



Budget 2018-19

The 'Breadwinners' Budget

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The 'Breadwinners' Budget

Reward for work is a dominant theme in this year's Budget. The seven year personal income tax plan initially targets low to middle income earners before making significant changes to the tax brackets.

Innovation continues to be the Government's mantra with the medical industry a clear winner. The Government has dedicated a total of \$1.3 billion to fund genomic research projects investigating medicines that can be tailored to individual patients, clinical trials of new drugs and development of new medical technologies.

As you would expect from an election budget, there is not a lot of bad news or serious cuts. The black economy however features consistently with a multiagency taskforce and all manner of programs including the imposition of a limit of \$10,000 on cash payments.

There are also a number of tax changes to close loopholes and while not presented in the budget, the Treasurer has flagged the release of a discussion paper that will explore options for taxing digital business in Australia. There will be more to come – just not this year.

Key initiatives

- \$20k accelerated depreciation extended until 30 June 2019
- Research & development incentive shake-up
- Black economy – new initiatives and more industries rolled into the taxable payments system
- Introduction of a 3-year cycle for SMSF audits for compliant funds
- Seven year personal tax cut plan
- Major innovation funding

For Business

\$20k Accelerated Depreciation Extended

Date of effect	current until 30 June 2019
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The popular \$20,000 immediate deduction for small business entities will be extended for another 12 months until 30 June 2019. The measure was originally introduced in the 2015-16 Budget.

Small businesses entities will be able to immediately deduct purchases of eligible assets costing less than \$20,000 that are first used or installed ready for use by 30 June 2019.

Assets valued at \$20,000 or more (which cannot be immediately deducted) can continue 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 can also be immediately deducted if the balance is less than \$20,000 over this period (including existing pools).

The current 'lock out' laws for the simplified depreciation rules (preventing small businesses from re-entering the simplified depreciation regime for five years if they opt out) will continue to be suspended until 30 June 2019.

Budget 2018 Webinar

Join us for this complimentary 'beyond the headlines' webinar.

In this special post Budget session, we explore the tax and commercial implications of the Budget announcements, review the details and implications to key client groups, and give you the steps to follow through with clients.

[Register for free](#)

Tuesday, 15 May

Research & Development Incentive Shake-Up

Date of effect	1 July 2018
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Applying to income years starting on or after 1 July 2018, the way the research and development (R&D) tax incentive applies will change to focus on 'more intensive' R&D activities, particularly in medical and clinical development. The changes attempt to refocus the incentive on activities that go well beyond what companies would normally do to improve.

Companies under \$20m

For companies with an aggregated annual turnover less than \$20 million:

- An annual \$4 million cap will be introduced on cash refunds for R&D claimants. Amounts that are in excess of the cap will become a non-refundable tax offset and can be carried forward into future income years;
- Clinical trials will be excluded from the \$4 million cap on cash refunds, to encourage development in this area; and
- The refundable R&D tax offset will be amended and will become a premium of 13.5 percentage points above the company's tax rate for that year.

Companies over \$20m

For companies with aggregated annual turnover of \$20 million or more, an R&D premium will be introduced that ties the rates of the non-refundable R&D tax offset to the incremental intensity of R&D expenditure as a proportion of total expenditure for the year.

The marginal R&D premium will be the company's tax rate plus:

- 4 percentage points for R&D expenditure between 0% to 2% R&D intensity;
- 6.5 percentage points for R&D expenditure above 2% to 5% R&D intensity;
- 9 percentage points for R&D expenditure above 5% to 10% R&D intensity; and
- 12.5 percentage points for R&D expenditure above 10% R&D intensity.

The R&D expenditure threshold - the maximum amount of R&D expenditure eligible for concessional R&D tax offsets - will be increased from \$100 million to \$150 million per annum.

The ATO has expressed concerns in recent years that many claims are being made under the R&D tax incentive for expenditure that does not meet the strict conditions for the tax offset. For example, the ATO's view is that some companies have been claiming the R&D tax offset in connection with normal business activities rather than experiments being undertaken for the purpose of generating new knowledge. In addition to the changes outlined above, additional resources will be provided to the ATO and Department of Industry, Innovation and Science to undertake greater enforcement activity and provide more guidance for those seeking to make claims.

More

- [Reforming the R&D Tax Incentive fact sheet](#)

Security, Road Freight, And Computer Design Services Become ATO Black Economy Target

Date of effect	1 July 2019
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The taxable payments reporting system requires businesses in certain industries to report payments they make to contractors (individual and total for the year) to the ATO. 'Payment' means any form of consideration including non-cash benefits and constructive payments.

