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JUNE 2016

NEWSLETTER

ISSUE 17

Peter's Perspective

It is a few weeks since the 2016/2017 Federal Budget was announced by Scott Morrison, and now we find ourselves at the start of a marathon election campaign. Whether the Budget is passed in its proposed form depends on which of the major political parties gains control of the Senate. I can only present this newsletter on the basis of what we know, that is the contents of the current Budget.

The Budget changes regarding superannuation are far reaching. The proposals, according to the current government, are targeting the rich. However, those contemplating a contribution of the maximum allowable before tax dollars of \$30,000 to \$35,000, over the next few years, confront a prospect of this maximum being capped at \$25,000 from 1st July 2017. There are concerns about the retrospective nature of the proposed lifetime non-concessional contributions cap and the lack of details in ways penalties could be imposed. Those with salary sacrificing arrangements will need to review their arrangements in light of the budget proposals.

The proposed changes in superannuation could alter taxpayers' behaviour in seeking other opportunities outside super, such as negative gearing of property and other investments. The areas of both Self-Managed Superannuation Funds (SMSF) and institutionalised funds has also become even more complicated. The proposed changes will be another layer of complexity on an already intricate situation. Advice must be sought if you are contemplating any changes to your superannuation circumstances.

Changes to company tax, adjustments to personal tax brackets, small business definitions and other matters will be covered in this newsletter. I urge you to contact us, here at The Abbey, if you have any questions about taxation and accounting matters leading up to 30 June 2016.

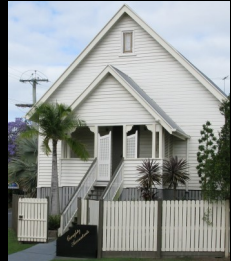
You will be pleased to know that at long last Susan has joined our merry band. As you know, Donna is away on maternity leave and is enjoying this special time with her little son Liam.

All of us at The Abbey have relished the last twelve months in serving you as our clients, and are always open to referrals.

I will leave you with this thought from the great John Maynard Keynes: "The difficulty lies not so much in developing new ideas as in escaping from the old ones".

Cheers, Peter.

Important: This is not advice. Clients should not act solely on the basis of material contained in this newsletter. Items herein are general comments only and do not constitute or convey advice per se. Changes in legislation may occur quickly and we therefore recommend that our formal advice be sought before acting in any area. This newsletter is issued as a helpful guide to clients and for their private information. Therefore, it should be regarded as confidential and not be made available to any person without prior approval.



2016/2017 Federal Budget

Our new Federal Treasurer Scott Morrison recently handed down his first budget, and the third for the Coalition Government. The winners are low and middle income earners and small business owners. There are significant changes to superannuation that need consideration and review.

As we mention every year, nothing is certain until the legislation passes through Parliament. With a double-dissolution federal election looming, there are no guarantees as to which of the budget measures will be passed intact, if at all.

INDIVIDUALS

The Government has announced that it will increase the upper income threshold on the middle (32.5%) personal income tax bracket to \$87,000, effective 1 July 2016. It is expected that this will prevent half a million average full-time wage earners from moving into the second top tax bracket until 2019-20. The maximum tax saving is \$315 per year.

Furthermore, the Treasurer has indicated that the 2% “temporary budget repair levy”, on individuals earning more than \$180,000 per annum, will not be extended beyond its initial three year term, and will cease at the end of the 2016-17 financial year.

The table below shows these changes, for the current year and the next two years.

