

**QUARTER
UPDATE**

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PRACTICE UPDATE - JUNE 2017

THIS EDITION

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Reduction in FBT Rate from 1st April 2017

In conjunction with the introduction of the temporary budget repair levy (of 2%, payable by high income earners), the FBT rate was also increased from 47% to 49% for the 2016 and 2017 FBT years.

However, the FBT rate will revert back to 47% from 1 April 2017.

Editor: This means there will be a discrepancy between the FBT rate and the effective income tax rate for high income earners from 1 April 2017 until 30 June 2017.

This means that any such high-income earners that genuinely and effectively salary sacrifice relevant fringe benefits (e.g., expense payment fringe benefits, such as school fees or

residential rent) during that period, so long as their employer is happy to assist, could basically reduce the tax payable on that income by 2%.

Planned Changes to GST on Low Value Imported Goods

From 1 July 2017, overseas clients with an Australian turnover of \$75,000 or more will need to register for, collect and pay GST on goods up to \$1,000 that they sell to consumers in Australia.

If Australian clients are registered for GST and buy low value imported goods for their business from overseas, they will need to supply their ABN at the time of purchase so they won't be charged GST.

If the Australian business is not registered for GST, they will be treated as a consumer and unable to recover the GST charged by the overseas business.

Company tax cuts pass the senate with amendments

Increase to the SBE turnover threshold

As was previously announced, the Small Business Entity ('SBE') definition has changed with respect to the turnover eligibility requirement.

The aggregated turnover threshold has increased from \$2 million to \$10 million with effect from 1 July 2016 (i.e., the current, 2017, income year).

Note that, whilst the increase in this threshold will expand access to most SBE concessions (e.g., simplified depreciation), this change will not apply with respect to:

- the Small Business Income Tax Offset (a special \$5 million threshold will apply when determining eligibility for this tax offset); and
- the Small Business CGT concessions (the aggregated turnover threshold to access these concessions will remain at \$2 million, although taxpayers may still seek to satisfy the \$6 million maximum net assets test as an alternative method of obtaining access to these concessions).

Reduction in the corporate tax rate

The most significant difference between the Government's original proposals and what was finally passed by Parliament was in relation to the reduction in the corporate tax rate.

Although the corporate tax rate will still decrease to 25% (by the 2027 income year, as originally proposed), access to the reduced corporate tax rate will be restricted to corporate entities that carry on business with an aggregated turnover of less than \$50 million (from the 2019 income year).

The following table provides a summary of how the progressive reduction in the corporate tax rate will apply.

Income	Aggregated	Company
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Year	Turnover	Tax Rate
2016	< \$2 million	28.5%
2017	< \$10 million	
2018	< \$25 million	
2019		
2020		27.5%
2021		
2022		
2023	< \$50 million	
2024		
2025		27%
2026		26%
2027 & later		25%

As noted above, corporate entities with at least \$50 million aggregated turnover or, more importantly, companies that do not carry on business (e.g., passive investment companies and ‘bucket companies’) will continue to have a corporate tax rate of 30%.

Changes to the franking of dividends

Prior to this income year, companies that paid tax on their taxable income at 28.5% could still pass on franking credits to their shareholders at a rate of 30%, subject to there being available franking credits.

However, with effect from 1 July 2016 (i.e., this income year), the maximum franking credit that can be allocated to a frankable distribution paid by a company will be based on the tax rate that is applicable to the company.

Editor: Please contact this office if you would like to know how these changes will affect your business specifically.

Costs of Travelling in relation to the preparation of Tax Returns

The ATO has released a Taxation Determination confirming that the costs of travelling to have a tax return prepared by a “recognised tax adviser” are deductible.

In particular, a taxpayer can claim a deduction for the cost of managing their tax affairs.

However, apportionment may be required to the extent that the travel relates to another non-incidental purpose.

Example – Full travel expenses deductible

Maisie and John, who are partners in a sheep station business located near Broken Hill, travel to Adelaide for the sole purpose of meeting with their tax agent to finalise the preparation of their partnership tax return.

They stay overnight at a hotel, meet with their tax agent the next day and fly back to Broken Hill that night.

