2015/16 Budget Summary

1. Changes effective Budget Night – 7.30pm (AEST) 12 May 2015

1.1 Expanding accelerated depreciation for small business – immediate write-off and small business pool

The government will significantly expand accelerated depreciation for small businesses. It will do this by allowing small businesses with aggregate annual turnover of less than $2 million to immediately deduct assets they start to use or install ready for use, provided the asset costs **less than $20,000** (currently, an immediate write-off is generally available for assets costing less than $1,000). This will apply for assets acquired and installed ready for use between 7.30pm (AEST) 12 May 2015 and 30 June 2017.

Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed in 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).

From 1 July 2017, the thresholds for the immediate depreciation of assets and the value of the pool will revert back to existing arrangements (which are currently based on a 'less than $1,000' threshold).

2. Changes effective 1 July 2015 (i.e., 2015/16 income year)

2.1 Tax cuts for small business – 1.5% tax cut for small companies and 5% discount on income tax payable for unincorporated small business activity

From the 2015/16 income year, the government will deliver a tax cut to all small businesses:

(a) **Reduction in company tax rate** – The company tax rate will be reduced to 28.5% (i.e., a reduction of 1.5%) for companies with aggregated annual turnover of less than $2 million. Companies with an aggregated annual turnover of $2 million or above will continue to be subject to the current 30% rate on all their taxable income.

Note that, the current **maximum franking credit rate** for a distribution will **remain at 30%** for all companies, maintaining the existing arrangements for investors, such as self-funded retirees.

(b) **5% discount on tax payable for other taxpayers** – Individual taxpayers with business income from an unincorporated business that has an aggregated annual turnover of less than $2 million will be eligible for a small business tax discount. The discount will be 5% of the income tax payable on the business income received by an unincorporated small business entity. The discount will be capped at $1,000 per individual for each income year, and will be delivered as a tax offset.

2.2 Claiming car expense deductions – modernising the existing car expense claim methods

Currently, an individual (or a partnership which includes at least one individual partner) can claim car expense deductions in respect of a car owned or leased (e.g., by the individual) using one of the four methods in Division 28 of the ITAA 1997 (i.e., the 'cents per km method', the '12% of original value method', the 'one-third of actual expenses method' or the 'log book method').

From the 2015/16 income year, the government will modernise the methods of calculating work-related car expense deductions, as follows:

- The '12 per cent of original value method' and the 'one-third of actual expenses method' (which are used by less than 2% of those who claim work-related car expenses) will be removed.
- The 'cents per kilometre method' will be modernised by replacing the three current (cents per kilometre) rates based on engine size, with one rate set at 66 cents per kilometre (in respect of all cars). The Commissioner will be responsible for updating the rate in following years.

2.3 Immediate deduction for professional expenses on commencing a new business

Currently, some professional costs associated with commencing a new business (i.e., black hole expenditure) are deducted over a five-year period under S.40-880 of the ITAA 1997.

From 1 July 2015, the government will allow businesses to claim an immediate write-off for a range of professional expenses associated with starting a new business, such as professional, legal and accounting advice.

2.4 Release of superannuation for terminal medical condition – relaxing the release criteria

Broadly, before an individual with a terminal medical condition can currently access their preserved superannuation benefits (generally as a tax-free lump sum), two registered medical practitioners (including a specialist) must certify, jointly or separately, that the person is likely to die within a one-year period.

From 1 July 2015, the government will extend access to superannuation for people with a terminal medical condition by extending the above certification period (i.e., the period within which the individual is likely to die) to two years. This will give terminally ill patients earlier access to their superannuation entitlements.

3. Changes effective 1 July 2016 (i.e., 2016/17 income year)

3.1 Accelerated depreciation for primary producers

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. For income years commencing **on or after 1 July 2016** (i.e., from the 2017 income year), the government will allow all primary producers to:

- **immediately deduct** capital expenditure on fencing and water facilities such as dams, tanks, bores, irrigation channels, pumps, water towers and windmills; and

- depreciate all capital expenditure on fodder storage assets such as silos and tanks used to store grain and other animal feed **over three years**.

