RJC EVANS & Co

News

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TIME TO NAVIGATE YOUR FINANCIAL PATH

The wheel is in your hands. The accelerator is under your foot. The vehicle will go, within reason, wherever you decide to take it.

Are you sure you know where you want to go? If so, are you sure you know the best route?

The end of the financial year approaches. It is time to be navigating your financial path towards the 30th of June 2017, and beyond.

Most of our attention is fixed on planning 2017 tax outcomes. However, there is one significant elephant in the room this year.

With major changes scheduled to take place with superannuation on 1 July 2017, considerable thought should be put into how these changes will affect you. **These are the most significant changes to superannuation in the last ten years.**

Now is not the time to adopt the position of "the less we know, the better off we are". Take the time to learn and understand these new rules.

Important decisions can't be left to chance. Mid-way through the preparations of his 1911-14 Antarctic Expedition, Sir Douglas Mawson said, "I am prepared to go on exploring for the rest of time, but it is the organisation from which one shirks".

History has proven that he and his team didn't shirk from the hard decisions. Procrastination was not an option.

"Near enough is not good enough" is inscribed on the walls of the dark room at a hut at Cape Denison, by Mawson's photographer, Frank Hurley.

Year end is a call to action: for both the closure of this financial year and setting plans in place for the new financial year.

Andrew Evans

2017 Budget

2017 BUDGET HIGHLIGHTS

must read

- A limited amount of an individual's voluntary superannuation contributions, made from 1 July 2017, may be withdrawn from 1 July 2018 onwards for a first home deposit.
- A person aged 65 or over, can contribute up to $300,000 from the proceeds of the sale of their long-term home, as a non-concessional contribution into superannuation, from 1 July 2018.
- Deductions for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property will be disallowed by 1 July 2017.
- Plant and equipment depreciation deductions will be limited to outlays actually incurred by investors in residential real estate properties, from 1 July 2017.
- The CGT discount for Australian resident individuals investing in qualifying affordable housing will be increased from 50% to 60% from 1 January 2018.
- Foreign and temporary tax residents will be denied access to the CGT main residence exemption.
- The $20,000 Instant Asset Write-Off for small businesses, will be extended by 12 months to the 30th of June 2018, for businesses with an aggregated annual turnover of less than $10 million.
- The Medicare Levy will be increased from 2.0% to 2.5% of taxable income, and is effective from the 2019/20 income year. Other tax rates that are linked to the top personal tax rate, such as the Fringe Benefits Tax Rate, will also be increased.
- A new set of repayment thresholds and rates, under the Higher Education Loan Program (HELP) will be introduced from 1 July 2018.
- A new HELP minimum repayment threshold of $42,000 will be established with a 1% repayment rate. Currently, the minimum repayment threshold for the 2017/18 year is $55,874 with a repayment rate of 4%.
- A maximum HELP threshold of $119,882 with a 10% repayment rate will also be introduced. Currently, the maximum repayment threshold for the 2017/18 year is $103,766 with a repayment rate of 8%.
- The Temporary Budget Repair Levy (levied at 2% on taxable income in excess of $180,000) will cease on the 30th of June this year, as planned.

Access to Superannuation for First Home Deposits

Individuals will be able to make voluntary contributions into their superannuation of up to $15,000 per year and $30,000 in total, to be withdrawn subsequently for a first home deposit. The contributions can be made from 1 July 2017 and must be made within an individual's existing contribution caps.

From 1 July 2018 onwards, the individual will be able to withdraw these contributions and their associated deemed earnings, for a first home deposit. Withdrawals will be taxed on an individual's marginal tax rate, less a 30% tax offset.

Under this new First Home Super Saver Scheme, both members of a couple can take advantage of this measure to buy their first home together. This scheme is intended to provide an incentive to enable first home buyers to build savings faster for a home deposit by accessing the tax advantages of superannuation.

