CARBONI & CO

CHARTERED ACCOUNTANTS

"Making Your Business Count"

1. Tax Planning Tips

As we approach the end of the financial year, it is always a good time to take a look at tax planning strategies to reduce the final year end tax bill.

Common strategies to reduce tax include the following:

Deferring Income	• Most taxpayers will not be assessed on income until received, consider delaying the receipt of income until next financial year.
Increase Expenditure	• Individual taxpayers may claim an immediate deduction for items costing less than $300 provided used predominantly to earn non-business income (eg salary/wages). eg. tools. • If spend more than $300, generally claim only depreciation on work related equipment over useful life of asset. Claim for first tax year apportioned based on number of days owned during year. • **If a small business (ie. annual turnover less than $10 Million), consider spending up to $20,000 (GST Exclusive) which is immediately deductible.** • Eligible assets egs - cars, vans, kitchens, machinery, etc. Not eligible items are stock, software for business and Marketing costs. • This will apply for assets acquired and installed ready for use between 7:30pm (AEST) **12 May 15 and 30 June 18**.

Suite 43, 49-51 Mitchell Road BROOKVALE NSW 2100
Ph: (02) 99072985 Fax: (02) 8964-7877

Prepayments and Accelerated Deductions. (small business)	• For small business taxpayers (ie. turnover <$10 Million), consider claim a deduction for payments in advance where
	    • Less than $1,000;
	    • Under contract for service (eg. salary and wages);
	    • Services received within 13 months
	
	• Employee/Directors bonuses are deductible if incurred by the year end 30 June 2017 if evidence of intention to pay – ie passing of resolution/ minute.

Defer Capital Gains Tax	• Capital Gains are taxed in the year when contracts are exchanged (not settled).
	
	• If expecting a large capital gain from the sale of property or shares, consider the following to reduce possible tax:
	    ○ delaying the exchange of contracts until the next financial year to defer any tax payable;
	    ○ **selling non-performing shares for a capital loss to offset against any capital gain**.
	    ○ consider (if you have them) capital losses available from prior years to offset against gains. (excludes losses from collectables);
	
	• Ensure Property or shares held for at least 12 months to access the 50% general discount for individuals (if eligible for discount);

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Superannuation Deductions	• For employers, to ensure superannuation for the quarter ended 30 June 2017 is tax deductible, **must be paid before 30 June 2017.** • For employees (in particular those nearing retirement), consider salary sacrificing additional superannuation contributions which are taxed in a complying superfund at 15%. Subject to cap limits depending on age. o As a general rule, where a person receives Employer Superannuation Support (ie. 9.5% gross wages for most), you cannot claim a tax deduction for personal superannuation contributions made. However, an individual can claim a tax deduction for personal contributions where you receive only up to a maximum of 10% of your assessable income from an employer during the year you wish to claim a tax deduction subject to limits. If a person is > 65 years need satisfy work test. (Other conditions may have to be met). • **If able to claim a tax deductible contribution for super, (these are known as concessional contributions) consider making to reduce taxable income. For the 2016/2017 the total allowable limits are** • **If aged under 50 - $30,000** • **If aged 50 and over - $35,000** • **If exceed the concessional cap limit, additional tax may be payable.** • Please note that in considering to make a concessional contribution for year end 30 June 2017, **if you earn more than $300K, additional tax is payable on concessional contributions at 15%.**

Non Concessional Super Contributions and Bring Forward Rule	• Non concessions contributions are those to which no tax deduction is claimed for these when made to fund. • Limits for non-concessional contributions for year end 30 June 2017 is $180,000 per person and will reduce to $100,000 for the 2018 year. Excess contributions may attract more tax. • Under Bring Forward rules, if you are aged under 65 years of age, you can bring forward total of 3 years contributions in one year, and that translates into non-concessional super contributions of up to $540,000 for the 16/17 year (and $300,000 for the 2017/2018 year), before you would exceed the non-concessional cap. • Caution required under bring forward rules required to ensure do not exceed cap limits due to prior contributions. • Consider effect of contributions towards new maximum limit of $1.6Million allowed in pension balance to take effect 01 July 2017.
Super Co-Contributions	• For taxpayers with **assessable income** <$36,021 per year, the Government will contribute 50c for each $1 of after tax contributions by taxpayers, up to a $500 maximum co-contribution. Super co-contributions extend to the self employed. • Co-contributions reduces if income > $36,021 and phases out at $51,021.
Spouse Super Rebate	• A taxpayer can receive a tax rebate of up to $540 for super contributions made for a spouse who has income <$13,800 and is under 65 yrs or if spouse 65-69 yr old, must have worked 40 hours in 30 days (work test). • Rebate is 18% of contribution amount up with max contribution $3,000.

