TAXMATTERS

TAX STRATEGIES FOR YOU AND YOUR BUSINESS

BUDGET EDITION 15 · 2015

INSIDE

- Budget focus on stimulating small business activity
- Fuel tax credit rate increases
- R&D and other incentives
- Property damage considerations for investors
- Tax shortfall disclosure commended
- And more

SHERIDANS
ACCOUNTANTS AND
FINANCIAL PLANNERS PTY LTD
ABN 15 099 774 062

Personal tax measures

Whilst there were no significant taxation proposals in this year's Budget, the Government has made some relatively conservative changes to FBT exemption and employee share schemes.

FBT exemption for electronic devices

To help reduce red tape, the Government will expand the Fringe Benefits Tax (FBT) exemption for work-related portable devices from April 1 2016. Small businesses with an aggregated annual turnover of less than $2 million that provide employees with more than one qualifying work-related portable electronic device will still be able to access the exemption.

Additional items that have substantially similar functions as the first device, will still be allowed on the condition that they are used to perform different tasks. Small business employees will benefit by staying connected in the digital economy.

FBT: meal and entertainment

A $5,000 grossed-up cap will be introduced for salary sacrificed meal entertainment and entertainment facility leasing expenses for employees of not-for-profit organisations from 1 April 2016. The cap previously sat at $30,000, allowing charities and other similar groups to compete with the private sector for the attention of prospective employees. Not-for-profit employees can now salary sacrifice meal entertainment benefits without reporting them. In addition, their employers will not have to pay fringe benefits tax.

Employee share schemes

Expanded tax concessions for employee share schemes from 1 July 2015, will allow employees to share in and gain from the future growth and success of the business.

The new start-up concession ensures employees are not liable to pay tax up-front until they are able to grasp a benefit from the share options.

Other measures

The Government tightened access to pension payments as a result of decreases in the assets test. The maximum value of assets outside the family home a couple can hold while still qualifying for a part pension will be reduced from $1.15 million to $823,000. Pensioners with substantial private assets will have to draw on slightly more of their assets to maintain their current income levels of retirement.

The asset test taper rate will be increased from $1.50 of pension per fortnight to $3 of pension for each $1,000 of assets over the relevant assets test threshold from 1 January 2017. It will allow those with moderate assets to receive a full or increased pension.

SHERIDANS

CPA
CHARTERED ACCOUNTANTS AUSTRALIA + NEW ZEALAND
IPA INSTITUTE OF PUBLIC ACCOUNTANTS Partnership beyond numbers

593 ANZAC HIGHWAY
GLENELG
SA 5045

TEL (08) 8376 0455
FAX (08) 8376 0108

EMAIL
enquiries@sheridans.net.au

WEBSITE
www.sheridans.net.au

DIRECTORS
Greg Sheridan
Shane Holmes

Tax and Accounting
Financial Planning
Self Managed Super
Risk Insurance
Business Consulting
Property Investing

Budget focus on stimulating small business activity

The Budget has introduced a number of measures for small businesses designed to revive investment and support entrepreneurship and startups.

Tax cuts

The Government has followed through with its announced 1.5 per cent tax cut for small businesses with an annual turnover of less than $2 million, which will take effect from 1 July 2015. The Government will also provide a 5 per cent tax discount (capped at $1000) for small businesses that are unincorporated with an annual turnover of less than $2 million, such as sole traders and trusts.

Accelerated depreciation

Businesses will receive an immediate tax deduction for any individual assets under $20,000 that are purchased from the 12th of May 2015. This initiative will end on the 30th of June 2017. Currently, the threshold sits at $1,000. They can apply the $20,000 limit to as many individual items as they wish.

Assets that extend the $20,000 limit will be added to the entity's small business pool and depreciated at 15 per cent in the first income year and 30 per cent each income year thereafter. These were the current rules for assets costing $1000 or more. The Government will also suspend the current lock-out laws for the simplified depreciation rules. These will prevent small businesses from re-entering the simplified depreciation regime for five years if they opt out until 30 June 2017.

Measures encouraging business startups

In order to encourage business start-ups, business registration processes will be streamlined through the creation of a single website (business.gov.au), which allows new businesses to register using a one key identifier. The new online portal will be implemented by mid 2016. The Government will also change the regulatory framework for crowd-sourced equity funding, including simplified reporting and disclosure requirements, to provide small businesses with access to additional funding from innovative sources.

Business establishment costs

Small businesses will be able to immediately write off professional costs associated with starting up a company from the 2015/16 income year instead of over a five-year period. Business owners will be able to invest more money into the growth of their new business.

CGT relief reforms for small business

A new CGT relief measure will be available for small businesses that change their legal structures and do not necessarily involve incorporated entities from the 2016/17 income year. However, small businesses can only apply changes to the legal structure once.

Fuel tax credit rate increases

The fuel tax credit scheme plays a vital role in sustaining the production of goods and services in regional Australia by providing a credit for the tax included in the price of fuel.

