



END OF FINANCIAL YEAR NEWSLETTER

Proposed tax changes from Budget 2017-2018

Personal income tax measures

Tax rates 2017/2018

- From 1 July 2016, the 32.5% personal income tax threshold will increase from \$80,000 to \$87,000.
- The 2% Temporary Budget Repair Levy to cease at the end of 2016-17 financial year.

2017 - 2018		2015-2016	
2016 - 2017			
Taxable Income	Tax Payable	Taxable Income	Tax Payable
\$0 - \$18,200	Nil	\$0 - \$18,200	Nil
\$18,201 - \$37,000	19% of excess over \$18,200	\$18,201 - \$37,000	\$19% of excess over \$18,201
\$37,001 - \$87,000	\$3,572 + 32.5% of excess over \$37,000	\$37,001 - \$80,000	\$3,572 + 32.5% of excess over \$37,000
\$87,001 - \$180,000	\$19,822 + 37% of excess over \$87,000	\$80,001 - \$180,000	\$17,547 + 37% of excess over \$80,000
\$180,000+	\$54,547 + 45% of excess over \$180,000 ** 2016-2017 Temporary repair levy 2% applied for income over \$180,000	\$180,000+	\$54,547 + 47% of excess over \$180,000



Rental deductions: limiting plant and equipment depreciation deductions

Plant and equipment assets acquired when a property is purchased by a subsequent owner would no longer qualify as depreciable assets for the new owner after the Budget night 7.30pm, Tuesday 9th May 2017.

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There is no change for...

- Investors claiming, or entitled to claim depreciation for an investment property they already own, or exchanged upon prior to 7.30pm, Tuesday 9th May 2017;
- Investors who purchase a newly-built investment property as the first owner;
- Investors who move out of their principal place of residence, and convert it to an investment property;
- Investors who make improvements or renovations to the existing properties after the budget date;
- Investors who own only commercial investment properties.

All of these investors will continue to claim depreciation for both building and plant and equipment assets as they have previously. If these investors don't already have a depreciation schedule for their existing investment property, a schedule for these properties will still be prepared in accordance with the legislation that was in place when they purchased their property.

More specifically:

Plant and equipment depreciation (Div 40) acquired when a property is purchased by a subsequent owner would no longer qualify as depreciable assets for the new owner from at 7:30PM (AEST) on 9 May 2017).

Buildings are written down at 2.5% per annum over a 40 year effective life. All investors remain eligible to claim for these deductions regardless of when they purchase their property.

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Rental deduction: no deduction for travel expenses for residential rental properties

From 1 July 2017, the Government will disallow deductions for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property.

Measures affecting small businesses

Small Business Entity (SME) concessions:

SBE concession now available to all entities with aggregated turnovers < \$10M from 1 July 2016.

Concessions apply to:

- depreciation concessions
- trading stock concessions
- Prepayment concessions
- Cash basis for GST

(Small business CGT concessions: still limited to \$2M turnover)

Company tax rates for SBE:

2015-16	Turnover < \$10M	28.5% (Non-SBE company tax rate is still 30%)
2016-17	Turnover < \$10M	27.5% (Non-SBE company tax rate is still 30%)
2017-18	Turnover < \$50M	27.5%
2018-19 to 2023-24	Turnover < \$50M	27.5%

Imputation regime changes

New formula:

Dividend x 1/Co tax gross-up rate

Unincorporated small business tax offset:

2016-17 to 2023-24 Aggregated turnover < \$5M offset rate 8% Cap \$1,000



Extending the \$20,000 immediate write-off for small business

Under current law, the \$20,000 immediate write-off ends on 30 June 2017. However, the Government has proposed to extend the concession by 12 months to 30 June 2018 for businesses with an aggregated annual turnover less than \$10 million.

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This means small businesses will be able to immediately deduct purchases of eligible assets costing less than \$20,000 first used or installed ready for use by 30 June 2018.

Individual asset over \$20,000

Assets valued at \$20,000 or more (which cannot be immediately deducted) can either be depreciated over a number of years (effective lives) or to be placed into the small business simplified depreciation pool (the pool) and depreciated at 15% in the first income year and 30% each income year thereafter. The pool balance can also be immediately deducted if the balance is less than \$20,000 over this period.

General pool balance < \$20,000 immediate deduction allowed

Further, the current 'lock out' laws for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for five years if they opt out) will continue to be suspended until 30 June 2018.

From 1 July 2018, the immediate deductibility threshold and the balance at which the pool can be immediately deducted will revert back to \$1,000.

Taxable Payment Report System (TPRS)

Businesses in the building and construction industry have always been required to report the total payments they make to each contractor for building and construction services each year by 28th August using the ATO approved form.

