

TAX MATTERS

TAX STRATEGIES FOR YOU AND YOUR BUSINESS

**BUDGET
EDITION
23-2017**

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**SAPPHIRE
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A continued commitment to growth

The Government has taken a two-prong approach in this year's Federal Budget to stimulate growth in the economy by providing targeted spending and business incentives.

Regional infrastructure

A key feature of this year's Budget is the commitment to investing in regional growth to better the Australian economy. A \$472 million Regional Growth Fund will be set up to invest in regional infrastructure projects.

An additional \$8.4 billion will be allocated to fund the Melbourne-to-Brisbane Inland Rail in 2017-18. The Inland Rail will provide significant employment in regional areas as well as increased export opportunities.

Company tax plan

The Government's promise to small and medium businesses in last year's Budget continues through its Ten Year Enterprise Tax Plan to reduce the company tax rate for all companies to 25 per cent by 2026-27.

Incorporated small businesses with a turnover less than \$10 million will have their tax rate reduced to 27.5 per cent in 2016-17. Once legislated, the tax cut will be passed on to companies with an annual turnover less than \$50 million by 2018-19.

A lower corporate tax rate will help permanently broaden the economy by just over one per cent in the long term and effectively promote business investment by raising the investment return in Australia.

The Government acknowledges the major role small businesses play in the Australian economy and is committed to supporting small businesses to continue to grow and flourish.

Instant asset write-off

A further boost will be provided for small businesses as the Government is extending the \$20,000 instant asset write-off for a further 12 months until 30 June 2018. Small businesses with an aggregate annual turnover less than \$10 million can access the concession to help improve their cash flow and invest in the assets they need to grow.

Reducing red tape

The Government will provide \$300 million over two years to states to help reduce the red tape for small businesses. The removal of unnecessary restrictions for small businesses will help level the playing field and lessen regulatory burden.

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Keeping taxpayers honest

The Budget focuses on maintaining the integrity of Australia's tax system to ensure it is fair and secure to all and covers five key areas.

Avoidance

The Government will continue to crack down on the cash economy with additional funding for the Tax Office's Black Economy Taskforce extended until 30 June 2018.

The taxable payments reporting system will be expanded to ensure payments made to contractors in the courier and cleaning industries are reported from 1 July 2018.

Anti-avoidance tax behaviours will also be targeted as the Government intends on banning technology that modifies or deletes sales records for the purpose of minimising tax.

Finally, aggressive tax structuring where hybrid instruments are used to exploit the tax differences between countries are on the Government's radar, and the Multinational Anti-Avoidance Law will be strengthened to ensure corporate structures, i.e. foreign partnerships or foreign trusts, are compliant with the law.

Residential property

Deductions for travel expenses for a residential

investment property will be disallowed. This measure addresses issues with investors that have been claiming travel costs for private purposes or who have not properly apportioned their costs. Additionally, deductions for plant and equipment in residential property investments will be limited to expenses directly incurred by investors.

Goods and services tax (GST)

GST law will be strengthened to prevent some property developers from avoiding GST obligations by ensuring GST is paid directly to the ATO when purchasing newly constructed residential properties or new subdivisions.

Capital gains tax (CGT)

From 1 July 2017, small business capital gains tax (CGT) concessions will be amended to ensure that concessions can only be accessed in relation to assets used in a small business or ownership interests in a small business.

Tighter capital gains tax rules for foreign and temporary residents will deny access to the main residence exemption when they sell Australian property. Furthermore, the foreign resident capital gains tax withholding regime will see the withholding rate rise to 12.5 per cent, and the threshold will reduce from \$2 million to \$750,000.

Superannuation

The Government intends on bolstering the integrity of the super system by including limited recourse borrowing arrangements (LRBA) in a member's total superannuation balance and transfer balance cap, effective from 1 July 2017. Also, on the cards is the tightening of related party transactions on non-commercial terms to help increase super savings from 1 April 2018.



CGT events affecting shareholders

There are a number of capital gains tax (CGT) events that could affect you as a shareholder.

Capital gain tax (CGT) events include various transactions resulting in a capital gain or capital

loss. CGT is the tax paid on any capital gain made. This is worked out by deducting capital losses and any CGT discounts from the total annual capital gains.

