NEWSFLASH

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

2016 Budget Highlights

The following is the detail and real life application on the items in the 2016 budget that are relevant to most of our readers:

Businesses

Accelerated Depreciation – After causing a lot of grief confusion and amended tax returns by retrospectively removing the Gillard government's $6,500 immediate write off less than a year ago, the Abbott government has now introduced a $20,000 immediate write off threshold.

It started on budget night and finishes on 30th June 2017. It covers plant and equipment purchased by small businesses with a turnover of less than $2 mil. The details are not clear but if it is like other small business concessions the turnover amount will be measured on the previous financial year. Most property investors will not qualify as a small business.

The only items of plant and equipment that are excluded are software developed in house and horticultural plants. Cars are included; if they cost under $20,000 they can be fully claimed as an immediate tax deduction. There is no combining of similar assets so you could buy a whole fleet of cars.

If your low value pool is under $20,000 then you can write the whole lot off in your 2015 tax return. This is a bonus to tax deductions this year but without the corresponding stimulus of purchasing equipment.

Reduced Tax Rate For Business Income – Again this only applies to business with a turnover of less than $2mil and related businesses will have their turnover added together so no point in setting up another entity. The reduced tax rate will apply to the financial year beginning on 1st July 2015.

If the business entity is a company its tax rate will be reduce to 28.5%. The catch here is when the profits are taken out of the company and the shareholders are taxed on them they will still have to pay their marginal tax rate. Now the budget statement did say that dividends can still be franked at 30% not the 28.5% rate of tax actually paid by the company. But dividends can only be franked up to the balance of tax credits (credit for company tax paid) sitting in the franking account so when this runs out unfranked dividends will need to be

paid. The bottom line is that the tax concession only exists while the profits are retained in the company, whereas unincorporated entities get to keep their tax reduction when the profits go to the owners.

If an individual receives income from a business because it is in their own name, they are a partner in a partnership or the beneficiary of a trust then they get a 5% reduction in the tax rate they have to pay on this income. It is paid as a tax offset; so not refundable if there is no taxable income to offset against it and the maximum offset they can receive is $1,000 per year. Note all the businesses that the individual is associated with are added together for the $2mil business income test.

Companies are still worse of than other forms of business entities but either way not worth changing entities.

More CGT Rollover Relief for Small Business – Until now it has been expensive to start up a business because you needed to set it up in the entity that would be the best for when it is successful. Of course the majority of businesses are not successful, so for many people these costs were a waste of money. But if not set up that way from the start there would be CGT payable to change the business to another entity unless that entity was a company. It is unlikely that any small business would want to change to a company because companies are not entitled to the 50% CGT discount.

The budget introduces a rollover relief that treats the new entity as if it had always owned the business for CGT purposes. But you need to make sure you do this before your turnover exceeds $2mil. There are other costs and problems associated with changing business entities so it may be better to get it right from the start. This concession does not come into effect until 1st July, 2016.

Immediate Write Off For Business Setup Costs – The costs associated with advice and legal entities when starting up a business will now be deductible in the year they are incurred instead of being amortised over 5 years. This applies to costs incurred after 30th June, 2015.

Paid Parental Leave – So much for improving the lot of new Mums this is going to have exactly the opposite effect. If you are a business providing parental leave to your employees it is now too costly to do so. The government proposes to not allow employees whose employer provides them with some paid parental leave to claim the parenting payment available from the government. The government pays the minimum wage with no superannuation; most employers pay more than this. The catch is the employer is out of pocket by the full paid leave amount and it has meant their employee has missed out on the government payment so the employee is only marginally better off while the business they work for bears the brunt of the full amount. Meanwhile their competitor who does not pay parental leave has a considerable reduction in costs with their employees only being marginally worse off.

