RJC EVANS & Co

News

RJC EVANS & Co
Accountants • Tax Agents • Advisors

Working to maximise your wealth
OVER 90 YEARS
SINCE 1921
RJC EVANS & CO

March 2017

/RJCEvansandCo

In this Issue

Contact

RJC Evans & Co Pty Ltd
ABN 40 007 804 220
116 Greenhill Road
Unley SA 5061

T: (08) 8272 2500
F: (08) 8271 1853
E: rjcevans@rjcevans.com.au
W: www.rjcevans.com.au

/RJCEvansandCo

Roll up your sleeves. It's action time!

Pursuing opportunities is what we do. With each path we take there will always be a physical, financial and emotional cost.

There is no such thing as a free lunch.

Life is full of choices. The general tactic is to weigh up the pros and cons of each option.

At times, many of us will do this poorly, as we can quite often do what we want, rather than what is required.

Fortunately for humankind, there have always been people who have looked at things from a different perspective. Like those who knew the earth wasn't flat: to those who knew that one day a person would walk on the moon.

Recently I was introduced to a story along these lines called, "The Shoes" and this resonated with me.

> Many years ago, two sales people were sent to Africa, on behalf of a British shoe-maker, to investigate and report back on the market potential.
>
> The first sales person reported back, "There is no potential here – nobody wears shoes".
>
> The second sales person reported back, "There is massive potential here – nobody wears shoes".

This simple, short story, provides one of the best examples of how a single situation might be viewed in two quite different ways, negatively and positively.

Perhaps, it is time to consider removing the letter "t" from "can't" and confidently move forward into 2017.

Andrew Evans

General News

SUPERANNUATION CHANGES

The superannuation changes can largely be categorised into two main themes:

1. Contribution Changes

2. Changes in retirement

Contribution Changes

The changes to contributions will take effect from 1 July 2017. From this date, there will be a reduction in the amount that can be contributed annually. Additionally, if you have, or are approaching a total superannuation balance of $1.6 million, an additional restriction on your non-concessional contributions will apply.

From 1 July 2017, the annual limit for concessional contributions will fall to $25,000. This limit applies for everyone eligible to make these pre-tax contributions. They generally comprise Superannuation Guarantee (SG) amounts from employers, amounts salary sacrificed to superannuation and, if you are eligible, personal deductible contributions.

If you currently salary sacrifice, you may need to review your arrangements by 1 July 2017, to ensure that you don't inadvertently exceed the new concessional contribution cap.

For non-concessional, or after tax contributions from 1 July 2017 the annual cap will be reduced from its current $180,000 to a lower limit of $100,000. The three year bring-forward provision still applies, meaning you can do up to three years' worth of contributions in one year, provided you are under 65 years old at the start of the year.

With this limit reducing from 1 July 2017, the question will arise as to what can be contributed this year? If you are under 65 on 1 July 2017, and you haven't used the bring-forward provision in the last two years, you actually have the ability to contribute up to $540,000 of after-tax contributions, this financial year.

Changes in Retirement

Despite all the talk of the changes to superannuation in retirement, there have been no changes to rules around when you can actually access your superannuation or, if it comes from an accumulation style fund, the way the payments are taxed to you. The existing rules continue to apply.

Essentially, only two things have changed:

Firstly, if you have commenced drawing on your superannuation through a "Transition to Retirement (TTR) Income Stream" or look to commence one from 1 July 2017, from that date, earnings on the assets in your superannuation fund that support that TTR, will no longer be tax free. Rather, those earnings in the fund will be taxed at the standard 15% tax rate in superannuation, rather than be tax-free in the fund.

There is no change to your personal tax on the amounts you receive from a TTR.

Secondly, for a pension paid in the "Retirement Phase", which essentially refers to pensions paid to you after retirement or age 65, there is a limit on how much you can actually start these pensions with. From 1 July 2017, that limit will be $1.6 million. Amounts above that, need to stay in accumulation phase, with the earnings on those accumulation amounts, continuing to be taxed within the fund at the rate of 15%.

One of the major points that these recent superannuation changes have shown, is that it is really important to understand what the changes mean specifically for you.

Please contact our office, should you require advice which relates to your specific circumstances.

EXPIRY DATE 30TH OF JUNE 2017

Last Chance for the $20,000 Write-Off

The expiry date for a small business to claim an immediate deduction for assets they start to use – or have installed ready for use – provided each depreciable asset cost less than $20,000, is the 30th of June 2017.

