

# BusinessPlus+ Newsletter



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## Federal Budget May 2015

### The Federal Budget 2015 – Issues for SME Operators

The Federal Treasurer, Joe Hockey, has delivered the second LNP government's budget.

This special edition of Business Plus+ refers to many of the matters contained in the budget, which will affect small / medium enterprises and primary producers.

None of the items contained in the budget will become law until the budget is passed by the House of Representatives and the Senate and signed by the Executive Council.

This budget drives workforce participation and shows the strongest support for small business that has been reflected in the Federal Budget for many years. Whether it completely faces up to the financial challenges that Australia has remains to be seen.

The budget contains a number of important measures that the government believes will lift productivity and drive growth by encouraging workforce participation and supporting small businesses.

Small businesses and start-ups will benefit from a reduced corporate tax rate and the reduction in taxation for unincorporated businesses with turnover under \$2 million.

Start-up businesses also benefit by being able to immediately deduct professional costs associated with starting a new business.

The budget aims to encourage more women to either re-enter the workforce or remain in the workforce through greater investment in childcare.

The budget doesn't include any significant changes to superannuation and there are no changes in taxation rates, other than for companies operated by small businesses and unincorporated small business operators.

### Economic Outlook

The real GDP is expected to grow by 2.75% in 2015/16. This is one quarter of a percentage point lower than expected 12 months ago in the 2014/15 budget.

The sustained recovery in non-mining business investment is taking longer than the government expected. However, stronger non-mining business investment is expected to drive an increase in growth to 3.25% in 2016/17.

The unemployment rate is expected to edge a little higher to 6.5% in 2015/16 before falling to 6.25% in 2016/17.

## Fiscal Outlook

The cash balance is expected to improve over the forward estimates. The deficit is expected to fall from \$35.1billion (2.1% of GDP) in 2015/16 to \$6.9billion (0.4% of GDP) in 2018/19.

The government has set itself the target of reaching a surplus of 1% of GDP by 2023/24, consistent with the medium-term fiscal strategy of running surpluses on average over the course of the economic cycle.

### Budget Aggregates and Major Economic Parameters

	Actual		Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Underlying cash balance (\$b)(a)	-48.5	-41.1	-35.1	-25.8	-14.4	-6.9
Per cent of GDP	-3.1	-2.6	-2.1	-1.5	-0.8	-.04
Fiscal balance (\$b)	-43.7	-39.4	-33.0	-23.4	-9.2	-3.2

(a) Excludes net Future Fund earnings

	Outcomes		Forecasts		Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Real GDP	2.5	2 ½	2 ¾	3 ¼	3 ½	3 ½
Employment	0.7	1 ½	1 ½	2	2	2
Unemployment Rate	5.9	6 ¼	6 ½	6 ¼	6	5 ¾
Consumer Price Index	3.0	1 ¾	2 ½	2 ½	2 ½	2 ½
Wage Price Index	2.5	2 ½	2 ½	2 ¾	2 ¾	3 ¼
Nominal GDP	4.0	1 ½	3 ¼	5 ½	5 ¼	5 ½

(a) Year average unless otherwise stated. From 2013-14 to 2016-17, employment, the wage price index and the consumer price index are through the year growth to the June quarter. The unemployment rate is the rate for the June quarter.

Source: Budget Papers

## Changes to Primary Producers

### FROM 1ST JULY 2016

#### Accelerated Depreciation For Primary Producers

The government has announced changes for accelerated depreciation for primary producers, to enable them to immediately deduct capital expenditure on fencing and water facilities, such as dams, tanks, bores, irrigation channels, pumps, water towers and windmills and to depreciate all capital expenditure on assets such as silos and tanks used to store grain and other animal feed over three years.

#### Drought Relief

The government is providing \$300 million for drought relief in Western Queensland and New South Wales.

## Changes to Superannuation

### FROM 1ST JULY 2015

#### Release Of Superannuation For Terminal Medical Conditions

The current rule which enables an individual with a terminal medical condition to access their preserved superannuation benefits (generally as a tax-free lump sum), whereby two registered medical practitioners, including a specialist, must certify jointly or separately that the person is likely to die within 1 year, will be amended to a 2-year period.

Other than the above item, the government is not proposing any other changes to superannuation contributions or rules relating to superannuation fund.

