

With 30 June on the horizon yet again, it is time for another update on tax and other matters which may affect you.

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

INDIVIDUALS

Individual Tax Rates

There are no changes to marginal tax rates for the current (2017-18) year. However, for the coming (2018-19) year, the threshold at which the marginal tax rate of 37% kicks in will be increased to \$90,000 (currently \$87,000). Further changes are planned from the 2021-22 year. Anything can happen by then, and there is no guarantee they will proceed, so I will not explain them here.

The standard rate of medicare levy (2%) remains unchanged. The proposed increase (to 2.5%) will not proceed.

Those on higher incomes (ie: earning more than \$180,000) will be pleased to know that the "budget repair levy" of 2% no longer applies.

New Income Tax Offset

The recent Federal Budget announced a new "**Low and Medium Income Tax Offset**" (LMITO) which will apply from 1 July 2018 and will be in addition to the current Low Income Offset of \$445. The maximum LMITO available will depend on an individual's income level:

<u>Taxable income</u>	<u>Maximum Offset</u>
\$37,000 or less	up to \$200
\$90,000 or less	up to \$530

The offset will gradually phase out to zero at an income of \$125,333. It is a non-refundable offset, which means that it cannot result in an increased refund if you do not have a tax liability.

Rental Properties

Two significant changes were explained in last year's newsletter, but it is worth repeating the key points again. Both of these apply for the entire 2017-18 year and future years:

1. Travel Expenses:

You can **no longer claim** travel expenses in connection with residential rental properties. Unfortunately, ALL such travel is disallowed even where there was NO private purpose (for example, a trip to make repairs).

2. Depreciation:

Historically, 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 be 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) are still available.

Note also the following key points:

- Any assets which were being depreciated prior to 9 May 2017 can continue to be depreciated.
- The changes only apply to properties purchased from a previous owner (ie: second-hand). If you buy NEW residential premises, you can claim depreciation on eligible assets in the usual manner.
- The changes only apply to residential properties held by individuals. Commercial properties are not affected; neither are properties held by companies, trusts or superannuation funds.

BUSINESS

Companies

The reduced (27.5%) tax rate has been extended to companies with a turnover of less than \$25 million (previously \$10 million).

However, not all such companies will automatically qualify for the lower tax rate. The intention is for this to apply only to companies which are operating active businesses. New legislation has been introduced which imposes an 80% "passive income test." If a company

derives 80% or more of its assessable income from sources such as rent, dividends, interest, royalties or other “passive” investments, it will not qualify for the reduced tax rate. Instead, it will pay tax at the higher rate of 30%. Interestingly, “passive income” can also include net capital gains, even from active business assets (eg: sale of a warehouse).

Paying Dividends

If a company which qualifies for the 27.5% tax rate pays fully franked dividends to shareholders, it can only frank those dividends up to a maximum of 27.5%. This is the case even if the dividends are paid from profits accumulated in prior years and on which tax was paid at the higher 30% rate.

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 2019) for businesses with a turnover of less than \$10 million.

Eligible assets and other criteria have not changed, and were outlined on page 1 of our June 2015 newsletter. For completeness, I have reproduced the relevant section below (with some minor additions and changes):

1. There is no limit to the number of assets you can claim. (eg: several purchases of \$19,999 each will all qualify).
2. The measure applies to new assets and second-hand assets.
3. The asset must be “for the business.” Personal-use assets are obviously not included.
4. Trading stock or goods for resale do not qualify.
5. The asset must cost less than \$20,000. Assets costing more than this must be depreciated under the existing rules (ie: you cannot get an immediate claim for the first \$20,000 and then depreciate the balance). The \$20,000 limit is exclusive of GST. So, for a business which is registered for GST, the GST-inclusive cost of the asset can be as high as \$22,000.
6. **This is an important one . . .** Before you rush off, get an ABN and buy a “business asset”, you need to consider whether you will actually receive any tax benefit. For some years, there have been “non-commercial loss” rules that limit claiming losses from new businesses in certain circumstances. If a new business has only minimal income and there is no past record of being profitable, any losses must be deferred. For example, assume someone with salary or investment income starts a new business which receives just \$5,000 income and claims the \$20,000 instant asset write-off. The resulting loss of \$15,000 CANNOT be used to reduce tax on the salary or investment income. Instead, the loss must be deferred until either the business becomes profitable or its turnover reaches at least \$20,000.

