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Practice Update

Please read this update
and contact this office
if you have any queries

July - August 2016

What's changing on 1 July 2016?

Everyone

New rules to prevent foreign residents avoiding tax when they sell certain Australian assets will affect everyone buying or selling property with a market value of \$2 million or more. The 10% withholding obligation applies from 1 July 2016. Many transactions involving shares in a company or units in a trust will also be caught.

Business

New initiatives offer tax incentives for investment in early stage innovation companies.

Simplified rollover rules commence enabling small businesses to restructure their business operations without triggering adverse implications under the income tax system.

Farm management deposit scheme changes - increases the maximum amount that can be held in FMDs from \$400,000 to \$800,000. Easier withdrawals in times of drought without impacting on the tax treatment of the deposit in earlier income years. Amounts held in FMDs will be able to be used to offset loan account balances or the balances of other debts relating to a primary production business carried on by the FMD owner.

Superannuation - SMSFs

Strict compliance rules for collectable and personal use assets apply universally - Any collectables or personal use assets held within your SMSF, regardless of when you acquired them, must meet strict compliance requirements: the asset cannot be leased to a related party; the asset cannot be stored in the residence of a related party; the asset cannot be used for personal use; trustees must record a decision on where the asset is kept; the asset must be insured in the trustee's name within 7 days.

You & your family

Large Family Supplement abolished.

Family Tax Benefit B removed for couples whose youngest child is 13 years of age or over (instead of 18 years). The changes do not affect single parents or grandparents but grandparents must register to continue to receive the payment.

If you are out of the country, the Family Tax Benefit, child care payments or Double Orphan Pension, and Single Income Family Supplement will now only be paid for 6 weeks (instead of 56) while you are temporarily overseas.

Higher Education Loan Programme (HELP) debtors residing overseas for 6 months or more need to make repayments of their HELP debt if their worldwide income exceeds the minimum repayment threshold at the same repayment rates as debtors in Australia.

What Budget announcements will become reality?

The Coalition has formed Government but what happens now to all those Budget announcements? We take a look at what announcements are likely to pass Parliament and why.

Like the last Parliament, the Coalition will not have a majority in the Senate. The Government needs the support of Labor, the Greens, or a combination of smaller parties and/or independents to successfully push through its Budget reforms. From the outset we know that there will be immediate problems passing some of the Budget measures through Parliament; already there are unpopular elements that are unlikely to be supported. We look at the key issues:

Business Tax Cuts

Prediction: Heavily amended

The Budget proposed a company tax rate reduction to 25% over 10 years - starting with businesses with a turnover up to \$10m accessing a 27.5% tax rate from 2016-17. It is unlikely these tax cuts will pass the Senate in their current form.

In general, tax cuts for Australia's largest corporations are deeply unpopular despite modelling that shows an overall reduction in the corporate tax rate stimulates the economy. The Greens have stated that they will not support tax cuts for big business; describing the announced reforms in their budget reply as "liberal corporate welfare".

Most Australian businesses are small and medium businesses - over 800,000 companies, only 0.3% are large or very large. Despite the big business focus during the election campaign, there is base level support to increase the threshold to access the current 28.5% small business company tax rate from \$2m to \$10m - a position supported by Senator Xenophon's team which holds three Senate seats (the Greens also supported the current reduced tax rate for small business).

Prediction; if the company tax cut makes it through Parliament it will be limited to expanding the existing small business tax rate to businesses up to \$10 million turnover.

Income tax cuts

Prediction: In doubt

Depending on your perspective, the Budget announcement to increase the 32.5% personal income tax threshold from \$80,000 to \$87,000 from 1 July 2016 is a stopgap against bracket creep or a hand out for middle-income households.

The Greens have rejected the reform but Pauline Hanson, whose One Nation party has won four Senate seats, is quoted as saying, "...there are a lot of Australians who need a break in the cost of living, who face bracket creep and are paying a lot of income tax."

There is a chance the personal tax cuts will pass Parliament, potentially with a different start date and depending on the final Senate composition. But, there may be a sting in the tail for high income earners with Mr Xenophon calling for the Temporary Budget Repair levy (debt tax) to be extended (it's due to expire on 30 June 2017). The debt tax came into effect on 1 July 2014 and is payable at a rate of 2% on every dollar of a taxpayer's annual taxable income over \$180,000 - increasing the top marginal tax rate to 49%.

