

CGT strategies for your holiday rental

Holiday rentals provide you with a home away from home to spend time with your loved ones and a steady source of income while renting it out.

To ensure owning a holiday rental brings you the greatest dividends, keeping valid and accurate records from the time you purchase the property is essential, particularly when the time comes to sell the property and calculate capital gains tax (CGT)

It would be fruitful to take into consideration the capital gains that may arise when deciding to sell the holiday home.

Because the holiday rental is not an individual's main residence, it is not exempt from capital gains tax. However, there are smart strategies individuals can adopt to reduce their capital gain.

To understand these strategies, one must understand cost base. The cost base is essentially made up of five elements; five factors that contribute to the profit or loss one encounters through owning a property that isn't their main residence. These factors include:

- Money paid or property given for the CGT asset.
- Incidental costs of acquiring the CGT asset or that relate to the CGT event.
- Cost of owning the CGT asset.
- Capital costs of preserving or defending your title or rights to your CGT asset.

When a property is used solely for private purposes and was purchased after August 20 1991, the cost base of the property can be increased by including expenditures such as interest, taxes and rates. To calculate capital gains, subtract (from the property's sale price) the cost base plus certain eligible expenses that were incurred as a result of owning the property.

Half of the capital gain is added to the taxable income of a landlord where they have been in possession of the property for at least 12 months, for the year in which they sell the holiday house. This is taxed at the landlord's marginal tax rate.

Owners need to keep in mind that they must keep accurate records throughout their time of ownership, as it is almost impossible to substantiate claims without proper records.

Those who have owned the holiday house since before September 20 1985 do not need to worry about CGT.



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Using the \$20,000 instant asset write-off

Small businesses with a turnover of less than \$10 million from 1 July 2016 can write-off assets costing less than \$20,000 each up until 30 June 2018.

Under the simplified depreciation rules you must immediately write-off most depreciating assets costing less than \$20,000 that were bought and used, or installed, ready for use from 7:30pm (AEST) on 12 May 2015 until 30 June 2018.

By pooling most other depreciating assets that cost \$20,000 or more, you can claim a 15 per cent deduction in the year you buy them and a 30 per cent deduction each year after the first year.

Deduct the balance of your small business pool at the end of the income year if the balance at the time (before applying the depreciation deductions) is less than the instant asset write-off threshold (\$20,000).

Remember, you can only claim a deduction for the portion of the asset used for business or other taxable uses— not the portion for private use.

When using the simplified depreciation rules, be mindful that you must use them to work out deductions for all your depreciating assets except those specifically excluded. Also, you must apply the entire set of rules, not just individual elements (such as the instant asset write-off).



New measures to crack down on super non-compliance



The Australian Taxation Office (ATO) will receive additional funding for a Superannuation Guarantee Taskforce to crack down on non-compliance by employers.

The Government has announced a package of reforms to close a legal loophole used by dishonest employers that short-change employees who make salary-sacrifice contributions to super.

Funding for the Taskforce coincides with new data released by the ATO reporting a significant estimated Super Guarantee gap. This gap is the difference between the theoretical amount payable by employers to be fully compliant and

actual contributions received by funds.

The ATO estimates the net SG gap as 5.2 per cent or \$2.85 billion of the total estimated \$54.78 billion in SG payments that employers were required to pay in 2014-15.

The gap exists because some employers are not meeting their super guarantee obligations either by not paying enough or not paying at all.

Employers who are deliberately not paying their workers' super entitlements are robbing their workers of their wages. The new package aims to take action on this so employers cannot hide from their legal obligation.

Some of the measures included in the package involve:

- A requirement for superannuation funds to report contributions received more frequently (at least monthly) to the ATO. This is aimed to better identify patterns of non-payment and allow for immediate action;
- The rollout of Single Touch Payroll to further improve visibility on reporting, simplify tax and super for employers while allowing the Tax Office to better detect patterns of non-compliance;
- Improvements to the effectiveness of the ATO's recovery powers,

including strengthening director penalty notices and the use of security bonds for high-risk employers, to ensure unpaid super is better collected by the ATO and paid to employees' super accounts;

- Allowing the ATO to seek court-ordered penalties in the most shocking cases of non-payment, including employers who are repeat offenders.

The crackdown serves as a strong reminder for businesses to do the right thing. The ATO deals with roughly 20,000 complaints annually regarding unpaid super from both former and current employees.

Superannuation is a legal entitlement for employees; failure to pay employee super guarantee is illegal and can result in harsh penalties.



ATO targeting work-related expenses



The ATO is cracking down on individuals who are overclaiming work-related expenses.

The Tax Office is reminding individuals that they can only claim a work-related deduction if:

- They have spent the money themselves and were not reimbursed

- It is directly related to earning their income
- There is a record to prove it

Expenses that cover both work and private purposes must be apportioned— you can only claim a deduction for the work-related portion.

Common mistakes include claiming ineligible clothing, claiming for something without having spent the money and not being able to explain the basis for how the claim was calculated.

