YEAR-END TAX BULLETIN

2017 TAX HIGHLIGHTS

FEDERAL BUDGET ANNOUNCEMENTS

The key announcements from the 2017 Federal Budget that may have an impact for year-end tax planning include:

- Removal of the main residence exemption for non-residents and temporary residents for properties purchased after Budget night
- An annual levy of at least $5,000 will be imposed on foreign owners of under-utilised residential property
- Removal of deductibility for travel expenses incurred to inspect a residential rental property from 1 July 2017
- Restriction on availability of depreciation deductions for items in rental properties when property purchased from 1 July 2017
- Extension of the $20,000 asset write off for small businesses ($10 million turnover) until 30 June 2018
- Technical amendments to qualifying criteria for small business CGT concessions (full details not yet available)
- The Medicare levy will be increased from 2.0% to 2.5% of taxable income from 1 July 2019.

TAX PLANNING TIP

If you were planning a trip to inspect your residential rental property or purchasing a rental property with existing depreciable items, consider doing it before 30 June 2017 to obtain a tax deduction that will not be available after 30 June 2017.

SUPERANNUATION

The key superannuation announcements in the 2016 Budget have now been legislated and will take effect from 1 July 2017.

The amendments have introduced a significant number of restrictions on the quantum of contributions to funds and on member balances. In addition, there are planning opportunities for contributors to super funds prior to 30 June 2017.

From 1 July 2017 reduced contributions caps - $25,000 for concessional and $100,000 for non-concessional.

TAX PLANNING TIP

Advice on superannuation planning matters is generally considered to be financial advice, therefore from 1 July 2016 such advice should only be provided by a licenced financial adviser.

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INDIVIDUALS TAX RATES

The temporary debt levy was introduced in 2014/15. Taxpayers with a taxable income in excess of $180,000 were liable to an additional tax of 2% of income in excess of $180,000. The levy is due to expire on 30 June 2017.

When the levy expires, there are advantages for affected taxpayers to defer recognising income and capital gains until after 30 June 2017 and to accelerate deductions prior to 30 June 2017.

In addition, from 1 January 2017, special rates have taken effect for backpackers and other working travellers.

SMALL BUSINESS

Small business company tax rate

From 1 July 2016, the income tax rate applicable to companies carrying on a business will reduce to 27.5%. The reduction will progressively apply to companies based on their aggregated turnover in the years in question.

The 27.5% tax rate will apply to companies as follows:

YEAR ENDED 30 JUNE	TURNOVER
2017	$10 million
2018	$25 million
2019	$50 million

The amendments to the company tax rate will also have implications for companies paying dividends.

TAX PLANNING TIP

Affected companies may want to delay the derivation of income until after 30 June to obtain lower tax rate on income or bring forward the incurring of deductible expenses to gain advantage of the higher tax benefit before 1 July (subject to prepayment rules and general anti- avoidance rules).

Over-franked dividends

The franking credit rate for the year ended 30 June 2017 will be 27.5% where the company's aggregate turnover for the previous year (2016) was <$10 million. If the company has made a 30% franked distribution and dividend statement after 30 June 2016, the dividend will be over-franked and result in loss of franking credits.

TAX PLANNING TIP

To avoid loss of franking credits, the Tax Office will allow these companies to correct the franking rate to 27.5% by notify the shareholders of the error (see PCG 2017/D7).

Trapped franking credits

If the company pays a franked dividend based on profits of a previous year where the company's tax rate was higher than current year, there may be trapped franking credits e.g. previous year rate 30% and current year rate 27.5% then 2.5% franking credits trapped in company.

TAX PLANNING TIP

If a company has turnover in the year ending 30 June 2017 of more than $10 million but less than $25 million, consider paying out 2017 profits as a 30% franked dividend before 1 July 2017 to ensure franking credits are not trapped in the company.

Increase of the unincorporated small business tax discount

From 1 July 2015, individuals and individual partners in a partnership with business income of less than $2 million have enjoyed a tax discount of 5% of tax paid on business income. This discount amount is capped to $1,000 per individual.

From 1 July 2016, the tax discount has increase to 8% and the annual aggregated turnover threshold has increase to $5 million. The discount rate will progressively increase in the following years, but the maximum rebate will remain at $1,000 pa.

SUPER GUARANTEE

The rate for superannuation contributions by employers on behalf of their employees under the SGC for the year ended 30 June 2017 is 9.5%. EAR SUPER GUARANTEE

Employers must make superannuation guarantee contributions for their employees on a quarterly basis within 28 days after the end of each quarter (September, December, March and June).

