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A continued commitment to growth

The Government has taken a two-prong approach in this year's Federal Budget to stimulate growth in the economy by providing targeted spending and business incentives.

Regional infrastructure

A key feature of this year's Budget is the commitment to investing in regional growth to better the Australian economy. A \$472 million Regional Growth Fund will be set up to invest in regional infrastructure projects.

An additional \$8.4 billion will be allocated to fund the Melbourne-to-Brisbane Inland Rail in 2017-18. The Inland Rail will provide significant employment in regional areas as well as increased export opportunities.

Company tax plan

The Government's promise to small and medium businesses in last year's Budget continues through its Ten Year Enterprise Tax Plan to reduce the company tax rate for all companies to 25 per cent by 2026-27.

Incorporated small businesses with a turnover less than \$10 million will have their tax rate reduced to 27.5 per cent in 2016-17. Once legislated, the tax cut will be passed on to

companies with an annual turnover less than \$50 million by 2018-19.

A lower corporate tax rate will help permanently broaden the economy by just over one per cent in the long term and effectively promote business investment by raising the investment return in Australia.

The Government acknowledges the major role small businesses play in the Australian economy and is committed to supporting small businesses to continue to grow and flourish.

Instant asset write-off

A further boost will be provided for small businesses as the Government is extending the \$20,000 instant asset write-off for a further 12 months until 30 June 2018. Small businesses with an aggregate annual turnover less than \$10 million can access the concession to help improve their cash flow and invest in the assets they need to grow.

Reducing red tape

The Government will provide \$300 million over two years to states to help reduce the red tape for small businesses. The removal of unnecessary restrictions for small businesses will help level the playing field and lessen regulatory burden.

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Keeping taxpayers honest

The Budget focuses on maintaining the integrity of Australia's tax system to ensure it is fair and secure to all and covers five key areas.

Avoidance

The Government will continue to crack down on the cash economy with additional funding for the Tax Office's Black Economy Taskforce extended until 30 June 2018.

The taxable payments reporting system will be expanded to ensure payments made to contractors in the courier and cleaning industries are reported from 1 July 2018.

Anti-avoidance tax behaviours will also be targeted as the Government intends on banning technology that modifies or deletes sales records for the purpose of minimising tax.

Finally, aggressive tax structuring where hybrid instruments are used to exploit the tax differences between countries are on the Government's radar, and the Multinational Anti-Avoidance Law will be strengthened to ensure corporate structures, i.e. foreign partnerships or foreign trusts, are compliant with the law.

Residential property

Deductions for travel expenses for a residential investment property will be disallowed. This measure addresses issues with investors that have been claiming travel costs for private purposes or who have not properly apportioned their costs. Additionally, deductions for plant

and equipment in residential property investments will be limited to expenses directly incurred by investors.

Goods and services tax (GST)

GST law will be strengthened to prevent some property developers from avoiding GST obligations by ensuring GST is paid directly to the ATO when purchasing newly constructed residential properties or new subdivisions.

Capital gains tax (CGT)

From 1 July 2017, small business capital gains tax (CGT) concessions will be amended to ensure that concessions can only be accessed in relation to assets used in a small business or ownership interests in a small business.

Tighter capital gains tax rules for foreign and temporary residents will deny access to the main residence exemption when they sell Australian property. Furthermore, the foreign resident capital gains tax withholding regime will see the withholding rate rise to 12.5 per cent, and the threshold will reduce from \$2 million to \$750,000.

Superannuation

The Government intends on bolstering the integrity of the super system by including limited recourse borrowing arrangements (LRBA) in a member's total superannuation balance and transfer balance cap, effective from 1 July 2017. Also, on the cards is the tightening of related party transactions on non-commercial terms to help increase super savings from 1 April 2018.



Preparing for year end

Effective planning and preparation is critical for all taxpayers as the end of financial year approaches.

