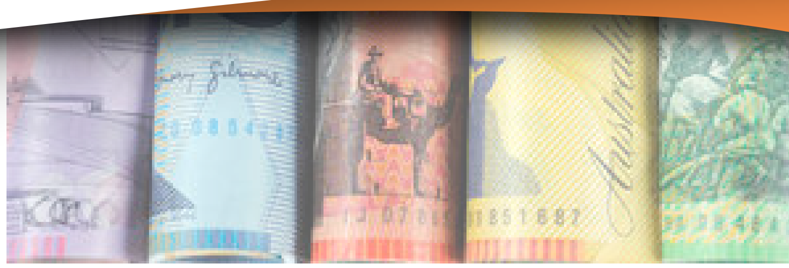
NEWS



BUDGET REVIEW

Last night's federal budget contained a number of measures targeted at stimulating activity in the small business sector. We predict that the changes will be welcomed by many small business. However, TIMING IS CRITICAL. Not all of the changes in the budget take effect immediately. It is important that people understand when each change will take effect.

Immediate Changes

$20,000 immediate write-off for small business

A small business with an annual turnover of less than $2,000,000 can immediately claim a tax deduction for all assets they start to use or install ready for use, provided the asset costs less than $20,000.

The government has made three changes to the immediate write off threshold for small business in recent years. The write off threshold was set at $6,500 then was reduced to $1,000 and now stretched to $20,000. The increased threshold is scheduled to be withdrawn on 30 June 2017.

Assets valued at $20,000 or more (which can not 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).

Changes from 1 July 2015

Reduction of small business tax rates

The tax rate paid by small businesses that trade under a corporate structure will be reduced from 30% to 28.5% for companies with turnover of less than $2,000,000. This reduction has been anticipated by many.

There will be a 5% discount on tax payable for other businesses that do not trade as a company i.e. trust or partnership with an annual turnover of less than $2,000,000. The discount will be administrated as a tax offset and will be capped at $1,000 per individual per income year.

Immediate deduction for professional costs in setting up a business

As previously announced, start ups will be able to immediately deduct a range of professional expenses required to start up a business – such as professional, legal and accounting advice.

Generally these expenses are deductible over 5 years.

Changes from 1 July 2016

From 1 July 2016, **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.

All capital expenditure on fodder storage assets such as silos and tanks used to store grain and other animal feed will be deductible over 3 years.

The changes will not be limited to small business entities unlike the other proposed changes to depreciation rates.

Currently, the effective life for fences is up to 30 years, water facilities is 3 years and fodder storage assets is up to 50 years.

Capital Gains Tax (CGT) relief for changes to small business structures

As previously announced, small business with an aggregated turnover under $2,000,000 will be able to change their legal structure without triggering CGT. CGT rollover relief is currently available on transfer of business assets from individuals, partnerships and trusts into a company structure but all other entity type changes have the potential to trigger a CGT liability.

It is expected that this would allow a much broader range of restructuring options without triggering CGT. For example, a sole trader may be able to restructure their operations into a trust structure. Bear in mind that other tax issues may still need to be addressed on restructuring a business, particularly transfer duty.

Age Pension Changes

The budget papers contained significant changes to the aged pension assets test that will come into effect on 1 January 2017.

Under the proposed changes, the value of assets you can have in addition to the family home to qualify for the full pension will increase significantly. However, the taper rate will increase from the current $1.50 per $1,000 of assets over the threshold to $3.00 per $1,000 of assets over the threshold. The government estimates this will mean 91,000 people will stop having access to part pensions and a further 235,000 people will have their part pensions decreased.

Assets Test Threshold - now

Fund	Homeowner		Non-homeowner	
	Full pension	Cut-out	Full pension	Cut-out
Single	$202,000	$775,000	$348,500	$922,00
Couple	$286,500	$1,151,000	$433,000	$1,298,000

Assets Test Threshold - from 1 January 2017

Fund	Homeowner		Non-homeowner	
	Full pension	Cut-out (estimated)	Full pension	Cut-out (estimated)
Single	$250,000	$547,000	$451,500	$747,000
Couple	$375,000	$830,000	$575,000	$1,023,000

Clients of ours who lose their age pension will apparently be guaranteed eligibility for the Commonwealth Seniors Health Card (CSHC), which provides concessions similar to the Pension Concession Card. Note the CSHC income test is based on taxable income concepts and is therefore fundamentally different to the age pension income test.

If you have locked in grandfathered account based pensions prior to 1 January 2015 any cancellation of part age pension entitlements will forego the grandfathered status of your account based pensions (ABP). This means that the ABP will be deemed at prevailing deeming rates for CSHC income test purposes (and indeed for age pension means testing purposes should they reapply for the age pension at a later time).

What Next?

To make use of the above budget measures and to minimise your tax liability, make an appointment with MGH prior to 30 June 2015 to complete your tax planning for the 2015 financial year and budgets for the 2016 financial year .

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