A CGT event occurs if you have sold (or otherwise disposed of) your share or units or other assets. However, there are a number of other CGT events that can result in capital gains or capital losses. According to the ATO, a CGT event may also occur where an individual:

- switches units between managed funds to redeem said units
- attains a distribution from either a managed fund or a unit trust (not including dividends)
- receives payments from a trust or company that are non-assessable
- is the owner of shares in a company where shares have been declared worthless
- owns shares in a company that are cancelled because the company is wound up.

Individuals must also consider whether they

are entitled to any income tax deductions. This occurs when a listed investment company (LIC) pays a dividend where a LIC capital gain amount is indicated.

There are certain occurrences where special capital gains tax rules apply, including:

- attaining bonus shares and/or units and rights and/or options to acquire shares or units from a company or trust
- entering into employee share scheme or dividend reinvestment plan or through buying convertible notes.

If an individual has held a share for 12 months or more, they can use the 'CGT discount method' that allows them to reduce their capital gain currently by 50 per cent. In this instance, the cost base is subtracted from capital proceeds, then capital losses are deducted and then reduced by the relevant discount percentage.



Rates increase for fuel tax credits

Fuel tax credit rates increased on 1 February 2017. These rates are indexed twice a year, in February and August, in line with the consumer price index (CPI).

The rates vary depending on when you acquire the fuel, the type and quantity of fuel you use, and the activity you use it for. Rates may also change for fuel used in a heavy vehicle for travelling on public roads. This is due to changes to the road user charge which is reviewed annually.

If you claim less than \$10,000 in fuel tax credits each year, there are now simpler ways to

record and calculate your claim. For the BAS period ending 31 March 2016 and onwards, you can:

- Use one rate in a BAS period - the rate that applies at the end of the BAS period
- Work out your litres based on the cost of the fuel you purchased.

To check which rate applies for your business, visit the Australian Tax Office (ATO) website or contact our office. Remember, there are time limits for claiming fuel tax credits, making adjustments and correcting errors - generally, you must claim or amend your claim within four years.



Building a sustainable lifestyle

While there have been no tax cuts for individuals in the Budget, the Government has introduced concessions in several areas addressing the cost of living.

Downsizing retirees

From 1 July 2018, Australians over the age of 65 can contribute the proceeds of downsizing into their superannuation. A non-concessional contribution of up to \$300,000 can be paid to their super using proceeds from the sale of a principal residence that has been held for a period of at least 10 years. Contributions will not be subject to any age or work tests.

Affordable housing

To assist Australian households, in particular first home buyers, the Government will support households building deposits by providing access to their superannuation. This will be implemented from 1 July 2017 and will allow access to voluntary concessional contributions and non-concessional contributions to super of up to \$15,000 per annum; \$30,000 of which will be concessional taxed. Withdrawals on these contributions can be made from 1 July 2018.

The Budget also imposes a \$5000 annual levy that must be paid by foreign owners of Australian residential property that is under-utilised or not available for rent in an effort to contain the cost of rising rent.

Medicare

The establishment of the Medicare Guarantee Fund (MGF) from 1 July 2017 will provide funding to the existing Medicare Benefits

Scheme (MBS) and the Pharmaceutical Benefits Scheme to ensure Australians have continued access to affordable health care. The MGF will attain revenue generated from the Medicare levy as well as a small portion of personal income tax.

The Government will provide \$1 billion towards the reintroduction of indexation on specific areas of the MBS, including specialist procedures and diagnostic imaging fees.

Bulk billing of under 18-year-olds and concession cardholders will be encouraged through incentives introduced to general practitioners from 1 July 2017.

Higher Education

From 2018, fees for university students will increase by 7.5 per cent. More repayment options through the Higher Education Loan Program will be offered to assist students with this. For 2018 and 2019, universities will pay a 2.5 per cent dividend and will also be subject to measures creating greater accountability and transparency.

National Disability Insurance Scheme (NDIS)

The Medicare levy will be increased by 0.5 per cent from 1 July 2019 with one-fifth of its revenue going towards the NDIS Savings Fund to ensure all Australians with significant and permanent disability have adequate support and lifetime care.

An Independent NDIS Quality and Safeguards Commission has been funded through the budget, allowing for improved quality of safe services for those using the NDIS.