The **full cost** of the trip, including taxi fares, meals and accommodation, is deductible.

Example – Apportionment required

Julian is a sole trader who carries on an art gallery business in Oatlands.

He travels to Hobart for two days to attend a friend's birthday party and to meet his tax agent to prepare his tax return, staying one night at a hotel.

Because the travel was undertaken **equally** for the preparation of his tax return and a private purpose, Julian must reasonably apportion these costs.

In the circumstances, it is reasonable that **half of the total costs** of travelling to Hobart, accommodation, meals, and any other incidental costs are deductible.

Although the ATO's Determination directly considers the treatment of travel costs associated with the preparation of an income tax return, the analysis should also apply where a taxpayer is travelling to see their tax agent in relation to the preparation of a BAS, or another tax related matter.

FBT: Benchmark Interest Rate

The benchmark interest rate for the 2017/18 FBT year is 5.25% p.a. (5.65% applied in 2016/17).

This rate is used to calculate the taxable value of:

- a loan fringe benefit; and
- a car fringe benefit where an employer chooses to value the benefit using the operating cost method.

Example

On 1 April 2017 an employer lends an employee \$50,000 for five years at an interest rate of 5% p.a., with interest being charged and paid 6 monthly, and no principal repaid until the end of the loan.

The actual interest payable by the employee for the current year is \$2,500 ($\$50,000 \times 5\%$). The notional interest, with a 5.25% benchmark rate, is \$2,625.

Therefore, the taxable value of the loan fringe benefit is \$125 (i.e., $\$2,625 - \$2,500$).

FBT: Cents per kilometre basis

The rates to be applied where the cents per kilometre basis is used for the 2017/18 FBT year in respect of the private use of a vehicle (other than a car) are:

Engine capacity	Rate per kilometre
0 – 2,500cc	53 cents
Over 2,500cc	63 cents
Motorcycles	16 cents

The ATO also determined that the small business record keeping exemption threshold for the 2017/18 FBT year is \$8,393.

Changes Effective 1 July 2015 (i.e. 2015/16 Income Year)

Tax cuts for small business – 1.5% tax cut for small companies and

5% discount on income tax payable for unincorporated small business activity

From the 2015/16 income year, the government will deliver a tax cut to all small businesses:

(a) **Reduction in company tax rate** – The company tax rate will be reduced to 28.5% (i.e. a reduction of 1.5%) for companies with aggregated annual turnover of less than \$2 million. Companies with an aggregated annual turnover of \$2 million or above will continue to be subject to the current 30% rate on all their taxable income.

Note that, the current **maximum franking credit rate** for a distribution will **remain at 30%** for all companies, maintaining the existing arrangements for investors, such as self-funded retirees.

(b) **5% discount on tax payable for other taxpayers** – Individual taxpayers with business income from an unincorporated business that has an aggregated annual turnover of less than \$2 million will be eligible for a small business tax discount. The discount will be 5% of the income tax payable on the business income received by an unincorporated small business entity. The discount will be capped at \$1,000 per individual for each income year, and will be delivered as a tax offset.

BUDGET UPDATE

The Government handed down the 2017/18 Federal Budget on Tuesday 9th May 2017.

The Budget proposes (amongst several other changes) to increase the Medicare Levy by 0.5% to 2.5% from 1 July 2019 (and tax and withholding rates that are linked to the highest marginal income tax (e.g., FBT) will also increase from 1 July 2019).

One of the other more significant Budget announcements is that, from 9 May 2017, the Government proposes to limit plant and equipment depreciation deductions (e.g., for dishwashers and ceiling fans) to outlays actually incurred by investors in **residential properties**.

More specifically:

- Plant and equipment forming part of residential investment properties **as of 9 May 2017** (including contracts already entered into by 9 May 2017) will continue to give rise to deductions for depreciation until either the investor no longer owns the asset, or the asset reaches the end of its effective life.
- Investors who purchase plant and equipment for their residential investment property **after 9 May 2017** will be able to claim a deduction over the effective life of the asset. However, subsequent owners of a property will be unable to claim deductions for plant and equipment purchased by a previous owner of that property (acquisitions of existing plant and equipment items will instead be reflected in the cost base for CGT purposes).

