RJC EVANS & Co

News

R J C E V A N S — & Co —
Accountants • Tax Agents • Advisors

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In this Issue

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Think. Learn. Act.

We are moving on to a New Financial Year. It is that time of the year, when our attention is drawn to what needs to be done to finish off the current year and be aware of any changes which might flow into the new year.

Good intentions aside, there is nothing like having a deadline in mind to ensure that you are taking advantage of all incentives and initiatives available, to enhance your 2016 tax outcome.

Tax planning is more than getting a tax deduction in the lead-up to the end of the financial year. It is about long-term strategic decision making, and actions that should take place during the financial year, if it is to have any real impact. After all, if a strategy is worthwhile for the end of the financial year, isn't it worthwhile putting in place for the whole year?

In attending the National Flying Disc Association Championships (Ultimate Frisbee) in Ballarat recently, I was reminded that understanding something, even a game such as Frisbee, is easier when you know the rules. Similarly, taking time to learn the "rules" will provide a better tax experience.

Tax planning strategies to employ prior to the 30th of June centre on:

1. Reducing assessable income
2. Increasing allowable deductions
3. Lowering your marginal tax rate by employing one, two or a combination of both

As experience tells us "the devil is in the detail". Specific strategies can be found within this newsletter. Contacting your advisor at our office will result in strategies being considered for your own individual circumstances.

"Well Commissioner, anything exciting happening these days?" These seven words were the first spoken by a new character introduced in the May 1939 issue of Detective Comics. The character was a person called Bruce Wayne. You may know him better as, Batman.

While many of the tax planning strategies are similar from one year to the next, this year there are exciting new things happening. They include:

- The small business company income tax rate being **lowered to 28.5%**
- The temporary increase of the accelerated depreciation threshold to **$20,000** for qualifying assets purchased by eligible small businesses
- Significant beneficial changes to the **Farm Management Deposit (FMD) Scheme**
- New accelerated depreciation on particular items for all **Primary Producers**

Tax should never be the sole reason for a particular strategy. However, it is too important a subject to be ignored, as it shapes relative rewards from different investment decisions.

There are those who say "the less we know, the better off we are". This is certainly not the case with tax. It is a clear case that a successful tax outcome will be achieved by all those who act upon what they learn.

Andrew Evans

Taxation

TIMELY TAX ADVICE

The Best Tax Minimisation Strategy...

The best tax minimisation outcomes materialise when focus is placed on the importance of tax planning. Tax planning, an effective business strategy, will help to set and achieve goals. Tax assessment should not just be a last minute end of year financial task.

The most desirable outcomes are achieved when you have taken assessment of your financial year position. You can enhance this process by taking part in necessary tax planning that is appropriate for you. No decision, or rushed decisions, can lead to the wrong outcome.

The countdown to the end of the financial year has started! Here is the starting point of the process:

Bite the Bullet

Tax savings usually start by tackling the little issues. Little issues seemingly accumulate over time, however can be easily attended to. For instance, writing off bad debts, maximising stock valuation outcomes, declaration of bonuses and director fees, prepayments, income deferrals, trustee resolutions to distribute income, maximise depreciation charges and superannuation payments.

Consider the legislative tax planning opportunities

Many legislative opportunities are time sensitive and time limited. What you do between now and June 30 will influence what can be achieved. Set goals to maximise the benefit you can obtain.

Are you creating permanent benefits or simply a timing advantage?

Consider whether your decisions are creating a permanent benefit or simply deferring the tax liability to a later date. Both can be valuable. Permanent benefits will always have everlasting results. Create a hierarchy of your options available and outweigh the costs of benefits of each. Not everything will be possible to achieve, therefore focus on those that will be most valuable to you in the short and long term.

Are there cash flow implications?

Cash flow consequences should not be ignored. Some of the options will require you to spend money, bring forward expenditure or defer income. Each of these will impact cash flow. Therefore when deriving the best tax outcome it will be of importance to ensure that it does not jeopardise cash flow in the short term.

The choices you make may require funding support from your bank. Sourcing additional finance requires you to be prepared. Acknowledge how much you need, how long you will need it for and what is being covered. Approach your finance institution as soon as possible.

Are they any risks?