Legislation is currently before Parliament which will categorise a Small Business as one with turnover less than $10 million. Until this is passed, the limit remains at $2 million.

The threshold is applied on an asset-by-asset basis. Even when the assets purchased, are identical, or form part of a set, each is entitled to its own $20,000 threshold. This is in contrast to non-business taxpayers (such as rental property owners).

You should ensure invoices separately itemise each asset that you purchase, or at least the quantity of asset, when they are identical.

What impact does a trade-in have?

As the $20,000 is supplied on the cost of the asset, the trade-in value of an item is irrelevant. The trade-in simply reduces the net amount to be paid for the asset, not the cost of the asset. For example, if you purchase a $30,000 business vehicle, which after a trade-in of $20,000, only requires a further $10,000 payment, the new vehicle is not eligible for the $20,000 write-off as the cost is $30,000 – even though the net amount to be paid for the goods is less than the $20,000 threshold.

Are financed assets eligible?

Yes – depending on the type of finance.

Assets that are the subject of either a commercial loan, chattel mortgage or hire purchase, would all qualify.

Assets that are the subject of a lease, do not qualify for the write-off, due to the fact that the ownership of the asset, under a lease, remains with the finance company.

MUST READ

Checklist of Tax Changes Taking Effect in 2016/17

Small Businesses & Companies

- The corporate tax rate for small business entities was reduced to 28.5% from 1 July 2015.
- Individuals who receive business income from a small business entity, not being from a company, are entitled to a Small Business Income Tax Offset of 8% from 1 July 2016 with the Aggregated Annual Turnover Test being increased to $5 million. However, the tax offset is still capped at $1,000.

Personal Tax

- The tax threshold, at which the 37% marginal tax rate for individuals commences, increased from $80,000 to $87,000 from 1 July 2016.
- From 1 January 2016, taxpayers who have moved overseas for more than six months, are required to pay back their HELP debts the same way as they would if they were residing in Australia, with repayment obligations commencing 1 July 2017.
- Temporary working holiday makers will be taxed at 15% from their first dollar earned, up to $37,000, with ordinary marginal tax rates applying after that, commencing 1 January 2017.
- The 10% HELP Up-Front Payment Discount will no longer apply for payments made in relation to units of study after 1 January 2017.
- The 5% HELP Voluntary Repayment Bonus has been removed for payments made on or after 1 January 2017.
- The way Fringe Benefits are treated under the Income Test, for Family Assistance, Medicare Levy Surcharge and certain personal tax offsets, has changed from 1 January 2017.

Capital Gains Tax

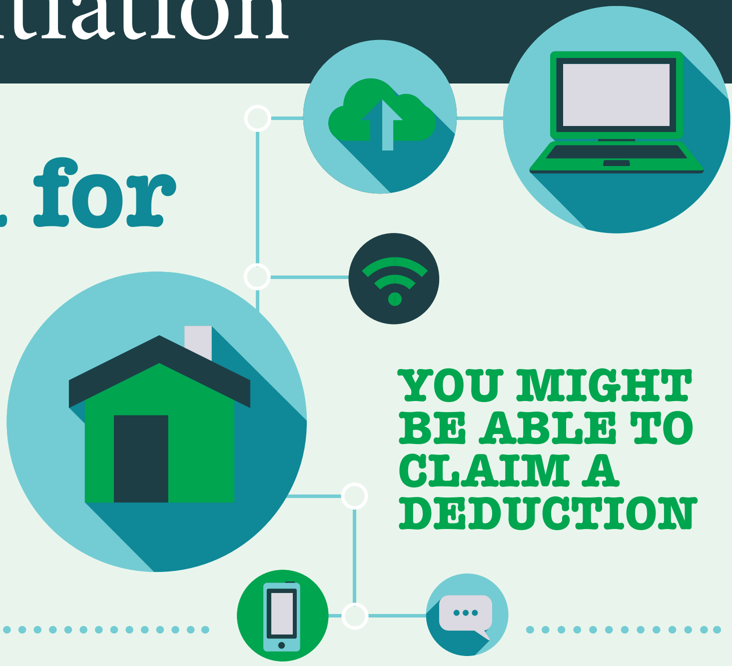
- For taxable Australian property with a market value of $2 million or more, the purchaser will have to make a Foreign Resident CGT Withholding of 10% from the sale price, unless the vendor has a Clearance Certificate from the ATO from 1 July 2016.
- CGT Rollover Relief is available for small businesses that change their legal structure from 2016/17.

