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2015 NEWS LETTER

IN THIS ISSUE

The 2015-16 Federal Budget

The 2015-16 Federal Budget was handed down on 12 May 2015.

The intention of this Budget is to support small businesses and grow jobs, support families and ensure fairness of tax and benefits. At the same time, national security is being ensured as well as steadily repairing the budget in a measured way. The Treasurer, the Hon. Joe Hockey MP, stated that the Government is taking steps to continue to repair the budget "with sensible savings and a prudent approach to spending".

The Budget mainly focuses on small businesses with aggregated turnover of less than $2 million and large businesses with global revenue of at least $1 billion.

The main measures likely to affect you are outlined below. To ensure you know precisely how you may be affected by one or more of these measures, you should consult your tax adviser.

Budget measures affecting Individuals and Families

Medicare levy low-income thresholds for singles, families and single seniors and pensioners increased

With effect from the 2014-15 year, the Medicare levy low-income thresholds for singles, families and single seniors and pensioners will be increased per the table below:

	2014-15	**2013-14**
Singles	$20,896	$20,542
Couples (no children)	$35,261	$34,367
Single seniors and pensioners	$33,044	$32,279

The additional amount of threshold for each dependent child or student will be increased to $3,238 (up from $3,156 for 2013-14).

The increase in these thresholds takes into account movements in the Consumer Price Index (CPI). This is to ensure that generally low-income taxpayers continue to be exempted from paying the Medicare levy.

Families package: reforms to child care system

The Budget contains a package of reforms to child care details of which are set out below.

Child Care Subsidy

From 2014-15, the Government will provide an additional $3.2 billion over five years to support families with child care needs. This is to help with getting parents back to work, to stay in work, and to undertake education and training or other recognised activities.

From 1 July 2017, a new Child Care Subsidy will be introduced to support families where both parents work. Families meeting the ‘activity test’ with annual incomes up to $60,000 will be eligible for a subsidy of 85% of the actual fee paid, up to an hourly fee cap. The subsidy will taper to 50% for eligible families with annual incomes of $165,000.

No annual cap will apply for families with annual incomes below $180,000. However, the Child Care Subsidy will be capped at $10,000 per child per year for families with incomes of $180,000 or more.

Parents must also do a minimum of eight hours a fortnight of work, study or training to qualify for any child care support.

The income threshold for the maximum subsidy will be indexed by CPI with other income thresholds aligned accordingly. Eligibility will be linked to the new ‘activity test’ to better align receipt of the subsidy with hours of work, study or other recognised activities.

The hourly fee cap in 2017-18 will be set at $11.55 for long day care, $10.70 for family day care, and $10.10 for outside school hours care. The hourly fee caps will also be indexed by CPI.

Also, a new Interim Home Based Carer Subsidy Programme will subsidise care provided by a nanny in a child’s home from 1 January 2016. The pilot programme will extend fee assistance to the parents of approximately 10,000 children. Families selected to participate will be those who are having difficulty accessing child care with sufficient flexibility.

Support for families will be based on the Child Care Subsidy parameters, but with a fee cap of $7.00 per hour per child.

⇨ *The Child Care Subsidy replaces the Child Care Benefit, Child Care Rebate and the Jobs, Education and Training Child Care Fee Assistance payments that will cease on 30 June 2017.*

Child Care Safety Net

Additional support will be provided to eligible families through a Child Care Safety Net, providing targeted support to disadvantaged or vulnerable families to address barriers to accessing child care. This will be funded by $327.7 million over four years from 2015-16.

The Child Care Safety Net consists of three programmes:

- the Additional Child Care Subsidy;
- a new Inclusion Support Programme; and
- the Community Child Care Fund.

⇨ *The Child Care Safety Net replaces the Inclusion and Professional Support Programme (ceasing on 30 June 2016) and the Community Support Programme (ceasing on 30 June 2017).*

Immunisation requirements for eligibility to Government payments

From 1 January 2016, children will have to fully meet immunisation requirements, that is be up-to-date with all childhood immunisations, before their families can access subsidised child care payments or the Family Tax Benefit Part A end-of-year supplement.

Exemptions will only apply for medical reasons.

Accessing parental leave pay from both employer and Government

From 1 July 2016, individuals will no longer be able to access Government assistance in the form of the existing Parental Leave Pay (PLP) scheme, in addition to any employer-provided parental leave entitlements.

Currently, individuals are able to ‘double-dip’ and access Government assistance in the form of PLP as well as any employer-provided parental leave entitlements.

The Government will ensure that all primary carers would have access to parental leave payments that are at least equal to the maximum PLP benefit (currently 18 weeks at the national minimum wage).