Keep in mind that there could be some risks with the decisions being taken. These could include tax risks, funding risks and business risks. Tax benefits should be weighed against the risk and reward matrix. Quantify the benefit and assess any risks.

You should take advice on your tax planning. Contact our office to assist in mapping out a plan that works for you.

New Tax Issue for Real Property Transactions

On 21 February 2015, new tax legislation was passed requiring 10% of the purchase price for a real property transaction with a “foreign resident” vendor to be withheld.

The definition of “foreign resident” is simply a person who does not have a Clearance Certificate from the Australian Taxation Office (ATO). Practically, this means that if you have been born in Australia and lived here all your life you will still be a “foreign resident” under the new legislation if you do not have a Clearance Certificate from the ATO.

The legislation applies where the property acquired is land, a lease or a mineral right worth more than $2million.

Purchasers must withhold in a real property transaction unless a Clearance Certificate is provided before settlement. A purchaser who fails to do this at settlement may be required to remit 10% of the purchase price plus interest to the ATO from their own funds.

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.

Small Business Restructure Rollover Relief

Legislation has now been passed which will allow small businesses a change in operating structure (for example, from a company to a trust), without incurring a capital gains tax (CGT) or income tax liability.

Specifically, the new rollover will allow small business entities to transfer active assets to or from other small business entities as part of a genuine restructure of an ongoing business, providing it does not change the ultimate economic owners of the assets.

The requirement to be a Small Business Entity (SBE) means both the transferor and transferee must pass the test for SBE in the Income Tax Law (ITL). This generally requires that the total of the annual turnover of the entity, and all its affiliates and connected entities, does not exceed $2million. The usual additional requirement that the SBE also passed, the $6million asset test and the small business CGT rules, does not apply in this situation.

The rollover must be part of a "genuine restructure" of an ongoing business. Whether a restructure is "genuine", is a question of fact determined by examining all the circumstances surrounding the restructure.

This relief provides small businesses with a new rollover for gains and losses arising from the transfer of CGT assets, trading stock, revenue assets and depreciating assets as part of any restructure. The intention is that the change to the new legal structure will be tax neutral, in that it will not result in the realisation of an income tax liability on the transfer of those assets.

The transferee can provide consideration for the transfer of the asset, but the rollover does not require that market value consideration, or any consideration, be given in exchange for the transferred assets.

Government rethinks "Single Touch Payroll"

MUST READ

After talking to small businesses, the Government has announced it will rethink its "Single Touch Payroll" proposal. Under the proposal:

- Employer accounting software would automatically report payroll information to the ATO where an employee is paid, including PAYG withholding (PAYGW) superannuation contributions.
- PAYG and superannuation contributions would be paid at the same time as wages.
- The new employees Tax File Number Declarations and Super Choice Forms would be streamlined and provided electronically.

Feedback from small business owners, accountants and tax agents has indicated that many small business would not be able to meet the requirements by the start date of 1 July 2016. Also for some, it would significantly affect cash flow and costs. These would actually increase, as reporting would be more frequent.

The Government has now said it will drop the requirement to pay superannuation and PAYG withholding at the same time an employee is paid.

All businesses can commence STP Reporting from 1 July 2017, with the option to make voluntary payments. From 1 July 2018, employers with 20 employees or more, will be required to use the STP enabled software.

The Government is still to make a decision on the timing for the rolling out STP Reporting for employers with less than 20 employees.

General

News for Primary Producers

Easing of Farm Management Deposit (FMD) Rules

Parliament have recently passed the following changes to FMD rules. These will be effective as of 1 July 2016 and include the following:

- The restriction on accounts being used as an offset for business loans has been removed;
- The deposit limit has now doubled to $800,000, and;
- Drought-affected primary producers are now allowed to withdraw FMDs when needed, without losing their tax benefit.

DEPOSIT LIMIT NOW $800,000 FROM 1/7/2016

Accelerated Depreciation for Primary Producers

From the 12th of May 2015, Primary Producers can immediately deduct the costs of:

- **Fencing** – previously deducted over a period up to 30 years
- **Water facilities** – previously deducted over three years
- **Fodder storage** – assets can now be deducted over three years instead of over a period up to 50 years.

