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CLIENT NEWSLETTER - JUNE 2016

Dear Client,

This is an **IMPORTANT DOCUMENT**. It is **GENERAL (but not specific) TAX ADVICE** to existing Clients, being **OUR TIMELY ADVICE TO YOU** of Taxation Law as it now stands. **IT IS MOST IMPORTANT THAT EVERY CLIENT READS THIS NEWSLETTER**. If you do not **FULLY UNDERSTAND** any section that may be relevant to you, then please seek more information.

TAX RATES

There has been no change in the personal taxation rates and thresholds for 2015/16. The combined **Medicare and NDIS Levy of 2.0%** needs to be added to the rates below.

However, Medicare Levy is not payable by individuals with income under \$21,335, or \$33,738 for Seniors and Pensioners. **There is a higher income threshold before Medicare Levy applies to Sole Parents.**

Tax Thresholds for 2015/16		
Low Threshold	High Threshold	Tax Rate %
0	18,200	0
18,201	37,000	19
37,001	80,000	32.5
80,001	180,000	37
180,001 and above		45*

* Plus Budget Repair Levy of 2.0%.

From **1st July 2016** the 37% marginal tax rate will not apply until income reaches \$87,000.

The **Low Income Tax Offset** for this financial year and next is due to stay at **\$445** for those with incomes of \$37,000 or below, with this benefit shading out to Nil at \$66,666. The application of LITO means an **effective Tax Free Threshold of \$20,542** for 2015/16.

MOTOR VEHICLE RATES FOR 2015/16 AND ONWARDS

There has been a major change to the way we can claim motor vehicle expenses, with effect from 1st July 2015, being just the log book method or the rate per kilometre method. From the 2015/16 year there will be just one rate under the **simplified rate per kilometre method, 66 cents per kilometre**, regardless of the size of the motor in your vehicle.

If you have received a vehicle allowance from your employer at a higher rate than this, the difference will effectively be assessable income. Employers have been told by the ATO they should deduct tax from vehicle allowances in excess of 66 cents per kilometre, so as to ensure that taxpayers **don't get "caught"** with not having enough tax deducted during the year.

MANY TAX OFFSETS NOW ABOLISHED

Just a reminder that a number of Tax Offsets have been scrapped over the last couple of years. **These include most Dependent Tax Offsets and the Mature Age Worker Tax Offset.**

Further, the **Net Medical Expense Tax Offset** is no longer available from 1st July 2015 except if the total of out of pocket expenses relating to disability aids, attendant care and age care expenses exceeds the qualifying threshold.

Another Tax Offset that has been scrapped from 1st July 2015 is the **Zone Tax Offset** for those who did not have their normal place of residence inside

the remote zones. This effectively denies the offset for fly in/fly out workers, and any others who do not permanently live in a remote zone.

SMALL BUSINESS TAX INCENTIVES

As announced in the 2015 Budget, for those who operate their business through a **small Company, the tax rate reduces by 1.5%, to 28.5%**, for 2015/16. Those who trade through a Family Trust, Partnership, or as a Sole Trader, will be eligible for a **5% discount on tax payable on business income**, capped at \$1,000 per person for each income year.

From **July 2016** the **Company tax rate will drop to 27.5%** for business with turnover less than \$10m. Further, the tax **discount for unincorporated small businesses will be increased to 8%**. The cost of establishing a small business can now be claimed as a deduction in the first year.

Primary Producers are now able to claim a full deduction for the cost of **new fencing and water facilities**. Further, the cost of any **fodder storage assets**, such as silos, will be able to be claimed over three years. However, **stock yards are not included** in the accelerated write-off provisions.

For all small businesses **full deductions can be claimed** if the balance of the existing asset pool is less than \$20,000. This is in addition to a full deduction for any new or second-hand plant costing under \$20,000.

KEY SUPERANNUATION CHANGES

With effect from **3rd May 2016** individuals have a **life time cap of \$500,000 for Non Concessional (non tax deductible) contributions**. This replaces the existing annual cap and the three year bring forward rule.

From **1st July 2017** the cap on **Concessional (tax deductible) contributions will be reduced to a total of \$25,000pa to all funds, regardless of age**. However, **unused Concessional cap amounts will be able to be carried forward** on a rolling basis over five consecutive years. This measure will allow those who take breaks from the workforce the opportunity to **"catch up"** on their contributions.

We still have until **30th June 2017** for those under age 50 to contribute **\$30,000** and for age 50 and over **\$35,000 Concessional contributions and claim a tax deduction**, ie this financial year and next.

Another major change is that the **current "work test" that applies to those age 65 and over**, and who wish to contribute to Super, **will be removed from 1st July 2017**. Individuals under age 75 will be able to make contributions either for themselves or their spouse. On the other hand, income on **Transition To Retirement income streams** will be taxed at 15% from 1st July 2017. However, **TTR strategies can still be very tax effective up until then**.

Another significant change is the cap that will be introduced from 1st July 2017 to **restrict the total amount of Super that can be transferred from Accumulation to Pension phase to \$1.6m**. The advantage of being in Pension phase is that tax on earnings is 0%.

IMPORTANT: This is not legal advice. Clients should not act solely on the basis of the material contained in this Newsletter. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice should be sought before acting in any of these areas. The Newsletter is issued as a helpful guide to clients and for their private information. Therefore, it should be regarded confidentially and not made available to any person without our prior approval.