The good news is that your tax professional is here to support you so you don't have to do all of the heavy lifting yourself.

This is the perfect time of the year to seek advice from your accountant to maximise your tax savings for 2016-17 and start planning fresh for next year.

Rates increase for fuel tax credits

Fuel tax credit rates increased on 1 February 2017. These rates are indexed twice a year, in February and August, in line with the consumer price index (CPI).

The rates vary depending on when you acquire the fuel, the type and quantity of fuel you use, and the activity you use it for. Rates may also change for fuel used in a heavy vehicle for travelling on public roads. This is due to changes to the road user charge which is reviewed annually.

If you claim less than \$10,000 in fuel tax credits each year, there are now simpler ways to record and calculate your claim. For the BAS period ending 31 March 2016 and onwards, you can:

Use one rate in a BAS period - the rate that applies at the end of the BAS period

Work out your litres based on the cost of the fuel you purchased.

To check which rate applies for your business, visit the Australian Tax Office (ATO) website or contact our office.

Remember, there are time limits for claiming fuel tax credits, making adjustments and correcting errors - generally, you must claim or amend your claim within four years.

2017 year end tax tips

✓ Capital losses

Selling poor performing assets may enable you to bring forward a tax loss that can be offset against any capital gains made throughout the financial year.

✓ Write-off bad debts

To obtain a bad debt deduction, a debt must not be merely doubtful and must be written off as bad during the year of income in which the deduction is claimed. The debt must have been previously included as assessable income.

✓ Trust resolutions

Trustees are required to make trust resolutions before 30 June in relation to how trust income will be distributed among beneficiaries.

✓ Prepaid expenses

For small businesses, you can bring forward operating expenses, such as rent, insurance, repairs and office supplies that cover a period of no more than 12 months.

✓ Superannuation strategies

Review your super strategies before year end to maximise your contribution caps, roll-over capital gains and review your eligibility for the spouse contribution tax offset and government co-contributions.

✓ Write-off obsolete inventory

Slow moving, damaged and obsolete stock must be written off prior to 30 June to claim a tax deduction.

✓ Claim self-education expenses

Self-education expenses, such as course fees, textbooks, stationery, etc. are tax deductible if your study is work-related or if you receive a taxable bonded scholarship.

✓ Small business CGT concessions

Capital gains tax (CGT) concessions may apply to small businesses when an active asset is disposed of. There are four types of concessions; small businesses can apply as many concessions they are entitled to until the capital gain is reduced to nil.

✓ Employer super contributions

Employers must pay all superannuation guarantee contributions for employees before 30 June to receive a tax deduction in 2017.

✓ PAYG income tax instalments

Small businesses should review their PAYG income tax instalments and notify the ATO if expected profit will be higher or lower than previous financial years.

✓ Home office expenses

Individuals operating businesses from home may be entitled to claim deductions for a number of expenses including room utilities, business phone costs, occupancy, and motor vehicle expenses.

✓ CGT roll-over relief

After 1 July 2016, small business owners have greater flexibility in changing the legal structure of their business. Small businesses can defer gains or losses that would otherwise be realised when business assets are transferred from one entity to another.

✓ Work Cover

Review your total remuneration estimates provided to WorkCover and compare to your current estimates and update if necessary before year end.

A better workplace

The Budget sees the Government place emphasis on generating ongoing employment opportunities for all Australians.

A focus on good debt/bad debt allows for investing a sizeable portion of the Budget into infrastructure; creating in excess of 50,000 jobs directly and indirectly from 2017 to 2030 and onwards. Major projects include:

- Western Sydney Airport
- Melbourne-to-Brisbane Inland Rail
- National Rail Program



Implementation of the Temporary Skill Shortage Visa following the abolishment of the 457 visa will create incentives to prioritise Australian workers. Employers who nominate foreign workers for this visa will pay a levy; generating revenue for the Skilling Australians Fund which will replace the existing unsuccessful training benchmarks. The Skilling Australians Fund assists financing apprenticeships and traineeships while allowing for employers to meet critical needs for their businesses where Australian skill sets are not available.