From 1 July 2019 the following industries will be required to lodge annual reports to the ATO:

- security providers and investigation services;
- road freight transport; and
- computer system design and related services.

The building industry, cleaning and courier businesses are already required to provide this enhanced reporting to the ATO.

The first annual report for these industries is required by August 2020. Businesses in these industries will need to start collecting information on payments to contractors from 1 July 2019.

No More Salary & Wage Tax Deductions For Late Paying Employers

Date of effect	1 July 2019
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The Government really wants employers focussed on their tax obligations to the point where employers that fall behind will lose the right to claim employment related tax deductions.

Employers who do not keep up with their PAYG obligations will not be able to claim a tax deduction for payments to employees (such as wages).

Businesses will also lose the ability to claim deductions for payments made to contractors where the contractor does not provide an ABN and the business does not withhold PAYG.

More Entities To Be Caught By Significant Global Entity Rules

Date of effect	1 July 2018
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Significant global entities (SGE) face an increased level of compliance. From 1 July 2018, the definition of an SGE will be expanded.

In very broad terms, at present, an entity is an SGE if:

- It is the parent entity of a group with annual global income of \$1bn or more; or
- It is a member of a group that includes a parent entity with annual global income of \$1bn or more and the group is consolidated for accounting purposes as a single group.

These rules could potentially apply to Australian subsidiary companies or Australian branches of foreign companies, regardless of the turnover of the Australian operations.

The definition of an SGE will be expanded from 1 July 2018 to include:

- members of large multinational groups headed by private companies, trusts and partnerships; and
- members of groups headed by investment entities.

If an entity is treated as an SGE then it could be exposed to:

- Increased penalties, including for situations where returns etc., are not lodged on time;
- Country-by-country reporting obligations; and
- The need to provide general purpose financial statements to the ATO if these have not already been provided to ASIC.

\$10k Limit On Cash Transactions

Date of effect	1 July 2019
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A limit of \$10,000 will be introduced for cash payments made to businesses for goods and services from 1 July 2019. Payments above the threshold will need to be made through an electronic payment system or by cheque.

The measure does not impact on transactions with financial institutions or non-business consumer to consumer transactions. But, if you run a business, from 1 July 2019 you will not be able to accept cash transactions above \$10,000.

More

- Minister for Revenue and Financial Services - [Tackling illegal behaviour in the Black Economy](#)
- [Australian Government response to the Black Economy Taskforce Final Report](#)

Thin Capitalisation Rules Tightened

Date of effect	1 July 2019
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The thin capitalisation rules are designed to place a limit on the level of interest and other debt deductions that can be claimed in Australia when Australian operations are heavily funded by debt rather than by equity. The thin capitalisation rules apply where total debt deductions (e.g., interest expenses) for the taxpayer and its associates exceeds \$2 million.

These rules will be tightened by requiring entities to align the value of their assets for thin capitalisation purposes with the value included in their financial statements.

This measure will apply to income years commencing on or after 1 July 2019 and all entities must rely on the asset values contained in their financial statements for thin capitalisation purposes. Valuations made prior to 7.30PM (AEST) on 8 May 2018 may be relied on until the beginning of an entity's first income year commencing on or after 1 July 2019.

The Government will also ensure that foreign controlled Australian consolidated entities and multiple entry consolidated groups that control a foreign entity are treated as both outward and inward investment vehicles for thin capitalisation purposes. This will apply for income years commencing on or after 1 July 2019. This change will ensure that inbound investors cannot access tests that were only intended for outward investors.

Partnerships And The Small Business CGT Concessions

Date of effect	From 7:30PM (AEST) on 8 May 2018
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This measure seeks to close a loophole that provides access to the small business CGT concessions by partners in large partnerships.

Partners that alienate their income by creating, assigning or otherwise dealing in rights to the future income of a partnership (often referred to as Everett assignments) will no longer be able to access the small business capital gains tax (CGT) concessions in relation to these rights.

The small business CGT concessions assist owners of small businesses by providing relief from CGT on the disposal of assets related to their business. However, some taxpayers, including large partnerships, are

able to access these concessions in relation to their assignment of a right to the future income of a partnership to an entity, without giving that entity any role in the partnership. Partly this is due to the fact that there is no minimum percentage interest that needs to be held by partners in a partnership to access these concessions, unlike the 20% threshold that normally applies to shareholders of a company or beneficiaries of a trust.

This has been an area of concern for the ATO for some time and in recent years the ATO has indicated that the general anti-avoidance rules can potentially apply to some of these arrangements. It appears that the Government has decided to simply take away some of the concessions in the tax system which make these arrangements attractive.

Division 7A And Unpaid Present Entitlements

Date of effect	1 July 2019
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Unpaid present entitlements will come directly within the scope of Division 7A.