4. FBT announcements

4.1 FBT – Capping threshold for salary sacrificed meal entertainment and entertainment facility leasing expenses ('EFLEs')

Currently, certain employers are capped on the amount of concessionally taxed fringe benefits they can provide to their employees, as follows:

(a) **FBT-rebatable employers** (e.g., certain societies, associations or clubs) are subject to a $30,000 cap (increased to $31,177 for the 2016 and 2017 FBT years due to the Temporary Budget Repair Levy) on the amount of fringe benefits (which are eligible for an FBT rebate) they can provide to each of their employees.

(b) **Public benevolent institutions** and **health promotion charities** are subject to a $30,000 cap (increased to $31,177 for the 2016 and 2017 FBT years) on the amount of FBT-exempt benefits they can provide to each of their employees.

(c) **Public and non-profit hospitals**, and **ambulance services**, are subject to a $17,000 cap (increased to $17,667 for the 2016 and 2017 FBT years) on the amount of FBT-exempt benefits they can provide to each of their employees.

Certain benefits are currently excluded from these caps, such as the following:

- Meal entertainment-related benefits (e.g., restaurant meals); and
- EFLEs (e.g., holiday accommodation, and venue hire for a special event, such as a wedding).

Additionally, meal entertainment-related benefits and EFLEs are also currently excluded from the FBT payment summary reporting rules.

From 1 April 2016, the government will introduce a separate single grossed-up cap of $5,000 for salary sacrificed meal entertainment and EFLEs (meal entertainment benefits). Where these benefits exceed the separate grossed-up cap of $5,000, they can also be counted in calculating whether an employee exceeds their existing (relevant) cap.

Furthermore, all meal entertainment benefits will become reportable.

5. Other Budget announcements

5.1 Child care (workforce participation stream)

A new single Child Care Subsidy ('CCS') will be introduced **on 1 July 2017**. Families meeting the activity test with annual incomes up to $60,000 (2013/14 dollars) 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.

The CCS will have no annual cap for families with annual incomes below $180,000. For families with annual incomes of $180,000 and above, the CCS will be capped at $10,000 per child per year. Eligibility will be linked to a new activity test.

The CCS will replace the current child care fee assistance provided by the Child Care Benefit, Child Care Rebate and the Jobs, Education and Training Child Care Fee Assistance payments which will cease on 30 June 2017.

Additional support will be provided to eligible disadvantaged or vulnerable families through the introduction of a ‘Child Care Safety Net’.

Furthermore, the 2015/16 Federal Budget announces the introduction of a new Interim Home Based Carer Subsidy Programme, which is a limited pilot programme to subsidise care provided by a nanny in a child’s home from 1 January 2016.

5.2 Change to the asset test thresholds for the aged pension

The government will increase the asset test thresholds at which pensions are reduced once the threshold is exceeded, as follows:

- **For a single person** – a full pension may be received if the relevant value of included assets (i.e., assets other than excluded assets) is less than $250,000 for a homeowner (currently $202,000).

- **For a pensioner couple** – a full pension may be received if the relevant combined value of included assets is less than $375,000 for a homeowner (currently $286,500).

Non-home owner pensioners will also benefit by an increase in their threshold to $200,000 more than homeowner pensioners.

However, the current ‘taper rate’ at which the age pension begins to phase out will be increased from $1.50 to $3 for every $1,000 of assets over the relevant assets test threshold.

5.3 Medicare levy low income thresholds for 2014/15

For 2014/15, the Medicare Levy low income thresholds will be as follows:

- Individuals $20,896 (previously $20,542)
- Families $35,261 (previously $34,367)

The families income threshold (i.e., $35,261) will be increased by $3,238 (previously $3,156) for each dependent child or student.

For single seniors and pensioners, the threshold will be increased to $33,044 (previously $32,279).