Superannuation Contributions from Downsizing

A person aged 65 or over, can make a non-concessional contribution into superannuation of up to $300,000 from the proceeds of selling their principal residence. They must have owned the principal residence for at least ten years. This measure will apply from 1 July 2018 and is available to both members of a couple for the same home.

These contributions are in addition to existing rules and caps, and are exempt from the Age Test, Work Test and the $1.6 million total Superannuation Balance Test for making non-concessional contributions.

The proceeds will however still be assessed under Centrelink's Age Pension Assets Test.

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Company Tax Rate Cut

Companies conducting a business will receive a tax cut, in respect of their annual turnover figures, which apply to the current and future financial years.

The below table indicates the applicable tax rates for the differing annual turnovers (see table on right).

Companies **not** conducting a business, will still be taxed at the 30% rate.

Turnover	2015/16	2016/17	2017/18	2018/19
Less than $2 million	28.5%	27.5%	27.5%	27.5%
Between $2 million & $10 million	30.0%	27.5%	27.5%	27.5%
Between $10 million & $25 million	30.0%	30.0%	27.5%	27.5%
Between $25 million & $50 million	30.0%	30.0%	30.0%	27.5%
More than $50 million	30.0%	30.0%	30.0%	30.0%

take note

Fuel Tax Credits from 1 February 2017 to 30 June 2017

	Used in heavy vehicles for travelling on public roads	All other business uses (including to power auxiliary equipment of a heavy vehicle)
Liquid fuels e.g. diesel & petrol	14.2 cents per litre	40.1 cents per litre

Tax and a Sharing Economy

The concept of a "sharing economy" has been around for long enough now to have had a very real impact on how our financial transactions are conducted.

The ATO views the sharing economy as a system that, connects buyers (users) and sellers (providers) through a facilitator who usually operates an app or a website. It identifies some popular sharing economy services in Australia, which include:

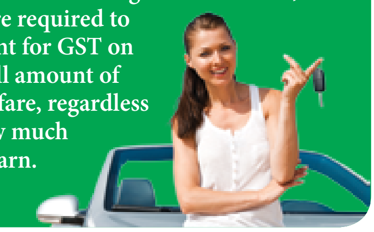
- Renting out a room or a whole house or a unit for a short-time basis
- Providing taxi travel services (ride-sourcing) for a fare
- Providing personal services, such as creative or professional services like graphic design, creating websites, or odd jobs like deliveries and furniture assembly
- Renting out a car park space.

Taxpayers who are involved with a sharing economy may need to consider:

- If they are carrying on an enterprise
  - If they need an ABN
  - If they need to register for GST and lodge Business Activity Statements
- If the price of the goods and services provided includes GST
- If and when they need to provide tax invoices for sales
- If they need to declare this income in an income tax return
- What GST credits and income tax deductions can be claimed for expenses related to earning income
- How all the sharing economy activities added together affect the GST and income tax obligations.

EXAMPLE

A taxpayer carrying on an enterprise of providing ride-sourcing services. Under the GST law, they need an ABN, need to be registered for GST, and are required to account for GST on the full amount of every fare, regardless of how much they earn.



Business

Small Business Entity Turnover Threshold Increased to $10 million

A business with a turnover of less than $10 million is now entitled to access a number of Small Business Tax Concessions.

The Small Business Entity Turnover Threshold has recently increased from $2 million to $10 million, from 1 July 2016.

The significance of this is that businesses with an aggregated annual turnover of less than $10 million are now entitled to access a number of Small Business Tax Concessions. Small Business Tax Concessions, can include following:

- Simplified depreciation rules, including the immediate write-off for depreciating assets costing less than the threshold amount ($20,000 until the 30th of June 2018), and pooling of most other depreciating assets in the general small business pool (15% for the first year and 30% diminishing value rate for the second and subsequent year for additions)
- 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
- Simplified Pay-As-You-Go Instalment calculation method using the GDP – adjusted option
- Accounting for GST on the cash basis and paying GST instalments as calculated by the Australian Taxation Office
- Exemption from fringe benefits tax where work-related devices such as mobile phones, laptops and tablets are provided to employees.