From 2 February 2015 fuel tax credit rates increased due to a rise in the ATO's Consumer Price Index (CPI). If you lodged a BAS claiming credits on fuel acquired after that date then you are entitled to more credits. For businesses this means using the rate that was applicable when the fuel was acquired when calculating fuel tax credits, including fuel used in heavy vehicles.

Since the fuel tax credit rate is indexed twice a year in line with the CPI, the ATO recommends businesses check the rates online and claim for eligible fuels at the right fuel tax credit rate for the right period. Businesses have up to four years to claim their credits.

R&D and other incentives

The Budget has announced it will cut the corporate tax rate by 1.5 per cent for small businesses with an annual turnover less than $2 million.

For small business, this will also incur additional R&D benefit, where the permanent tax benefit will increase from 15 to 16.5 per cent.

Small businesses will still be able to cash out the 45 per cent refundable tax offset, where there are existing sufficient tax losses. The increased R&D benefit aligns with recent government policy to shift innovation funding away from large companies to small businesses.

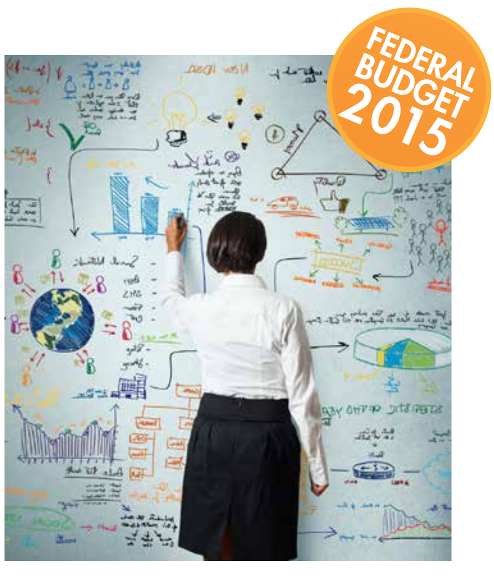
The refundable offset is especially attractive to start-ups in pre-revenue phase as they can continue to cash out R&D spend instead of building up their tax losses.

Other incentives

The Government has permitted grant programs to continue supporting manufacturing transition and commercialisation, however some programs may receive reductions in total funding.

Funding of $6.1 million has been allocated to expand the operation of the Climate Change Authority for another two years, including an additional $100 million to the Great Barrier Reef Trust.

Farmers who have been battling drought and require help with managing pests will receive $25.8 million in funding.



Property damage considerations for investors

There is nothing more tedious for rental property owners than dealing with the tax implications of damaged property.

Over the past year, natural disasters have severely impacted areas throughout Australia, leaving rental property owners especially feeling the brunt of these disasters through costly repair bills and loss of rental income.

It is important for those affected to understand the tax consequences of the repairs. To ensure you can claim as much of your costs as possible, owners must be aware of these crucial issues:

- The cost of travel to the property to survey destruction is deductible and includes transport, accommodation and meal expenses.
- Repair costs are deductible. However, different rules apply for the work that goes beyond restoring to the original condition. A tax deduction is allowed for the full cost of the repair within the year it is completed, while additional improvement costs will be depreciated as either a part of the building or as a separate asset.
- Demolition and cleanup costs are deductible, but the claim amount is limited to the income received from the insurance payout and any income received from selling scrap materials.
- Insurance payouts for loss of rental income are taxable, as are insurance proceeds for repairs, where repairs are undertaken.
- Interest on loans used to pay for property damage will be deductible for the life of the loan.
- Ongoing property holding costs are tax deductible while there is no rental income. However, you must intend to restore the property and then continue renting it.

There could be capital gains tax consequences where the property is completely destroyed and the insurance

payout is classified as the sale of your building. It is crucial to consider this implication with an accountant as every case is different.

Individuals can also apply to the ATO to vary the PAYG tax withheld from their salary or wages, to reflect their ongoing property investment expenditure. This option is only available for periods of up to one year and a reapplication must be made each year to extend this period.

Tax shortfall disclosure commended

The Commissioner of Taxation is encouraging taxpayers to declare tax shortfalls at their own discretion.

Usually, an underpayment in tax will incur a serious penalty on top of interest. However, taxpayers who disclose shortfalls without any prompting from the ATO will attract favourable concessional treatment for both tax penalties and interest charges. If the shortfall is under $1000 there will be no penalty, but if it is $1000 or more, then the penalty will decrease by 80 per cent.

For taxpayers that disclose shortfalls after being notified by the ATO of a tax audit, they will only attract a 20 per cent penalty tax. The Commissioner has the power to suspend a shortfall penalty when the matter is reasonably argued, or retain the penalty when voluntary disclosures are continually made about amounts that are not withheld. At their discretion, the interest charge of the shortfall can be reduced. But, they must consider the subjective circumstances of the taxpayer and whether those circumstances are fair before they impose a penalty.

