PRE-ELECTION ANNOUNCEMENT NEWSLETTER

How will the pre-election announcements affect your clients?

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# The Major Parties' Tax-related Announcements

**IN THIS NEWSLETTER**



## Overview

Depending on which major party forms government following the 7 September 2013 Federal Election, we are likely to see a different tax landscape to which we are currently accustomed.

Both parties have made announcements during the 2013 federal election campaign that will impact the current Australian tax system.

Some of the tax-related announcements made by both major parties by 2 September 2013 likely to impact your clients are outlined below.

## Australian Labor Party: Tax-related announcements

***$2,000 cap on self-education expenses***

Announced by the government in April 2013, this measure will impose a limit of $2,000 on the amount of self-education expenses an employee can claim in an income year. There may potentially be fringe benefits tax implications for employers who permit employees to salary sacrifice the cost of education expenses.

Employees may look to their employer to assist in funding their education expenditure which could possibly have FBT implications for employers. There are also possible implications for sole traders or taxpayers who derive personal services income. This measure is intended to start from 1 July 2015.

***Proposal to abolish the statutory formula used to determine car fringe benefits***

Announced by the government in July 2013, the removal of the availability of the statutory formula to calculate car fringe benefits would result in only the operating cost method being available to calculate car fringe benefits.

The operating cost method requires log books to be kept over a twelve week period every 5 years as well as all costs associated with the car (eg registration, servicing, insurance) to be tracked for the purpose of calculating the value of the fringe benefit provided by an employer who provides a car to an employee.

This would likely increase the record-keeping requirements of employers and employees in respect of the provision of this type of fringe benefit.

It is intended that the removal of the statutory formula will take effect from 1 April 2014.

***Increasing the threshold for inactive superannuation accounts***

Where a superannuation account has been inactive, the funds in the account are required to be transferred to the ATO. This includes inactive accounts of uncontactable members.

In the 2013-14 Federal Budget, the government announced that the current threshold of $2,000 would be increased to $2,500 from 31 December 2015 and then to $3,000 from 31 December 2016.

The threshold amounts have since been increased by the government. The current threshold of $2,000 will now increase to $4,000 from 31 December 2015 and then to $6,000 from 31 December 2016.

Taxpayers should consider whether they may have super accounts with balances under these thresholds that might be affected.

***Improvements for small business and GST***

The ALP has proposed that from 1 July 2014, businesses with a GST turnover under $20 million a year will be allowed to lodge their Business

Activity Statement annually. Currently this is only available to businesses with annual GST turnover under $2 million.

This should substantially increase the number of businesses able to lodge a BAS annually instead of four times a year and may go some way to assist to ease the compliance burden on businesses.

The purpose of the measure is to align GST obligations more closely with the PAYG income tax system and provide more businesses with access to the GST instalment system. It is intended that businesses will be able to pay GST instalments quarterly (or twice a year for primary producers) and reconcile their GST obligations at year end.

The ALP also proposes to look at ways to allow more businesses to obtain refunds of GST throughout the year for businesses in a net refund position. Note that legislation passed just before Parliament rose in June 2013 that permits entities that move into a net refund position and have elected to pay GST by instalments can still access the GST instalment option.

### *Temporary increase to the instant asset write-off for small businesses*

Beginning on 1 July 2012, small businesses with an annual turnover of less than $2 million are able to take an immediate deduction for assets costing less than $6,500.

The ALP has proposed that this amount be increased to $10,000. This increased amount of $10,000 will apply for the period 8 September 2013 to 30 June 2015, thereby being a temporary increase only. From 1 July 2015, the instant asset write-off will fall back to $6,500.

This measure is intended to assist with cash flows to small business by bringing a higher amount for deduction forward.

## Liberal Party: Tax-related announcements

### *Abolition of the Mining Tax*

The Liberal Party has pledged to abolish the mining tax. With this pledge though, various measures that were intended to be funded by the mining tax will also be discontinued, such as:

- The instant asset write-off (beginning on 1 July 2012, it allows small businesses to take an immediate deduction for assets costing less than $6,500);
- Accelerated depreciation for motor vehicles (beginning on 1 July 2012, it allows small businesses to write-off the first $5,000 of the cost of a motor vehicle immediately with the balance depreciable at a rate of 15%; motor vehicles costing less than $6,500 may be written off immediately under the instant asset write-off);
- Loss-carry back measure (starting in the 2012-13 income year, it allows companies and entities taxed like companies to carry back up to $1 million in tax losses to offset against taxable income in an earlier year; this would be the 2011-12 year for the first year of this measure applying);
- The Schoolkids' Bonus (beginning on 1 January 2013, an annual payment became available for schoolchildren at primary school level of $410 and secondary school level of $820. This replaced the Education Tax Refund).

### *Abolition of the Carbon Tax*

The Liberal Party has also pledged to abolish the carbon tax. However, it plans to maintain certain measures (such as the increase to the tax-free threshold for individuals to $18,200) and the increases to the pension that were introduced when the carbon tax was introduced.

### *Cutting the company tax rate by 1.5%*

The Liberal Party has pledged to cut the company tax rate by 1.5% from 1 July 2015. This would give a company tax rate of 28.5% reduced from the current rate of 30%. There are potential benefits to business, allowing reinvestment in the business and additional funds available to put towards increasing wages and employing more people, therefore contributing to increased productivity and employment.

### *Levy on certain companies to fund Paid Parental Leave Scheme*

For companies with taxable income of more than $5 million, it is proposed that they will be subject to a levy of 1.5% on taxable income exceeding $5 million to partially fund the Liberal Party's proposed Paid Parental Leave scheme.

It is estimated around 3,000 large companies will be required to pay this levy which is to apply from 1 July 2015.

This levy is likely to somewhat offset the benefit of the 1.5% modest company tax cut proposed as detailed above.

***Delay of the increase to the Superannuation Guarantee***

The Liberal Party also plans to delay the increase in the Superannuation Guarantee by two years. Beginning on 1 July 2013, the superannuation guarantee amount is to gradually increase from 9% to 12% by 1 July 2019. Effective 1 July 2013, the superannuation guarantee amount is 9.25%.

The effect of the Liberal Party's proposal means that the superannuation guarantee will remain at 9.25% for the next two years, deferring the time at the 12% rate will be reached.

***Other***

Other announcements made include:

- Opposing the proposal by the ALP to abolish the statutory formula used to determine car fringe benefits – this would mean that there will be no change to the methods currently available to calculate car fringe benefits;
- Plans to fully restore the private health insurance rebate within a decade; and
- Consulting with the community to produce a comprehensive white paper on tax reform within two years of forming government to follow on from the Henry Tax Review.

**DISCLAIMER**

The content of this newsletter does not constitute specific advice. Readers are encouraged to consult their tax adviser for advice on specific matters.

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