Finally, the current **Spouse Super Tax Offset threshold is to increase** from \$10,800 up to \$37,000. A contributing spouse will be eligible for an 18% tax offset, worth up to \$540, for contributions to an eligible spouse's Super Fund.

HOME OFFICE EXPENSES

To claim **expenses of running a home office** under the "actual method", ie claiming a percentage of rates, insurance and interest or rent, the office has to be a "place of business". **There is a trap here** in that if you nominate a proportion of your property as a home office for a business, then that portion will potentially be subject to Capital Gains Tax on the sale of the home.

Alternatively, **it is administratively easier to claim the increased rate of 45 cents per hour** for home office running expenses, including utility costs such as heating/cooling and lighting. This higher rate takes into account depreciation that might otherwise be claimed for office furniture.

INTERNET, HOME AND MOBILE PHONE EXPENSES

A new ATO information sheet sets out **how taxpayers can claim phone and internet expenses**. It revolves around keeping a four week diary, so you can apportion expenses between work and private use.

To claim a deduction of more than \$50, you need to keep records for a four week "representative period in each (and every) income year". The **records to be kept** include diary entries, bills and evidence that the employer expects them to either work at home and/or make work related calls. From these records you will **need to work out a business use percentage** of total costs, on a reasonable basis. Where no itemised bill is available you still need to keep a record of calls and calculate your claim on a reasonable basis.

If the total amount being claimed is \$50 or less, then the bill claim can be calculated using 25 cents for work calls from a landline; 75 cents from mobile phone and 10 cents for text messages. The process gets quite complicated when you have a "bundled" phone plan. We therefore **enclose a copy of the ATO Fact Sheet** so that you can calculate, and substantiate, any internet or phone expenses you may wish to claim as a tax deduction.

INDUSTRY SUPER INSURANCE WARNING

We have recently become aware of **some significant changes with respect to insurance cover** that is available through many Industry Super Funds. In some cases it is **either a reduction of benefits available and in others it is a change in wording to determine eligibility for benefits**. For example, with insurance through REST the terminal illness benefit has been drastically reduced, with tighter definitions for TPD and some restrictions in Income Protection payment eligibility.

On the other hand, research house Super Ratings advises there have been **some substantial premium hikes** on Death and TPD insurance premiums for some occupations. **We strongly encourage all clients to ensure they have adequate and suitable Wealth Protection in place. We can access a range of products from the top insurance companies in Australia.**

STUDENTS WITH HELP DEBT

Since 1st January anyone who has a HELP debt will not be able to avoid their responsibility simply by travelling overseas. **Any outstanding debt will still be required to be paid** if their income from all sources is above the relevant threshold. Further, those travelling or moving overseas for more than six months are now required to provide the ATO with their overseas contact details within seven days of leaving the country.

SUPERSTREAM DEADLINE APPROACHING

We have made an attempt to contact all our employer clients to advise them about the **new SuperStream requirements, which must be adhered to by 30th June**. Any employer that is not already registered should do so immediately. Please don't hesitate to contact us for assistance.

ATO DATA MATCHING PROGRAMME

The ATO are increasing their use of information they can get on individuals from **sources such as the Electoral Roll and Contractor Payments Reports** to help identify income that is not being reported.

There is an extensive list of other data providers, such as Ezy pay, PayPal and Ebay, where transactions for large amounts, and for frequent transactions, are being checked against reported income.

WHEN IS A CONTRACTOR REALLY AN EMPLOYEE?

The ATO has recently issued a Fact Sheet on the common conundrum of **whether a person is an employee or a contractor**. It includes a number of myths that employers can often tend to believe. **Some of the myths include:**

- Having an ABN makes you a contractor. If the working arrangement is employment, then quoting an ABN will not make you a contractor.
- Assuming that because other workers in an industry may be contractors, then you will be too.
- A worker having a registered business name automatically means that they are a contractor for a particular job.
- Whilst a worker may be a contractor for one job this necessarily means they will be a contractor for all jobs.
- Just because a worker submits an invoice for the work, it necessarily makes them a contractor.

One of the biggest issues here is in relation to Superannuation and WorkCover, as any engagement of a particular worker for a job that predominantly involves labour is likely to be subject to the Superannuation Guarantee requirements and WorkCover. We strongly recommend that both employers/businesses and employees carefully check as to whether the worker is a genuine employee or contractor. **Please contact us for more information in this regard, if needed.**

SUPER CO-CONTRIBUTIONS – FREE MONEY AVAILABLE

The Super Co-Contribution Scheme is intended to **help low/middle income earners to boost their retirement savings**. To qualify for a Government contribution to your Super Fund of up to \$500 you need to make a voluntary after tax personal contribution to your Super Fund.

BENEFITS OUTSIDE THE FBT NET

There are some specific benefits under family business arrangements the ATO has deemed as outside the scope of FBT law. Some of the items that do not attract FBT include:

- A birthday present given to a child who works in a business run by the parents;
- A wedding gift given to an adult child who earlier worked in the business;
- The value of meals provided to children where they work on the family farm.

STAFF MATTERS

Since our last Client Newsletter, **Annie has welcomed daughter Isabelle** into the world last July. There was also great excitement in the Lavender camp when **Sandy became a grandmother** in March.

For your interest, **John is once again going to Timor Leste** for the middle two weeks of June, on a Rotary project under the auspices of Rotary Australia Worldwide Community Service.