

# 2015-16 Federal Budget

## Business tax measures

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This whitepaper summarises the 2015-16 Federal Budget and the impact to businesses. It also outlines changes to personal tax and superannuation announcements that affect business owners.

The whitepaper has 3 sections:

**Summary** Key tax changes impacting business

**Section 1** Economic impact summary

**Section 2** Business and personal tax changes

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## Summary Key tax changes impacting business

Key tax changes outlined by Federal Treasurer, Joe Hockey in the 2015-16 Federal Budget announced on 12 May 2015, impacting business include:

- > Reducing the tax rate for more than 90 per cent of incorporated businesses with annual turnover under \$2 million. The company tax rate for these businesses will be reduced by 1.5 percentage points to 28.5 per cent.
- > Providing a five per cent tax discount to unincorporated businesses with annual turnover less than \$2 million from 1 July 2015. The discount will be capped at \$1,000 per individual in an income year, and it will be delivered as a tax credit in their tax return. This delivers a tax cut of \$1.8 billion over the next four years and is intended to help all Australian small businesses grow.
- > Providing all small businesses with an immediate tax deduction for any individual assets they buy costing less than \$20,000, a limit that applies to each individual item. Small businesses can apply this \$20,000 rule to multiple individual items. Any assets over \$20,000 can be added together or pooled, and depreciated at the same rate. These assets are depreciated at 15 per cent in the first income year, and 30 per cent per year thereafter. If the value of the pool is below \$20,000, it can be immediately deducted until the end of June 2017.
- > Providing a Fringe Benefit Tax exemption for work-related portable electronic devices, helping small business employees stay connected in the digital economy.
- > Expanded tax concessions for Employee Share Schemes will enable employees to share in, and benefit from, the future growth and success of the business. It will also allow business owners to invest more of the company's cash in growing the business. This \$200 million investment in our future will generate rewards for our entire economy.

Overall, the Government has reduced the amount of tax small businesses need to pay and have maintained their commitment to superannuation compliance obligations such as SuperStream. This means small businesses need to take action to keep software updated and compliant, enabling them to realise productivity benefits. If you're using MYOB accounting software your compliance update will be ready for you by the end of financial year.

## Section 1 Economic impact summary

Key economic highlights outlined by Federal Treasurer, Joe Hockey include:

- > Australia has one of the fastest growing economies in the developed world, even with weaker than expected global demand and lower commodity prices;
- > Real GDP is expected to grow by two and three quarter per cent in 2015-16, increasing to three and one quarter per cent in 2016-17;
- > Small businesses are front and centre of Government policies, encouraging start-up (both incorporated and unincorporated) businesses with instant tax deduction for a range of professional costs;
- > The focus is on building jobs and growth, and a path to a planned Budget surplus in an environment of historically low interest rates;
- > The Federal Budget deficit will be reduced from a peak of \$48 billion to \$35.1 billion in 2015-16 to \$6.9 billion in 2018-19;
- > There is a \$5.5 billion investment in a Jobs and Small Business Package that provides small business tax cuts, a depreciation deduction and other small business tax benefits;
- > New infrastructure investment is to be made nationally for roads, rail and ports, creating job opportunities.

Overall, small business is seen at the forefront of this year's Budget. With 96 per cent of all Australia's businesses are small businesses, employing over four and a half million people, producing over \$330 billion of Australia's economic output per year.

## Section 2 Business and personal tax changes

### 2.1 Business tax

#### Increase in instant asset write-off threshold to \$20,000

- > The threshold for instant asset write-off has been increased from \$1,000 to \$20,000 for small business owners with a turnover of less than \$2M regardless of their operating structure. This applies to each individual item costing less than \$20,000. The asset will need to be used or installed ready for use before the immediate deduction is available. The \$1,000 limit will be reinstated from 1 July 2017 – **applies from 7.30pm on 12 May 2015 to 30 June 2017.**
- > The threshold applies on a GST exclusive basis. This means that the instant asset write-off applies to assets costing less than \$22,000 on a GST inclusive basis.

