NEWSFLASH

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BAN TACS National Accountants Group

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Welcome To Our Melbourne Office

A big welcome to Leah Supple from Supplementary Accounting in Ascot Vale, Victoria. For full details go to http://www.bantacs.com.au/aboutus/locations/melbourne-office/

We are just so delighted to have Leah and her team on board. Leah has worked in public practice for nearly 20 years. Leah was introduced to me as a great Accountant that had been mentoring a colleague of mine. Well, this colleague is about the pushiest woman I know, so if Leah can get through to her she must be a brilliant mentor. Leah is very passionate about mentoring small business and she is also passionate about saving tax.

If you would like to meet Leah certainly ring 03 9111 5150 to make an appointment or consider attending a seminar she is giving with Louise Lucas on 27th May, full details are on page 4 of this newsflash

What You Need To Know From The Budget With Attitude

The following is as much detail as we have been able to obtain on the issues that are likely to affect our clients. In particular, the tax withholding responsibility placed on all property purchasers, not just investors, is a must know that did not get much press at all so please spread the word.

Property:

Anyone who Purchases a Property – Having failed to manage to collect the tax themselves the government is now shifting the heavy lifting to home buyers. This applies whether you are a property investor or just buying your own home. If you don't get this right you will end up paying the seller's tax for them.

From 1st July, 2017 the seller must provide you with a clearance certificate from the ATO if the property cost $750,000 or more. No exceptions. If you don't obtain a clearance certificate from the seller then you must withhold 12.5% of the purchase price and send it to the ATO. Even if you don't withhold 12.5% at settlement you still have to send that amount to the ATO out of your own pocket. That is a minimum of $93,750 if you don't have the clearance certificate and there is no chance of slipping under the radar because it is so easy for the ATO to data match with the titles office.

Apparently, it is also all too hard for the ATO to collect it's GST off property developers so again it is putting the onus onto house holders to collect it for them. If you buy a brand new property after 30th June 2018 then you must withhold 1/11th of the purchase price and send that to the ATO. No word yet on how this will work with the margin scheme and we strongly recommend at this stage that you withhold the whole 1/11th because you are not in a position to argue with the ATO if they come along later and say no, the margin scheme didn't apply or the margin is bigger. Confidentiality will prevent you from being provided with any information that you would need to fight the ATO. If you are now entering into an **off the plan purchase** that will settle after 30th June 2018 make sure the contract allows you to pay 1/11th less for the property in recognition that you will be sending the 1/11th to the ATO, non-negotiable. Note that this only applies to residential premises or land, just the properties that mums and dads buy. They are not imposing this on business properties.

Property Investors - Any properties purchased after 9th May 2017 (budget night) will no longer qualify for depreciation on their plant and equipment. It will only be when the owner buys replacement items that depreciation will be allowed to be claimed on that item. The budget papers are not clear on what happens when an investor buys a property brand new. In other words whether they are technically the first owner of the plant and equipment in the house. This is the relevant sentence from the budget papers:

> "From 1 July 2017, the Government will limit plant and equipment depreciation deductions to outlays actually incurred by investors in residential real estate properties"

This suggests that the first owner of the home maybe ok but the first owner could be considered the builder because he or she initially buys the plant and equipment to put in the property.

Travelling costs to your residential rental property will no longer be tax deductible. At this stage we still suggest that you keep track of these expenses as there may be a chance they can be included in the cost base of the property under section 110-25(4). Further, make sure you still keep records of these expenses for commercial properties as they are still tax deductible.

It will also be interesting to see if, when you stay in your rental property while you are repairing it, whether you have to apportion out the costs associated with the property during that period ie interest, rates etc as a private expense. I bet this won't be clear before 1st July, 2017.

If you own an NRAS property that has made a capital gain then don't sell just yet. At least wait until after 1st January 2018 before you sign a contract, so that you will get a 60% CGT discount rather than just 50%. You or previous owners have to have held the property as an NRAS property for at least 3 years. If the property has not always been used for NRAS then the extra 10% CGT discount is apportioned pro rata on the days used for NRAS verses days not. It appears the government intends to widen this concession to other properties that have been made available on similar terms to NRAS, no detail yet.

Foreigners – If you are not a resident of Australia for tax purposes then you will not be able to cover a property with your main residence exemption. This is particularly concerning for expats intending to return to Australia. Foreign residents for tax purposes are also not entitled to the 50% CGT discount. Considering CGT is a tax on inflation I really feel for people working overseas with a home they want to return to, in Australia. If they ever have to sell it, after paying the tax they will have no chance of buying a similar property. This will apply to properties purchased after 9th May, 2017 but by 30th June 2019 all residential properties owned by people who are non-residents for tax purposes will be caught.

If you are in Australia on a temporary resident's visa such as a 457 then you will no longer be entitled to use the main residence exemption on the property you live in whilst in Australia. Not clear yet on the situation for New Zealanders but Kiwis here on a 444 visa should be very concerned. We will keep you posted.

This may lead some to ask whether they should just sell up now? Probably not, a lot depends on where they invest the sale proceeds and whether prices continue to grow. If the CGT is calculated pro rata and you have had rapid growth to date but then hold on for a few more years during a period of no growth then some of the capital gain that would have been tax free will now become taxable. This would not be the case if there is a market value reset. We will need to wait and see what the final legislation says. If there is a market value reset, so only future growth is taxed then at least you are guaranteed to only lose up to just under 50% of the growth in tax. Probably one of the worst outcomes is, if you are an expat, you now need to keep CGT records on your home for the rest of the time you own it.

