Red Diamond Accounting – Tax Talk 2018

Changes – During the Year

Welcome to our newsletter featuring our new name Red Diamond Accounting. We have had some questions over the past year – have you been taken over by someone? No. Have you taken over another business? No. How did the new name come about? If you remember we had a red diamond with the initials WMA&TS in it. This is where the name was derived from after a few hours of discussion on a Sunday afternoon. It was to incorporate our financial planning, wealth creation and estate planning business, Red Diamond Wealth. These two businesses Red Diamond Accounting, both businesses now come under Red Diamond Financial Group.

What stayed the same? Staff, office location, phone & fax numbers, parking, friendly service & sense of humour.

What is different? Business name, email addresses, website & signage.

Please make sure you have our new email addresses – just replace westmoretax with reddiamondgroup.

We have welcomed Kylie to our receptionist team and said farewell to Bridgette this year who has gone on to pursue a career with a more outdoor environment. Kylie will help Deb with most issues relating to client administration. Robyn has also joined our staff and will do all administration of company records and annual reports and statements. She is training with Carmel who is winding down for retirement. Julie joins our bookkeeping area and Elena joins our accounting team.

Early Appointments

We will again have the office open four nights a week as well as Saturdays (Jul to Sep) to cater for the frantic tax season. You will need to check with the reception team which night your accountant is working when booking your appointment.

Thank you to all those clients that have already booked in their tax return appointments. So, please put down your newsletter (for a moment) and call us on 3281 2422 if you need an appointment before the end of September. Hopefully, this way you will not be disappointed if your preferred choice is not available to you.

Drop off, send or upload your tax information on the client portal

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 to suit their needs - day, night or Saturdays. Each accountant has their own work patterns – some may start earlier, finish later or work an extra hour here and there. If your appointment is several weeks away, it is a good idea to get your information into our office. There is every chance that we will be able to get to it before your appointment and therefore it will be partially completed by your allocated time, making processing time shorter. Please feel free to ask for your forms to be sent out to you if you want to fill in your paperwork before your appointment.

Processing Dates

The ATO will update their systems on Saturday 23 June and Sunday 24 June 2018. Processing of returns is due to start from 9 July 2018 and refunds are expected to start arriving 20 July 2018.

Black Economy Taskforce

The Taxable Payment Reporting System (TPRS) is to be extended. This system of reporting was introduced to encourage the reporting of income earned by contractors who have previously not been declaring their income and therefore not paying their tax. At the moment it covers construction, cleaning and courier businesses. From 1 July 2019, It will include security providers and investigation services, road freight transport and computer system design industries. Employers and contractors who do not meet withholding obligations will be denied tax deductions.

From 1 July 2019, businesses will no longer be able to receive cash payments above $10,000 for goods and services.

The ATO will also implement a new and enhanced enforcement strategy that brings together new mobile strike teams and an increased audit presence, a Black Economy Hotline that will allow for the community to report black economy and illegal activities, improved government data analytics, and educational activities. The government will also consult on and design a new regulatory framework for the Australian Business Number (ABN) system in 2018/19.

The ATO will receive additional funding of $318.5 million over the next four years to help fund the hotline to “dob in” a tax evader and also $133 million to ramp up its debt collection activities for both tax and super liabilities.

No Claims for Payments

The Government really wants employers focussed on their tax obligations to the point where employers that fall behind will lose the right to claim employment related tax deductions from 1 July 2019. Employers who do not keep up with their PAYG obligations will not be able to claim a tax deduction for payments to employees (such as wages). Businesses will also lose the ability to claim deductions for payments made to contractors where the contractor does not provide an ABN and the business does not withhold the appropriate amount of tax.

The government basically wants all taxpayers to operate within the tax system, which means quoting your ABN and deducting tax when you should.

The ATO cancelled 810,000 redundant ABNs in 2016-17, about half of which were due to the non-lodgement of tax returns.

New Tax Bracket

There were 2.4 million Australians in the 2015/16 year with taxable incomes above $87,000. This represented 23% of taxpayers who are paying 65% of income tax.

From 1 July 2018, the top threshold of the 32.5% tax bracket will rise from $87,000 to $90,000 which will prevent about 200,000 people from entering the 37% tax bracket in 2018/19.

A new, non-refundable tax offset, in addition to the Low Income Tax Offset (LITO), will provide tax relief of up to $530 to low and middle-income earners from 2018/19. The offset will be received as a lump sum on assessment after individuals lodge their tax returns.

The benefits provided by the LITO will be locked in by increasing the top threshold of the 19% bracket from $37,000 to $41,000 and increasing the LITO from $445 to $645.

No Claims for Vacant Land

From July 1 2019, investment property owners will no longer be able to claim a tax deduction for expenses associated with holding vacant land, which means they won't be able to claim borrowing costs, rates and interest.

