# Minimum 30% tax on discretionary trust distributions

There are around more than 690,500 discretionary trusts, also known as family trusts, in Australia. Discretionary trusts are popular as the trustee has the discretion on how to pay the income or capital of the trust to the beneficiaries – beneficiaries do not have an interest in the trust. Income can be apportioned by the trust to the beneficiaries on a discretionary basis, for example, to beneficiaries on a lower income tax bracket. As a result, discretionary trusts are often used to protect assets within family groups, manage succession, and to distribute income tax effectively within that group.

From 1 July 1979, laws were introduced to ensure that distributions to minors were taxed at the top marginal tax rate to prevent trusts distributing funds to children at minimum tax rates.

## The proposed reforms

The ALP reforms address the ability for distributions to be channelled to beneficiaries in low income tax brackets. Instead, a new standard minimum rate of tax for discretionary trust distributions to mature beneficiaries (aged over 18) of 30% will apply.

More information

- ALP - Discretionary Trusts Reform

# Capping deductions for managing tax affairs

The ALP intends to cap the tax deduction available for the cost of managing tax affairs to $3,000. While clients can spend more than this, the portion above $3,000 will not be tax deductible.

No further details are available at present.

# Tightening of superannuation framework

Mr Shorten told a media conference in April that the ALP had "no plans to increase taxes on superannuation." However, ALP policy does make changes in a series of areas.

These include:

- **Non-concessional contributions** – the non-concessional contributions cap, the amount you can contribute to super from your after-tax income, is $100,000, will be reduced to $75,000.
- **Division 293 tax** - High income earners pay an additional 15% tax on their concessional taxed contributions to superannuation. Currently, the threshold at which this tax applies is $250,000. The ALP intends to reduce this threshold to $200,000.
- **Remove the ability to catch up superannuation concessional contributions** – Individuals with a total superannuation balance of less than $500,000 just before the start of the financial year are able to make additional concessional contributions in that financial year by using their unused concessional contribution cap amounts carried forward from the previous five years. This measure can only be applied to unused cap amounts from the 2018-19 year. The ALP intends to remove the ability to unused cap amounts.
- **Remove measures expanding tax deductibility for super contributions** - Under the super reform measures, the 'substantially self-employed test' ('10% test') was removed. This enabled taxpayers, regardless of their work status (but otherwise eligible to contribute) to claim a tax deduction on their personal super contributions. The ALP intend to unwind these reforms

# Other tax and business policies

- **Reverse tax cuts for higher income brackets** – Removes tax reduction for those above $126,000.
- **End the Medicare Freeze** – bringing forward the scheduled end to the indexation freeze on Medicare to 1 July 2019. The freeze is currently in place until 1 July 2020.
- **Restore penalty rates and introduce a living wage** – legislate to reverse penalty rate decision of the Fair Work Commission within first 100 days and move the minimum wage to a living wage (following consultation and recommendations from the Fair Work Commission.) The first living wage case to take place as part of the Annual Wage Review with wage increases phased in from 1 July. Plus, ensure labour hire companies provide workers with the same pay and conditions as those employed directly.
- **Cap private health insurance premiums –** cap premiums at 2% for the first two years of an ALP Government.

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