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CLIENT NEWSLETTER - JUNE 2018

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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 2017/18. 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 $21,980, or $34,758 for Seniors and Pensioners in 2017/18. **There is a higher income threshold before Medicare Levy applies to Sole Parents.**

Tax Thresholds for 2017/18		
Low Threshold	High Threshold	Tax Rate %
0	18,200	0
18,201	37,000	19
37,001	87,000	32.5
87,001	180,000	37
180,001 and above		45*

*** Budget Repair Levy of 2.0%, ceased on 30 June 2017.**

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 2017/18.**

Children under 18 can only earn $416 Tax Free from "passive" income sources, such as interest or Trust distributions. **However, normal Tax Rates apply to income they might have earnt from employment "adult" or being self-employed.**

Foreign residents for Tax purposes pay a flat rate of 32.5% from $0.00 to $87,000 and 37% thereafter. However, there is a **concessional rate of 10% Foreign Withholding Tax on interest earnt, and Nil on franked dividends** received. NB. there can be variations to these rates where a Double Tax Agreement applies.

SENIOR AUSTRALIAN TAX RATES

We often get asked by those 65 and over as to the higher level of income they can earn before paying any tax. **Seniors and Pensioners can benefit from a Maximum Offset amount** per person of $2,230 for Singles and $1,602 each person for married/de facto couples. **The Offset is somewhat higher if a couple is separated due to illness.**

The application of this Offset means that **Single Seniors and Pensioners pay no tax if income is below $32,279.** Each member of a marriage/de facto couple will pay no tax up to $28,974. **The Offset starts to shade out above these threshold levels.**

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. (More information provided over).

MOTOR VEHICLE RATES FOR 2017/18

With effect from 1st July 2015, just the log book and the rate per kilometre methods are available for claiming motor vehicle expenses. There is now 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.**

MEDICAL AND ZONE TAX OFFSETS

The **Medical Expense Offset** is still available if expenses of disability aids, such as artificial limbs and hearing aids, attendant care and aged care for you and your dependants exceed $2,299. However, the normal 20% Offset rate reduces to just 10% once Adjusted Taxable Income exceeds $90,000 for singles or $180,000 for couples.

Also a reminder that the **Zone Tax Offset** is now only available for those whose normal place of residence is inside the remote zones **i.e. no longer available for fly in/fly out workers.**

SMALL BUSINESS TAX INCENTIVES

For those who operate their business through a **Company, the tax rate has reduced to 27.5%,** applicable from 2016/17 onwards. Those who trade through a Family Trust, Partnership, or as a Sole Trader will be eligible for a **8% discount on tax payable on business income,** with the benefit capped at $1,000 per person for each income 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. **This concession has been extended through to plant acquired up to 30 June 2019.**

CHANGES TO HECS/HELP DEBT ARRANGEMENTS

From 1 January 2017 **there is no longer a discount available for paying a HECS/HELP debt** upfront, or making a voluntary payment. Further, **with effect from 1 July 2018**, the minimum threshold for repayments will be reduced to $42,000, and the repayment rate increased to a maximum 10% applying when income reaches $120,000.

Yet another change from 1 July 2017 is that those with a HELP or a Trade Support debt who are **non-residents for tax purposes** will be required to assess their total Australian and foreign income and make repayments based on that total income. As it is, **those with study debts who move overseas for six months or more are required to notify the ATO.**

SUPERANNUATION REFORM

Outlined below are most of the changes that have now been passed Parliament and generally apply from 1 July 2017.