An unpaid present entitlement arises where a trust appoints income to a corporate beneficiary but this amount has not actually been paid to the company. The measure seeks to ensure that the unpaid present entitlement is either required to be repaid to the private company over time as a complying loan or will be subject to tax as a dividend.

While Division 7A can currently apply to some arrangements involving unpaid present entitlements owed to companies, they are treated differently to loans and in some cases receive preferential treatment compared with loans. While the Government has not released much detail on this proposed change, presumably the changes will ensure that the treatment of unpaid present entitlements is more closely aligned with the current treatment of loans. However, we will have to wait and see whether the changes only apply to newly created entitlements or whether existing unpaid entitlements will be affected.

The Division 7A reforms announced in the previous budget have been delayed to include this latest measure as a consolidated package.

Regulators Target Phoenixing

Date of effect	No date specified
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Corporation and tax laws will be reformed in an attempt to target phoenix activity. The reforms:

- Introduce new phoenix offences to target those who conduct or facilitate illegal phoenixing;

- Extend the Director Penalty Regime to GST, luxury car tax and wine equalisation tax, making directors personally liable for the company's debts;
- Expand the ATO's power to retain refunds where there are outstanding tax lodgements;
- Prevent directors improperly backdating resignations to avoid liability or prosecution;
- Limit the ability of directors to resign when this would leave the company with no directors; and
- Restrict the ability of related creditors to vote on the appointment, removal or replacement of an external administrator.

The current Director Penalty Regime includes unpaid superannuation guarantee and PAYG withholding amounts but does not include GST liabilities. These proposed changes will ensure that directors become personally liable in situations where the company has not satisfied its GST obligations as well as luxury car tax and wine equalisation tax liabilities.

GST 'Hit' For Online Hotel Room Resellers

Date of effect	1 July 2019
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The GST will be extended to offshore sellers of hotel accommodation in Australia to ensure they calculate the GST in the same way as local providers.

Currently, offshore sellers of Australian hotel accommodation are exempt from including sales of hotel accommodation in their GST turnover. This means they are often not required to register for and charge GST on their mark-up over the wholesale price of the accommodation. This was deliberate to encourage foreigners to book accommodation in Australia. The market has shifted since with domestic and foreign consumers booking through online sites.

The measure will apply to sales made on or after 1 July 2019. Sales that occur before 1 July 2019 will not be subject to the measure even if the stay at the hotel occurs after this date.

This change requires agreement by the States and Territories.

Luxury Car Tax Removed For Re-Imported Refurbished Cars

Date of effect	1 July 2019
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The luxury car tax will be removed from 1 January 2019 for situations where cars are re-imported into Australia following a refurbishment overseas.

Currently, cars that are refurbished in Australia are not subject to luxury car tax. However, cars exported from Australia to be refurbished overseas and then re-imported are subject to the tax where the value of the car exceeds the relevant luxury car tax threshold.

HELP Cost Recovery From Education Providers

Date of effect	1 January 2019
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New fee for service style arrangements will come into place for education providers to recover the costs of administering Higher Education Loan Program (HELP) including:

- An annual charge for HECS HELP and FEE HELP approved higher education course providers to partially recover the costs associated with administering the programs; and
- An application fee for higher education course providers seeking approval to offer FEE HELP loans.

Previously Announced Measures

Tax carve out for craft brewers

Date of effect	1 July 2019
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The alcohol excise refund scheme cap will be increased to \$100,000 per financial year and the concessional draught beer excise rates will be extended to 8 litre or greater kegs from 1 July 2019.

Currently, the alcohol excise refund scheme provides alcohol producers a refund of 60% of excise paid up to a cap of \$30,000 per financial year. Draught beer sold at licensed venues such as pubs in individual containers exceeding 48 litres is taxed at lower rates compared with beer sold in individual containers up to and including 48 litres. However, the lower rates mainly benefit large breweries, which typically use 50 litre kegs. The measures help to level the playing field for smaller craft beer producers.

More

- 4 May 2018 - [Levelling the playing field for craft brewers and distillers](#)

Tobacco duty and excise reform

Date of effect	1 July 2019
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From 1 July 2019, tobacco importers will be required to pay all duty and tax liabilities upon importation - this is different to the current system where tobacco can be imported and stored in licensed warehouses prior to tax being paid.

Transitional arrangements apply to tobacco products held in licensed warehouses on 1 July 2019. These measures will allow eligible entities to pay the liability on the warehoused stock within 12 months. Current weekly settlement arrangements will no longer apply to imported tobacco. Although there is

currently no licensed commercial tobacco production in Australia, the taxing point for any future domestic manufacture of tobacco will also be changed to be consistent with the new taxing point for tobacco imports.

