

Tax Planning – Client Newsletter 2017

Income Tax Changes for 2016/17

Several tax changes apply in the 2016/17 income year. A brief summary is provided in this newsletter.

There may be some advantages in acting on some of these items before 30 June.

If you think any of these changes may affect you, please contact us for more details.



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General Year End Tax Planning Strategies

Business Income and Expenses

Subject to cash flow requirements, consider deferring income until after 30 June, especially if you expect lower income for 2017/18 compared to 2016/17.

Most businesses are taxed on income when it is invoiced. Some small businesses may be taxed only when income is received. Income from construction contracts is generally taxed when progress payments are invoiced or received.

Ensure that you have complied with the requirements to claim deductions in 2016/17:

- Bad debts must be written off in your accounts before 30 June
- Employer and/or self-employed superannuation contributions must be paid to, and received by, the super fund before 30 June and must be within the contributions cap (\$35,000 for individuals aged 49 or over on 30 June 2016, otherwise \$30,000)
- Depreciation can be claimed for assets first used, or installed ready for use, before 30 June
- Small businesses (turnover less than \$2m, proposed to be increased to \$10m) can claim expenses prepaid up to 12 months in advance – for larger businesses, this is generally limited to expenses below \$1,000
- Wages paid to your spouse or family members must be reasonable for the work performed

Small businesses planning major purchases or replacements of capital equipment should contact us for advice. Careful timing of those transactions can result in substantial tax savings.

Review valuations of trading stock in the lead up to 30 June. Best practice is generally to value stock at the lower of cost or market selling value.

This may change if you expect a tax loss for 2016/17, or substantially higher income in 2017/18 compared to 2016/17.

Personal Income, Deductions and Tax Offsets

Subject to cash flow requirements, set term deposits to mature after 1 July, rather than before 30 June.

Consider realising capital losses if you have already realised capital gains on other assets during 2016/17. Conversely, consider realising capital gains if you have unrecouped capital losses, or you expect substantially higher income in 2017/18 compared to 2016/17.

If you expect lower income in 2017/18 due to retirement or any other reason, consider deferring income until after 1 July, when you will be in a lower tax bracket. If you are a primary producer and you expect a permanent reduction in income, consider withdrawing from the income averaging system.

Arrange for deductible donations to be grouped in the higher income year, if you expect substantially higher or lower income in 2017/18 compared to 2016/17. Make all donations in the name of the higher income earner.

If you plan to purchase income-producing assets, consider acquiring assets that will generate positive cash flow in the name of the lower income earner. Conversely, consider acquiring negatively geared assets in the name of the higher income earner.

Access to the Net Medical Expenses Tax Offset is restricted to medical expenses relating to disability aids, attendant care or aged care. If you have incurred large out-of-pocket medical expenses in 2016/17, contact us for advice.



Other Tax Planning Considerations

Contact us for advice if you have moved to or from Australia for an extended period. You may need to review your residency status for tax purposes. There are important tax consequences if you change residency.

Trustees of trusts should ensure that all necessary documentation is completed before 30 June, where you intend to stream capital gains or franked distributions to specific beneficiaries.

Family discretionary trusts may need to make a family trust election if the trust has unrecouped losses, or has beneficiaries whose total franking credits for the year may exceed \$5,000.

Be sceptical of year-end tax shelter schemes. You should not enter a scheme without advice regarding both its tax consequences and commercial viability.

“Reduced tax rate for SBE companies and discounted income tax payable for individual small business taxpayers.”

Income Tax Changes – Small Businesses

Tax Rate – Proposal passed by lower house

Company Tax Rates

The tax rate for small business companies has been reduced to 27.5% from 1 July 2016. Importantly the tax cut is now available to more small business entities. Companies carrying on a small business with a turnover less than \$10m are eligible for the lower company tax rate. This turnover threshold is expected to increase to \$50m by the 2018-2019 financial year.

Accelerated Depreciation

An immediate deduction is still available for an asset costing less than \$20,000 acquired and first used or installed ready for use on or before 30 June 2017.

The balance of the general small business pool is also immediately deducted if the balance is less than \$20,000 at 30 June.