#### Reduction in company tax rate

- > Companies with an annual turnover of less than \$2M will receive a tax cut of 1.5% reducing the company rate to 28.5% – **applies from 1 July 2015.** The 30% rate is to remain for companies with a turnover of \$2M or more

#### Tax discount for unincorporated businesses

- > Unincorporated small business owners with a turnover of less than \$2M will receive an annual five per cent discount on the tax payable on their business income up to a limit of \$1,000. This will be applied as a tax offset in their personal income tax return – **applies from 1 July 2015.**

#### Capital gains tax relief on business restructuring

- > Small businesses with a turnover of less than \$2M will be able to change their legal structure without triggering a capital gains tax (CGT) liability at that point. Small businesses will benefit from Capital Gains Tax rollover relief when changing their legal structures but keeping the same owners, such as individual or partnership business is transferred to a company – **applies from 1 July 2016.**

#### Relaxing Fringe Benefit Tax (FBT) exemption for work-related electronic devices

- > Currently, an FBT exemption can apply to more than one portable electronic device used primarily for work purposes, provided the devices perform substantially different functions (or, if the items perform substantially the same function, the second item is a replacement for the first item).
- > The Government will allow an FBT exemption for small businesses with an annual turnover of less than \$2M that provide employees with more than one qualifying work-related portable electronic device, even where the items have substantially similar functions (such as between a tablet and a laptop). This will help small business employees stay connected in the digital economy – **applies from 1 April 2016.**

## 2.2 Other business tax changes

### Encouraging start-ups & entrepreneurship

- > A single online business registration site will be set up to make it easier to start a business by streamlining the business registration process. Businesses will only need an ABN rather than the three different identification numbers they need today to do business.
- > Start-up (both incorporated and unincorporated) businesses are entitled to an instant tax deduction for a range of professional costs, such as legal and accounting fees associated with starting a business instead of deducting them over a five year period. This will provide immediate cash flow benefits for small businesses – **applies from 1 July 2015.**

### Accelerated tax deductions for farmers

- > Farmers will be able to claim an immediate tax deduction for any spending on fencing and water infrastructure. This covers dams, tanks, bores, irrigation channels, pumps, water towers and windmills. Farmers will also be able to claim depreciation on the cost of silos and tanks used to store grain and other animal feed over three years – **applies from 1 July 2016.**

### Employee share schemes including start-up companies

- > Several changes have been made to the employee share scheme amending legislation - **applies from 1 July 2015.**
- > Expanded tax concessions for Employee Share Schemes will enable employees to share in, and benefit from, the future growth and success of the business. It will also allow business owners to invest more of the company's cash in growing the business. This is a \$200 million investment designed to generate rewards for our entire economy.
- > Employees will not generally have to pay income tax until they can realise the benefit from their options.

### Helping Australians participate in the workforce

- > The Government is helping Australian small businesses to create more work experience opportunities for Australia's unemployed, particularly young people and older workers.
- > Over \$330 million in targeted spending on new job initiatives.
- > There will be a \$1.2 billion national wage subsidy pool, where employers will be able to access wage subsidies from the time the person starts the job.
- > Changes to Restart will also make it easier for small businesses to receive Government support when they employ older workers. Under the new changes to the Restart programme, employers can access wage subsidy payments sooner.

## 2.3 Personal tax

### Compliance updates

Whilst there are no headlining rate changes to personal tax, there will be, as in previous year's indexation changes to tax scales, which will be provided in the MYOB compliance updates. These updates will be available by the end of financial year and important to apply in the first pay runs of the new financial year, see the [myob.com.au](http://myob.com.au) for details.

