ML | Partners Pty Ltd

COMBINING ACCOUNTING & WEALTH MANAGEMENT

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Practice Update

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

January - February 2017

Opening of new Ayr office

We are proud to announce that on Friday 31st March 2017 ML Partners, Ayr will be relocating to 145 Edwards Street, Ayr. The Ayr office will be closed for business on this day and will resume business on **Monday 3rd April 2017** at **145 Edwards Street, Ayr**.

There will be no change to phone or fax numbers, email addresses or postal addresses.

Since purchasing the old Ayr Advocate building last year, extensive renovations have been conducted on the building. The ML Financial Services (financial planning) entrance will be on MacMillan Street, and the main ML Partners entrance (accounting & tax) will be on Edward Street. We are look forward to your next visit in our new home.

In the Home Hill Office, it will be business as usual!

Managing the Debt Drain – the critical issues for small business

February and March are traditionally the worst cashflow months for small business – the Christmas rush is over, the Business Activity Statement is due, and payments slow down with a dip in consumer spending. You might be ok but your customers could be under pressure and often whoever wields the most influence gets paid first.

No one likes a late payer and two Government measures tackle the small business debt issue from different ends of the spectrum. We take a look at the issues and their impact on business, and what you can do about managing obstinate debtors.

ATO adding tax debt to your credit record

From 1 July 2017, the Australian Taxation Office (ATO) will inform credit rating agencies of businesses that have outstanding tax debts. Given 65.2% ($12.5 billion worth) of these late payers are small businesses, the move will put significant pressure on business operators to prioritise tax debt above other creditors.

Announced in the Mid-Year Economic and Fiscal Outlook (MYEFO), the plan will see the ATO disclose the tax debt information of businesses that have "…not effectively engaged with the ATO to manage these debts" to credit agencies. This means that if your business has a tax debt and you have not taken steps to work with the ATO, they will ensure that you cannot access new finance or potentially maintain existing finance levels without first addressing the debt to the ATO. There are two problems with this approach. The first is that once your credit rating is downgraded, it's very difficult to repair. The second is the legitimacy of the ATO's tax debt claim – what if they it is wrong?

The measure will initially only apply to businesses with Australian Business Numbers and tax debt of more than $10,000 that is at least 90 days overdue. We have little doubt however that this measure will eventually extend to all tax debtors.

The important thing is that anyone with an outstanding tax debt engage with the ATO. This will prevent the credit agency threat being triggered. If you are in this scenario, we can help by engaging the ATO on your behalf.

Why big businesses don't pay small business on time

At the other end of the spectrum is the Payment Times and Practices Inquiry by the Australian Small Business and Family Enterprise Ombudsman (ASBFEO). The inquiry's issue paper reveals that collectively, Australian small businesses are owed around $26 billion in unpaid debts at any one time. In the last financial year, late payments have increased for six out of ten SMEs with one in four businesses experiencing an average payment delay of 31 to 60 days past agreed terms.

Debt plays a significant factor in a business's cashflow and survival. If larger businesses don't pay smaller suppliers within the terms of trade, the small business often has to resort to external funding to manage the cashflow requirements of the business.

The inquiry is looking at options to improve the payment times of large business. Some of these solutions are already in play in some States such as a requirement for large projects to use supply chain finance where project bank accounts hold funds in trust to ensure supply chain participants are paid. Other solutions are in the 'naming and shaming category' where large businesses would be obliged to report their current payment times or for smaller businesses to report late payments.

The inquiry is expected to deliver its final report to Government in March 2017.

What to do about debt

Dealing with delinquent debtors is painful, particularly when you can't afford to lose the customer. The most obvious tactic is to stay on top of debtors: Ensure that your contracts and invoices have clear payment terms, and you have a procedure to follow through once a customer breaks these terms. Importantly, ensure you keep a record of actions you take to recover debt. This record will come into play if you have to use a more formal resolution mechanism.

Ultimately, some customers will not pay you even if your terms are clear and you have done everything in your power to recover the debt. Often small businesses just give up and don't deal with the customer in question again. Some of the other options available to you are:

- Final letters of demand with the relevant court documents attached. Legal document provider LawCentral has a clever product for this that takes you through the Letter of Demand to the appropriate court documentation. Sometimes the letter will be enough to trigger action from the debtor to pay but you must have the intent of following through. These kits are available for NSW, QLD, VIC and WA.
- Engage a debt recovery agency. Commission rates for debt collection services vary between 5% and 30% of the value of the debt.
- Sell the debt for a small percentage of the owing value.