Bad Debts	• Write off bad debts before 30 June 2017 to obtain a tax deduction. • To be validly claimed the debt must have previously been included as assessable income and written off in the debtors ledger.
Transition to Retirement Pension	• Once preservation age is reached transition to retirement income streams are a measure that allow individuals who have reached preservation age to access their superannuation benefits and continue working. • The total payments made in a financial year must be no more than 10 per cent of the account balance as at 1 July of each year. • From preservation age – age 59 the taxable component included in assessable income and taxed at marginal tax rates with 15 per cent tax offset. • From age 60 pensions are Tax-free. • **Effective 1 July 2017, the tax exemption on earnings within TTR pension account will be removed for recipients who have not yet retired.**
Trust Distribution Resolutions	o Due to recent court cases, the ATO now requires trust distributions for the 2017 year to be made by 30 June 2017. Should the ATO determine that inadequate steps were taken by the required date, they may tax the income of the trust for 2017 at 47%.

2. What's new for 2017/2018 tax year.

The individual resident tax rates commencing 1 July 2017 are as follows:

Taxable income	Tax on this income
0 – $18,200	Nil
$18,201 – $37,000	19c for each $1 over $18,200
$37,001 – $87,000	$3,572 plus 32.5c for each $1 over $37,000
$87,001 - $180,000	$19,822 plus 37c for each $1 over $87,001
Over $180,000	$54,232 plus 45c for each $1 over $180,000

**** Please note the above rates do not include Medicare Levy of 2% on taxable income and any Medicare Levy Surcharge (1.0-1.5%) which may be applicable.**

Superannuation Guarantee rate will remain at 9.5%.

Small business company income tax rate reduced to 27.5% for 2017 year.

- For Small business companies, with aggregated turnover less than $10Million, the **income tax rate is now reduced to 27.5%** for year end 30 June 2017. Note that turnover of connected entities is included in the calculation of company turnover.

- Companies with an aggregated annual turnover of $10 million or above will continue to be subject to the current 30% tax rate on all their taxable income.

- For the 2017/2018 year, the threshold as to what is small businesss is raised to $25 Million.

Sole Trader - 8% discount (up to $1000 value)

- Individual taxpayers with business income from an unincorporated business with an annual turnover (including connected entities) of less than $5 million will be eligible for a small business tax discount of 8 %.

  - The discount will be 8% of the income tax payable on the business income received from an unincorporated small business entity.

- Where taxpayer receives a share of business income through partnership or trust, may be eligible to receive the offset based on net income of small business.

Tax Deduction for Personal Super contributions: ** Important**

- Effective 1 July 2017, regardless of employment status, all individuals aged up to 75 years old will be able to make TAX DEDUCTIBLE contributions, even if they receive Employer Superannuation support (9.5%).

- Previously only those persons who earned less than 10% of income from employment (ie self employed, investors) could claim a Tax Deduction for their contributions. Effective 1 July 2017 this 10% rule will be abolished.

- There is a limit of $25K as tax deductible, and this limit includes employer superannuation support receive from employer**, so important to factor in when deciding how much to contribute.**

  Example:

  Carl receives Salary of $100K and his employer pays superannuation contributions of $9500 (9.5%). Therefore he can contribute tax deductible contribution of $15,500 to his fund for year end 30 June 2018**.**

- Persons seeking to claim a tax deduction will need to file a Valid notice of intention to deduct with their superfund and must also have received acknowledgement of receipt of this notice from the super fund by time they lodge their 2018 tax return (or no later than 30 June 2019).