This will save the Government $967.7 million over four years through this measure.

End of Family Tax Benefit Part A large family supplement

From 1 July 2016, the Family Tax Benefit (FTB) Part A large family supplement will cease.

Families will continue to receive a ‘per child’ rate of FTB Part A for each eligible child in their family.

Family Tax Benefit Part A reduced portability

From 1 January 2016, families will only be able to receive Family Tax Benefit (FTB) Part A for six weeks in a 12-month period while they are overseas.

Currently, FTB Part A recipients who are overseas are able to receive their usual rate of payment for six weeks and then the base rate for a further 50 weeks. Portability extension and exception provisions which allow longer portability under special circumstances will continue to apply.

Pension reforms not proceeding

The Government will not be proceeding with elements of the 2014-15 Budget measure "*Maintain eligibility thresholds for Australian Government payments for three years"* that relate to the pension income test free areas and deeming thresholds.

The Government proposal was to change how it deems the return from a person's financial assets for the purposes of the pension active test. The deeming thresholds were to be reset from $46,000 to $30,000 for single pensioners and from $77,400 to $50,000 for pensioner couples from 1 September 2017.

Instead, the pension income test free areas and deeming thresholds will continue to be indexed annually by CPI.

Modernising the methods used for calculating work-related car expense deductions

The methods of calculating work-related car expense deductions will be modernised from the 2015-16 income year.

This involves removing:

- the '12% of original value method'; and
- the 'one-third of actual expenses method'

as these methods are used by less than 2% of those who claim work-related car expenses.

<u>Remaining methods</u>

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 Commissioner of Taxation responsible for updating the rate in following years.

The 'logbook method' of calculating expenses will be retained.

These changes will not affect leasing and salary sacrifice arrangements and will better align car expense deductions with the average costs of operating a motor vehicle.

Zone tax offset to exclude "fly-in fly-out" and "drive-in drive-out" workers

From 1 July 2015, the zone tax offset will exclude 'fly-in fly-out' and 'drive-in drive-out' (FIFO) workers where their normal residence is not within a 'zone'. The zone tax offset is a concessional tax offset available to individuals in recognition of the isolation, uncongenial climate and high cost of living associated with living in identified locations.
The specified remote areas of Australia covered by the zone tax offset are comprised of two zones, Zone A and Zone B. In general, Zone A comprises those areas where the factors of isolation, uncongenial climate and the high cost of living are more pronounced and Zone B comprises the less badly affected areas. The tax offset for ordinary Zone A residents is accordingly higher than the tax offset for ordinary Zone B residents. A special category of zone allowances is available to taxpayers residing in particularly isolated areas ('special areas') within either zone.

Eligibility is based on defined geographic zones and residing or working in a specified remote area for more than 183 days in an income year. However, it is estimated around 20% of claimants do not actually live full-time in the zones.

The changes will better target the zone tax offset to taxpayers who have taken up genuine residence within the zones. This will align the zone tax offset with the original policy intent, which was to support genuine residents of zones. For those FIFO workers whose normal residence is in one zone, but who work in a different zone, they will retain the zone tax offset entitlement associated with their normal place of residence.

Changes to tax residency rules for temporary working holiday makers

From 1 July 2016, the tax residency rules will be changed to treat most people who are temporarily in Australia for a working holiday as non-residents for tax purposes, regardless of how long they are here. This means they will be taxed at 32.5% from their first dollar of income.

Currently, a working holiday maker can be treated as a resident for tax purposes if they satisfy the tax residency rules, typically that they are in Australia for more than six months. This means they are able to access resident tax treatment, including the tax-free threshold, the low income tax offset and the lower tax rate of 19% for income above the tax-free threshold up to $37,000.

Income tax relief for Australian Defence Force personnel deployed overseas

Income tax relief will be provided for Australian Defence Force personnel deployed on Operations AUGURY and HAWICK.

A full income tax exemption will be provided to personnel on Operation AUGURY, and the overseas forces tax offset will be available to personnel on Operation HAWICK.

Removal of Government employee income tax exemption

From 1 July 2016, the income tax exemption that is currently available to Government employees who earn income while delivering Official Development Assistance overseas for more than 90 continuous days will be removed.

This measure will remove the inconsistent taxation of Government employees delivering Official Development Assistance overseas by ensuring that their foreign earnings are treated as assessable income in Australia.

Australian Defence Force and Australian Federal Police personnel and individuals delivering Official Development Assistance for a charity or private sector contracting firm will remain eligible for the exemption.

