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& ASSOCIATES

ACCOUNTANTS

2016 Winter Newsletter

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The first Tuesday in May saw an unprecedented interest rate drop by the RBA on the same day as the Budget Announcement. These were followed by the announcement of the Federal election, resulting in a Federal government currently in caretaker mode.

As we head in to the last few days of the financial year, we hope you have attended to any of your year-end tax planning. If you have not addressed any of these strategies as yet, and want to discuss what is available to you, call us now.

A few strategies to think about include:

- Take advantage of the \$20,000 instant write-off threshold for small business;

- Pay your income protection insurance in advance; and
- Review all your debt and consider pre-paying tax deductible expenses.

This edition takes a look at the proposed changes in the Federal Budget, together with issues facing small business including myths surrounding whether your workers are employees or contractors, tax concessions, drive a bargain, the looming SuperStream deadline and protecting your business against online scams and cyber-attacks.

We hope you find the newsletter of value and if there is any area you would like to discuss, please call us. We are here to help.

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2016 Federal Budget

In a break from tradition the 2016 Federal Budget was brought forward by a week. With the subsequent early call of the election, it is unlikely any of the measures will be legislated whilst the government is in caretaker mode.

Keeping in mind these changes are yet to be legislated, what did the Budget have to say?

TAXATION

Personal tax rate

The Budget included an announcement that the income threshold at which the 37 per cent tax rate cuts will increase from \$80,000 to \$87,000. As a result, Australian workers on average weekly earnings will avoid 'bracket creep' and will not advance to the second highest marginal tax bracket. This tax adjustment is due to apply from 1st July 2016.

Company tax rate

Currently the company tax rate is 28.5% for companies with turnover of less than \$2,000,000, and 30% for larger companies. The Budget proposes to progressively reduce the company tax rate to 25% by 2026-27. Commencing 1st July 2016, companies with turnover of less than \$2,000,000, will see their tax rate reduce by 1% to 27.5%.

Small business

A small business is currently defined as one with annual turnover of less than \$2,000,000. From 1st July 2016, the definition of a small business will be extended to businesses with a turnover of less than \$10,000,000. This will then enable them access to the concessions available to businesses that fall within this definition, including a lower rate of company tax rate and simplified depreciation rules.

However, for purposes of accessing the small business capital gains tax concessions, the current turnover threshold of \$2,000,000 will be retained.

Unincorporated small business tax discount

Unincorporated small businesses currently receive a 5% discount on the tax they pay. The Budget included a proposal that will see this discount progressively increase to 16% over the coming years. The discount will increase to 8 per cent from 1st July 2016.

COMMENCING	DISCOUNT
1st July 2016	8 %
1st July 2017	10 %
1st July 2025	13 %
1st July 2026	16 %

MEDICARE LEVY SURCHARGE AND PRIVATE HEALTH INSURANCE REBATE THRESHOLDS

Effective 1st July 2018, the indexation of the income threshold will be frozen for a period of three years.

SUPERANNUATION

The 'big ticket' item in this year's Budget is the proposed changes to superannuation. This year's announcements are probably the most significant since the superannuation reforms that took effect from 1st July 2007. Except for a couple of notable exceptions, the proposed Budget changes will take effect from 1st July 2017, subject to being legislated.

Concessional superannuation contributions

Concessional contribution caps of \$30,000 (or \$35,000 for over 49) will continue until 30th June 2017. From 1st July 2017 the concessional contribution cap will reduce to \$25,000.

People with less than \$500,000 in super who have not utilised all their full

concessional contribution cap (\$25,000) in a financial year will be able to carry forward any unused cap and make additional contributions in following years. Unused concessional contribution amounts can be carried forward for up to five years. This initiative is designed to assist people who are unable to maximise their concessional contributions for a variety of reasons including affordability, unemployment, and career breaks.

Low income superannuation tax offset

Low income earners (less than \$37,000 annually) currently receive a Low Income Superannuation Contribution from the government of up to \$500 to compensate for the 15 per cent tax paid on their superannuation guarantee contributions. This is due to cease from 1st July 2017 and be replaced with a new non-refundable tax offset of up to \$500.

Low income spouses

From 1st July 2017, the existing low income spouse superannuation tax offset of up to \$540 will be enhanced with the income threshold for the spouse for whom a contribution is made, being increased from \$10,800 to \$37,000.

