## JUNE 2017 NEWSLETTER

The 2017 financial year has seen the raft of changes, first introduced in the 2016 budget, legislated into law.

Fortunately the 2017 budget did not announce any further large reform measures, although many clients will be affected by the changes to deductions for residential property investors.

If everything else were equal, effective tax rates have been reduced via a decrease in the corporate tax rate to 27.5%, the corresponding increase in the small business offset and the removal of the budget repair levy.

However, reductions in tax rates have been offset by reduced caps for deductible superannuation contributions, decreases in deductions available to residential property owners going forward and removal of the favourable tax treatment for assets in a superannuation fund supporting a TRIS arrangement.

Legislation has now been passed on the following reforms;

**SBE TURNOVER TEST INCREASE**

The Turnover Test for Small Business Enterprises (SBE) has increased to $10M.

This will allow businesses with turnover of up to $10M to access the following concessions from 1 July 2016;

- Company Tax Rate 27.5%
- Associated change to Franking Rate on franked dividends
- Payment of Company PAYG Instalments as determined by the ATO, rather than calculations based on a percentage of turnover
- Access to depreciation pools and instant write-off for plant costing less than $20,000 (GST exclusive)
- SBE Simplified Trading Stock Rules
- Immediate deduction for eligible business start-up costs
- Immediate deduction for prepaid expenses where the payment covers a period of 12 months or less that ends in the next income year
- The option to account for GST on a cash basis
- Lodgement of Annual GST Returns after paying GST as quarterly instalments
- Amendment of Tax Returns limited to a period of 2 years after the lodgement date
- Access to the Small Business Restructure Rollover

**SMALL BUSINESS OFFSET**

The small business offset (an offset for individuals directly receiving distributions from an SBE that is not a corporate entity), has been extended to businesses with a turnover of less than $5M from 1 July 2016.

The offset has been increased to a discount of 8% on tax payable on SBE income but is still capped at a maximum offset of $1,000.

**SUPERANNUATION**

The majority of the reforms introduced in the 2016 budget, have since received royal assent. For more detail SMSF Trustees should refer to our correspondence sent in February.

The following measures will be in effect from 1 July 2017;

- Superannuation transfer balance cap of 1.6M
- Removal of concessional tax treatment on assets supporting a transition to retirement income stream
- Reductions in concessional and non concessional contribution caps
- Reduction in income threshold for Division 293 tax to $250,000
- Any individual aged less than 65 may make superannuation contributions and claim a tax deduction up to the concessional superannuation limit (individuals aged 65 and over, but less than 75 will still need to satisfy the work test)
- Introduction of a rolling 5 year concessional cap top up for taxpayers with superannuation balances less than $500,000

## OTHER LEGISLATION

### PRIMARY PRODUCER INCOME AVERAGING

From 1 July 2016, Primary Producers are allowed to opt back in to Primary Producer Income Averaging 10 years after opting out. Currently an option to opt out is permanent

### ATO PENALTY UNITS

ATO Penalty Units are to increase from $180 to $210 each from 1 July 2017

### WORKING HOLIDAY MAKER REFORMS

- Applies from 1 January 2017 to holders of 417 or 462 travel visa
- Employers must register with the ATO to withhold 15% on employee wages (up to $37,000), if employers do not register the withholding rate is 32.5%

### SINGLE TOUCH PAYROLL

Employers with 20 or more employees on 1 April 2018 will be required to report through payroll software that supports Single Touch Payroll from 1 July 2018.

Single Touch Payroll allows for real time reporting of employee wage and superannuation information to the ATO.

## 2017 FEDERAL BUDGET

### INSTANT ASSET WRITE OFF

The $20,000 instant asset write-off for SBE purchases of small plant was extended in the 2017 budget. This write-off, due to expire on June 30, 2017, has been extended for 12 months until 30 June 2018.

### SUPERANNUATION

Limited recourse borrowing arrangements (LRBA) will be included in a member's total superannuation balance and transfer balance cap from 1 July 2017.

### NEW HELP REPAYMENT THRESHOLD

Individuals with a HELP debt will be required to start paying the debt back when their adjusted taxable income reaches $42,000.

The new repayment threshold will apply from 1 July 2018. The current minimum threshold for repayment is $54,869.