From 1 July 2019, permits will be required for all tobacco imports above the duty-free limits for travellers.

Dovetailing into the excise measures is the creation of a new multi-agency Illicit Tobacco Task Force from 1 July 2018. Additional resources have also been provided to the ATO to modernise its excise system and pursue compliance.

More

- 6 May 2018 - [New Illicit Tobacco Taskforce and Tobacco Duty Measures to Fight Organised Crime](#)
- Minister for Revenue and Financial Services - [Tackling illegal behaviour in the Black Economy](#)
- [Australian Government response to the Black Economy Taskforce Final Report](#)

Stapled structures package

Date of effect	1 July 2018 - thin capitalisation changes 1 July 2019 - other measures
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A package of measures has been introduced to address risks to the corporate tax base posed by stapled structures and similar arrangements. The package will also limit access to concessions for passive income utilised by foreign governments and foreign pension funds.

Stapled structures arise where two or more entities are commonly owned and bound together such that the interests in them cannot be bought or sold separately. At least one of the two entities is a trust.

The Government’s concerns have been driven by findings that over recent years, a growing number of taxpayers have sought to re-characterise trading income into more favourably taxed passive income through the misuse of the managed investment trust (MIT) regime. When combined with existing concessions used by foreign pension funds and sovereign wealth funds, some foreign investors have been able to access tax rates of 15% or less (in some cases, almost tax-free), rather than the applicable corporate tax rate of 30% on Australian business income.

The key elements of the package are:

- Applying a final withholding tax set at the corporate tax rate to distributions derived from trading income that has been converted to passive income using a MIT (with a 15 year exemption for new, Government-approved nationally significant infrastructure assets);
- Amending the thin capitalisation rules to prevent foreign investors from using multiple layers of flow-through entities (i.e. trusts and partnerships) to convert their trading income into favourably taxed interest income;

- Limiting the foreign pension fund withholding tax exemption for interest and dividends to portfolio investments only;
- Creating a legislative framework for the existing tax exemption for foreign governments (including sovereign wealth funds), and limiting the exemption to passive income from portfolio investments; and
- Excluding agricultural land from being an 'eligible investment business' for a MIT.

More

- Treasury - [Tax treatment of stapled structures](#)
- Treasurer - [Levelling the playing field for Australian investors: Taxation of Stapled Structures](#)

Superannuation

Many of the reforms in superannuation impact on administration of funds, particularly large APRA funds.

3-Year Cycle For SMSF Audits

Date of effect	1 July 2019
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Well this one won't be popular with the accounting community.

SMSFs with a history of good record-keeping and compliance – that is, three consecutive years of clear audit reports and annual returns lodged on time, will only be required to have their fund audited every three years.

The Government has flagged consultation with key stakeholders on this measure (with no further details available at present).

The key issue with this measure is how the three-year cycle will work - is it an audit for one year in three or three years, once?

If the audit is only for the third year of the cycle, then there is a major risk of compliance issues going unnoticed. Having two years with no audits may present opportunities for 'creative' trustees to manipulate the superannuation system. It will be difficult for an auditor to sign-off on the third year without having a level of comfort as to what has transpired in previous years.

If the audit is for the prior three years, the benefit for members may be negligible as auditors will need to charge for three years of work. The measure is designed to reduce 'red-tape' for trustees but having three years of questions from auditors might just group three years into one.

Auditors could be faced with seasonal swings in workflow which will be extremely difficult to manage with audits staggered across the 3 years.

Retirement Income Strategy For Super Fund Members

Date of effect	No time period noted
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The *Superannuation Industry (Supervision) Act 1993* will be amended to introduce a retirement covenant that will require superannuation trustees to formulate a retirement income strategy for superannuation fund members.

The *Corporations Act 2001* will also be amended to require providers of retirement income products to report simplified, standardised metrics in product disclosure to assist customer decision making.

Preventing Inadvertent Breaches Of Concessional Caps

Date of effect	1 July 2018
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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).

The measure will allow eligible individuals to avoid unintentionally breaching the \$25,000 annual concessional contributions cap (and incurring excess contributions tax) as a result of multiple compulsory SG contributions.

It is anticipated that employees who use this measure will negotiate additional income in lieu of the 9.5% superannuation guarantee.

Exit Fees Scrapped, Fees Capped, And More Transferred To ATO

Date of effect	1 July 2019
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A ban on exit fees from all superannuation funds will be introduced along with a 3% annual cap on passive fees on accounts with balances below \$6,000 from 1 July 2019.

Superannuation funds will also be required to transfer all inactive superannuation accounts with balances below \$6,000 to the ATO.

