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Practice Update

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

January - February 2015

What to expect in 2015

Politics & taxes

The last Federal Budget contained a series of severe cuts. Some of those have passed Parliament and become law while others are pending the outcome of negotiations with the minor parties, while others have died a slow and protracted death. Keeping track of what announcements are now law is difficult. Here's a quick summary:

- **Carbon Tax** - abolished.
- **Mining Tax** - abolished along with the associated business initiatives such as the loss carry back rules, accelerated depreciation for motor vehicles and the instant asset write off.
- **Superannuation guarantee (SG) -** rephased as part of the mining tax repeal. Now, the SG rate will remain at 9.5% until 1 July 2021.
- **School kids bonus -** was to be abolished as part of the mining tax repeal but is now means tested until 31 December 2016, before being abolished.
- **2% Debt tax** - applies between 1 July 2014 until 30 June 2017 to those with annual taxable incomes over $180,000. In line with the debt tax, FBT rates will also increase from 47% to 49% from 1 April 2015 until 31 March 2017.
- **Biannual indexing of fuel excise** - introduced by stealth as a tariff proposal.

There are a series of other announced reforms that have either been rejected or stalled in the Senate. These include Family Tax Benefit reform, the $7 fee for GP visits, an increase in the pension age to 70, the 6 month wait for unemployment benefits, and deregulation of University fees. The Coalition's paid parental leave scheme also seems to have faded from view.

The problem for the Government is that national debt is increasing – the mid year economic review revealed a $10.6bn blowout. Falling commodity prices and sluggish growth mean that the deficit is not going to be plugged any time soon.

To bring debt under control, the Government needs to cut spending somewhere or increase taxes. At this stage, it's uncertain what and how this might be achieved. Cutting spending will rely on amending legislation passing the Senate with agreement by the minor parties - something the Government has not been able to achieve to date. On the tax front, the Government's Tax White Paper is due out within weeks. The much anticipated review of the tax system is reported to outline the need to change the current system's reliance on personal and corporate taxes including broadening the base and increasing the rate of GST, and changing how superannuation is taxed. However, an increase in the GST requires the agreement of the States and as a result, all parties involved will be savaged by voters for any increase. If the Government acts on the reform measures set out in the Tax White Paper they have until mid 2016 to sell the concept to voters (according to the ABC's Antony Green, the first possible date for a normal House and half-Senate election is 6 August 2016).

So, what does all this mean to you?

What now for your business?

The key to survival and growth this year is constant monitoring and adjustment. The environment we started with on 1 July 2014 is already quite different. Keep an eye on top line growth as much as the growth of your bottom line. Keep your focus on increasing your market not just cost cutting to make the numbers look right.

Importers need to look at the price impact of the fluctuating currency on profit margins. Do you need to put your prices up or are there other strategies to mitigate the impact? It is important to understand that anything that impacts on your margins will have a magnified impact on net profit.

Exporters also need to consider their pricing. Can you hold your price and maintain margins or should you move your price to attract volume? Price, volume and margin are critical to work through when the currency is volatile.

In general, if your business has debt, do your housekeeping and ensure you are getting the best available deal. The financiers are hungry for business right now so if you have not had your debt mix reviewed in a while, now is the time.

What now for your superannuation?

A positive this year is the reform of excess contributions tax that is currently before Parliament. If passed, the amendments will enable individuals the option of withdrawing contributions in excess of the non-concessional contributions cap and 85% of the earnings. If you choose this option, no excess contributions tax will be payable and any related earnings will be taxed at your marginal tax rate. That's quite a difference to the current system that can apply a tax of up to 93%. And, the changes apply retrospectively to excess contributions from the 2013/2014 financial year.

For those with SMSFs, make sure your fund is acting within the rules. There is too much money tied up in SMSFs for the Tax Commissioner to take a gentle approach to non-compliance. Key issues include borrowings, unlawful interactions with related parties, overseas members and maintaining the residency of your fund, and ensuring that where pensions are being paid, they meet the maximum and minimum requirements. Plus, if your SMSF auditor has flagged issues with you, you must act to correct these.

There is talk of changes to the way superannuation is taxed and how and what funds can invest in, but there is no point reacting to these recommendations until there is more certainty about reform.

What now for you?

The impact of Government policy is likely to be the biggest issue for many individuals but at this stage, it is unclear how and when the Government will seek to recoup the deficit. That leaves the regulators to try and plug the hole. A key target is individuals with overseas sourced income – if this is you, you need to be absolutely certain about what income is taxable in Australia.