The 'Small Business' package of Budget measures

Small business tax rate cuts

There are cuts to the tax rate for small businesses which will apply from the 2015-16 income year.

Incorporated Entities

The tax rate for companies with an aggregated annual turnover of less than $2 million will be reduced by 1.5% (ie from 30% to 28.5%) from the 2015-16 income year. However, the maximum franking credit rate for a distribution will remain at 30%.

Unincorporated entities

For sole traders and individuals who earn business income from a partnership or trust with an aggregated annual turnover of less than $2 million, a 5% tax discount (provided as a tax offset) will be introduced and capped at $1,000 per individual.

Small business accelerated depreciation changes

From Budget Night (starting 7.30pm (AEST) 12 May 2015), the threshold below which small businesses can claim an immediate deduction for the cost of an asset they start to use or install ready for use will be temporarily increased from $1,000 to $20,000. This will apply to assets acquired and installed ready for use from Budget Night through to 30 June 2017.

Only small businesses with an aggregated annual turnover of less than $2 million are eligible.

Assets valued at $20,000 or more that cannot be immediately deducted can be included in the entity's small business simplified depreciation pool and depreciated at 15% in the first income year and 30% each income year thereafter, in the same way the rules currently apply for assets costing $1,000 or more.

Also, the balance in the small business simplified depreciation pool will be able to be immediately deducted if it is less than $20,000 (including an existing pool).

The rules currently preventing a small business using the simplified depreciation regime for five years if it opts out of the regime will also be suspended until 30 June 2017.

While small businesses can access the simplified depreciation regime for a majority of capital assets, certain assets are not eligible (such as horticultural plants and in-house software) for which specific depreciation rules apply.

- ⇨ *Note that from 1 July 2017, the $20,000 threshold for the immediate deduction of assets and the value of the pool will revert back down to $1,000.*

Immediate deduction for business establishment costs

From the 2015-16 income year, an immediate deduction will be available for professional expenses that are associated with starting a new business, such as professional, legal and accounting advice or legal expenses to establish a company, trust or partnership.

Under the current laws, these expenses can only be deducted over a five year period.

CGT relief reforms for small business restructures

From the 2016-17 income year, small businesses with an aggregated turnover of $2 million or less may change the legal structure of their business without attracting a capital gains tax (CGT) liability.

This measure recognises that new small businesses may initially choose a legal structure that no longer suits them once their business is more established. They will be able to change their legal structure without being hampered by potential CGT implications.

Currently, CGT roll-over relief is only available to individuals, trustees or partners in a partnership who incorporate. This new measure provides CGT relief to many more entities.

Broader FBT exemption for portable electronic devices

The fringe benefits tax (**FBT**) exemption for work-related portable electronic devices used primarily for work purposes will be expanded from 1 April 2016.

Small businesses with an aggregated annual turnover of less than $2 million that provide their employees with more than one qualifying work-related portable electronic device will be able to access the FBT exemption even if the additional items have substantially similar functions as the first device.

The current FBT exemption may only apply to more than one portable electronic device if the devices perform substantially different functions. This measure should help alleviate the confusion around which device is eligible for exemption from FBT where there is an overlap of functions (for example between a tablet and a laptop).

Measures encouraging new businesses

In order to encourage new businesses and entrepreneurship:

- business registration processes will be streamlined with a single online portal (business.gov.au) developed for business and company registration, making it much easier to register a new business.

  A new business will no longer need an Australian Company Number or business Tax File Number. It will be able to use its Australian Business Number to interact with the ATO and ASIC. The new portal (expected to be implemented by mid-2016) will provide all the relevant information clearly and will have integrated customer support; and

- a regulatory framework to facilitate the use of crowd-source equity funding will be implemented, including simplified reporting and disclosure requirements, to help small businesses access innovative funding sources.

Employee share schemes: further changes

With effect from 1 July 2015, further minor technical changes will be made to the taxation of employee share schemes (ESS) to make ESS more accessible, by:

- excluding eligible venture capital investments from the aggregated turnover test and grouping rules (for the start-up concession);

- providing the CGT discount to ESS interests that are subject to the start-up concession where options are converted into shares and the resulting shares are sold within 12 months of exercise; and

- allowing the Commissioner of Taxation to exercise discretion in relation to the minimum three-year holding period where there are circumstances outside the employee's control that make it impossible for them to meet this criterion.

Accelerated depreciation for water facilities, fodder storage and fencing helping farmers prepare for drought

All primary producers will be able to immediately deduct capital expenditure on fencing and water facilities such as dams, tanks, bores, irrigation channels, pumps, water towers and windmills for income years commencing on or after 1 July 2016.

