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## 2017 Federal Budget Highlights

On Tuesday, 10th May 2017, Federal Treasurer Scott Morrison handed down his second Federal Budget and the Australian economy is expected to rebound from the slowdown caused by Cyclone Debbie that hit the coast hard at the end of March this year. The economy is expected to expand at a rate of 2.75 percent next financial year and 3 percent the following year. Treasury now expect a budget deficit of \$29.4 billion in 2017/18 but project a surplus budget of \$7.4 billion in 2020/21.

Unemployment is forecast to remain steady at around 5.5 percent and inflation is not expected to shift outside the Reserve Bank's 2 to 3 percent target range, meaning less pressure on interest rates.

The budget contained some positives for small business that we have documented in this newsletter including the Turnbull Government's extension of the \$20,000 instant asset write-off on depreciable assets. Businesses with a turnover of up to \$10 million now qualify for this concession and it is proposed that companies turning over up to \$50 million will have their tax rate reduced from 30 percent to 25 percent over the next 10 years.

In a bid to create jobs and grow the economy, the Government have also committed to investing \$75 billion in key infrastructure projects over the next 10 years. These projects are focused around road, rail and airport investments. The budget also targeted Australia's big five banks, multi-national tax avoiders, foreign workers and foreign resident investors, while making voter-friendly announcements in relation to health, education (particularly schools funding) and housing affordability.



**FEDERAL  
BUDGET  
2017-18**

## Small Business Measures

### \$20,000 Small Business Immediate Tax Deduction

The immediate write-off on depreciable items for businesses has been extended to 30 June, 2018. In addition, the threshold for qualifying businesses has been lifted from an aggregated annual turnover of \$2m to \$10m which will give up to 90,000 extra businesses access this tax break.

The \$20,000 cap is exclusive of GST for businesses who are registered for GST while the \$20,000 is inclusive of GST if you aren't registered for GST. Some key points regarding the concession include:

- The asset can be new or second-hand
- The asset must be first used or installed ready for use by June 30, 2018
- After June 30, 2018, the write off threshold will revert back to \$1,000
- The write-off of the asset is for the 'taxable purpose proportion' which is the proportion of the asset's use in a financial year for producing assessable income (business purposes)
- The instant asset write-off only applies to certain depreciable assets. There are some assets, like horticultural plants, capital works assets (like building construction costs) and assets leased to another party on a depreciating asset lease



**The greatest compliment we receive from our clients is the referral of their friends, family and business colleagues. Thank you for your support and trust.**

## \$20,000 Small Business Immediate Tax Deduction *(Continued)*

that don't qualify - If you are uncertain, we urge you to consult with us before you purchase the asset

- Assets costing \$20,000 or more can be allocated to a pool and depreciated at a rate of 15% in the first year and 30% for each year thereafter.

While the \$20,000 accelerated write-off incentive sounds attractive to small business owners, spending up to \$20,000 on an asset to simply get a tax deduction may not be prudent. There are specific rules around this tax break so we urge you to seek professional advice before committing to a major asset purchase.

## Company Tax Rates

The Government has confirmed its intention to eventually reduce the company tax rate to 25 percent for all companies. This is a positive move to keep Australia competitive with our international trading partners, however, the challenge for the current Government is to get these proposed laws through parliament having already encountered significant opposition.

The following table provides a summary of the proposed company tax rate changes and note the timing of the changes and the qualifying turnover thresholds. Note, these changes are yet to be approved by the House of Representatives.



Financial Year	Company Annual Aggregated Turnover	Company-Tax Rate
2016-17	Less than \$10 million	27.5%
2017-18	Less than \$25 million	27.5%
2018-19	Less than \$50 million	27.5%
2019-20 to 2024	Less than \$50 million	27.5%
2024-25	Less than \$50 million	27%
2025-26	Less than \$50 million	26%
2026-27	Less than \$50 million	25%

Please note, the proposed decrease in the company tax rate and the increase in the qualifying turnover threshold for small businesses will not apply if you operate your business through a family trust and distribute profits to a corporate beneficiary. In this instance, the company is not classified as a business and therefore the applicable tax rate will remain at 30%.