### TPRS EXTENDED TO CLEANERS & COURIERS

The Taxable Payments Reporting System (TPRS) will be extended to Cleaning and Courier business from 1 July 2018.

TPRS currently applies to the building and construction industry and requires these businesses to report amounts paid to contractors on an annual basis.

The first annual report will be due for submission in August 2019.

### HOUSING AFFORDABILITY

The focus of the 2017 budget appeared to be on housing affordability with a range of measures proposed.

From 1 July 2017, residential investment property owners will no longer be able to claim a deduction for travel related to inspecting, maintaining or collecting rent for the property.

From 1 July 2017, depreciation deductions for plant and equipment will be limited to those actually incurred by the owners of the property.

Currently, investors can claim deductions for plant and equipment installed by previous owners by way of a quantity surveyors report.

Going forward, existing arrangements will be grandfathered. Plant and equipment forming part of residential properties as of 9 May 2017 (including contracts already entered in to at this date) will continue to be eligible for depreciation deductions until the property is sold.

Deductions for Capital Works appear to remain unchanged.

Other housing affordability measures introduced;

- An individual may make voluntary contributions of up to $15,000 per year up to a maximum of $30,000, to be withdrawn at a later date for a first home deposit.

  The contributions must be made within the existing contribution caps.

  Contributions made via salary sacrifice or claimed as a tax deduction for post tax contributions will be counted towards the concessional contribution cap. The contributions will be taxed at 15% in the fund.

Withdrawal of the contributions (and it's deemed earnings) may be made from 1 July 2018 for a first home deposit, at which time it will be taxed to the individual at their marginal tax rate less a 30% tax offset.

Non concessional contributions also qualify for this scheme. The contributions will be counted towards the non-concessional cap, the earnings will benefit from the 15% tax rate in superannuation and will not be taxable to the individual on withdrawal.

- A person aged 65 or over may make a non-concessional contribution to super of up to $300,000 from the proceeds of the sale of their main residence if they have owned the main residence for a period of at least 10 years

  This measure is proposed to commence from 1 July 2018.

  The measure is available to both members of a couple for the same home and the contributions are in addition to existing rules and caps.

  The contributions are exempt from the age, work and 1.6M total super balance tests for making non concessional contributions

## REAL ESTATE REFORMS

### PROPERTY SALES ABOVE $750,000

Vendors and purchasers of property with a selling price above $750,000, please take note.

The ATO expects purchasers to withhold 12.5% of the property price (if above $750K) and remit this to the ATO unless the seller provides a clearance certificate. The clearance certificate will indicate that the seller is an Australian resident.

This measure has previously only applied to property sales above $2M. Note that this legislation, which relates to capital gains tax for foreign residents, presumes that all sellers are foreign residents unless they hold a clearance certificate.

Many primary production property sales will fall above the new threshold. It is expected that this measure will impact, nationally, 60% of property buyers and sellers due to the high average housing prices in our capital cities.

### VACANT MELBOURNE PROPERTY

Victoria has just introduced a Vacant Residential Property Tax for the inner city and middle regions of Melbourne. This is the first tax of its kind in Australia.

Residential properties that are left vacant for more than 6 months in these locations will be taxed from 1 January 2018 at 1% of the capital improved value.

### HOUSING & GST

Purchasers of new residential property or new subdivisions will be required to remit GST (where applicable) directly to the ATO as part of settlement from 1 July 2018.

## 2018 TAX RATES

From 1 July 2017

| | |
|---|---|
| Company Tax Rate (<10M Turnover) | 27.5% |
| Company Tax Rate (>10M Turnover) | 30.0% |
| Superannuation Funds | 15.0% |

Individual Tax Rates

| Taxable income | Tax on this income |
|---|---|
| 0 – $18,200 | Nil |
| $18,201 – $37,000 | 19c for each $1 over $18,200 |
| $37,001 – $87,000 | $3,572 plus 32.5c for each $1 over $37,000 |
| $87,001 – $180,000 | $19,822 plus 37c for each $1 over $87,000 |
| $180,001 and over | $54,232 plus 45c for each $1 over $180,000 |

The Medicare Levy for the 2017/2018 financial year is 2.0%, an increase to 2.5% from 1 July 2019 has been proposed.

The temporary budget repair levy (2% on income over $180,000) finishes on 30 June 2017.

