Geraghty accountants

JUNE 2018 NEWSLETTER ISSUE 19

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WE

REFERRALS

Peter's Perspective

Welcome to our 'Budget and End of Year Newsletter'. We have endeavoured to cover the relevant changes that could have some impact on your tax planning or financial decisions. Please contact either myself, Brenden, Karyn or Susan to discuss any matter on which you need some clarification or extra information. We are only a phone call or email away.

Well the dust has settled since the handing down of the Federal Budget for 2018/19, but the tax debate between the major political parties continues. In order to plan for the future, you need to be aware of the more significant differences.

There are major differences in company tax policy and personal tax issues. One of the critical differences effects retirement planning. The Alternative Government has recently announced a tax policy surrounding the issue of franking credits. Under their plan, excess franking credits will be denied to non-taxable self-managed superannuation funds (SMSF) and people who are assessed as non-taxable. This will distort investment opportunities available to SMSF and low-income Australians.

In the words of Oscar Wilde, "When I was young I thought that money was the most important thing in life. Now that I am old I know it is". On face value, it seems very shallow, but if you look at the quote closely, he is really saying, plan for your retirement. Get the concepts right and they will guide your decision making while enjoying your life to the fullest.

My Staff and I have had the privilege of attending to your accounting, business and taxation requirements from 'The Abbey', coming up ten years at the end of June this year. It has been the most enjoyable experience of my professional life. I thank the wonderful team I have around me, and I thank you, our clients, who have shown wonderful loyalty over many years. I hope to talk to you soon.

Cheers, Peter.

Geraghty accountants
NEWSLETTER
JUNE 2018

2018/2019 Federal Budget

The Federal Treasurer, Scott Morrison, recently handed down the Government's plans for the next twelve months and beyond. With an eye to up-coming elections, one of the major announcements was a seven-year personal income tax cuts plan, commencing from 1 July 2018.

There have already been murmurings that the opposition and minor parties will not support the proposed tax cuts. Or at least not in the proposed form. So as always, please read the following notes on the basis that nothing is yet finalised and all items are subject to change.

INDIVIDUALS

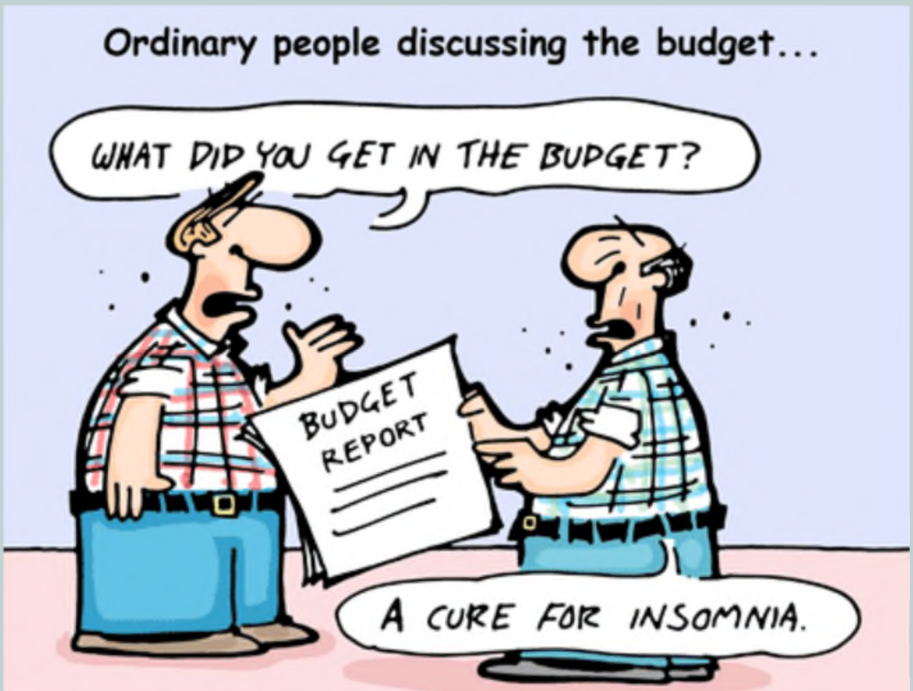
The proposed changes to the personal income tax rates and thresholds are shown in the table below.

