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Practice Update

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

May - June 2015

Staff Changes



L-R: Monica Bauman, Julia Woodlock, Nicole Tennant

The Home Hill office has had its share of changes this month as we farewell Monica Bauman who has resigned to pursue a career in banking. Best wishes with your new career path Monica.

Nicole Tennant has transferred all the way from across the river to replace Monica. Nicole completed her degree last year and has been working in the ML Partners Ayr office as an accountant since February 2014. Welcome to Home Hill Nicole!

Julia Woodlock also commenced work as a trainee accountant in the Home Hill Office in May, replacing Tianna Previtera. Julia will commence studying her Bachelor of Business (Accounting) externally through JCU in July. Welcome & good luck with your studies Julia.

Why using the 20k Budget tax deduction might be the wrong decision

So, your business has a turnover under \$2 million and you want to know how to use the \$20,000 immediate tax deduction that's been all over the news?

Before you start spending, there are a few things you need to know.

Does your business make a profit?

Deductions are only useful to offset against tax. If your business makes a loss then a tax deduction is of limited benefit because you're not paying any tax. Losses can often be carried forward into future years but you lose the benefit of the immediate deduction.

Small businesses with a turnover of \$2m or below make up 97.5% of all Australian businesses. The latest Australian Taxation Office (ATO) statistics show that well under half of these businesses paid net tax. That means that the \$20,000 instant asset write-off is useful to less than half of the Australian small businesses targeted.

So, if your business makes a loss and you start spending to take advantage of the immediate deduction, all you are likely to do is to increase the size of your losses with no corresponding offset.

Immediate deduction not yet law

The \$20,000 instant asset write-off is not yet law. The ATO only has the capacity to assess on current law not announcements. Don't forget

May - June 2015 - Practice Update

that many of last year's Budget measures have not been enacted. While we think it is highly unlikely that the other political Parties will block this measure, there is always a small risk that things will change. So don't spend more than your business can afford.

Cashflow first!

Cashflow is more important than an immediate deduction. Assuming your business qualifies for the deduction, the most important consideration is your cashflow. If there are purchases and equipment that your business needs, that equipment has an immediate benefit to the business, and your cashflow supports the purchase, then go ahead and spend the money. The \$20,000 immediate deduction applies as many times as you like so you can use it for multiple individual purchases.

But, your business still needs to fund the purchase for a period of time until you can claim the tax deduction and then, the deduction is only a portion of the purchase price.

Let's take the example of a small bakery. The bakery is in a company structure and has a taxable income for 2014/2015 of \$49,545. The owner purchases a new \$13,750 oven on 2 June 2015 and installs it straight away. The cost of the oven is claimed in the bakery's 2014/2015 tax return resulting in a tax deduction of \$13,750. So, for the \$13,750 spent on the oven, \$4,125 is returned as a reduction of the company's tax liability (i.e., 30% company tax rate in the 2015 income year). For the bakery, they need the cashflow to support the \$13,750 purchase until the businesses tax return is lodged after the end of the financial year. With the \$4,125 reduction of the company's tax liability, the business has fully funded the remaining \$9,625.

From 1 July 2015, the bakery would also receive the small business company tax cut of 1.5%. If the business also had taxable income of \$49,545 in the 2016 income year, the tax cut would provide a reduction of \$743.

It's important not to rely on the advice of the person you are purchasing from. There is a lot of misinformation out there in the market right now and it's important to know how the concessions apply to you.

Is your business eligible?

To use the instant asset write-off, your business needs to be eligible. The first test is that **you have to be a business – not just holding assets for investment purposes.**

The second is the aggregated turnover of your business needs to be below \$2m. Aggregated turnover is the annual turnover of the business plus the annual turnover of any

"affiliates" or "connected entities". The aggregation rules are there to prevent businesses splitting their activities to access the concessions. Another entity is connected with you if:

You control or are controlled by that entity; or
Both you and that entity are controlled by the same third entity.

What has changed?

In general, a deduction is available for purchases your business makes. What has changed for small businesses under \$2m turnover is the speed at which they can claim a deduction. Before the Budget announcement, small business could immediately deduct business assets costing less than \$1,000. On Budget night, the Treasurer announced that the threshold for the immediate deduction will increase to \$20,000 at 7.30pm, 12 May 2015 for small businesses with an aggregated turnover less than \$2 million. The increased threshold is intended to apply until 30 June 2017.

For small business, assets above \$20,000 can be allocated to a pool and depreciated at a rate of 15% in the first year and 30% for each year thereafter.

If your business is registered for GST, the cost of the asset needs to be less \$20,000 after the GST credits that can be claimed by the business have been subtracted from the purchase price. If your business is not registered for GST, it is the GST inclusive amount.

How do I make the most of the immediate deduction?

There are a few tricks to applying the instant asset-write off:

Second hand goods are OK

It does not matter if the asset you are buying for your business is new or second hand. So, you could still claim the deduction on say, second hand machinery you have bought.

What is not included?

