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Global Tax Alert

Australia's 2019/20 Federal Budget: A detailed review

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Executive summary

The Australian Federal Budget 2019/20 was delivered on 2 April 2019 by the Federal Treasurer Josh Frydenberg.

EY's Australian web page outlines the economic and policy issues, together with a podcast discussion of the budget. The budget, delivered ahead of an imminent federal election, has balanced some stimulus for the economy while banking the outcomes from a stronger than expected economy.

This Tax Alert focuses on the announced key tax measures, to assist taxpayers with planning and compliance processes.

Business tax measures include:

- Expansion of instant asset write-off rules for small and now medium businesses for assets acquired after Budget night
- Limited integrity measures including some adjustment of the hybrid mismatch measures
- Superannuation fund red-tape reduction and merging fund tax relief
- Limited integrity measures changes
- Minor indirect tax changes

Building a better working world

A major focus of the budget is further personal tax reform to include:

- New reductions from the current 2018/19 year for lower income taxpayers. The previous budget's legislated future Personal Income Tax Plan has also been enhanced.
- Superannuation member contribution improvements for older persons.

The further personal tax cuts "will lower taxes for hard-working Australians" and address Australia's high personal marginal tax rates which are reached at a lower multiple of average weekly earnings than for other countries.

The Government sees these measures as "fiscally affordable over the forward estimates and medium-term, with … sustained surpluses projected over the medium term." The projected impact of these measures is AU$158 billion[1] through to 2029/30 (Budget Paper 1, Box 2), assuming that current policy settings do not change. These policies will clearly be monitored by future governments.

The budget has been delivered against the background of many key tax and superannuation measures from previous budgets not having progressed to law, including measures with retrospective application and others with proposed commencement from 1 July 2019.

Detailed discussion

Tax changes announced in the Budget

This Tax Alert outlines the key tax changes, categorized into changes affecting:

- Businesses including international businesses
- Financial services and real estate
- Personal taxes
- Superannuation for members, employers and funds
- Indirect taxes

Business tax measures

Expansion of asset write-off rules for small and medium businesses for assets acquired after Budget night

A further expansion of the existing asset write-off rules for business assets was announced for assets acquired from 2 April 2019. Amendments to the Bill for the Government's 29 January 2019 announced changes to these rules were quickly introduced into Parliament for this expansion.

The instant asset write-off threshold will increase from $25,000 to $30,000 for businesses that have an aggregated turnover of less than $50m annually (previously $10m).

The new rules apply to separate asset purchases, first used or installed ready for use, from 2 April 2019 until 30 June 2020. The simplified depreciation pool measures continue to apply to small businesses where asset acquisitions are outside of the above concessions.

Business with <$10 million turnover will need to take care to ensure the correct thresholds are applied to assets acquired during the 2019 year, to account for different rules for assets first used or installed:

- Pre-29 January
- Between 29 January and 1 April
- From 2 April

Clarifying the operation of the hybrid mismatch rules

A number of minor amendments to Australia's hybrid mismatch rules are proposed. The amendments will apply to income years commencing on or after 1 January 2019 (the start date of the hybrid mismatch rules), with the exception that the amendments to the integrity rule will apply to income years commencing on or after 2 April 2019.

The proposed amendments are expected to strengthen the application of the hybrid mismatch rules by:

- Clarifying how the rules apply to MEC groups and trusts
- Limiting the meaning of foreign tax, potentially to exclude sub-national taxes
- Clarifying that the integrity rule can apply where other provisions have applied

Funding ATO Tax Avoidance Taskforce

The Government will provide $1.0 billion over four years from 2019/20, to the Australian Taxation Office (ATO) to extend and expand the operation of the Tax Avoidance Taskforce focused on large corporates, multinationals and high wealth individuals.

The measure is estimated to increase tax collections by $4.6 billion resulting in a net gain to the budget of $3.6 billion over the forward estimates period.

The Tax Avoidance Taskforce undertakes compliance activities targeting multinationals, large public and private groups, trusts and high wealth individuals. This funding is expected to result in further increases in ATO examination activity.

Black economy measure to strengthen the Australian Business Number (ABN) system – from 2021 and 2022

In order to retain their ABN, ABN holders will be required:

- Where they have income tax return obligations, to file their income tax return from 1 July 2021
- To confirm the accuracy of their details on the Australian Business Register annually from 1 July 2022.

ABN holders will need to prepare for these new compliance obligations.

Private company integrity measures deferred

The start date for proposed changes to the Division 7A private company integrity rules announced in the 2017/18 and 2018/19 Budgets will be further deferred to 1 July 2020 to allow further time to consult on Treasury's October 2018 discussion paper.

Export Market Development Grant – Increased funding

The Export Market Development Grants (EMDG) scheme sees a welcome increase of $60m over three years ($20m annually) from 2019/20. As a result, the EMDG funding for 2019/20 will increase from $130m to $150m.

