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**Australia – Some  
Measures for Individuals  
in 2015/2016 Budget**

by KPMG, Australia (a KPMG  
International member firm)

For coverage of last year's  
budget, see [Flash International  
Executive Alert 2014-057](#), 30  
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## flash Alert

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On 12 May 2015, the Commonwealth Treasurer delivered the Australian Federal Budget 2015-16.<sup>1</sup> The Budget contains some measures affecting individuals – including those on international assignment – and their employers. These include changes to work-related car expenses deductions; modifications to tax residency rules from 1 July 2016, in relation to people temporarily residing in Australia for a 'working holiday'; measures aimed at visa processing and the subclass 457 program; increases to visa application fees; and a grossed-up cap on salary sacrificed meal entertainment and entertainment facility leasing expenses for employees of not-for-profit organizations.

### Why This Matters

International assignment cost projections and budgeting for assignments to Australia and for assignees outside Australia still subject to Australian taxation should reflect the changes in the Budget. Where appropriate, adjustments by payroll administrators to withholdings should also be made.

With some of these changes due to take effect from 1 July 2015, employers only have a short period of time to make the necessary payroll adjustments, including revising hypothetical tax calculations for outbound tax equalized assignees from Australia. Communication with impacted assignees will also be important at this stage.

Below we describe the main measures in the Budget affecting individuals and their employers. (All dollar figures expressed are Australian dollars.)

### Fringe Benefits Tax (FBT)

A \$5,000 grossed-up cap on salary sacrificed meal entertainment and entertainment facility leasing expenses for employees of not-for-profit organizations, public hospitals, and public ambulance services has been introduced from 1 April 2016.

The current FBT exemption for work-related electronic devices will be expanded for small businesses with aggregated annual turnover of less than \$2 million, so that the exemption will apply to more than one work-related portable electronic device. There is not a requirement for the devices to perform substantially different functions.

### KPMG Note

The introduction of the cap for salary sacrificed meal entertainment and entertainment facility leasing expenses follows recommendations from the 2010 Productivity Commission inquiry and the 2013 Labor government's inquiry into the not-for-profit sector. The changes should provide a more even playing field for employers in the private sector in comparison to those in the not-for-profit sector.

## Personal Income Tax: Rates, Thresholds, Small Businesses, Fly In-Fly Out, HELP

- From 1 July 2015, unincorporated small businesses (e.g., sole traders) with aggregated annual turnover less than \$2 million will be eligible for a 5-percent tax discount on the income tax payable on the business income, capped at \$1,000 per individual for each income year.
- From 1 July 2015, the zone tax offset will exclude 'fly-in fly-out' and 'drive-in drive-out' workers where their usual place of residence is not within the zone'.
- From 1 July 2017, the Higher Education Loan Programme (HELP) repayment framework will be extended to individuals residing overseas. Assignees will be required to make repayments of their HELP debt if their worldwide income exceeds the minimum repayment threshold (currently \$53,000 and adjusted annually) at the same repayment rates as debtors in Australia. (Employers of Australian assignees will need to consider how this additional obligation will be dealt with under equalization policies.)
- The personal income tax rates/thresholds for 2015/2016 are noted in the table below (there have been no adjustment to account for inflation).

### 2015-2016

Taxable income (\$)	Rate
0 – 18,200	0
18,201 – 37,000	19c for each dollar over \$18,200
37,001 – 80,000	\$3,572 plus 32.5c for each dollar over \$37,000
80,001 – 180,000	\$17,547 plus 37c for each dollar over \$80,000
180,001+	\$54,547 plus 45c for every dollar over \$180,000

*Note: Excludes 2.0 percent Medicare levy. And, an additional Temporary Budget Repair Levy of 2.0 percent is payable on taxable income above \$180,000 from 1 July 2014 until 30 June 2017. This effectively lifts the highest tax rate to 49 percent (including Medicare Levy and Temporary Budget Repair Levy).*

## Employee Share Schemes

Budget announcements made reference to the legislation currently before parliament to change the employee share scheme provisions.

The new rules, to apply to grants from 1 July 2015, will benefit all employers, in particular by shifting the taxing point of rights to acquire shares, including options, from vest to exercise. This means the taxing point will coincide with the economic benefit received at exercise and revives the effectiveness of options.

Overall, the drafted changes realign Australia's tax treatment of employee share schemes with international practice, and are welcomed.

## Immigration

The Budget provided \$3.7 million over four years to implement recommendations from the Independent 457 Integrity Review. (For prior coverage, see GMS [Flash Alert 2015-055](#), 24 April 2015.)

Importantly, this measure will be used to help fund the simplification and streamlining of visa processing for low risk subclass 457 visa sponsors and the investigation of 457 sponsors to determine their compliance with sponsorship obligations. Hence, it will be important for 457 sponsors to foster ongoing compliance in their immigration programs to avoid costly sanctions, but also to take advantage of more streamlined processes available to 'low risk' sponsors.

From 1 July 2015, visa application charges will increase by between 2.3 percent (for permanent skilled, temporary 457, visitor, and student visas) and 50 percent (for significant investor visas).

Lastly, it should be noted that the below-noted changes in tax residency rules applicable to individuals temporarily residing in Australia for a 'working holiday' from 1 July 2016, do not extend to 457 visa workers.

## Other Measures

- Tightening access to pension payments as a result of the announced decreases in the assets test.
- Increase in Medicare Levy low-income thresholds to take account of movements in CPI and help ensure that low-income earners continue to be exempted from paying the Medicare Levy.
- Changes to tax residency rules from 1 July 2016, in relation to people temporarily residing in Australia for a 'working holiday' so that they do not benefit from the tax-free threshold (currently \$18,200).
- Changes to work-related car expenses deductions from 1 July 2015, as follows:
  - Abolition of the 12-percent-of-original-value method and one-third-of-actual-expenses method for claiming income tax deductions for work-related use of cars.
  - Introduction of an average rate (regardless of size of car) when using the cents-per-kilometer methods.

Income tax deduction for work related use of cars			
Engine capacity (litre)		Current cents per km rate	Proposed cents per km rate
Ordinary Car	Rotary engine car		
1.6 or less	0.8 or less	65 cent	66 cents
1.6 - 2.6	0.8 - 1.3	76 cents	
2.6 and over	1.3 and over	77 cents	

## Next Steps

The package of Budget bills will be subject to review and debate in Australia's House of Representatives over the coming weeks and months. If passed, the bills will move to the Australian Senate for consideration.

### KPMG Note

As expected, there are no significant taxation changes in this year's Budget; while there is an attempt to better target welfare measures.

The individual income tax thresholds are not automatically adjusted for inflation, which over time pushes individuals into the higher taxing brackets (bracket creep) adding further strain to the relationship between effort and reward. This Budget has not sought to address this.

### Footnote:

1 For more on the Budget, see: <http://www.budget.gov.au> .

\* \* \* \*

AUD 1 = EUR 0.707

AUD 1 = USD 0.80

AUD 1 = GBP 0.510

AUD 1 = JPY 95.81

For a complete analysis of the Budget, see the Web page for the '[Federal Budget Brief 2015](#)' published by the Australian member firm of KPMG International. Also, see: <http://www.kpmg.com/au/budget>

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