These changes create a gain of \$1.1 billion in the underlying cash balance over the forward estimates. This gain is in part a timing issue reflecting the time taken to reunite lost super balances with their owners.

Opt-In Insurance Inside Super

Date of effect	1 July 2019
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Insurance within superannuation will move from a default framework to an opt-in basis for:

- members with low balances of less than \$6,000;
- members under the age of 25 years; and
- members whose accounts have not received a contribution in 13 months and are inactive.

This means that these members will not automatically be provided with insurance inside their superannuation fund but instead will opt-in if they choose. The Government is concerned that automatic insurance cover is eroding savings with many unaware they have insurance within their fund or within multiple funds.

The changes will not prevent anyone who wants insurance from being able to obtain it — low balance, young, and inactive members will still be able to opt-in to insurance cover within super.

Affected members will have 14 months to decide whether they will opt in to their existing cover or allow it to switch off.

Work Test Exemption For Retirees

Date of effect	1 July 2019
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An exemption to the work test will be introduced for people aged 65 to 74 with superannuation balances below \$300,000, who make voluntary contributions to superannuation. The exemption applies in the first year that they do not meet the work test requirements. This measure is really a reprieve for people transitioning to retirement to get their affairs in order.

Currently, the work test restricts the ability to make voluntary superannuation contributions for those aged 65-74 to individuals who work a minimum of 40 hours in any 30 day period in the financial year.

Example from the Superannuation Work Test exemption for retirees fact sheet

At the age of 68, Gus retires from full-time work on 1 June 2020. As he would not meet the work test in the 2020-21 financial year, Gus would currently be prevented from making any voluntary super contributions after 30 June 2020.

As his total superannuation balance is \$150,000 at the end of the 2019-20 financial year, Gus is eligible to make contributions under the work test exemption from 1 July 2020 to 30 June 2021.

As Gus had not reached his concessional contribution cap over the past 2 years, having contributed only \$18,000 in 2018-19 and \$12,000 in 2019-20, under the existing carry forward arrangements and new work test exemption Gus can contribute up to \$45,000 at concessional tax rates in the 2020-21 financial year.

As a result of the work test exemption, Gus is also able to contribute up to \$100,000 in non-concessional contributions in 2020-21.

Previously Announced Measures

Increasing the maximum number of members in an SMSF

Date of effect	1 July 2019
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The maximum number of allowable members in new and existing SMSFs and small APRA funds will increase from four to six.

More

- 27 April 2018 - [Greater flexibility for self-managed super funds](#)

Investors

No Deductions For Vacant Land

Date of effect	1 July 2019
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Deductions will be denied for expenses associated with holding vacant land. The Government is concerned that deductions are being improperly claimed for expenses, such as interest costs, related to holding vacant land, where the land is not genuinely held for the purpose of earning assessable income. They expect the measure will also help to prevent 'land banking', which denies the use of land for housing or other development.

Denied deductions will not be able to be carried forward for use in later income years. However, expenses which cannot be claimed as a deduction can form part of the CGT cost base of the property as long as they fall within specific categories (such as interest, borrowing expenses and council rates). This means that the expenses can reduce a capital gain made on future sale, although there are limitations on this which mean that holding costs cannot create or increase a capital loss and cannot generally be taken into account if the property was acquired before 20 August 1991.

The measure will not apply to expenses associated with holding land that are incurred after:

- a property has been constructed on the land, it has received approval to be occupied and is available for rent; or
- the land is being used by the owner to carry on a business, including a business of primary production.

The measure applies to land held for residential or commercial purposes. However, the 'carrying on a business' test will generally exclude land held for commercial development.

Unfortunately, it appears that this measure may impact on those who incur holding costs in relation to land that is genuinely held for the purpose of producing assessable income, including where the owner is actively constructing a dwelling on the land that will be used as a rental property (Steele's case and ATO ruling TR 2004/4 deal with this area). This is another example of where those doing the right thing will be impacted by the Government becoming fed up with those who aren't.

It also remains to be seen how holding expenses that relate to land held as trading stock will be dealt with under the proposed changes.

Individuals & Families

Personal Income Tax Cuts

The anticipated personal income tax cuts will be delivered as part of a seven year plan culminating in the removal of one tax bracket from 1 July 2024. The Government states that the end result will be that around 94% of taxpayers will be subject to a marginal tax rate of 32.5%.

The focus right now however is the low and middle tax income brackets with changes to the tax brackets and the introduction of the Low and Middle Income Tax Offset.