## SUPERANNUATION CONTRIBUTIONS

**Pre 30 June;**

| | |
|---|---|
| Super Guarantee Contribution | 9.5% |

Concessional Contributions Cap (work test)

| | |
|---|---|
| Taxpayer under 50 years of age | $30,000 |
| Taxpayer over 50 years (less than 75) | $35,000 |

| | |
|---|---|
| Non Concessional Contributions Cap | $180,000 |
| ▪ 3 year bring forward | *$540,000 |

*If all $540,000 contributed pre June 30

**From 1 July 2017;**

| | |
|---|---|
| Super Guarantee Contribution | 9.5% |

| | |
|---|---|
| Concessional Contributions Cap | $25,000 |

- Taxpayers aged 65 to 74 still need to pass the work test to make concessional contributions

| | |
|---|---|
| Non Concessional Contributions Cap | $100,000 |
| ▪ 3 year bring forward | $300,000 |

Bring forward rules have been amended in the following circumstances;

| Total superannuation balance on 30 June 2017 | Maximum non-concessional contributions cap for the first year | Bring-forward period |
|---|---|---|
| Less than $1.4 million | $300,000 | 3 years |
| $1.4 million to less than $1.5 million | $200,000 | 2 years |
| $1.5 million to less than $1.6 million | $100,000 | No bring-forward period, general non-concessional contributions cap applies |
| $1.6 million | nil | n/a |

If you have triggered the bring-forward period in 2015/16 or 2016/17 but you have not fully used your bring-forward amount before 1 July 2017, transitional arrangements will apply. This means that the maximum amount of bring-forward available will reflect the reduced annual contribution caps:

| Year bring-forward period started | Maximum bring-forward amount in 2017–18 |
|---|---|
| 2015–16 | $460,000 |
| 2016–17 | $380,000 |
| 2017–18 | $300,000 |

## DRAFT LEGISLATION – WET TAX

Exposure draft legislation regarding proposed changes to WET legislation has been released for comment.

The proposed changes include reducing the WET rebate cap to $350,000 from 1 July 2018.

Eligible producers will be required to own at least 85% of the grapes used to make the wine throughout the Winemaking process.

The rebate will be restricted to wine branded with a registered trademark (packaged wine)

## ATO REVIEWS

The ATO is undertaking reviews and seeking comment with regard to the following;

- Reasonable Travel Allowance Expenses and substantiation exception
- Deductions for non-compulsory uniforms
- Changes to imposition of penalties for small business and individuals for failure to take reasonable care or lodge on time.

We will provide more information on these matters as the review process progresses.

## TAX PLANNING

### BUSINESS AND SUPERANNUATION

- As previously mentioned, business with a turnover of less than $10M are entitled to write off Plant and Equipment purchases less than $20,000 (GST exclusive if your business is GST registered) until 30 June 2018.

  You will need to ensure that the plant item is installed and ready for use prior to June 30 this year to take advantage of this measure in the 2017 financial year.

- Primary producer accelerated depreciation rules are still in place for immediate deductions for capital expenditure on fencing and water facilities. Fodder storage assets can be depreciated over 3 years

- Review and complete any necessary repairs and maintenance prior to the end of the financial year.

- Stock up on business consumables, this could include anything from office supplies to fuel depending on your business type.

- Complete a stocktake; review the valuation and write off any damaged or obsolete stock.

- Keep a motor vehicle logbook to maximize car travel expenses. Claims for motor vehicles can now only be made on logbook percentage or on a cent per km basis. Logbooks need to be renewed every 5 years for a period of 12 weeks.

- Primary Producers should also conduct a stock count if they are carrying out activities that are conducive to doing so, such as crutching or drenching.

- Review debtors prior to June 30 and write-off any bad debts.

- Review work-in-progress and do not render accounts earlier than necessary.

- Review depreciation schedules and note any obsolete or scrapped plant.

- Consider prepaying interest on loans.

- Primary producers should review their Farm Management Deposits.

- If you are in a business loss position and have other taxable income, such as from employment, ensure you have met the eligibility criteria for non-commercial losses.

- If intending to sell assets, check the capital gains consequences such as discounts for holding assets longer than 12 months, small business CGT concessions and realising capital losses to offset capital gains.

- Ensure all employee obligations such as superannuation guarantee, staff bonuses and other payments are made prior to 30 June.

- Concessional Superannuation Contributions (contributions you are planning to claim as a deduction) need to be received by your superannuation fund prior to 30 June.

