



ACUTE

2015 Federal Budget Overview

To assist our clients in interpreting what impact the proposed measures in the 2015-2016 Federal Budget may have on you, your family, and your business, we have summarised some of the main announcements. If you are unsure on how these changes could apply to you or if you require any further clarification, please contact us at Acute on 08 9367 7023.



Small Business

The budget contains significant changes for small businesses, ranging from tax cuts, accelerated depreciation deductions and measures to help establish a business as well as restructure a business.

It is noted that the relief is targeted at small businesses which are classified as those with an aggregated gross turnover of less than \$2 million per year.

Tax Cuts

The Tax cuts for small business entities will commence from 1 July 2015

Companies

For companies that are small business entities, the income tax rate will reduce from 30% to 28.5% (on taxable income). It is important to note that the proposed tax cuts to all companies to a rate of 28.5% as previously announced in prior year budgets is not proceeding. The maximum franking credit rate will be maintained at 30% irrespective of the company's size.

Individuals

The Government recognises that most small business are not conducted by companies with only 26% of small business operated by companies, 37% conducted by individuals as sole traders, 25% conducted through trusts and 12% conducted through partnerships. A 5% discount will be provided to individuals who receive business income from these unincorporated entities. The discount will be paid in the form of a tax offset, capped at \$1,000 per individual per income year.

Incentives for Small Business restructures and start up

CGT Rollover relief

From 1 July 2016, there will be a CGT roll-over relief if a small business entity wishes to change its structure. Historically, when small businesses restructure, their owners may be liable for CGT, as there were few effective and appropriate CGT roll-overs available for small business restructures. The CGT roll-over relief allows for greater flexibility in small business structures.

Immediate deduction for professional fees for start-ups



From 1 July 2015, the Government will allow businesses to immediately deduct a range of professional expenses, eg legal and accounting advice, associated with starting a new business. Currently, most professional costs associate with a new business start-up are deducted over a five-year period as 'blackhole expenditure'.

\$20,000 Instant asset write-offs

For business assets, eg motor vehicles, plant & equipment, machinery, acquired and installed ready for use between 12 May 2015 and 30 June 2017, the Government will allow an immediate deduction for all such assets costing less than \$20,000. The threshold applies on a per asset basis.

Previously, the immediate deduction limit is \$1,000.

A small number of assets will not be eligible for the immediate write-off, including horticultural plants and in-house software where specific depreciation rules apply.

Assets valued at over \$20,000 do not qualify for this immediate deduction and will instead form part of the small business simplified depreciation pool. In this pool they will be depreciated:

- At 15% in the first income year
- 30 % each income year after that; and
- once the balance of this pool is below \$20,000, it can be immediately deducted in that year

This increased threshold only applies from 12 May 2015 to 30 June 2017. From 1 July 2017, the immediate deduction threshold will again be reduced to \$1,000.

FBT Exemption for more than one similar portable work-related electronic device

From 1 April 2016, the Government will allow an FBT exemption for small business that provide their employees with more than one substantially similar portable electronic device (e.g. a tablet and a laptop). Currently, an employer may only provide one type of portable electronic device per year to an employee without incurring an FBT liability.



Individuals

Zone Tax Offset Restricted

From 1 July 2015, the ATO will restrict the eligibility for taxpayers to claim the zone tax offset (ZTO) in an effort to align with the original intent of the policy. The ZTO will be amended to exclude 'fly-in fly-out' and 'drive-in drive-out' workers whose normal residence is not actually in the eligible zones.

Changes to tax residency rules for temporary working holiday makers

From 1 July 2016, The Government will remove the ability for people who are temporarily in Australia on working holidays to be classified as Australian tax residents, regardless of whether they meet the current tax residence requirements. This will mean that those affected will be taxed at 32.5% from the first dollar of income earned (i.e. no tax-free threshold for them anymore).

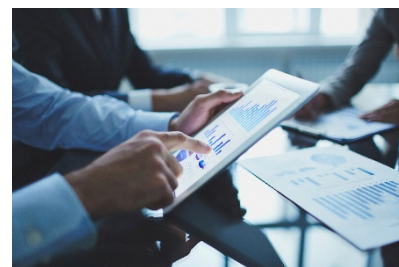
Employers who employ temporary working holiday makers will have to make sure that from 1 July 2016 they will need to deduct PAYG tax at the higher non-resident rates for these employees.

Work-related car expenditure options reduced

From 1 July 2015, taxpayers will only have two methods available to calculate and claim their work related car expenses. These are the cents per kilometre method and log book methods. The 12% of original value and the one-third of actual expenses methods have been discontinued.

Changes to cents per kilometre Method

The Government has removed the sliding scale of deductions available under this method based on vehicle engine size and replaced it by a flat rate at 66 cents per kilometre for all claims regardless of engine size.



Aged Pension Centrelink Assets Test

From 1 January 2016 changes to the Centrelink Assets Test will be introduced whereby the eligibility for the Age Pension is reduced at \$3 per \$1,000 over the lower assets test threshold, rather than \$1.50 for every \$1,000 over the threshold.

Medicare Levy Threshold

The 2014/2015 Medicare levy low income threshold will increase to \$20,896 for singles and \$35,261 for couples with no children (\$3,238 increase per dependent child) and to \$33,044 for single seniors and pensioners.

GST

'Netflix Tax'

From 1 July 2017, the Government intends that all offshore suppliers of digital products and services (e.g. Netflix) will be subject to GST. Currently, digital products and services imported by Australian consumers from overseas are not subject to GST. If this proposal becomes law, such items will effectively cost 10% more as they will be subject to GST.

Farmers

Australian farmers (often also small businesses) are also big winners from the announced tax breaks. From 1 July 2016 primary producers will be able to immediately deduct capital expenditure on fencing and water facilities, such as dams, tanks, bores, pumps, water towers and windmills;

From 1 July 2016 they will be able to depreciate capital expenditure on fodder storage assets such as silos and tanks over three years.

This is a significant change, as these costs are currently deductible over periods of between 30-50 years for fencing and storage assets, with water facilities currently deductible over 3 years.

Summary

Small businesses and farmers are the big winners from this year's budget, and for those of you who are eligible, we encourage you to consider how these tax breaks may be of benefit to you and your business.

As with any Budget, we await the actual law to implement the above, as the "devil is in the detail" and there may be additional considerations with respect to the application of the above measures.

If you would like to discuss any of the above, consider your eligibility as a small business, or like to consider some capital expenditure pre 30 June 2015 that you may be able to immediately deduct, please contact us at Acute on 08 9367 7023.

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