measures to 1 July 2019.

What does this mean?

Division 7A is an extremely complicated provision in the tax law whereby loans usually made by private companies to their shareholders are taxed as unfranked dividends unless the loan is reflected in a complying loan agreement by a certain time.

What makes this provision even more complicated is the interaction of the unpaid present entitlements (UPE) rules (i.e. where a trust declares a distribution to a related company but does not pay the distribution) with these deemed dividend provisions.

The extension of time is good news – especially because there has been no draft legislation in Parliament regarding these proposed measures. Expect vigorous tax debate on these new proposed Division 7A measures in the near future!

This proposal applies from 1 July 2019.

11 Deny deductions for vacant land

What is the proposal?

The Government will deny deductions for expenses (e.g. interest costs and rates) associated with holding vacant land (for either commercial or residential purposes) where such land is not genuinely held for the purpose of earning assessable income. Furthermore, the Government also intends to reduce the tax incentives that are currently available for land banking (i.e. where land may not be used for housing or other development).

However, there will be no denial of such a deduction of expenses incurred after:

- A building has been constructed on the vacant land, the building has received approval to be occupied and is available for rent; or
- The vacant land is being used by the owner to carry on a business (e.g. a business of primary production).

What does this mean?

Tax deductions that have been denied in respect of vacant land will not be able to be carried forward for use in later years. Depending on the nature of the expense, the expense may not be included in the cost base of the vacant land when calculating any capital gain upon the land's disposal. However, expenses such as borrowing expenses and council rates may be included in the cost base of the vacant land.

This proposal applies from 1 July 2019

12 Tightening the thin capitalisation rules

What is the proposal?

Entities must rely on the asset values contained in their financial statements when applying the thin capitalisation rules in the income tax law.

What does this mean?

This proposal will hopefully lead to compliance cost savings and will ensure that asset valuations used to justify debt deductions are robust.

This proposal applies from 1 July 2019

(Note: valuations made prior to 9 May 2018 may still be relied on until the beginning of an entity's first income year commencing on or after 1 July 2019)

13 Removing CGT discount at trust level for MITs and Attribution MITs

What is the proposal?

The Government proposes to remove the availability of the capital gains tax 50% general discount to Managed Investment Trusts (MIT) and Attributed MITs (AMIT).

The discount will be available to beneficiaries of these trusts upon distribution of the capital gain to the beneficiary but only if eligible for the 50% discount; companies are not so eligible.

What does this mean?

MITs and AMITs that derive capital gains can continue to distribute the capital gains to beneficiaries. Eligible beneficiaries can then apply the 50% general discount upon distribution of the capital gain from the MIT or AMIT.

The measure will prevent beneficiaries that are not eligible for the 50% general discount in their own right from benefiting from the discount being otherwise applied at trust level prior to distribution.

This proposal applies from 1 July 2019

14 Other proposals affecting companies

What are the proposals?

	Proposal	Reason for proposal
1	Disallow tax deductions that arise on repayment of the principal of a concessional loan (i.e. loans entered into by tax exempt entities)	Necessary because of interaction between taxation of financial arrangements (TOFA) and deemed market value rules when tax exempt entities become taxable
2	Broaden definition of significant global entity (SGE) to also include members of large multinational groups headed by private companies, trusts and partnerships	To ensure more big multinationals (i.e. entities with annual global income of $1 billion or more) will be subject to country-by-country reporting, multinational anti-avoidance law and diverted profits tax law.

Superannuation

1 Preventing Concessional Cap Breaches

What is the proposal?

The Government intends to change the law so that individuals with incomes in excess of $263,157 and who have more than one employer will be able to nominate that their wages from certain employers should not be subject to the superannuation guarantee (SG) up to the maximum concessional contribution limit of $25,000.

What does this mean?

Following the reduction in the concessional superannuation contributions cap to $25,000 from 1 July 2017, many employees with incomes in excess of $263,157 may breach the concessional superannuation contribution cap of $25,000 per annum. The objective of the change is to reduce the number of individuals with total employment income over $263,157 who unintentionally breach the $25,000 concessional contribution cap because more than one employer is paying compulsory superannuation guarantee contributions on their behalf.

This change will assist higher paid employees with multiple employments in the management of their superannuation guarantee contributions. Employees who use this measure could negotiate to receive additional income in lieu of the excess SG contributions.

This measure will also prevent employees having to pay excess contributions tax and shortfall interest charge.

This proposal applies from 1 July 2018.

2 Work Test Exemption

What is the proposal?

The Government intends to introduce a new exemption from the work test for persons aged 65 to 74 years of age in the first year following their inability to meet that test. This will enable them to make voluntary superannuation contributions in respect of that year. Currently, superannuation fund members aged between 65 to 74 years of age must work for a minimum of 40 hours in a 30-day period in order to be eligible to make voluntary superannuation contributions.