The introduction of various reforms will see disadvantaged Australians receive appropriate support to acquire and retain employment. With a focus on indigenous and vulnerable new parents through ParentNext services; appropriate pathways to employment and formal education will be achieved through childcare and pre-employment training, literacy and numeracy classes and financial management.

To improve workforce participation, the Job Seeker Compliance Framework will create stronger penalties for those abusing the Work for the Dole initiative; holding non-compliant job seekers accountable while still providing sufficient support for disadvantaged and vulnerable job seekers.

CGT relief provisions for SMSFs



Self-managed super funds can access capital gains tax (CGT) relief to provide temporary relief from certain capital gains arising as a result of trustees complying with the super reforms commencing on 1 July 2017.

The CGT relief provisions have been made available to preserve the income tax exemption for certain, accrued capital gains which would have been exempt if the underlying CGT assets had been disposed of before a member transfers to comply with the transfer balance cap and before the changed treatment of TRIS's.

Transitional CGT relief is available for certain CGT assets held by a complying SMSF at all times between the start of 9 November 2016, to 'just before' 1 July 2017. However, the CGT assets eligible for the relief depend on whether the fund uses the segregated or proportionate method for the 2016-17 income year.

Trustees need to be aware that CGT relief is not automatic - it must be elected by a trustee on an asset-by-asset basis. SMSF trustees will need to review their fund's circumstances and determine if CGT relief is available and appropriate. If trustees do decide to obtain CGT relief, trustees must advise the ATO in the approved form on, or before, the day they are required to lodge their fund's 2016-17 income tax return.

As the decision is irrevocable, careful planning is required. Trustees should contact our office if they are unsure if CGT relief is suitable for their circumstances.

ATO to report unpaid debts

The Mid-Year Economic and Fiscal Outlook 2016-17 announced that from 1 July 2017, the ATO will disclose business tax debt information to credit reporting bureaus.

The new measure is geared to enhance the integrity of the tax system and ensure businesses who are not compliant do not gain an unfair competitive advantage over those businesses who are.

The ATO will initially pass on unpaid debts from businesses with an Australian Business Number and with a tax debt of more than \$10,000 which is at least 90 days overdue. Taxpayers will be notified by the ATO before the information is passed on to a credit reporting bureau.

In addition, a special Taskforce specifically aimed at dealing with the cash economy has been developed as an innovative, whole-of-government policy response to this problem. Activities under scrutiny are those which disadvantage honest taxpayers, undermine the integrity of Australia's tax and welfare systems and reduce the amount of revenue collected by governments.

Building a sustainable lifestyle

While there have been no tax cuts for individuals in the Budget, the Government has introduced concessions in several areas addressing the cost of living.

Downsizing retirees

From 1 July 2018, Australians over the age of 65 can contribute the proceeds of downsizing into their superannuation. A non-concessional contribution of up to \$300,000 can be paid to their super using proceeds from the sale of a principal residence that has been held for a period of at least 10 years. Contributions will not be subject to any age or work tests.

Affordable housing

To assist Australian households, in particular first home buyers, the Government will support households building deposits by providing access to their superannuation. This will be implemented from 1 July 2017 and will allow access to voluntary concessional contributions and non-concessional contributions to super of up to \$15,000 per annum; \$30,000 of which will be concessional tax. Withdrawals on these contributions can be made from 1 July 2018.

The Budget also imposes a \$5000 annual levy that must be paid by foreign owners of Australian residential property that is under-utilised or not available for rent in an effort to contain the cost of rising rent.

Medicare

The establishment of the Medicare Guarantee Fund (MGF) from 1 July 2017 will provide funding to the existing Medicare Benefits Scheme (MBS) and the Pharmaceutical Benefits Scheme to ensure Australians have continued access to affordable health care. The MGF will attain revenue generated from the Medicare levy as well as a small portion of personal income tax.

