West Moreton Tax Talk – 2016

Welcome Folks

This tax year we have two main announcements. The first is - we have a little surprise for all our clients that have completed their tax returns with WMA&TS for the last 15 years. A little history – Meggs started working for Maurie Cooper on 30th March 1995 and after six and a bit years, she bought the business on Maurie's retirement on 14th May 2001 and would like to thank many clients for their ***incredible loyalty***. In fact she has completed returns for some of these clients for 21 years. A big thank you goes to Veronica and Nathan Tobin who were her first guinea pigs and have been a delight to see every year for the last 21 years.

The second piece of news is that two long standing employees are joining Meggs as Partners in the firm. Heather and Karen have been part of the business for 15 years and 8 years respectively. No, this does not mean that Meggs is retiring, so no need to be concerned.

Processing Dates

The ATO will update their system on Saturday the 25 June and Sunday the 26 June. They will start processing returns from 8 July 2016 and refunds are expected to start 18 July.

Early Appointments

We will be open four nights per week as well as Saturdays (July to September) depending on which accountant you see.

Thank you to all those clients that have already booked in their appointments. So, please put the newsletter down and call us on 3281 2422 if you need an appointment before the end of September. This way you will not be disappointed and may have your first option available to you.

Drop Off or Send

Due to the very high demand for our services during the first four to five months of the financial year we try our best to get client appointments made to suit most time slots of the day, night or Saturdays. Each accountant has their own work patterns – some may start earlier, stay later, or work an extra hour here and there. This means that even if your appointment is several weeks away, it is a good idea to drop your information into our office, there is a chance that we will be able to get to it before your appointment and therefore it will be partially completed so your processing time should be shortened. Please feel free to ask for your forms to be sent out to you and drop or send your paperwork into us.

ATO Hot Spots

ATO Tax Statistics revealed that in 2013-14, just over 8.5 million individuals claimed work-related claims of around $20.7 billion. This was an increase of around $1 billion from the year before. They have advised their main focus is identifying taxpayers whose claim pattern doesn't match those in like occupations. Motor vehicle travel that begins and/or ends at a taxpayer's home must involve the transportation of heavy/bulky equipment such as a toolbox and equipment that is essential and weighs more than 27kg and there is no secure storage space on work premises to leave them overnight. No deduction is allowed for any travel that is just a matter of personal choice or convenience, eg a chef using their car to carry work knives or a teacher using their car to carry their student assignments home for marking.

The government is providing $678.9 million to the ATO to establish a new Tax Avoidance Taskforce. This will enable the ATO to undertake enhanced compliance and audit activities. The taskforce will be charged with much better targeted audits and enable them higher collections of tax. This is further evidenced by the Tax Integrity Package that gives protection for individuals who want to disclose information to the ATO on tax avoidance behaviour of others.

The ATO now has a "Lifestyle Assets Data Matching Program Protocol". They will now have all your policy details coming in from over 200,000 insurance policies over a number of years. This will provide information on all policies where you have specified assets that are classed as luxury lifestyle assets. So if you have a boat, yacht, thoroughbred horse, enthusiast motor vehicle, fine artwork or aircraft that you have insured but the ATO calculates that your declared taxable income is not sufficient for you to be able to afford to have bought these assets, then you could be getting a "please explain" letter on how you acquired your wealth.

Car Expenses

Since 1 July 2015 you lost the choice of claiming two of the four methods for your vehicle claims. The 12% of

original value method and the one-third of actual expenses methods have been removed. You can now only claim your motor vehicle using either the cents per kilometre rate (which is now $0.66 cents for all vehicles) or log book method. Remember that if you have a ute that has a carrying capacity of greater than 1 tonne, you can only claim the log book method. All log books must be kept for a 12 week period that is indicative of how the vehicle would be used for the rest of the year.

HELP Repayments

The income repayment threshold for 2016/17 is $54,126 and will start at 4% of your income. For the 2017/18 year the threshold will be $54,869 and start at 4%.

Home Office Claims

Employees and businesses are entitled to claim a deduction for expenses incurred in relation to mobile or home phones and/or internet usage to the extent they are incurred for income-earning purposes. So where you have both work and private purposes, you can only claim a deduction for a portion or percentage of those expenses. If you are ever subject to an ATO audit, you must be able to demonstrate how you calculated the deductible portion. If you have a bundle for your home phone and internet, you need to make a reasonable estimate for the component that you are claiming. A reasonable basis for identifying work-related portions of home telephone expenses is to keep a diary for a representative four-week period. This should include the number of business calls vs private calls and the duration of business calls vs private calls. Basically, if the claim being made is not more than $50 in total, the ATO will allow a claim based on the following rates: $0.25 for work calls using a landline, $0.75 for mobile calls and $0.10 for text messages.