ATO to report unpaid debts

The Mid-Year Economic and Fiscal Outlook 2016-17 announced that from 1 July 2017, the ATO will disclose business tax debt information to credit reporting bureaus.

The new measure is geared to enhance the integrity of the tax system and ensure businesses who are not compliant do not gain an unfair competitive advantage over those businesses who are.

The ATO will initially pass on unpaid debts from businesses with an Australian Business Number and with a tax debt of more than \$10,000 which is at least 90 days overdue. Taxpayers will be notified by the ATO before the information is passed on to a credit reporting bureau.

In addition, a special Taskforce specifically aimed at dealing with the cash economy has been developed as an innovative, whole-of-government policy response to this problem. Activities under scrutiny are those which disadvantage honest taxpayers, undermine the integrity of Australia's tax and welfare systems and reduce the amount of revenue collected by governments.

A better workplace

The Budget sees the Government place emphasis on generating ongoing employment opportunities for all Australians.

A focus on good debt/bad debt allows for investing a sizeable portion of the Budget into infrastructure; creating in excess of 50,000 jobs directly and indirectly from 2017 to 2030 and onwards. Major projects include:

- Western Sydney Airport
- Melbourne-to-Brisbane Inland Rail
- National Rail Program

Implementation of the Temporary Skill Shortage Visa following the abolishment of the 457 visa will create incentives to prioritise Australian workers. Employers who nominate foreign workers

for this visa will pay a levy; generating revenue for the Skilling Australians Fund which will replace the existing unsuccessful training benchmarks. The Skilling Australians Fund assists financing apprenticeships and traineeships while allowing for employers to meet critical needs for their businesses where Australian skill sets are not available.

The introduction of various reforms will see disadvantaged Australians receive appropriate support to acquire and retain employment. With a focus on indigenous and vulnerable new parents through ParentNext services; appropriate pathways to employment and formal education will be achieved through childcare and pre-employment training, literacy and numeracy classes and financial management.

To improve workforce participation, the Job Seeker Compliance Framework will create stronger penalties for those abusing the Work for the Dole

initiative; holding non-compliant job seekers accountable while still providing sufficient support for disadvantaged and vulnerable job seekers.



A guide to negative gearing

Negative gearing is a common tax strategy used by property investors to offset the costs of owning a property against assessable income.

The strategy is arguably one of the most generous tax breaks available to Australian property investors. It allows investors to claim the shortfall between a property's associated expenses and its rental income as a deduction against their total taxable income - resulting in a lower annual income tax bill.

Where the other income is not sufficient to absorb the loss it is carried forward to the next year.

To access negative gearing on a property, the

owner must have borrowed money to purchase the property and the net rental income must be less than the costs of maintaining the property.

For example, if the rent of a property was \$500 per week, and the property was fully tenanted for a full financial year, the rental income would be \$26,000. If the deductible expenses for that year were \$40,000, the net rental loss would be \$14,000. The \$14,000 loss can then be applied to reduce the property owner's taxable income.

Although negative gearing is helpful for those owners experiencing a net rental loss, the strategy is not without flaws. An underperforming property is still making a loss, and ideally, investors would prefer to have a positively geared property where rental income exceeds expenses.

Investors who have long term negatively geared properties are generally hoping to incur long term profits from capital growth.

Even if you think that your investment property will be positively geared, understanding the benefits of negative gearing can give you a little peace of mind knowing that if the property does lose money, you will be able to offset the loss against your taxable income.

When a property is positively geared, the income earned is added to your total taxable income. As such, it is taxed at your marginal tax rate. The same applies to any capital gain that you make from selling a property.



Speed up your BAS refund

As in any business, cash flow is a necessity. Having your business activity statement (BAS) refunded to you quickly is important as a small business owner.

Here are a few tips to follow to help speed up this process:

- Ensure information is complete and correct; keep personal details, such as postal address, bank details and authorised contacts updated. Having a record keeping system in place is the best way to stay on track.
- Submit BAS on time.
- Lodge all outstanding activity statements: the ATO are unable to process the refund until they know the extent of the credit or liability.
- Check financial institution details are entered correctly.
- Be careful not to not double up by lodging both online and in person.