Research and development (R&D) tax incentive – Ongoing uncertainty

With no mention in the Budget, there remains ongoing uncertainty in relation to the R&D Tax Incentive changes proposed in last year's budget (which included a new R&D intensity test, expenditure caps, and a decrease in the rate of incentive). Following referral to a Senate committee, which suggested further review is needed, the legislation has yet to pass into law.

Budget projections show a further decrease of $1.3b in the cost of the R&D program, over the forward estimates reflecting a decrease in the size and number of claimants in the program. This is in addition to the previously announced savings from the proposed changes (originally estimated at $2.4b, revised March 2019 to $1.6b).

Luxury car tax relief for farmers and tourism operators

From 1 July 2019, farmers and tourism operators will be entitled to claim a luxury car tax refund of up to $10,000 in respect of the purchase of any eligible four-wheel drive or all-wheel drive car (an increase from the current maximum refund amount of $3,000).

Financial services and real estate

Updated list of Information Exchange Countries

The list of Information Exchange Countries will be expanded on 1 July 2020 to add Curacao, Lebanon, Nauru, Pakistan, Panama, Peru, Qatar and the United Arab Emirates. Then, distributions from managed investment trusts (MITs) to these countries that are currently subject to the 30% withholding tax rate may qualify for the lower 15% withholding tax.

Unfortunately, there is no mention of Hong Kong, at this stage. It is expected that Hong Kong will be added at a later time.

Relevant foreign investors should factor in this favorable change when making investment decisions. MITs and their custodians and administrators will need to update systems.

Personal tax

The tax centerpiece of the Budget is staged personal income tax relief, building on the Government's legislated 2018/19 Personal Income Tax Plan, to provide tax relief to low and middle-income earners. The below graph illustrates how the relief impacts taxpayers for the 2018/19 to 2021/22 years.

Individuals and employers should ensure that personal income tax rate changes are factored into tax planning, payroll and compliance processes

Increasing the non-refundable low and middle-income tax offset (LMITO)

The reduction in tax provided by LMITO will increase from a maximum of $530 to $1,080 annually and the base amount will increase from $200 to $255 annually from the current 2018/19 year. Taxpayers with taxable income:

- Up to $37,000 (paying 19 cents in the dollar) will have their tax reduced by up to $255
- More than $37,000 (paying 32.5 cents in the dollar) will see offset increase by 7.5c per dollar (maximum $1,080 for incomes $48,000 – $90,000)
- Over $90,000, the offset will reduce by 3 cents per dollar in excess, zeroing out at $126,000
- LMITO applies until end of 2021/22 income year

Low income tax offset (LITO) increase

- The LITO will be increased to $700 (from $645) and will reduce at 5 cents per dollar of taxable income between $37,500 and $45,000 and 1.5 cents per dollar over $45,000 zeroing out at $66,667
- Applies from 1 July 2022

Bracket adjustments:

- Increase in top threshold for the 19% income tax bracket to $45,000 (from $41,000), from 1 July 2022
- Reduce the 32.5% marginal tax bracket to 30%, from 1 July 2024

Rate (%)	2018/19 to 2021/22 ($)	2022/23 to 2023/24 ($)
0	0 - 18,200	0 - 18,200
19	18,201 - 37,000	18,201 - **45,000**
32.5	37,001 - 90,000	**45,001** - 120,000*
37	90,001 - 180,000	120,001 - 180,000
45	180,001 +	180,001 +

* *Rates take previously announced 2018/19 personal tax cuts into account, new changes marked in bold.*

Rate (%)	2024/25 onwards
0	0 - 18,200
19	18,001 - 45,000
30	45,001 - 200,000
-	-*
45	200,001 +*

* *Rates do not include Medicare levy of 2%.*

Medicare levy threshold increases

The Medicare levy thresholds will also be adjusted from the 2018/19 income year.

Superannuation

Superannuation member reforms from 1 July 2020

A number of measures intended to improve superannuation flexibility for older Australians are proposed from 1 July 2020 as follows:

- "Work test" age limit increase -The eligibility age will increase from 64 to 66 for individual's contributing superannuation without the need to satisfy the "work test." This applies to both concessional and non-concessional contributions.
- "Bring forward contributions" age limit increase – Eligibility for an individual accessing the "bring forward arrangements" has increased from age 64 to 66, allowing individuals to contribute three years of non-concessional contributions in a single year, up to $300,000.
- Spouse contributions age limit increase – The age for spouse contributions has increased from 69 to 74, which allows individuals to make contributions on behalf of their spouse for a longer period.

Superannuation fund reforms

Reducing red tape for Superannuation Fund Trustees

- From 1 July 2020, an actuarial certificate will no longer be required where all fund members are in retirement phase and fund earnings are allocated on a proportionate basis.

Permanent tax relief for merging superannuation funds

- The current tax relief for merging large superannuation funds will be made permanent (currently due to expire 1 July 2020). This should assist the rationalization of the superannuation industry.

Endnote

1. Currency references in this Alert are to AU$.

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