The Government will provide \$1 billion towards the reintroduction of indexation on specific areas of the MBS, including specialist procedures and diagnostic imaging fees.

Bulk billing of under 18-year-olds and concession cardholders will be encouraged through incentives introduced to general practitioners from 1 July 2017.

Higher Education

From 2018, fees for university students will increase by 7.5 per cent. More repayment options through the Higher Education Loan Program will be offered to assist students with this. For 2018 and 2019, universities will pay a 2.5 per cent dividend and will also be subject to measures creating greater accountability and transparency.

National Disability Insurance Scheme (NDIS)

The Medicare levy will be increased by 0.5 per cent from 1 July 2019 with one-fifth of its revenue going towards the NDIS Savings Fund to ensure all Australians with significant and permanent disability have adequate support and lifetime care.

An Independent NDIS Quality and Safeguards Commission has been funded through the budget, allowing for improved quality of safe services for those using the NDIS.

Reducing capital gains tax

Preparation is critical to minimising your capital gains tax at the end of the financial year.

Capital gains tax (CGT) is the tax you pay on any capital gain made when you sell or otherwise dispose of an asset. CGT forms part of an individual's income tax; it is not a separate tax.

Some examples of a CGT event include selling or giving away an asset, the loss or destruction of an asset, shares which are cancelled, surrendered or redeemed worthless, and so on.

Here are five strategies to help minimise your CGT bill:

Utilise the small business CGT concessions

Small business entities may be eligible to use a number of CGT concessions, in addition to other CGT exemptions, roll-overs and concessions which are available more widely. Small businesses can apply as many concessions as they are entitled to until the capital gain is reduced to nil.

Hold an asset for at least 12 months

Individuals and small businesses (excluding companies) can generally discount a capital gain by 50 per cent if they hold the asset for more than 12 months.

Offset a capital loss against a capital gain

Selling poor performing assets that will yield a capital loss before 30 June allows individuals to use the capital loss to offset their tax liability from any capital gains realised this financial year.

Defer asset sales

If you expect to make a capital gain on the disposal of an asset, consider deferring the sale until after 30 June. This strategy is particularly beneficial for those who expect to be earning a lower taxable income in the next financial year, for example, individuals who plan to retire or take unpaid leave.

Carry forward capital losses

Capital losses from previous years can be carried forward to offset capital gains in the current financial year, thereby reducing CGT liability.

Speed up your BAS refund

As in any business, cash flow is a necessity. Having your business activity statement (BAS) refunded to you quickly is important as a small business owner.

Here are a few tips to follow to help speed up this process:

- Ensure information is complete and correct; keep personal details, such as postal address, bank details and authorised contacts updated. Having a record keeping system in place is the best way to stay on track.
- Submit BAS on time.
- Lodge all outstanding activity statements: the ATO are unable to process the refund until they know the extent of the credit or liability.
- Check financial institution details are entered correctly.
- Be careful not to not double up by lodging both online and in person.



A guide to negative gearing

Negative gearing is a common tax strategy used by property investors to offset the costs of owning a property against assessable income.

The strategy is arguably one of the most generous tax breaks available to Australian property investors. It allows investors to claim the shortfall between a property's associated expenses and its rental income as a deduction against their total taxable income - resulting in a lower annual income tax bill.

Where the other income is not sufficient to absorb the loss it is carried forward to the next year.

To access negative gearing on a property, the owner must have borrowed money to purchase the property and the net rental income must be less than the costs of maintaining the property.

For example, if the rent of a property was \$500 per week, and the property was fully tenanted for a full financial year, the rental income would be \$26,000. If the deductible expenses for that year were \$40,000, the net rental loss would be \$14,000. The \$14,000 loss can then be applied to reduce the property owner's taxable income.