This is designed to stop land banking.

The change will apply to land held for residential or commercial purposes although the "carrying on a business" test would generally exclude land held for commercial development.

Denied deductions will not be able to be carried forward for use in later income years but expenses for denied deductions will instead be claimed in the cost base of the asset for CGT purposes when sold.

This measure will not apply to expenses associated with holding land that are incurred after a property has been constructed on the land, it has received approval to be occupied and is available for rent, or if the landowner is using the land to carry on a business, including primary production.

Medicare Levy – No Changes

Wage earners will benefit from deferral of plans to increase the Medicare levy, currently 2% of taxable income. The 2017 budget proposed a 0.5% increase which was not legislated.

The Medicare levy low-income thresholds for singles, families, seniors and pensioners will be increased from the 2017/18 income year. The threshold for singles will increase from $21,655 to $21,980; the family threshold will increase from $36,541 to $37,089. For single seniors and pensioners, the threshold will increase from $34,244 to $34,758; the family threshold for seniors and pensioners will increase from $47,670 to $48,385. For each dependent child or student, the family income thresholds increase from $3,356 to $3,406

Retirees Downsizing

Individuals aged 65 or over will be able to contribute the proceeds of downsizing from the sale of their principal home (if they've owned it for at least 10 years) up to $300,000 (or $600,000 for couples) into superannuation from 1 July 2018. This is over and above existing concessional and non-concessional caps. However, if you or your partner receives the age pension, this could cause your entitlements to be reduced. These non-concessional contributions will be in addition to those currently permitted under existing rules and caps and they will be exempt from the existing age test, work test and the $1.6 million balance test. This measure reduces a barrier to downsizing for older people and may enable more effective use of the housing stock by freeing up larger homes for younger, growing families. At this stage, it is unclear how this measure will affect the assets test for aged pension purposes.

Tax Breaks – Small Businesses

The government has again extended the $20,000 immediate asset write-off for Businesses with an aggregated turnover of less than $10 million for a further 12 months. A small business will get an immediate deduction for assets costing less than $20,000, and installed and ready for use before 30 June 2019. The current rules regarding accelerated depreciation for small businesses remain in place.

Therefore, assets (including grouped assets purchased as a set) costing more than $20,000 and installed ready for use prior to 30 June 2019 will need to be pooled at an initial rate of 15% in the first year. Also, small business depreciation pools valued under $20,000 as at 1 July 2018 can be immediately written off in the 2018/19 income year. These cannot be claimed on horticultural plants, in-house software and of course any structure that is in the form of a building. Fodder shelters are still accepted.

The write-off had been due to reduce to $1,000 on June 30, 2018.

Home Owners That Sell

Please remember if you sold your home after 1 July 2018 for more than $750,000, you will be required to obtain a Clearance Certificate on sale certifying that the vendor is not a foreign resident. If you don't obtain this certificate, a withholding tax of 12.5% will be withheld on sale by the solicitors to the ATO. Please contact us for guidance, if this is applicable or speak to your solicitor.

PAYG Summaries & 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 2018. All copies and the summary must be sent to the ATO by 14 August 2018. For clients in the construction, cleaning and courier businesses, the Taxable Payments Annual Report is due to the ATO by 28 August 2018. For clients where we help prepare your BAS, we need your information by 21 July 2018.

First Home Buyers – Super Savings

This incentive for first time homeowners started on the 1st July 2017. The Government is encouraging home ownership by allowing first homebuyers to 'build a deposit' inside their existing superannuation fund. These voluntary superannuation contributions of up to $15,000 per year ($30,000 in total) can be contributed within the existing concessional and non-concessional caps. Concessional contributions and earnings are taxed at 15% in the fund.

These contributions can then be withdrawn, along with associated deemed earnings, for a first home deposit, from 1 July 2018 onwards. Concessional contributions and earnings that are withdrawn will be taxed at the taxpayer's marginal rate less a 30% offset, providing an incentive that will enable first homebuyers to build savings more quickly for a home deposit. Note that both members of a couple can take advantage of this measure to buy their first home together. When these non-concessional contributions (NCC's) are withdrawn, they will not be taxed.

Example – Ross (not using his super for his first home deposit) (marginal tax rate of 34.5%) saves $6,550 after tax ($10,000 gross) from his salary each year into a bank account and earns 2% interest and declares the interest in his tax return each year and pays his tax on the earnings. After 3 years of savings, he has a deposit of $20,169.

Sarah (using the FHSSS) (marginal tax rates of 34.5%), save $10,000 through a salary sacrifice or a straight up contribution each year to her super fund under the FHSSS. After 3 years of savings, she has a deposit of $26,756 for her first home. If this is a couple saving together, this would be $53,512.