Medicare & Surcharge Levies

Clients are often confused about the two types of Medicare levies and, TV advertising doesn't help either when they suggest that if you don't hold private hospital cover, you pay additional tax. In fact the Medicare levy is for all taxpayers to pay if they are not in an exempt category

(eg blind pension, under a DVA exemption or serve in the armed services). However if you were single and didn't earn $21,335, you would not pay any levy. For a couple with one child, the threshold increases to $36,001. For each additional child you have, the rate increases by $3,306. If you are a pensioner or a single parent, the threshold is $33,738. So far, so good?

The other levy is a penalty levy known as the Medicare levy surcharge. It is payable if you don't hold adequate private hospital cover for the full year. However, it only starts to affect you if, as a single taxpayer, you earn more than $90,000 or as a couple or family (with 1 child) you earn more than $180,000 and don't have hospital cover you will pay the additional levy. If you exceed these thresholds, you will pay anything from 1% to 1.5% of your adjusted taxable income.

Adjusted taxable income includes taxable income plus any rental property losses, plus any salary sacrificed amounts plus fringe benefits you may have packaged from your salary.

The complicated part comes from many other combinations of family types known as blended families. Included may be children from relationships that may not be in your care or you may just pay child support and only see them for holidays. You may have some children from new relationships that are not yours but would be considered as part of your family.

Medical Expenses

The only taxpayers that can now claim medical rebates are those that have paid for disability aids, attendance care and aged care.

Zone Offsets & Residency

For a taxpayer to receive the Zone Tax Offsets this year, they must have their usual place of residence in that zone for more than 183 days. The rebates will no longer be claimable for either fly-in-fly-out or drive-in drive-out workers who may work within a particular zone during the year, but who otherwise have their usual place of residence located outside the zone.

Tax Planning & Capital Gains

If you are looking at selling any assets – a rental property, your main residence that you have previously rented out for some of the time, shares or managed funds - the important date to remember is the contract date, not settlement date. It is too late for you to ask for our advice after it has occurred. The timing of the sale is of great importance for tax planning. For example, if you have a contract in July and settle in September, we have almost nine months that we can try to offset your capital gain against other income such as making additional contributions through your employer for the rest of the financial year to reduce the tax impact. You might have another investment property that you would be able to pay a years' worth of interest in advance, again reducing your taxable income while you have a higher than normal taxable income.

You may have some old shares that you have been holding onto for years waiting for them to at last go up in value which you could sell and apply the capital gain against these losses. You cannot do this if the losses are after the year of the gain.

GST Reporting Simplified

GST reporting requirements will be simplified for businesses with an annual turnover of less than $10 million from 1 July 2016 as follows:

- account for GST on a cash basis;
- allow "GST instalments" as determined by the ATO;
- use simplified BAS reporting from 1 July 2017 (following a trial in 2016/2017).

New 5% Tax Discount for Small Businesses

From 1 July 2015, unincorporated small businesses that have a turnover of less than $2 million will be receiving a non-refundable tax offset of 5% which will be capped at $1,000 per individual, per income year. This new tax discount is **not** available for those carrying on a personal services income (PSI) business as this is income that has been derived by an individual and is mainly a reward for their personal efforts or skills, unless the income is produced from conducting a personal services business (PSB). This exclusion is specifically aimed at ensuring that the discount does not apply to income that is otherwise treated in a similar manner to being employed. So if you have not earnt enough in your business to pay any tax in the year you will receive no tax offset. This will affect sole traders, or businesses operated through either a partnership or a trust. Those businesses using a company will be excluded due to new tax rates on companies.

Company Tax Rate Changes

Good news for businesses that operate through a company - the tax rates as at 1 July 2016 are being reduced from 30% to 27.5%. This rate decrease is available for all small businesses with annual aggregated turnover of less than $10 million.

Small Business Restructure Rollover (Draft Legislation)

From 1 July 2016 a rollover will be introduced that allows businesses greater flexibility to change their legal structure without incurring a Capital Gains Tax (CGT) liability.

Small business may find that over time their current legal structure is no longer the most appropriate for its operations. Restructuring into another more appropriate structure may help a business to continue to develop and grow, to avoid unnecessary compliance costs resulting from using overly complex structures, or to adapt to current conditions. However, where a restructure requires business assets to be transferred from one entity to another, such as from a company to a trust, significant income tax liabilities may arise.