Tax rate	Tax thresholds			
	Current	From 1 July 2018	From 1 July 2022	From 1 July 2024
0%	\$0 - \$18,200	\$0 - \$18,200	\$0 - \$18,200	\$0 - \$18,200
19%	\$18,201 - \$37,000	\$18,201 - \$37,000	\$18,201 - \$41,000	\$18,201 - \$41,000
32.5%	\$37,001 - \$87,000	\$37,001 - \$90,000	\$41,001 - \$120,000	\$41,001 - \$200,000
37%	\$87,001 - \$180,000	\$90,001 - \$180,000	\$120,001 - \$180,000	-
45%	>\$180,000	>\$180,000	>\$180,000	>\$200,000
Low and middle income tax offset		Up to \$530	-	-
LITO	Up to \$445	Up to \$445	Up to \$645	Up to \$645

From 1 July 2018:

- The top threshold of the 32.5% personal income tax bracket will increase from \$87,000 to \$90,000.

From 1 July 2022:

- The top threshold of the 19% personal income tax bracket will increase from \$37,000 to \$41,000.
- The top threshold of the 32.5% personal income tax bracket will again increase from \$90,000 to \$120,000.
- The Low Income Tax offset will increase from \$445 to \$645. The increased Low Income Tax Offset will be withdrawn at a rate of 6.5 cents per dollar between incomes of \$37,000 and \$41,000, and at a rate of 1.5 cents per dollar between incomes of \$41,000 and \$66,667.

From 1 July 2024:

- The 37% tax bracket will be removed.
- The top threshold of the 32.5% personal income tax bracket will again increase from \$120,000 to \$200,000.

Low and Middle Income Tax Offset

Date of effect	From 2018-19 until 2021-22 income years
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How to give low and middle income earners a tax break without directly benefiting those on larger incomes? The Government's solution to this conundrum is the introduction of the Low and Middle Income Tax Offset (LIMITO) from the 2018-19 income year.

Applied as a non-refundable tax offset after an individual lodges their income tax return, the tax offset provides:

Taxable income	Low and Middle Income Tax Offset (LIMITO)
\$0 - \$37,000	Up to \$200
\$37,000 - \$48,000	Offset increase of 3 cents per dollar up to \$530
\$48,000 - \$90,000	Up to \$530
\$90,001 to \$125,333	Offset phases out at a rate of 1.5 cents per dollar

Assuming the amending legislation passes Parliament, the offset is intended to be available for the 2018-19 to 2021-22 income years.

The Low and Middle Income Tax Offset is in addition to the existing Low Income Tax Offset.

If you are trying to work out what these changes mean to you, the Government has added a tax relief estimator on the front page of the [budget website](#). For example, someone on an annual taxable income of \$65,000, would receive an annual benefit of around \$530 in the first few years and a total benefit of \$3,740.

More information

- [Lower, fairer and simpler taxes fact sheet](#)
- [Treasurer - Tax relief for working Australians, low and middle income earners first](#)

Changes To Testamentary Trusts

Date of effect	1 July 2019
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The concessional tax rates available for minors receiving income from testamentary trusts will be limited to income derived from assets that are transferred from the deceased estate or the proceeds of the disposal or investment of those assets.

Currently, income received by minors from testamentary trusts is taxed at normal adult rates rather than the higher tax rates that generally apply to minors. The Government is concerned that some taxpayers are inappropriately obtaining the benefit of this lower tax rate by injecting assets unrelated to the deceased estate into the testamentary trust.

While the rules already contain some integrity provisions that are aimed at limiting the scope for inappropriately boosting the income earning capacity of testamentary trusts, the measure clarifies that minors will be taxed at adult marginal tax rates only in respect of the income a testamentary trust generates from assets of the deceased estate (or the proceeds of the disposal or investment of these assets).

Crackdown On Family Trust ‘Round Robin’ Arrangements

Date of effect	1 July 2019
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Family trusts will be subject to a specific anti-avoidance rule that applies to other closely held trusts that engage in circular trust distributions.

Currently, where family trusts act as beneficiaries of each other in a ‘round robin’ arrangement, a distribution can be ultimately returned to the original trustee - in a way that avoids any tax being paid on that amount.

The measure would enable the ATO to impose tax on these distributions at a rate equal to the top personal tax rate plus the Medicare levy.

Taxing The Fame Or Image Of High Profile Sportspeople And Actors

Date of effect	1 July 2019
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From 1 July 2019, high profile individuals will no longer be able to take advantage of lower tax rates by licencing their fame or image to another entity.

Currently, high profile individuals can licence their fame or image to another entity such as a related company or trust. Income for the use of their fame or image goes to the entity that holds the licence – creating the opportunity to manipulate different tax treatments. For example, if the rights are held by a discretionary trust the income generated from the use of these rights can be distributed to other family members and can potentially be taxed at lower rates than if the income was taxed in the hands of the individual.