Primary producers will also be allowed to depreciate over three years all capital expenditure on fodder storage assets such as silos and tanks used to store grain and other animal feed. Currently, the effective life for fences is up to 30 years, water facilities is three years and fodder storage assets is up to 50 years.

The measure is aimed at improving resilience for those primary producers who face drought, assisting with cash flow and reducing red tape by removing the need for primary producers to track expenditure over time. It will form part of the Government's White Paper on Agricultural Competitiveness.

Changes to Superannuation

Lost and unclaimed superannuation

From 1 July 2016, the Government will implement a package of measures to reduce red tape for superannuation funds and individuals by removing redundant reporting obligations and by streamlining administrative arrangements for lost and unclaimed superannuation. The cost of implementing the measures will be met from within the existing resources of the ATO.

Release of superannuation for a terminal medical condition

From 1 July 2015, terminally ill patients will be able to access superannuation early.

Currently, patients must have two medical practitioners (including a specialist) certify that they are likely to die within one year to gain unrestricted tax-free access to their superannuation balance.

The Government will change this period to two years, giving terminally ill patients earlier access to their superannuation.

Supervisory levies to increase

The Government will raise additional revenue of $46.9 million over four years from 2015-16 by increasing the supervisory levies paid by financial institutions. This should fully recover the cost of superannuation activities undertaken by the ATO and the Department of Human Services, consistent with the Government's cost recovery guidelines.

Changes to GST

GST extended to offshore supplies of services and intangibles to Australian consumers

From 1 July 2017, offshore supplies of services and intangibles to Australian consumers will be subject to GST.

Exposure Draft legislation was released on Budget Night which extends the scope of the GST to offshore supplies of services and intangibles to Australian consumers. That is, all supplies of things other than goods or real property will be 'connected with the indirect tax zone' (ie Australia) where they are made to Australian consumers. This will result in supplies of digital products, such as streaming or downloading of movies, music, apps, games, e-books as well as other services such as consultancy and professional services receiving similar GST treatment whether they are supplied by a local or foreign supplier.

The purpose of this measure is to ensure Australia's GST revenue base does not erode over time as the number of foreign digital suppliers rises.

Responsibility for GST liability arising under the amendments may be shifted from the supplier to the operator of an electronic distribution service in certain circumstances where the operator controls any of the key elements of the supply such as delivery, charging or terms and conditions. Shifting responsibility for GST liability to operators is aimed at minimising compliance costs as operators are generally better placed to comply and ensure that digital goods and services sourced in a similar manner are taxed in a similar way. These amendments are broadly modelled on similar rules currently in operation in the European Union and Norway.

A modified GST registration and remittance scheme for entities making supplies that are only connected with the 'indirect tax zone' as a result of the amendments will also be implemented.

This change will require the unanimous agreement of the States and Territories before enactment of legislation.

Reverse charge rules for going concerns and farmland sales not proceeding

The previously announced measure to replace the current GST-free treatment for supplies of going concerns and certain farmland sales with a reverse charge mechanism will not proceed.

This measure was intended to reduce the compliance burden for taxpayers. However, during design of the implementation of this measure, it became apparent that proceeding with this measure would have resulted in adverse consequences for taxpayers.

FBT and Meal Entertainment

FBT: meal and entertainment for not-for-profit employees

From 1 April 2016, a separate, single grossed-up cap of $5,000 will be introduced for salary sacrificed meal entertainment and entertainment facility leasing expenses (meal entertainment benefits) for employees of not-for-profits. Meal entertainment benefits exceeding the separate grossed-up cap of $5,000 can also be counted in calculating whether an employee exceeds their existing FBT exemption or rebate cap. All use of meal entertainment benefits will become reportable.

Currently, employees of public benevolent institutions and health promotion charities have a standard $30,000 FBT exemption cap (this will be $31,177 for the first year of the measure, due to the Temporary Budget Repair Levy that is currently in place) and employees of public and not-for-profit hospitals and public ambulance services have a standard $17,000 FBT exemption cap (this will be $17,667 for the first year).

In addition to these FBT exemptions, these employees can salary sacrifice meal entertainment benefits with no FBT payable by the employer and without it being reported. Employees of rebatable not-for-profit organisations can also salary sacrifice meal entertainment benefits, but the employers only receive a partial FBT rebate, up to a standard $30,000 cap ($31,177 for the first year).

The aim of this measure is to improve integrity in the tax system by introducing a limit on the use of these benefits.