Small Business Restructure Rollover

From 1 July 2016, a small business entity can transfer active assets from one entity to one or more other entities without incurring a tax liability. Please contact us if you are considering restructuring your small business entity.

Intangible Assets

Businesses have the choice to self-assess the tax effective life of intangible assets (e.g. patents, copyrights) acquired after 1 July 2016, or to continue using the existing statutory effective life.

Individual Small Business Taxpayers

Individual small business taxpayers are entitled to 8% discount (increased from 5%) of the income tax payable on the business income received from a small business entity (other than a company), up to a maximum of \$1,000 a year, with the aggregated turnover test being increased from \$2m to \$5m.

Income Tax Changes - Individuals

“Substantial changes to the superannuation system affecting individuals and SMSFs will apply from 1 July 2017. Please contact us to discuss if you wish to receive further information.”



Tax Rates

From 2016/17 tax year, the tax threshold at which the marginal tax rate of 37% applies has increased to \$87,000 (previously \$80,000).

Norfolk Island Residents

From 1 July 2016, the income tax and Medicare levy exemption for Norfolk Island residents have been removed.

ADF Personnel Deployed in Afghanistan

If you are a member of the ADF who has joined the international fight against terrorism as part of the US-led coalition forces on Operation Palate II, you don't have to pay income tax on the salary and allowances you received while on that deployment.

HELP Debts

From 1 January 2016, taxpayers who have moved overseas for more than six months are required to pay back their HELP debts in the same way as they would if they were residing in Australia, with repayment obligations commencing 1 July 2017.

From 1 January 2017, the HECS-HELP upfront payment discount of 10% and the HELP voluntary repayment bonus of 5% have been removed.

Superannuation

Changes from 1 July 2017

There are major changes to the superannuation system affecting individuals and self-managed superannuation funds (SMSFs). Please contact us if you would like to discuss how they may affect you.

Superannuation contributions

The concessional and non-concessional contributions caps for the 2016/17 tax year stays the same from the previous year (concessional contributions caps \$30,000 for individuals under age 50 and \$35,000 for those age 50 and over & non-concessional contributions cap \$180,000).

The full co-contribution rate applies for income up to \$36,021 and the partial co-contribution applies for income up to \$51,021 for the 2016/17 tax year.

The maximum super contributions base for high income earners is \$206,480 per annum for the 2016/17 tax year.

Lost member superannuation accounts

The balance threshold for transfer of small lost member superannuation accounts to the ATO has been increased from \$4,000 to \$6,000 from 31 December 2016.

Primary Producers

Farm Management Deposits (FMDs)

From 1 July 2016, the following changes apply to FMDs:

- The maximum amount that can be held in an FMD has increased to \$800,000 (previously \$400,000).
- If your primary production property is experiencing severe drought, you can access your FMD within 12 months of making the deposits.
- Amounts held in an FMD can be used to offset (i.e. reduce interest) loans or other debts relating to your primary production business.

Income Tax Averaging

From the 2016/17 tax year, primary producers are allowed to opt back in to income tax averaging 10 years after choosing to opt out.

Fringe Benefits Tax

FBT Rate

The FBT rate for the year ending 31 March 2017 is 49%.

Work-Related Portable Electronic Devices

From 1 April 2016, small businesses that provide their employees with more than one work-related portable devices can access the FBT exemption even if the additional items have similar function as the first device.

Salary Packaged Meal Entertainment

From the 2016/17 FBT year, reportable fringe benefits will include salary packaged meal entertainment benefits and entertainment leasing expense benefits.

There are new rules limiting the FBT concessions for salary packaged entertainment benefits for employees of certain non-profits.

Capital Gains Tax

Foreign Resident CGT Withholding

When a foreign resident (vendor) disposes a taxable Australian property with a market value of \$2m or more, the purchaser is required to withhold 10% of the sale price, unless the vendor has a clearance certificate from the ATO. We can organize for your clearance certificate, please call us.

Early Stage Innovation Companies

For shares issued after 1 July 2016, investors in Australian early stage innovation companies may be entitled to receive an exemption from CGT and a tax offset.

Please contact us to discuss any of these items that may impact your tax position for the 2016/17 year.

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