SOVEREIGN
PRIVATE

Federal Budget 2018 | Summary Report

1. Personal Income Tax Relief

- The threshold at which the 37% marginal tax rate for individuals commences will increase from taxable incomes of $87,000 to $90,000 from 1 July 2018.

- The 2017/18 Federal Budget measure to increase the Medicare Levy from 2% to 2.5% of taxable income from 1 July 2019 will not proceed. The Medicare levy will remain at 2.0%.

- It is proposed that from 1 July 2024:
  - the 37% income tax bracket will be removed;
  - the 32.5% threshold will be increased from $120,000 to $200,000;
  - taxpayers will pay the top marginal tax rate of 45% for taxable incomes exceeding $200,000, and the 32.5% PIT bracket will apply to taxable incomes of $41,001 to $200,000.

The proposed implications of the measures are set out in the following table:

Rate	Thresholds in 2018/19	Thresholds in 2024/25
0%	Up to $18,200	Up to $18,200
19%	$18,201 – $37,000	$18,201 – $41,000
32.5%	$37,001 – $90,000	$41,001 – $200,000
37%	$90,001 – $180,000	–
45%	Above $180,000	Above $200,000

2. Instant Asset Write-Off Extended

The instant asset write-off for small business entities has been extended by 12 months to 30 June 2019.

A small business will continue to get an immediate deduction for assets costing less than $20,000, and installed and ready for use before 30 June 2019.

An entity will be a small business entity where the turnover of the entity (and their connected entities) is below $10 million.

3. Tightening of Division 7A in respect of UPEs

Division 7A of Income Tax Assessment Act 1936 (ITAA 1936) will be amended to clarify the circumstances in which it applies to unpaid present entitlements (UPEs) — where a related private company becomes entitled to a share of trust income as a beneficiary, but has not been paid that amount.

The amendments will apply from 1 July 2019.

It is unclear whether the proposed amendments will merely codify the position taken by the Australian Taxation Office in TR 2010/3 or whether a stricter policy will apply in respect of the timing and payment of UPEs to avoid the UPEs being treated as deemed dividends under Division 7A.

4. Targeted amendments to Division 7A

The start date of the targeted amendments to Division 7A previously announced in the 2016/17 budget will be deferred to 1 July 2019.

The amendments include:
- a self-correction mechanism for inadvertent breaches of Division 7A without attracting a penalty;
- appropriate safe-harbour rules to provide certainty in certain circumstances where an asset is provided for use by a company to a shareholder or associate;
- simplified Division 7A loan arrangements; and
- a number of technical adjustments to improve the operation of Division 7A and provide greater certainty.

5. Denial of deductions in respect of vacant land

From 1 July 2019, tax deductions will not be allowed for expenses associated with holding vacant land. This is an integrity measure to address concerns 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.
The measure will apply to land held for residential or commercial purposes.
However, deductions can still be claimed in respect of land held for commercial development where the developer is "carrying on a business".

Deductions that are denied will not be able to be carried forward for use in later income years. Expenses for denied deductions that would ordinarily be a cost base element (such as borrowing expenses and council rates) may be included in the cost base of the asset for capital gains tax (CGT) purposes when sold. However, deductions denied for expenses that would not ordinarily be a cost base element would not be able to be included in the CGT cost base.

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.

6. Non-compliant payments to employees and contractors no longer deductible

Businesses will no longer be able to claim deductions for payments to their employees where they have not met their PAYG obligations. This includes where the employer is required to withhold PAYG from gross payments, but fails to report or remit it to the ATO.

Additionally, the deduction for businesses on certain payments to contractors which have not met PAYG obligations will be removed. Currently, if a contractor does not quote an ABN in a business-to-business transaction, the purchaser is required to withhold an amount at the top marginal tax rate and remit this amount to the ATO. Failure to do this correctly will render the entire payment non-deductible.

Both of these measures will take effect from 1 July 2019.

7. Anti-Avoidance rules in respect of circular trust distributions

A specific anti-avoidance rule that applies to closely held trusts engaging in circular trust distributions will be extended to family trusts. 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, either because no ultimate beneficiary exists or because the ultimate beneficiary cannot be identified

The measures indicate that the ATO will look to extend the operation of Division 6D of the ITAA1936. Division 6D requires that the trustee advise the Commissioner of the beneficiaries of the net income of the trust, which allows the Commissioner to check whether the assessable income of the trustee beneficiaries correctly includes any required share of that net income, and whether the net assets of those beneficiaries reflect the receipt of any tax-preferred amounts.

The measure will apply from 1 July 2019.

8. Restrictions on concessions available on assets injected into testamentary trusts

From 1 July 2019, 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.

Income received by minors from testamentary trusts is taxed at normal adult rates rather than the higher tax rates that generally apply to minors.

Under the proposed measures, 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).

9. Superannuation – Prevention of inadvertent cap breaches

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) from 1 July 2018.

The measure is intended to ensure eligible individuals can avoid unintentionally breaching the $25,000 annual concessional contributions cap as a result of multiple compulsory SG contributions. Breaching the cap otherwise results in these individuals being liable to pay excess contributions tax, as well as a shortfall interest charge.

10. Additional funding for ATO compliance activities targeting individual taxpayers

The ATO will be provided with $130.8m from 1 July 2018 to increase compliance activities targeting individual taxpayers and their tax agents.

This measure will continue four income matching programs that would otherwise terminate from 1 July 2018 to allow the ATO to detect incorrect reporting of income, such as foreign source income of high wealth individuals.

The measure will also provide funding for new compliance activities, including additional audits and prosecutions, improving education and guidance materials, pre-filling of income tax returns and improving real time messaging to tax agents and individual taxpayers to deter over-claiming of entitlements, such as deductions by higher risk taxpayers and their agents.

It is understood that a large part of the funding will be aimed at individuals and the over-claiming of workplace deductions.

11. 50% CGT discount removed for MITs and attribution MITs at the trust level

Managed investment trusts (MITs) and attribution MITs (AMITs) will be prevented from applying the 50% capital gains tax (CGT) discount at the trust level. This measure will apply to payments made from 1 July 2019.

The measure will prevent beneficiaries that are not entitled to the CGT discount in their own right from getting a benefit from the CGT discount being applied at the trust level. It will ensure that MITs and AMITs operate as genuine flow through tax vehicles, so that income is taxed in the hands of investors, as if they had invested directly.

MITs and AMITs that derive a capital gain will still be able to distribute this income as a capital gain that can be discounted in the hands of the beneficiary.

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