Personal income tax rates and thresholds					
2015/2016		2016/2017		2017/2018	
Tax Rate (%)	Income Range (\$)	Tax Rate (%)	Income Range (\$)	Tax Rate (%)	Income Range (\$)
0	0 - 18,200	0	0 - 18,200	0	0 - 19,400
19	18,201 - 37,000	19	18,201 - 37,000	19	19,401 - 37,000
32.5	37,001 - 80,000	32.5	37,001 - 87,000	32.5	37,001 - 87,000
37	80,001 - 180,000	37	87,001 - 180,000	37	87,001 - 180,000
47	180,001 +	47	180,001 +	45	180,001 +





2016/2017 Federal Budget - Continued

BUSINESS

Small Business Entity Turnover Threshold To Be Increased To \$10 Million

As part of the Government's Ten Year Enterprise Tax Plan, the small business entity turnover threshold will be increased from \$2 million to \$10 million from 1 July 2016. When a business qualifies as a "Small Business", it is entitled to access a number of small business tax concessions, including:

- Simplified depreciation rules, including the immediate write-off of depreciating assets costing less than the threshold amount (\$20,000 until 30 June 2017), and pooling of most other depreciating assets in the general small business pool (30% diminishing value rate and 15% for additions)
- Reduced company tax rate (see below)
- Simplified trading stock rules which allow taxpayers to estimate the value of their trading stock on hand at year end, rather than conducting a stocktake, where a reasonable estimation indicates that the stock movement is less than \$5,000
- Immediate deduction for prepaid expenses, where the prepayment covers a period of 12 months or less, that ends in the next income year
- Accounting for GST on a cash basis and paying GST instalments as calculated by the Australian Taxation Office

It should be noted that the current \$2 million turnover threshold will be retained for the purposes of accessing the small business capital gains tax concessions, and access to the unincorporated small business tax discount will be limited to entities with a turnover of less than \$5 million.

Increase of the Unincorporated Small Business Tax Discount

From 1 July 2015, individuals and individual partners in a partnership with business income of less than \$2 million have enjoyed a tax discount of 5% of tax paid on business income. This discount amount is capped to \$1,000 per individual.

From 1 July 2016, the new measures seek to increase the annual aggregated turnover threshold to \$5 million. This will allow more sole traders and individuals in business partnerships to access the tax discount.

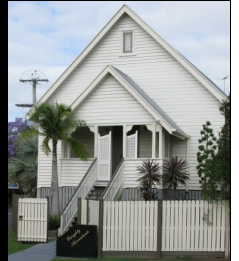
The tax discount will also increase over the coming ten year period, with the first increase to 8% commencing on 1 July 2016, however the annual tax discount cap of \$1,000 per individual will remain unchanged.

Reduction of the company tax rate

Companies that fit the small business entity definition are subject to a company tax rate of 28.5% for the 2016 financial year. Those entities that do not meet the definition continue to be subject to a tax rate of 30% for the current financial year.

From 1 July 2016, the Ten Year Enterprise Tax Plan measures seek to reduce the applicable company tax rate for companies in conjunction with the increase in the small business entity threshold increases over the coming ten years. Accordingly, the company tax rate applicable to each company will be based on their aggregated annual turnover and their ability to meet the small business entity criteria. Over ten years, the company tax rate for eligible small business companies will reduce to 25%.

Whilst this initially appears to be straight forward, it should be noted that the franking credits available will also be reduced when dividends are paid out of these companies. So a tax saving at the company level may result in more tax being paid by the individual shareholder later on.



2016/2017 Federal Budget - Continued

SUPERANNUATION

Cap on concessional contributions (effective 1 July 2017)

The annual cap on concessional super contributions will reduce to \$25,000 from 1 July 2017, regardless of age. This change will reduce the amount of concessional contributions that can be made each year without a tax penalty.

Additional tax on concessional contributions (effective 1 July 2017)

The income threshold at which an additional 15% tax is levied on concessional superannuation contributions will be lowered from \$300,000 to \$250,000. This additional tax, known as Division 293 tax, will apply when a person's income plus certain superannuation contributions exceeds \$250,000. It will only apply to the amount of the concessional contributions in excess of \$250,000. It does not apply to amounts that are already subject to excess concessional contributions tax.

'Catch-up' concessional contributions (effective 1 July 2017)

Individuals with a superannuation balance less than \$500,000 will be allowed to make additional concessional contributions for "unused cap amounts" where they have not reached the concessional contributions cap in previous years. Unused cap amounts will be carried forward on a rolling basis for five consecutive years. Only unused amounts accrued from 1 July 2017 will be available to carry forward. The measure will also apply to members of defined benefit schemes.