Single Touch Payroll

Single Touch Payroll (STP) is a government initiative to streamline business reporting obligations, which is due to become compulsory from **1 July 2018.**

When a business pays its employees, the payroll information will be sent to the ATO via the business's payroll software. Reporting under the STP system removes requirement to issue payment summaries, provide annual reports and TFN declarations to the ATO. During the first year of its introduction, the ATO says employers will not be liable for a penalty for a late STP report. If you are an employer with 20 or more employees, you need to start operating through the STP from 1 July 2018. Please contact our office if you require additional information.

Work Test – Aged 65-74

From 1 July 2019, the Government will introduce an exemption from the work test for voluntary superannuation contributions by individuals aged 65–74 with superannuation balances below $300,000 in the first year that they do not meet the work test requirements. Currently, the work test restricts the ability to make voluntary super contributions for those aged 65-74 to individuals who self report as working a minimum of 40 hours in any 30-day period in the financial year. The measure will give recent retirees additional flexibilities to get their financial affairs in order in transition to retirement.

Superannuation Claims

This year is the first year all individuals can make contributions to their superannuation funds without going through their employers. If you are thinking about doing this before the end of the financial year, please make sure that you will not exceed the $25,000 cap which includes your employer contributions as well as your own. You will be required to confirm with your super funds that you intend to claim this amount in your tax returns. Please consider **not** completing the "Notice of Intent to Claim" forms until we complete your tax return as you may not need to claim all of your contributions and therefore not pay a higher tax than you need to.

Self-Managed Super Fund

The maximum number of allowable members in a SMSFs and small APRA funds will be increased to six from 1 July 2019. SMSFs with a history of good record-keeping and compliance – that is, three consecutive years of clear audit reports and annual returns lodged on time - will only be required to have their fund audited every three years. The Government has flagged consultation with key stakeholders on this measure (with no further details available at present). The key issue with this measure is how the three-year cycle will work - is it an audit for one year in three or three years? It will be difficult for an auditor to sign-off on the third year without having a level of comfort as to what has transpired in previous years. If the audit is for the prior three years, the benefit for members may be negligible as auditors will need to charge for three years of work. The measure is designed to reduce 'red-tape' for trustees but having three years of questions from auditors might just group three years into one. Auditors could be faced with seasonal swings in workflow which will be extremely difficult to manage with audits staggered across the 3 years.

Work Clothing – Audits Coming

It has been made very clear to tax agents during ATO conferences this year that this area is going to be a high audit item. So please make sure that when you advise us that you wear a uniforms, you come under one of these categories:

Compulsory – strictly enforced at your workplace. Usually police force, defence members where your employer has a strictly enforced policy that makes it compulsory for you to wear the uniform while you're at work. You may be able to claim a deduction for shoes, socks and stockings where they are an essential part of a distinctive compulsory uniform and where their characteristics (colour, style and type) are specified in your employer's uniform policy.

You can also claim for a single item of compulsory clothing, such as a shirt or a tie. However, it too must also be distinctive to your employer. For example, a business shirt with the company logo permanently attached to it and not available to the general public can be claimed if registered with Ausindustry.

Non-compulsory - if your employer encourages you to wear a corporate wardrobe but does not enforce it, you can **only** claim if the uniform is registered with Ausindustry. Please ask your employer if your uniform is registered or not.

Occupation Specific Clothing - this type of clothing is a uniform that identifies you to your employer or profession. Chequered pants of a chef and nurses uniforms are occupation-specific, whereas a black and white waiter's uniform, a business person's suit or a swimming instructor's swimwear does not identify you to a specific employer or profession.

Protective Clothing - anything you may wear while working to protect yourself from injury or risk of injury can be classified as protective clothing. Examples include fire-resistant and sun-protection clothing, safety-coloured vests, non-slip nurse's shoes, rubber boots for concreters, steel-capped boots, gloves, overalls, heavy-duty shirts, trousers, overalls, smocks and aprons you wear to avoid damage or soiling to your ordinary clothes during your income-earning activities. You can't claim for normal, closed shoes, even though you wear them to protect your feet.

Costumes - as a performing artist you can claim the cost of purchasing costumes you buy or hire for a role. You must however already have the role to make the claim – you can't claim if you are just auditioning.

Client Portal – Uploading Documents

When uploading any records to your client area of the client portal, can you please start the name of the document with 2018 TR if it is anything to do with your 2018 tax return. It is also very important to upload your details to only **your** account and your spouse's or partner's details need to be uploaded to their own account. This will save a lot of time in accountants having to move or copy data into the correct areas under the correct client.

Thanks Again

If you wish to claim for audit insurance this year, you must pay it prior to 30 June 2018. If you don't wish to participate please follow the instructions on the "Client Decline Form" 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, Julie, Therese, Kylie, Robyn and Elena.