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 2018**, all businesses with **20 or more employees** will be required to report all 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 manual handwritten pay records or spreadsheets to process and keep track of payroll information.

This new requirement will give the ATO almost immediate access to information about gross wages, withholding tax, allowances and superannuation contributions for every employee. It is not difficult to see how this will improve the ATO’s ability to quickly follow up outstanding withholding tax payments or unpaid super contributions.

The ATO’s existing data-matching capabilities will also be enhanced, because it will not have to wait for recalcitrant employers to (eventually) send copies of employee payment summaries and the annual reconciliation statement. It is proposed that employers who use STP will not have to issue payment summaries at all. The ATO will make these available to employees through their individual MyGov accounts.

Most businesses with 20 or more employees will probably already be using payroll software, and the software provider should have upgraded it to include the required functionality. If not, it is imperative to purchase, install and test approved payroll software prior to 1 July 2018. You have less than a month to be ready!

If you have **less than 20 employees**, don’t assume that you can ignore these new requirements. It is proposed to extend this to ALL employers from **1 July 2019**. This will be the case even if you are self-employed through your own company and you are the ONLY employee. The days of taking money from the company bank account for personal use and then working out later how much of it was “wages” will be over. A much more disciplined approach will be required.

Taxable Payments Reporting

Those of you who operate in the Building and Construction Industry will already be familiar with these reporting requirements, and you should already have a system for recording and summarising the following information for each contractor you engage:

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

The due date for submitting the report is **28 August 2018**. The report form is available from the Tax Office website (ato.gov.au –the code is NAT 74109), or you

can phone the ATO for one on 1300 720 092. If you have more than 9 contractors to report, you will need to order more forms. You are NOT allowed to photocopy and use blank forms.

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

The reason for this report is not hard to see. The ATO is obviously concerned about under-reporting of income by contractors and it wants to be able to match information from payers with the amounts declared as income by the contractors.

Important Note: From **1 July 2018**, these reporting requirements have been extended to the **courier** and **cleaning** industries. If your business provides courier or cleaning services and you engage contractors, you will need to start capturing the required information about these payments from that date. From **1 July 2019**, it is proposed to also include businesses which provide **security services, road freight transport** and **computer system design services**.

ATO COMPLIANCE ACTIVITIES

The Government's concern about the size of what it calls the "black economy" is nothing new. For many years now there has been an increasing focus on the non-reporting of income (especially in cash-based industries) and, more recently, concern about the substantial increase in the value of deductions being claimed by employees on their tax returns.

The ATO has become increasingly sophisticated at identifying omitted income or questionable claims. It will soon receive additional funding of \$130 million to further enhance these capabilities.

Already, the ATO has the ability to collect and match information on:

- Share trading transactions.
- Airbnb rentals. This income is assessable and should be included in tax returns.
- Online selling (eg: eBay) where the value of goods or services sold is \$12,000 or more.
- Uber and other ride-sourcing providers (ie: drivers).
- Vehicles which are purchased or transferred (new or second-hand) with a value of \$10,000 or more. These will be identified and matched to identify non-compliance with GST, FBT and income tax obligations.

Substantiation

You should, of course, claim everything you are entitled to. None of us wants to pay any more tax than we are required to. However, it is more necessary than ever to make sure that you can substantiate all claims

made in your tax returns. The ATO will go to considerable lengths to check what it believes are inaccurate tax returns, including contacting employers.

Two recent cases will help to make the point:

- A farm worker claimed significant amounts for travel and accommodation expenses. When the ATO called his employer, they were told that he never has to travel anywhere for work purposes, and is provided with rent-free accommodation.
- A business analyst claimed \$46,000 for overseas travel expenses. His employer told the ATO that he was fully reimbursed for all his meals, accommodation and travel.