Contributions for older Australians

Currently superannuation contributions can only be made by people aged between 65 and 74 if they meet a 'work test' in the financial year in which contributions are made. The work test requires they be gainfully employed, or self-employed for a period of at least 40 hours, worked within a period of 30 consecutive days.

One of the positive Budget announcements was the intention to remove the work test requirement, due to be removed from 1st July 2017. However, there is no change to

Will this Budget get your vote?

allow people over the age of 74 to make or receive contributions to super, other than mandated employer contributions.

Tax deductibility of super contributions

Currently a person may only claim a tax deduction for personal super contributions if they derive less than 10 per cent of their assessable income (+ reportable fringe benefits and reportable superannuation contributions) from employment.

The Budget proposes that anyone under the age of 75 will be able to make tax deductible personal contributions, irrespective of their age or work status. This change is proposed to take effect from 1st July 2017. However, consideration needs to be given to the concessional contribution cap and any employer contributions that may also be made. Furthermore, a tax deduction for personal contributions cannot create a carried forward tax loss.

Non-concessional contribution lifetime limit

The current non-concessional contribution limit is \$180,000 per annum. The Budget has proposed replacing this with a lifetime non-concessional contribution limit of \$500,000.

Even though legislation has not been introduced, it is proposed this change will take effect from 3rd May 2016. To complicate matters even further, it is proposed that any non-concessional contributions made since 1st July 2007 will be assessed against the lifetime cap.

Extension of tax on super contributions for high income earners

Those Australians earning more than \$300,000 currently pay an additional 15 per cent tax on their concessional superannuation contributions, bringing the total tax rate to 30 per cent. This is referred to as 'Division 293 tax'. It is proposed that effective from 1st July 2017, the threshold at which this tax becomes payable will be reduced from \$300,000 to \$250,000.

Super pension limitations

Currently money transferred to the pension phase of superannuation is concessional tax. That is, a superannuation fund pays no tax on the income it earns on investments that are supporting pension payments.

In the Budget, the government announced restrictions will be placed on the amount that can be held in the pension phase of superannuation. The proposed limit is \$1,600,000. Amounts in excess of this will need to either be withdrawn from super, or may be retained in an accumulation account with investment earnings being taxed at 15 per cent.

This proposal is retrospective, in that people already drawing income from a pension that has a value of more than \$1,600,000 as at 1st July 2017, will need to transfer the excess over \$1,600,000 back to an accumulation account.

Anti-detriment payments

An anti-detriment payment is an additional benefit that may be paid from a superannuation fund on the death of a member, where the benefit is paid as a lump sum to an eligible dependent beneficiary. It is proposed that anti-detriment payments be abolished from 1st July 2017.

Transition to retirement pensions

It was expected that the Budget would introduce restrictions on the use of pre-retirement, or transition to retirement (TTR) pensions – and we were not disappointed. However, the approach the government has taken on TTR pensions was not as expected.

From 1st July 2017, investment earnings derived by a super fund that is paying a TTR pension will not be tax exempt to the super fund. Investment earnings of the super fund will be taxed in the super fund at a rate of 15 per cent, instead of the current 0 per cent.

What affect this has on the viability of TTR pensions in the future remains to be determined. However, on the surface, they will remain a relevant part of the pre-retirement landscape.

HEALTH, WELFARE AND AGED CARE

Renting out the family home

As already announced, when a person in residential aged care rents their former home, the house and rent will be included in assets and income testing when determining entitlement for an age and service pension. This measure will only apply to new residents entering residential aged care from 1st January 2017.

My Aged Care Contact Centre

Additional funding has been provided to support services provided by the My Aged Care contact centre.

Disability Support Pension (DSP)

90,000 DSP recipients will have their eligibility reassessed over the next three year to determine their continued eligibility for a DSP.

Child and Adult Public Dental Scheme

Introduction of the new national scheme available to children and adults covered by a concession card.

Medical Benefits Schedule

Fees frozen under the previous Budget are to be extended for a further two years.

CONCLUSION

Whilst most of the initiatives announced do make sense, the initiatives announced in the Budget are subject to their successful passage through parliament.

With most of the announcements, we have over a year to digest the implications and develop alternative strategies, where appropriate.

SMEs Protecting Against Online Scams & Cyber-Attacks

SME owners must not overlook cyber security since they are vulnerable to the same scams and cyber-attacks that prey on individuals. SMEs may suffer severe ramifications from a significant security breach, which may even hamper businesses' ability to continue operating.