TPRS extended to cover contractors in the courier and cleaning industries.

New Visa Levies

475 visas to be replaced by permanent Employer Nomination Scheme (subclass class 186) visa and a permanent Regional Sponsored Migration Scheme (subclass 187) visa. Businesses are to pay levies for hiring the above visa holders:

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Business with turnover < \$10m to pay –
\$1,200 per visa per year on a Temporary Skill Shortage visa
\$3,000 for each employee on a sub 186 and sub 187 visa.

Business with turnover > \$10m to pay –
\$1,800 per visa per year on a Temporary Skill Shortage visa
\$5,000 for each employee on a sub 186 and sub 187 visa.

Superannuation

Concessional contributions cap:

Unused concessional cap carry forward

From 1 July 2018 if you have a total superannuation balance of less than \$500,000 on 30 June of the previous financial year, you may be entitled to contribute more than the general concessional contributions cap and make additional concessional contributions for any unused amounts.

The first year you will be entitled to carry forward unused amounts is the 2019–20 financial year. Unused amounts are available for a maximum of five years, and after this period will expire.

Income year	Date	Your concessional contribution cap
2017–18	All ages	\$25,000
2016–17	30 June 2016	\$30,000 (< 49 yo on 30 June)
		\$35,000 (> 49 yo on 30 June)

Non-Concessional contributions cap:

Income year	Amount of cap
2017–18	\$100,000 *conditions apply
2016–17	\$180,000

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* The non-concessional cap for an income year is a multiple of the concessional contributions cap.

If you are under 65, you may be able to make non-concessional contributions of up to three times the annual non-concessional contributions cap in a single year. If eligible, when you make contributions greater than the annual cap, you automatically gain access to future year caps. This is known as the 'bring-forward' option.

From 1 July 2017 the bring-forward amount and period is dependent on your total superannuation balance on the day before the financial year contributions that trigger the bring forward.

Transitional period transitional arrangements apply if you triggered a bring forward in either the 2015–16 or 2016–17 financial years. If you have triggered a bring forward before 1 July 2017 and you have not fully utilised your bring-forward cap before 1 July 2017, your cap will be reassessed on 1 July 2017 to reflect the new annual cap.

During the transitional periods (highlighted in the following table), contributions made prior to 1 July 2017 will affect your total non-concessional contributions capacity over the following two years (above source from the ATO).

First home superannuation saver scheme

The Government will encourage home ownership by allowing first homebuyers to 'build a deposit' inside their superannuation fund, as follows:

- Voluntary superannuation contributions of up to \$15,000 per year, and \$30,000 in total, can be contributed by first homebuyers from 1 July 2017. The contribution must be within existing concessional and non-concessional caps. Concessional contributions are taxed at 15% in the fund and earnings on contributions are taxed at 15% in the fund.
- These contributions can then be withdrawn, along with associated deemed earnings, for a first home deposit, from 1 July 2018 onwards. Concessional contributions and earnings that are withdrawn will be taxed at the taxpayer's marginal rate less a 30% offset. When non-concessional contributions are withdrawn, they will not be taxed.

Individuals aged 65 or over able to contribute the proceeds of downsizing into superannuation

From 1 July 2018, the Government will allow a person aged 65 or over to make a non-concessional contribution of up to \$300,000 from the proceeds of selling their home. These non-concessional contributions will be in addition to those currently permitted under existing rules and caps and

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they will be exempt from the existing age test, work test and the \$1.6 million balance test for making non-concessional contributions.

This measure will apply to sales of a principal residence owned for the past ten or more years and both members of a couple will be able to take advantage of this measure for the same home. Page | 7

This measure reduces a barrier to downsizing for older people. Encouraging downsizing may enable more effective use of the housing stock by freeing up larger homes for younger, growing families.

Note: It is unclear how this measure will affect the assets test for aged pension purposes.

Change to Division 293 tax – additional 15% tax on superannuation contributions

The threshold is to be decreased from \$300,000 to \$250,000 from 1 July 2017.
Concessional contributions above \$250,000 taxed as extra 15%.

New foreign resident withholding regime (purchase of real estate in Australia):

From 1 July 2017:

Withholding to apply where the contract price is greater than \$750,000 (currently \$2M).

Withholding tax and rate is increased to 12.5%

Existing threshold and rate will apply for any contracts entered into before 1 July 2017, even the settlement is after 1 July 2017.

Some of the above information have been implemented at the time of writing but some are still pending due to our legislation processes. The above information is intended to be a general guide only. The content does not constitute specific advice. Readers are encouraged to consult their tax adviser for advice on specific matters.