Fringe Benefits Tax (FBT)

Compliance with FBT legislation is also getting special attention. The Tax Office has indicated that it is especially focusing on cars where there is considerable private use and yet 100% of the vehicle costs are being claimed as tax-deductible by the business. The ATO believes the practice is widespread (and it is) and is ready to conduct audits where it detects non-compliance with the law.

If you believe your business may be affected, please let me know. There are various methods of legitimately reducing the amount of FBT payable.

Other Compliance Measures

There were two other proposed "integrity measures" hidden in this year's Federal Budget announcements which will have a significant impact:

1. Businesses will no longer be allowed to receive **cash payments of more than \$10,000**. Any transactions exceeding this amount will need to be made electronically or by cheque.
2. 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 and remitted to the ATO. It also means that payments to contractors who do not provide a valid ABN will be non-deductible if tax is not withheld at the top marginal rate of 45%. The ATO is clearly not impressed that these withholding requirements (particularly in relation to contractors without ABN's) are often being ignored.

SUPERANNUATION

There are only a few changes to report this time. Some will apply for the first time this year; others are still to come . . .

Applicable Now

- 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, and the total deductible limit each year (including employer contributions) is \$25,000. 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.

- For those of you with adjusted taxable incomes of more than \$250,000, some or all of your super contributions will now be taxed at 30% instead of 15%. The previous threshold was \$300,000.

Coming Soon

- From 1 July 2018, if you earn more than \$263,157 per year (from more than one employer), you will be able to arrange for earnings from some of your employers to **NOT** be subject to the compulsory 9.5% super contributions. This is to avoid unintentionally exceeding the \$25,000 annual deductible contributions cap.
- Also from 1 July 2018, individuals aged 65 or older can make “downsizer” contributions of up to \$300,000 each to a superannuation fund (ie: up to \$600,000 for a couple). The money must come from the sale of a dwelling that has been owned for at least 10 years and was used as a main residence. Note that there is no actual requirement to “downsize” to a smaller dwelling. A person can move into any living situation they want to.

Coming Later

- From 1 July 2019, it is proposed to increase the maximum number of members in self-managed funds from 4 to 6.
- Also from 1 July 2019, for SMSF’s with a good record-keeping and compliance history, there is a proposal to “reward” them by requiring an audit only once every three years instead of the current annual cycle. It is difficult to see how this will save much work or cost, since the auditors will still have to verify opening balances and make sure that the fund has been compliant for the entire 3-year period. We will have to wait and see how this works in practice.

NEW ON OUR WEBSITE

Send Us Your Tax Information Electronically

A new “Online Submission” page has been added to our website to enable you to send us your tax information electronically. This new facility is for Individual tax returns only.

At present, some of you send us your tax information by email. This has worked reasonably well, but often it

takes a number of emails back-and-forth before we have all the information and clarifications that we need.

To streamline the process, a template has been added to the website that you can download and work through to help you easily identify and send all the information we need to complete your tax return. This will be useful for those who live some distance away, or even for those who are local but may find it more convenient than attending the office.

Be assured that you will still have all the usual rights, options and responsibilities which are associated with using a Tax Agent. Our level of involvement in completing your tax return will be no less than if you physically attended our office. We will still need to review your information and possibly clarify some matters with you.

The following explanation of the process is taken from the new page of the website:

1. Download and complete the electronic template (you will need a full working version of Microsoft Excel, with macros enabled). The form is interactive and only requires the information that is relevant for your circumstances. You are prompted for many of the most common items, so there is minimal typing. If you have all required information readily available, it should take only a few minutes to complete in most cases.
2. Save a copy of the completed form to your device, and send it to us along with any required attachments. You may either email these to us, or use the facility provided on the website.
3. After we review your information and clarify any necessary matters, we will send you a detailed calculation of your estimated tax outcome along with a declaration form which can be signed and returned electronically (you will not need to print anything). An invoice will also be included.
4. We will lodge your tax return as soon as we have your authorisation and confirmation of payment, unless we are deducting our fee from your refund. (This facility is available to most current clients).

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