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Practice Update

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

MAY - JUNE 2014

What will change from 1 July 2014?

Individuals

- **Temporary Budget Repair Levy:** Adds 2% to the tax rate for every dollar of a taxpayer's annual taxable income over $180,000
- **Increase in the Medicare Levy:** from 1.5% to 2%
- **Superannuation Guarantee:** charge increases from 9.25% to 9.5%.
- **Mature Age Worker Offset:** abolished from 1st July 2014
- **Dependant Spouse Offset:** abolished from 1st July 2014

Businesses

- **R&D Incentive Reduced:** In the 2014/2015 Federal Budget, the Government announced that the Research & Development Tax Incentive will be reduced by 1.5% from 1 July 2014. This means the refundable offset will be reduced to 43.5% while the non-refundable offset will be reduced to 38.5%. While it is uncertain whether the legislation enacting this change will pass the current Parliament, businesses undertaking R&D activities this year may want to consider bringing forward expenditure to maximise their claim
- **Living Away from Home Allowance (LAFHA):** transitional period ends on 30 June 2014. Now, the main condition to be satisfied is that the employee must have a normal place of residence in Australia that is maintained for their "personal use and enjoyment" while they are living and working in another location. This means that the employee cannot rent out their usual residence while they are away. In most cases, LAFHAs will also be time limited to 12 months. So, employers can still pay a concessionally taxed LAFHA for another 12 months from 1 July 2014.

If the employee is working on a fly-in - fly-out or drive-in - drive-out basis the LAFHA is not subject to the 12 month limit.

Self-Managed Superannuation Funds

- **New SMSF Trustee Penalties:** From 1 July 2014 the ATO has greater powers to enforce the superannuation rules by levying financial penalties directly on trustees.
- **Concessional Contribution Cap Changes**: From 1 July 2014, the concessional contribution cap for taxpayers up to the age of 50 is $30,000. And for those 50 and above, the cap is $35,000.
- **Non-Concessional Cap Changes:** The non-concessional contributions cap from 1 July 2014 is $180,000 (up from $150,000) or $540,000 over 3 years.
- **Insurance Inside an SMSF:** From 1 July 2014, new insurance policies within a SMSF must be consistent with the death, terminal illness, and permanent and temporary incapacity conditions of release in the *Superannuation Industry (Supervision) Act*.

Can you Plan Around the 2% Debt Tax?

The introduction of the debt tax, or the Temporary Budget Repair Levy as it is formally known, may be the only certainty in the Government's first Federal Budget delivered on 13 May. The rest – co-payments for doctors' visits, deregulated university fees, cuts to family benefits, tightening of access to disability pensions, increasing the pension age to 70 etc., - are unlikely to see the light of day in their current form.

For those likely to be affected by the debt tax, the most common questions asked are; will the debt tax become law and, will I have to pay it? The answer is probably yes, and it depends.

With Labor support for the tax, the legislation has a majority in both the House of Representatives and the Senate and is therefore likely to become law.

What is the Tax and who will Pay it?

The debt tax will apply from 1 July 2014 until 30 June 2017. The tax is payable at a rate of 2% on every dollar of a taxpayer's annual taxable income over $180,000. In effect, the top marginal tax rate will become 49%.

Be aware that if you have a one-off spike in income after 1 July 2014, for example from the proceeds of a sale of business, the debt tax is likely to impact on this one-off increase in personal income.

Individuals with a taxable income of $180,000 or less will not pay the levy except where their income (or part thereof) is subject to some other tax rate based on the top personal marginal tax rate. For example, the debt levy will apply to the unearned income of minors once income is above $416. This is generally where income is distributed to a minor through a family trust. This is the Government's way of ensuring people cannot avoid the debt tax by simply distributing more income to their kids through a family trust.

The debt tax will also apply to non-resident taxpayers, for example where a non-resident is a beneficiary of an Australian trust.

In conjunction with the debt tax, the Fringe Benefits Tax rate will increase to 49% to prevent anyone using the FBT system to avoid paying the tax. The FBT rate will increase from 47% to 49% from 1 April 2015 until 31 March 2017.