Business pay parental leave to retain staff but it is probably going to now cost them effectively twice as much as any other benefit. Say for example an employer instead offered a salary package of an extra $1,000 per year to keep their employees. The employee would (subject to income tax) receive the full benefit of that $1,000. If instead the employer offers $1,000 (also subject to income tax) in paid parental leave the employee will lose maybe $500 they would have received from the government so the employee only feels $500 worth of love but it has cost the employer $1,000.

In short if a business wants to give their employees an incentive to stay they should do it any other way than paid parental leave. It now makes good business sense to drop all these schemes and let the government cover it. Paid parental leave has just become the least efficient way to retain staff, the government has just created a huge penalty to providing this benefit and sent employer supported parental leave back to the dark ages.

Property

Reverse Charge of GST – Previously in Newsflash we have written about the proposal to make the buyer pay the GST on a sale where the going concern or farm land concessions are used. That idea has now been abandoned by the government.

Individuals

Zone Tax Offset – It is intended to ensure that people who do not have a residence in a zone do not qualify for the zone tax offset. If they work in one zone and have a residence in the other they will only be entitled to claim for the zone where their home is located. There is very little detail at the moment so not sure if they have considered people that spend all their time in a zone but do not qualify as having a residence in that zone.

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Travellers for example or workers that do not fly in fly out but live in workers accommodation on a permanent basis. This is intended to take affect from 1st July, 2015.

Personal Income Tax Rates –

2014-2015 – Pay No Tax if Under $20,582		**2015-2016** – Pay No Tax If Under $20,979**	
Up to $18,200	Zero Tax	Up to $19,400	Zero Tax
$18,201 to $37,000	19%	$19,401 to $37,000	19%
$37,001 to $80,000	32.5%*	$37,001 to $80,000	33%**
$80,001 to $180,000	37%	$80,001 to $180,000	37%
Over $180,000	47%	Over $180,000	47%

*Can be as much as 34% while low income tax offset shading out
** Uncertainty still exists as to just how much the low income tax offset will be; these figures are as the law currently stands but there is a bill still in the House of Reps intending to change this back to the rates for the 2014-2015 year.
Note amounts do not include Medicare Levy – generally 2%
At this stage it is intended that the 2016-2017 tax rates be the same as the 2015-2016 rates.
For Foreign Residents their tax rate starts from the first dollar at the tax rate for $37,001 to $80,000. Once it exceeds $80,000 the rate is the same as it is for residents, including the 2% Deficit Levy but no Medicare Levy

Motor Vehicle Claims – its called modernisation apparently when the government removes two of the ways you can claim your vehicle and reduces the rate of claim for the kilometre method by 10%.

To claim a motor vehicle you can use the log book method or the kilometre method. The latter is restricted to only 5,000 kilometres per vehicle but you claim 66 cents per kilometre and you are only required to keep a detailed reasonable estimate of the kilometres travelled. This will begin from 1st July, 2015

Temporary Workers From Overseas - We have a year to work this out, it will not come into effect until 1st July, 2016. There is nothing available yet on just what types of visas will be effected. Certainly the classic backpacker whose visa normally requires them to move from employer to employer on a regular basis will be caught. The taxes they will have deducted from their pay will more than double.

What is not so clear is how the 457 and 444 visa holders will be affected. These people come from other countries to work for several years with the one employer. There is tax concessions specifically intended to make Australia attractive to them. For example temporary residents are taxed on their wages at normal resident tax rates yet Australia does not attempt to tax their overseas income or capital gains.

A lot is at stake, we will keep you posted through Newsflash as soon as more information on what visas are affected becomes available.

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Column by Noel Whittaker

John is one of the first baby boomers. Born in January 1946, he has just turned 69 and is living a full life in retirement. Recently we shared a speaking gig and a message he gave on life insurance really hit the mark, the natural reaction is to ask why this topic would be relevant to retirees, because they would be unlikely to need it or to be able to afford it. “No,” he said, “it’s not for you; it’s for your children”. In his experience as a financial adviser, John has seen all the problems that can happen when a family has insufficient insurance, and has long insisted that all his children be insured to the hilt.