### Simplification of claims for work-related car expense claims

- > The methods for calculating work related car expense deductions will be modernised. The '12 per cent of original value method' and the 'one third of actual expenses method', which are used by less than two per cent of those who claim work related car expenses will be removed. The 'cents per kilometre method' will be modernised by replacing the three current rates based on engine size with one rate set at 66 cents per kilometre to apply for all motor vehicles with the ATO responsible for updating the rate in following years. The 'logbook method' of calculating expenses will be retained – **applies from 1 July 2015.**

### Increase in Medicare levy low-income thresholds

- > The Medicare levy low-income thresholds for singles, families and single seniors and pensioners will increase to take account of movements in the Consumer Price Index. The threshold for singles will be increased to \$20,896. For couples with no children, the threshold will be increased to \$35,261 and the additional amount of threshold for each dependent child or student will be increased to \$3,238. For single seniors and pensioners, the threshold will be increased to \$33,044 – **applies retrospectively from 1 July 2014.**

## Section 3 Superannuation announcements

There were no changes in the Federal Budget on the taxation of superannuation funds or superannuation benefits, or on concessional and non-concessional superannuation contributions.

However, there are proposed changes to the superannuation rate, concessional caps and announcements to SuperStream as outlined below:

### SuperStream compliance

SuperStream is mandatory for all employers making super contributions, APRA-regulated super funds and self-managed superannuation (SMSFs) fund receiving contributions.

- > If a business has 20 or more employees, it must comply with SuperStream by 30 June 2015.
- > If a business has 19 or fewer employees, SuperStream applies from 1 July 2015, and must comply by 30 June 2016.

SuperStream makes business life easier with accounting software.

- > SuperStream means you can use a single channel for making payments and reporting on super contributions, regardless of how many funds you might deal with.
- > The costs of processing super payments will be reduced. Whether it's the simple things that'll save you money as an employer, like removing cheque processing time and fees, or reducing the number of hours you need to spend paying super. Or bigger things, like the costs to the funds of processing payments, which means more money returned to members of super funds.
- > More consistent data and less room for human error. This may be more a benefit for the funds, with more consistent data coming through, but in my books, anything that makes it easier to avoid human errors has got to be a winner, and having a consistent process means faster processing time, so your employee's super is cleared faster into their super fund.

### Proposed changes to Super Guarantee (SG) rules

- > The rate of charge for superannuation guarantee remains unchanged at 9.5 per cent.
- > A new concessional formula will apply in working out an employer's SG shortfall. This will limit the shortfall to a percentage of 'ordinary time earnings' instead of total salary or wages paid.
- > The interest component of the SG shortfall will accrue over a longer period – interest will be calculated up to the date the shortfall is paid instead of the earlier date that the employer lodges the SG shortfall statement.

### Concessional contribution caps

The concessional (i.e. tax deductible) superannuation limits for the 2014/15 year based on a person's age are as follows:

- > age 50 and over on 30 June 2015                      \$35,000 contribution limit
- > age 49 and under on 30 June 2015                      \$30,000 contribution limit

### Non-concessional contributions

Age	2013-2014	2014-2015
Under 65	\$150,000 or \$450,000 over 3 years	\$180,000 or \$540,000* over 3 years
65 – 75	\$150,000	Nil
Over 75	Nil	Nil

\*The three year bring forward rule applies where an individual is under the age of 65 at any time during the income year.

### Tax rates for superannuation funds

The superannuation fund tax rate remains at 15 per cent. Funds in pension phase incur no income tax on their 'segregated pension income.' There is a one-third discount for superannuation fund capital gains. Non-arms' length income of a fund is taxed at the top individual tax rate.

## About the Author

Joe Kaleb holds a Master of Taxation from Sydney University and is a Sydney based practicing Chartered Accountant, registered tax agent and ASIC registered superannuation fund auditor with over 25 years of experience. His practice provides a complete range of tax, superannuation and advisory services to business owners, SMEs, professionals and investors, Contact Joe on (02) 9979 8880 or by email [enquiry@australianbiz.com.au](mailto:enquiry@australianbiz.com.au)

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