However, the current $2 million turnover threshold will be retained for the purposes of accessing the Small Business Capital Gains Tax Concessions.

Credit Agencies and a Business Tax Debt

A business tax debt will be reported to Credit Agencies from the 1st of July 2017.

From the 1st of July 2017, the Australia Taxation Office will be able to disclose your outstanding Small Business Tax Debts to Credit Reporting Agencies.

As a default stays on your credit file for five years, this could severely impact on your ability for future finance or supply of credit, which in turn will make it a lot harder to grow your business.

This initiative from the Australian Taxation Office (ATO) will first be rolled out to businesses with an ABN and tax debts of more than $10,000, that are at least 90 days overdue. The ATO are generally open to discussion, provided you keep the communication channels open.

Contact our office, should you require us to deal with an outstanding tax liability on your behalf. We can arrange with the ATO a repayment plan for you. This will lessen the burden and most importantly, keep your credit rating healthy.

Limited Credit Card Surcharge Fees

In February 2016 the Federal Parliament passed new laws to limit credit card surcharge fees.

Businesses can now be fined up to $108,000 if caught overcharging customers for using their credit card under the new powers given to the Australian Competition and Consumer Commission (ACCC).

The surcharge must be limited to a "reasonable cost of acceptance" which is generally the service fee charged by finance institutions (banks) for the use of the card.

1% to 2% of the amount of the purchase generally represents the surcharge fee (i.e. for a purchase of $2,000, the surcharge fee would approximate to $20 to $40).

For many businesses that accept credit cards as a means of payment, you may need to review your credit card surcharge fees in light of these new laws.

Superannuation Changes Summarised

New rules from 1 July 2017

Concessional Contributions

New Rules	Existing Rules	Date of Effect
Concessional contributions cap will be reduce to $25,000 for all individuals regardless of age.	Concessional contribution caps: Under 50s - $30,000 Over 50s - $35,000	1 July 2017

Non-Concessional Contributions

New Rules	Existing Rules	Date of Effect
The non-concessional contribution cap will be reduced to $100,000 for all individuals under the age of 75.	$180,000 non-concessional contribution cap for all individuals under the age of 75.	1 July 2017
Restriction on individuals with total superannuation balance in excess of $1.6 million (as at prior year end) to make non-concessional contributions.	Currently no similar restrictions are in place.	1 July 2017

Contact our office to find out how this applys to you!

Pensions

New Rules	Existing Rules	Date of Effect
Introduction of a $1.6 million cap on the transfer of individuals superannuation balances from accumulation to pension phase.	Currently no similar restrictions are in place.	1 July 2017
Removal of the tax-free status of income earned on assets supporting Transition to Retirement Income Streams.	Currently the earnings on assets supporting Transition to Retirement Income Streams are tax-free in line with other pension income streams.	1 July 2017

Division 293 Tax

New Rules	Existing Rules	Date of Effect
Reduction of the Division 293 tax income threshold to $250,000.	Current Division 293 tax income threshold is $300,000.	1 July 2017

Personal tax deductible contributions

From 1 July 2017, the requirement that you derive less than 10% of your income from employment sources has been abolished. Regardless of your employment arrangement, you may be able to claim a tax deduction. Those aged 65-75, will still need to meet the Work Test in order to be eligible to make a contribution and claim a tax deduction.

End of Year Tax Planning Strategies

must read

There are many ways in which entities can defer income, maximise deductions and take advantage of other tax planning initiatives to manage their taxable incomes.

It should be remembered that in order to maximise these opportunities, the year-end tax planning process should start early. Leaving it to the last minute is not a great idea, as planning should happen at the start of the tax year, not at the end. However, if done correctly, end of financial year tax planning can provide a number of tax savings for entities.

The available strategies generally revolve around deferring income and bringing expenses forward.

Prepay your interest

A common tax-time strategy is to pre-pay interest on any loans for the next tax year prior to the 30th of June.