Superannuation reform

Prediction: Amended

Superannuation reform will happen. The simple reason is that increasingly, SMSFs in particular, are used for tax and estate planning rather than strictly for retirement purposes. According to a 2015 report by the Association of Superannuation Funds of Australia, "...around \$360 billion is held in superannuation by those with more than \$1 million in super."

The more controversial budget measures: limiting the non-concessional contributions cap to a lifetime limit of \$500,000 from Budget night (applies to all non-concessional contributions made on or after 1 July 2007); and capping tax-free earnings on super balances to \$1.6 million, are in doubt in their current form, in part because they do not shelter existing retirees. However, it is likely that we will see an amended form of these announcements.

The other announced superannuation reforms are more likely to pass Parliament as most parties broadly support reforming the way tax concessions apply to superannuation. These include a reduction in concessional contribution caps, an extension of the 30% tax on the super

contributions of high income earners, and the removal of the tax exemption on earnings supporting transition to retirement income streams (TRIS).

One of the positives of the Budget reforms is the removal of the contribution restrictions for those 65 to 74. Under these reforms, people under the age of 75 will no longer have to satisfy a work test and will be able to receive contributions from their spouse.

We'll keep you posted.

The Handbag vs Briefcase deduction debate

If a man can claim a briefcase as a tax deduction why can't women claim their handbags? After all, men often have a lot of personal items in their briefcases and working women are just as likely to carry their ipads, documents, and other work related items in their handbag. So, what's the difference and why the disparity? Before you try and claim your \$4,000 Gucci handbag as a tax deduction, we step you through the facts of the deductibility debate.

What can you claim a tax deduction for?

The rules around what you can personally claim as a work related tax deduction are fairly rigid - otherwise everyone would be claiming everything even vaguely associated to what they need for work.

Is the item connected to the work you do?

The first and most basic rule is that there needs to be a connection between the income you earn and the item purchased. In other words, you need the item to do your job. The Australian Tax Office (ATO) can ask you to prove what you have claimed is connected to your job and if you claimed the full cost, then you need to prove that the item is 100% used for work purposes. You can see the immediate problem here with claiming 100% of that Gucci handbag – it's fairly unlikely it is only going to be used for work purposes and it would be up to you to prove otherwise. Whereas with a briefcase, unless you were going to a *Revenge of the Nerds* fancy dress party, it's unlikely you would carry it around for any other reason than for work.

The same issue applies to other deductions. The ATO recently denied a claim by a labourer for \$1,200 in mobile phone charges. The worker

claimed the phone was necessary to keep in touch with co-workers. But, when the ATO contacted the employer, they said the labourer did not need his phone for work. The claim was reduced to \$50.

Self-education courses are another expense that is often claimed and one the ATO is looking closely at. There have been numerous cases of people claiming overseas travel, course fees, and accommodation as self-education expenses. Unless you can prove that you needed to complete the course overseas, it was directly connected to your employment, and the fees you are claiming only relate specifically to the course, you can't claim the full amount. Remember, even if the ATO does not immediately detect a questionable claim, they can review past claims and adjust them, particularly where there has been evidence of evasion or fraud.

Did your employer already pay for it – directly or indirectly?

If you already claimed the cost of the item you purchased from your employer, you can't generally claim it as a personal deduction. The same applies if your employer provides you with an expense account or payment as part of your remuneration package to cover specific costs.

The ATO recently cracked down on travel expense claims. A boilermaker's \$8,000 travel claim ended badly when the ATO discovered that he received a travel allowance for the same amount from his employer. He ended up with a \$4,000 tax bill as the \$8,000 allowance he received had not been declared in his income and the ATO then applied penalties and interest.

Can you prove you paid for it?

The ATO always requires a receipt or paperwork to support any purchase you claim a deduction for. If you don't have this and you are audited, then the ATO will simply deny your deduction.

Does the price tag make a difference?

