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The financial news your business needs

Winter 2015

BUSINESS Bulletin

Budget Wrap for Business

The 2015 Federal Budget was handed down on 12 May. In this special edition of the Business Bulletin, we look at how the Budget may impact your business.

Steady Economic Outlook

According to the Budget, economic growth is forecast to increase from 2.5% this year to 2.75% in 2015/2016. This is one quarter of a percentage point slower than expected 12 months ago in the 2014 Budget. However, stronger non-mining business investment is expected to drive an increase in growth to 3.25% per cent in 2016/2017 before increasing to a robust 3.75% in 2017/2018 which would be the strongest growth rate since the Global Financial Crisis. To provide some context, average annual economic growth in Australia has been 3.47% from 1960 to 2014. Indeed, this was reflected in the just-released March 2015 quarterly growth rate of 0.9% which was well above market expectations.

All told, economic growth, while far short of the "boom times" of the early 2000's is at least, according to the Budget, on the upswing.

The most significant revision to economic growth in 2015/2016 since the 2014 Budget is business investment. Non-mining business investment grew solidly in 2014, particularly in the services sector. According to the Budget papers, economic conditions are expected to support a lift in non-mining business investment. Healthy corporate balance sheets along with the lower interest rates, the lower Australian dollar and lower fuel costs are expected to encourage investment plans going forward as firms rebuild and modernise their capital stocks. Reflecting this, real non-mining business investment is expected to grow by 4% in 2015/2016 and strengthen further to 7.5% in 2016/2017.

Another key economic indicator, unemployment, is also expected to improve.

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Reminder Dates

June 21
Lodge May monthly Activity Statements

July 14
Provide payment summaries to employees

July 28
Make SG contributions and Lodge 4th quarter Activity Statements (if lodging by paper)

August 11
Lodge 4th quarter Activity Statements (if lodging electronically)

August 14
Lodge PAYG withholding payment summary annual report

Although unemployment is expected to edge slightly higher to 6.5% in 2015/2016, it is forecast to fall to 5.75% by 2018/2019.

Company Tax Cut

In welcome news, the company tax cut that the Government has for long flagged will be delivered from 1 July 2015. From this date, the corporate tax rate will be cut by 1.5% from 30% down to 28.5% for small business entities (SBEs) i.e. those businesses with a turnover of less than $2 million, including the turnover of any connected or affiliated entities. This is expected to benefit approximately 780 000 incorporated small businesses. As the tax cut will apply from 1 July 2015, companies with PAYG instalments can benefit from their first payment after 1 July 2015.

Despite this change, the maximum franking credit rate will remain at 30%

EXAMPLE – Company Tax Cut Impact

A company has a turnover of $1.6 million, with taxable income of $400 000.

2014/2015
Under the pre-Budget law, the company would have a tax bill of $120 000 ($400 000 x 30%).

2015/2016
Under the proposed law, the company would have a tax bill of $114 000 ($6 000 less than under the old law).

With Australia now having a two-tiered company tax rate, if your company's turnover is around $2 million, it's worth keeping a close eye on it at year-end from 2015/2016. While we do not suggest that you avoid growing your business just to stay under the $2 million threshold and attract the lower company tax rate, if your turnover is nearing that mark at year-end, it certainly pays to stay under that mark from a tax perspective – perhaps by deferring invoicing where practical.

Tax Cut for Unincorporated Small Businesses

A new 5% tax discount will be given to individuals with business income from an unincorporated business (i.e. sole trader, trust or partnership structure) that is an SBE (see earlier for the definition of an SBE). The discount, to be provided by way of a tax offset in a business owner's individual year-end tax return, will apply to the income tax payable on the business income received and will be capped at $1 000 per individual, per year. This will take effect at the same time as the small business corporate tax cut (2015/2016).

This is a welcome measure as many small businesses are not incorporated and thus would not derive any benefit from the above-mentioned corporate tax reduction.