This measure will help eligible individuals who have not been able to utilise the caps due to broken work patterns or competing financial commitments, to make additional or 'catch-up' super contributions.

Contributions between ages 65 and 74 (effective 1 July 2017)

Those aged between 65 and 74 will be able to make super contributions regardless of whether they work or not. Currently, you need to work 40 hours in 30 days in the relevant financial year to make super contributions in this age bracket.

Tax deduction for super contributions (effective 1 July 2017)

Anyone up to age 75 will be able to claim a tax deduction on personal contributions to super. This is currently limited to individuals who meet the 10% test (where less than 10% of their income is from employment), and is usually only met by the unemployed, retired, self-employed or substantially self-employed.

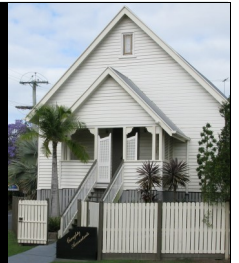
This proposed measure will also provide choice to employees by allowing them to claim a tax deduction for personal contributions, or to reduce assessable income through salary sacrifice.

Superannuation pension limits (effective 1 July 2017)

A lifetime limit of \$1.6m will be placed on the amount of superannuation that can be transferred to start pensions. This limit will be called the 'transfer balance cap'.

Earnings on investments held in pensions (other than transition to retirement pensions—see below) will continue to be taxed at 0%. Earnings on any balance that needs to remain in superannuation will continue to be taxed at 15%.

People with existing pensions over \$1.6 million will need to reduce the balance below this limit by 1 July 2017 to avoid penalties.



2016/2017 Federal Budget - Continued

No retrospectivity - the transfer balance cap will be applied to both current retirees and to individuals yet to enter retirement. Excess amounts can be retained in the accumulation phase of super where 15 % tax on earnings will apply. Retirees with balances above \$1.6m will be required to reduce their balance to the cap by 1 July 2017 (by transferring the excess back to accumulation or withdrawing from super). Excess tax will be applied as per current non-concessional contributions excess tax treatment where balances in excess of \$1.6m are transferred to a retirement account.

Although this change is mooted for 'retirement phase', it is possible that this cap will also apply to pensions which are created from Life and TPD insurance claim proceeds, including death benefit pensions for spouses and children, and disability super pensions for the individual. It may also apply to reversionary pensions where an existing pension reverts to a surviving spouse (or other dependant) on the death of the member. At the moment there are many unanswered questions on this and we will need to wait for further clarification which will be released in due course.

Transition to retirement pensions (effective 1 July 2017)

Earnings on investments held in 'transition to retirement' pensions will be taxed at 15% (currently 0%). A transition to retirement pension is a pension that is started with superannuation money when you have reached your preservation age, which is between 55 and 60 depending on date of birth. Once permanently retired (or another condition of release is met), it is expected that the underlying earnings will then be taxed at 0%.

Anti-detriment payments: Removed (effective 1 July 2017)

From 1 July 2017, the superannuation anti-detriment provisions will cease. The anti-detriment is effectively a refund of contributions tax that was payable during the course of a member's life on the death of that member where benefits are paid to either a spouse or dependent children. The removal of this payment makes sense as the original purpose of the payment has long been out-dated.

Changes to non-concessional contributions – EFFECTIVE IMMEDIATELY

A lifetime non-concessional contributions cap of \$500,000 will be introduced. To ensure maximum effectiveness, the lifetime cap will take into account all non-concessional contributions made on or after 1 July 2007, from which time the ATO has reliable contributions records, and will commence at 7.30 pm (AEST) on 3 May 2016. Non-concessional contributions include personal contributions made where no tax deduction is claimed, contributions made on behalf of a spouse and certain other amounts.

The lifetime non-concessional cap will replace the existing annual caps which allow annual contributions of up to \$180,000 per year (or \$540,000 every three years for individuals aged under 65). Contributions made before Budget night cannot result in an excess. However, excess contributions made after the budget will need to be removed or be subject to penalty tax.