Does the price of a work related expense make a difference? For example, if the ATO accepts a deduction for a \$200 laptop bag will they also accept a claim for say a \$4,000 Burberry laptop bag? It comes down to a question of need. If the claim is excessive, you need to prove that the excessive cost is actually required for your job. The larger the deduction claimed the more likely

it is that your tax affairs will be reviewed by the ATO.

The weird and wild tax deductions available

Claiming your home internet expenses – this is an area the ATO has flagged for close review. Teachers in particular have come under scrutiny in previous years for claiming all of their home internet expenses as work related expenses. It's important to get the proportions right. If you are required to work from home and use the internet to do this, you can only claim that portion of your internet expenses you spent working.

Adult industry workers can claim a myriad of items connected to their job – lingerie, lubricants, costumes, and dance lessons.

Hand cream – yes for airline crew but not builders.

Gym membership - Members of the Australian Defence Force in Special Forces can claim gym fees and other related costs in some cases as they need to maintain such a high level of fitness.

Landlords can claim costs associated to their rental property such as flying interstate to inspect the property. But, be warned, if you do anything other than inspect the property and return on the next plane, your deduction may be reduced or declined. If you spend time doing something other than inspecting your property, then you can only claim the portion of the costs related to the rental property. Also be aware that deductions claimed for rental properties must be in line with your ownership interest. If there is more than one owner then you can only claim deductions in the same proportion as your ownership interest.

Newspapers and online news access - if you are a professional who can prove they need to be across the news then you can claim these costs.

Access to tax deductions has nothing to do with gender – it's all about the basic rules of how closely connected the purchase is to your job and your ability to prove your case.

SuperStream deadline extended!

The ATO has announced that for small businesses that are not yet SuperStream ready, it will provide a further extension to 28 October 2016.

The ATO noted that, while many small businesses had implemented the required changes, *"some small businesses may need extra time and help to become SuperStream compliant"*.

Cents per km deduction rate for motor vehicle expenses

The ATO has determined that the rate at which work-related motor vehicle expense deductions may be calculated using the cents per kilometre method is **66 cents per kilometre** for the income year commencing 1 July 2016.

Latest ATO benchmarks released

The ATO has released the latest benchmarks for small business based on the data from 2014 income tax returns and business activity statements, covering over 1.3 million small businesses.

Assistant Commissioner Matthew Bambrick said that, if a small business is inside the benchmark range for their industry and the ATO hasn't received any extra information that may cause concern, they can be confident that they probably won't hear from the ATO.

Mr Bambrick said the benchmarks were also a helpful guide for small businesses to see how they stack up against others in their industry.

"For example, one business told us how their accountant used the tailored benchmarks to work out that their expense to turnover ratio was higher than other businesses with a similar turnover. Using this information, the business adjusted some of their inputs and how they were pricing their products. These changes resulted in an overall improvement in their performance."

While the benchmarks are a helpful guide for small business, Mr Bambrick said it was also one of a number of tools the ATO uses to ensure a level playing field.

Changes to Age Pension rules from 1st January 2017

From 1st January 2017, the Assets Test lower thresholds will increase and the taper rate will double from \$1.50 per \$1000 per fortnight to \$3 per \$1000 per fortnight. This will result in a substantial reduction to the asset cut-out threshold as per tables below:

Assets test thresholds, or disqualifying limits, for the full Age Pension payment:	2016 rules	2017 rules
Single homeowners full pension assets must be less than	\$209,000	\$250,000
Single non-homeowners full pension assets must be less than	\$360,500	\$450,000
Couple homeowners full pension assets must be less than	\$296,500	\$375,000
Couple non-homeowners full pension assets must be less than	\$448,000	\$575,000

Assets test thresholds, or disqualifying limits, for the part Age Pension payment:	2016 rules	2017 rules
Single homeowners part pension assets must be less than	\$791,750	\$547,000
Single non-homeowners part pension assets must be less than	\$943,250	\$747,000
Couple homeowners part pension assets must be less than	\$1,175,000	\$823,000
Couple non-homeowners part pension assets must be less than	\$1,326,500	\$1,023,000

If you are in receipt of the aged pension and think you may be affected by the assets test changes, please contact us as soon as possible to consider alternative investment strategies.