The ATO has clarified it is a myth that you can claim a standard deduction of \$150 without spending money on appropriate clothing or laundry. To claim a deduction for clothing, it needs to be occupation-specific clothing, protective clothing or a uniform that is unique to the organisation you work for.

Before claiming a deduction for any work-related expenses, individuals must consider if their employer would confirm the expenses were required to earn their income and that they were not reimbursed. Remember, receiving an allowance from an employer does not necessarily entitle you to a deduction.

Strategies to bulk up your super before retirement

To retire comfortably, you should be doing everything you can while still in the workforce to make sure your superannuation is as fruitful as possible.



Consider the following:

Consolidate super into one account

Super account fees can eat away at your super balance, especially if you have numerous accounts. If you find yourself in this position, take the time to organise your super contributions into the one account to reduce unnecessary and excessive fees.

Outstanding super payments

Check you have been paid all the super you are entitled to, as well as interest, as this can uncover large amounts of unpaid super. Employers have a legal obligation to pay all employees who have earned more than \$450 in the space of a month,

and these payments are required to be paid at least quarterly. If you have not been paid what you are owed, you are also missing out on accumulated interest. It is now compulsory for employers to report the super contributions they make, but this was not always the case, meaning you may need to contact previous employers or the ATO to access unpaid super you are entitled to.

Salary sacrifice

This is an efficient way to grow your superannuation while also incurring worthwhile tax benefits. To practice salary sacrificing, you will have to come to an agreement with your employer. You can contribute money from your pre-tax salary into your superannuation account, on top of the 9.5 per cent SG contribution that your employer must make. You will only be taxed 15 per cent on this additional contribution amount, but it does mean taking home a smaller figure each paycheck.

Spousal contribution

From 1 July 2017, if your spouse is a low income earner who is receiving less than \$37,000 per year, you can make the after tax contribution of up to \$3,000 on their behalf and receive an 18% tax offset.



Super Guarantee— What happens when you get it wrong

The ATO receives around 20,000 reports each year from people who believe their employer has either not paid or underpaid compulsory superannuation guarantee (SG). In 2015-16 the ATO investigated 21,000 cases raising \$670 million in SG and penalties.

The ATO's own risk assessments suggest that between 11% and 20% of employers could be non-compliant with their SG obligations and that non-compliance is "endemic, especially in small businesses and industries where a large number of cash transactions and contracting arrangements occurs".

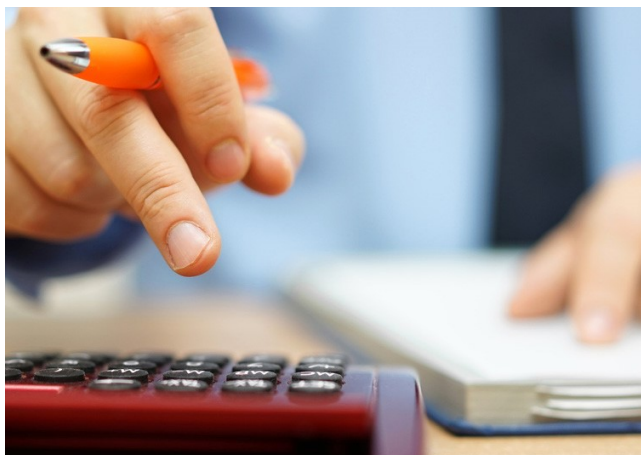
Celebrity chefs are the latest in line of employers to publicly fall foul of the rules—one for allegedly inventing details on employee payslips and another for miscalculating wages. But what happens if your business gets SG compliance wrong?

Under the superannuation guarantee legislation, every Australian employer has an obligation to pay 9.5% Superannuation Guarantee Levy for their employees unless the employee falls within a specific exemption. SG is calculated on Ordinary Times Earnings—which is salary and wages including things like commissions, shift loadings and allowances.

Employers that fail to make their superannuation guarantee payments **on time** need to pay the SG charge (SGC) and lodge a Superannuation Guarantee Statement. The SGC applies even if you pay the outstanding SG soon after the deadline.

The SG is particularly painful for employers because it is comprised of:

- The employee's superannuation guarantee shortfall amount—so, all of the superannuation guarantee owing
- Interest of 10% per annum, and
- An administration fee of \$20 for each employee with a shortfall per quarter.



Unlike normal superannuation guarantee contributions, SGC amounts are not deductible, even if you pay the outstanding amount. That is, if you pay SG late, you can no longer deduct the SG amount even if you bring the payment up to date.

And, the calculation for the SGC is different to how you calculate SG. The SGC is calculated using the employee's salary or wages rather than their ordinary time earnings. An employee's salary and wages may be higher than their ordinary time earnings particularly if you have workers who are paid for overtime.

Under the quarterly superannuation guarantee, the interest component will be calculated on an employer's quarterly shortfall amount from the first day of the relevant quarter to the date when the superannuation guarantee charge would be payable.

The penalties imposed on the employer for failing to meet SG obligations on time might seem harsh, but they have been designed that way on purpose. This is really money that belongs to the employee and should be sitting in their superannuation fund earning further income to support the employee in the retirement.