There are a number of assets that don't qualify for the instant asset write off as they have their own set of rules. These include horticultural plants, capital works (building construction costs etc.), assets leased to another party on a depreciating asset lease, etc.

Also, you need to be sure that there is a relationship between the asset purchased by the business and how the business generates income. For example, four big screen televisions are unlikely to be deductible for a plumbing business.

Assets must be ready to use

If you use the \$20,000 immediate deduction, you have to start using the asset in the financial year you purchased it (or have it installed ready for use). This prevents business operators from stockpiling purchases and claiming tax deductions for goods they have no intention of using in the short term.

Business and personal use

Where you use an asset for mixed business and personal use, the tax deduction can only be claimed on the business percentage. So, if you buy an \$18,000 second hand car and use it 80% for business and 20% for personal use, only \$14,400 of the \$18,000 can be claimed.

What will change on 1 July 2015

For Business

Small business tax cut - 1.5% for companies and 5% tax discount for unincorporated small businesses under \$2m (capped at \$1,000)*

'Fly in fly out' and 'drive in drive out' (FIFO) workers will be excluded from the Zone Tax Offset (ZTO) where their normal residence is not within a 'zone'*

Start-ups able to immediately deduct a range of professional expenses required to start up a business – such as professional, legal and accounting advice.*

The way work related deductions for car expenses are calculated will change. The '12% of original value method' and the 'one-third of actual expenses method' will be removed. The 'cents per kilometre method' will be modernised, replacing the three current engine size rates with one rate set at 66 cents per kilometre to apply for all cars.

Individuals

Changes to family tax benefits – income test changes, add on child payment removed, and changes to large family supplement.

* announced change not yet law.

ATO warns about aggressive phone scams

The ATO is again warning the public to be aware of a phone scam that is circulating, where fraudsters are intimidating people into paying a fake tax debt over the phone.

The aggressive scam attempts to force people to pay a fake tax debt immediately by threatening arrest if they don't comply.

If any client receives a call from the ATO we recommend that they should ask for the caller's name and either call our office with the details or phone them back through the ATO's switchboard on 13 28 69.

Holiday homes that taxpayers rent out

The ATO has updated its information guide on claiming deductions on holiday homes. This may have something to do with its stated intention to increase its audit focus on holiday homes that are rented out.

Clients with such holiday homes may want to take notice of the following.

Claiming deductions on holiday homes

The principles that apply to a rental property also apply to a holiday home if it is rented out.

If a taxpayer rents out their holiday home, they can claim expenses for the property based on the proportion of the income year it was rented out or was genuinely available for rent.

They must apportion their expenses if the property is used:

- for private purposes for part of the year – such as when they use it themselves, or allow their family, relatives or friends to use it free of charge; and
- by family or friends for part of the year and they are charged *less than* market rent.

If their holiday home is rented out to family, relatives or friends below market rates, their deductions are limited to the amount of rent received for that period.

Tax Tip: Keeping records for CGT purposes

Clients who own holiday houses should be aware that they need to keep records of their expenses.

If they make a capital gain when they sell the property, the proportion of expenses (interest, insurance, maintenance costs and council rates) they could not claim a deduction for are taken into account in reducing the amount of their capital gain.

Early access to super for people with terminal illness

The Assistant Treasurer has announced that, from 1 July 2015, the government will amend the provision for accessing superannuation for people suffering a terminal illness.

Under the current provision for early access to super, a person with a terminal illness is required to obtain a certification from medical specialists that they have less than 12 months to live.

The relevant regulations will be amended to change the life expectancy period from 12 months to 24 months.

Luxury car tax threshold

The luxury car tax threshold for the 2015/16 financial year is \$63,184. The fuel-efficient car limit for the 2015/16 financial year is \$75,375.

ATO's new appeals division – the "RDR"

In a recent speech, an ATO Second Commissioner spoke about the ATO's new Review and Dispute Resolution (RDR) area which is being set up as a separate division to review objections and appeals.

He stated that the ATO has accepted that disputes should be managed in a division separate from audit.

He said that "From 1 July, all objections will come under the purview of RDR, which reports to him, and is separate from their Compliance and Tax Counsel areas".

Employers and SMSFs must prepare for SuperStream

With the 30 June 2015 deadline fast approaching for **medium to large employers** to be SuperStream compliant, the ATO is urging these employers to act now to ensure they are SuperStream ready.

For **'small employers'** with 19 or fewer employees, SuperStream starts from 1 July 2015 and they have until 30 June 2016 to be ready (though they can start using SuperStream earlier, if possible).

The ATO has also reminded employees of these taxpayers who are members of a **self-managed super fund** (SMSF), that they have the **same deadline**.

For SuperStream to work efficiently, employees with SMSFs must provide relevant e-commerce details to their employer so they can update their payroll system.

This information includes the SMSF's:

- ◆ Australian Business Number (ABN);
- ◆ bank account details; and
- ◆ electronic service address.

By 30 June 2015, SMSFs must be able to receive employer contributions electronically in the SuperStream format if their members work for a medium or large employer.