Personal income tax rates and thresholds							
2017/2018		2018/2019		2022/2023		2024/2025	
Tax Rate (%)	Income Range ($)	Tax Rate (%)	Income Range ($)	Tax Rate (%)	Income Range ($)	Tax Rate (%)	Income Range ($)
0	0 - 18,200	0	0 - 18,200	0	0 - 18,200	0	0 - 18,200
19	18,201 - 37,000	19	18,201 - 37,000	19	18,201 - **41,000**	19	18,201 - **41,000**
32.5	37,001 - 87,000	32.5	37,001 - **90,000**	32.5	**41,001 - 120,000**	32.5	**41,001 - 200,000**
37	87,001 - 180,000	37	**90,001** - 180,000	37	**120,001** - 180,000	-	-
45	180,001 +	45	180,001 +	45	180,001 +	45	**200,001 +**

In addition to these changes, the Government will also introduce a new Low and Middle Income Tax Offset (LMITO). This will be a non-refundable offset and will apply from 1 July 2018 until 30 June 2022. The maximum annual offset will be $530 and will cut out once a taxpayers taxable income reaches $125,333 per annum. This offset will not reduce PAYG Withholding obligations during the year, but instead will be paid as a lump sum once the individual submits their income tax return.

The existing Low Income Tax Offset (LITO) will be increased to $645 (currently $445), on 1 July 2022. This coincides with the end of the new Low and Middle Income Tax Offset.

Finally, the previously announced increase in the Medicare Levy will not proceed. The Medicare Levy will remain at its current rate of 2% of taxable income.



2018/2019 Federal Budget - Continued

BUSINESS

$20,000 Instant Asset Write-off
The $20,000 instant asset write-off will be extended for further 12 months until 30 June 2019. Each eligible business asset purchased for less than $20,000 (exclusive of GST if you are registered for GST) can be claimed as an immediate tax deduction. Items costing more than this amount will continue to be depreciated as per normal. This instant write-off is available for small-businesses with an annual turnover of less than $10million.

Removing Deductions for Non-Compliant Payments to Employees and Contractors
From 1 July 2019, businesses will no longer be able to claim tax deductions for salary and wages payments where they have not withheld any amount of PAYG from the payments, despite the PAYG Withholding requirements applying.

Furthermore, businesses will no longer be able to claim a deduction for payments to contractors where the contractor does not provide an ABN and they have not withheld any amount of PAYG from the payments, despite the PAYG Withholding requirements applying.

Introduction of Business Cash Payment Limit
From 1 July 2019, cash payments made to a business for goods and services will be limited to a $10,000 threshold. Any payments for an amount greater than this will now need to be paid through an electronic banking system, or via cheque.

The exact details on how this will work are still to be announced, but the Government are hoping that these changes will remove opportunities for criminals to launder the proceeds of crime into goods and services, or for businesses to hide transactions to reduce their tax liabilities.

Expansion of Taxable Payments Reporting System (TPRS)
The current TPRS requires businesses in the building and construction industry to report to the ATO, in a *Taxable payments annual report,* all payments made to contractors during a year. The ATO uses the reported information in its data matching programs to identify contractors who have either not lodged tax returns, or not included all their income in returns they have lodged.

The Government has announced that it will extend the Taxable Payments Reporting System include businesses in the following industries:

From 1 July 2018	From 1 July 2019
Couriers	Security Providers
Cleaning Industry	Road Freight Transport
	Computer System Design

2018/2019 Federal Budget - Continued

SUPERANNUATION

Work Test Exemptions
Under the current rules, those who are between the ages of 65 and 74 have to meet a “work test” before they are eligible to make contributions to their superannuation fund. This work test requires them to have worked for at least 40 hours during a 30 day period during the financial year.

The Government has now announced that, from 1 July 2019, if a person in this age bracket has a total superannuation balance of less than $300,000, then they will be entitled to make contributions to superannuation without having to meet the work test requirements.

Maximum Number of Members in a SMSF
The Government is proposing to increase the maximum number of members allowed in an Self Managed Superannuation Fund, from four to six. The intent of this change is to allow for greater flexibility of these funds, in particular for large families.

Preventing Excess Contribution Issues for High Income Earners
Individuals with employment income of above $263,157, and who have multiple employers, will now be able to nominate that their wages from certain employers be not subject to the compulsory Superannuation Guarantee rules.

