Planning Opportunities for Businesses

General matters

The following matters need to be attended to as noted below:

	Due By
Staff superannuation – 9.5% gross wages	30 June 2017
June quarter Business Activity Statement	28 July 2017
PAYG summaries distributed to staff	14 July 2017
PAYG Annual Reconciliation forwarded to the ATO	14 August 2017

Note: superannuation contributions for employees need to be received by the respective superannuation funds prior to 30 June 2017 in order to obtain a tax deduction.

Superannuation Guarantee (SG)

The SG rate will remain at 9.5% until 30 June 2021 and then increase by 0.5% each year until it reaches 12%.

Period	Superannuation Guarantee Rate (%)
1 July 2003 - 30 June 2013	9.00%
1 July 2013 - 30 June 2014	9.25%
1 July 2014 - 30 June 2021	***9.50%***
1 July 2021 - 30 June 2022	10.00%
1 July 2022 - 30 June 2023	10.50%
1 July 2023 - 30 June 2024	11.00%
1 July 2024 - 30 June 2025	11.50%
1 July 2025 onwards	12.00%

We remind you that superannuation for employees is generally calculated by multiplying the SG rate by gross wages (i.e. ordinary times earnings) and is payable by the following dates:

Quarter	Period	Payment Cut-Off Date
1	1 July – 30 September	28 October
2	1 October – 31 December	28 January
3	1 January – 31 March	28 April
4	1 April – 30 June	28 July

Finally, the SG age limit of 70 was removed from 1 July 2013, and employers are therefore required to contribute to the complying superannuation funds of employees up to 75 years old.

$20,000 immediate tax write-off for business assets

Until 30 June 2018, small businesses (i.e. turnover of less than $10 million) will be entitled to an immediate tax deduction for the purchase of business assets, each costing up to $20,000 (GST exclusive).

Eligible assets include cars (new or used), machinery, equipment and second hand items. Assets that don't qualify include horticultural plants, capital works (building construction costs etc.), assets leased to another party on a depreciating asset lease, etc.

Multiple assets, each costing up to $20,000, may be purchased throughout the year.

From 1 July 2018 the write-off threshold is expected to revert to $1,000 for all businesses.

Small business entity threshold increased to $10m

From 1 July 2016, the threshold to access the small business entity concessions increased from $2m to $10m enabling more businesses to access the following concessions:

- **Prepayments** - A small business is eligible to prepay business expenses where the service period for the expenditure is 12 months or less.

  The benefit of prepaying business expenses is that you bring forward the 2017/18 tax deduction into the 2016/17 year. However, you must bear in mind that the deduction will not be available in the 2017/18 year unless you again prepay the expense for the 2018/19 year, and so on.

  Cash flow permitting, you may consider prepaying business expenses covering a 12 month period such as rent, leases, subscriptions, etc.

- **Immediate deductibility for small business start-up expenses** - New small businesses can immediately deduct a range of professional expenses required to start up a business, such as professional, legal and accounting advice as well as amounts paid to Government agencies to set up their business entity.

- **Simpler depreciation rules** - Choose to pool assets and claim one deduction for each pool. Plus, access to the $20k accelerated deductions.

- **Simplified trading stock rules** - You can choose not to conduct a stocktake if there is a difference of less than $5,000 between the opening value of trading stock and a reasonable estimate of the closing value of trading stock at the end of the income year.

- **Roll-over for restructures of small businesses** – The ability to change your business's legal structure without triggering CGT or income tax implications on transferring depreciating assets or trading stock.

- **Accounting for GST on a cash basis** – You can choose to account for GST on a cash basis (i.e. when you receive payment for a sale made). Your business can also claim GST credits when you actually pay for a purchase.

- **Annual apportionment of input tax credits for acquisitions and importations that are partly creditable** - Account for the private portion of business purchases annually rather than on each activity statement. Full GST credits can be claimed for a business purchase and an adjustment made for the private portion of the purchase in a later activity statement.

- **Paying GST by quarterly instalments** - You can choose to pay a GST instalment amount worked out by the ATO that can vary each quarter. Annual GST returns are lodged for this method.

- **FBT car parking exemption** - An exemption from FBT on certain car parking benefits provided to employees.

Payroll tax grouping

The payroll tax threshold for the 2016/17 financial year is $750,000, with the excess being taxed at 5.45%.

Taxable wages for payroll tax purposes include, but are not limited to:

- Salaries and wages.
- Allowances.
- Employer superannuation contributions, including salary sacrifice amounts.
- Fringe benefits.
- Payments to some contractors.

The Payroll Tax Act contains "grouping provisions" whereby employers, or a group of related businesses, whose total Australian wages exceed the current threshold are required to pay payroll tax.

Please advise if you would like us to review the grouping provisions in relation to your business structure.