In the event that an SMSF member fails to provide this information to their employer in time for the employer to get ready, the employer may request that the employee completes a **new choice form**.

Therefore, the ATO recommends that SMSFs provide these details to their employer at least 30 days prior to the date the employer will start sending contributions using SuperStream, to allow enough time for the employer to manage the changes and ensure the SMSF has no interruption in maintaining their contributions flow.

If you need any assistance with this, including the requirement to obtain an electronic service address, please contact our office.

Government ends benefits for parents who do not vaccinate

The government has confirmed that eligibility for taxpayer-funded payments (including Child Care Benefit, Child Care Rebate and the Family Tax Benefit Part A end of year supplement) will be dependent on children having met early childhood immunisation requirements.

The government will end the one religious exemption on children's vaccinations (for the Church of Christ, Scientist, which apparently doesn't advise against vaccinating children anyway!) for access to these payments from 1 January 2016.

The conscientious objector exemption on children's vaccination has also ended, so the only authorised exemption from being required to have children immunised in order to receive benefits will be on **medical grounds**.

Therefore, parents may still decide to not vaccinate their children (as a 'vaccination objector'), but they are no longer eligible for assistance from the Australian Government.

IGT to take on tax complaint handling function from 1 May

From 1 May 2015, the Inspector-General of Taxation (IGT) will be able to consider and assist taxpayers with their complaints about the ATO.

The integration of the complaint handling function with the IGT's existing role will provide a single port of call for all taxpayers and tax practitioners for their complaints or broader concerns about the tax system as administered by the ATO.

The IGT will consider all complaints, from the simple to the complex, including those arising during audits, objections and litigation.

Further information regarding the IGT's new functions and how complaints may be lodged will be available on the IGT's website at www.igt.gov.au.

2014 online selling data matching program

The ATO will request and collect, from eBay Australia & New Zealand Pty Ltd (which operates www.ebay.com.au), online selling data relating to between 15,000 and 25,000 individuals that sold goods and services of a total value of \$10,000 or more for the period from 1 July 2013 to 30 June 2014. This acquired data will be electronically matched with certain sections of ATO data holdings to:

- ❑ identify individuals and businesses selling goods and services via the online selling site who may not be complying with registration, reporting, lodgement and payment obligations under taxation law, particularly those with **undeclared income**, and incorrect lodgment and reporting for **GST**; and
- ❑ enable the ATO to be more strategic in its approach to determine appropriate educational and compliance strategies to encourage voluntary compliance for taxpayers in the online selling market.

Teacher denied deduction for business management course

A recent case before the AAT highlights how careful taxpayers must be when claiming deductions for self-education expenses.

The taxpayer was a classroom teacher (teaching psychology, chemistry, mathematics and science). He was also enrolled as a part-time student in a 'Postgraduate Diploma in Management,' and he claimed a deduction of \$19,779 for "work related self-education expenses".

The AAT concluded that the course expenses, when considered as a whole, were not "sufficiently connected" with the taxpayer's employment as a classroom teacher so as to warrant deductibility.

Minimum Pensions

Minimum Pension reminder letters were sent out last month. If you have a SMSF and have commenced a pension, please ensure you have taken at least the minimum and have not exceeded the maximum (if applicable). Please contact us if you are unsure if your fund has complied with these requirements.

Audit activity is on the rise and anyone can be targeted. Are you protected by our Audit Shield service?

What is the Audit Shield service?

No one wants to be audited and we have no reason to suspect you will be. However, with the prevalent focus on increasing audit activity, it is more likely than ever that you could be audited. Our Audit Shield service provides for the payment of professional fees incurred in the event that you are selected for an audit, enquiry, investigation or review instigated by the Australian Taxation Office (ATO) or other government body, in relation to lodged returns. The cost of being properly represented in these matters can be quite considerable depending on the length of time involved. Even the simplest enquiry can require hours of work.

What is covered?

All professional fees up to a prescribed limit (with no excess) are covered when you engage us in audit activity matters. Our fees, legal fees, bookkeeping fees and other specialist professional advisor fees are covered. Audit Shield also provides retrospective cover so all previously lodged returns are included in the coverage.

The list is extensive as to what is covered under Audit Shield. Income Tax, GST and BAS, Superannuation Guarantee, PAYG Withholding, Fringe Benefits Tax, Payroll Tax, Land Tax, Stamp Duty, WorkCover and Self Managed Superannuation Funds (SMSFs) are just a few that are included!

Is it right for you?

All of our clients can take advantage of the Audit Shield service. Different levels of cover are available for salary and wage earners, businesses and SMSFs.

Anyone can be targeted, even if their lodgements are accurate. It is no reflection on the quality of work from your accountant. With this in mind, we offer you the opportunity to protect yourself with our Audit Shield service. However the choice is yours as to whether you participate in the service or not.

Want more information?

If you would like peace of mind and coverage in the event of audit activity, please ask your accountant or one of our friendly team members about our Audit Shield service.

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.