Primary Production

- The maximum amount that can be held in Farm Management Deposits (FMD) has been increased to $800,000 from 1 July 2016.
- Primary Producers experiencing severe drought conditions, are allowed to withdraw an amount held in an FMD without 12 months of deposit, from 1 July 2016.
- For those eligible, amounts held in an FMD can be used to offset loans or other debts relating to the FMD owners' Primary Production business, from 1 July 2016.
- Primary Producers will be allowed to access income tax averaging, ten income years after choosing to opt-out, instead of that choice being permanent, from 2016/17.

Expense Substantiation

Substantiation for Mobile, Home Phone and Internet Costs



The ATO has issued guidance on making claims for mobile phone use, as well as home phone and internet expenses. If a client uses any of these for work purposes, they may be able to claim a deduction, if there are records to support the claims. The ATO points out that both work and private use will require a taxpayer to work out the percentage that "reasonably relates" to work use.

Substantiating Claims

The ATO requires that records are kept for a four-week representative period in each income year, to claim a deduction of more than $50. These records can include diary entries, electronic records, and bills. Evidence that your employer expects you to work at home or make some work-related calls, will also help you demonstrate that you are entitled to a deduction.

How to Apportion Work Use of the Phone

As there are many different types of plans available, work use will be determined on a reasonable basis.

Incidental Use

If work use is incidental and a deduction less than $50 in total is being made, the claim can be based on the following, without having to analyse bills:

- **$0.25** for work calls made from a landline
- **$0.75** for work calls made from a mobile
- **$0.10** for text messages sent from a mobile

Usage is Itemised on Bills

If you have a phone plan where you receive an itemised bill, you will need to determine the percentage of work use of a four-week representative period, which can then be applied to a full year.

The percentage needs to be worked out on a reasonable basis. This could include:

- The number of work calls made as a percentage of total calls
- The amount of time spent on work calls as a percentage of total calls
- The amount of data downloaded for work purposes as a percentage of total downloads

Usage is Not Itemised on Bills

If you have a phone plan where you don't receive an itemised bill, you can determine work use by keeping a record of all calls over the four-week representative period. The claim can then be calculated on a reasonable basis.

Bundled Phone & Internet Plans

Nowadays, phone and internet services are often bundled together. The ATO states that when taxpayers are claiming deductions for work-related use, for one or more services, they need to apportion their costs based on their work use for each service. If other members in your household also use these services, you will need to take into account their use in your calculation.

If you do have a bundled plan, then you need to identify the work use for each service over a four-week representative period, during an income year. This will allow you to determine the pattern of work use, which can then be applied to the full year.

A reasonable basis to work out work-related usage could include:

Internet:

- Amount of data downloaded for work as a percentage of the total data downloaded by all members of the household
- Any additional costs incurred as a result of work-related use – for example, if work-related use results in you exceeding your monthly cap

Phone:

- Number of work calls made as a percentage of total calls
- Amount of time spent on work calls as a percentage of total calls
- Any additional costs incurred as a result of work-related calls – for example, if work-related use results in you exceeding your monthly cap

Purchasing Shares for Minors – what are the options?

Acquiring shares on behalf of minors is complex as there are a number of options available.

Tax consequences can apply. Different approaches that can be engaged upon are listed below. For complete guidance please do not hesitate to contact our office before investing.

1. Purchase in a child's name - The legal and beneficial owner of the shares is the child
2. Purchase in a child's name with a guardian or adult being registered as the legal owner to assist with administering the account on behalf of the child
3. Purchase in Trustee of, say, a Discretionary Family Trust - If the shares are purchased by the Trustee of the Family Trust, the legal owner is the Trustee on behalf of the beneficial owner, being the Family Trust. The child does not have beneficial ownership of the shares – the Trust does. The child in this case is a potential beneficiary of the Trust

The simplest option for registering the shares, is to use the name of either parents/grandparents with an appropriate designation, such as:

Adult:	Minor:
John Alfred Smith	Joan Smith A/C

While it is legally possible to register the shares in the name of the child, there may be difficulties in administering the account through the share registry, particularly for actioning corporate activities, such as new share issues.