According to a 2015 study by US-based Ponemon Institute and IBM, a security breach in Australia can cost millions of dollars, in addition to the reputational damage a high-profile attack can cause.

Recent threats include online banking scams in which customers receive a text message that directs them to a fake page and provide their bank account details. These scams are successful because they look plausible and busy business owners may not take the time to check the links they're clicking on. One way SME owners can protect themselves from such scams is to use business banking services rather than consumer services.

Here are eight ways SMEs can protect themselves:

1. Keep software updated, since updates often include security patches.
2. Educate all staff regarding the risks and how to protect themselves and the business.
3. Demand strong passwords for all applications, not just key applications like banking or invoicing.
4. Use up-to-date security solutions including anti-virus, firewalls, intrusion detection, and threat detection.
5. Never click on links to banking sites in emails or texts. If in doubt, call the bank directly.
6. Treat mobile devices the same way you would treat computers as they are equally if not more vulnerable to attack.
7. Ensure your files are backed up regularly and reliably.
8. Get professional advice to improve your online security position and conduct a risk assessment. Cyber insurance can protect you and your clients against the damage that can be caused by cyber-attacks, and equip you with the tools you need to recover quickly.

Economic Outlook and Budget Comment by Christopher Joye

A succession of governments have run up the biggest deficits in post-war history despite the fact we've not had a recession. And there are no credible reforms - just losses as far as the eye can see. That AAA credit rating must be on its last legs. Since we fell into the red in 2009, the shortfall between what the government earns and spends has risen to an amazing 21.5 per cent of gross domestic product. Assuming there is zero economic adversity between now and 2020, Treasury projects the cumulative losses will expand to 24 per cent of GDP. The deficits incurred during the 1991 recession - when the jobless rate

hit 11 per cent - were 28 per cent less as a share of GDP. If you thought an unprecedented post-war streak of 11 years of consecutive deficits would stiffen politicians' resolve to reform, you'd be mistaken: the Budget's underlying cash balance has actually deteriorated from -1.2% of GDP in 2013 to -2.4% in 2016. The Turnbull government boasts of "improving the bottom line by \$1.7 billion over the four years to 2020". We're facing a fiscal crisis and they've trimmed \$86.3 billion in losses by merely 2 per cent? These blokes would not get jobs as accountants for Alan Bond.

Employee or Contractor – Myth Busters



You make a lot of decisions when running your business. So what about the people who work for you? They're contractors, right? Are you sure? Because you're responsible for getting it right.

You may think that your workers are contractors because they invoice you – but this is a myth.

Receiving an invoice from a worker is not a deciding factor on whether they're an employee or contractor. You need to consider the whole working arrangement so that you are clear on your tax and super responsibilities for them.

Be careful! There are myths about what makes someone a contractor such as:

- having an ABN;
- only being needed for short term work;
- simply agreeing to the arrangement;
- invoicing you for work; or
- everyone else in the industry calls them a contractor.

It turns out that none of these things by themselves determine whether someone is a contractor or employee. There are rules and every working arrangement may be different.

The ATO is able to help and has made it really easy to check your working arrangements. You can use the ATO's Employee/contractor decision tool to answer some questions about your working arrangement and get an answer you can rely on.

Even if you're pretty sure about your current or future working arrangements, you can double check with the ATO's decision tool and be certain you've got it right.

So how do you get it right with your workers?

Employee/contractor decision tool

You can use the ATO's Employee/contractor decision tool found at www.ato.gov.au/Calculators-and-tools/Employee-or-contractor, to get a quick and reliable answer. The tool will tell you if your worker is an employee or contractor for tax and super purposes and what this means for your business.

Whilst the decision tool is not designed for labour hire firms or individual workers, it is aimed for use by businesses that engage and pay a worker.

What the decision tool gives you

After answering some questions about the working arrangement between you and your worker/s, you will receive a report:

- outlining whether your worker is an employee or contractor for tax and super purposes; and
- detailing the tax and super obligations you need to meet.

Provided your responses accurately reflect the working arrangement, you can rely on the result provided by the tool. It is a record of your genuine attempt to understand your obligations for your worker/s and would be considered if the ATO reviews your working arrangement in the future.

For record keeping purposes the ATO asks you to keep a copy of the result provided by the tool.

The information you provide and the answers you select are not stored. You will remain anonymous at all times.