For employees of charities, not-for-profits and certain other entities, the exemption threshold from FBT will increase to ensure that the total value of cash benefits received by these employees is not affected.

Can you Plan around the Debt Tax?

Yes, you can. The difference in timing between the introduction of the debt tax on 1 July 2014, and the increase to the FBT rate on 1 April 2015 means that you have 9 months to utilise an effective salary sacrifice agreement and bring your taxable income below the $180,000 threshold for the year ending 30 June 2015. Plus, you have another opportunity to reduce your taxable income when the FBT rate is reduced from 1 April 2017 until the debt tax is removed on 30 June 2017. In effect, it is possible in some circumstances to utilise effective salary sacrifice agreements to reduce your taxable income below the debt tax threshold level for the 2015 and 2017 income years.

Just be aware that there are certain rules that must be followed for a salary sacrifice agreement to be effective. No doubt this will be an area that the Australian Taxation Office (ATO) will be looking at very closely in future years.

Talk to us today about the tax planning opportunities available to you.

Super Guarantee Rate Increase Re-Phasing

Some clarity at last on what is happening with the superannuation guarantee (SG) rate. The previous Government introduced changes to the superannuation guarantee rate to bring it up to 12% by 1 July 2019 funded by the mining tax (Minerals Resource Rent Tax). The current Government then sought to slow down the increase when it tried to repeal the mining tax. But, the repeal of the mining tax is stuck in the Senate leaving everyone in limbo about the Government's intentions for the SG rate. The way it will work is that the SG rate will increase from 9.25% to 9.5% from 1 July 2014. The SG rate will remain at 9.5% until 30 June 2018 and then increase by 0.5% each year until it reaches 12%.

Year	Superannuation Guarantee Charge %
1 July 2013 - 30 June 2014	9.25%
1 July 2014 - 30 June 2018	9.5%
1 July 2018 - 30 June 2019	10%
1 July 2019 - 30 June 2020	10.5%
1 July 2020 - 30 June 2021	11%
1 July 2021 - 30 June 2022	11.5%
1 July 2022 onwards	12%

ATO Keen for Taxpayers to Avoid Tax-Related Scams

The ATO is concerned about the number and frequency of email and mobile phone scams that are occurring.

These scams claim to come from the ATO and usually offer a tax refund. Generally, they link to a bogus ATO website asking for personal information and credit card details.

The ATO advises that while it may email, SMS message or phone taxpayers, it will never ask for:

- personal details, such as driver's licence, mother's maiden name; or
- credit card, including CVN, or bank details.

Where this happens, they advise that taxpayers should not progress with the email, SMS or phone call. If a taxpayer is in doubt about the authenticity of a call that they receive from the ATO, they should contact the ATO on one of its publicly listed numbers to verify the legitimacy of the call.

Repairs to a Rental Property Formerly used as a Home

In recent years, there has been an increasing tendency for home owners to use an existing home as a rental property, especially where a new home has been purchased. In these situations, it is common for taxpayers to undertake repairs and maintenance to their existing home in order to make it more attractive to prospective tenants before the property is available for rent and/or actually rented to tenants. However, according to the ATO, no deduction will be available for repair expenditure that is incurred before a taxpayer's home is held or used for income-earning purposes (e.g., before the property is genuinely available for rental).

Undertake Repairs when Property is Available for Rent

Where appropriate, a taxpayer should consider 'holding-off' undertaking repairs to the former home until the property is either genuinely available for rent (e.g., listed with a real estate agent for rental) or actually rented to tenants.

In these circumstances, a deduction for repairs may be available even though:

- the property was previously used by the taxpayer for private purposes (i.e., as the taxpayer's home); and
- some or all of the defects, damage, or deterioration are attributable to the period the property was used as the taxpayer's home.

ATO Data Matching Projects

The ATO has announced that it will conduct the following three data matching projects:

- **Online Selling:** the ATO will obtain details of online sellers who sold goods and services to the value of $10,000 or more in the 2011/12 and/or 2012/13 financial years via online selling sites.

