NEWSLETTER – JUNE 2018

2018 TAX PLANNING

As the 2018 financial year winds down, it is time to review business performance for the year.
The preparation of interim financials will enable us to determine an estimate of tax obligations for the year.

We can then discuss with you options available to you to minimise tax before year end and the best application of available funds to achieve the desired outcome.

BUSINESS AND SUPERANNUATION

- Businesses with a turnover of less than $10M are entitled to write off eligible Plant and Equipment purchases of <u>less than</u> $20,000 (GST exclusive if your business is GST registered) until 30 June 2019. The plant item needs to be installed and ready for use prior to 30 June to take advantage of this measure in the 2018 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 maximise 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.
- If you are reporting for tax on a cash basis pay all creditors prior to 30 June.
- 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 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 or SGC for employees) need to be received by the relevant superannuation fund prior to 30 June to be deductible.

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.
- 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.
- Get your tax up to date if you are a year behind. Our fees are tax deductible!

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.

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THE FEDERAL BUDGET

There were several items included in the recently released Federal Budget that are likely to impact our clients. Should you require more detail on these measures or other items included in the Federal Budget, please contact us.

Please note that the following proposals will need to be passed through parliament before they are enacted as law.

PERSONAL INCOME TAX CUTS

The Low Income Offset (LITO) will be replaced by the Low and Middle Income Tax Offset (LAMITO). Both offsets are non-refundable offsets that reduce tax payable when taxable income is below the relevant thresholds. The LAMITO will be accessible to higher income earners than LITO. The maximum amount of LAMITO is $530, whereas the existing maximum LITO is $445.

PERSONAL TAX RATES

The higher threshold for the 32.5% personal income tax bracket will increase from $87,000 to $90,000 under the proposed measures from 1 July 2018. Further changes to the tax brackets have been suggested from 1 July 2022 and 1 July 2024, with the 37% tax bracket to be removed in the 2025 financial year.

Rate	2018	Proposed 2019
0%	$0 - $18,200	$0 - $18,200
19%	$18,201 - $37,000	$18,201 - $37,000
32.5%	$37,001 - $87,000	$37,001 - **$90,000**
37%	$87,001 - $180,000	**$90,001** - $180,000
45%	$180,001 +	$180,001 +

Rate	Proposed 2023	Proposed 2025
0%	$0 - $18,200	$0 - $18,200
19%	$18,201 - **$41,000**	$18,201 - $41,000
32.5%	**$41,001** - **$120,000**	$41,001 - **$200,000**
37%	**$120,001** - $180,000	
45%	$180,001 +	**$200,001** +

BUSINESS TAX PAYERS

Small business (aggregated turnover less than $10M) will continue to be able to write off eligible assets costing less than $20,000 (GST exclusive if registered for GST, less than $20,000 GST inclusive if not registered) until 30 June 2019. This measure was due to end on 30 June 2018.

From 1 July 2019, businesses that disregard withholding obligations will no longer be able to claim a deduction for employee expenses such as wages, or subcontractor expenses if PAYG Withholding and ABN withholding requirements are not met.

A cash payment limit of $10,000 for business transactions will be introduced from 1 July 2019. Payments above this amount will be required to be made either electronically or via cheque. Banking or non-business transactions will be exempt from this measure.

SUPERANNUATION IN THE FEDERAL BUDGET

WORK TEST AND VOLUNTARY CONTRIBUTIONS

From 1 July 2019 it is proposed an exemption from the work test will apply for taxpayers aged between 65 and 74 (and with a superannuation balance of less than $300,000) who wish to make voluntary contributions but would fail to meet the requirements of the work test for the first time.

NUMBER OF MEMBERS OF A SMSF TO INCREASE

From 1 July 2019, the maximum allowed members of a SMSF will increase from 4 to 6.

REDUCTION IN SUPERANNUATION FEES

From 1 July 2019, a 3% annual cap on passive fees charged on superannuation accounts of less than $6,000 will be introduced and exit fees will be banned on all superannuation funds.

