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TAXING POINT

June 2015

Budget Highlights

- Small business tax rate cut to 28.5% for company's and tax discount for unincorporated small businesses
- Small business asset accelerated depreciation write off up to $20,000 per asset (up from $1,000 per asset) (applies for 2 years) - (PLEASE NOTE THAT A SMALL BUSINESS IS ONE WITH AN ANNUAL TURNOVER OF LESS THAN $2 MILLION)
- No significant changes to superannuation measures
- Immediate deduction for professional expenses re set up activity
- FBT exemption on work related electronic devices
- Work related car expenses simplified—can only apply the cents per km or log book method from 1 July 2015
- Major child care payments revamped and paid parental leave scheme to be significantly modified.
- Age pension asset test threshold to increase, but the taper rate to be tightened.

Inside this issue:

Welcome to SC Accounting

On behalf of Erma, Graeme and Tom, I welcome you to our 4th edition of Taxing Point. We ask that you please take the time to read and digest these comments, in particular, any pre 30 June tax planning matters and contact us on 9 569 7516, should you need to discuss anything.

Kind regards, Steve Creelman

The Economy—In brief

Once again it will be interesting to see what reaction we see to the recent budget. It is clear that the Government are being very cautious with their initiatives with not only a hostile and uncooperative opposition and cross bench, but also with its state counterparts.

Unlike last year, the Government has brought down a much milder budget which they are at pains to ensure are fairer and equitable. It will be interesting to see where our economy will be headed and in fact who will be leading the Government to the next election.

Our key economic indicator trends show that the economy is quite sluggish at present and this is reflected in historically low cash rate of 2% and equally low inflation at 1.3%. Despite a sluggish economy, investment in our large corporates continues in a upward manner with the ASX 200 at around 5,800, but finding it tough to break through the 6,000 barrier. Our stock market has relied heavily on the Banking sector especially as our Resources sector has declined with commodity price reductions.

Historically low interest rates have fuelled property price increases in particular in Sydney and Melbourne with median house prices rises and property clearance rates well in excess of recent trends. When will this ease? We note that most major Banks are now setting more rigorous lending criteria with a view to keep the lid on property prices. At the other end of the spectrum, self funded retirees can no longer rely on the steady flows of interest income from Bank backed cash and term deposits as they too suffer. Alternative growth investments should accompany any defensive investment profile to ensure your income stream does not eat heavily into capital.

Unemployment seems to be steady at around 6.1% both nationally and in Victoria.

TAX PLANNING MEASURES 2014/2015

Please note with the 2015 financial year end fast approaching, you should be mindful of your total net income (net profit) and, wherever possible, look to bring forward expenses and defer revenue as a means to tax minimisation. Having said that, we note that those clients, whose taxable income is already in excess of the top marginal rate of tax ($180,000) will be required to pay a 2% deficit levy in the 2015, 2016 and 2017 financial years. Here are a few simple strategies which can be adopted over the next few weeks should you need to lower the tax bill:

INCOME STRATEGIES

- **defer receipt of income** should you operate on the cash basis;
- **Salary packaging** can minimise tax;
- Review investments realised in the period and where **potential capital gains** exist, ensure that you choose the selected parcel of assets that have been held for more than 12 months (50% discounting applies) ; also review your current portfolio of assets to see whether you can absorb any capital gains with any unrealised capital losses
- **review investments** held in joint names with a view to transferring (be mindful of CGT tax implications) income producing assets to the lower income earning spouse/partner (ensures tax on those earnings are minimised);

defer receipt of bonus payments until start of new fiscal year;

EXPENSES STRATEGIES

- **bring forward deductions –** tax deductible bills due in July 2015 should be paid prior to 30 June 2015 when operating on the cash basis
- **prepayments for small business entities and non-business individuals –** a tax deduction is allowed for expense prepayments of up to 12 months in advance when actually paid, rather than incurred;
- **superannuation contribution –** maximise your concessional super contribution (age group less than 49 years at 30 June 2015 $30,000 ; over 49 years at 30 June 2015 $35,000). Be careful not to exceed these limits and be mindful of restrictions.
- **Bad debts (business) –** bad debts, previously returned as income of the business, can be claimed as a tax deduction provided the actual outstanding debt is written off the debtors system prior to 30 June;
- **Capital allowances (depreciation) –** a claim for depreciation is allowed for newly purchased assets based on its useful life (under the STS system, pooled assets are written off at a fixed rate of 30%.; assets first acquired and entering the pool are written off at 15% in the first year and then 30% thereafter— immediate write off for new assets up to $20,000)

STRUCTURAL STRATEGIES

Do a "Financial Health Check"

- – look at investments - how are they going? What income and capital growth is derived? Are you adequately diversified?
- – look at insurance – adequate income protection, TPD and Life cover, Business Expenses and Trauma insurance?
- – look at super – what is your age? what have you got accumulated? when do you plan to retire?
- – look at wills and POA – do you have a Will? when was it last updated? have your personal circumstances (family and/or assets holdings) changed dramatically?

