Crispin & Jeffery
Chartered Accountants

Call: 02 9908 4744

Email: staff@cjeffery.com.au

Postal Address: PO Box 134, Neutral Bay Junction, NSW 2089, Australia
Physical Addresses: Level 2, 57 Grosvenor Street,Neutral Bay NSW 2089 Australia

Budget Changes & Tax Planning Strategies

The end of the financial year can be a busy time, with the budget announcement in early May as well as planning for 30 June. In this newsletter we will highlight several key budget changes that may affect you as well as some general tax planning strategies.

Please contact your C&J adviser if you wish to discuss any of the items below:

1. Tax Deduction for Depreciating Assets for Small Businesses
2. Reduction in Corporate Tax Rates for Small Business
3. Individual Income Tax
4. Changes to Rental Properties
5. Property Changes for Non Residents
6. Superannuation Contributions
7. Superannuation Funds in Pension Mode
8. Changes to Division 293 Tax (High Earners Superannuation Contribution Tax)
9. General Tax Planning Considerations

1. Tax Deduction for Depreciating Assets for Small Businesses:
The $20,000 immediate asset write off is still available for small business with aggregate turnover of less than $10 million. This will remain available until 30 June 2018.

The concession has been extended to businesses with less than $10 million turnover for assets purchased between 1 July 2016 and 30 June 2018.

It is expected that this concession will cease on 30 June 2018 for all businesses.

2.Reduction in Corporate Tax Rates for Small Business:
The corporate tax rate for the year ended 30 June 2017 will reduce to 27.5% and this will be available for businesses with turnover of less than $10 million. The turnover threshold for the reduced rate will increase each year until 30 June 2027, when all corporate entities will pay tax at 25%.

3. Individual Income Tax:
The 2% budget repair levy has not been extended and will cease on 30 June 2017. Taxpayers earning over $180,000 will no longer have to pay the additional 2% levy.

The minimum income for HELP debt repayments will reduce from 1 July 2018. From this date HELP repayments will be required when income is greater than$42,000. The initial repayment rate is 1% of income and increases to 10% for taxpayers earning more than $120,000.

The Medicare Levy will increase to 2.5% from 2% commencing 1 July 2019.

4. Change to Rental Properties
From 1 July 2017 landlords will no longer be allowed to claim travel costs for inspecting rental properties. This new measure addresses concerns that these deduction have been incorrectly claimed in the past. Inspection costs for real estate & managing agents will be still be deductible.

5. Property Changes for Non Residents
From 9 May 2017 foreign & temporary tax residents will not be able to access the main residence exemption on property sales. Once a tax payer becomes a non-resident the main residence exemption will cease and any gain in value from the date of leaving Australia will be taxable when the property is sold.

Grandfathering rules will apply for properties owned prior to 9 May 2017 and currently being treated as the owner's main residence. The exemption will continue for these properties until 30 June 2019, if sold prior to this date then no CGT may result. Grandfathered properties sold after 30 June 2019 will attract CGT for the increase in value from 30 June 2019.

If you are considering becoming a non-resident it is essential you have your property valued before you leave Australia. If you intend to hold onto the property after 30 June 2019 an additional valuation at this date may also be required.

Properties owned by non-residents will also be subject to an additional annual charge if the property is not rented or available for rent at least 6 months per year. The charge will be equal to the foreign investment application fee for the property. The minimum charge, for properties valued at less than $1 million, is $5,000 annually.

6. Superannuation Contributions
Tax Deductible Contributions - Concessional Contributions
The limit for the 2017 financial year for tax deductible contributions for those aged 49 and over is $35,000 per annum and for those under age 49 the limit is $30,000.
The concessional contribution limit for all taxpayers will reduce to $25,000 from 1 July 2017.

With regards to self-employed individuals, personal deductible contributions can be made in order to achieve the same effect as concessional contributions. It is required that less than 10% of your assessable income must be derived from salary and wages in order to meet the substantially self-employed requirement.

For those who are employed, additional contributions can be made via salary sacrificing to superannuation. Employees who may receive an end of financial year bonus should consider salary sacrificing this to superannuation to build assets in a tax effective environment and lower taxable income, subject to the contribution limits above.

This requirement will be removed from 1 July 2017, after this date any tax payer under 75 years old will be able to make personal concessional contributions.

Important Points to remember:

- These limits include the 9.5% SG contributions
- An agreement to salary sacrifice your income or bonuses must be in place with your employer before you become entitled to them

Non Concessional Contributions
When you make a contribution from your after-tax earnings this is officially called a non-concessional contribution. The annual non-concessional cap is $180,000 (for the 2017 financial year).