Good News About Tax Averaging

For those primary producers who made an irrevocable election to cease averaging their primary production income, there is good news.

You are now able to re-access tax averaging ten years after the year which you chose to opt out. This was effective from 1 July 2015.

You will recall that if a primary producer chose to withdraw from the averaging system, they were unable to ever re-enter.

Tax averaging enables a limited range of taxpayers (such as primary producers, preforming artists, authors and sports people) to even out their income and tax payable over a maximum of five years, to allow for good and bad years. This aims to ensure tax payments are more predictable and consistent.

Insurance Proceeds

It is a common misconception that insurance claims received in relation to destroyed or damaged property are tax free, however this is not always the case.

Amounts you receive from your insurance company for damaged or destroyed income-producing property will have to be included in your assessable income, as if you were receiving the proceeds for the sale of these items. Costs incurred in repairing or replacing damaged property, such as fencing, can then be claimed as a deduction, or written off over time, depending on the usual tax treatment.

The other aspect to think about are the GST requirements of insurance claims. If you are registered for GST, it is important to notify the insurance company of the portion of the policy that relates to the income producing property, so that they can exclude GST on this portion of the payout. GST can then be claimed and recovered on any repairs you make and equipment you purchase with the insurance proceeds.

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Federal Budget 2016/17

BREAKING THE BUDGET DOWN

As true as this may be, it is important to understand what changes have been proposed, and more specifically, how these changes may impact you. We say "may impact you", as these proposals are just announcements at this stage. The final form of the announcements may differ from when they ultimately become law.

Despite this, the announcements made are substantial, particularly in regards to superannuation. The following is a summary of the proposals:

Superannuation Proposals

All of the superannuation measures, with one notable exception, are due to commence from 1 July 2017. This is important as it will give everyone time to view the changes in relation to their own individual circumstances over the next twelve months. The measure that takes effect prior to1 July 2017 was announced to start immediately (ie 7:30pm on 3 May 2016) and is the imposition of a $500,000 lifetime cap on non-concessional contributions.

The good news, if you have already exceeded this level on contribution, is that no penalties will apply for being in excess and you won't be forced to reduce your level of retirement savings. However, you won't be able to make any more non-concessional contributions.

The other superannuation changes announced, were all due to apply from 1 July 2017.

- The concessional contributions cap will be lowered to $25,000 for all age groups. It is important to remember that this cap includes salary sacrifice contributions, personal deducted contributions and compulsory superannuation guarantee contributions.
- If you have less than $500,000 in superannuation and you don't use all of your $25,000 concessional cap in an income year, you can carry the unused amount forward for up to five years. This means you could actually contribute more than $25,000 in a subsequent year.
- Another change is that the making of personal deducted contributions to superannuation have been simplified to the extent that no tests are required to do this. Whatever your work status, you will be able to make a personal contribution to superannuation and claim a tax-deduction. You will be able to do this until you turn 75, as the previous requirement to be working in order to contribute between ages 65 and 74 will also be removed.
- Those earning more than $250,000 in an income year, will be subject to the additional 15% tax on concessional contributions, which currently applies to those earning more than $300,000 per year.
- The change to remove the Work Test also applies for non-concessional contributions (subject to the new lifetime limit).
- The Budget introduced a $1.6million cap on the total amount of superannuation an individual can transfer into retirement products, such as superannuation pensions or annuities. This will limit the earnings that can qualify for the current zero percent superannuation fund tax rate.
- Superannuation balances in excess of $1.6million can be retained in the superannuation system, but will have to be held as accumulation accounts where the standard 15% tax rate will apply on earnings.
- The Budget announcements included a proposal to remove the tax extension on earnings in pension account where the pension is a Transition to Retirement Pension. A Transition to Retirement Pension is generally a pension where the member has not "retired" and is under age 65.
- Superannuation funds will also receive a tax offset of up to $500 for contributions tax paid on concessional contributions by low income earners. This will effectively refund the 15% contributions tax paid by individuals with adjusted taxable incomes below $37,000.