INSURANCE WITHIN SUPERANNUATION

Insurance within superannuation will move from a default opt-out stance to an opt-in arrangement for members who meet any of the following criteria; member balances less than $6,000, members under the age of 26 and for accounts that have been inactive and not received a contribution for 13 months.

This measure is proposed to be introduced from 1 July 2019. Members will have up to 14 months to decide whether they will opt-in to their existing cover or allow it to lapse.

TRIANNUAL AUDIT CYCLE

If a SMSF has a history of three consecutive years of clear audit reports and have lodged their annual tax returns on time, it is proposed that an audit will only be required every three years from 1 July 2019.

OTHER BUDGET MEASURES

From 1 July 2019, deductions for expenses associated with holding vacant residential or commercial land (primary production land is to be excluded from this measure) will be denied. This will include interest incurred to finance the acquisition of the property. Instead, these holding costs will be allocated to the cost base of the property, reducing potential capital gains on sale.

FROM 1 JULY 2018

There are a significant number of earlier announcements, made in previous budgets and other mediums that have been enacted into law with a commencement date of 1 July 2018.

Please contact us if you wish to discuss further any changes you will need to implement or how you may be impacted in the upcoming financial year.

COMPANY TAX RATES

The 2018 financial year has seen the introduction of a new term, 'BRE', that is used when calculating if a company is eligible for the lower company tax rate of 27.5%.

A BRE is a Business Rate Entity. An entity is a BRE if it carries on a business and its aggregated turnover for the year (worked out at the end of the year), is less than the aggregated turnover threshold for the lower tax rate. For the 2018 financial year, the turnover threshold is \$25M, increasing to \$50M for the 2019 financial year.

A second test for the lower tax rate is being debated in parliament at this time. This test prevents a company that derives more than 80% of its income from passive sources from being eligible for the lower tax rate.

The intention is to prevent a 'bucket' or a holding company from being eligible for the lower tax rate. However, indications are that the legislation will allow that the income of a company will retain its character when it flows through a chain of trusts. This will mean that if a trust operates a business and distributes business profits to a company, the character of the income will be retained and therefore will remain eligible for the lower tax rate.

If a company qualifies for the lower tax rate any dividends paid to shareholders are franked at a corresponding reduced rate of 27.5%.

WET TAX REFORM

In the past 12 months changes have been introduced to reform the Wine Equalisation Tax (WET). The main impact will be felt for sellers of bulk wine who will no longer be eligible for the WET Rebate on 2018 vintage bulk wine sales. From 1 July 2018, sales of bulk wine from the 2017 and earlier vintages will also no longer be eligible for the rebate.

The test for whether producers are associated with each other (and therefore share a single rebate cap) is now applied at any time during the year, instead of being assessed at the end of each financial year. This measure applied from 1 October 2017.

The WET rebate has been reduced from \$500,000 to \$350,000 per annum commencing 1 July 2018. To be eligible for the rebate on 2018 vintage wines, sold after 1 January 2018, you must;

- be the producer of the wine
- be liable to pay WET or sell the wine under quote to a purchaser who declared in the quote that they will be liable for WET on a subsequent dealing in the wine
- own the source product (grapes) that makes up at least 85% of the total volume of the wine throughout the wine making process
- sell the wine in a container with a capacity of five litres or less that is suitable for retail sale and branded by a trade mark owned by you (or an associated entity).

Transitional arrangements are in place for 2017 and earlier vintage wines sold after 1 July 2018. These arrangements reduce the requirement to have owned 85% of the source product throughout the winemaking process.

TAXABLE PAYMENTS REPORTING EXTENDED

This is an extension of the reporting requirements, relating to the payment of contractors. This is already in place for business operating in the building and construction industry.

From 1 July 2018, courier and cleaning business will be required to lodge annual Taxable Payments Annual Reports (TPAR).

From 1 July 2019 this measure will extend to Security, Road Freight Transport and Computer Design business.

