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Again, another financial year will soon end and we will all have to turn our attention to income tax. Time again for an update on some of the recent tax and other changes which may be relevant to your circumstances.

As always, please give me a call or send an email if there is anything you would like further information on. It is not possible to explain everything in detail here in this newsletter. As mentioned in the disclaimer below, you should seek specific advice before taking action on any of this information.

INDIVIDUALS

Individual Tax Rates

There is only a slight change for the current (2016-17) year. The threshold at which the marginal tax rate of 37% kicks in has been increased to $87,000.

The "budget repair levy" of 2% is still payable by those earning more than $180,000, but this will be the last year that it applies.

HECS / HELP Thresholds

The Government has announced that starting from **1 July 2018** (ie: from the 2018-19 tax year), taxpayers with HECS /HELP or similar debts will have to start repaying these when their adjusted incomes reach just $42,000 (currently $54,126). This means that many more people will be affected on much lower incomes. (Note that "income" for these thresholds includes fringe benefits and reportable super contributions, and is NOT reduced by rental property losses).

Rental Properties

Two very significant changes have been announced which will affect most people who have rental properties:

1. *Travel Expenses:*
   All travel expenses in connection with residential rental properties will be disallowed **from 1 July 2017.** There is clearly a perception that many owners / landlords have been claiming travel expenses without apportioning them properly (for example, travel that was mainly for private purposes – say, a holiday during which the owner only briefly inspected the property). Unfortunately, ALL such travel will be disallowed even where there was NO private purpose (for example, a trip to make repairs). In view of this, if you have a genuine (ie: non-private) need to visit your rental property, ***you should do so before 1 July this year***.
2. *Depreciation*:
   This change applies from Budget Night (**9 May 2017**). Until recently, if you bought a property from a previous owner and there were items of plant and equipment already installed in the property (eg: stoves, air conditioners, carpets, curtains, blinds), you could continue to claim depreciation on those items. It has been suspected for some time that as these claims continued to be made by subsequent owners, the overall claim in many cases exceeded the original cost of those items.

   From now on, the value of those items will be considered to have been embedded in the purchase price and will form part of the cost base of the property. You WILL, however, be able to claim depreciation on any items that YOU purchase and install. Note that this change only relates to depreciable assets (Division 40 deductions). The existing claims for construction costs and structural improvements (Division 43) still appear to be available.

Foreign Investors and Real Estate

As you may know, capital gains tax (CGT) does not generally apply to the sale of your main residence. Until recently, foreign investors and temporary tax residents have also been able to access this CGT exemption. The availability of this has been removed for these individuals for properties purchased after Budget Night (existing properties are still exempt, but only until 30 June 2019).

Car Expense Claims

This will be the third year that I include this item in the newsletter, but it is worth emphasising again. There are only two methods now available to claim car expenses:

1. A proportion of expenses based on a log book, or
2. A rate of 66 cents per kilometre. No log book is required, but you must be able to show how you arrived at your estimated number of kilometres.

For method 2, the number of kilometres claimed cannot exceed 5,000 (which makes for a maximum claim of $3,300). If you have travelled more than 5,000 kms for work purposes, you can either limit your claim to this, **or have kept a log book** to substantiate your proportion of work-related use. It must be kept for at least 12 weeks, and is valid for up to 5 years as long as the pattern of vehicle use does not change significantly. Please note that ***the ATO <u>does not</u> accept reasonable estimates*** of the proportion of your work-related car use. In the event of a tax audit, your claims WILL be drastically reduced unless you can produce a log book.

Travel Expenses (Meals and Accommodation)
Where an employee travels and stays away from home overnight, the ATO allows claims for travel expenses (up to a daily limit) *without requiring that they be substantiated in some circumstances*. Those circumstances are:

1. That the expense was actually incurred.
2. A travel allowance was paid by the employer.
3. The claim is within the reasonable daily limit.

Many taxpayers believe that if points 2 and 3 above are satisfied, they are automatically allowed to claim the maximum daily amount. However, this is **incorrect**. The expenses *must actually have been incurred*. Claims have been disallowed or reduced where, for example, a truck driver claims for accommodation costs but actually sleeps in his truck, or claims the maximum food allowance but actually spends much less than this on food.

So, what does this mean in practical terms? Simply this: Even though in these circumstances you are not required to substantiate every dollar that you claim, you MUST be able to show (if required) that your claims are broadly in line with your actual expenses. So, for example, you should keep a diary of the number of nights away, as well as some meal and accommodation receipts which reflect your typical daily expenses.

Family Tax Benefit (FTB)
If you are eligible for FTB, please remember that *you will miss out on your 2016 payment unless you lodge your 2016 tax return by 30 June 2017. There are just a few weeks left, so please let me know if you need any assistance in attending to this.*

SMALL BUSINESS

Small Companies
The reduced (27.5%) tax rate has been extended to companies with a turnover of less than $10 million (previously $2 million). This increased threshold will also be eligible for the instant asset write-off described below.

Instant Asset Write-Off (less than $20,000)
The ability to immediately claim the total cost of these assets as a tax deduction has been extended for another year (until 30 June 2018). Eligible assets and other criteria have not changed, and were outlined on page 1 of our June 2015 newsletter. You can access that from our website: **www.kmtconsulting.com.au**

Unincorporated Small Businesses
The tax offset for individuals who derive small business income (for example, as sole traders or through trust structures or partnerships) has been increased to 8% for the 2016-17 year. However, this is not quite as generous as it may appear. The maximum offset is still limited to $1,000.

SUPERANNUATION

Again, there have been some major changes to superannuation, the most significant of which are due to commence from July this year.

Some of the changes are quite complex, and obviously cannot be discussed in detail here, so I will simply try to provide a brief explanation of the key changes.

- From 1 July 2017, each individual will have a "transfer balance cap" of $1.6 million. To explain: Following retirement, it has been common to transfer all or most of a person's superannuation balance from "accumulation" phase to "pension" phase. The advantage was that all earnings on these "pension assets" were then exempt from income tax. There was no limit on the amount which could be transferred, or the amount of earnings which were exempt. The Government is clearly concerned that some superannuation funds were being used as estate planning vehicles rather than to genuinely provide for retirement.
- There is still no limit on how much can be accumulated within superannuation. However, if a member's interest exceeds $1.6 million, then the excess must remain in "accumulation" phase and the earnings on that will be taxed at 15%. It is important to note that if you have more than one super fund, then the balances of ALL funds are aggregated so that these new rules are not avoided.
- The different age-based limits on the maximum *tax-deductible* super contributions per year are being removed from 1 July 2017. Instead, all individuals, regardless of age, will have a deductible limit of $25,000. However, a person can make "catch-up" contributions if lower amounts have been contributed over the previous 5-year period.
- Non-deductible (ie: after-tax) contributions will be limited to $100,000 per person per year (or, an average of $300,000 every 3 years). Until 30 June 2017 the limit remains at $180,000 / $540,000.
- The "10% rule" is to be abolished, so that anyone can make additional super contributions (up to the annual limit) and claim them as tax-deductible regardless of their employment status.
- For those with adjusted taxable incomes of more than $250,000, some or all of their super contributions will be taxed at 30% instead of 15%. The previous threshold was $300,000.

AND JUST QUICKLY . . .

Due to the installation of the NBN, our fax machine no longer works. If you need to send documents (other than by post), you will need to scan and email them.

And finally . . .
Please give me a call if you have questions about any of the matters discussed in this newsletter, or if you would like assistance with year-end tax planning.

- *Tony Kernan*