Accelerated Depreciation for Small Business

The threshold at which SBEs can claim an immediate deduction for a depreciating asset (i.e. totally write it off in the year it is first installed ready for use) will be increased from $1 000 to $20 000. This will apply for assets that are installed ready for use between 12 May 2015 and 30 June 2017. To be clear, this will not result in any extra cash for eligible businesses, but it will provide cashflow relief in the sense that your deductions in respect of these assets will be brought forward.

This new instant write-off threshold applies to all types of depreciable assets such as tools, machinery, vehicles, furniture etc. except for items which have their own specific depreciation rules (such as horticultural plants).

EXAMPLE
Assume Mike is a sole trader with a turnover < $2 million but is in the top marginal tax rate of 47%. Mike purchases a small vehicle for $19 000 solely for use in his business.

PRE-BUDGET LAW
As the vehicle exceeds the $1 000 instant write-off threshold, it would be placed in the small business pool, whereby it would be depreciated at 15% in the first year, and 30% in subsequent years. This would mean that in the first year Mike's taxable income would reduce by $2 850 ($19 000 x 15%) resulting in a tax saving of $1 339 ($2 850 x 47% tax rate, excluding Medicare).

POST-BUDGET LAW
If Mike purchases this vehicle and has it ready for use on or after 12 May 2015, as it does not exceed the instant write-off threshold of $20 000, he will receive a tax deduction for the entire $19 000 cost of the vehicle. This will reduce his taxable income by this amount, resulting in a tax saving of $8 930 in the year of purchase ($7 591 more than under the old law).

During the period from 12 May 2015 to 30 June 2017, the balance of your small business pool can be written-off once it falls below $20 000 (including an existing pool). From 1 July 2017, the $20 000 instant write-off threshold will revert back to its former value of $1 000.

BUY UP!
As illustrated in the earlier example, the new $20 000 threshold (a massive 20 times larger than the old threshold) can provide very significant cashflow relief to small businesses. Add this to the current low interest rate environment, it may be the perfect time for you to invest in your business by purchasing any sort of depreciable equipment below the $20 000 threshold.

Restructure Relief

Small businesses will be permitted to change their legal structure (e.g. from a sole trader to a trust) without attracting a CGT liability. Currently CGT relief is only available where sole traders, trustees or partners in a partnership incorporate as a company. This measure will apply for small businesses who change entity type from 2016/2017. This is a welcome reform as small businesses often desire a change of structure (for example, for reasons of simplicity and ease of understanding, a number of small businesses start out as sole traders but, as their business grows, this structure no longer meets their needs).

More Work-Related Electronic Devices

Businesses with a turnover of less than $2 million will now be permitted to provide employees with more than one eligible work-related 'portable electronic device' during the year, without attracting FBT. 'Portable electronic devices' are devices that have the following characteristics:

- Easily portable and designed for use away from an office environment
- Small and light
- Can operate without an external power supply, and
- Designed as a complete unit.

Therefore, they include personal digital assistants (PDAs), blackberries, Smartphones, portable printers, tablets, electronic diaries, laptops, tablets, notebook computers etc. Currently, only one such device can be provided each year per worker, unless the second or subsequent device performs substantially different functions or is a replacement for the original device. This new law will allow employers to provide, for example, a laptop and a tablet to an employee during the same year without attracting FBT. Effective 1 April 2016.

Employee Share Schemes – More Attractive

To complement the generous concessions it has already announced to the tax treatment of employee share schemes (commencing 1 July 2015), further concessions were announced in the Budget and will commence from the same date. Most significantly, the CGT discount will apply to employee share scheme interests that are subject to the start-up concession, where options are converted into shares and the resulting shares are sold within 12 months of exercise.

Employee share schemes are a means to aligning the interests of employees and employers. By giving employees a stake in the business, their overall remuneration is in part inextricably tied with the performance of the business. This can result in more productive working relationships, higher motivation as well as reduced staff turnover. The recent concessions announced, may prompt employers to look more favourably at employee share schemes as an alternative means of remuneration.