This includes life insurance, TPD insurance, trauma insurance, and income replacement insurance. He then told us about his daughter, who had twin babies, and who three years ago was diagnosed with breast cancer. She has a high paying executive job, and the combination of her income replacement insurance and her trauma insurance meant the family had enough funds available to handle their mortgage payments and all the treatment that her condition required. She lived in a large provincial town and full oncology treatment was only available 1000 kilometres away in the nearest capital city.

The good news is that the treatment appears to have worked, and she is now in remission. Then John delivered the clincher. “Imagine you’re in a comfortable retirement with a substantial nest egg and enjoying the fruits of all your hard work – how are you going to react when one of your children rings to tell you they’ve been diagnosed with a serious illness? Are you going to tell them it’s up to them, or are you going to dig into your own savings to rescue them?”

Never have truer words been spoken. Illness is something we all think is going to happen to somebody else and insurance, like making a will, is something that's easy to put off. It's only when the problems start that we realise it's too late to do anything about it.

John concluded, "A serious illness is bad enough, but if one partner dies, or is permanently incapacitated, the surviving partner may be unable to continue at work and care for the children at the same time. If that happened, it may be the grandparents who end up taking care of the children."

Getting your children to take out sufficient insurance is an important and emotive matter, and one that is never over in a single conversation, which is why it's important to involve your financial adviser. Often, premium affordability is a stumbling block but life and TPD premiums can come from their super. Income protection premiums are tax deductible – only trauma cover premiums have to come from post-tax dollars.

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.

ACT Stamp Duty - A Big Tax Deduction before End June?

Properties in the ACT are subject to a 99 year lease. This means that the stamp duty you pay on purchasing the property qualifies as a tax deduction because it is a lease expense.

If you buy a rental property in the ACT before the 30th June you would qualify to deduct, this year, all the stamp duty paid on the sale providing you intend to use it as a rental property all the time you own it. Once again it is all about proving your thoughts. It is your intention for the property; over the whole time you will own it, which will determine how much of the stamp duty is tax deductible. If later you do change your mind that is ok, you do not have to pay back the deduction but best have a change of circumstances or the ATO will claim it had always been your intention not to use it 100% as a rental property. If you do apportion the stamp duty and not claim a percentage of the stamp duty costs for the time that you don't expect the property to be earning rental income then the amount you don't claim can be included in the cost base when you sell.

References 25-20 ITAA 1997, PBRs 1012017306675 and 22429. Note this is not a recommendation to buy property in the ACT.

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If you join now you, take advantage of our Software Asset quantity discount https://www.softassist.com.au/Tax.aspx to reduce the price you would pay for one licence by 80%, that's right pay only 20% of the list price.

Ask BAN TACS

For $69.95 at Ask BAN TACS you can have your questions regarding Capital Gains Tax, Rental Properties and Work Related Expenses answered by Julia, include ATO references answers are generally 500 words long.

Notice Board Update:

Four very generous askbantacsers have allowed their question and answer to be placed on the notice board.

http://www.bantacs.com.au/QandA/index.php?xq=652 Deductible loans and what not to do
http://www.bantacs.com.au/QandA/index.php?xq=659 The old Non Geared Unit Trust and SMSF setup
http://www.bantacs.com.au/QandA/index.php?xq=661 FIFO worker and the bad news on allowances
http://www.bantacs.com.au/QandA/index.php?xq=663 Knocking down a home and building duplex

Disclaimer: *Please note in many cases the legislation referred to above has only just passed through parliament. The full effect is not clear yet but it is already necessary to make you aware of the ramifications despite the limited commentary available. On the other side of the coin by the time you read this information it may be out of date. The information is presented in summary form and intended only to draw your attention to issues you should further discuss with your accountant. Please do not act on this information without further consultation. We disclaim any responsibility for actions taken on the above without further advice as to your particular circumstances.*