Review your Family Business / Investment Vehicles

- – What is the Trading Structure? Does it meet your current circumstances? Does it allow for family succession eg CGT implications, Is it tax effective? Does it provide Asset Protection?
- – Where is your super? Are you paying too much in administration fees? Do you have in interest in managing your own retirement monies?
- – Do you have personal assets owned in a company? Please note that the enjoyment of personal assets owned by a private company may attract unwanted FBT implications?
- – Trust Distributions to Associated Private Company's now have added tax complications and should be reviewed prior to any declaration made;
- – Family Trust Deeds should be updated to ensure that distributions of different classes of income can be effectively distributed without concern;
- – Superannuation Fund Trust Deeds should be updated to ensure they meet current SIS Act regulations, in particular with respect to borrowings .

Succession and Retirement Planning

- Are you planning to retire and hand the family business to family members? What succession planning arrangements and discussions have been made amongst the family? Does your legal business structure allow for a smooth tax effective transition?

STRUCTURAL STRATEGIES (CONTINUED)

- Are you considering a Sale of Business? Do you need a valuation / independent assessment of the Business' value? We will work with you to ensure the best possible result and the best possible tax outcome from the sale;
- Have you considered your retirement and the options open to you? Have you considered a stepped approach to retirement where you progressively reduce your working commitments (and income), but complement your reduced income with a TRIS (Transition to Retirement Income Stream) .

Budget Announcements 2015/2016

What a year is in federal politics!! The 2014/15 budget was all about doom and gloom, reigning in the budget deficit and ensuring that we weather the economic storm to come. I must be honest and say that the rhetoric was right, but the delivery poor. Yes we all need to pull our socks up during this brittle time, but it is important to keep a positive head and maintain capital investment as well as stimulating the economy. I believe this years budget to be more in this realm. Small business is the winner this year which is fair enough as it provides a lion share of employment opportunities, and with unemployment exceeding 6% (well above its medium term target range of 5%) this is good news.

Some measures announced in the Federal Budget:

We note that the current marginal tax rates will remain the same into the 2014/15 year, with the addition of a 2% budget deficit levy for all taxpayers earning more than $180,000 from 1 July 2014. This deficit levy will remain in force for 3 years. The medicare levy increases to 2% from 1 July 2014.

Personal income tax rates and thresholds

	2014/15		2015/16		2016/17	
	Threshold	Rate	Threshold	Rate	Threshold	Rate
1st rate	$18,201	19.0%	$18,201	19.0%	$19,401	19.0%
2nd rate	$37,001	32.5%	$37,001	33.0%	$37,001	33.0%
3rd rate	$80,001	37.0%	$80,001	37.0%	$80,001	37.0%
4th rate	$180,001	47.0%	$180,001	47.0%	$180,001	47.0%

Government to reduce income tax rate on small business companies (turnover less than $2 million) to 28.5% from 1 July 2015. For those small businesses not incorporated, eg sole traders, trusts and partnerships, each individual taxpayer with business income from the small unincorporated business will be eligible for a small business tax discount of 5% of income tax payable on that business income, capped at $1,000 per individual. This will be delivered as a tax offset in the individual's year end tax return;

Small businesses (turnover less than $2 million) will be able to immediately write off assets that cost less than $20,000, including assets like cars, vans, kitchens, machinery etc from 15 May 2015 to 30 June 2017. As well, assets in the STS pool with a balance less than $20,000 can be immediately deducted. Entities that do not currently utilise the STS system will be able to "opt in" so long as they meet the $2 million turnover criteria. Ineligible assets include horticultural plants and in-house software;

CGT rollover relief is expanded to small businesses with aggregate turnover of up to $2 million whose legal structure may need to change to suit their business needs for the future applying from 1 July 2016 onwards;

No FBT on work related electronic devices for small businesses with aggregate turnover less than $2 million that provide employees with more than one qualifying primarily work related portable device eg IPad, IPhone and Laptop effective from 1 April 2016;

Work related car expenses will be simplified to allow for 2 methods being either a "cents per km" or log book method. No longer will the 1/3rd expenses or 12% cost of car be available to taxpayers with effect from 1 July 2015 onwards. Under the "cents per km" method, a fixed rate of 66 cents per km applies regardless of engine capacity (still capped at 5,000 business kms per year). As a result, those drivers who believe that they consume more than a 66 cents rate or travel more than 5,000 business kms will need to choose the logbook method. We suggest that all clients review their car substantiation requirements moving forward to avoid disappointment.