But what the Government and regulators are likely to do to us is nothing compared to what we're doing to ourselves. Figures released by the RBA in mid January show that credit card debt is sitting at $50.5bn with $33bn of that accruing interest. Having credit card debt is never a good idea. It's a short term lending option not a long term one. Get rid of it.

ATO focus on super obligations – child care, pubs and cleaning

Each year, the ATO identifies industries where employers are at a greater risk of not making super contributions for their eligible employees.

This year its focus is on:

- child care services;
- pubs, bars and taverns; and
- industrial cleaning industries.

Furthermore, the ATO stated that, in early 2015, it will write directly to employers in these industries to remind them of their super obligations.

It has also advised that it will be undertaking super obligation audits of these industries from July 2015.

The ATO reminds all taxpayers that they must:

- contribute at a rate of 9.5%;
- make contributions by the quarterly cut-off dates (i.e., 28 October, 28 January, 28 April, 28 July);
- pay super for eligible contractors, even if the contractor quotes an Australian Business Number (ABN); and
- give an employee's tax file number (TFN) to their super fund within 14 days of receiving it.

Travel allowance – deductions are not a foregone conclusion

A recent case, and the ATO's stance in relation to it, indicates that it is prepared to take a hard line on travel expense claims in relation to travel allowances paid to employee truck drivers.

Even though there is an exception to the substantiation rules for these sorts of expenses, (i.e., in terms of keeping receipts, etc.), the ATO looks like it may still expect truck drivers to be able to back up how many nights they were away, what they ate and where, and how they calculated the amount claimed. These sorts of claims are often quite large and have become a target for the ATO.

Single Touch Payroll

The Government has announced that it will simplify tax and superannuation reporting obligations through 'Single Touch Payroll'.

Under Single Touch Payroll, employers' accounting software will automatically report payroll information to the ATO when employees are paid.

This will eliminate the need for employers to report employee-related Pay As You Go Withholding (PAYGW) in their activity statements throughout the year, and employee payment summaries at the end of the year.

The Government stated that Single Touch Payroll will be available from July 2016, and transition arrangements will be the subject of consultation with the business community early in 2015.

Construction industry annual payments report

The ATO is writing to businesses in the building and construction industry that have not lodged their 'Taxable Payments Annual Report', which was due to be lodged by 21 July 2014.

Each year, businesses in the building and construction industry must complete the *Taxable payments annual report* to advise the ATO the amount they paid for building and construction services.

What are 'building and construction services'?

It is important to note that the definition of building and construction services is broad and covers a wide range of occupations and *activities.*

It includes services such as bricklaying, plumbing, etc. However, it also includes some activities that businesses may not be aware of, such as:

- architectural work (including drafting and design);
- cable laying;
- communications construction;
- decorating (including painting);
- engineering;
- installation of hard wired alarm systems;
- installation of solar devices;
- landscaping; and
- project management.

Clients with any concerns should contact us.

Payroll tax on payments to contractors

Payroll tax in Queensland applies to those employers with taxable wages exceeding the threshold (currently $1.1m). The definition of taxable wages is quite complex, but generally includes wages and superannuation paid to employees. Payments you make to contractors may be taxable if your arrangement is considered a 'relevant contract' for payroll tax purposes.

Payments for services are almost always relevant contracts. These contracts are taxable unless an exemption applies. There are 9 exemptions categories:

- Services provided for less than 90 days in a financial year
- Services required by your business for less than 180 days in a financial year
- Services performed by 2 or more people
- Services ancillary to the supply of goods
- Services not ordinarily required by your business
- Services approved by the Commissioner as exempt
- Services provided by an owner–driver
- Services relating to door-to-door sales
- Services relating to selling insurance

If your payments to employees and contractors exceed the $1.1 million threshhold it is important to review your potential liability for payroll tax. Further information can be obtained at the Office of State Revenue website: https://www.osr.qld.gov.au/payroll-tax/liability-payroll-tax/taxable-wages.shtml

If you require any further information or have concerns that you may be liable for Queensland payroll tax, please contact us.

10 year of service!

Congratulations to Sarah Ziliotto who has recently reached the 10 year mark with our firm.

Thank you for your professionalism & hard work Sarah. We look forward to your ongoing membership of the ML Partners team.

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

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.