

Another financial year is almost at an end, and it's time again for another update on some of the key issues which may affect you.

Last year's newsletter outlined some proposed measures which had not at that time become law, but have now been enacted and are either applicable for the 2018-19 year, or will take effect from 1 July this year. So, some of the information contained in this newsletter may seem familiar.

Again, see the disclaimer below, and please give me a call before taking action on any of this information. It is not possible to explain everything in detail here, and what may be suitable for one individual or business may not be suitable for another.

INDIVIDUALS

Individual Tax Rates

There is only one minor change to the individual tax rates for 2018-19. The threshold at which the marginal tax rate of 37% kicks in has been increased to \$90,000 (previously \$87,000).

New Income Tax Offset

In addition to the Low Income Offset which has been available for many years, a new "**Low and Medium Income Tax Offset**" (LAMITO) will also apply for the first time this (2018-19) year. The maximum LAMITO available will depend on an individual's income level:

<u>Taxable income</u>	<u>Maximum Offset</u>
\$37,000 or less	up to \$ 255
\$90,000 or less	up to \$1,080

The offset will gradually phase out to zero at an income of \$126,000. It is a non-refundable offset, which means that it will only result in an increased refund if you otherwise have a tax liability. In other words, if your income is below the tax-free threshold, or if you would otherwise be entitled to a refund of all tax paid or withheld, then the offset will not make any difference to your tax outcome.

This offset is an increase on what was previously announced, and although the legislation for it has not yet been enacted, it seems fairly certain to be passed. The ATO will not be able to apply this until it becomes law, but has said that it (the ATO) will automatically process amendments after it is enacted and issue additional refunds where applicable.

For this reason, please make sure that you supply us with your bank details this year EVEN IF you do not expect a tax refund.

More Detail Required on Individual Tax Returns

This year, the ATO will begin requiring more information about deductions claimed in tax returns. Historically, only summary information was collected about the categories of expenses being claimed. For example, the total of vehicle expenses, travel expenses, uniform expenses, other work-related expenses etc.

From now on, mandatory schedules will need to be completed (by us, not by you) which will allow the ATO to see each line item claimed. This will likely require us to make it clear how each claim relates to earning your income and why it was necessary to incur that particular expense. The ATO obviously wants more visibility about each expense claim, and is making no secret of the fact that this will become a very powerful tool for selecting taxpayers that it wants to audit. If you are claiming a significant number of items, this will naturally take longer to input and process, and may result in a slight increase in fees.

To assist us, please make sure that you can explain each expense claim. Also, if you are claiming donations, we will need a list of the charities to which you have given money.

Employee Payment Summaries

Employers with 20 or more employees should already be using "Single Touch Payroll" and are not required to provide you with a payment summary. In these cases, it will be issued by the ATO rather than your employer, and should be available on your "mygov" account (if you have one; otherwise you may have to create one). The ATO has given these employers an extra 2 weeks (until 31 July) to indicate that their payroll data is final before it provides these to you.

So, this year, please make sure that your payment summaries from ALL employers have been finalised and issued before you make an appointment.

Cryptocurrencies (eg: Bitcoin)

The ATO's data-matching programs continue to expand and are becoming ever more sophisticated. It is estimated that over 500,000 Australians have invested in cryptocurrency assets. To identify those who may need to declare taxable profits from these dealings, the ATO is collecting information from designated cryptocurrency service providers and matching them to the information disclosed on income tax returns.

Rental Properties

Another area of increased compliance focus is the claims made on rental properties. Two particular areas that the ATO has concerns about are:

1. Interest claims, particularly where there is some private use of the property (eg: a holiday rental used sometimes by the owners) and yet the interest has been claimed in full.
2. Structural improvements or asset purchases of significant value which should be depreciated, but are being claimed outright as repairs or maintenance.

Substantiation

Don't be frightened off by the above comments about the ATO and its increasing compliance activities. I work for you, NOT the Tax Office, and my job is to achieve the best tax outcome for you within the letter and spirit of the law. So, I will not be shy about claiming everything you are entitled to.

However, it is now more necessary than ever to make sure that you can substantiate all claims made in your tax returns and, as explained on the previous page, that you can explain how the expense was necessary to earn your income. You need to be able to show that you would not have incurred the expense if you did not do the work you do.

Some tax agents have had their registrations cancelled because of making claims that were clearly unreasonable. For example . . .

1. Claiming family pets as guard dogs, or claiming gym and school fees as training and conference expenses.
2. A household fridge was claimed as business equipment.
3. An IBM salesman claimed over \$5,000 for paying his seven-year-old son for "secretarial services" (answering the phone). He also claimed \$383 for a pair of R.M. Williams boots "to protect against static electricity when working with computers."

HECS / HELP Repayment Thresholds

Commencing this (2018-19) year, there is a reduced income threshold at which a compulsory repayment will be triggered for HECS /HELP or similar debts. The lower threshold is now just \$45,881 (previously \$55,874). This means that many more people will be affected on much lower incomes. (Note that "income" for this threshold includes fringe benefits and reportable super contributions, and is NOT reduced by rental property losses).

If you think you will be affected, you will need to advise your payroll office so that additional tax can be withheld from your income. Of course, it is a little late for this to affect your 2018-19 tax outcome, but tax withholding adjustments will likely be required for future years.

