

Contributing to Super – What You Need to Know

Topping up your superannuation just got a little less dangerous with new rules that allow excess non-concessional contributions to be refunded.

Before the change, a huge number of people were penalised by excess concessional contributions tax because they contributed over the allowable level of contributions. It was not uncommon to see \$70,000 tax bills from what was a relatively small over-contribution, and there was very little you could do about it even if the contribution was not deliberate.

The new rules mean that members can have the excess contributions refunded to them PLUS 85% of the associated earnings on those amounts. The full earnings will then be included in your assessable income and taxed at your marginal tax rate. You will then be entitled to a non-refundable tax offset equal to 15% of the associated earnings. Simple right? Maybe not, but it's a lot easier to understand than a \$70,000 tax bill for going even \$1 above your contributions limit.

These new rules apply to excess non-concessional contributions made from the 2013/14 financial year onwards. So if you were affected by excess contributions tax, something can be done about it.

Superannuation Reminder

- **Concessional contribution cap** – from 1 July 2014 the concessional contribution cap for taxpayers up to the age of 50 is \$30,000, and for those 50 and above the cap is \$35,000.
- **Non-concessional cap** – the non-concessional contributions cap from 1 July 2014 is \$180,000, or \$540,000 over three years.

2% Temporary Budget Repair Levy

The temporary budget repair levy, or debt tax, was introduced from 1 July 2014.

What is the Tax and Who Will Pay it?

The debt tax applies from 1 July 2014 to 30 June 2017. It is payable at a rate of 2% on every dollar of a taxpayer's annual taxable income over \$180,000. In effect, the top marginal tax rate is 49%.

Be aware that if you have a one-off spike in income from 1 July 2014 - for example from the proceeds of a sale of business - the debt tax is likely to impact on this one-off increase in personal income.

2015 Budget Highlights

This is a highly targeted budget that seeks to keep change within community tolerance levels.

Most spending measures target productivity gains – although small businesses with turnover between \$2 million and \$5 million will be disappointed. Revenue measures target the asset or income rich.

Accelerated Depreciation Across Multiple Areas

- **Businesses with turnover under \$2 million** - immediate deductibility from budget night for any assets purchased and used or installed and ready to use by 30 June 2017 that cost less than \$20,000.
- **Start-ups** – immediate deductibility for professional expenses – cost of lawyers and accountants to get a business up and running.
- **Farmers** – immediate deductibility for fencing and water facilities.

Tax Cuts for Small Business (under \$2 million) from 1 July 2015

- 1.5% company tax reduction.
- 5% tax discount for unincorporated small businesses.

GST on Digital Supplies

- Similar GST treatment applied to supplies of digital products to Australian consumers – including consulting and professional services – regardless of whether they are supplied by a local or foreign supplier.

Individuals

- Changes to work-related deductions for car expenses – 12% of original value and one-third of actual cost methods removed and simplification of cents per kilometre method.

FBT Changes

- Changes to salary sacrificed meal entertainment for not-for-profits.
- Expansion of FBT exemption for work-related electronic devices provided by small businesses.

Multinationals Targeted

- Changes to Part IVA target around 30 global companies with revenue in excess of \$1 billion.

Accessing Government Benefits

- Changes to how superannuants' income counted for social security.
- Child care shake-up - collapses three current eligibility tests with one means and activity test.
- Asset test changes mean 91,000 pensioners no longer qualify and 235,000 will have pension reduced.
- 'Double dipping' Government and employer paid parental leave stopped.

2015 Budget - Changes from 1 July 2015

For Business

- Small business tax cut - 1.5% for companies and 5% tax discount for unincorporated small businesses under \$2 million (capped at \$1,000).*
- Employee share scheme rule changes to make the schemes more attractive particularly to start-ups (covered in our April update).*
- 'Fly in fly out' and 'drive in drive out' (FIFO) workers will be excluded from the Zone Tax Offset (ZTO) where their normal residence is not within a 'zone'.*
- Start-ups able to immediately deduct a range of professional expenses required to start up a business – such as professional, legal and accounting advice.*
- The way work-related deductions for car expenses are calculated will change. The '12% of original value method' and the 'one-third of actual expenses method' will be removed. The 'cents per kilometre method' will be modernised, replacing the three current engine size rates with one rate set at 66 cents per kilometre to apply for all cars.

Superannuation

- The terminally ill will be able to access super earlier.*
- Employers with 20 employees or more must use SuperStream for employee contributions.

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Individuals

- Changes to family tax benefits – income test changes, add on child payment removed, and changes to large family supplement.