TAX PLANNING TIP

Tax deductions for the superannuation contributions will only be available in the 2017 tax year if the contribution is received by the superannuation fund by 30 June 2017.

BUILDING AND CONSTRUCTION REPORTING

Businesses in building and construction are required to record payments to contractors and report these payments to the Tax Office.

The annual is report due to be lodged by 21 July 2017.

DIRECTOR PENALTIES

Company directors need to pay attention to companies' PAYG and SGC liabilities as there are strict penalties for directors of companies that fail to make outstanding PAYG and SGC payments.

LOANS FROM PRIVATE COMPANIES - DIVISION 7A

Shareholders of private companies and associates may be assessed on a deemed dividend if the company provides them with loans, payments, loan forgiveness or private use of company assets, unless the requirements of Division 7A are satisfied.

Make sure all Division 7A loans made in the 30 June 2016 tax year have been either repaid, or put under a complying Division 7A loan agreement by the lodgement date of the company's 2016 tax return.

Make sure the minimum repayment amounts have been made by 30 June 2017 for complying Division 7A loans made in the 2016 and previous years.

TAX PLANNING TIP
To ensure all future Division 7A loans are covered by a qualifying loan agreement, consider entering into a Division 7A complying facility loan agreement that will be able to cover all future loans to shareholders and/or their associates.

TRUSTS

Unpaid trust distributions

Trust distributions to an associated private company for the 2016 tax year, which are unpaid at end of the 2017 tax year may be a Division 7A loan unless paid out to the company or converted to a complying Division 7A loan by the lodgement date of the company's 2017 tax return, or held in sub-trust for the company by the lodgement date of the trust's 2016 tax return (usually 15 May 2017).

If the unpaid distribution for the 2015/16 tax year has been converted to a sub trust, ensure the trustee has paid the company all the income under the sub trust before 30 June 2017.

Trust distributions and resolutions

Most discretionary trust deeds require distribution determinations for 30 June year end be made before 30 June, or earlier.

Trustees must make these determinations prior to 30 June or the date in the deed if earlier than 30 June.

Trust streaming

Under the streaming provisions, trustees can stream franked dividends and capital gains to specific beneficiaries, rather than distributing these amounts as part of the general distribution to beneficiaries.

The deed must not prevent the trustee from streaming these amounts to specific beneficiaries. In addition, the beneficiaries who are to receive these amounts must be specifically entitled to them, and the trustee must record the streamed distributions in the accounts or records of the trust, by 30 June 2017 for franked dividends or by 31 August 2017 for capital gains (although the trust deed will usually require the trustee's distribution determination to be made by 30 June 2017).

TAX PLANNING TIP
You and/or your tax adviser should regularly review your trust's deed to ensure you and/or your tax adviser understands how it interacts with the various tax requirements, some of which are mentioned above.

TFN trust reporting

Trustees of resident discretionary trusts, family trusts and other closely held trusts are reminded they are required to report new beneficiaries' tax file number (TFN) and certain personal information to the Tax Office. For 30 June 2017 the TFN report of new beneficiaries must generally be made to the Tax Office by 21 July 2017.

If the beneficiary has not provided their TFN to the trustee, the trustee will have to withhold tax from the trust distribution where the beneficiary becomes presently entitled to trust income or is paid an amount of trust income.

TAX PLANNING TIP
To ensure you don't miss the reporting of beneficiaries TFN's we suggest you report to the ATO the TFN's of all likely beneficiaries of the trust now, even though they may not be receiving a distribution until a future year.

ONGOING YEAR END ISSUES

SMALL BUSINESS ENTITIES

- The small business turnover threshold has increased from $2 million to $10 million. Benefits include simplified depreciation and trading stock rules
- Thresholds for the small business CGT concessions remains at $2 million turnover or $6 million net asset test
- The small business tax discount will have a $5 million turnover threshold.

TIMING OF INCOME DERIVATION

- Determine whether you should use cash or accruals tax accounting
- Consider deferring receipt until after 30 June 2017
- Alternatively, if you are in a tax loss, consider accelerating the receipt of income prior to 30 June 2017.

INCOME RECEIVED IN ADVANCE

- Income received in advance is not taxed until services are provided as long as income credited to unearned income account, and released to profit when the services are provided.

TIMING OF EXPENSES

- Expenses are deductible if incurred by 30 June 2017
- Provisions are generally not deductible
- Some accruals are not deductible
- Some prepayments are not deductible until future years
- Interest paid after business ceases may continue to be deductible.

REPAIRS

- Deduct repairs and maintenance incurred before 30 June 2017, unless relate to initial repairs, substantial replacement or improving an asset.

