OCTOBER 2022 FEDERAL BUDGET

WHAT IT MEANS FOR YOU

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ADVISORY

The Treasurer, Dr Jim Chalmers, handed down his first Federal Budget (an updated budget for the 2022/23 financial year) on Tuesday evening.

The **good news** is there were virtually no tax or superannuation changes that affect small or medium size business. This is very much welcomed.

The **bad news** is with interest rates rising, high inflation and labour costs rising, businesses looking for assistance from the Government will be very disappointed by this interim Budget.

Based on our analysis, the big winners appear to be:

- **Families** – Childcare subsidies extended, increased benefits with the Paid Parental Leave scheme

- **Pensioners** – Deeming rates are frozen at current rates until 30 June 2024, new measures to incentivise pensioners to downsize their homes, and income levels lifted significantly for eligibility for the Commonwealth Seniors Health Card

- **Retirees** - Downsizer superannuation contribution eligibility age is reduced from 60 to 55 years, starting from first quarter after this legislation is passed. This allows each eligible person to contribute up to $300,000 into their super at a much earlier age, benefiting from super's low tax rates.

OUR CONCERNS FOR FUTURE YEARS

This wasn't the usual Federal Budget held in May where tax and superannuation and other changes that affect business owners are announced.

Instead, it was a Budget to wind back what the previous Government said they would do and to "fix" things and put in place new policies from the new Government.

Based on the negative economic expectations discussed by the Government after releasing their Budget, it appears highly likely that significant tax increases will occur in the 2023 or future Budgets.

Additionally, the ATO is clamping down further on business owners and ramping up its audit activity in an attempt to raise tax revenue to support the new Government's spending.

You need to start planning for this now.

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New ATO Ruling Affects "Professionals" and Profit Allocations

A new ATO guidance (PCG 2021/4) totally changes the way that professional firm profits can be allocated (or split) among a family group from 1 July 2022 onwards. **As a result, most professionals will end up paying larger amounts of tax from the 2023 financial year onwards.**

A professional firm is one that offers customised, knowledge-based services to clients which include medicine (doctors, dentists, medical specialists, etc), lawyers, architects, engineers, accountants, financial advisors, and consultants.

Key Change	How This Will Affect You
Professional Firm Profit Allocations To stay in what the ATO calls the "Green Zone" and not be audited, the ATO expects a professional and their family group to pay tax at a combined average rate of 35% or higher.	**More Tax to Pay in 2023** 1. You need to plan for higher tax payments from 2023 onwards. 2. The ATO requires you to **document annually** your assessment of your profit allocations along with PCG 2021/4.

Your Business Cashflow may be "Crunched"

With inflation running the highest it's been in decades, interest rates rising, labour costs increasing and power costs exploding, you need to closely monitor your profit margins and ensure your prices are set at a level that keeps your business profitable.

We believe it is ESSENTIAL for you to plan for the next 18 months by preparing a monthly Profit and Cashflow Forecasts to prove to yourself that your business model (i.e. your way of running your business to succeed) is sustainable, or to alert you to the fact that you need to consider immediate changes to your pricing and operations to keep your cashflow positive.

We can help you with this essential work.

Big changes affecting Family Trusts (also known as Discretionary Trusts)

We need to alert you that 2 key changes will affect people using Family Trust in this 2023 financial year.

Key Change	How This Will Affect You
S100A + Distributions to Family Members The ATO has released draft Tax Rulings based on S100A of the Tax Act that restrict Trusts making distributions to adult children or family members unless the cash amount of the distribution is paid to the beneficiary.	**More Tax to Pay in 2023** You may be restricted in the amounts your Family Trust can allocated to adult children or parents when compared with prior years. Our Tax Planning meeting with you in May/June 2023 will be crucial to get this right and not expose you to any penalties from the ATO.
"Owies" Case + Consideration of Beneficiaries In this recent Court case, the Trustee was removed, and an independent Trustee was appointed when 2 beneficiaries complained they weren't considered.	**More Work to Administer your Trusts in 2023** Prior to 30 June, accountants will have to assist all Trustees with the following: 1. Reconsider the default beneficiaries in a Trust. 2. Consider the purpose recited in a Trust. 3. Consider the terms of a Trustee exercising their discretion. This process will take time and will need to start taking place from the beginning of May 2023.

Please contact us if you would like to discuss any matters discussed above, we would welcome the opportunity assist you.

Kind regards

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