Although negative gearing is helpful for those owners experiencing a net rental loss, the strategy is not without flaws. An underperforming property is still making a loss, and ideally, investors would prefer to have a positively geared property where rental income exceeds expenses.

Investors who have long term negatively geared properties are generally hoping to incur long term profits from capital growth.

Even if you think that your investment property will be positively geared, understanding the benefits of negative gearing can give you a little peace of mind knowing that if the property does lose money, you will be able to offset the loss against your taxable income.

When a property is positively geared, the income earned is added to your total taxable income. As such, it is taxed at your marginal tax rate. The same applies to any capital gain that you make from selling a property.

Super reforms on the way

The changes made to Australia's superannuation system announced in the 2016 Federal Budget will take effect from 1 July 2017.

The reforms have significantly changed the landscape for retirement savings, affecting both pre-retirees and retirees. Below is an overview of the new rules coming into play from 1 July 2017 onwards:

\$1.6 million transfer balance cap

The introduction of a \$1.6 million cap on the total amount that can be transferred into the tax-free retirement phase for account-based pensions. Those who currently hold more than \$1.6 million in pension phase will need to reduce their balance prior to 1 July 2017.

Lowering of the concessional and non-concessional contribution caps

The cap on concessional (before-tax) contributions will be decreased from \$30,000 (for those under the age of 50) or \$35,000 (for those aged 50 years old and over) to the flat rate of \$25,000 per year for all age groups.

The new annual cap for non-concessional (after-tax) contributions will be reduced from \$180,000 to \$100,000. This will remain available to individuals between 65 and 74 years old if they meet the work test. Individuals under the age of 65 will be able to bring-forward three years of contributions, i.e. \$300,000.

Changes to transition to retirement income streams (TRIS)

Currently, where a member receives a TRIS, the fund receives tax-free earnings on the super assets that support it. The Government will remove the tax-exempt status of earnings from assets that support a TRIS. Earnings from assets supporting a TRIS will be taxed at 15 per cent regardless of the date the TRIS commenced. Members will also no longer be able to treat super income stream payments as lump sums for taxation purposes.

Spouse tax offset

The spouse's income threshold will be increased to \$40,000 from 1 July 2017. The current 18 per cent tax offset of up to \$540 will remain as is and will be available for any individual, whether married or de facto, contributing to a recipient spouse whose income is up to \$37,000. The offset is gradually reduced for income above this level and completely phases out at income above \$40,000.



CGT events affecting shareholders

There are a number of capital gains tax (CGT) events that could affect you as a shareholder.

Capital gain tax (CGT) events include various transactions resulting in a capital gain or capital loss. CGT is the tax paid on any capital gain made. This is worked out by deducting capital losses and any CGT discounts from the total annual capital gains.

A CGT event occurs if you have sold (or otherwise disposed of) your share or units or other assets. However, there are a number of other CGT events that can result in capital gains or capital losses. According to the ATO, a CGT event may also occur where an individual:

- switches units between managed funds to redeem said units
- attains a distribution from either a managed fund or a unit trust (not including dividends)
- receives payments from a trust or company that are non-assessable
- is the owner of shares in a company where shares have been declared worthless
- owns shares in a company that are cancelled because the company is wound up.

Individuals must also consider whether they are entitled to any income tax deductions. This occurs when a listed investment company (LIC) pays a dividend where a LIC capital gain amount is indicated.

There are certain occurrences where special capital gains tax rules apply, including:

- attaining bonus shares and/or units and rights and/or options to acquire shares or units from a company or trust
- entering into employee share scheme or dividend reinvestment plan or through buying convertible notes.

If an individual has held a share for 12 months or more, they can use the 'CGT discount method' that allows them to reduce their capital gain currently by 50 per cent. In this instance, the cost base is subtracted from capital proceeds, then capital losses are deducted and then reduced by the relevant discount percentage.

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