What does this mean?

The proposed changes will mean that people aged between 65 to 74 years of age with superannuation balances below $300,000 will be able to make voluntary superannuation contributions without meeting the work test in the first year following their inability to satisfy the work test; that is usually when they retire from the workforce.

This proposal applies from 1 July 2019.

3 SMSF's Reduction in Audit Requirements

What is the proposal?

The Government plans to reduce the annual audit requirement to a three-yearly audit requirement for certain Self-Managed Superannuation Funds (SMSFs) with a good history of record-keeping and compliance with the superannuation and tax laws. If SMSFs wish to switch to three-yearly audits, they must have had clear audit reports and have lodged all of their tax returns on time for the previous three consecutive years.

What does this mean?

This change will reduce the costs of operating an SMSF because an audit will only be required once every three years for most SMSFs, rather than every year under the current requirements. However, SMSF trustees will still be required to produce annual financial accounts and tax returns.

This proposal applies from 1 July 2019.

4 Insurance in Superannuation No Longer Automatic

What is the proposal?

The Government intends to introduce legislation so that superannuation funds will not be able to automatically deduct insurance premiums from a member's account.

What does this mean?

The proposed changes will mean that the following members of superannuation funds will no longer have insurance premiums deducted from their member's account:

- members under 25 years of age; or
- members with low superannuation fund balances of less than $6,000; or
- members who have had no superannuation contributions made within 13 months.

Currently, superannuation funds belonging to young people and those with low superannuation balances are often eroded by insurance premiums that are paid from their superannuation member's account, because many superannuation funds automatically opt-in all of their members to insurances such as life insurance. Frequently, superannuation fund members do not understand that substantial amounts of their superannuation are being eroded by insurance payments.

This change will reduce the erosion of retirement savings of young people and people with low superannuation balances, by not allowing superannuation funds to automatically select insurances for members. Rather, if these members wish to hold insurance policies through their superannuation fund member's account, the member will need to request the insurance.

This proposal applies from 1 July 2019.

5 Reuniting Small & Inactive Superannuation Accounts

What is the proposal?

The ATO will require that superannuation funds transfer the balance of inactive superannuation member accounts below $6,000 to the ATO's 'lost super' facility. The ATO will be expanding their data matching processes to track down the owners of lost superannuation accounts held by the ATO.

What does this mean?

The proposed changes will mean that more people and their active superannuation accounts will be reunited with their lost superannuation monies, particularly where the member account balances are below $6,000.

This proposal applies from 1 July 2019.

6 Cracking down on Fees

What is the proposal?

The Government intends to introduce a 3% annual cap on passive fees charged by superannuation funds on superannuation members' accounts with a balance below $6,000.

In addition, the government plans to ban all exit fees on all superannuation accounts.

What does this mean?

The proposed changes will mean that superannuation funds will not be eroded by excessive annual fees where the balances are below $6,000.

Furthermore, the government's ban all exit fees will enable members to easily switch superannuation funds and will encourage superannuation funds to be more competitive in their offerings to their members.

This proposal applies from 1 July 2019.

7 Better Integrity of Personal Contributions

What is the proposal?

The Government intends to provide $3.1 million in additional funding to the ATO to improve the integrity of the 'notice of intent' (NOI) processes for claiming personal superannuation contributions.

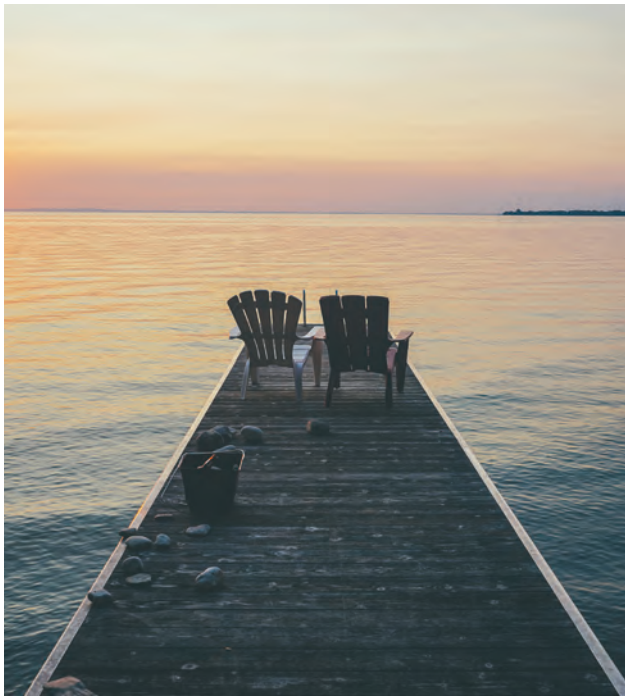
What does this mean?