OTHER MEASURES

RENTAL PROPERTY DEDUCTIONS

For 2018 tax returns, residential rental property owners can no longer claim a deduction for travel expenses incurred to inspect, maintain or collect rent for their properties.

For residential rental properties purchased after 9 May 2017, that were not purchased new, deductions will also be denied for plant and equipment that existed in the property at the time of purchase. This measure also applies to property owners that held property prior to 9 May 2017 but did not rent the property until after 1 July 2017. Capital Allowance deductions (also referred to as special building write off) are still allowed for the construction costs of a property. A quantity surveyors report is required to determine the amount of these deductions.

SUPERANNUATION

CONTRIBUTION LIMITS

With regard to contribution limits in the following sections, please be aware that your total superannuation balance comprises all amounts that are held in your name whether they be in a SMSF or a public offer fund. Defined benefit accounts are also taken into account. If you have a SMSF, we will require current account balances of all accounts to prepare your financial statements and tax returns.

Clients who intend to make large superannuation contributions should make contact with our office before doing so.

The concessional contribution limit remains at $25,000 for all tax payers for the year ended 30 June 2018. However, individuals who are aged between 65 and 74 will also need to pass a work test.

Since 1 July 2017, employees have been entitled to claim a deduction for personal superannuation contributions. Deductions for personal superannuation contributions were not available before this date if an individual's employment income comprised more than 10% of their income. Employees need to be aware that SGC contributions contribute towards the concessional cap.

The non-concessional contribution limit remains at $100,000 for members with total superannuation balances less than $1.6M at the end of the previous financial year.

Taxpayers are still entitled to bring forward up to 3 years of non-concessional contributions. However, restrictions can apply depending on a member's age and fund balance.

SUPERANNUATION GUARANTEE CONTRIBUTION

The SGC remains at 9.5% of ordinary time earnings.

Legislation to prevent employers from using employee salary sacrificed amounts to reduce their minimum super guarantee is currently before parliament. This legislation amends the Superannuation Guarantee (Administration) Act of 1992 to provide that amounts salary sacrificed by an employee can not be counted towards an employer's SGC obligation, nor can it reduce the amount of ordinary earnings on which SGC is calculated.

UNUSED CONCESSIONAL CAP CARRY FORWARD

From 1 July 2018 if you have a total superannuation balance of less than $500,000 on 30 June the previous financial year, you may be entitled to make additional concessional contributions above the cap for the current year for any amounts of cap you have not used in prior years.

The first year that you will be entitled to carry forward any unused cap amounts is the 2019-20 financial year. Unused amounts will expire after 5 years.

DOWNSIZING CONTRIBUTIONS INTO SUPERANNUATION

From 1 July 2018, if you are 65 years or older and meet the eligibility requirements, you may be able to make extra contributions from the sale of your home to superannuation (the downsizer contribution) up to a limit of $300,000.
These contributions will not count towards non-concessional contribution caps but do count towards the transfer balance cap.

Property sales are only eligible if the contract is exchanged after 1 July 2018. The property needs to have been owned by the taxpayer or their spouse for 10 years, be partially or fully exempt from capital gains by the main residence exemption and funds needs to be contributed to superannuation within 90 days of settlement.

Taxpayers are only entitled to the downsizer contribution on one property sale. The contribution is not tax deductible and will be taken into account when determining eligibility for the aged pension.

SMALL BUSINESS SUPERANNUATION CLEARING HOUSE

The SBSCH has transitioned to the ATO. Logging in to the SBSCH is now via the ATO business portal with an Auskey or, for sole traders, access is linked to their myGov account.

If any employers require assistance with access to the SBSCH or lodging super contributions for their employees, please contact us as we now have access to the SBSCH via the tax agent portal.

Please remember that SGC contributions need to be lodged and paid within 28 days after the end of the quarter.

EMPLOYERS

We have uploaded an employer focussed newsletter outlining reporting requirements, taxes and levies that should be considered if you have employees. Also included are any measures introduced at 1 July 2018.

This document can be found on our website www.mottfinnis.com.au under the Mott Finnis updates in the news section.