Directors are personally liable to unpaid SG

Where attempts have failed to recover superannuation guarantee from the employee, the directors of a company automatically become personally liable for a penalty equal to the unpaid amount.

Directors who receive penalty notices need to take action to deal with this—speaking with a legal adviser or accountant is a good starting point.

If you are uncertain about your SG obligations or would like a compliance audit of this and other key risk areas of your business, give us a call.

ASIC Targets growing Companies In Audit Crackdown

ASIC is in the midst of a concerted campaign targeting private companies that have outgrown the reporting exemptions.

ASIC requires companies to prepare and lodge a financial report and a directors' report each financial year, and have the accounts audited unless the company is exempt. Most small companies are exempt from the compliance requirements as are small foreign owned companies in certain circumstances.

Utilising data from the Australian Taxation Office (ATO), ASIC is contacting companies that have moved beyond or not complied with the exemption and are now in breach of their reporting requirements.

If your company has never had to lodge financial reports with ASIC in the past, it's very easy to breach the rules without realising it. The reporting requirements are hard and fast and ASIC is not overly sympathetic to "oops" as a reason for a breach.

What is a small company?

Small companies are exempt if they satisfy at least two of the following:

- The consolidated gross revenue for the financial year for the company and any entities the company controls is less than \$25 million
- The value of consolidated gross assets at the end of the financial year of the company and any entities it controls is less than \$12.5 million, and
- The company and any entities it controls have fewer than 50 employees (full time equivalent) at the end of the financial year.

No longer a small company? Then you are a large company and are required to lodge audited financial statements.



Will the auditor want to audit the previous year's figures when we were still a small company? Yes.

This exemption is for companies not controlled by a foreign entity or disclosing entities.

Failure to lodge annual accounts with ASIC may result in penalties and potentially the company being deregistered.

The rules for foreign controlled companies

Small companies controlled by a foreign company may also be exempt in some circumstances.

For small companies that are not part of a large consolidated group, the directors must resolve to rely on relief provided by ASIC and lodge this resolution (form 384). Timing is everything to be eligible for this exemption, if the right form is not lodged between the period starting 3 months prior to the start of the financial year relief is first applied and ending 4 months after the end of the relevant financial year, the exemption is unlikely to apply.

ASIC warns that, "in most cases, relief is not granted for financial reports that were due in the past".

Foreign companies that fail to lodge the appropriate financials and are not exempt may be deregistered.

Again, if you have a requirement to lodge financial statements with ASIC, they must be audited.

If you are uncertain about the requirements for your company, please contact us and we'll work with you to ensure your company is compliant.

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Aussielent—A Client Success Story



Founded by Paul Carpenter and Kieran Grogan Carpenter in 2014, Aussielent has been a client of Collins & Co since 2015. We have been proud to work with them and help them build their successful online supplement business and to watch them grow. Not only are they our client, they are also one of our Instagram followers! – Go ahead and follow them on @aussielent.

Founder Paul Carpenter has this to say:

If you've ever thought 'there must be an easier way to give my body what it needs without hours of shopping, prepping and cooking' – well, you were right! Aussielent, manufacture and sell nutritionally complete foods.

About our product:

Our mission is to offer smart and affordable nutrition to all Australians. Aussielent is the product of this mission to bring a nutrient rich, hassle free food to the time-poor. Using the Australian Food Standards as our guide we've packed the nutrition of a supermeal into one easy to prep drink. Every

meal contains at least 25g of protein, 25% RDI of 26 vitamins and minerals, fats, carbohydrates, omegas 3 and 6, and plenty of fibre.

We think it's crucial for a sustainable future to minimise waste and find the most mindful and efficient way of doing things. We created Aussielent because we believe that eating well shouldn't be hard, or hurt your hip pocket.

About us:

We started Aussielent in 2014, mostly as a means of making food for ourselves! A lot of people started asking if they could buy some and we began to think that maybe there was a small business in it. I was also interviewed around this time for an SBS documentary on complete foods, and through that I was also interviewed on news.com.au. After the article came out we were flooded with enquiries and we started to get the feeling that the market for this product could be bigger than we'd anticipated. Originally, we were making and packing all our products ourselves but it was clear after only a couple of weeks that there was no way we could keep up. We engaged a manufacturer and began working with a food scientist to hone and improve our products, and it all grew from there.

Some of our highlights:

We had the chance to be interviewed and profiled by a number of magazines and websites – including the **Age**, **SBS**, **Lifehacker**, **news.com.au**, **JJJ** and **Seven's Sunrise**, which really propelled us forward and introduced our products to a wider audience. Setting up and engaging manufacturing contracts was a huge step forward for us too, and enabled us to expand the business. This year we have invested in our branding, and have just launched new packaging and a new website which we are very proud of.

You can contact Paul and Aussielent at sales@aussielent.com.au or visit their website at www.aussielent.com.au



Reminder:

If you are selling a property, get a
TAX CLEARANCE CERTIFICATE
or lose **12.5%** of your proceeds.

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