Newsflash

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BAN TACS Accountants Pty Ltd

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Welcome to the BAN TACS News Flash. Our aim is to provide short but succinct updates on all tax issues

Lots New on www.bantacs.com.au

There is just so much new stuff to see on the website this month it is our lead article.

Booklets Updated - Our SMSF Booklet, the Miners Booklet and the Solicitors Selection Booklet have been updated to include relevant Newsflash articles for editions up to 294.

Estimate Building Depreciation - On our property investor page http://www.bantacs.com.au/property.php you will find in the menu, a tab for estimating depreciation, this will take you to a calculator provided by BMT. With just a few basics about the property you are considering, you can estimate the likely depreciation tax deduction. Use this to make sure, before you buy, you know how much the property is going to cost you to hold, after tax.

It's All about the Owl – A bit of fun. Getting into our Owl logo with some very pertinent pictures:
http://www.bantacs.com.au/capitalising-interest.php expresses very clearly how Julia feels about the ATO's stance on capitalising interest. Also check out the owl in the purple banner.
http://www.bantacs.com.au/seminars.php serious about seminars
http://www.bantacs.com.au/QandA/index.php oh so interested in your questions
http://www.bantacs.com.au/QandA/index.php travelling owl on wheels
http://www.bantacs.com.au/opps_practice.php how we feel about our offices

Askbantacs - Two askbantacers have generously allowed their questions to be published on the notice board:
http://www.bantacs.com.au/QandA/index.php?xq=639 is about a reader helping their daughter buy a home, but concerned about her live in boyfriend's rights.
http://www.bantacs.com.au/QandA/index.php?xq=642 Subdividing and building on Pre CGT land.

Column by Noel Whittaker

Last month the Reserve Bank slashed the cash rate to just 2.25%, the lowest in history. It claimed the purpose of doing this was to stimulate a sluggish economy – it won't work.

Everywhere I go people tell me conditions are tough, with most attributing it to a range of factors that include lack of confidence in employment opportunities, over regulation, a rigid wages structure and a growing realisation that voters will not accept the hard medicine that is necessary to get the country back on track.

It is now more than seven years since the global financial crisis, and governments around the world have been reducing rates continually in a vain attempt to revive their economies. Those who have benefited most from all this interest rate manipulation have been people who own property and shares. They become more attractive assets as rates fall, as investors desperately search for higher yielding driving prices up. This is great for those who own them, but increases the gap between those who own property and shares, and those who don't.

The scariest thing I saw last month was a snippet on the evening television news showing a young mother rejoicing in the rate cut. Her words were "I'm so pleased rates have fallen again – at last I'll be able to balance my household budget".

Let's have some reality here – if you're having trouble balancing your household budget with petrol at $1.20 a litre and mortgage rates at 5%, how are you possibly going to cope when petrol goes back to $1.60 a litre and rates start moving up again.

To make matters worse, the fall in rates may not be over. The market is already pricing in a cash rate of 1.75% by next Christmas. That's not unrealistic – reducing rates hasn't worked to stimulate the economy to date. Why would the latest rate cut be any different?

Noel Whittaker is the author of Making Money Made Simple and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: noelwhit@gmail.com.

Changes to UK Pensions

Former British public sector workers will have to act immediately if they want to have their UK pension benefit transferred to an Australian super fund and receive favourable tax treatment.
From April 6, members of public sector pension schemes including those covering former National Health Service workers, teachers, police and fire fighters, will no longer be able to be transfer the money to an Australian super fund.

That is a big deal for former public sector workers – whether they're expats living in Australia or Australians who have done a stint working in the United Kingdom – because the money drawn from an Australian super fund is tax-free after the age of 60. Otherwise, the British scheme pays the money into the member's bank account. This income is then assessable for Australian income tax and, as it is paid in pounds, subject to exchange rate changes.

