

2018 Budget: Summary

2018/19 Federal Budget Highlights

Mr Scott Morrison, the Federal Treasurer, handed down his third Budget on 8 May 2018. Mr Morrison said the Budget is focused on further strengthening the economy to “guarantee the essentials Australians rely on” and “responsibly repair the budget”. With a deficit of \$18.2b in 2017/18 and \$14.5b in 2018/19, the Budget is forecast to return to a balance of \$2.2b in 2019/20 and a projected surplus of \$11b in 2020/21.

The government is proposing a three-step, seven-year plan to make personal income tax “lower, fairer and simpler”. The Budget also contains additional measures to counter the black economy, particularly in response to the final report from the Black Economy Taskforce, including expanding the taxable payments reporting system. Additionally, the Budget contains a range of measures intended to ensure the integrity of the tax and superannuation system.

The full Budget papers are available at www.budget.gov.au and the Treasury ministers’ media releases are available at www.ministers.treasury.gov.au.

The tax and superannuation highlights are set out below.

Individuals

- A seven-year Personal Income Tax Plan will be implemented in three steps, to introduce a low and middle income tax offset, to provide relief from bracket creep and to remove the 37% personal income tax bracket.
- The Medicare levy low-income thresholds for singles, families, seniors and pensioners will be increased from the 2017/18 income year.
- The 2017/18 Federal Budget measure to increase the Medicare levy from 2% to 2.5% of taxable income from 1 July 2019 will not proceed.
- Supplementary amounts (such as pension supplement, rent assistance and remote area allowance) paid to a veteran, and full payments (including the supplementary component) made to the spouse or partner of a veteran who dies, are exempt from income tax from 1 May 2018.
- Schemes to license a person’s fame or image to another entity such as a related company or trust to avoid income tax will be curtailed.
- The ATO will be provided with \$130.8m from 1 July 2018 to increase compliance activities targeting individual taxpayers and their tax agents.

Income Tax

- Significant changes to the calculation of the R&D tax incentive will commence for income years beginning on or after 1 July 2018. Additionally, a maximum cash refund will also apply for some entities.
- The \$20,000 instant asset write-off will be extended for small businesses by another year to 30 June 2019.
- Amendments to Div 7A will strengthen the unpaid present entitlements (UPE) rules from 1 July 2019.
- The start date of targeted amendments to Div 7A will be deferred from 1 July 2018 to 1 July 2019.
- Deductions for expenses associated with holding vacant land not genuinely used to earn assessable income will be denied.
- The small business capital gains tax (CGT) concessions will not apply to partners alienating rights to future partnership income.
- Payments to employees and contractors are no longer deductible where any amounts that are required to be withheld are not paid, from 1 July 2019.
- The definition of a “significant global entity” (SGE) will be broadened to include more large multinational groups, from 1 July 2018.
- The thin capitalisation rules will be amended, effective 1 July 2019, to require entities to align the value of their assets for thin capitalisation purposes with the value included in their financial statements.
- The thin capitalisation rules will be amended, effective 1 July 2019, to treat certain consolidated groups and multiple entry consolidated groups as both outward and inward investment vehicles for thin capitalisation purposes.
- Tax exempt entities that become taxable after 8 May 2018 will not be able to claim tax deductions that arise on the repayment of the principal of a concessional loan.
- The 50% capital gains discount for managed investment trusts (MITs) and attribution MITs (AMITs) will be removed at the trust level.
- A specific anti-avoidance rule that applies to closely held trusts engaging in circular trust distributions will be extended to family trusts.
- The concessional tax rates for the income of minors from testamentary trusts will not be available for trust assets unrelated to the deceased estate.
- A five year income tax exemption will be provided to a subsidiary of the International Cricket Council (ICC) for the ICC World Twenty20 to be held in Australia in 2020.
- The list of countries whose residents are eligible to access a reduced withholding tax rate of 15% on certain distributions from Australian managed investment trusts (MITs) will be updated.
- Six more organisations have been approved as specifically-listed deductible gift recipients.

Superannuation

- The maximum number of allowable members in SMSFs and small APRA funds will be increased to six from 1 July 2019.
- The annual audit requirement for self-managed superannuation funds will be changed to a three yearly requirement for funds with a history of good record keeping and compliance.
- 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) from 1 July 2018.
- Individuals will be required to confirm in their income tax returns that they have complied with “notice of intent” requirements in relation to their personal superannuation contributions, effective from 1 July 2018.
- An exemption from the work test for voluntary contributions to superannuation will be introduced from 1 July 2019 for people aged 65-74 with superannuation balances below \$300,000, in the first year that they do not meet the work test requirements.
- Insurance arrangements for certain superannuation members will be changed from being a default framework to being offered on an opt-in basis.
- A 3% annual cap will be introduced on passive fees charged by superannuation funds on accounts with balances below \$6,000, and exit fees on all superannuation accounts will be banned.
- The financial institutions supervisory levies will be increased to raise additional revenue of \$31.9m over four years, from 2018/19.

Black Economy Measures

- A package to reform the corporations and tax laws to deter and disrupt illegal phoenix activity and the black economy will be introduced.
- The taxable payments reporting system for payments to contractors will be expanded to include security services, road freight transport and computer system design industries, effective from 1 July 2019.
- Business seeking to tender for Australian government contracts above \$4m (including GST) will need to provide a statement of compliance with their tax obligations, from 1 July 2019.
- Businesses can no longer receive cash payments above \$10,000 for goods and services, from 1 July 2019.

Indirect Taxes

- Offshore sellers of hotel accommodation in Australia will be required to calculate their GST turnover in the same way as local sellers from 1 July 2019.
- The luxury car tax on cars re-imported into Australia, following a refurbishment overseas, will be removed from 1 January 2019.
- Alcohol excise refund scheme cap increased from \$30,000 to \$100,000 per financial year from 1 July 2019, and lower excise rates will apply for smaller beer kegs.

- Measures to combat illicit tobacco in Australia, including collecting tobacco duties and taxes upon importation and creating a multi-agency task force, will be introduced.
- Customs tariffs from placebos and clinical trial kits that are imported into Australia will be removed from 1 July 2018.
- Access to refunds of indirect tax, including GST, fuel and alcohol taxes under the Indirect Tax Concession Scheme has been extended.

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