  It will collect data relating to between 15,000 and 25,000 individuals for 2012 and 2013 from eBay Australia & New Zealand Pty Ltd.
- **Childcare Service and Educator Payments:** the ATO will acquire details of more than 12,000 taxpayers receiving taxable Childcare Service and Educator Payments from the Department of Education for the 2011/12 and 2012/13 financial years.
- **Queensland State Government Payments and Grants:** the ATO will acquire details of more than 5,000 individuals receiving taxable payments and grants from the Queensland State Government for the 2010/11, 2011/12 and 2012/13 financial years.

Government to Effectively get rid of Super Excess Contributions Tax

In the May Budget, the government stated it will introduce legislation to ensure that inadvertent breaches of the non-concessional contributions cap, *that are reversed,* will not incur a penalty.

For any excess contributions made after 1 July 2013 that breach the non-concessional cap (currently $150,000), individuals will be allowed to withdraw those excess contributions and associated earnings.

If a taxpayer chooses this option, no excess contributions tax will be payable and any related earnings will be taxed at the individual's marginal tax rate.

Anyone who leaves their excess contributions in the fund will continue to be taxed on these contributions at the top marginal rate.

Income Support for Farmers

In a joint press release dated 26 February 2014, the Government announced that it will bring forward the income support arrangements for farmers. An Interim Farm Household Allowance will be made available to eligible farmers from 3 March 2014 until the introduction of the Farm Household Allowance on 1 July 2014.

Farm Household Allowance provides income support to farmers who are experiencing financial difficulty. A farmer-specific income support payment recognises that many farmers are unable to access mainstream social security due to the value of their farm assets, even when those assets are generating no, or exceptionally low, income.

The Farm Household Allowance is aimed at farmers and their partners who do not have an alternative source of income. To qualify, among other things a farmer must:

- contribute significant labour and capital to the farm enterprise
- be willing to enter into a financial improvement agreement
- have a farm business with a 'significant purpose or character' - it is not intended to support people who choose to engage in activities that are not aimed at generating adequate income (for example, hobby or lifestyle farming).

There are separate criteria for the partners of farmers. These criteria do not include the same labour test for the partner, but are otherwise similar. To receive the Farm Household Allowance, farmers and their partners must also satisfy an income test and an assets test.

The Farm Household Allowance is available regardless of the cause of financial hardship and does not require a drought declaration to trigger assistance. Qualification for assistance is based on an individual's circumstances.

Case management provides support to farmers while they assess their situation and take action to improve their long-term financial security. Two supplements, the Farm Financial Assessment Supplement (up to $1,500) and the Activity Supplement (up to $3,000 for agreed activities) are available to Farm Household Allowance recipients to assist them reach these objectives. Further information can be found at:

http://www.daff.gov.au/agriculture-food/drought/assistance/income-support-for-farmers

Phasing out the Net Medical Expenses Offset

In the May 2013 Federal Budget, the previous (Labor) Government announced that it would phase out the Net Medical Expenses Tax Offset (NMETO). The new (Liberal) Government has recently passed legislation to give effect to this announcement. Under this measure the NMETO (subject to the normal eligibility requirements):

- Will be available for the 2014 – 2019 income years in respect of medical expenses relating to disability aids, attendant or aged care
- Can only be claimed in the 2014 income year who claimed the NMETO in the 2013 income year
- Can only be claimed in the 2014 income year by those taxpayers who claimed the NMETO in both the 2013 & 2014 income years.

Minimum Pension Amounts

For those of you who are in receipt of a pension from your Self Managed Super Fund, please ensure you have met your minimum pension requirements for 13/14. We have sent letters out in recent weeks informing those affected of their required pension amounts. Please contact us for further information.

A Decade with our Firm

Congratulations to the Ayr Office Manager, Simon Davies who celebrated his first 10 years with the firm this month. Looking forward to the next 10 Simon!

New Staff Member

Mary Fry commenced employment with ML Partners on 22 April 2014. Mary is currently in the final stages of her Bachelor of Business degree and is currently working in the Financial Planning section of the practice. Welcome Mary!

Quote of the Month

"Great leaders are almost always great simplifiers, who can cut through argument, debate and doubt, to offer a solution everybody can understand."

Colin Powell