This change will allow these individuals to avoid unintentionally breaching the $25,000 annual concessional contributions cap as a result of multiple compulsory SG contributions. Breaching the cap otherwise results in these individuals being liable to pay excess contributions tax, as well as a shortfall interest charge.

Three Year Audit Cycle for some SMSFs
The Government has proposed a new triennial audit cycle for Self Managed Superannuation Funds with a good compliance history. This will replace the current requirement to have the fund audited every year.

Whilst this was announced as a way of reducing red tape and costs for SMSF trustees, there is much doubt over the viability of the proposals. All indications so far are that it will not actually help trustees, and may even end up costing more in the third year when the audit falls due.

Deductions for Personal Superannuation Contributions
To be entitled to claim a deduction for personal contributions to a superannuation fund, an individual must first notify their superannuation fund of their intent to claim a tax deduction. This notice must be given before the tax return for that year is submitted, or the 30th of June of the following year (which ever comes first). The purpose of this notice requirement is so that the superannuation fund knows how to treat the contributions in their records. It also ensures that the fund pays contributions tax (at 15%) on any contributions for which a tax deduction is being claimed.

The Government has announced that they will tighten the rules regarding this notification process for the current tax year. On the 2018 individual tax return, you will now be required to indicate if you have given notice to your superannuation fund of your intent to claim a deduction and if you have received an acknowledgment from the fund. If you answer no to either question the ATO will disallow the deduction.

The aim of this measure is to prevent cases where taxpayers were claiming a tax deduction for their personal contributions, but the fund was treating the contributions as if no deduction was being claimed (and thereby not paying the 15% contributions tax).

2018/2019 Federal Budget - Continued

OTHER MEASURES SUPERANNUATION

Deductions Denied for Vacant Land
From 1 July 2019, land owners will no longer be able to claim tax deductions for expenses associated with holding vacant land. Such expenses would include loan interest, council rates and land tax.

Deductions that are now denied under these changes will not be able to be carried forward to later years. Any amounts that would ordinarily be a capital gains tax cost base element will continue as such, but other costs will effectively be lost for tax purposes.

The Government's intent when making these changes is to reduce tax incentives for "land banking" which deny the use of the land for housing and development.

Testamentary Trusts
Currently, income received by minors from testamentary trusts is taxed at normal adult rates rather than the higher marginal tax rates that generally apply to minors. This means that these minors are able to access the full adult tax free threshold.

However, some taxpayers can inappropriately obtain the lower tax rates by injecting assets unrelated to the deceased estate into the testamentary trust.

The Government is now proposing changes that will limit the concessional tax treatment in testamentary trusts. The concessional treatment will be limited to income the testamentary trust generates from assets of the deceased estate, or the proceeds of the disposal or investment of these deceased estate assets.

ATO Crackdown on Unpaid Tax Debts
The Government has provided additional funding to the ATO to allow it to address the level of unpaid tax and superannuation debts in the community.

Reforms to Combat Phoenix Activity
Further reforms have been announced in a bid to stamp out illegal phoenix arrangements, whereby a new company is established to continue the business of another company that was liquidated to avoid paying its debts.

The new rules will introduce new criminal offences for those involved with, or that are promoting the use of, such schemes. It also places further obligations on the directors of these companies, including making them personally responsible for the taxation debts of the company.

Superannuation Contribution Caps

There are two types of contributions you can make to your super: concessional (before tax) and non-concessional (after tax).

Concessional contributions include before-tax amounts that an employer pays on your behalf, including the 9.5% compulsory super and any amounts you salary sacrifice. It also includes personal contributions that you make and claim a tax deduction for. In the current financial year (and beyond) these concessional contributions are capped at $25,000 per year for all.

Concessional contributions are taxed in the super fund at a maximum rate of 15% (or 30% for those with an income above $250,000. This tax rate in super is quite often lower than your personal marginal tax rate, so making additional concessional contributions can be a good way of lowering your overall tax payments.

Non-concessional contributions are now capped at $100,000 per year. People under 65 years of age are also able to bring forward an extra two years' worth of contributions, raising the contribution limit to $300,000.

Superannuation Guarantee Amnesty Introduced

The Government has introduced a one-off, twelve month amnesty for historical underpayment of SG. The amnesty will run for twelve months from 24 May 2018. The amnesty encourages employers to come forward and "do the right thing by their employees", by paying any unpaid superannuation in full. They will still need to pay interest on the late payments, but will be able to avoid paying the normal penalties for late payment.

