2019-20 Federal Budget

The 2019-20 Federal Budget was handed down last night, the first delivered by Treasurer Josh Frydenberg. The big headline is a forecast return to surplus for 2019-20 year for the first time in a decade. While there were, as always, a broad range of announcements across different sectors and interests, we are of course primarily interested here in those measures that specifically impact the world of tax and business. From that point of view, there is very little in the Budget to get excited about or even mention. Add to that the fact that almost all of these announcements are contingent on the Coalition winning the upcoming election, and it makes for a very uneventful Budget update.

Here's a few of the highlights.

- Expansion of the instant asset write-off measure for small and medium businesses
- Deferral of proposed Div 7A amendments
- Increase to Tax Offsets
- Additional changes to individual rate thresholds
- Work test for individuals aged 65 and 66 years to be removed
- Non-concessional 'bring forward' provisions extended to those aged 65 and 66 years

Business

- **Expansion of the instant asset write-off measure for small and medium businesses** - For the current financial year, small businesses (those with turnover of less than $10 million per year) will be able to claim an instant deduction for the full value of assets costing up to $30,000, if they are installed and ready for use after Budget night (2nd April). This is an increase from the current level of $20,000, and also that of the measure currently before Parliament that proposes to increase it to $25,000 from 29th January 2019.

  The concession has been significantly expanded too, by extending it to medium-sized businesses. These are enterprises that turn over between $10 million and $50 million per year. The major difference for these entities is that the measure only applies to assets purchased after Budget night. For small businesses, assets may have been purchased before that date but not installed and ready for use.

  While this is as always mostly a timing benefit and doesn't save tax overall (it simply brings forward depreciation deductions into a single year), it delivers a welcome cash flow boost for businesses, and bringing more entities into the net will have flow on effects for the wider economy.

- **Deferral of proposed Div 7A amendments** - This is a complicated area of the law that nevertheless affects a wide range of people, particularly those with more complex business arrangements. It effectively governs unpaid loans between related parties, and ensures that these are not treated simply as tax-free lines of credit. The Government had announced that they would be tightening up the rules around these loans to ensure that they are repaid more consistently and sooner, however there had been concerns about the complexity of the changes, the short time-frame for implementation and a lack of adequate transitional arrangements to prevent exceptionally adverse consequences. After much lobbying by various industry bodies, the Government has agreed to defer the start date of these changes by 12 months, to 1st July 2020, to allow further time for consultation with stakeholders.

Personal tax

- **Increase to Tax Offsets** - The unnecessarily complex Low and Middle Income Tax Offset is a 'non-refundable' offset introduced in the last Budget that provides some tax relief for many individual tax payers. In its previous guise it started at $200 for those with taxable incomes up to $37,000, rose gradually to a maximum of $530, where it plateaued for individuals with taxable incomes between $48,000 and $90,000, before reducing again until it cut out entirely for those earning more than $125,333.

  The Budget proposal is to more than double this, starting in the current financial year and running for three more years to 2022. The new base level would start at $255, rise to a maximum of $1,080 (all at the same income thresholds as above), before reducing again and cutting out entirely for those with taxable incomes over $126,000 (up slightly from the previous cut-off of $125,333).

  While our preference would be to convert a measure like this into more simplified adjustments to individual tax brackets, it is still a helpful offset to counter the effect of bracket creep on individual tax payers.

  In addition, the current Low Income Tax Offset will increase from 1st July 2022 from $645 to $700, and will be withdrawn at a slower rate so some taxpayers with higher levels of taxable income will still be eligible for a proportion of it.

- **Additional changes to individual rate thresholds** - From 1st July 2022 the upper threshold of the 19% personal tax rate will be increased from $41,000 to $45,000. Then from 1st July 2024, the current 32.5% individual tax rate will be reduced to 30% while the 37% rate will be abolished altogether. The result of these changes is that by 2024-25, there will only be three personal tax rates - 19%, 30% and 45%.

  Unfortunately while these are, in theory, very good announcements, the almost comically distant timelines make them little more than headline-grabbing stocking-stuffers for Budget night. Any slight fiscal or monetary headwind often results in future proposals for tax cuts being abandoned at a later date, and in the case of the latter of these two proposals, the implementation date is so far into the future that the Government must survive two elections to see its initiative be fulfilled! Forgive us if we're a little sceptical.

Superannuation

- **Work test for individuals aged 65 and 66 years to be removed** - From 1st July 2020, the Government will allow individuals aged 65 and 66 years to make voluntary superannuation contributions (concessional and non-concessional) without having to satisfy the work test. Currently, the 'work test' requires that a person aged between 65 and 74 years must be 'gainfully employed' in order to make super contributions, which is defined as having worked at least 40 hours in a period of 30 consecutive days or less at some point during the relevant financial year. Effectively, this change is to align the work test with upcoming increases to aged pension eligibility (67 years of age from 1st July 2023).

- **Non-concessional 'bring forward' provisions extended to those aged 65 and 66 years** - 'Non-concessional' superannuation contributions are those made from a person's own pocket, from after tax income or savings. There is no tax deduction, since tax has already been paid, but it allows for money to be moved into the low tax environment of superannuation in order to maximise growth. An individual is permitted to put away up to $100,000 per year in this manner, subject to their total super balance, but can also bring forward up to three years in one hit, so that up to $300,000 can be contributed in any three year period. The 'bring forward' option is currently only available to those aged under 65 years. This announcement will extend that to those aged 65 and 66 years.

Our take...

As Budgets go, this is about as safe as they come. Significantly, the actual results for 2018-19 did not see a return to surplus as some had predicted, and so for now the forecast for a return to surplus next year remains just that - a forecast. With a vulnerable economy, softened further by a weakening housing sector, and the fact that both sides of Parliament are notoriously inaccurate at forecasting financial results, it remains to be seen whether the hope of a surplus becomes a reality. Still, it's a good sign that the bottom line seems to be improving.

Thankfully, however, 'safe' also means that traditional easy revenue sources such as superannuation have been largely left untouched.

In summary, there's some welcome but minor tax relief, a couple of wildly distant timelines for further cuts, no real adverse tax grabs...and not much else. All of which may be moot if the Coalition loses the upcoming election. If that happens, from the announcements so far by the Labor opposition, we expect next year to be one of the biggest and most challenging years for tax we have seen for a long time.

Our mailing address is:
Dewings
PO Box 170
Fullarton, South Australia 5063
Australia