The deadline to lodge an application with the UK fund is April 6. But with the way that Easter falls this year, April 2 is the real deadline. The first step is to obtain a quotation from your UK scheme. The NHS, for example, takes about four weeks while the teachers' pension is a little quicker. After the quotation is received, the scheme member must return the signed transfer request to their UK scheme's administrator by April 2.

Those who do not transfer will keep their benefits but they will be restricted in the way the money is accessed. They are entitled to a portion of the money as a lump sum, with the remainder taken as income for life. There is also another drawback of leaving the money in the UK scheme. Typically, if a member dies the spouse receives a half pension with that ceasing on their death. With Australian super, the death benefit consists of the entire balance and the insurance benefit.

The British government has said that it will allow transfers in some limited circumstances beyond April 6, but these limited circumstances, have not, so far, been stated.

There is no time to lose; you will need to contact your fund directly. The information above has been provided by Julie Lockeridge from Lockeridge Financial Advisory, who is right across this topic, she can be contacted on (07) 5597 5550. These UK pensions are normally defined benefit. In Australia you would only receive an income stream base on the fund's actual earnings, so you need to consider the cost of giving up this defined right to a future income stream.

How the Small Business CGT Concessions Work

To qualify you must have your turnover below $2million or non private use assets under $6million. Examples of how the small business CGT concessions will work on say a $1million capital gain:

Gain	$1,000,000	
Less 50% CGT Disc	500,000	
	$500,000	
Less 50% Active Asset Disc	250,000	
	$250,000	
Retirement exemption	250,000	Up to $500,000 tax free in your lifetime
Taxable capital gain	Nil	

Forget all the above if you are about to retire, have held the asset for 15 years or longer and used it in a business at least half that time. Forget it because the capital gain is going to be tax free on that basis alone!

In the majority of cases these concessions will apply to the capital gain you make on a building used in the business or in relation to the sale of the goodwill of the business. It is important to carefully plan this right from the time you set up your business. For example companies do not qualify for the 50% CGT discount.

For an asset to qualify it must be used in your business for at least half the time you own it or 7 ½ years, whichever is the shortest. This is an important part of your planning. If for example you move your business before the 7 ½ years are up it would be wise to continue to store stock there or use the premises in some way until the 7 ½ years has lapsed. This could also apply to vacant land if it is used to store say building supplies, trucks, earthmoving equipment etc. In fact a caravan park is a very tax efficient way of land banking. The turnover is likely to be under $2mil so you don't have to rely on the land being worth less than $6mil. The small business concessions could reduce a capital gain of $2mil to zero for a single person and twice that for a couple. This is another area where careful planning is needed; making sure your spouse is also considered an owner of the business. If you are operating through a discretionary trust, for CGT purposes the owner of the business is based on the method of previous profit distributions.

You can hold a building in a separate entity; for say asset protection purposes, and have it still qualify as being used in your business because the entities are associated. Goodwill can only be owned by the business.

If you have operated your business from your main residence and as a result exposed it to CGT you should be able to use the small business concessions to reduce that CGT.

So you should consult an Accountant about the application of the small business concessions when you first set up the business, when you acquire real estate, when you move premises and a couple years before you sell either the business or the premises.

FBT Time

The 31st March marks the end of another FBT year; here are the latest figures for 2015 and a few tips.

Cars – The method of calculating the amount of the fringe benefit is now simple. It is either 20% of the GST inclusive cost of the car or the GST inclusive costs of running the car including notional depreciation and interest multiplied by the log book percentage. If the vehicle has a reasonable amount of work related use then consider keeping a log book on it but you will have to start now! Note if the employer has "held" the car for more than 4 full FBT years then the 20% is applied to only 2/3rds of the GST inclusive cost of the car.