## Changes to Small Businesses – From 12 May 2015

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### Accelerated Depreciation – Immediate Write-Off

Small businesses with aggregate turnover of less than \$2 million are able to immediately deduct the costs of assets (cars, vans, kitchens, office equipment, plant and equipment, etc.) they start to use or install ready for use, provided the asset costs less than \$20,000 (previously \$1,000) and is acquired prior to 30th June 2017. Small businesses can apply this \$20,000 rule to as many individual items as they like.

Assets valued at \$20,000 or more can continue to be placed in the small business simplified depreciation pool and depreciated at 15% in the first income year and 30% each income year thereafter.

The government has also announced that it will suspend current “lockout” laws for the simplified depreciation rules until the 30<sup>th</sup> June 2017. Currently, these “lockout” rules prevent small businesses from re-entering the simplified depreciation regime for 5 years if they opt out.

From 1<sup>st</sup> July 2017, the thresholds for the immediate depreciation of assets and the value of the pool will revert back to existing arrangements (which are based on less than \$1,000 threshold).

## Changes to Small Businesses – From 1 July 2015

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### Tax Cuts For Small Businesses

The company tax rate will be reduced to 28.5% (a reduction of 1.5%) for companies with aggregated annual turnover of less than \$2million.

Aggregated turnover is calculated on a group basis and must be “business income”.

The maximum franking credit rate for a distribution will remain at 30% for all companies thus maintaining the existing arrangements for investors such as self-funded retirees.

### 5% Discount On Tax Payable For Other Taxpayers

Individual taxpayers with business income from an unincorporated business (sole trader, partnership) 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.

### Car Expense Deductions

The government has announced that two of the methods available to taxpayers to calculate work-related motor vehicle expenses deductions will be removed. These are the 12% of original value method and the 1/3 of actual expenses method.

The cents per kilometre method will be changed by replacing the 3 current cents per kilometre rates based on engine size, with one rate set at 66 cents per kilometre, which will apply to all types of cars, irrespective of engine size.

### Change To Zone Allowance

The government plans to exclude fly-in-fly-out (FIFO) and drive-in-drive-out (DIDO) workers from the zone tax offset, where the worker's normal residence is not within a particular zone.

For a FIFO and DIDO worker whose normal residence is in one zone but who works in a different zone, the worker will retain the zone tax offset entitlement associated with their normal place of residence.

### Deduction Of Expenses On Commencing A New Business

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

# Changes to Small Businesses – From 1 July 2016

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## Fringe Benefits Tax

From 1<sup>st</sup> April 2016, the government will relax the Fringe Benefits Tax (FBT) exemption for work-related electronic devices.

The government will allow a FBT exemption for small businesses with an aggregated annual turnover of less than \$2 million that provide employees with more than one qualifying, work-related, portable electronic device, even when the items have substantially similar functions. This decision will reduce confusion as to whether the function overlaps between different products, such as between a tablet and a laptop.

## Capital Gains Tax Rollover Relief For Changes To Entity Structure

Capital gains tax rollover relief is currently available for individuals who incorporate. However, other entity type changes have the potential to trigger a capital gains tax (CGT) liability. The government will allow small businesses with an aggregate annual turnover of less than \$2 million to change legal structure without attracting a CGT liability at that point. However, other costs such as stamp duty (a State tax) will still apply.

## Government Grant Funding

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The government has announced proposals as follows:

### Automotive Transformation Scheme

- 2015/16 – \$251 million
- 2016/17 – \$166 million
- 2017/18 – \$63 million

### Entrepreneurs' Infrastructure Program

The Entrepreneurs' Infrastructure Program

### Cooperative Research Centres

The budget allocation for this scheme will be \$732 million over the next four years.

### Australian National Low Emissions Coal Research And Development Project

The funding is \$17.5 million over the next two financial years.

### Manufacturing Transition Grants Program

The funding is \$47 million over the next two financial years.

### New Generation Manufacturing Investment Program

This program will receive \$32 million over three years.

## EMPLOYMENT INITIATIVES:

### Mature-Aged Employment Incentive

The government is providing payments of up to \$10,000 over 12 months to employers hiring persons aged over 50, who have been unemployed for six months.

### New Wage Subsidy

The government is going to offer small businesses financial assistance to create more work experience opportunities for Australia's unemployed, particularly young people and older workers. Employers who offer jobseekers an ongoing job can receive a wage subsidy with flexible payment arrangements. Employers will be able to access wage subsidies from the time the employee commences work.