The impact of these liabilities on cashflow and available capital may impede restructuring. These new changes will make it easier for small business owners to restructure their business by allowing them to defer gains or losses that would otherwise be realised when the business assets are transferred from one entity to another. The new small business rollover is in addition to other rollovers available where a sole trader or partner in a partnership transfers assets to, or creates assets in, a company in the course of a restructure.

This relief will also extend to the transfer of trading stock, revenue assets and depreciation assets. However you need to be aware of the stamp duty implications on the transfer of these assets.

Tax Breaks – Small Businesses

If you are a small business owner with turnover below $2 million, you can still claim an immediate deduction for the cost of assets up to $20,000. Be careful here with your calculations - if you are registered for GST and the cost of the vehicle has a price of $22,000 of which $2,000 is GST and the stamp duty and fees come to $750, this will mean that your asset has a cost to you of $20,750 and will not pass the test. This is irrespective of what the trade-in value was.

Primary Producers – New Write-Offs

Good news for primary producers who choose to claim depreciation deductions under the accelerated depreciation rules - an immediate deduction is now available for capital expenditure on any water facility assets including irrigation channels, water towers, water pumps, water tanks, water bores and windmills. These were previously claimed over three years. You will have an immediate deduction for capital expenditure on fencing assets which previously were claimed over 30 years under the general rules. Fodder storage assets such as silos and tanks for grain storage are over 3 years.

PAYG Summaries & Taxable Payments Annual Report

Don't forget, we can check your end of year PAYG Summaries prior to distributing them to employees. This will confirm that the amounts are correct and agree with your accounts and amounts declared at W1 & W2 in your BAS's. These are due for distribution to your employees by 14 July 2016. All copies and the summary must be sent to the ATO by 14 August 2016. For those clients in the building and construction industry the Taxable Payments Annual Report is due to the ATO by 28 August 2016. For clients where we help prepare your BAS, we need all your information by 22 July 2016.

Farm Management Deposits

In the current 2015/2016 year, the non-primary production income threshold used to decide on your eligibility to claim farm management deposit (FMD) is $100,000.

FMD's were setup to encourage farmers to set aside pre-tax dollars from good years to be used for future low income years.

Currently, deposits into FMD's (maximum $400,000, minimum is $1,000), are not included in assessable income in the year that it occurs.

From 1 July 2016, changes to FMD include doubling the FMD cap from $400,000 to $800,000; re-establishing an early access trigger during times of drought and removing the law that prevents FMDs being used as offset accounts against primary production business debt.

Uber Drivers

Uber is a technology based "ride-sourcing" business that matches drivers with passengers. The drivers are paid for driving and passengers benefit by obtaining a timely ride, generally for less cost than a taxi. The ATO has deemed that the income derived from Uber is similar to that of a taxi driver and, therefore, the income has to be treated as such. This means that an Uber driver must be registered for GST regardless of turnover. However, the GST is paid on the gross before Uber commission (generally 20%) is deducted. As the ATO sees Uber drivers as being self-employed independent contractors, they must keep all records as expected for any business, and comply with tax requirements that you would expect from any business. This would include apportioning private use of their motor vehicles, mobile phones, keeping records for 5 years, etc.

Spouse Splitting

You can increase your spouse's super by giving them some of your super. Your spouse must be less than their preservation age or between preservation age and 65 and not retired. The maximum contributions that can be split with your spouse depend on the amount and type of contributions made by, or for you, in the previous financial year. You can transfer to your spouse up to 85% of a financial year's 'taxed splittable contributions' made, including employer, your salary sacrifice contributions or if you made personal contributions that you advised your super fund you will claim as a tax deduction (currently only self-employed).

If you are a member of a public sector super scheme, the employer contributions made for you may be 'untaxed splittable employer contributions'. You can transfer to your spouse 100% of untaxed splittable contributions in a financial year, as long as that amount paid is less than your concessional contributions cap.

Contributions that cannot be split include personal contributions that you did not or could not claim a deduction for.

SuperStream

SuperStream is now mandatory for all employers making super contributions to APRA-regulated super funds and/or self-managed super funds (SMSF).

There is an excellent webinar on the ATO website and they also have a clearing house which can help meet your obligations.

Thanks Again

Finally we remind you that if you wish to participate in the audit insurance and receive a tax deduction for the 2016 financial year, you must pay it prior to 30 June 2016. If you don't wish to participate, please complete the form and return it to our office to avoid further unnecessary follow-ups.

We again look forward to seeing you all shortly – Meggs, Heather, Karen S, Deb, Karen W, Ann, Carmel, Megan and Janelle.