The ATO will impose serious administrative penalties for undisclosed shortfalls and refer it to criminal prosecution.

CGT issues for the granny flat

Due to rising house prices, the humble granny flat has become a popular investment property strategy for homeowners and investors seeking to maximise returns on existing properties.

However, there are Capital Gains Tax (CGT) implications associated with such arrangements.

In a basic scenario where the granny flat is occupied by a family member on a non-commercial basis and the home is sold, a full CGT main residence exemption is still available. While the flat is used for private purposes, the exemption extends to adjacent land of up to two hectares from the main dwelling.

A partial main residence exemption will apply when the granny flat is leased at commercial rates. The CGT liability for the portion of the property that is used for renting the granny flat is calculated on an area and time basis. The CGT 50 per cent discount will still be available when the home is owned for more than 12 months after to the time of the first income use.

Any non-deductible mortgage interest attributable to the land may be included in the cost of the land for CGT purposes, including subdivision costs reducing capital gains tax liability.

In a situation where the backyard has been subdivided and sold, CGT provisions prevents the CGT main residence exemption.

However, the circumstances change for those in the business of constructing and leasing or selling granny flats. Gains are determined as normal income or profit, instead of under the CGT regime.

Budget outlook for individuals and families

The 2015 Budget made sweeping changes for individual taxpayers and families with its focus on improving the economy.

Car expense deductions

The Budget has introduced new modernised methods for calculating work-related car expense deductions from the 2015/16 income year. The '12 per cent of original value method' and the 'one-third of actual expenses method,' which are used by less than 2 per cent of those who claim work-related car expenses will be removed.

The 'cents per kilometre method' will be modernised, allowing workers to claim a deduction for each kilometre driven in the car for work based on a schedule of typical costs. Under the new regime, one rate will be set at 66 cents per kilometre to apply for all motor vehicles. Taxpayers can continue using the 'logbook' method of calculating expenses if they do not want to use the cents-per-kilometre approach. These changes will adjust car expense deductions to align with the average cost of running a car.

Pensioners

The plan to index the pension to the Consumer Price Index has been axed. Instead, the Budget will be making the savings from people with substantial private assets.

Ageing workers

A flexible wage subsidy will give older Australians approaching retirement an incentive to remain in the workforce with the possibility of receiving a bonus later. It will also shorten the length of time Australians over the age of 50 have to wait on income support or the pension before they qualify for job incentives.

Amendments to the new Restart program will offer older workers incentives for training to further assist them with retraining for a job and prevent them from falling back on unemployment benefits or pensions.

In addition, employers who hire job seekers under the age of 30 or workers aged 50 or older will share in a redesigned national wage subsidy pool from 1 November 2015. Eligible employers will be granted a subsidy of up to $6,500 for hiring a job seeker under the age of 30, an indigenous job seeker, a parent returning to the workforce, or a long-term unemployed job seeker. They can also receive up to $10,000 under the Restart program for hiring workers aged 50 or older.

Families

The childcare scheme has received a major overhaul to support low income families. Families with access to maternity leave through work will no longer receive government assistance in the form of the existing Parental Leave Pay (PLP) scheme from 1 July 2016. This measure will prevent families from double dipping into both schemes.

Under the new proposals, both parents must do at least eight hours a fortnight of work, training or study to qualify for any childcare support. Families earning up to $65,000 will receive 85 per cent off childcare fees, while stay-at-home parents with a family income over $65,000 will no longer secure childcare subsidies.

A two-year nanny trial starting on 1 January 2016 will assist the parents of approximately 10,000 children, especially those working for emergency services or living in regional areas, without access to regular childcare services.

Rural Australia

Farmers can continue the Drought Concessional Loan Scheme for another year. Farmers will also be able to claim fences and new water storage as tax write-offs.

Power to amend fraud and evasion

The Commissioner of Taxation has been granted power to modify the time limit for assessments and testing of fraud and evasion, which normally varies between two and four years.

Under subsection 170 (1), (2) and (3) of the Income Tax Assessment Act 1936 (ITAA), the Commissioner can adjust the assessment of an individual or small business entity within two years of the day they were given notice of the assessment.

A small business entity is an entity which carries on a business and has turnover of less than $2 million. A four year period of assessment still applies for other entities.

The Commissioner may revise an assessment under section 170 (5) when they believe there has been fraud or evasion. Fraud is not limited by a time period and is evaluated on the absence of veracity in a statement or carelessness to its truths.

Evasion is gauged from the avoidance or withholding of information in a statement.

Lower penalties are imposed for carelessness and recklessness. Carelessness attracts a penalty of 25 per cent of the tax avoided, recklessness 50 per cent and intentional disregard 75 percent. An additional uplift penalty of 20 per cent will be issued for fraudulent misstatement in a tax return.

The time period applicable for fraud and evasion commences when the assessment is made or any time afterwards.