From 1 July 2017 the non-concessional contributions cap will reduce to $100,000 per annum. A three year bring forward rule will still apply for members under 65 years old hence a maximum contribution of $300,000 may be possible.

7. Superannuation Funds in Pension Mode:
Commencing 1 July 2017 a $1.6 million cap will be placed on pension accounts. This cap is applied per member. Amounts above $1.6 million per member will need to be kept in accumulation phase, earnings on the accumulation account will be taxed at 15% per annum.

Earnings from assets supporting a Transition to Retirement Income Stream will not be tax free from 1 July 2017. These earnings will be remain taxed at 15%.

You can read our detailed guidance of this by following this link:

http://www.primefinancial.com.au/superannuation-reforms-2016/#.WTi1AU1dCpo

8. Changes to Division 293 Tax (High Earners Superannuation Contribution Tax
Taxpayers earning over $300,000 will continue to pay an additional 15% tax on concessional contributions to super (30% tax in total). From 1 July 2017 the income threshold for the additional tax will reduce to $250,000. Affected taxpayers will receive a second assessment from the ATO after lodgement of their 2017 income tax return.

7. General Tax Planning Considerations

Tax planning is an ongoing concern however it helps to pay particular attention to planning this time of year. For your benefit, and as a timely reminder, we have listed some year-end strategies below. In attending to specific year end tax planning, the following matters should be attended to annually:

Trade debtors

Review aged debtors listing prior to 30 June and give consideration to the collectability of debtors. The decision to write off bad debts should be documented prior to 30 June and the accounting systems updated accordingly.

Invoicing pre 30 June

Consider deferral of billing (for accrual based tax payers only) to the 1 July for clients or customers who are notoriously bad payers.

Stock Valuation

Stock is required to be valued at the end of the income year at its cost, market selling price or replacement value. There is no obligation to use the same method for each item of stock. Therefore, consideration should be given to the valuation methodology for each stock item. For your reference, the definition of each method is as follows:

- Cost - is the cost of acquiring the trading stock plus any further costs in getting it into its existing condition or location.
- Market Selling Value - is the current value of the item in your selling market.
- Replacement Value - is the cost of replacing the particular item.
- Obsolete Stock – You may also elect to value an item of stock below the values determined above, if it is warranted, because of obsolescence or any other special circumstances.

Trade Creditors

Review trade creditors as at 30 June to ensure all invoices have been received for goods and services provided during the period ended 30 June.

Staff Superannuation

In order to obtain an income tax deduction for superannuation, the payments must be made to super funds prior to 30 June. Ensure superannuation for all staff is up to date and paid prior to 23 June 2017 to ensure it has time to clear into the super fund prior to 30 June. This can also help avoid creating excess contribution issues for employees if contributions are delayed.

Bonus Payments

Bonus payments will be deductible, even though the physical payment is not paid until the following year, if, prior to the 30 June, the company is definitively committed to the payment of a quantified amount. This will be evidenced by reference to employment contracts and directors resolutions.

Asset Schedule Review

The asset register of the company should be reviewed on an annual basis prior to 30 June to determine whether there are any items present on the listing which have been scrapped since the last review, and need to be written off in the accounts of the company prior to 30 June.

Prepayments

Individual and small business tax payers can bring forward tax deductions by prepaying expenses, usually rent or interest, providing these are for a deductible purpose and for a maximum of 12 months. The prepayment must be made pre 30 June. Making a prepayment needs to be carefully reviewed in relation to cash flow requirements and likely taxable income for the following financial year.

Capital Allowance & Depreciation Schedules for Investment Properties

Are you maximising your tax deduction for depreciation of your investment property? If you have a property that was constructed after 1 July 1985, or even renovated since that date, you may do well to commission a quantity surveyor to produce an extensive depreciation schedule for your property and even any eligible assets attached to the common property that you effectively have a pro-rata ownership interest in. The cost of the report is tax deductible and the tax savings from the depreciation claim will generally recoup the after-tax cost within the first year.

CGT considerations - Plan carefully.

The end of the financial year is an opportune time to review your investment portfolio. When making a decision to sell assets the tax effect of whether it results in a gain or loss should be considered and plan carefully to minimise the tax effect. Capital gains can be offset by capital losses, either brought forward or from sales within the same year.

Please feel free to contact your C&J adviser to discuss your 2017 tax planning on 02 9908 4744.