When investing for children or grandchildren (minors) the tax treatment of this investment is an important consideration. The taxing of children's' income can be quite complex. Special taxation rules apply to children under the age of 18 (known as minors).

Taking the options outlined previously

1. Any unearned income of $416 or below, is tax free to the child. There is no tax return required to be lodged other than to obtain a refund for any imputation credits that may be attached to any dividend income received.

   For any unearned income exceeding $416, the child's income will be taxable. Where a child's unearned income exceeds $1,445, all unearned income is taxed at the highest marginal rate of 47% (detailed rates are below).

   Based on the level of a child's income, the Medicare Levy may also be payable.

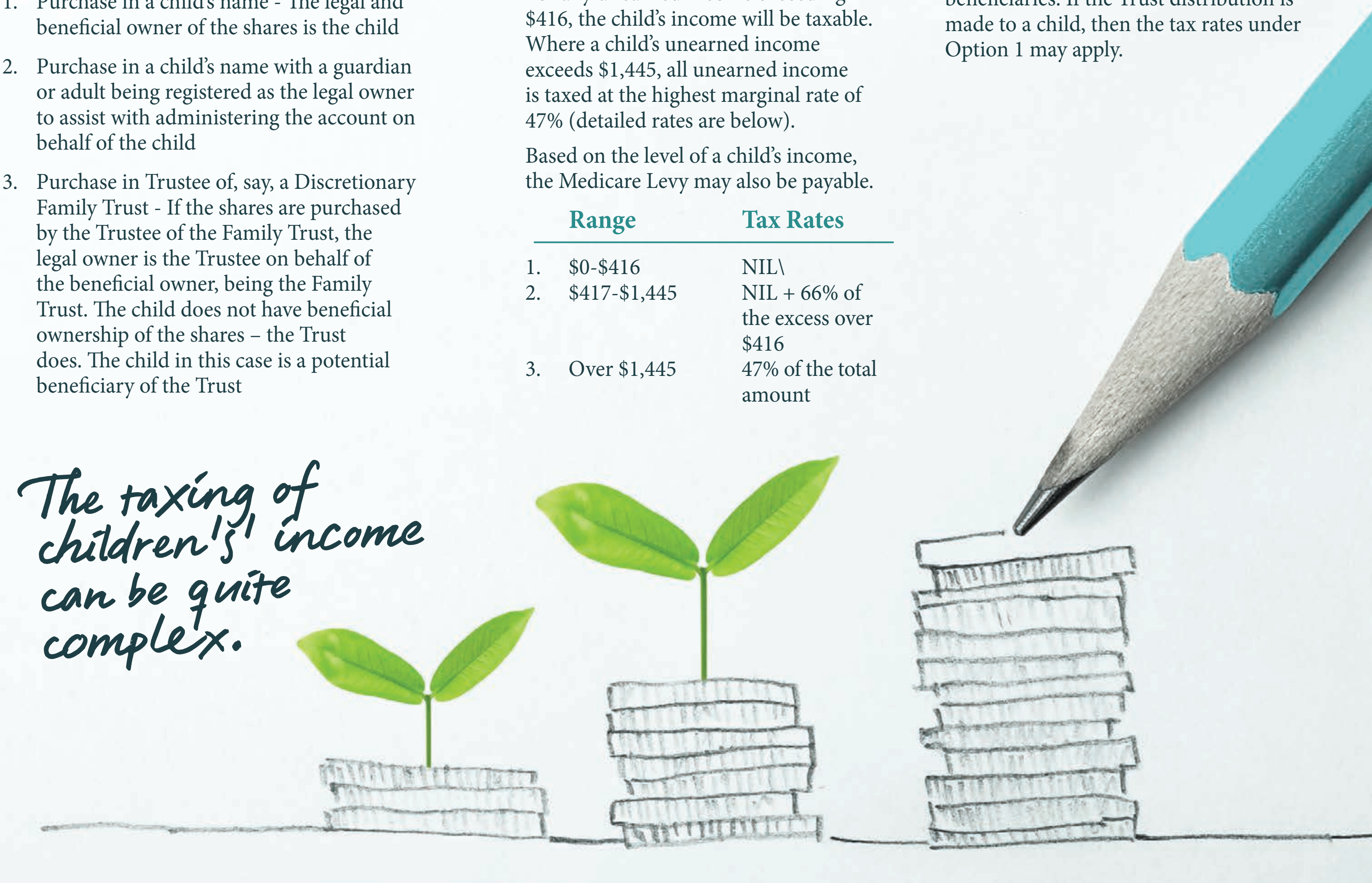
	Range	Tax Rates
1.	$0-$416	NIL\
2.	$417-$1,445	NIL + 66% of the excess over $416
3.	Over $1,445	47% of the total amount