GIFTS

- Donate to deductible charities before 30 June 2017 - check recipient endorsed deductible gift recipient
- Gifts not deductible if some benefit is received by donor except when given at an 'eligible fundraising event' (special conditions apply).

BAD DEBTS

- Review all debts before 30 June 2017
- Write-off bad debts before year end to get deduction in that year (provision for doubtful debts not deductible).

TRADING STOCK

- Valuation - choose cost, market value or replacement
- Identify any obsolete stock – special valuation rule
- Scrap unwanted stock by 30 June
- Small business entity taxpayers do not undertake a stock valuation if the difference between opening and closing value is less than $5,000

PREPAYMENTS/ADVANCED EXPENDITURE

- Prepay deductible expenditure by 30 June 2017
- Prepayment rules operate to spread deduction over more than one year
- Prepayment rules do not apply to salary, amounts required to be paid by law or a court, or expenditure under $1,000
- Small business entity taxpayers and non-business individuals are allowed prepayments in year incurred if the benefit does not extend beyond 12 months.

DIRECTOR AND EMPLOYEE ENTITLEMENTS

- Conduct shareholders' meeting before 30 June 2017 to approve directors' fees to obtain deductions for 2017
- Ensure arrangements for employee bonuses based on 2016/2017 results are in place before 30 June 2017 to get deductions for the 2017 year.

SALE OF INVESTMENTS AND BUSINESSES

- Where CGT assets can be realised for a gain, delay sale until after 30 June, unless you have losses that may be lost because of company/trust loss rules
- Crystallise capital losses to offset gains, however, losses may be disallowed in the event of wash sale where loss asset or similar asset reacquired or continues to be controlled by the taxpayer
- If CGT assets held for less than 12 months by individuals, trusts or super funds that are eligible for the CGT discount, consider delaying sale until 12 months has passed
- For small business entities with CGT assets less than $6 million or annual turnover less than $2 million, consider small business CGT concessions and restructure rollover relief
- If assets sold via an earn-out arrangement apply the look through approach that applies from 24 April 2015.

CEASING BUSINESS OR BUSINESS SOLD

- Consider consequences of payments for employee entitlements, transfer of employee entitlements to a new employer and redundancy payments
- Consider if small business concessions, rollovers, or super contributions are available
- Consider whether expenses incurred after business ceases may still be deductible.

BUSINESS RELATED COSTS / PROJECT COSTS

- Project costs are deductible over the life of the project
- Other business related costs not otherwise deductible, not included in a CGT cost base nor capital allowance cost, may be deductible for over five years
- It is essential the costs relate to a business that is, was, or will be carried on for a taxable purpose.

DEPRECIATION

- Scrap obsolete items by 30 June 2017 to claim undepreciated cost
- Increase depreciation by reassessing effective life of assets if asset's effective life is less than ATO estimates of effective life
- For items that cost less than $1,000 consider a low value pool, with diminishing value rate of 37.5%
- For small businesses (less than $10m turnover), asset purchases of $20,000 or less made prior to 1 July 2018 may be immediately deducted. From 1 July 2018, the value reduces to $1,000
- Other small business assets may be placed in the small business depreciation pool and depreciated at 15% in the first year and 30% in subsequent years
- If not a small business, some depreciable items of less than $100 may be immediately deductible, see PSLA 2003/8 ($300 if not in business).

IMPUTATION

- If shares not held at risk for at least 45 full days, franking offset may not be available (except individuals whose franking offset less than $5,000)
- Trusts beneficiaries lose franking offset unless beneficiaries have vested and indefeasible interest in the shares held at risk for at least 45 days or family trust election made and trustee held shares at risk for at least 45 days
- Where company pays more than one dividend paid in franking period, ensure all dividends franked under with benchmark rate (franking percentage of first dividend).

YEAR END TAX EFFECTIVE INVESTMENTS

- Has promoter obtained product ruling
- Ensure promoter operated the scheme in accordance with product ruling
- Check if the investment is the subject of a Taxpayer Alert
- Consider Part IVA and other integrity measures
- Warning signs include contrived or artificial arrangement, limited or non-recourse funding, low cash outlay, in-built exit strategy, prepayments, arrangement not economically viable without tax benefit, and arrangement not independently

HOME OFFICE EXPENSES

- Portion of interest, rent and insurance are not deductible unless you are carrying on business from home and the area is separate and distinguished from private living areas
- Converting spare room not sufficient
- Power, heating and depreciation can be claimed at a flat rate established by ATO even if room is not exclusively set aside for a home office
- If an office is provided by the employer, working from home as a convenient place to do part of the work may not be sufficient to claim home office expenses.

MORE INFORMATION

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