Luxury Car Tax change

Luxury car tax exemption for endorsed public museums and art galleries

Public museums and public art galleries that have been endorsed by the Commissioner of Taxation as deductible gift recipients will be allowed to acquire cars free of luxury car tax. The measure will only be in respect of cars acquired for the purpose of public display, consigned to the collection and not used for private purposes. This measure will have effect from the date of Royal Assent of the enabling legislation.

Cutting ‘red tape’ and funding the IGT

ATO reforms to cut ‘red tape’

An additional $130.9 million will be provided to the ATO over four years (including capital of $35.6 million) to deliver an improved experience for clients.

Red tape will be reduced and future administrative savings delivered through investment in three initiatives:

- a digital-by-default service for providing information and making payments;
- improvements to data and analytics infrastructure; and
- enhancing streamlined income tax returns through the MyTax system for taxpayers with more complex tax affairs.

Additional funding for the Inspector-General

The Government will provide at least $14.6 million over five years to the Inspector-General of Taxation's (IGT) office to support its operations. This funding is in addition to the 2014-15 Budget funding to the IGT in relation to the transfer of tax complaints handling.

Budget measures affecting Large Businesses

A raft of measures affecting large businesses were also announced in the Budget. These are summarised below:

For companies with global revenue of $1 billion or more

- A targeted multinational anti-avoidance law will be introduced into the general anti-avoidance provisions.
- The maximum administrative penalties that apply to companies that enter into tax avoidance and profit shifting will be doubled.
- The OECD's new transfer pricing documentation standards will be implemented from 1 January 2016.

Other measures combatting multinational tax avoidance

- A voluntary corporate disclosure code will be developed to facilitate greater compliance with the tax system.
- The Government will also tackle treaty abuse in its treaty practices, consult on the development of anti-hybrid rules, exchange information with other countries on harmful tax practices, and further fund the ATO's profit-shifting investigations.

Other measures

- The reforms to modernise the Offshore Banking Unit (OBU) regime and targeted integrity measures will proceed.
- The start date of the new managed investment trusts (MITs) regime has been deferred to 1 July 2016 but MITs can choose to apply the new regime from 1 July 2015.

Terrace Financial Services clients have access to advice from a qualified financial adviser

This service is important for clients who need personalised advice and support in making financial decisions.

When it comes to your most important long-term investment – your super – it's vital to make the right decisions for your own situation. No matter where you are in your working life, or how much super you have, getting professional advice can help you maximise your investment. The fact is, over half of all Australians under-estimate the total income they will need for a comfortable retirement[1]. Many people do not seek professional financial advice to help them make decisions.

Research shows that people who get financial advice get real value from it. Taking into account the cost of advice, an individual who has had financial advice generally saves $1,590 each year more than a similar individual without a financial adviser[2].

The benefits of advice also grow over time. The younger you start with advice; the better off you can be at retirement. Research shows that you can save:

- **$91,000** if you start your savings plan from age 30
- **$80,000** if you start at age 45
- **$29,000** if you start at age 60[3].

Other benefits

Good financial advice can improve your financial outlook and support the lifestyle you want in a whole range of ways:

- **Professional expertise** –financial decisions can be complicated. There are complex laws to understand and more and more different types of investment options. A professional adviser can help you navigate these and identify ways to improve your position.
- **Personalised strategies** – an objective and unbiased financial adviser can develop a long term plan that is in *your* best interests and suitable for *your* situation, goals and objectives.
- **Plan and implement** – a financial adviser transforms a financial plan into manageable pieces and then makes sure that all the pieces are implemented.
- **Decision support** – it can be easy to have lots of ideas and find out what the options are, but it can be really difficult to make a decision. If you become overwhelmed, a financial adviser can help clear the path forward.
- **Compounding savings** – over time, even a small financial gain achieved through getting professional advice can significantly increase your investment. Something as small as a change in how you allocate your investments can, at retirement, mean tens of thousands of dollars difference.
- **Recognise your needs** – Often people discover they need professional advice after it is too late. A financial planner will discuss issues such as insurance and estate planning that you may not have thought about.
- **A personal trainer** – a financial adviser can educate you and support you. They are available to answer questions, help review ideas that you bring to the meeting, build your knowledge, and increase your financial skills and confidence.
- **Rational decision-making** – emotions and impulses can affect financial decisions and lead to the wrong ones. Objective and unbiased advice will help you make decisions based on fact.

Please call (08) 9275 3888 to make an appointment with our financial adviser.

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1 Galaxy Research Australian Superannuation November 2012 report, Page 9
2 Financial Services Council: Value Proposition of Financial Advisory Networks – Update and Extension, 18 January 2011
3 Financial Services Council: Value Proposition of Financial Advisory Networks – Update and Extension, 18 January 2011