Super Changes

With the end of the financial year less than 4 months away, there are a number of superannuation reforms that take effect from 1st July 2017 that may require your attention prior to them coming into effect:

1. Concessional (pre tax) contribution caps reduced to $25000 per annum. The new cap will be indexed in line with average weekly ordinary time earnings (AWOTE), in increments of $2,500 (rounded down). Previously the cap

was $30000 per annum for individuals under 50 and $35000 per annum for individuals 50 or over.

2. Non-concessional (post tax) contribution cap will be reduced from $180,000 to $100,000 per annum. This will remain available to individuals between 65 and 74 years old if they meet the work test. The cap will be indexed in line with the concessional contributions caps. Non Concessional contributions can only be made by people with a superannuation account balance under $1.6m.
3. The Division 293 income threshold will be reduced to $250,000 (previously $300000). An individual with income, and concessional super contributions, exceeding the $250,000 threshold will have an additional 15% tax imposed on the lesser of:
    a. the excess, or
    b. the concessional contributions (except excess contributions).
4. The tax-exempt status of earnings from assets that support a transition to retirement income stream (TRIS) will be removed. Earnings from assets supporting a TRIS will be taxed at 15% regardless of the date the TRIS commenced.
5. There will be a limit on how much of your super you can transfer from your accumulation super account to a tax-free 'retirement phase' account to receive pension income. The amount of the cap will start at $1.6 million, and will be indexed periodically in $100,000 increments in line with the consumer price index (CPI).The cap relates to the amount you transfer into your retirement phase account. There is no limit to the amount of money you can have in your accumulation super account(s). If your pension account grows over time to more than $1.6 million, you won't exceed your cap. If your pension account goes down over time, you can't 'top it up' if you have already used your cap. If you are currently in excess of your transfer balance cap, then you may have to remove the excess from retirement phase and pay tax on the earnings in excess of the cap.

For further information go to: Super Changes

Changes to the 'backpacker tax'

From 1 January 2017, tax rates changed for **working holiday makers** who are in Australia on a 417 or 462 visa (these rates are known as 'working holiday maker tax rates').

If a business employs a working holiday maker in Australia on a 417 or 462 visa, from 1 January 2017, they should withhold 15% from every dollar earned up to $37,000, with foreign resident tax rates applying from $37,001.

Businesses must register with the ATO by 31 January 2017 to withhold at the working holiday maker tax rate.

If they don't register, they will need to withhold at the foreign resident tax rate of 32.5% (and penalties may apply to businesses employing holiday makers that don't register).

Therefore, if this affects you and you haven't registered by the time you read this, please contact us immediately!

Also, note that businesses already employing working holiday makers will need to issue two payment summaries (with different rates) this year – one for the period to 31 December 2016, and a second for any period from 1 January 2017.

ATO data matching programs

The ATO has announced that it will be undertaking the following two data matching programs.

Ride Sourcing data matching program

The Ride Sourcing data matching program has been developed to address the compliance risk of the registration, lodgement and reporting of businesses offering ride sourcing services as a driver.

'Ride sourcing' = Uber (basically).

It is estimated that up to 74,000 individuals ('ride sourcing drivers') offer, or have offered, this service.

The ATO will request details of all payments made to ride sourcing providers from accounts held by a ride sourcing facilitator's financial institution for the 2016/17 and 2017/18 financial years, and match the data provided against their records.

This will identify ride sourcing drivers that may not be meeting their registration, reporting, lodgement and/or payment obligations.

Where the ATO is unable to match a driver's details against ATO records, it will obtain further information from the financial institution where the driver's account is held.

Credit and debit card and online selling data matching program

The ATO is collecting new data from financial institutions and online selling sites as part of its credit and debit cards and online selling data-matching programs, specifically:

- the total credit and debit card payments received by businesses; and
- information on online sellers who have sold at least $12,000 worth of goods or services.

The ATO will be matching this data with information it has from income tax returns, activity statements and other ATO records to identify businesses that may not be reporting all their income or meeting their registration, lodgement or payment obligations.