This measure, which will be available to all Australians up to age 74, is intended to provide flexibility around when they choose to contribute to their superannuation. The Government's statistics show that the majority of Australians make non-concessional contributions well below \$500,000 during their lifetimes.

This announcement in particular has been met with a lot of disbelief and confusion. Apart from the fact that it is limiting the amount that taxpayers can set aside in superannuation for their retirement, it is also creating an incredible amount of uncertainty. Given the looming election, it may be many months before the issues raised by this announcement are resolved. In the meantime, we advise clients not to add additional non-concessional contributions into superannuation without first checking with us or their fund to ensure that they do not exceed the new \$500,000 cap.



SuperStream is here (finally!)

We have mentioned SuperStream in our past few newsletters, but the full implementation date has been delayed over and over again. Employers with 20 or more employees should already be working under the SuperStream system, however employers with fewer than 20 employees have additional time to get ready.

Employers with less than 20 employees now need to start using the system from 1 July 2016, and must report all super payments made after 1 July 2016 using an approved reporting method.

Most accounting software packages have released upgrades to cater for SuperStream and their systems should be fairly easy for employers to implement.

Other employers not using a computerised payroll system should consider using the Government's Small Business Superannuation Clearing House, which is a free service for employers with less than 20 employees.

Moving overseas no longer avoids a HECS / HELP debt

For a long time, once if you moved overseas after finishing study in Australia, you were not required to make any payments against your HECS / HELP debt in Australia, no matter what your income was. This has changed with laws passed in November 2015 and now repayments will need to be made if a person's 'worldwide income' exceeds the thresholds. From January 2016 if you go overseas for more than 6 months and have a HELP debt you will need to register with the ATO. If you already live overseas you will need to register by 1 July 2017. The first income year which will assess worldwide income is the 2016/17 year.

ATO data-matching for insured "lifestyle" assets

In January 2016, the ATO advised it was working with insurance providers to identify policy owners on a wider range of asset classes, including marine vessels, aircraft, enthusiast motor vehicles, fine art and thoroughbred horses. The ATO has since formally announced the data-matching program that covers these "lifestyle" assets, and will acquire details of insurance policies for these assets where the value exceeds nominated thresholds for the 2013–2014 and 2014–2015 financial years.

The ATO said it will obtain policyholder identification details (including names, addresses, phone numbers and dates of birth) and insurance policy details (including policy numbers, policy start and end dates, details of assets insured and their physical locations). The data-matching program will provide the ATO with a more comprehensive view of taxpayers' accumulated wealth, as well as assist in identifying possible tax compliance issues. It is estimated that records of more than 100,000 insurance policies will be data-matched.

ATO Scams

We are still seeing many fake emails claiming to be from the ATO. Generally, they link to a bogus ATO website asking for personal and credit card details. These emails can differ in their appearance and level of sophistication, but will generally state that you are eligible for a refund and instruct you to click on a link to submit a form to receive it. If you receive any correspondence from the ATO that you are unsure about, please contact us first before taking any action.

We've also had a few clients receive fake phone calls from people pretending to be from the ATO. These callers are quite aggressive and threaten all manner of things unless you meet their demands. Once again, if you receive a call like this, please refer them to us (as your tax agents) and refuse to comply with their demands.



Tables

Eligibility for the Superannuation Co-Contribution Scheme - 2015/2016

	If your personal super contribution is:				
	\$1,000	\$800	\$600	\$400	\$200
And your income is:	Your Super Co-Contribution will be:				
\$35,454 or less	\$500	\$400	\$300	\$200	\$100
\$36,954	\$450	\$400	\$300	\$200	\$100
\$38,454	\$400	\$400	\$300	\$200	\$100
\$39,954	\$350	\$350	\$300	\$200	\$100
\$41,454	\$300	\$300	\$300	\$200	\$100
\$42,954	\$250	\$250	\$250	\$200	\$100
\$44,454	\$200	\$200	\$200	\$200	\$100
\$45,954	\$150	\$150	\$150	\$150	\$100
\$47,454	\$100	\$100	\$100	\$100	\$100
\$48,954	\$50	\$50	\$50	\$50	\$50
\$50,454	\$0	\$0	\$0	\$0	\$0