Budget Announcements 2015/2016 (Continued)

- The Government has confirmed that it will allow businesses to immediately deduct a range of professional expenses associated with starting a new business. At present the taxpayer is entitled to claim it under the "black hole expenditure" provisions will allow for a 5 year write off. From 1 July 2015 it will be an immediate write off;
- Medicare levy low income thresholds for singles will be increased to $20,896 (up from $20,542) and for couples of $35,261 (up from $34,367) and then add $3,238 for each dependant child or student from 1 July 2014 (eg 2014/15 financial year);
- Tax residency rules to treat people who are temporarily in Australia for a working holiday will be treated as non-residents regardless of their length of stay effective from 1 July 2016.
- FBT meal and entertainment concessions for Not For Profit employees to be capped at a grossed up amount of $5,000 per year. All meal entertainment benefits will also become reportable benefits and thus will count towards an employees "reportable fringe benefits amount" if it exceeds $2,000 effective from 1 April 2016;
- Accelerated depreciation will apply to primary producers on fencing and water facilities such as dams, tanks, bores, irrigation channels, water towers, windmills and pumps effective from 1 July 2016;
- Age pension assets test threshold for a single homeowner will increase to $250,000 (from $202,000) and for a couple homeowner will increase to $375,000 (from $286,500) from 1 January 2017. Non homeowners will increase to $450,000 (single) and $575,000 (couples). Under these thresholds pensioners will qualify for the full age pension (provided they also qualify under the current age pension income test). A pensioner would qualify for a part pension provided the assets test threshold is below the following thresholds —single homeowner $547,000 or couple homeowner $823,000 and single non homeowners $747,000 or couple non homeowners $1,023,000;
- Child care rebate threshold changes to occur from 1 July 2017. The $7,500 rebate cap will be abolished and replaced by an income tested rebate system to provide more equality, but will only be made available where both parents are working at least 8 hours per week work each.
- Paid parental leave has been amended to stop people claiming both parental leave payments from the Government and their employer (effectively double dipping).

Superannuation Measures

Superannuation – higher concessional contribution cap

- For the year ended 30 June 2015, the maximum concessional superannuation contributions will be $30,000 for all taxpayers under the age of 49 years as at 1 July 2014;
- For the year ended 30 June 2015, the maximum concessional superannuation contributions for taxpayers aged 49 and over as at 1 July 2014 will increase to $35,000
- We confirm that any taxpayers with superannuation contributions in excess of these caps (limits) termed excess contributions tax will be added to the taxpayers taxable income and then additional tax will be payable on that excess contribution. The taxpayer will then have the opportunity to request the release of 85% of the excess contribution from the superannuation fund (strict timelines apply).

Superannuation — non concessional cap

For the year ended 30 June 2015, the maximum non concessional cap remains at $180,000. Please note that the 3 year bring forward rule applies at all qualifying members under the age of 65 years.

Superannuation – high income earners

As announced in prior Federal Budgets, taxpayers who's Adjusted Taxable Income exceeded the $300,000 threshold *(Adjusted Taxable Income = Taxable Income + Reportable Fringe Benefits + Reportable Superannuation Contributions + Total Net Investment Losses less any Super Lump Sum Amounts)* will be assessed for an extra 15% superannuation surcharge tax. This is on top of the existing 15% contributions tax. The extra 15% superannuation surcharge tax will only be levied on that portion of the superannuation amount in excess of the $300,000. We are now seeing Div 293 assessments issuing in respect of these higher taxpayers. We confirm that the additional 15% contributions tax can be paid by your superannuation fund.

SGC Super Levy and electronic payment—1 July 2015

All employers will continue to pay employees' SGC super contribution of at least 9.5%. We also confirm that with Super Stream coming on board, employers with more than 20 employees will need to ensure that they pay their SGC contributions electronically from 1 July 2015 (employers with fewer than 20 employees have another 12 months reprieve) .

Superannuation Measures (Continued)

Superannuation—Early Access to Super for Terminal Illness

A member can gain early access to their superannuation account where 2 medical practitioners (including a medical specialist) confirms that the member is likely to die within 12 months. This period has created difficulty in obtaining medical consistency so that Government has now extended the time frame to 24 months. Eg early access will apply if the member is likely to die within 24 months, not 12 months.