- There is now a $1.6 million cap on the total amount of Superannuation that can be transferred in to a tax free retirement (pension) account. This cap will be indexed with CPI. It will be ok if your balance increases in value after the date of transfer.
- The cap on Concessional (before tax) contributions has been reduced to **$25,000 per annum for everybody**. Any excess amount contributed will be taxed at your marginal rate.
- An exception is that Concessional contributions above $25,000 to a "Constitutionally Protected" fund such as Super SA will not be liable for any penalty tax. (This change means that Public Servants who contribute to both Super SA and a private fund will only pay penalty tax on that part of private fund contribution that takes their combined total super contribution over $25,000).
- The Non-Concessional cap has also been reduced, to $100,000. However, individuals under age 65 will still be able to bring forward up to three years of Non-Concessional contributions, ie you can make a non-tax deductible contribution of up to $300,000.
- Once total super balance reaches $1.6 million the Non-Concessional cap reduces to NIL, ie no more voluntary contributions (Non-Concessional) can be made.
- The Low Income Superannuation Contribution effectively refunds tax paid on Concessional contributions by individuals with a taxable income up to $37,000 – with a refund limit of $500. The amount you are eligible for will be paid into your superannuation fund automatically.
- The old "10% rule" has been removed, allowing all individuals under age 65, and those aged 65 to 74 who meet the work test, to claim a tax deduction for personal contributions up to the Concessional contributions cap. In the past, this has prevented all those earning more than 10% of total income from salary and wages from making any tax deductible contributions other than by way of salary sacrifice.
- It is now easier to qualify for the spouse super tax offset for contributions on behalf of a low income spouse. The maximum tax offset of $540 is now available when the spouse's income is below $37,000, shading out at $40,000.
- One negative is that the Government has removed the tax exempt status of income earned from assets supporting a Transition to Retirement Income Stream. These earnings are now taxed at 15%, up until the person has either reached age 65 or Retired (working less than 10 hours per week).
- Although its start date has been put back to 1 July 2018, one very worthwhile change will be the new "catch-up" provisions for super contributions. This will allow individuals with a total super balance of less than $500,000 to carry forward any unused Concessional contribution cap for up to 5 years. This will potentially be a very valuable tax planning facility.
- There has been NO CHANGE to the Small Business CGT retirement exemption contribution limits and rules.
- The personal total income limit at which point Concessional contributions will be taxed at 30% drops to $250,000.
- A person 65 or over can make a non-concessional contribution of up to $300,000 ($600,000 for couples) from home sale proceeds from 1 July 2018, without having to meet the "work test".
- First home super saver scheme up to $15,000 per year by way of salary sacrifice, that can later be drawn on to purchase a home.
- For more detailed information on the topics above, please refer to the Smart Super Strategies Fact Sheet enclosed.

HOME OFFICE, INTERNET, HOME AND MOBILE PHONE EXPENSES

To claim **expenses of running a home office** under the "actual method", ie claiming part of rates, insurance and interest or rent, the office has to be a "place of business". **There is a potential trap,** in that the portion of property used for business potentially will be subject to Capital Gains Tax on sale.

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.

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, to calculate a **business use percentage** of total costs, on a reasonable basis.

Alternatively, for total claims of $50 or less, then you can claim 25 cents for work calls from a landline; 75 cents from mobile phone and 10 cents for text messages. For your benefit we have **enclosed 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.

RESTRICTING RENTAL PROPERTY DEDUCTIONS

For any investment properties purchased from Budget night 2017, we can no longer claim depreciation on any plant and equipment in "second hand" property purchased, such as stoves, heaters and the like.

The other big change is that **owners will no longer be able to claim travel expenses for purchasing, inspecting or maintaining a residential rental property**, with effect from 1 July 2017.

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.
- Assuming because other workers may be contractors, you will be too.
- A registered business name automatically means they are a contractor.
- Being a contractor for one job means being a contractor for all jobs.
- Submitting an invoice for the work, necessarily makes them a contractor.

One of the biggest issues is Superannuation and WorkCover. Any engagement that predominantly involves labour is likely to be subject to Super Guarantee requirements and WorkCover. **We recommend both employers/businesses and employees carefully check as to whether the worker is a genuine employee or contractor.**

WORKSHEETS

Attached are diary record templates for various work/business expenses. We suggest you copy and magnify.

"We have three confirmations, the crystal ball, the magic 8-ball and the coin flip, all say to buy."

PLEASE DON'T KEEP US A SECRET

The greatest compliment you can give us is to make a referral.