## Access to Small Business CGT Concessions

The Government has announced it will tighten access to the small business Capital Gains Tax (CGT) concessions from July 1, 2017. As part of its tax integrity package, the Government's proposed changes will mean the CGT concessions can only be used in relation to assets used in a small business or ownership interest in a small business. This is purportedly aimed at taxpayers with an ownership interest in larger business entities that may currently be excluded when considering the eligibility threshold for the concessions.

The small business CGT concessions will continue to be available to small businesses with an aggregated annual turnover of less than \$2 million or net assets of less than \$6 million. The Government has not provided any further details on this measure and the breadth of these changes is currently uncertain.

The disposal of business assets after 1 July, 2017 should be carefully considered in light of the announced changes.



**DISCLAIMER:** This document contains general advice only and is prepared without taking into account your particular objectives, financial circumstances and needs. The information provided is not a substitute for legal, tax and financial product advice. Before making any decision based on this information, you should speak to a licensed financial advisor who should assess its relevance to your individual circumstances. While the firm believes the information is accurate, no warranty is given as to its accuracy and persons who rely on this information do so at their own risk. The information provided in this bulletin is not considered financial product advice for the purposes of the Corporations Act 2001.

## Looking to Employ Foreign Workers?

From March 2018 businesses that employ foreign workers on certain skilled visas will be required to pay an additional levy. Businesses with a turnover of less than \$10 million will be required to make an upfront payment of \$1,200 (or \$1,800 for businesses with turnover of \$10 million or more) per visa per year for each employee on a Temporary Skill Shortage visa. In addition, businesses with a turnover of less than \$10 million will be required to make a one off upfront payment of \$3,000 (or \$5,000 for businesses with turnover of \$10 million or more) for each employee being sponsored for a permanent Employer Nomination Scheme (Sub-Class 186) visa or a permanent Regional Sponsored Migration Scheme (subclass 187) visa.



Business Turnover	Levy – Temporary Skill Shortage Visa	Levy – Permanent Visa Pathway (Subclasses 186 & 187)
Below \$10 million	\$1,200 per year	\$3,000 one-off payment
\$10 million or more	\$1,800 per year	\$5,000 one-off payment



The additional levy and significant associated increases in visa application charges will add further costs to businesses that rely on skilled overseas workers to develop and grow. The measures are estimated to generate additional revenue of \$1.2 billion for the training and development of Australian workers who can fill skill shortages in the medium to long term.

## Extension of Taxable Payments Reporting to Courier and Cleaning Industries



The Government will extend the Taxable Payments Reporting System (TPRS) regime to include contractors in both the courier and cleaning industries effective from July 1, 2018. The TPRS already applies to the building and construction industry where businesses are required to lodge an annual report with the ATO disclosing payments made to contractors in the preceding 12 months. The ATO uses this information to detect mismatches between payments made to contractors and the income declared by those contractors.



Entities in the cleaning and courier industries will need to collect the required information from July 1, 2018. These business owners will need to consider how the required information can be extracted from their record keeping systems well before the first annual report is due for lodgement in August 2019.

## Personal Taxation - Individual Tax Rates

There were no changes to personal income tax rates in the Budget. This means that the 2% Temporary Budget Repair Levy will end on June 30, 2017. The following table lists the individual income tax rates for Australian residents for the financial year ending June 30, 2018:

Taxable Income	Tax Payable
\$0 - \$18,200	Nil
\$18,201 - \$37,000	19% of excess over \$18,200
\$37,001 - \$87,000	\$3,572 plus 32.5% of excess over \$37,000
\$87,001 - \$180,000	\$19,822 plus 37% of excess of \$87,000
\$180,001 and over	\$54,232 plus 45% of excess over \$180,000



\* This excludes the 2% Medicare Levy

## Personal Tax - Changes to the Medicare Levy

The most significant change that will impact individual taxpayers is the increase in the Medicare levy from 2 percent to 2.5 percent from 1 July 2019. This is forecast to deliver \$8.2 billion of additional revenue for the Government that will help fund the National Disability Insurance Scheme.



The across the board increase in the Medicare levy could be viewed as a way for the Government to replace the loss of revenue from the Temporary Budget Repair Levy that ceases on June 30, 2017. However, unlike the Budget Repair Levy that only impacted individuals with a taxable income over \$180,000, the Medicare levy is not means tested, except against the low-income thresholds. With the removal of the Temporary Budget Repair Levy from July 1, 2017, the effective top marginal tax rate for individuals for the year ending June 30, 2018 will be 47% including the 2% Medicare Levy (down from 49% for the year ended June 30, 2017).