You can pre-pay if you have borrowed to invest using a margin loan or home equity loan, receiving a deduction on the interest payments, so the deduction applies this year, even if the interest is not due until next year. This is a useful strategy if you have an unusually high taxable income this year or if you are likely to go into a new tax bracket.

Bring-Forward Expenses

Trying to bring forward any other deductions (like interest payments mentioned above) into the 2016-17 year, will increase expenses and reduce taxable income.

If you know that next financial year you will be earning less, i.e. you are going on maternity leave, going part-time or are likely to have a reduced seasonal income, deductible expenses can be brought-forward into the present financial year. This will provide more financial benefit now, rather than if they are left to fall into next financial year.

An exception to this is where you expect to earn more next financial year. In this case, it may be to your advantage to delay any tax-deductible payments until next financial year, when the financial benefit of deductions could be greater.

Use the CGT Rules to Your Advantage

If you have made and crystallised any capital gain from your investment this financial year (which will be added to your assessable income), think about selling any investments that are currently sitting on a loss, before the year end.

In doing so, it means the capital gains you made on your successful investments, can be offset against the capital losses, from the less successful ones, reducing your overall taxable income.

A similar approach could also be adopted if you have carry-forward capital losses and wish to realise some gains at year end.

It is important to keep in mind that for CGT purposes, a capital gain generally occurs on the date you sign a contract, not when you settle on a property purchased.

When you are making a large capital gain towards the end of an income year, such as selling an investment property, knowing which financial year the gain will be attributed to, is a great tax planning advantage.

Income Protection

Two good things about income protection insurance:

1. It protects you against something you may not have thought about – loss of income in the event of an accident or illness;
2. The premiums are usually tax deductible and, if you want to, you can usually prepay up to twelve months' worth.

Other Tax Planning Strategies

- Writing off bad debts, obsolete stock and plant before the 30th June 2017.
- Consider tax-deductible superannuation contributions. Further detail about contribution limits can be found in superannuation articles in this newsletter.
- Salary sacrificing any year-end bonus into superannuation. Consideration also needs to be given to superannuation contribution limits if adopting this strategy.
- Review your motor vehicle use and where appropriate complete a new logbook. Motor vehicle claims are most accurately calculated using a logbook to determine business use. If you have not maintained a logbook, it is possible to use the cents per kilometre method, though claims are limited to 5,000 kilometres of travel.
- Capital gains on the disposal of an asset can be reduced by ensuring that all eligible items are included in the asset's cost base including capital improvements and incidental costs such as stamp duty, legal costs, commission fees, and by applying available capital losses.
- To write-off a debt as bad, it must generally have been brought to account as assessable income and you must have given up all hope, and more importantly, all action for recovery. Bad debts cannot be claimed by taxpayers who recognise income ona cash basis.
- Employers must ensure they have made sufficient superannuation contributions (currently 9.5%) for all of their employees on a quarterly basis throughout the financial year to avoid the risk of incurring a penalty under the Superannuation Guarantee Charge regime. Further, all superannuation contributions for the June quarter must be paid by the 30th June 2017 to be tax deductible. Book entries alone are not enough. Even if you miss the 30 June deadline for deductibility, you must make the payment by 28th July 2017 to avoid SGC penalties.

Farm Management Deposits (FMD's)

- Primary producers should consider the benefits of FMD's. These deposits need to be in place by the 30th of June in order for a tax deduction to be claimed. These are to be discussed in more detail in this newsletter.
- The deduction allowable in any income year is limited to the taxable income from a business of primary production in that year.
- You can hold FMDs with more than one FMD provider.
- You can't claim a deduction:
  - For any amount that exceeds the maximum deposit ($800,000)
  - If your taxable non-primary production income is more than $100,000.

The available strategies generally revolve around deferring income and bringing expenses forward.

Insurance

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Insurance Isn't a Dirty Word

Most people feel uncomfortable talking about death, severe illnesses and disability. They avoid this topic like the plague until they realise how such a tragic event may impact them or their family.

