2015-16 Federal Budget

In recent years one of the least surprising days of the year has been Budget night, from a business and tax perspective at least. It's pretty much standard practice now that the most significant Budget measures are either announced as separate packages, or otherwise 'leaked' prior to the Budget announcement, presumably to manage expectations and test the waters a little. This year is no exception.

The Federal Treasurer Joe Hockey handed down his second Budget last night, however his Budget speech was a relative formality as most of the significant measures had already been announced. The predicted deficit for the upcoming year has grown to $35 billion, reducing to $6.9 billion by 2018-19.

In an attempt to stimulate economic activity, and by extension tax revenue, the big winners are small business owners. While there are always some 'losers' in any Federal Budget, these are relatively few when compared with last year's public relations disaster - no doubt an effort by the Government to put the past well and truly behind it with an election looming next year.

Here's a few of the highlights, from a business and taxation viewpoint.

- Small business company income tax rate cut to 28.5%
- 5% income tax discount for non-company small business owners
- $20,000 instant asset write-off
- Immediate deduction for business setup costs
- No Capital Gains Tax for changing business structures
- Business registration to be simplified
- Accelerated depreciation for some primary production costs
- Work related car expenses simplified
- Zone offset abolished for 'fly-in, fly-out' workers
- HELP debts to be recovered from students living overseas
- Early access to superannuation for terminal illness
- Pension eligibility thresholds changed
- Separate $5,000 cap on meal entertainment benefits for not-for-profit employees
- Limit on one portable electronic device per year lifted
- Childcare system to be revamped
- 'Double-dipping' on paid parental leave to be stopped

Small Business

- **Small business company income tax rate cut to 28.5% -** The company income tax rate for small businesses (those with turnover of less than $2 million) will be cut from 30% to 28.5%, commencing 1st July 2015. This measure has been getting a lot of press either side of the Budget announcement last night, however it has been on the cards ever since the last election, and was reaffirmed when the Government announced the axing of its Paid Parental Leave Scheme earlier this year. Nevertheless, it remains welcome for small business owners who operate through a company. It's worth noting though that some tax planning may be required for businesses that are close to that $2 million turnover mark, since companies earning more than this will still be taxed at 30%.

- **Imputation credit value to remain at 30% for small companies -** Imputation (or franking) credits pass on the tax paid in a company to the shareholders when dividends are paid. This avoids tax being paid twice on the same income. In the case of small businesses, the shareholders are usually the people operating the business. If they only receive a 28.5% credit because of the company tax rate reduction above, but still pay tax at their usual marginal rates of tax, the effect is that there is no reduction in tax. It is paid by the individual rather than in the company, but collectively the same amount of tax is paid by the group. The Government has sought to prevent this from happening by announcing that for small business companies, imputation credits will continue to be passed on at 30% even though the tax paid in the company is only 28.5%.

- **5% income tax discount for non-company small business owners -** One surprise announcement was a 5% income tax discount on income for non-incorporated businesses, also to take effect from 1st July 2015. Only around 30% of small businesses in Australia operate through a company structure, so the cut to the company tax rate would have more limited impact in achieving the objective of stimulating small business activity. This measure effectively extends the tax rate cut for small business companies to more business owners; however it is capped at a total value of $1,000.

- **$20,000 instant asset write-off -** From last night (12th May) assets with a value of less than $20,000 purchased by a small business can be claimed as an immediate deduction. The previous limit was $1,000, however this had recently been reduced from $6,500 so this announcement was a rare (but well-received) turnaround. Ordinarily assets valued between $1,000 and $20,000 would be claimed over a period of years anyway, by way of depreciation, so the advantage here is purely one of timing. However being able to claim the full value of an asset in a single year can result in a significant cash flow injection by bringing forward a reduction in tax payable. Some planning may be required if you're in the process of purchasing business assets right now, so please contact us if you think you might be affected.

- **Immediate deduction for business setup costs -** Professional fees paid when setting up a new business (e.g. accounting, legal) must normally be written off over a five year period. However from 1st July 2015 these can be deducted in full in the year they are paid. This will help to improve cash flow in the early, more volatile months for a new business.

- **No Capital Gains Tax for changing business structures -** From 1st July 2016 small businesses will be able to change their legal structure without incurring Capital Gains Tax. This 'roll-over relief' is already available for businesses that incorporate (i.e. become companies) but doesn't apply to other restructures, such as transferring to a trust. This measure now opens up more possibilities for restructuring where a business grows and finds that its original setup is no longer suitable. There may still be state-based stamp duty implications though.

- **Business registration to be simplified -** A single online site will be established that will take care of all the compliance requirements for setting up a new business in one place. Currently there are a number of different steps required, including ABN registration, business name registration, GST and PAYG setup, and so on. This will all be streamlined into a single site.

- **Accelerated depreciation for some primary production costs -** From 1st July 2016, primary producers will be able to immediately deduct costs associated with fencing, fodder storage and water facilities. Like the $20,000 instant asset write-off above, this provides a timing benefit in allowing the full amount to be claimed in a single year rather than having it spread over a number of years.

Personal Tax

- **Budget deficit levy won't be extended -** While there were no changes at all announced to personal taxation rates, the Government did say that the 2% Budget deficit levy, announced last year on personal taxable income over $180,000, will not be extended beyond its scheduled end date of the 2016-17 financial year.