Company tax cuts

From 1 July 2016, the small business (i.e. turnover of less than $10 million) company tax rate was reduced to 27.5%. The company tax rates are as follows:

Income year	Turnover threshold	Company tax rate for entities under the threshold	Company tax rate for entities over the threshold
2015–16	$2m	28.5%	30.0%
2016–17	$10m	27.5%	30.0%
2017–18	$25m	27.5%	30.0%
2018–19 to 2023–24	$50m	27.5%	30.0%
2024–25	$50m	27.0%	30.0%
2025–26	$50m	26.0%	30.0%
2026–27	$50m	25.0%	30.0%

Other

Other planning opportunities you may consider include:

1. Delaying the receipt of income by issuing invoices to customers after 30 June 2017.

2. Bringing forward expenses. Note: you do not have to pay the expense before 30 June 2017 in order to obtain a tax deduction (other than staff superannuation). You need only to have “incurred” the expense which means obtaining an invoice dated pre-30 June 2017 resulting in an obligation to pay.

3. Undertake any repairs to business assets, etc. before 30 June 2017.

4. Pay or accrue bonuses to staff before 30 June 2017. If the bonus is paid in cash before 30 June 2017, the staff will bring this income into their personal tax returns for the 2017 year. However, if the bonus is accrued by the business before 30 June 2017, but paid to the staff after 1 July 2017, the business will obtain a tax deduction in the 2017 year.

5. If you have depreciating assets, you should review the asset register and write off any assets that the business has scrapped or disposed of. Note: if the asset was sold (including private sale), GST should have been charged on the sale.

6. Write-off bad debts. To be a bad debt, you need to have brought the income to account as assessable income, and given up all attempts to recover the debt. It needs to be written off your debtors’ ledger by 30 June. If you don’t maintain a debtors’ ledger, a resolution confirming the write-off is a good idea.

Planning Opportunities for Individuals

Prepayments

If you have a rental property or other investments (e.g. share portfolio) you are eligible to prepay investment expenses where the period for the expenditure is 12 months or less.

The benefit of prepaying investment expenses is that you bring forward the 2017/18 tax deduction into the 2016/17 year. However, you must bear in mind that the deduction will not be available in the 2017/18 year unless you again prepay the expense for the 2018/19 year, and so on.

Cash flow permitting, you may consider prepaying investment expenses covering a 12 month period, such as interest.

Private health insurance rebate

The 30% private health insurance rebate is an amount that the government contributes towards the cost of your private health insurance premiums, and became income tested from 1 July 2012.

Below are the various income brackets and private health rebate entitlements that apply from, 1 April 2017:

Single Families	≤$90,000 ≤$180,000	$90,001-105,000 $180,001-210,000	$105,001-140,000 $210,001-280,000	≥$140,001 ≥$280,001
		Rebate		
< age 65	25.934%	17.289%	8.644%	0%
Age 65-69	30.256%	21.612%	12.966%	0%
Age 70+	34.579%	25.934%	17.289%	0%

You may therefore wish to review your 2017 income position and, if appropriate, bring forward tax deductions or delay the receipt of income so that you can maximise your health insurance rebate.

Salary packaging

There may be an opportunity to salary package certain work related items that are exempt from fringe benefits tax. This effectively means you acquire the item from pre-tax salary rather than from after tax salary, and may include the following items:

- Portable electronic devices such as mobile phones, laptops, tablets, portable printers and GPS navigation receivers.
- Computer software.
- Protective clothing.
- Briefcases.
- Tools of trade.

You may also be salary sacrificing into superannuation. Note that from 1 July 2017, the annual concessional contributions cap will be reduced to $25,000 for all individuals regardless of age. Therefore, you may need to review salary sacrificing arrangements to ensure that your total superannuation contributions, including employer superannuation guarantee support, does not exceed $25,000.

If applicable, you should discuss this with your employer and/or their payroll department.

Deductibility of superannuation

From 1 July 2017, the ability to claim a tax deduction for superannuation contributions has been broadened.

Currently, to claim a tax deduction for your super contributions you need to earn less than 10% of your income from salary or wages etc. From 1 July 2017, the 10% rule will be abolished.

The contributions must remain within the reduced $25,000 concessional contributions cap.

Taxes and levies

- **Temporary budget repair levy** - will cease to apply on 30 June 2017. The levy imposed an additional 2% tax on taxable income above $180,000 and came into effect on 1 July 2014.

  Therefore you may consider delaying the receipt of income, such as from the sale of an asset, until the new financial year thereby avoiding the extra 2% tax. Remember however that in many cases the taxing event is triggered when a contract is entered into rather than when settlement occurs.

- **Division 293 tax** - From 1 July 2017, the Division 293 tax of 15% which is assessed to concessional superannuation contributions, will apply to those individuals with income of greater than $250,000 (down from $300,000), resulting in overall tax of 30% on the concessional contribution.