2. If the money to buy the shares is provided by a person other than the child (ie a parent or a grandparent) and that person makes all the decisions about the shares and benefits from the income and capital, then that person is considered to be the beneficial owner of the shares and must declare all income and capital gains or losses in their own income tax return.

   If however, the shareholding is passive or a gift to the child, and the income benefits are clearly held on behalf of the child, then the child can be deemed as the beneficial owner. The parent or grandparent is said to be acting in a Trustee capacity only. In this instance, the tax and rates described under Option 1 would apply to the child.

   When quoting Tax File Numbers (TFNs), it is best to quote the TFN of the person who will declare the income. If this is a child, you will need to apply for a TFN for them.

3. Each year the Trustee will generally make a resolution which determines the distribution of the Trust's income to the beneficiaries. If the Trust distribution is made to a child, then the tax rates under Option 1 may apply.



Managing Farm Risk Programme

An eligible primary production business is able to claim a 50% rebate (up to a maximum of $2,500 excluding GST) for the cost of independent and professional advice which relates a new insurance product application.

In order to satisfy the eligibility requirements, the primary production business must meet all of the following criteria:

1. operate as a sole trader, trust, partnership or private company;
2. under normal circumstances, have at least one member who derives at least 50 per cent of their income from the farm business;
3. is involved within the agricultural, horticultural, pastoral, apicultural or aquacultural industries;
4. is wholly located in Australia;
5. is registered for tax purposes in Australia, holds an ABN and is registered for GST;
6. is not a public company under the meaning of the *Corporations Act 2001* (Cth);
7. for the previous financial year, had **total cash receipts** of less than $2 million;
8. has a written offer or refusal from an insurance provider for a **new insurance product** that assists with the management of production risks; and
9. has not previously applied for and been paid a rebate under the programme.

A new insurance product is a product the business has not held in the last five years, with any insurer. The insurance products eligible for expenditure rebates are:

- single-peril insurance products;
- multi-peril insurance products; and
- parametric products.

If you have recently incurred expenses relating to a new insurance policy, or are considering applying for a new insurance policy and meet all of the criteria above, we recommend you complete the application form which is available from:

www.agriculture.gov.au/ag-farm-food/drought/assistance/mfrp/application

Each business is limited to one rebate application, which must be submitted within 12 months of the first expense being incurred. All applications must be received by 15th May 2019, unless the allocated funding is exhausted earlier. Please note the rebate does not apply to the cost of insurance premiums.

If you would like any additional information regarding the rebate feel free to contact our office.

Farm Management Deposit Scheme Eligibility Criteria

HAVE YOU THOUGHT ABOUT A FMD?

- A FMD owner must be an individual carrying on a primary production business in Australia with an off-farm taxable income of less than $100,000, in the financial year they make the deposit.
- The FMD Offset Account can only be opened in the name of one individual and on behalf of only one individual.
- The total of all FMDs held in the FMD owner's name, must not exceed $800,000.
- An FMD must be deposited for a minimum of twelve months to receive or retain any applicable taxation benefit, unless the primary producer:
  - Has received primary producer Category C recovery assistance following a natural disaster under the National Disaster and Recovery Arrangements, or
  - Is affected by rainfall deficiency (severe drought) for at least six consecutive months.

Farm Management Deposit Offset Account

Specific FMD Offset Legislative Criteria

The FMD Offset Account can only be linked to an eligible owner of an FMD or their partnership. It excludes companies, trusts or a person who is not an FMD owner.

The linked loan must be used wholly for the purpose of the primary production business.

However, the fact that a company or trust is a partner in a partnership, and carries on a primary production business, does not prevent another partner in the partnership, who is an individual, from using amounts they hold in an FMD to offset the loans or other debts of the partnership.

If the FMD Offset Account is linked to a loan that does not wholly relate to a primary production business, that the FMD owner (or a partnership of which that owner is a partner) carries on, the FMD owner is liable to an administrative penalty of up to 200% of the offset benefit.

