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TAX POLICIES OF MAJOR PARTIES

You may have read a lot in the media recently about the different tax policies and proposals coming out of the major Australian political parties.

To help you understand these policies and potentially the tax changes that are coming, we thought you'd appreciate a summary and brief explanation of them to be better informed for the future. Senior Tax Counsel of the Taxation Institute of Australia, Bob Deutsch said recently:
"The next Federal election is looming as one of the most important elections in recent times particularly having regard to the differences between the two alternatives on tax policy."
Here are the key differing tax policies between the major political parties.

The Coalition Government supports the following:

- A reduced corporate tax rate for all companies eventually with a target rate of 25%.
- Proposed reduction in personal tax rates particularly for income levels up to $100,000 (further details expected in the upcoming budget). Most likely to be phased in over a number of years.
- Increase of medicare levy to 2.5% now not proceeding. Will remain at 2%.
- No changes to negative gearing on investment property.
- No change to Capital Gains Tax ("CGT") discounts which is currently at 50% for individuals.
- No change to the current taxation of distributions from discretionary trusts.
- No change to the dividend imputation system, in particular maintaining a full refund of excess imputation credits.
- No change to depreciation rules and the immediate $20,000 write off for eligible taxpayers. This measure is to cease on 30 June 2018 as previously advised. (subject to any announcement in the budget).

The announcements by the Labor party to date can be summarised as follows:

- Company tax rates to be standardised to 30%, with possible lower rates for small corporate entities (turnovers under $2m).
- Increase the top marginal tax rate to 49 per cent from 47 per cent and lower personal tax rates at lower income levels.
- Increase in the medicare levy to 2.5% for those earning over $87,000pa.
- Negative gearing would be retained in its current form for new housing and existing assets. Negative gearing losses in respect of all other assets would be limited to being deductible against other investment income or capital gains (but not against salary and wages).
- Reduce CGT discount by 50% to 25% for all assets acquired from 1 July 2017. Existing assets to be grandfathered under current rules.
- A minimum tax of 30% on all distributions from discretionary trusts paid to adult beneficiaries from 1 July 2019.
- No refund of tax in respect of excess imputation credits (see further information below).
- New tax initiative giving a 20% tax deduction in respect of the purchase of any new eligible asset worth more than $20,000. New measures to commence from 1 July 2020.
- Limit the tax free income streams being paid from superannuation funds to $75,000 per annum when a members superannuation balance is more than $1.5m. First $75,000 paid as a pension will be tax free. Income earned from super above that amount would be taxed at 15%.
- Cap the amount an individual, trust or partnership can claim as a tax deduction for the management of their tax affairs (ie tax agents and accountants fees) to $3,000 per annum from 1 July 2019.

REFUND OF EXCESS IMPUTATION CREDITS

Probably the most talked about policy has been Labors proposed elimination of tax refunds arising from excess franking credits. To help explain this and its impact we have prepared the following summary for you.

Dividend imputation was introduced by the Labor government in 1987, to prevent so-called double taxation of company profits. This meant that shareholders did not need to pay tax on their dividends, for which the company had already paid tax. There was a change in 2000, when the Howard-Costello Coalition government amended the policy, making it more generous for Self-Managed Super Funds ("SMSFs") and self-funded retirees — a policy which still exists today.
The effect of this change was that shareholders who pay no tax — or pay a lower rate of tax than the company tax rate

(30 per cent) — can convert excess franking credits into cash refunds from the Australian Taxation Office.
When companies pay dividends, they can include franking credits (or imputation credits) for shareholders who can then use them to offset their personal tax liabilities.

Most of the major Australian banks and industrial stocks listed on the Australian Stock Exchange have franking credits attached to their dividends. Here's a simple example to illustrate how it works.
Let's assume a person gets paid a fully-franked dividend of $1,400 (with a franking credit of $600). This represents the tax the company has already paid — meaning the dividend (before company tax was deducted) would have been $2,000 ($1,400 plus $600). This individual taxpayer must declare $2,000 (the $1,400 dividend plus the $600 franking credit) in his/her taxable income. If this dividend was the person's only income, they would be below the tax-free threshold and not have an income tax bill. Since the company has already paid $600 in tax, he/she will be entitled to a refund from the ATO of that $600 in tax. If Labor wins the next election and introduces its tax plan, these refunds will cease.

On March 27, 2018 after an initial backlash, Bill Shorten and Labor announced a significant easing back of their proposed policy. Mr Shorten said:
"Pensioners and allowance recipients will be protected from the abolition of cash refunds for excess dividend imputation credits when the policy commences in July 2019." This amendment will see those who receive the Age Pension, Carer Payment, Disability Support Pension, Parenting Payment, Newstart and Sickness Allowance will be exempt from the new proposal.

We believe this change in tax policy if implemented will obviously impact a lot of SMSF's with significant investments in shares and managed funds that produce franking offsets. Put simply, superannuation funds generally pay tax at 15% when their members are in accumulation stage (0% tax in pension phase up to the $1.6m cap). When those funds in accumulation phase receive imputation credits (at 30%) they obviously receive a tax benefit of 15% on those dividends and many thereby reduce other tax payable on other investments and even receive a tax refund in some cases.

Some financial commentators estimate that the overall reduction in yield with the loss of refundable franking offsets is typically in the order of 1 per cent per annum for many SMSF's with significant franking credits. Labor also announced on 27 March 2018 that SMSFs with a member entitled to Centrelink benefits such as the old-age pension would not be subject to the loss of franking offsets.

If Labor is elected and implements the proposal, SMSF's are likely to revise their portfolios in view of the reduced attractiveness of Australian shares and managed funds compared to other alternative investments such as overseas shares, property and other asset classes.

We trust the above commentary has been useful to you in understanding the main political parties current tax policies. Please contact your StewartBrown Partner or Manager if you would like to discuss these matters further.

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