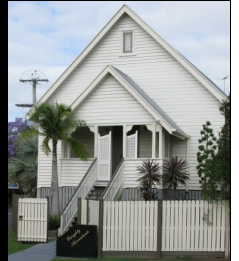
Cents per Kilometre Rates for Motor Vehicles

Cents per Kilometre Method (Claim is limited to a maximum of 5000 kilometres)				
Engine Capacity (cc)		Rate (cents/km)		
Conventional	Rotary	2014/2015	2015/2016	2016/2017
Up to 1600	Up to 800	65.0	66.0	66.0
1601 - 2600	801 - 1300	76.0		
Over 2600	Over 1300	77.0		

Private Health Insurance Rebate & Medicare Levy Surcharge Thresholds

Tier	Income Thresholds 2015/2016 & 2016/2017	Private health insurance rebate						Medicare levy surcharge #
		Under 65		Age 65-69		Age 70+		
		Up to March 2016	April 2016 Onwards	Up to March 2016	April 2016 Onwards	Up to March 2016	April 2016 Onwards	
No tier	Singles: \$0 - \$90,000 Families: \$0 - \$180,000 *	27.82%	26.791%	32.46%	31.256%	37.09%	35.722%	nil
1	Singles: \$90,001 - \$105,000 Families: \$180,001 - \$210,000 *	18.55%	17.861%	23.18%	22.326%	27.82%	26.791%	1%
2	Singles: \$105,001 - \$140,000 Families: \$210,001 - \$280,000 *	9.27%	8.930%	13.91%	13.395%	18.55%	17.861%	1.25%
3	Singles: \$140,001+ Families: \$280,001+ *	0%	0%	0%	0%	0%	0%	1.5

Family income thresholds increase by \$1500 for each dependent child after the first.



End of Year Checklist

Small Business Taxpayers (Turnover less than \$2 million for 2015/2016)

- Defer invoicing until after 30 June, where possible;
- Incur business expenses before 30 June. These expenses do not need to have been paid before 30 June, only incurred (eg. repairs);
- Purchase additional office or workshop consumables (eg. stationery) before 30 June. However to avoid apportionment rules do not purchase more goods than can be used in three months;
- Consider purchasing depreciating assets and software which cost less than \$20,000 (excluding GST) each, as an outright tax deduction is available for these items, where they are ready for use prior to 30 June;
- Consider purchasing depreciating assets costing more than \$20,000 (excluding GST) as Small Business taxpayers are entitled to six months depreciation in the year the asset is purchased irrespective of the date of purchase;
- Prepay expenses for up to 12 months in advance. But note, the period covered by the prepayment must end during the next financial year. Examples of items to prepay include rent, lease payments, interest, travel, training courses, subscriptions and insurance;
- Ensure that all superannuation contributions have been received by the relevant fund before 30 June.

Other Business Taxpayers

- Defer invoicing until after 30 June, where possible;
- Incur business expenses before 30 June. These expenses do not need to have been paid before 30 June, only incurred (eg. repairs);
- Purchase additional office or workshop consumables (eg. stationery) before 30 June. However to avoid apportionment rules do not purchase more goods than can be used in three months;
- Where *low value pooling* is used for depreciating assets, consider purchasing depreciating assets costing less than \$1,000 (excluding GST) before 30 June as 6 months depreciation is available in the year the asset is purchased irrespective of the date of purchase;
- Avoid prepayment of expenses which exceed \$1,000 (excluding GST). Prepayment of these expenses are not deductible in the year incurred and must be apportioned over the time period to which they relate;
- Ensure that all superannuation contributions have been received by the relevant fund before 30 June.

Services We Provide:

- Accounting •Auditing •Taxation •Preparation of Budgets and Cash Flow Projections
- Financial Planning •Self Managed Superannuation Funds •General Business Advice

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