Although Insurance is not a very exciting topic of discussion, we all know it is a very important issue to address. In Australia research has shown that 83% of people insure their cars, but only 31% insure their income[1].

There are a few misconceptions about Insurance that need to be demystified, for example[2]:

1. **Life Insurance companies don't pay claims:** The Life Insurance Industry pays out in excess of $10 million every working day in claims (Source: www.lifewise.org.au). OnePath Life, as an example, kindly provided us their claim payouts for 2016. They paid over $865 million in claims to 11,791 clients. 28% of these claims were for Income Protection, 27% for Life Cover, 24% for Disability, 14% for Trauma Cover and the remainder for terminal illness and injury benefits.

   The claim statistics for the Life Insurance Industry would be much higher if Australians had adequate levels of cover.
2. **Life Insurance is too expensive:** This is not true and Life Insurance is actually very affordable. For $1 a day you may get a substantial amount of cover. For instance, a male, age 35, can get $550,000 of life cover. A female of the same age can get $775,000 of life cover[3].
3. **I am young and healthy; I don't need insurance:** Anyone can get sick or be injured. Income Protection or Trauma can help cover the bills or medical expenses to maintain your lifestyle.
4. **I have Total and Permanent Disablement (TPD) Insurance, I don't need Trauma and / or Income Protection Insurance:** There are different types of Insurance and they fulfil different needs. You do need a combination of all four Insurances (Life, TPD, Trauma and Income Protection Cover) to be comprehensively covered. For instance, if you are diagnosed with a severe illness, like cancer, TPD will only pay out if you are permanently disabled, not when you are temporarily disabled. Income Protection may cover your lifestyle expenses, but it will not cover large medical expenses. Income Protection will also only pay out if you have been incapacitated for a period longer than the waiting period (ranging between 14 days and 2 years). In this example it is important to have Trauma Cover.
5. **I have Private Health Insurance; I don't need Trauma Cover:** Private health Insurance protects you against medical expenses associated with sickness or injury. However, it covers medical expenses only. It will not cover loss of income, debts or your living expenses. Private Health Insurance may not cover the total cost of your complete treatment and potentially leave you with a gap that needs to be paid.
6. **I have enough Insurance in my super:** Insurance through super tends to cover the basics and does not provide access to all types of Insurance, like Trauma Cover. The default cover with many super funds is offered as age rated Insurance, which means that your level of cover reduces as you get older. This may not be aligned to your goals and objectives.

This advice, by its very nature is general. Each person's circumstances will be different.

With the end of 2016/17 financial year fast approaching, I encourage you to address this topic head on. Please contact Gerrit Lombard, if you would like us to do a Comprehensive Assessment of your Insurance needs.

[1] Source: www.lifewise.org.au.
[2] Source: www.asteronlife.com.au.
[3] Assuming non-smoker, stepped premium, paid annually.

IN BRIEF

End of Year Reminders

1. Has a Notice of Intent to Claim a Superannuation Deduction been completed in respect of any concessional contributions?
2. If you are in receipt of a superannuation pension income stream, has the minimum annual payment been made?
3. If you have a family trust, will any potential beneficiaries turn 18 years, by the 30th of June? If so, do they have a Tax File Number?
4. Trustee Distribution Resolutions to be completed prior to 30th of June.
5. If you are using the logbook method to claim motor vehicle expenses, record your car odometer readings on the 30th of June.

Good tips

UBER

The Federal Court has agreed that ride-sourcing is taxi travel within the meaning of the GST Law. Consequently, people who take up ride-sourcing to earn additional income, are conducting an enterprise and as such, need to:

- Keep records
- Have an Australian Business Number (ABN)
- Register for GST, regardless of how much they earn
- Collect GST on the full fare received from passengers for each trip they provide
- Lodge Business Activity Statements (BAS)
- Include income from ride-sourcing in their income tax returns

Drivers are also entitled to claim income tax deductions and GST credits (for GST paid) on expenses apportioned to the ride-sourcing services they have supplied.

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