This measure ensures that all remuneration (including payments and non-cash benefits) provided for the commercial exploitation of a person’s fame or image are included in the assessable income of that individual.

The ATO had previously released some draft guidelines (refer to [PCG 2017/D11](#)) in this area, possibly seeking to set some practical boundaries around the ability to split this type of income with others. Assuming the changes are legislated then these guidelines would appear to be redundant from 1 July 2019.

Medicare Levy Low Income Threshold Increase

Date of effect	2017-18 income years
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The Medicare levy low income thresholds for singles, families, seniors and pensioners will increase from the 2017-18 income years.

	2016-17	2017-18
Singles	\$21,655	\$21,980
Families	\$36,541	\$37,089
Single seniors and pensioners	\$34,244	\$34,758
Family threshold for seniors and pensioners	\$47,670	\$48,385
Each dependent child or student (increase to family threshold)	\$3,356	\$3,406

Encouraging Pensioner Financial Independence

Date of effect	From 2017-18
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A range of measures seek to encourage pensioner financial independence:

- **Pension Work Bonus increase from \$250 to \$300 per fortnight** – allowing pensioners to earn up to \$7,800 each year without impacting their pension. This is in addition to the income free area, which is currently \$168 a fortnight for a single pensioner and \$300 a fortnight (combined) for a pensioner couple. A single person with no other income will be able to earn up to \$468 a fortnight from work and get the maximum rate of Age Pension.

- Pensioners will also continue to accrue unused amounts of the fortnightly Work Bonus, which can exempt future earnings from the pension income test. The maximum accrual amount will increase to \$7,800.
- **The pension work bonus will also be expanded to allow self-employed retirees** to earn up to \$300 per fortnight without impacting their pension.

Example from the pension work bonus fact sheet

Nisha is a single part rate age pensioner who runs a small business. She earns an average of \$1,000 a fortnight. Her assets are below the pension asset test free area. As Nisha's income from self-employment is now eligible for the Work Bonus, the first \$300 of her income will be excluded from the pension income test, and Nisha will receive a higher part-rate Age Pension. Her pension will increase by \$150 per fortnight.

- **Amendments to the pension means test rules** – new Age Pension means testing rules will be introduced for pooled lifetime income streams. The rules will assess a fixed 60% of all pooled lifetime product payments as income, and 60% of the purchase price of the product as assets until 84, or a minimum of 5 years, and then 30% for the rest of the person's life.
- **Expansion of the pension loan scheme** – the scheme, enabling Australians to use the equity in their homes to increase their incomes, will be extended to everyone over Age Pension age. The maximum fortnightly income stream will increase to 150% of the Age Pension rate.

More

- [Preparing financially for a longer and more secure life fact sheet](#)
- Treasurer - [Guaranteeing the essential services Australians rely on](#)

Other

Medical Industry Growth Initiatives

Date of effect	From 2017-18
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\$1.3 billion over 10 years has been provided for a National Health and Medical Industry Growth Plan to improve health outcomes and develop Australia as a global destination for medical sector jobs, research and clinical trials.

The Government is looking to fund medical innovation that enhances the sustainability of the health system, delivers long term health benefits and strengthens partnerships between researchers, healthcare professionals, biomedtech firms, government and the community.

These investments, using proceeds from the Medical Research Future Fund (MRFF), will include:

- \$500 million over 10 years from 2017 18 committed to the Genomics Health Futures Mission, including \$10.7 million in 2017 18 for genomics research;
- \$240 million committed to the Frontier Health and Medical Research program;
- \$248.0 million for expanded clinical trial programs;
- \$125.0 million over nine years from 2019 20 to contribute to the Targeted Translation Research Accelerator for chronic conditions focussed on diabetes and heart disease; and
- \$94.3 million for biomedtech programs and industry research collaborations.

Government agencies have also been provided with funding essentially to improve access and data sharing capabilities.

Investment In Science And Technology

Around \$2.4 billion has been set aside for Australia’s public technology infrastructure, including supercomputers, satellite imagery, a national space agency, research into artificial intelligence and more accurate GPS. This includes \$70 million this financial year to upgrade two supercomputers – one in Perth at the Pawsey Supercomputing Centre and the other at the Australian National University in Canberra.

In addition, \$29.9 million has been set aside from 2018-19 to strengthen Australia’s capability in Artificial Intelligence (AI) and Machine Learning (ML).

Access To Digital Earth Satellite Imagery

Date of effect	From 2019-20
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\$36.9 million will be provided to give governments, businesses, researchers and individuals with access - through the *Digital Earth Australia* program - to reliable standardised satellite data.