Other Measures

- From 1 July 2016, the income threshold where the 37% marginal tax rates start to apply, will increase from $80,001 to $87,001.
- From 1 July 2016, the company tax rate will be progressively reduced to 25% over ten years.
- The tax rate for businesses with an annual aggregated turnover of less than $10million will be 27.5% from the 2016/17 income year.
- On 30 June 2017, the Temporary Budget Repair Levy on high income individuals will cease. Up until then, the Temporary Levy will continue to apply at a rate of 2% on individuals" taxable income in excess of $180,000 per annum.

Superannuation

Super Co-Contributions

If you are eligible and make personal superannuation co-contributions during a financial year, the Government will match your contribution with a superannuation co-contribution up to certain limits. The 2016 financial year limits are:

Maximum Entitlement	Lower Income Threshold	Higher Income Threshold
$500	$35,454	$50,454

Superannuation Guarantee Rates

There has been some confusion about whether the current Superannuation Guarantee Rate will increase on 1 July 2016 to 10%.

No such change is occurring. It is now not until 1 July 2021 that the rate is to increase to 10%.

This will mean that for the next 5 financial years, no change will be required.

Not Long Now – SuperStream

It is now not long whereby SuperStream will be compulsory for ALL small businesses (i.e. employers with 19 or fewer employees & taxable income <$2m).

SUPERSTREAM IS A STANDARD FOR PROCESSING SUPERANNUATION DATA AND PAYMENTS ELECTRONICALLY.

How do you know if you are ready?

In a nutshell, you just have to make sure that 'ALL PAYMENTS ARE ELECTRONIC'.

To comply with the new arrangements you can elect to use:

A Payroll System that meets the SuperStream standard If you use a payroll system, check with your system provider that it is SuperStream ready.

- **Your Super Fund's online system**
  Large super funds have online payment services you can use. Check with your fund to determine whether or not they offer such option.
- **A Super Clearing House**
  A super clearing house can also be nominated to ensure the contribution data is sent to the superfund while the contribution payment is sent to the correct banking institution. It is your responsibility to send a single electronic message & payment to the clearing house so that they are able to process the transaction on your behalf. You can approach a clearing house directly or through a superfund, like Prime Super, or the ATO who operates its own clearing house. Please be aware the ATO's free Small Business Super Clearing House is only available to small business with a turnover less than $2m and employs less than 19 employees.

What's next?

So far 60% of all Australia's small businesses are already on board with SuperStream. If your business is not one of them, please consider what methods are available to take action, so you too can be SuperStream ready.

REMEMBER, your accountant can help assess what actions are required or relevant to you.

Division 293 Assessments

The Australian Taxation Office has been issuing Division 293 Assessments to taxpayers who have been subject to the additional contributions tax of 15% on the non-excessive portion of their concessional contributions.

This additional tax is only to superannuation members whose adjusted income (including the non-excessive portion of their concessional superannuation contributions) exceeded $300,000.

Division 293 Tax is imposed on that part of concessional contributions which cause the adjusted income to exceed $300,000.

Superannuation fund members, who have received Division 293 Assessments, can pay the Assessment Tax themselves, or have their superannuation fund pay the tax for them (by debiting their superannuation interest for the payment). If the superannuation fund is to pay the tax, then the trustees must be provided with a "Release Authority" which is issued by the Australian Taxation Office. The superannuation fund member will receive a Release Authority with their Notice of Assessment for Division 293 Tax.

If the taxpayer gives the Release Authority to the trustee, the trustee has 30 days in which to pay the specified amount to the Australian Taxation Office. The Tax Office will then treat the Assessment as having been paid.

Car Expenses

NEW MEASURES IN PLACE

Simplified Calculation of Fuel Tax Credits

The ATO have announced two measures which simplify Fuel Tax Credit (FTC) claims for businesses. All changes apply from 1st of January 2016 and aim to reduce the amount of time taken to calculate and FTC claims.