Important information

The Employee/contractor decision tool:

- uses the information you provide to outline your tax and super obligations;
- is based on the outcomes of court cases that considered various indicators to establish whether a person is an employee within the common law meaning of the term; and
- does not consider other obligations - for example, payroll tax or WorkCover obligations.

If you're still unsure about your circumstances you should seek independent advice or request a private ruling.

Webinar

You can also register with the ATO for a free, interactive Employee or contractor webinar to help you understand your obligations in more detail.

SMALL BUSINESS – BIG TAX CONCESSIONS

Did you know there are tax concessions available that can help your small business grow? Find out which ones you can use and when they start, so you can benefit.

Some concessions for small businesses include:

1. Instant write-off for each asset costing less than \$20,000

Small businesses can immediately deduct the business portion of most assets if they cost less than \$20,000 and were purchased between 7:30pm on 12th May 2015 and 30th June 2017. This deduction can be used for each asset that costs less than \$20,000, whether new or second-hand. You claim the deduction through your tax return, in the year the asset was first used or installed ready for use.

2. Immediate deduction of professional expenses for starting your business

From 1st July 2015, small businesses are entitled to certain deductions when starting up a small business. The range of deductible start-up costs includes professional, legal and accounting advice and government fees and charges.

3. Tax discount of 5% (up to \$1,000) for unincorporated small businesses

From the 2015–16 financial year, an individual is entitled to a tax offset on the tax payable on the portion of their income that is from:

- net small business income from sole trading activities
- share of net small business income from a partnership or trust.

The income tax offset can reduce the tax payable that relates to the individual's small business income by 5% up to \$1,000 each year. The ATO will work out the offset based on the total net small business income reported in your income tax return.

4. A 1.5% cut to the small business company tax rate

For income years commencing on or after 1st July 2015, the small business company tax rate has been reduced from 30% to 28.5%. The maximum franking credit that can be allocated to a frankable distribution is unchanged at 30%, even if a small business is eligible for the 28.5% tax rate.

5. No fringe benefits tax for providing multiple electronic devices to employees

From 1st April 2016 small businesses will not incur a fringe benefits tax (FBT) liability if they provide their employees multiple work-related portable electronic devices that have similar functions. These include devices that are primarily used for work, such as laptops, tablets, calculators, GPS navigation receivers and mobile phones. This benefit may be in addition to, or part of, the employee's salary or wages package.

6. No income tax liability for asset roll-overs when restructuring your business

From 1st July 2016, small businesses will be able to change the legal structure of their business without incurring any income tax liability when active assets are transferred by one entity to another. This rollover applies to active assets that are CGT assets, trading stock, revenue assets and depreciating assets used, or held ready for use, in the course of carrying on a business.

7. Accelerated depreciation for primary producers

From 12th May 2015, changes allow primary producers to immediately deduct capital expenditure on fencing and water facilities such as dams, tanks, bores, irrigation channels, pumps, water towers and windmills.

You can qualify for the first six concessions if your small business has a total turnover of less than \$2 million either in the year you use the concession or the year before that. All primary producers can access accelerated depreciation regardless of turnover.

In the recent Budget announcement there is a proposal that from 1st July 2016, the definition of a small business will be extended to businesses with a turnover of less than \$10 million. This will then enable access to the concessions available to businesses that fall within this definition, including a lower rate of company tax and simplified depreciation rules. However, for purposes of accessing the small business capital gains tax concessions, the current turnover threshold of \$2 million will be retained.

Small Business – SuperStream Deadline 30th June 2016

If you run a small business that has 19 or fewer employees, you have until 30th June 2016 to start using SuperStream. With SuperStream you will only need to make one electronic transaction to cover all your employees' super contributions. It's easier and will save you time.

To assist in this transition, the ATO is running free webinars to help you learn about SuperStream and understand your options. To ensure all employers have an opportunity to attend one of our webinars, they have scheduled additional webinars, including on weekends.

Please note, if the only contributions you make are personal contributions for yourself or contributions to a related self-managed super fund (SMSF), you don't need to use SuperStream because these are exempt contributions.

Three easy steps to SuperStream:

STEP 1 CHOOSE AN OPTION

To use SuperStream, you need to pay super and send employee information electronically. If you're already doing this, you may only need to refine your system to send the contribution data in the standard format. You can use:

1. Payroll system that meets the SuperStream standard

If you use a payroll system, check with your system provider that it is SuperStream ready. You may need to update your system.