SMSF—penalty powers in effect since 1 July 2014

Please note that all SMSF trustees should be cognisant of the fact that they are now personally liable to penalties for contraventions incurred by them on behalf of their SMSF. The ATO will have the power to sanction SMSF trustees should they breach super laws. These sanctions range from administrative penalties of up to $10,200 per trustee (depending on the severity of the breach), education directions and rectification directions. It is imperative that you, as the SMSF trustee, are fully aware of your fiduciary responsibility and also understand your superannuation trustee responsibilities. We recommend that those SMSF's with individual trustees, consider the benefits of changing from an individual trustee to corporate trustee arrangement. We suggest that anyone who is unsure of their SMSF trustee responsibilities, contact us to discuss any matters ASAP.

SGC Super Levy rates (unchanged from previous correspondence)

Financial year ended	SGC Rate applicable
30 June 2015	9.5%
30 June 2016	9.5%
30 June 2017	9.5%
30 June 2018	9.5%
30 June 2019	10.0%
30 June 2020	10.5%
30 June 2021	11.0%
30 June 2022	11.5%
30 June 2023	12.0%

Risk Management

Risk Management has been big business' buzz words ever since the GFC. Now more than ever companies are de-risking their businesses—banks by being ultra conservative with their lending criteria, credit authorities much more vigilant with debt and guarantors, businesses being far more proactive with credit terms and the list goes on.

As consumers, we all need to be conscious that we look after our number one asset—ourselves. No different to business survival, families need to be well aware that if someone in the family suffered a long illness or worse still permanent disablement or death (especially to the main bread winner), the family unit ultimately suffers. Given the future unknowns, we are firm believers that you too should be considering de-risking your household any number of measures. Apart from the obvious personal insurance polices, we believe that all families (especially families with assets and liabilities) need to have up to date wills and Powers of Attorney in place to ensure that your wishes are catered for properly. This also applies when it comes to your superannuation benefits. Your superannuation benefits do not normally form part of your deceased estate. Maintaining a clear directive with respect to your superannuation benefits termed a Binding Death Benefit Nomination (BDBN) provides peace of mind to you and your relatives.

The types of common personal insurance policies available to the consumer are as follows (this list is not exhaustive):-

1. Life Insurance policy—simply provides a sum insured amount to the policy owner over the insured life. Life insurance is not tax deductible, unless the policy owner is a superannuation fund. Whilst the family unit has significant mortgage related debt, it is ideal for the major breadwinner to have some sort of life insurance (circumstances permitting);
2. Temporary and Permanent Disablement (TPD) - this is a similar insurance cover applying to the insured who is unable to perform their normal employment duties. Again only tax deductible within a superannuation fund environment;
3. Trauma—provides a payout in the event of a serious illness eg cancer, heart attack, strokes etc Not tax deductible and not available in a superannuation environment;
4. Income protection - provides a level of income replacement in the event of an extended period away from work. This policy would probably "kick in" when sick and annual leave entitlements are exhausted and is tax deductible.
5. Audit insurance— we are seeing all Government and semi Government authorities increasing their audit activity resulting in significant review and defence costs incurred. This type of policy will provide some financial level of comfort if and when some audit action occurs and is also tax deductible.

OUR SERVICE COMMITMENT

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FEEDBACK

We are keen to receive feedback on the service levels provided by the practice. We pride ourselves on providing quality accounting, tax and financial advice, and to do so we need to be properly resourced to meet the demands. Where we are not meeting your expectations, we would appreciate your feedback Your constructive comments will allow us to address your concerns.

WEBSITE

There is plenty of news and information on our website to assist you with matters affecting you, topical issues and useful tax related sites. We encourage to visit our website at ***www.scaccounting.com.au*** and let us know what you think.

SC WEALTH CREATION

We are very excited about our "value add" to all clients, but more particularly investment, high net worth and SMSF clients. We now hold an AFSL license to provide our clients with strategic investment advice. As your accountant and tax agent, we are intimately aware of financial needs, but under ASIC licensing laws, we are unable to provide any forms of formal investment advice. This provides a disconnect between our financial and tax knowledge and our ability to assist you with investment choices. Over the next few weeks, we will be notifying you of these changes, however, in the meantime, should you be interested to discuss things further please do not hesitate to contact this office.

CA SMSF SPECIALISATION

In addition to his Tax Agent licence, Steve Creelman holds a "CA SMSF Specialisation". Some accountants will prepare your SMSF accounts, however may lack a detailed understanding of the taxation laws applicable to the SMSF environment. CA SMSF Specialists have completed this rigorous training so that we are competent in all aspects of SMSF advice. Steve manages all superannuation relationships and will review your SMSF to ensure that it is working the way you want it to work – capital protection, wealth creation and tax efficiency. Make a no obligation appointment today to discuss whether an SMSF is right for you.

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