More Taxpayers can access the Benefits of being an 'SBE'

Recent changes to the law have expanded the eligibility criteria for a taxpayer to be considered a 'Small Business Entity' (or 'SBE'), meaning more businesses will be able to utilise the tax concessions that are only available to SBEs.

Broadly speaking, for the year ending 30 June 2017, a business taxpayer will be an SBE if its 'aggregated turnover' is less than **\$10,000,000**.

That is, where the business' 'aggregated turnover' (taking into account the turnover of the entity carrying on the business and the turnover of its related parties) is less than \$10,000,000, it will be able to access most of the concessions available to SBE taxpayers, including:

- Access to:
 - the lower corporate tax rate of 27.5%;
 - the SBE simplified depreciation rules, including the ability to claim an immediate deduction for assets costing less than \$20,000;
 - the simplified trading stock rules;
 - the small business restructure rollover relief;
 - deductions for certain prepaid business expenditure made in the 2017 income year;
 - the simplified method for paying PAYG instalments calculated by the ATO; and
 - the FBT car parking exemption;
- Expanded access to the FBT exemption for portable electronic devices;
- Ability to claim an immediate deduction for start-up expenses; and
- The option to account for GST on a cash basis and pay GST instalments as calculated by the ATO.

Note that the reduction in the SBE company tax rate to 27.5% for the 2017 income year was accompanied by a limitation on the maximum rate that such companies can frank their dividends also to 27.5%. Consequently, if an SBE company fully franked a distribution before the law changed on 19 May 2017, the amount of the franking credit on the distribution statement provided to shareholders may be incorrect (if the franked distribution was based on the 30% company tax rate).

The ATO has set out a practical compliance approach for such companies to recognise the change and to notify their shareholders. Please contact this office if you would like more information about this.

Who is assessed on Interest on Bank accounts?

As a general proposition, for income tax purposes, interest income on a bank account is assessable to the account holders in proportion to their beneficial ownership of the money in the account.

The ATO will assume, unless there is evidence to the contrary, that joint account holders beneficially own the money in equal shares.

However, this is a **rebuttable** presumption, if there is evidence to show that joint account holders hold money in the account on trust for other persons.

Example – Joint signatory (but no beneficial ownership of account)

Adrian's elderly aunt has a bank account in her name, and Adrian is a joint signatory to that account. Adrian will only operate the account if his aunt is unable to do so due to ill health, but all the funds in the account are hers, and Adrian is not entitled to personally receive any money from the account.

Adrian does not have any beneficial ownership of the money in the account and is therefore not assessable on the interest income.

Children's bank accounts

In relation to bank accounts operated by a parent on behalf of a child, where the child beneficially owns the money in the account, the parent can show the interest in a tax return lodged for the child, and the lodgment of a trust return will not be necessary.

Example – Child savings account – parent operates as trustee

Raymond, aged 14, has accumulated \$7,000 over the years from birthdays and other special occasions. Raymond's mother has placed the money into a bank account in his name, which she operates on his behalf, but she does not use the money in the account for herself or others.

Raymond earns \$490 in interest during an income year and, since he has beneficial ownership of the money in the account, he is therefore assessable on all of the interest income.

However, as Raymond is under 18 years of age, he will be subject to the higher rates of tax that can apply to children. If Raymond shows the interest in his tax return for that income year, his mother will not need to lodge a trust tax return.

Using Social Media? Be aware of Tax Scams!

The ATO has advised that, in the lead up to tax time, it's important to be aware of what taxpayers share on social media.

Note that scammers may also try to impersonate a tax agent (or their practice) and try to trick recipients into providing personal information or to release funds.

The ATO recommends that all taxpayers:

- ensure their computer security systems are up to date and they are protected against cyber attacks;
- keep personal information secure (including user IDs, passwords, AUSkeys, TFNs); and
- do not click on downloads, hyperlinks or open attachments in unsolicited or unfamiliar e-mails, SMS or social media.

Call our office if you think you've received a suspicious e-mail claiming to be from us or the ATO.

Please Note – Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.

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