Employers that do not take advantage of the amnesty will face higher penalties when they are subsequently caught – in general, a minimum 50% on top of the SG Charge they owe. In addition, throughout the amnesty period the ATO will still continue its usual enforcement activity against employers for those historical obligations they don't own up to voluntarily.

Get Ready for Single Touch Payroll

Single Touch Payroll (or 'STP') will be mandatory for employers with 20 or more employees, from 1 July 2018. Employers with less than 20 employees will be required to comply by 1 July 2019.

All employers were supposed to have counted the employees on their payroll, on 1 April 2018. If you have not already done this, it can be done after 1 April, but you need to count the employees who were on your payroll on 1 April. You must count each employee, including full-time, part-time and casual employees, as well as those employees based overseas or absent or on leave (paid or unpaid). Employers that are part of a company group must include the total number of employees employed by all member companies of the wholly-owned group. However, employers don't have to include the following in the headcount:

- any employees who ceased work before 1 April;
- casual employees who did not work in March;
- independent contractors;
- staff provided by a third-party labour hire organisation;
- company directors or office holders; or
- religious practitioners.

STP requires employers to report PAYG withholding and superannuation contribution details to the ATO, at the time the payments are made to employees or superannuation funds. **This reporting will need to be done using a compatible accounting software package.**

When it comes to PAYG withholding, employers will report details of salary and wages paid to employees as well as the PAYG withholding amount. Employers have the option of paying the PAYG withholding liability at the same time, although this is not compulsory. Payments that must be reported include:

- Salary & wages
- Employment termination payments (ETPs) – not compulsory if the employee has died
- Unused leave payments
- Parental leave pay
- Payments to office holders (ie. Directors and trustees)
- Payments to religious practitioners.
- Superannuation contributions (at the time the payment is made to the fund).

At this stage it is not compulsory to also report Reportable Employer Superannuation Contributions or Reportable Fringe Benefits Tax amounts. However, if these payments are reported, the employer will no longer need to prepare annual PAYG Payment Summaries (Group Certificates), as employees will be able to access their live data through electronic channels. If your business does not report through STP or does not finalise its reporting, payment summaries will still be required.

The Government and ATO are promoting STP as a way to improve the efficiency of payroll processes and reporting obligations. It will also give the ATO early warning of businesses that are finding it difficult or simply failing to meet their PAYG Withholding and Superannuation Guarantee obligations. This should hopefully have a flow on benefit to employees who might otherwise miss out on benefits to which they are entitled.

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Tables

Eligibility for the Superannuation Co-Contribution Scheme - 2017/2018

	If your personal super contribution is:				
	$1,000	$800	$600	$400	$200
And your income is:	**Your Super Co-Contribution will be:**				
$36,813 or less	$500	$400	$300	$200	$100
$38,313	$450	$400	$300	$200	$100
$39,813	$400	$400	$300	$200	$100
$41,313	$350	$350	$300	$200	$100
$42,813	$300	$300	$300	$200	$100
$44,313	$250	$250	$250	$200	$100
$45,813	$200	$200	$200	$200	$100
$47,313	$150	$150	$150	$150	$100
$48,813	$100	$100	$100	$100	$100
$50,313	$50	$50	$50	$50	$50
$51,813	$0	$0	$0	$0	$0

Private Health Insurance Rebate & Medicare Levy Surcharge Thresholds

Tier	Income Thresholds 2017/2018 & 2018/2019	Private health insurance rebate						Medicare levy surcharge #
		Under 65		Age 65-69		Age 70+		
		Up to March 2018	April 2018 Onward	Up to March 2018	April 2018 Onward	Up to March 2018	April 2018 Onward	
No tier	**Singles**: $0 - $90,000 **Families**: $0 - $180,000	25.934%	25.415%	30.256%	29.651%	34.579%	33.887%	nil
1	**Singles**: $90,001 - $105,000 **Families**: $180,001 - $210,000	17.289%	16.943%	21.612%	21.180%	25.934%	25.415%	1%
2	**Singles**: $105,001 - $140,000 **Families**:$210,001 - $280,000	8.644%	8.471%	12.966%	12.707%	17.289%	16.943%	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 $10 million for 2017/2018)

- 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 each (excluding GST), 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

▪Registered SMSF Auditors

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