This data can be used to build new digital products and services for commercial purposes, and to interpret and analyse changes to Australia's physical landscape, enabling better understanding of environmental changes, such as coastal erosion, crop growth and water quality. Access to satellite imagery data has a broad range of applications including assisting farmers to monitor animal grazing patterns and increase the efficiency and utilisation of their land.

SME Export Hub

Date of effect	From 2018-2019
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A Small and Medium Enterprises Export Hubs program will be established. The program seeks to enable co-operation and boost the export capability of local and regional businesses, through support to develop collective brands, leveraging local infrastructure to scale business operations, and positioning regional businesses to participate in global supply chains.

Funding For Asia Innovation Strategy

Date of effect	From 2018-2019
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The Australia Innovation Strategy seeks to expand access to the *Global Innovation Strategy grant program* for Australian businesses and researchers in all countries, and establish a new funding stream within this program focused primarily on Asia.

Customs Tariffs Removed From Placebos And Clinical Trial Kits

Date of effect	1 July 2018
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Customs tariffs will be removed from placebos and clinical trial kits that are imported into Australia.

More Funding For The ATO And Tax Practitioners Board

Scattered throughout the Budget are a series of funding initiatives directed to the ATO:

- **Debt** - \$133 million provided to increase debt collection and to improve the timeliness of those payments.
- **Black economy** - \$318.5 million over four years to implement strategies to target the black economy including a 'black economy hotline' where you can 'dob in' a tax evader! The funding replaces the existing black economy programs.
- **Individual compliance** - \$130.8 million to increase compliance activities targeting individual taxpayers and their tax agents. For example, the ATO will be able to continue focussing on foreign income derived by high wealth individuals. The ATO has also made it pretty clear that it will be looking closely at deductions claimed for work-related expenses.
- **Personal contributions to super** - \$3.1 million to improve the integrity of the 'notice of intent' (NOI) processes for claiming personal superannuation contribution tax deductions.

The Tax Practitioners Board will also receive \$20.1 million over four years to assist the TPB in meeting its responsibilities to ensure that tax agents comply with both professional and ethical standards. The measure will be funded by an increase in tax practitioner registration fees.

Infrastructure & Investment

New Infrastructure Projects

\$75 billion has been set aside for transport infrastructure including \$24.5 billion in new projects. New projects include:

- Roads of Strategic Importance:
 - \$3.5 billion, including \$1.5 billion for Northern Australia Package, \$400 million for Tasmanian Roads Package, \$100 million for NSW and ACT Barton Highway Corridor Package and \$1.5 billion for future national priorities
- \$1 billion Urban Congestion Fund, and
- \$250 million for Major Project Business Case Fund.

Economic overview

The Government is very keen to push its economic credibility in this Budget - to the point that the Budget website is very glossy with a lot of 'good news' messages:

- An economy in its 27th year of growth
- Keeping taxes as a share of GDP within the 23.9% cap
- No longer borrowing to fund everyday spending from 2018-19
- Government payments as a share of GDP return to below the 30-year average of 24.8% in 2020-21, the first time since 2012-13.
- Forecast budget surplus in 2021-22

The budget forecasts real GDP at a generous 3% from 2018-19. Total business investment is expected to be 4.5% in the current year (2017-18), before reducing back to 3% next year and then rising again to 4.5%.

CPI is expected to increase marginally from 2% to 2.5% in 2019-20.

Employment is flat. The wage price index is expected to be 2.25% this year before slowly increasing to 4.75% in 2019-20. Unemployment is expected to only reduce marginally to 5.25% from the current 5.5%. The participation rate is also not expected to increase (65.5%).

Many commentators have already pointed out that the budget forecasts the economy to have a quite remarkable growth spurt from its recently achieved gains.

	2018-19	2019-20	2020-21	2021-22
Real GDP	3%	3%	3%	3%
Employment	1.5%	1.5%	1.25%	1.25%
Unemployment rate	5.25%	5.25%	5.25%	5%
Consumer price index	2.25%	2.5%	2.5%	2.5%
Wage price index	2.75%	3.25%	3.5%	3.5%
Nominal GDP	3.75%	4.75%	4.5%	4.5%

Links

Budget documents

- [Budget 2018-19](#)
- [Budget Speech](#)

Legislation

- [Exposure draft - Protecting Your Super package](#)

Media Releases

- [Treasurer - 2018 Budget – A plan for a stronger economy](#)
- [Treasurer - Tax relief for working Australians, low and middle income earners first](#)
- [Minister for Revenue - Encouraging and rewarding Australians by protecting your superannuation](#)
- Minister for Revenue - [Australian Government response to the Black Economy Taskforce Final Report](#)