

Federal Budget – May 2015

Small Business Changes

Small Business Tax Rate Cut

What is it? The new tax rate for incorporated small businesses is 28.5%.

Applies to: Incorporated small businesses* (Companies).

Date of effect: 1 July 2015

NB: The current maximum franking credit will remain unchanged at 30% for all companies.

Small Business Tax Discount

What is it? A 5% discount of income tax payable, capped at \$1,000 per individual, each income year. It will be delivered as a tax offset.

Applies to: Unincorporated small business entities* (i.e. sole traders, trusts and partnerships).

Date of effect: 1 July 2015

Accelerated Depreciation

What is it? Able to immediately write-off assets that are under \$20,000, are purchased to use immediately or installed ready to use.

Applies to: Small businesses*

Date of effect: This is a temporary measure applying between (7:30pm) 12 May 2015 and 30 June 2017

Extra Information:

- Small businesses will need to keep records of their purchases in order to claim.
- Both new and second hand assets will be applicable.

Lock out laws:

- The Government will also suspend the current 'lock out' laws for the simplified depreciation rules until 30 June 2017.
- These 'lock out' laws prevent small businesses from re-entering the simplified depreciation regime for five years if they have opted out (Australian Taxation Office, 2015).

Applicable assets:

- Small businesses can access accelerated depreciation for the majority of capital asset types.
- Only a small number of assets are not eligible. In most cases specific depreciation rules apply to these assets (Commonwealth of Australia, 2015).

Excluded assets include:

- Assets allocated to a low-value pool or software development pool - subject to the deduction rates applicable under those rules;
- Capital works - subject to their own 'capital works' depreciation rules (Australian Taxation Office, 2015).
 - You can claim a deduction for the construction costs of buildings and other capital works – such as structural improvements – that are used for producing income.
 - Different deduction rates apply (2.5% or 4%) depending on the date on which construction began, the type of capital works, and how it's used (Australian Taxation Office, 2015).
 - See ATO website for more details

- Assets leased out to another party on a depreciating asset lease (Australian Taxation Office, 2015).
- Horticultural plants
- Primary production assets

Over the \$20,000 threshold:

- If assets are valued at more than \$20,000 and cannot be immediately deducted, they can be placed in the small business simplified depreciation pool.
- In this pool they will be depreciated at 15% in the first income year and 30% each income year afterwards.
- If the balance drops below \$20,000 it can be immediately deducted before 30 June 2017 (Institute of Public Accountants, 2015).

Immediate Deductibility of Professional Expenses

What is it? The immediate deductibility of a range of professional expenses associated with starting a new business. Such as: professional, legal and accounting advice.

Date of effect: 2015-16 financial year

What has changed? Currently, some professional costs associated with start-ups are deducted over a 5 year period (blackhole expenditure).

No FBT on Work-Related Electronic Devices

What is it? All work related electronic devices that are provided to employees will be covered by a FBT exemption. Even if the devices have a very similar function

Applies to: Small businesses*

Date of effect: 1 April 2016

CGT Roll-Over Relief – Change of Structure

What is it? Small businesses can change legal structure without having to pay capital gains tax.

Applies to: Small businesses*

Date of effect: 2016-17 financial year

What has changed? CGT roll-over relief is currently available for individuals who incorporate but all other types of legal structure changes create a CGT liability. This has changed and now any legal structure change is covered by CGT roll-over relief.

**Small Businesses: must have an annual turnover of less than \$2 million.*

"Netflix Tax"

What is it? GST is going to be imposed on offshore intangible supplies to Australian consumers.

- The GST will extend to services performed offshore for customers in Australia.
- For example: streaming or downloading of movies, music, apps, games, e-books, as well as other services (i.e. consultancy and professional services).

Date of effect: 1 July 2017

Personal Taxation

Work-Related Car Expenses

What is it? A change from 4 methods of claiming car expenses, down to 2 methods being acceptable in the future.

- Also there is a change in rates for the cents per kilometre rule.
- There is now only one rate, irrespective of engine size, which is 66c per kilometre.

Methods to be used: cents per kilometre & logbook method.

Date of effect: 2015-16 financial year

Examples of the changes

Small Business Tax Rate Cut

A business has an annual turnover of \$1.3m and has a taxable income of \$200,000. Under the current law, the business faces a company tax rate of 30% and would pay \$60,000 income tax. Under the proposed new law, the company tax rate falls to 28.5%, meaning the business pays \$57,000 in income tax (Institute of Public Accountants, 2015).

Small Business Tax Discount

A person running a business as a sole trader has an annual turnover of \$300,000 and taxable income of \$75,000. Under the current law, the business would pay tax at the owner's marginal tax rate and would pay around \$16,000 in total. Under the proposed new law, the \$16,000 tax bill on the business income would be reduced by 5%, or \$800. While there is no change in the owner's tax rate, under the new law the owner would pay only \$15,200 tax (Institute of Public Accountants, 2015).

Accelerated Depreciation

A bakery is run as a company. The business purchases a new oven for \$13,750 and a new proofing cabinet for \$3,500 to replace its old, worn-out equipment. Under current law, because these assets each exceed the current \$1,000 threshold, they would be included in the accelerated depreciation pool. Of their combined \$17,250 cost, only 15%, or \$2,588, would be depreciated in the first year. With a company tax rate of 30%, this means that the company would only get \$776 back on its tax in the first year.

Under the new \$20,000 threshold, the company will be able to claim an immediate deduction for both the new oven and the new proofing cabinet, giving an immediate deduction of \$17,250. With the new small business company tax rate of 28.5% from 1 July 2015, the company will get \$4,916 back on its tax. So, under the new \$20,000 threshold for accelerated depreciation, the company would receive an additional cash flow benefit of \$4,140" (Institute of Public Accountants, 2015).

References

- Australian Taxation Office. (2015). *Capital Works Deductions*. Canberra: ATO.
- Australian Taxation Office. (2015). *Expanding Accelerated Depreciation for Small Business*. Canberra: ATO.
- Commonwealth of Australia. (2015). *Budget 2015-16 Budget Measures Budget Paper No. 2*. Canberra: Commonwealth of Australia.
- Institute of Public Accountants. (2015). *Technical Advantage 2015 Federal Budget Edition*. Melbourne: Institute of Public Accountants.

This fact sheet is written as general information only and is not intended to be formal advice.