Tax time is prime time for scams

The ATO is reminding Australians to be on the lookout for tax-related scams during tax time, as scammers are particularly active because of the large number of people lodging their tax returns.

Assistant Commissioner Graham Whyte said that, while most people were able to identify scams, it is important to remain alert during tax time.

For example, although the ATO makes thousands of outbound calls to taxpayers a week, there are some key differences between a legitimate call from the ATO and a call from a potential scammer:

"We would never cold call you about a debt; we would never threaten jail or arrest, and our staff certainly wouldn't behave in an aggressive manner. If you're not sure, hang up and call us back on 1800 008 540".

ATO also warns against identity theft

The ATO is also reminding Australians to protect themselves against identity theft this tax time. Highly organised crime networks use a range of methods to steal personal information in order to commit refund fraud.

The ATO recommends following a few easy steps for taxpayers to protect themselves against identity theft:

- Put a padlock on their letterbox;
- Shred documents containing personal details (especially their tax file number (TFN)) before throwing them away;
- Use legitimate and up-to-date antivirus, firewall and anti-spyware software; and
- Make sure passwords are strong, using a combination of letters, numbers and symbols, don't share them with anyone, and ensure they are changed regularly.

The ATO also says that taxpayers should report the loss or theft of their TFN without delay, if they can't find their TFN, and/or think their TFN has been stolen or misused.

Overtime Meal Allowance Amounts

The reasonable amount for overtime meal allowance expenses for 2016/17, where an allowance is paid under an award, order, determination, industrial agreement or a Commonwealth, State or Territory law, is \$29.40 per meal.

The 'sharing economy' in the ATO's sights

The ATO is concerned that those earning money from the 'sharing economy' may not realise they have to declare these amounts on their tax return.

In the sharing economy, buyers and sellers are connected through a facilitator who usually operates an app or website.

Assistant Commissioner Graham Whyte said:

"If you earn money from doing odd jobs or providing a service like task sharing, transporting passengers through things like ride-sourcing, or renting out a room or house, you need to declare it because it counts as assessable income. If you are running a business through the sharing economy, you also need to declare this income.

"It's a bit different if the goods you provide or the activity you complete through a sharing economy website or platform is done as a hobby or recreational activity. The amount you are paid may not be assessable income."

Mr Whyte said ATO technology was keeping up with the sharing economy, and, thanks to their data collection and data matching activities, the ATO would know if taxpayers have left out a significant amount of income.

In addition, some taxpayers may need to register for, and pay, GST (especially those earning an income from carrying on an enterprise of ride-sourcing services, regardless of how much money they earn).

Car depreciation limit for 2016/17

The car limit is \$57,581 for the 2016/17 (up from \$57,466 for the previous year). This amount provides a limit on depreciation and GST input tax credit claims.

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.

ML Partners Pty Ltd Harvest Festival Queen Entrant

This year Julia Woodlock will be representing ML Partners as a Harvest Festival Queen Entrant. Julia's fundraising activities will raise money for the Golden Octopus Foundation. The Golden Octopus Foundation is a childhood cancer charity, founded by local Ayr girl, Keely Johnson. Most of the funds raised are spent locally.



So far this month Julia has organised a Chocolate Drive, as well as a Lamington & Peach Blossom drive supplied by the Home Hill Bakery. On the **10th of September** there will be a **Cake Stall in front of IGA between 8:00am and 12:00pm**. Please come down and buy some delicious homemade treats baked by ML Partners staff. **Raffle tickets will also be on sale at the cake stall, and then again on Sunday the 11th of September in front of Home Hill News**. There are 24 amazing prizes, donated by several local businesses, ranging in value from \$25 to \$249.

Over the coming weeks, Julia will be attending several of the Harvest Festival events including Bride of the Year, Town of Origin, Students Ball, Derby Day and the Pet Show. Then on the 4th of November will be the Harvest Festival Ball, followed by the Mardi Gras on Saturday 5th of November, where you can show your support for Julia on her float in the parade.

Quote of the month

"It is no use saying, 'We are doing our best.' You have got to succeed in doing what is necessary."
Winston Churchill