Send Us Your Tax Information Electronically

Quite a number of you used this new facility on our website last year, so I am planning to continue making it available.

If you live some distance away, or even if you are local but find it more convenient than attending the office, you can download and complete an information template from our website, then submit it to us either through the website or by email.

Go to kmtconsulting.com.au (the "Online Submission" page), and follow the instructions outlined there. You will need a full working version of Microsoft Excel.

BUSINESS

Instant Asset Write-Off Extended and Increased

The ability to immediately claim the total cost of certain business assets has been extended for another year (until 30 June 2020). Furthermore, the maximum value for eligible assets has been increased **twice** over recent months, which has resulted in three different thresholds depending on when an asset was "first used or installed ready for use" as follows . . .

Before 29 January 2019	\$20,000
29 Jan to 2 April 2019	\$25,000
From 2 April 2019	\$30,000

For businesses which are registered for GST, the GST-inclusive thresholds are actually 10% higher than the above values.

This creates significant tax planning opportunities for businesses which need new or replacement assets.

Eligible assets and other criteria have not changed, and were outlined on page 2 of last year's newsletter. A copy of that newsletter is available on our website.

Single Touch Payroll (STP)

This is a significant new development. If you are an employer (*including self-employed through your own company*), please read the following carefully:

From **1 July this year**, ALL EMPLOYERS will be required to report payroll information to the ATO in "real time", that is, each time a pay run is processed. The information must be electronically transmitted directly from the payroll software. It will no longer be possible to use handwritten pay records or spreadsheets to process and keep track of payroll information.

There are some concessions and deferrals as follows:

1. Employers with **5 to 19 employees** can start reporting anytime up to 30 September 2019.
2. Employers with **1 to 4 employees** can report quarterly until 30 June 2021.

- Employers who **only employ themselves** as directors or shareholders of their own small companies and do not have any other (unrelated) employees can wait until 1 July 2020 and report quarterly thereafter.

I will soon be contacting those of you who are affected by these changes to see if you need any assistance with setting up approved payroll software or with the ongoing processing and reporting requirements.

Taxable Payments Reporting

This compulsory reporting requirement has already (from 1 July 2018) been extended to the **courier** and **cleaning** industries. If your business provides courier or cleaning services and you engage contractors, you **should have already started** to capture the following information about these payments from that date . . .

- Name, address & ABN
- The gross amount paid
- The amount of GST included.

From **1 July 2019**, these reporting requirements have been extended to include **security and surveillance services, road freight transport and computer system design services**. Note that only payments within these industries are caught. For example, a courier company paying a contract courier, a cleaning business paying a contract cleaner, or an IT consulting company paying an IT contractor. By way of contrast, a legal office or car parts retailer paying for courier services would not be required to report the payment.

If you operate in one of the affected industries and pay contractors, **now is the time** to make sure you have the systems in place to capture the required information. The due date for submitting the report is **28 August** each year.

If you would like any assistance with preparing and lodging this report, please provide us with the required information well in advance of the due date.

Expenses Not Deductible Unless Tax is Withheld

This one is significant for all businesses with employees or who pay contractors. Where tax withholding obligations are not met, the **ENTIRE AMOUNT WILL BE NON-DEDUCTIBLE**.

This means gross wages where tax has not been withheld. It also means that payments to contractors who do not provide a valid ABN will be non-deductible if tax is not withheld.

From 1 July 2019, it is imperative that you obtain an ABN from every contractor you pay, or otherwise withhold tax at the top marginal rate of 45%.

Fringe Benefits Tax (FBT)

This was mentioned in last year's newsletter, but is being included again because of a renewed focus by the ATO.

The Tax Office has a particular concern about significant claims for vehicle expenses on business tax returns (which would indicate that many vehicles are being operated). The ATO suspects that in many cases one or more of these vehicles is being provided to an employee, a director or a shareholder mainly for their private use. This is not wrong, so long as the business pays Fringe Benefits Tax. In many cases this is not being done, and the ATO is ready to conduct audits where it detects non-compliance with the law.

Already, letters have been sent to some taxpayers who have cars registered in business names but who have not lodged FBT returns.

If you believe your business may be affected, please let me know. I can help you to structure the provision of these benefits in the most tax-effective way.

SUPERANNUATION

The changes to superannuation have not been nearly as significant as in previous years, so here are just a few reminders from last year if you need to make additional super contributions to reduce your taxable income . . .

Subject to certain age limits, anyone can now make additional superannuation contributions and claim them as tax-deductible regardless of their employment status. This provides a very effective tax planning opportunity if your employer will not allow salary-sacrificed contributions, or if you want to reduce your tax liability on a capital gain or other income.

Remember, however, that:

- The contributions must be received by your fund by 30 June.
- Before you claim the deduction on your tax return, you **MUST** have sent a notice to your fund to advise that you will be claiming these contributions.
- The total deductible limit this year (including employer contributions) is \$25,000. If you exceed this limit, the ATO will add the excess back to your personal tax return and recalculate your tax liability, which will result in additional tax being payable. If you contribute **LESS THAN** this, then in future years you may be eligible to make additional "catch up" contributions under the new "5-year carry-forward" arrangements. One of the qualifying factors is that your total super balance must be less than \$500,000.

AND AS ALWAYS . . .

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