Foreign investors will be hit with a $5,000 fee if they leave their investment properties vacant for six months at a time. This will apply annually but only for properties bought after 9th May 2017

Small Business:

Plant and Equipment - The most exciting news is that the $20,000 immediate write off for plant and equipment will continue until 30th June 2018. The equipment must be installed and ready for use in the year you claim it. If you have a turnover of under $2 million then you qualify. It is proposed that the turnover threshold will be increased to $10 million. If this passes the senate it will apply to the 2016-2017 financial year and of course to the 2017-2018 financial year. As usual we go into the lead up to the 30th June without certainty as to who will qualify for the write off. Accordingly, when it comes to businesses with a turnover above $2 million but below $10million, only people who can afford to do so without the tax deduction will buy plant and equipment anyway so it does not provide the incentive that it was intended to create.

Please note that once you have bought plant and equipment under $20,000 and written it off your responsibility does not finish there. Each year for the next 3 years you have to review whether the ratio of business and private use has remained the same. If it varies by more than 10% you have to make an adjustment to the amount you have written off.

If your low value pool balance has reached less than $20,000 you can write it off if you qualify as a small business.

New Small Business Definitions - The definition of small business varies depending on what tax concession you are after. The small business page on our web site has all these thresholds in one place so you can check which applies to you. It is down the bottom of this page http://www.bantacs.com.au/topics/small-business/ One thing is for sure, if your turnover is under $2 million you qualify for all the small business concessions. If your turnover is less than $10 million and you operate as a company you will be entitled to a tax rate of 27.5% on the company profits starting from the 2017 financial year. For businesses that are not incorporated refer the section on Individual Taxpayers.

Cleaners and Couriers – For the 2017 – 2018 year, cleaners and couriers will be included in the reportable payments regime. If it is anything like the construction industry the definition will be very wide so expect it to apply to you if you are in a business that is in anyway associated with courier or cleaning services. You will not have to complete the form until 28th August 2018 but it will need to cover the period starting 1st July 2017. The form requires you to include the GST inclusive amount you have paid but normal record keeping may not easily provide you with this amount. For tax purposes you are only interested in the net of GST amount if you are registered for GST. It is important that you are aware of your responsibilities so you can keep the right information from the start. Also make sure you get full details of the person you are paying, right from the start as they may not be around next year. Here is a sample of the form you will be required to complete so you can see the information you need to keep
https://www.ato.gov.au/uploadedFiles/Content/MEI/downloads/BUS00321342n74109.pdf

Individual Taxpayers – Make sure you read the property section above if you are ever likely to buy a home. There are a couple of new traps.

All taxpayers whose income is high enough to pay the Medicare Levy will be required to pay an extra half a percent in tax to further fund the NDIS. Note this does not come into effect until 1st July, 2019 and the ALP have said they will only support it if it only applies to people earning more than $87,000 a year.

If you have small business income (sole trader, trust or partnership) that is not from a company and the turnover is less than $5million then you are entitled to an 8% tax offset on that income when it appears in your personal tax return, up to a maximum of $1,000. The government is boasting how in 2025 this will increase to 10% then 13% then 16% by 2027 but the turnover threshold does not increase and the $1,000 cap does not increase so the increase in the offset percentage is really just smoke and mirrors.

Superannuation – To encourage retirees to downsize there was a budget announcement that they can put $300,000 each, of the sale proceeds into super even if they are over the age to contribute to super. Don't get too excited about this. The money sitting in super will still be counted in your asset test and reduce your age pension. This is just a boon for the government who will charge you a motza in stamp duty to buy another house then reduce your pension because you have this money sitting in super. In the meantime you have had the cost of selling and relocating and now have an asset likely to experience less capital growth. Further, how can this policy increase the homes available for first home owners when retirees will be downsizing into the types of homes that first home owners can only afford. This sort of rubbish used to be disregarded as thought bubbles but now apparently they don't even go through the thought process.

First Home Owners will be able to use voluntary contributions to their superannuation to save for a house deposit. Withdrawals will be taxed at a lower rate. The maximum they can contribute is capped at $15,000 a year and $30,000 all up, per individual. If they do not end up buying a house or become the spouse of someone who is not a first home buyer then the money is locked into the super fund until they retire.

From 1 July 2017, the Government will include the amount that you lend your SMSF as part of your total superannuation balance for the purposes of the $1.6 million cap.

Seminar 27th May Melbourne Property Expo

Leah from our Melbourne office will be presenting at the Property Expo on Saturday 27th May at the Melbourne Convention and Exhibition Centre. Her presentation will include important points that came out of the 2017 budget and the issues you should consider before you sign to buy a property.

This is a bona fide education session, no properties for sale, just lots of good information.
https://thepropertyeducationcompany.com/may-27-conference-shopping-property-2017/

Year End Tax Strategies For 2017

Our year-end tax strategies booklet has been updated for 2017 now that the budget is out. It is available in the booklets section of our website or by clicking on this link
http://www.bantacs.com.au/booklets/Year%20End%20Tax%20Strategies%20Booklet%202017.pdf

Ask BAN TACS

For $79.95 at Ask BAN TACS you can have your questions regarding Capital Gains Tax, Rental Properties and Work Related Expenses answered by Julia. I will include ATO references to support our conclusion, answer are generally 300 to 700 words long depending on the complexity..

Two very generous 'askbantacsers' have allowed their questions and answers to be posted on the notice board.
http://www.bantacs.com.au/QandA/index.php?xq=812 Cutting off the back yard to sell to pay out a spouse on the breakdown of a marriage.
http://www.bantacs.com.au/QandA/index.php?xq=817 What structure to use for property development and holding properties as trading stock.

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