An FMD Offset Account can only be linked to one loan at any particular time.

When Did Australia Ride on The Sheep's Back?

A recent article written by The Agri Business Australasia Newsletter, asked this question and provided the following information from a mix of sources.

Prosperity peaked in 1950-51 when the average greasy wool price reached 144.19 pence per pound, (around $37 per kg in today's prices), compared to roughly $10 per kg ($13ac/clean) being achieved now.

This increase in price was attributed to the demand for wool in the Korean War. During this period, Australia was said to be, "Riding on the sheep's back".

In 1945-46, wool represented 17% of the total value of production for all agricultural industries. In 1950-51, this rose to 56%. This led to a rise in sheep numbers, from 96 million in 1946, to 113 million in 1950. As could be expected, the exceptionally high prices did not last and returns quickly fell away.

By 1966-67, wool had declined to 21% of the total value of production for agricultural industries.

For the 2015/16 year, 73.7 million sheep were shorn.

Fences – Primary Producers

When fencing is damaged or destroyed by bushfire or as a result of back-burning activities, an immediate deduction for the repair or replacement of the fence is available.

DOES THIS EFFECT YOU?

General

RJC Evans & Co Pty Ltd
ABN 40 007 804 220
116 Greenhill Road UNLEY SA 5061

T: (08) 8272 2500 F: (08) 8271 1853
E: rjcevans@rjcevans.com.au
W: www.rjcevans.com.au

Travel & Overtime Meal Allowances

What is Travel Allowance & Meal Allowance?

Travel allowance is a payment made to an employee to cover those costs that are incurred when they sleep away from home. Expenses can include accommodation, food, drink or other incidental expenses.

An allowance can also be given for meals the employee may require during overtime work shifts.

For tax purposes the allowance received, as specified by a PAYG Payment Summary, will be treated as income. Even though an allowance may be granted it doesn't automatically mean you have incurred a deduction for the expense. Like all tax deductible expenses the work related expense must have been incurred.

An allowance will only be shown in a tax return whereby the amount is stated on the individual's payment summary.

Substantiation rules

Substantiation rules apply to travel related tax deductions. Documentary evidence to support your claim must be available. Exceptions do apply.

Substantiation exceptions only apply whereby an allowance has been paid. Where the expense is less than the allowance no documentary evidence is required. However, if the expense you wish to claim is greater than the allowance offered, the substantiation rules apply.

Substantiation rules also depend on the length of travel and the ATO specified reasonable allowance. Each year the ATO specifies a reasonable allowance that would be relevant to claiming a travel expense. If the expense exceeds the ATO reasonable allowance substantiation is required.

Small Businesses and Travel Expenses

The starting point for a travel claim, is that the expense has to be in relation to carrying on the business.

Travel expenses can still be claimed even if personal activities take place during the travel. However, the dominant purpose of the trip must be for business purposes. If the dominant purpose is a private holiday, no deductions are allowed.

Substantiation rules apply where travel is longer than 6 nights. However, what form of substantiation is required, depends on type of travel.

The following table summarises the substantiation requirements for domestic and overseas travel:

	Domestic Travel		Overseas Travel	
Travel allowance received	Written Evidence	Travel Diary	Written Evidence	Travel Diary
Travel expense incurred **IS LESS** than the ATO reasonable allowance				
Travel < 6 nights	No	No	No	No
Travel > 6 nights	No	No	No	Yes
Travel expense incurred **EXCEEDS** the ATO reasonable allowance				
Travel < 6 nights	Yes	No	No	No
Travel > 6 nights	Yes	Yes	Yes	Yes

IN BRIEF

WHOLLY GUACAMOLE!

Avocado consumption in Australia is at an all-time high. Smashed avocado choices are on just about every metropolitan café menu. Wellness gurus have labelled the fruit a super food due to its richness in vitamin C, antioxidants and folate.

The industry had a stellar 2015-16 year with production hitting 66,716 tonnes. This is up 16% on 2014-15. The total gross value of avocado production was $460 million, an increase of 30% on 2014-15.

Australian production has doubled over the past decade and is forecast to double again with 100,000 tonnes expected by 2025. Last year Australian per capita consumption reached 3.27 kg per person, amongst the highest avocado consumption levels in the English-speaking world.