1. Annual FTC claim of less than $10,000 each year.

Businesses who claim less than $10,000 of FTC per financial year are able to calculate:

- The FTC claim using the prevailing rate which applies at the end of the quarter. This currently applies to the March and September quarters, where bi-annual fuel excise indexation otherwise results in two different FTC claim rates for the quarter.
- The number of litres of fuel purchased in the quarter using the following formula:

$$\frac{\textit{Total cost of fuel purchased}}{\textit{Average price of fuel}}$$

Where the average weekly fuel prices are available from http://www.aip.com.au/pricing/retail.htm

2. Heavy vehicles with incidental travel on public roads:

The need to apportion off public road and on public road use has been eliminated for vehicles which are not designed to carry goods or passengers the following types of vehicles:

- Grader
- Backhoe loader
- Front-end loader
- Wheeled excavator
- Forklift
- Wheeled bulldozer
- Fertiliser spreader
- Combine harvester
- Tractor

Where use of a vehicle from the above table is primarily used for off road purposes with incidental travel on public roads, the fuel is eligible to be included in a FTC claim using the 'all other business uses' rate. There is no requirement to reduce the rate by the road user charge.

If you decide to adopt either of the two above measures we recommend you keep sufficient records to substantiate the amounts claimed.

New Rules for Claiming Car Expenses

If you are a sole trader or an individual in a partnership and you claim a deduction for business-related car expenses, changes have been made to how your deduction is calculated.

From 1 July 2015, you can no longer use the one-third of actual expenses and the 12% of original value methods. For the 2016 financial year (and future years) there will only be two ways to calculate your claim.

Cents per kilometre method

You now use a single rate of 66 cents per kilometre for all motor vehicle (regardless of the size of the engine).

You can claim up to a maximum of 5,000 business kilometres per car using this method.

Logbook method

To use this method, you need to keep a logbook for a minimum continuous period of 12 weeks.

You will need odometer readings for the logbook period and you can claim fuel and oil costs based on these records, or actual receipts. You will need written evidence for all other expenses.

General

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Repairs & Rental Properties – What can you really claim?

Before you decide to undertake repairs on a rental property, you might want to think twice. The Government is now taking action to ensure that there is a clear distinction between a 'repair' and an 'initial repair'.

A repair is considered as an action that does not add significant value to the property or extend its life. They intend to restore an item to its previous good condition.

The definition of a repair does not extend to initial repairs, that is, those repairs made after acquiring a rental property. This distinction is to enforce that you CANNOT claim a deduction for repairs to your rental property for issues that existed when you purchased the property.

Any expense incurred for the initial repair will be recognised as capital in nature, and added to the cost base of the property.

NEWS FLASH

RJC Evans & Co Keep Delivering

RJC Evans & Co Pty Ltd obtains ASIC Limited Australian Financial Services Licence (AFSL) for Self-Managed Superannuation Funds (SMSF)

For over 30 years, we have been providing advice in relation to Self-Managed Superannuation Funds (SMSF) to our clients as part of the suite of services available.

Our commitment to help our clients grow their wealth, has been backed up by the extensive additional financial planning study and qualifications the Principals of this firm have obtained along the way.

As a result of our qualifications we have recently been granted by ASIC a limited Australian Financial Services Licence (AFSL) in SMSF so that we can comply with the Legislative Changes to Financial Services which come into effect from 1st July 2016.

We are one of a ***rare few hundred accounting firms in Australia*** who have been granted this Licence by ASIC which will enable us to continue to provide advice to our clients in SMSF from 1st July 2016.

We intend to keep delivering.

Stephen Evans, Andrew Evans, David Murdock and Dion Venning are Responsible Managers under the Licence and our Principals Paul Anson, Luke Harris, Daniel Palmer and Nathan Jacobs will also be authorised to advise on SMSF under this Licence. Craig Martin is licensed through Securitor Financial Group Ltd, to provide this advice.

What's new for Small Business for the 30th of June 2016?

- **Instant write-offs for plant if it is costing less than $20,000**
- **Immediate deduction of professional expense for Small Business start-ups**
- **Tax discount of 5% up to $1,000 for unincorporated Small Businesses**
- **No fringe benefits tax when providing multiple electronic devices to employees**
- **Accelerated depreciated for primary producers**
- **No income tax liability for asset roll-overs when a small business is restructured from 1 July 2016**

1.5%
SMALL BUSINESS COMPANY TAX CUT

To qualify for the first six concessions, businesses must have a total turnover of less than $2 million for the year, they use the concession or the year before. However, all primary producers can access accelerated depreciation regardless of turnover.