- **Medicare levy thresholds** - The Medicare levy low-income thresholds for singles, families, and seniors and pensioners will increase to take into account of movements in the CPI. The levy will not apply to income below the thresholds noted below:

	2016-17 Threshold
Singles	$21,655
Families	$36,541 plus $3,356 for each dependent child or student
Single seniors and pensioners	$34,244
Family threshold for seniors and pensioners	$47,670 plus $3,356 for each dependent child or student

Travel related expenses

Claims for work related travel expenses are a major area of focus for the ATO. The larger the claim the more likely it is that the ATO will take a closer look. If you claim travel expenses, it's important to ensure that you fully understand what's required.

Every year, the Commissioner publishes the reasonable rates for travel expenses when travelling overnight in the course of employment activities – accommodation, food and drink, and incidental expenses. These rates are only applicable if you receive a genuine travel allowance for that travel. If claims fall within the ATO's reasonable amounts, you can deduct travel allowance expenses within Australia without being required to keep full written evidence of all the expenses.

However, even if you can rely on the substantiation exception, you may still be required to show the basis for determining the amount of your claim - that is, you still might need to prove that you actually incurred the expenses, and the expenses were work related.

In order for accommodation and meals to qualify as a travel expense, you need to travel away from your home. The ATO takes that to mean that you're sleeping away from home - not just travelling for the day.

And, just because your employer pays you a travel or overtime meal allowance does not mean that you are automatically entitled to a deduction for travel expenses. You still need to actually incur the expenses.

Excessive self-education expenses

Normally, if you undertake study that is connected to your work you can claim the costs of that study as a tax deduction - assuming your employer has not already picked up your expenses. There is also no limit to the value of the deduction you can claim. While this all sounds great there are issues to consider before claiming your Harvard graduate degree, accommodation and flights as a self-education expense.

To be deductible, the study must be connected to the income you are earning (either to maintain or improve your specific skills or knowledge), or is likely to result in increased income from existing income earning activities. You cannot, for example, claim study expenses if the main purpose of undertaking the course is to open up a new income earning activity or for a personal research project not related to your work.

The ATO is more likely to target large self-education expenses. For anyone who has completed post graduate study you know that these expenses can ratchet up very quickly, particularly when you add in any other expenses such as books or travel. It's important to ensure that there is a clear connection between your current job or business activity and the expenses you are claiming before you claim them.

Residential investment property issues

The 2017-18 Federal Budget contained a number of changes that are intended reign in the level of deductions investment property owners can claim from 1 July 2017:

- **Deducting travel expenses** – the Government intends to disallow tax deductions for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property. If you have investment property interstate or overseas, this may change the frequency of your property inspections.

- **Depreciation deductions limited** – residential investment properties purchased (or contracted) after 7:30pm, 9 May 2017 will have limited access to depreciation deductions. Investors who directly purchase plant and equipment for their residential investment property after 9 May 2017 will be able to claim depreciation deductions over the effective life of the asset. However, subsequent owners of a property will be unable to claim deductions for plant and equipment purchased by a previous owner of that property. Plant and equipment items are usually mechanical fixtures or those that can be 'easily' removed from a property such as dishwashers and ceiling fans.

Foreign residential property investors

We have seen a number of measures over the years restricting access to tax concessions for foreign investors, particularly for residential property investments. The recent Federal Budget goes one step further, restricting access to tax concessions, increasing taxes, and penalising investors who leave property vacant.

Measures include:

- **Charge for leaving properties vacant** - Foreign owners of residential Australian property will incur a charge if their property is not occupied or genuinely available on the rental market for at least 6 months each year. The charge, which is expected to be at least $5,000, does not appear to apply to existing investments but only those made on or after Budget night, 7:30pm on 9 May 2017.

- **Excluded from main residence exemption** - Foreign and temporary residents will be excluded from the main residence exemption. The main residence exemption excludes private homes from capital gains tax (CGT). Existing properties held prior to 9 May will be grandfathered until 30 June 2019. However, it remains to be seen whether partial relief will be available to those who have been residents of Australia for part of the period they owned the property and whether this change will apply to Australian residents who were classified as a foreign resident for part of the ownership period.

- **Increase in CGT withholding tax** - When someone buys Australian real property (i.e., land and buildings) they are currently required to remit 10% of the purchase price directly to the ATO as part of the settlement process unless the vendor provides a certificate from the ATO indicating that they are an Australian resident. These rules do not currently apply if the property is worth less than $2 million.

From 1 July 2017, the CGT withholding rate under these rules will increase from 10% to 12.5%. Also, the CGT withholding threshold for foreign tax residents will reduce from $2 million to $750,000, capturing a much wider pool of taxpayers and property transactions.

- **Rules tighten for property purchased through companies or trusts** - Australian property held through companies or trusts by non-residents or temporary residents is also being targeted by expanding the principal assets test to include associates. The move is to prevent foreign residents avoiding Australian CGT liabilities by splitting indirect interests in Australian real property.

- **Level of foreign investment in developments capped** - a 50% cap is being placed on foreign ownership in new developments.

  For further information, please visit: https://www.ato.gov.au/General/New-legislation/In-detail/Direct-taxes/Income-tax-for-businesses/Foreign-resident-capital-gains-withholding-payments/.