Some payroll systems cover data and payments, and some are data only, which means you may need to make payments to each fund separately. Either way the payment must be electronic (EFT or BPAY).

2. Your super fund's online system

Large super funds have online payment services you can use. Check with your fund.

3. Super clearing house

A clearing house pays super to your employees' funds for you. You send a single electronic payment to the clearing house, together with the contribution data for all your employees, and the clearing house does the rest.

If you have 19 or fewer employees, or a turnover of less than \$2 million a year, you can use the ATO's free Small Business Super Clearing House. You can also choose from several commercial options, or your super fund may have a clearing house you can use.

Remember, even if you outsource some parts of making super contributions, you're still responsible for ensuring your employees' super is paid correctly.

4. Messaging Portal

A messaging portal can convert contribution data for your employees to a SuperStream compliant format and send it to the relevant funds for you. You still need to make one electronic payment. Talk to your messaging portal provider and financial institution.

STEP 2 COLLECT INFORMATION AND UPDATE YOUR RECORDS

To use SuperStream you'll need to collect some new information from your employees, in addition to the information you already use to pay super.

Once you have this information, enter it into your system, along with the other details you use to pay super, and you're ready to use SuperStream.

You only need to collect this information for current employees. New employees who choose their super fund will fill out a standard choice form, which will have all the information you need.

Ask your employees for the following information, if you don't have it already:

- employee tax file number
- fund ABN
- fund unique superannuation identifies (USI).

Employees can find their fund's ABN and USI on their latest super statement or by calling their fund. You can also find a fund's ABN and USI using Super Fund Lookup at www.superfundlookup.gov.au. However, a fund may have more than one USI so you'll need to confirm the correct USI with your employee.

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Small Business – SuperStream Deadline 30th June 2016 cont.

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If you currently make employer contributions to funds using a SPIN (Super Product Identifier Number) you will need to obtain the USI this SPIN corresponds to – you can find this using the Fund SPIN and USI Lookup at www.softwaredevelopers.ato.gov.au/USIandSPINlookup.

If your employees have a self-managed super fund (SMSF), they need to give you slightly different information:

- employee tax file number
- fund ABN
- fund bank account details
- fund electronic service address.

If you're an employer contributing to your own SMSF, you don't need to collect this information for these contributions.

STEP 3 USE SUPERSTREAM

Employers with 19 or fewer employees should be SuperStream ready by 30th June 2016, and larger employers should already be using SuperStream.

It may take time to collect the information and get used to the new system. If any information is incomplete or incorrect, the super payment is likely to be rejected. It's still up to you to meet your super guarantee obligations by the due dates.

If you're using a clearing house, check how long they will take to send the money and information to the super fund. Generally an employee's super contribution is counted as being paid on the date the fund receives it, not the date a clearing house receives it from you.

EOFY - Drive a Bargain



With 30th June almost upon us, you will be no doubt thinking about tax planning for the year end.

It's quite common at this time of year to update your car as many dealerships offer end of financial year sales. The hidden trap with dealing direct can be that the dealerships often hide the cost of the finance that they can obtain and, more often from a tax perspective, the contract may be set up under the wrong loan structure, impacting on the deductibility of the asset.

Small business clients are eligible for an immediate 100% tax deduction for the first \$5,000 of a new car (brand new and second hand vehicles). The balance of the cost is eligible for an accelerated depreciation deduction of a flat

15% for the first year and a flat 30% each year after.

Do you claim a deduction for business-related car expenses when you do your tax return? There have been changes to how you calculate your deduction and the ATO has openly stated that they will be focussing their audits on logbooks. For the 2016 Financial Year and beyond, there will only be two ways to calculate your claim:

- **Cents per kilometre method** Using a single rate of 66 cents per kilometre for all motor vehicles (regardless of the size of the engine), you can claim a maximum of 5,000 business kilometres per car using this method.
- **Logbook method** To use this method you need to keep a logbook for a minimum continuous period of 12 weeks. You will need odometer readings for the logbook period and you can claim fuel and oil costs based on these records, or actual receipts. You will need written evidence for all other expenses.

Particularly with the recent RBA interest rate cut, if you have not yet taken the opportunity to review business loans, property loans and vehicle and equipment loans, we are able to assist. If you are wanting to compare the cost of finance for personal or business, we have a facility available that can shop around for great rates and suitable structures. To find out more, call us before 30th June.