- **Two categories of members will be UNABLE to claim deductions for contributions to two categories of Superfunds;**

  1. **Defined benefit interest in a Commonwealth public sector super scheme;**
  2. **Members of Untaxed Schemes;**

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Concessional contributions cap reduced

- Effective 1 July 2017, the annual cap on concessional super contributions will fall to $25,000 for everyone. Concessional contributions include employer contributions**.**

Carry forward of unused concessional caps for super balances of $500K

- From 01 July 2017, Members with superfund balances less than $500,000 who don't use their concessional contribution allowance per above ($25K pa), can carry forward the unused balance on a rolling basis for 5 consecutive years**.**

Super Balance cap: $1.6 million limit for transfers into pension phase

- The amount you can have in a superannuation account which is in pension phase will be limited to $1.6 Million. Pension balances over this limit will have to be transferred back to accumulation phase or withdrawn**.**

- If earnings on the balance in pension phase take balance over $1.6Million this will not breach rules. Just cannot make further contributions.

- An exemption to this cap, will be under the recent 2017 Federal Budget proposals to allow persons aged over 65 years old who sell their Primary Residence, which owned more than 10years to contribute up to $300K to their fund (non-concessional contribution). This rate is per person, so up to $600K for a couple**.**

Transition to Retirement (TTR) income streams – removal of tax free pension assets earnings:

- Effective 1 July 2017, the tax exemption on earnings within TTR pension account will be removed for recipients who have not yet retired.

Spouse Superannuation Offset:

- Effective 1 July 2017, the income threshold test for the low income spouse will rise from $10,800 to $37,000. This will increase eligibility of those who can claim the tax rebate for making contributions to spouse super.

Super Contributions Tax – Div 293 tax on super threshold reduced to $250K

- Those individual taxpayers earning more than $250Kpa will pay an extra 15% more on their super contributions, meaning super contributions taxed at 30%.
- Since 2014, the threshold was $300K before this additional tax applied.
- Note taxpayer can elect to pay additional tax from their fund.

Superannuation Death Benefit – Reduction benefit Estate can receive

- From 1 July 2017, a super fund will not be able to pay a refund of the contributions tax deducted from member fund into a deceased estate.
- This relates to payments usually made to spouse/dependants of members of a Fund.
- Likewise the super fund will not be able to claim a tax deduction for this payment.

Simplified BAS reporting:

- From 1 July 2017 small businesses will only need to report GST information on their BAS relating to:
    - GST on sales (1A)
    - GST on purchases (1B)
    - Total sales

Foreign resident CGT withholding regime changes from 1 July 2017

Where a foreign resident disposes of certain taxable Australian property (mainly real estate) with contract price of > AUD$750,000, the purchaser will be required to withhold 12.5% of the purchase price and pay that amount to the Australian Taxation Office (ATO), unless the seller can prove residency via a Clearance Certificate upon settlement.

Changes announced in the recent 2017 Federal Budget, the contract price at which sellers will need to apply for Clearance Certificate has reduced from $2 Million down to $750,000 effective 1 July 2017, thus expanding those persons who need to apply. Also under these changes, the withholding rate has also now increased from 10% to 12.5%

Online forms for Clearance certificate are available at www.ato.gov.au/FRCGW

NSW Budget Measures:

On 20 June 2017, the State Government announced changes to Stamp Duty and Land Tax to take effect 1 July 2017:

- Abolishing Stamp Duty for first homebuyers on existing and new home worth up to $650,000 and discounts applying for properties worth to $800,000;
- Abolishing stamp duty for lender's mortgage insurance when required for first homebuyers
- First home buyers will also be eligible for $10,000 grants for new homes up to $600,000,
- First Home Builder Grant of $10,000 for people who build their first home on vacant land and, where the total value of the house and land does not exceed $750,000.
- Foreign investors Stamp Duty surcharge on purchase will double to 8%;
- Land Tax – overseas owners will also pay a 2% surcharge.

**** Note that information above is general in nature. Seek further advice before making decisions.**