Low income earners will continue to receive relief from the Medicare Levy and the 2016/17 thresholds are as follows:

	2016/17 Threshold
Singles	\$21,655 (was \$21,335)
Families	\$36,541 + \$3,356 for each dependent child or student
Single Seniors & Pensioners	\$34,244 (was \$33,738)
Family Threshold - Seniors & Pensioners	\$47,670 + \$3,356 for each dependent child or student

## Personal Tax - Restricting Residential Investment Property Deductions

Although the Government has not specifically targeted negative gearing, they have introduced several measures to restrict tax deductions in respect of residential investment properties.



Firstly, travel expenses to and from your residential investment property to inspect, maintain or collect rent will no longer be tax deductible after June 30, 2017. This measure has been introduced because some landlords have been combining private trips with their rental property management and not correctly apportioning their costs to exclude the private portion of the travel expenses. As such, this is the last financial year that travel expenses associated with your residential property management will be tax deductible. A trip to inspect your property planned for July 2017 should be brought forward to before June 30, 2017 to get a tax deduction. This measure does not apply to commercial property landlords or to residential landlords who engage real estate agents to perform property management services.

The second measure relating to investment properties is the limitation of depreciation deductions on removable type assets, typically plant and equipment, acquired with an existing residential investment property. Depreciation deductions will only be available for newly acquired assets, where the property owner directly incurs the expenditure. This new measure will apply from July 1, 2017 (for plant and equipment acquired after 9 May 2017)

Under this measure, the entire purchase price will be allocated to the property's cost base for capital gains tax purposes, rather than being apportioned between the property and removable assets such as carpets, dishwashers and air-conditioning units. Historically, the allocation of the purchase price between the property and the component assets would normally be performed by a qualified quantity surveyor. This new proposal will not affect investors who already hold residential properties prior to 7:30pm (AEST) 9 May 2017.

Investors that purchase plant and equipment for their residential property after 9 May 2017 will be able to claim the depreciation deduction over the effective life of the asset. However, subsequent owners of the property will not be allowed to claim deductions for plant and equipment purchased by the previous owner. The plant and equipment costs will be reflected in the cost base for capital gains tax purposes.



## Personal Tax - Higher Education Reform

The Government has unveiled extensive changes to the fee structure of Higher Education Loan Program (HELP) schemes. These changes include a decrease in the minimum repayment threshold, as well as significant amendments to repayment rates.



The Government also announced an annual increase in student contributions of 1.82 percent, totalling approximately 7.5 percent over a period of four years. The increase will come into effect from July 1, 2018. A new minimum threshold of \$42,000 will be established with a 1% repayment rate and a maximum threshold of \$119,882 with a 10% repayment rate. By way of background, for 2017/18, the minimum threshold is \$55,874 and the minimum repayment rate is 4%. The maximum threshold for 2017/18 is \$103,766 with an 8% repayment rate.

## Superannuation

For the first time in a few years, the budget contained no major superannuation changes. This is no surprise given the changes from last year's budget are still being implemented.

### Contributing Proceeds from Downsizing to Superannuation

The Government announced from July 1, 2018, a person aged 65 or over will be permitted to make a non-concessional contribution to their superannuation of up to \$300,000 from the proceeds of selling their principal place of residence. That residence must have been owned for the past ten or more years. The contributions are to be in addition to contributions currently permitted under existing contribution rules.



The contributions are stated to be exempt from the existing age test, work test and the \$1.6 million balance test for non-concessional contributions that may otherwise prohibit the contributions being accepted by the superannuation fund under the current rules. There is a lot of detail that remains unclear including the definition of downsizing and whether you will be required to contribute the actual proceeds from the property sale and whether the contribution amount will be \$300,000 per couple or \$300,000 each.

Removing the restrictions on non-concessional contributions for people downsizing might help people self-fund their retirement. The proceeds from downsizing a home in this manner are not proposed to be exempt from the Age Pension assets test, which seems to be a missed opportunity to further unlock barriers to downsizing in the current system.

### First Home Super Saver Scheme

The Government announced a scheme that will allow first home buyers to use superannuation as a means of saving to buy their first home. They will be allowed to salary sacrifice superannuation contributions up to \$15,000 per year and \$30,000 in total can be contributed within existing concessional contribution limits of \$25,000 per annum.