An individual is required to lodge a 'notice of intent' with their superannuation fund to inform the fund of their intention to claim a personal tax deduction for their superannuation contribution; such a contribution is a concessional superannuation contribution. The superannuation fund is taxed at 15% on that concessional contribution.

The additional funding will assist the ATO in identifying taxpayers who have claimed a personal tax deduction for their superannuation contributions but have not submitted a 'notice of intent' to their superannuation fund; this could result in the superannuation fund not paying the 15% tax on those concessional superannuation contributions.

The ATO will also introduce processes whereby individuals who have not lodged their NOI with their superannuation funds will be denied deductions for their superannuation contributions.

This proposal applies from 1 July 2018.



8 Larger Self-Managed Superannuation Funds

What is the proposal?

The Government plans to increase the maximum number of members for new and existing self-managed superannuation funds (SMSFs) and small APRA funds from four to six members.

What does this mean?

The change means that SMSFs and small APRA funds will now be able to have a maximum of six members, rather than being limited to four members. This is a welcomed change for larger families where five or six family members wish to join the same SMSF or small APRA fund; such families will no longer be compelled to establish a new superannuation fund.

This proposal applies from 1 July 2019.

9 Increase to Financial Institutions Supervisory Levies

What is the proposal?

The Government plans to increase the Financial Institutions Supervisory Levies to raise additional revenue of $31.9 million over four years from 2018/19 fiscal year, which will be used to fund the cost of superannuation activities undertaken by the Australian Taxation Office (ATO).

What does this mean?

APRA regulated bodies will pay additional Financial Institutions Supervisory Levies. In practice, APRA regulated bodies e.g. large superannuation funds may pass the cost of the additional Financial Institutions Supervisory Levies onto superannuation fund members.

This proposal applies from 1 July 2018.

Indirect Taxes

1 Levelling the playing field for online hotel bookings

What is the proposal?

Currently, offshore vendors of Australian hotel accommodation need not include sales of Australian hotel accommodation in their GST turnover. This has allowed offshore vendors to avoid GST registration and the accompanying obligation to collect and remit GST on Australian hotel room sales.

This loophole has provided offshore vendors with a competitive advantage over local vendors, thus distorting the market for Australian based hotel booking businesses in favour of offshore booking services.

The Government proposes to close this loophole by requiring offshore vendors to calculate their GST turnover in the same way as local vendors and thereby being subject to Australian GST.

What does this mean?

Both local and offshore vendors will be required to register for GST once the business meets the GST turnover threshold (currently $75,000 for for-profit businesses).

The Government expects that this measure will remove the market distortion currently in place by eliminating the competitive advantage enjoyed by offshore vendors and returning market share to local vendors.

This proposal will apply to bookings made (i.e. purchases, not stays) from 1 July 2019.

2 Removing luxury car tax on re-imported cars following refurbishment overseas

What is the proposal?

Currently, the luxury car tax (LCT) applies to the importation of luxury cars that have been earlier exported from Australia to be refurbished overseas. The value of the car must exceed the relevant LCT threshold.

Luxury cars that are refurbished in Australia are not subject to LCT.

To remove this inconsistency and to better align Australia's trade obligations with foreign trading partners, the Government proposes to abolish LCT applicable to luxury cars that have been exported from Australia, refurbished overseas and subsequently re-imported.

What does this mean?

The measure will ensure that the same tax treatment applies to luxury car refurbishment regardless of where the refurbishment work is carried out i.e. no additional LCT will be imposed upon delivery of the refurbished vehicle.

This proposal applies from 1 January 2019.

3 Indirect Tax Concession Scheme - Diplomatic and Consular Concessions

What is the proposal?

The Government is proposing to extend access to the Indirect Tax Concession Scheme (ITCS) whereby indirect taxes such as GST, fuel and alcohol taxes, are refunded, to diplomatic and consular representations of the following nations:

- Cote d'Ivoire
- Guatemala
- Costa Rica
- Kazakhstan

What does this mean?

Diplomatic and consular representations of these 4 nations will become entitled to refunds of taxes otherwise payable.

Consistent with international practice, these concessions are reciprocal and will be reviewed periodically.

This proposal will take effect from a time to be specified by the Minister for Foreign Affairs.

International

1 Updating the list of information exchange countries

What is the proposal?

The Government proposes to update the list of countries whose residents are entitled to the withholding tax rate of 15 per cent, on certain distributions from Managed Investment Trusts (MIT). This measure will apply to the residents of an additional 56 countries.

This represents a discount of the default rate, which remains at 30 per cent.

The measure follows the establishment of tax-related information sharing agreements with foreign jurisdictions which Australia has entered into since 2012.

What does this mean?

Foreign beneficiaries of MITs from an additional 56 countries will now gain access to the reduced rate of withholding tax of 15%.

This proposal applies from 1 January 2019.

Nexia Australia

Contact us

For further information or to discuss how Nexia Australia can assist your organisation, please contact a local Nexia Advisor below.

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