*announced change not yet law.

Why Using the \$20,000 Budget Tax Deduction Might be the Wrong Decision

So your business has a turnover under \$2 million and you want to know how to use the \$20,000 immediate tax deduction that's been all over the news?

Before you start spending, there are a few things you need to know.

Does Your Business Make a Profit?

Deductions are only useful to offset against tax. If your business makes a loss then a tax deduction is of limited benefit because you're not paying any tax. Losses can often be carried forward into future years, but you lose the benefit of the immediate deduction.

Immediate Deduction Not Yet Law

The \$20,000 instant asset write-off is not yet law. The ATO only has the capacity to assess on current law not announcements. Don't forget that many of last year's budget measures have not been enacted. While we think it is highly unlikely that the other political parties will block this measure, there is always a small risk that things will change. So don't spend more than your business can afford.

Cashflow First!

Cashflow is more important than an immediate deduction. Assuming your business qualifies for the deduction, the most important consideration is your

cashflow. If there are purchases and equipment that your business needs, that equipment has an immediate benefit to the business and your cashflow supports the purchase then go ahead and spend the money. The \$20,000 immediate deduction applies as many times as you like so you can use it for multiple individual purchases.

But your business still needs to fund the purchase for a period of time until you can claim the tax deduction and then the deduction is only a portion of the purchase price.

Let's take the example of a small bakery. The bakery is in a company structure and has a taxable income for 2014/2015 of \$49,545. The owner purchases a new \$13,750 oven on 2 June 2015 and installs it straight away. The cost of the oven is claimed in the bakery's 2014/2015 tax return resulting in a tax deduction of \$13,750.

So for the \$13,750 spent on the oven, \$4,125 is returned as a reduction of the company's tax liability (i.e. 30% company tax rate in the 2015 income year). For the bakery, they need the cashflow to support the \$13,750 purchase until the business' tax return is lodged after the end of the financial year. With the \$4,125 reduction of the company's tax liability, the business has fully funded the remaining \$9,625.

It's important not to rely on the advice of the person you are purchasing from. There is a lot of misinformation in the market right now and it's important to know how the concessions apply to you.

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Is Your Business Eligible?

To use the instant asset write-off, your business needs to be eligible.

The first test is that you have to be a business – not just holding assets for investment purposes.

The second is the aggregated turnover of your business needs to be below \$2 million. Aggregated turnover is the annual turnover of the business plus the annual turnover of any “affiliates” or “connected entities”. The aggregation rules are there to prevent businesses splitting their activities to access the concessions. Another entity is connected with you if:

- You control or are controlled by that entity; or
- Both you and that entity are controlled by the same third entity.

What's Changed?

In general, a deduction is available for purchases your business makes. What has changed for small businesses with under \$2 million turnover is the speed at which they can claim a deduction.

Before the budget announcement, small business could immediately deduct business assets costing less than \$1,000. On budget night, the Treasurer announced that the threshold for the immediate deduction would increase to \$20,000 at 7.30pm on 12 May 2015 for small businesses with an aggregated turnover less than \$2 million. The increased threshold is intended to apply until 30 June 2017.

For small business, assets above \$20,000 can be allocated to a pool and depreciated at a rate of 15% in the first year and 30% for each year thereafter.

If your business is registered for GST, the cost of the asset needs to be less than \$20,000 after the GST credits that can be claimed by the business have been subtracted

from the purchase price. If your business is not registered for GST, it is the GST inclusive amount.

Make the Most of the Immediate Deduction

There are a few tricks to applying the instant asset-write off:

Second Hand Goods are Okay

It does not matter if the asset you are buying for your business is new or second hand. So you could still claim the deduction on, say, second hand machinery you have bought.

What is Not Included

There are a number of assets that don't qualify for the instant asset write-off as they have their own set of rules. These include horticultural plants, capital works (building construction costs, etc.), assets leased to another party on a depreciating asset lease, etc.

You also need to be sure that there is a relationship between the asset purchased by the business and how the business generates income. For example, four big screen televisions are unlikely to be deductible for a plumbing business.

Assets Must be Ready to Use

If you use the \$20,000 immediate deduction, you have to start using the asset in the financial year you purchased it (or have it installed ready for use). This prevents business operators from stockpiling purchases and claiming tax deductions for goods they have no intention of using in the short-term.

Business and Personal Use

Where you use an asset for mixed business and personal use, the tax deduction can only be claimed on the business percentage. So if you buy an \$18,000 second hand car and use it 80% for business and 20% for personal use, only \$14,400 of the \$18,000 can be claimed.

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