Voluntary contributions to superannuation made by first home buyers from 1 July, 2017 will be able to be withdrawn from 1 July, 2018 for a deposit on a first home, along with associated deemed earnings. Currently, withdrawals usually cannot be made from a superannuation fund until a person has reached 55 to 60 years of age, depending on their date of birth. These concessional contributions and the associated earnings (calculated on the 90 day Bank Bill rate plus 3%) can subsequently be withdrawn from the superannuation member's account. On withdrawal, these funds will be taxed at marginal tax rates less a 30% tax offset.



In most circumstances, the net tax paid on contributions and earnings under the scheme would be 15% and the overall net tax benefit achieved for a first home buyer who contributes and withdraws the full \$30,000 and who has a marginal tax rate of 39% (including Medicare levy) will be \$4,500.

Members of a couple will each have access to the scheme (taking this to potentially \$60,000 in total). Self-employed individuals and employees who are not able to access salary sacrifice will be able to claim a tax deduction on personal contributions.

## Goods & Services Tax

### Purchasers to Pay GST on New Residential Premises

From 1 July 2018, the Federal Government will strengthen compliance with the GST law by requiring purchasers of new residential premises and land in new subdivisions to remit the GST on the sale directly to the ATO as part of the property settlement process.

Under the current law, the seller of new residential premises or subdivided land is required to collect and remit the GST associated with the sale to the ATO through its Business Activity Statement. The Government has identified that some property developers are failing to remit the GST on their sales, despite claiming credits for GST incurred on development costs. To combat this non-payment of GST, the responsibility for payment of the GST will be shifted to the purchaser. Given most purchasers use conveyancers to assist with the transfer and settlement of properties, the Government believes this change should not represent a significant additional burden for purchasers.

We expect that property developers will face additional compliance costs as a result of the change, and will be forced to change the settlement statement provided to the purchaser to identify the GST payable on the sale so that the purchaser can remit this amount to the ATO. The change could also result in cash flow issues for developers as they will no longer have the benefit of the GST component of the sale proceeds in their bank account for the period between settlement and lodgement of their Business Activity Statement. Finally, purchasers' conveyancing costs may increase subject to what processes are established by the ATO to facilitate payment of the GST.

### Digital Currency & GST

From July 1, 2017, the Government will align the GST treatment of digital currency (e.g. Bitcoin) with money. Digital currency is currently treated as intangible property for GST purposes. Consequently, consumers who use digital currencies as payment can effectively bear GST twice, once on the purchase of the digital currency and again on its use in exchange for other goods and services subject to GST. This measure will ensure purchases of digital currency are no longer subject to the GST.

### Low-Value Imports

Retailers will be disappointed to hear that plans to impose the GST on low-value imports has been deferred for another 12 months to July 1, 2018. This will disadvantage them in comparison with international retailers, particularly those that dominate the online sector.

The issue of whether GST should apply to low-value imported goods has been the subject of many reviews and on March 23, 2017 the Government's bill to extend GST to low-value goods imported by consumers was referred to the Senate Economics Legislation Committee. The committee published its final report on May 9, 2017 and noted concerns about the proposed implementation date due to the complexities of the proposed collection mechanism and the policing of non-compliance. It recommended that the bill pass but that the introduction of the new tax be delayed to July 1, 2018.

## Tax Integrity Measures

The Government will continue to target the black economy and will provide \$32 million to extend the funding of audit and compliance programs by the Australian Taxation Office (ATO) for another year. These programs are designed to counter behaviours related to the black economy, such as non-lodgement of tax returns, omission of income on returns and non-payment of employer obligations.

A further focus of the Government is to prohibit the manufacture, distribution, possession, use or sale of electronic point-of-sale suppression technology and software, which can be used to delete selected transactions from electronic records.

The ATO will continue its compliance work against serious and organised crime and will provide \$28.2 million to the ATO to target serious and organised crime in the tax system. This extends an existing measure by a further four years to 30 June 2021.



## Disclosure of Tax Debts by ATO to Credit Reporting Agencies

Having an outstanding tax debt is incredibly stressful. The Australian Taxation Office (ATO) have for some years engaged external debt collectors to pursue the tax debts of small businesses and following a parliamentary inquiry in 2014, the ATO have been working to improve its relationship with small business taxpayers. That inquiry revealed a number of taxpayers were intimidated, bankrupted, had mental breakdowns and contemplated suicide after drawn-out disputes with the Tax Office.