- **Work related car expenses simplified -** At the moment there are four different methods that can be used to claim work-related car expenses. From 1st July 2015, two of these will be abolished altogether, leaving only the log book method and the 'cents per kilometre' method. The 'cents per kilometre' method previously used three different rates, depending on the size of the car's engine, however this will now be set at one standard rate of 66 cents per kilometre. This will have the effect of seeing those with smaller cars getting a nominal increase in their claim, while those with larger cars will incur a reduction in the amount they can deduct.

- **Zone offset abolished for 'fly-in, fly-out' workers -** The Zone offset is available to taxpayers working in remote areas to help subsidise the additional costs of living that might be incurred there. From 1st July 2015 this will be denied to workers who 'fly-in, fly-out' on the basis that effectively they are not living in the zone, but rather simply fly or drive in for work and fly or drive out again when they are finished, returning to their usual place of residence.

- **HELP debts to be recovered from students living overseas -** From 1st July 2016, Australian students who have incurred HELP debts for tertiary education, and then moved overseas (for more than 6 months), will be required to repay their debt, in accordance with the same rules as everyone else (for example, only when their income exceeds the specified threshold). Debtors will be required to register with the ATO from the date of implementation, while those already residing overseas will have until 1st July 2017 to register. Repayments will commence from 1st July 2017.

Superannuation and retirement

- **Early access to superannuation for terminal illness -** Thankfully, despite the pre-Budget media chatter, superannuation was largely left untouched, aside from a few very minor tweaks. One positive one was that early access to super for those suffering a terminal illness will be extended. Previously a person suffering a terminal illness required two medical practitioners to confirm that they were likely to die within the next 12 months. However this is a relatively short period of time, particularly when dealing with large institutional investment bodies who are slow to move. This period will be extended to 24 months from 1st July 2015, which should provide greater financial relief for treatment costs and so on.

- **Pension eligibility thresholds changed -** The assets thresholds for pension eligibility will change, the result being that many who are currently on a part pension may find they no longer qualify. Those at the lower end, however, may find that they are entitled to more.

Fringe Benefits Tax

- **Separate $5,000 cap on meal entertainment benefits for not-for-profit employees -** Currently, there is no limit on the amount an employee of a not-for-profit institution can salary sacrifice for meal entertainment expenses and entertainment facility leasing expenses. Unusually, this latter expense was deemed to include holiday accommodation as well. Overall this has meant that, for example, an employee of a not-for-profit organisation could salary sacrifice $40k for a family wedding (which was the example cited by the Productivity Commission as to why a cap is needed), with the result being that taxpayers were essentially subsidising an open cheque book. From 1st April 2016, for Fringe Benefits Tax purposes, these benefits will be capped at a grossed up limit of $5,000.

- **Limit on one portable electronic device per year lifted -** The FBT exemption on portable electronic devices (such as laptops and smartphones) will be widened so that the limit of one per annum for similar types of devices will be abolished. The headline news seems to present this as a great new FBT exemption opportunity for small business, however it's only the lifting of the one device per annum rule to the existing exemption; the requirement for 'primarily used for work purposes' still remains, so this isn't really a big deal.

Other measures

- **Childcare system to be revamped -** The big-ticket pre-Budget announcement was of course changes to the child care and parental leave schemes. From 1st July 2017, the Government will introduce a single, means-tested child care subsidy, and abolish the various current child care benefits. For families earning up to $65,000 per annum, this will result in around 85% of the fee for child care services being subsidised. Above this amount it will reduce, to a limit of 50% for families earning $170,000 or more. There will be no cap on the total that can be paid for families earning under $185,000 per annum (currently it is $7,500), while a cap of $10,000 per annum will apply for each child to families earning more than this. This is to be funded by savings in the Family Tax Benefits system announced in the last Budget. These changes are currently stalled in the Senate.

- **'Double-dipping' on paid parental leave to be stopped -** Currently, employees who receive paid parental leave from their employer are also entitled to the Government's paid parental leave system. The Government has curiously called this 'double dipping', despite one being a Government benefit and the other being a salary packaging arrangement. From 1st July 2016, employees will not be able to receive both. Those who receive paid parental leave from their employer will not be entitled to a Government payment, unless the employer amount is less than the Government payment, in which case the difference will be topped up. Ostensibly this is predicted to save almost $1 billion in the Budget, however it has the potential to backfire in that employers may instead no longer provide paid parental leave. If an employee can only claim it from one source, many employers may choose to shift that burden onto Government.

Our take...

This has been called a 'safe' Budget, and in many ways it is. Even more so, it may well be an election Budget as the Government seeks to repair the damage from its first effort in time to make a run at the polls. In the final wash-up, there is very little here to cause widespread offense...or excitement. Noticeably absent is any attempt whatsoever at tax reform, but with a number of reviews in the wings, this is (hopefully) still to come. For now, the Government seems content to simply not rock the boat too much. What was a 'budget emergency' last year has this year morphed into a roadmap to recovery, with the Treasurer now stating that he believes that "our nation's best days are ahead of us". This is despite a dramatic increase in the budget deficit over last year.

The Government claims that its mandate for change has been frustrated by a recalcitrant Senate. Perhaps it is more the case that the Australian people gave a very short leash to a Government that, in opposition, made promises that seemed a little too good to be true. This time around though the Government's more measured approach should (we think) see many of its proposals find a happier path through the Upper House and into legislation, and this should in turn pave the way for more significant reform in Budgets to come.

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