The new wage subsidy will be available for employers to take on parents who want to return to the workforce.

The government will introduce a program for work experience for young jobseekers, to encourage them to undertake valuable work experience for up to four weeks, while they continue to receive income support.

## Other Items

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A business can be eligible for a subsidy of \$6,500 a year if it employs a young jobseeker who is unemployed for six months and if they complete four weeks of work experience.

The budget has announced the winding down of a series of programs to be closed, including assistance for the textile, clothing and footwear industries.

### GST Changes

From 1<sup>st</sup> July 2017, the government has announced some GST-related measure changes.

The GST will be extended to cross-border supplies of digital products and services imported by consumers.

### Research And Development

From 1<sup>st</sup> July 2014, the government expects to have the changes to the R&D tax offset approved by the Senate, which would mean that the refundable tax offset for companies with turnovers less than \$20million would be 43.5% and the non-refundable tax offset for companies with turnovers over \$20million would be 38.5%.

In all cases, the government has introduced a cap of \$100million of eligible R&D expenditure for companies which claim a tax offset.

### Non-Residents

From 1st July 2016 the government will remove the ability for non-residents working in Australia to access the tax-free threshold.

The government will treat most people who are in Australia for a working holiday as non-residents for tax purposes. This means they will be taxed at 32.5% from their first dollar of income up to \$80,000.

### Crowd-Sourced Equity Funding

The government will provide \$7.8million to Australian Securities and Investment Commission (ASIC) over 4 years, to implement and monitor a regular framework to facilitate the use of crowd-sourced equity funding, including simplified reporting and disclosure requirements.

According to the government, the crowd funding initiative will make it easier to marry small investors (Business Angels) with growing small businesses.

### Employee Share Schemes

Tax concessions for Employee Share Schemes, announced in the mid-year economic and fiscal outlook 2014/15, will be expanded after consultations on the draft legislation, identified minor technical changes that could be made.

The government claims that the expansion of Employee Share Scheme Concessions will make it easier for start-ups to attract the talent they needed to grow.

### Northern Australia Loan Facility

From 1<sup>st</sup> July 2015, The government will establish a concessional loan facility of up to \$5billion in Northern Australia, for private sector investment in infrastructure, such as ports, railways and pipelines. The loan facility will be open for applications from 1<sup>st</sup> July 2015.

### Cattle Supply Chains

The government has allocated \$101million (over 4 years from 2015/16) to improve cattle supply chains in Northern Australia, with the particular focus on road infrastructure. The funding will seek to improve the productivity and resilience of cattle supply chains in Northern Australia, drawing on the CSIRO's state-of-the-art logistics modelling, as well as input from livestock transport and beef industry experts, to identify deregulation opportunities and investment priorities. The funding will also provide incentives for private sector investment, to improve the road network and transport logistics in the area.

## Rates

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### Superannuation Contribution Level

- 2015/16 – 9.5%
- 2016/17 – 9.5%
- 2017/18 – 9.5%

### Superannuation Contribution Limits

Age	2014/15	2015/16
Under 50 Years	\$30,000	\$30,000
50 to under 60	\$35,000	\$35,000
60 and over	\$35,000	\$35,000

### Non-Concessional Contribution Cap

Financial Year	Standard Cap	Three-Year Contribution Limit
2014/15	\$180,000	\$540,000
2015/16	\$180,000	\$540,000

### Marginal Tax Rates

Income Range	Marginal Income Tax Percentage	
	2014/15	2015/16
\$0 - \$18,200	NIL	NIL
\$18,201 - \$37,000	19%	19%
\$37,001 - \$80,000	32.5%	32.5%
\$80,000 - \$180,000	37%	37%
\$180,001 and above	45%	45%

To each of these rates, it's necessary to add the Medicare Levy of 2% and, for incomes in excess of \$180,000, the Temporary Budget Repair Levy.

### Temporary Budget Repair Levy

The Temporary Budget Repair Levy, which was introduced last year, will continue until 30th June 2017. The levy will apply to individuals with a taxable income exceeding \$180,000. The Temporary Budget Repair Levy is 2% of the excess over \$180,000.

### Company Tax Rates

Aggregated Turnover Level	Company Tax Rate	
	2014/15	2015/16
Less than \$2 million	30%	28.5%
In excess of \$2 million	30%	30%

## An Important Message

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