In a new measure, from July 1, 2017 the ATO will be allowed to disclose the tax debt information of businesses to credit reporting agencies unless they have engaged with the ATO to manage their debts. The measure will initially apply to businesses with an Australian Business Number (ABN) and a tax debt of more than \$10,000 that is at least 90 days overdue. Taxpayers that have entered into a payment arrangement or have otherwise engaged with the ATO to manage their debts will not be impacted.

This represents a significant shift in the ATO's approach to managing tax debts where the current consequences for failing to pay tax debts include the imposition of penalties and a general interest charge. As a result, some taxpayers have treated their tax debt as less important than the payment of other forms of debt. This new approach might change that priority as tax debt information reported by the ATO may remain on commercial credit files for five years and impact on future finance and supplier credit applications, even if the debt is subsequently paid.

This change is no surprise given the ATO's latest annual report that shows the total level of collectable debt as of June 30, 2016 was \$19.2 billion. Small businesses make up the majority (65.2 per cent) of taxpayers with debts and only 72.3 percent of small business tax liabilities got paid on time. This change is obviously a strategic move by the ATO under pressure to recover escalating tax debts.

If you have concerns about your tax debt please contact us today to discuss your options.

### Quick Tips to Grow Your Business, Increase Profits and Maximise Return On Investment

## BUSINESS BUILDERS



Creating blogs and offering your readers valuable and educational content is one of the most effective ways to grow your business. Quality original content can boost your rankings with Google and the other search engines plus it helps your audience to get to know your business and what you offer. Think of your content as a hook and if you can hook your readers, the more likely they are to purchase your products and services and become advocates of your brand.

Your content can be in different formats including newsletters like this one, blogs, videos, eBooks and white papers.

## Deductibility of Website Costs

Your website is probably one of your most important business assets. In the digital and social age, most of your prospective customers start their search online and your website serves as your electronic shopfront, operating 24/7/365. It is your silent salesperson and could be your most important 'employee'.

Your website could be the difference between gloom and boom and it's no surprise to find a lot of business owners are ramping up their investment in their website. Before you rush out and build a new website or invest in a makeover, it's important to understand that not all website expenses are fully tax deductible. The ATO have issued Taxation Ruling TR 2016/3 that states that expenditure on a website can be treated in one of three ways:

1. Immediate Tax Deduction
2. Deductible Over Time (Capital Allowance); or
3. Not Deductible but can form part of the Cost Base of a Capital Gains Tax asset.

In some instances, the expenditure may need be apportioned, with part of the expenditure being an immediate tax deduction and the balance deductible over time (or included in the cost base of a Capital Gains Tax asset). Below is a table that broadly summarises the tax treatment of website expenses, however, we urge you to consult with us if you have any concerns about the treatment of your website expenditure.



TYPE OF WEBSITE EXPENDITURE	Immediate Tax Deduction	Capital Cost
Acquiring or developing a commercial website for a new or existing business		▼
Recurring operating costs	▲	
Labour costs (employee or contractor expenses) excluding costs relating to a major enhancement	▲	
Maintaining a website (routine or expected expenses)	▲	
Modifying a website which adds minor functionality and enhancements	▲	
Major upgrade adding new functionality		▼
Acquiring a domain name excluding recurring registration or licence fees		▼

This table is not exhaustive and Taxation Ruling TR 2016/3 contains twenty five different examples of various website costs to help in categorising the expenditure. If commercial website expenditure does not qualify as a general deduction (that is, the amount is a capital outgoing), it may still be deductible over time if the expenditure is in relation to in-house software.

In-house software broadly includes software that allows the website owner to interact with the website users and to provide a user interface. It does not include downloadable software which the website user can use offline. As such, costs incurred by a business to engage an IT developer to significantly upgrade software and improve website usability would typically constitute in-house software according to example 17 of TR 2016/3.

From 1 July 2015, expenditure relating to in-house software can generally be claimed over a five year period from the date that it is installed ready to use. Further, in-house software expenses may be immediately deductible to small business entities for the income year ending 30 June 2017 (provided the expenditure is less than \$20,000 per asset).

We invite you to contact us today if you require further clarification regarding the deductibility of commercial website expenditure or the definition of in-house software.