Deductibility of expenditure on a commercial website

The ATO has released a public taxation ruling covering the ATO's views on the deductibility of expenditure incurred in acquiring, developing, maintaining or modifying a website for use in the carrying on of a business.

Importantly, if the expenditure is incurred in **maintaining** a website, it would be considered 'revenue' in nature, and therefore generally deductible upfront.

This would be the case where the expenditure relates to the preservation of the website, and does not:

- alter the functionality of the website;
- improve the efficiency or function of the website; or
- extend the useful life of the website.

However, if the expenditure is incurred in acquiring or developing a commercial website for a new or existing business, or even in modifying an existing website, it would generally be considered capital in nature (in which case an outright deduction cannot be claimed).

Easier GST reporting for new small businesses

The ATO has notified taxpayers that, from 19 January 2017, newly registered small businesses have the option to report less GST information on their business activity statement (BAS).

Therefore, if you plan to register for GST after receiving this Update, we can help you access the reporting benefits of the simpler BAS early.

From 1 July 2017, small businesses generally will only need to report GST on sales, GST on purchases, and Total sales on their BAS.

ML Partners - supporting the community

Julia Woodlock & Keely Johnson from the Golden Octopus Foundation

The 2016 ML Partners Harvest Festival Queen entrant, Julia Woodlock was successful in raising a grand total of $3017.80 which was recently donated to the Golden Octopus foundation. ML Partners was also successful in winning the 'best float' category in the festival parade.

At ML Partners we believe in proactively giving back to the Burdekin community in which we live and work. Charitable, non-profit and sporting organisations with links to our community are regularly supported through contributions of time and money. Sponsorship recipients over the past twelve months also include Burdekin Football, Burdekin Rugby Union, Home Hill Cricket Club, Ayr and Home Hill Golf Clubs, Burdekin Race Club and Burdekin Netball.

ML Partners proudly supporting Home Hill Cricket

ML Partners Golf Day - 2016

Warning from the ATO re fake ATO emails carrying ransomware.

The ATO has recently issued the following warning:

'Researchers are warning of a widely distributed email that claims to be from the Australian Taxation Office (ATO) but actually aims to infect computers with malicious software.

The researchers say the malicious email tries to trick recipients by claiming their Business Activity Statements (BAS) are available to view, and includes a link that claims to enable recipients to download their BAS. The ATO advises that BAS statements are not provided by email.

Recipients who click on the link automatically download a file that itself downloads malicious software such as ransomware (a type of software that extorts money from victims by preventing access to their computer or files) or keyloggers (software that records every keystroke made on a computer to capture passwords and other sensitive information), the researchers say.

The individuals who created the email have incorporated logos and branding from the Australian Taxation Office to make the message appear legitimate. In addition, the sender email address "Basnotification[at]ato[dot]gov[dot]au" also appears to be legitimate.

Staying safe

If you receive the email, you should report it to the Australian Competition and Consumer Commission's SCAMWatch website.

Stay Smart Online recommends any users who are unsure about whether an email is legitimate should contact the organisation, department or individual that the message purports to come from, using a number independently located on a website, phonebook or bill.

People whose computers have been infected by ransomware should restore the affected files from backups and update their systems. Stay Smart Online has information about how to do this, and we recommend people seek technical advice if they are unsure about next steps.

Stay Smart Online recommends against paying any ransom demanded to decrypt files. There is also no guarantee the attackers will provide a working decryption tool, and victims are not protected against future attacks.

You should also keep your anti-virus software up to date to protect your computer against infection.

The ATO says people who believe they have been the victim of a scam can call 1800 060 062 (8.00am - 6.00pm, Monday to Friday) for assistance. They can also report suspected email scams to the ATO by forwarding the email to report fraud email.

The online security page on the ATO website also includes information about how people can protect themselves online. This page includes details of current ATO SMS and email communications.'

Temporary immediate asset write off threshold to decrease for small business entities from 1st July 2017

Laws that allowed small businesses to claim an immediate deduction for assets that costs less than $20,000 will end on the 30th June 2017. This measure replaced the previous instant asset write-off threshold of $1,000. The immediate asset write off threshold for small business entities will revert to $1000 from 1st July 2017.