PAYG Summaries – If the total value of fringe benefits received is less than $2,000 it does not need to appear on the PAYG Summary in July. The amount of the fringe benefit is always grossed up by 1.8868 on the PAYG Summary even though in most cases when calculating the FBT payable the gross up rate is 2.0802

Benchmark Interest Rate – 5.95%

Exempt Amount – Under $300 but it must also be unreasonable to consider it a fringe benefit, regular exploitation of this concession is not allowed. Note the ATO consider a food hamper as a welcome gift to a new employee does not qualify for the exemption because it is not unreasonable to consider it a fringe benefit yet they still accept that Christmas gifts to staff can utilise the $300 exemption.

Employee Contribution - Unless the employee is in the maximum tax bracket i.e. earns over $180,000, tax savings can be achieved by making an employee contribution to cancel the fringe benefit amount. Lots more detail in our FBT booklet http://www.bantacs.com.au/booklets/Fringe_Benefits_Tax_Booklet.pdf

Medicare Levy Surcharge and Private Health Insurance

High income earners may be subject to a Medicare Levy Surcharge if they do not have private health insurance and to add insult to injury high income earners are not entitled to a discount (government rebate) on their health insurance. Of course there are all sorts of thresholds; the following will apply to the 2014/2015 financial year right through to the 2017/2018 financial year.

Medicare Levy Surcharge

Singles - If your income is over $90,000 you will be subject to the Medicare Levy Surcharge if you do not have private hospital insurance. The rate of surcharge adjusts according to your income. The surcharge is 1% if your income is under $105,000, between $105,000 and $140,000 it is 1.25%, over $140,000 it is 1.5%

Families - If your combined income is over $180,000 plus $1,500 for each child after the first, you will be subject to the Medicare Levy Surcharge if you do not have private hospital insurance. The rate of the surcharge payable will change according to your income. The surcharge is 1% if your income is under $210,000, between $210,000 and $280,000 it is 1.25%, over $280,000 it is 1.5%

Private Health Insurance Rebate

Singles - If your income is over $140,000 you will not be entitled to any private health insurance rebate (discount) but it will still be necessary to have private hospital cover or you will be hit with the Medicare Levy Surcharge. The rebate shades out between $90,000 and $140,000.

Families - If your combined income (just the parents) is over $280,000 you will not be entitled to any private health insurance rebate (discount) but it will still be necessary to have private hospital cover or you will be hit with the Medicare Levy Surcharge. The rebate shades out between $180,000 and $280,000.

It is not unusual for the private health insurance provider to automatically reduce your premiums by the rebate. If this has happened to you and you exceed the threshold you will have to pay back the rebate through your tax return. There is no penalty for doing this so may be the best option if you are unsure of your income.

The Fine Print

Income is defined as your taxable income plus your reportable fringe benefits, reportable superannuation contributions and any amount that was subject to family trust distribution tax. You also need to remove (add back) deductions for net investment losses or rental property losses and superannuation contributions you have personally claimed a tax deduction for. Note if you or your spouse have a negative income for the year, you start with the base figure of zero then increase it by your add backs. This means that if your only income is a rental property loss then it is added back twice, once when your negative income is automatically considered to be zero and again when the loss is added back. There are concessions for lump sum superannuation payments received by taxpayers aged between 55 and 59 years.

If you do not have private health insurance for the full year the surcharge will still apply but it is apportioned pro rata, so don't muck about.

The insurance must cover all your dependants this includes your spouse, your children whether they live with you or not and your spouse's children if they stay with you at all because you will be considered to have contributed to their maintenance. A dependent child covers children less than 21 years of age or full time students less than 25 years of age. If you are single but contribute to the maintenance of your child you are entitled to the family rates, even if that child does not live with you. Reference ITAA1936 Section 251V,

The private health insurance excess must be under $501 for singles or under $1,001 for families.

You are only required to have hospital cover, extras is not necessary.

Taxpayers over 65 are entitled to a slightly larger discount/rebate than those less than 65 years of age.

You are considered to have had a spouse if you actually had a spouse on the 30th June. This can make a real mess of things if your new spouse didn't have private health insurance beforehand.