  This also applies to business claiming a deduction for super guarantee contributions paid on behalf of their employees, therefore contributions for the June quarter should be made as early as possible, prior to June 30.

**INDIVIDUALS**

- Top up on uniform and protective clothing if it is a requirement of your employment.

- Work tools individually valued at less than $300 can be immediately deducted (unless part of a larger set of tools).
- Review your insurance needs, income protection insurance is tax deductible.

- If you have adjusted taxable income over $90,000 (individual) or $180,000 (couple, plus $1500 for each dependent child), assess your need for private hospital cover to reduce your liability for the Medicare Surcharge.  The surcharge is pro-rated so only a small benefit will be gained for 2016/17 if the policy is in place pre June 30 but you will minimise your exposure to the Surcharge in 2017/18.

- Make a donation to a charity prior to June 30, however, note that if you receive something in return (such as a raffle ticket) it is generally not considered a donation.

- Prepay interest on investment loans.
  Review share portfolios; if you have realised a significant capital gain this year it may be worth crystalizing losses from underperforming shares.

- If a couple, consider holding assets in the name of the lower income earner and utilising any differences in individual tax rates.

If you are in receipt of Family Tax Benefits, plan to get your tax done early to receive any adjustment amounts as soon as possible.

**BUSINESS ACTIVITY STATEMENTS**

Some clients may find that their BAS statements look a little different from 1 July 2017.

The ATO has simplified the BAS for business with less than $10M turnover with the removal of questions G10 (Capital Purchases) and G11 (Purchases).

**SMSF TAX INFORMATION**

A reminder to trustees of SMSF's that all documents relating to the operation of their SMSF for 2016/17 need to be provided for tax preparation.

Consistent with prior years, SMSF's holding real estate requires up to date valuations.  At a minimum, an appraisal should be provided by a licenced RE Agent.

However, we recommend that SMSF with individual member balances approaching $1.6M (cumulative of all super fund balances) have formal valuations completed as at 30 June 2017.

John, Trent, Adrienne, Kellie and Michael would like to thank you, our clients, for your ongoing support as we near the end of our first year in partnership.

Mott Finnis & Co aims to provide a service to our clients that enable informed financial, taxation and business decisions to be made, allowing for the maximisation of business potential and personal wealth.

To this end, via our financial services company Mott Finnis Wealth Management, we have elected to expand our client service offering to include a full financial planning service.

In order to provide financial advice we are required to hold an Australian Financial Services Licence (AFSL) or be a licenced representative of a licence holder. We have elected that Mott Finnis Wealth Management Pty Ltd will be a corporate authorised representative of Edwards Marshall Advisory Pty Ltd.

Edwards Marshall, a leading mid-tier professional services practice, is based in Adelaide and has been offering advice in financial planning since 2001.

Many of our clients will already be familiar with Edwards Marshall as Grant Edwards, a director of Edwards Marshall, has been visiting our offices for a number of years assisting clients with their insurance needs.

Having an association with Edwards Marshall will allow our authorised representative, Michael Parker, to provide financial investment advice and portfolio management covering many financial products, both within and outside of superannuation structures.

Kellie Bald and Michael will also be authorised representatives in the area of SMSF's.

Michael Parker will be managing our service offering in financial planning.

## A word from Edwards Marshall

*Edwards Marshall have had a long relationship with Mott Finnis in respect of looking after their clients' life insurance needs.*

*A crucial component of financial planning is to protect you and your family from financial distress in the event of you having to cease work due to accident or sickness (work related or not) or in the event of diagnosis of a serious illness, or your premature death. If you are a business owner, it is important to consider insuring key people within your business for similar events.*

*Not only do we assist with getting your insurances up and running, we are there for you if you ever need to claim on a policy. We provide a lot of assistance to our clients if they need to make an insurance claim and we have an above par claim record to date. Whether you are a young independent, a farmer, a business owner, or responsible for a family, we will be able to look after your needs.*

*It is great news that Mott Finnis have started providing Financial Planning advice to their clients and in order to ensure that Edwards Marshall are available to look after clients' life insurance needs Grant Edwards will be visiting the Mott Finnis offices regularly from July onwards. Grant can be contacted directly on 8139 1146 or via gedwards@edwardsmarshall.com.au to arrange a meeting.*

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