InFocus

Summer 2018

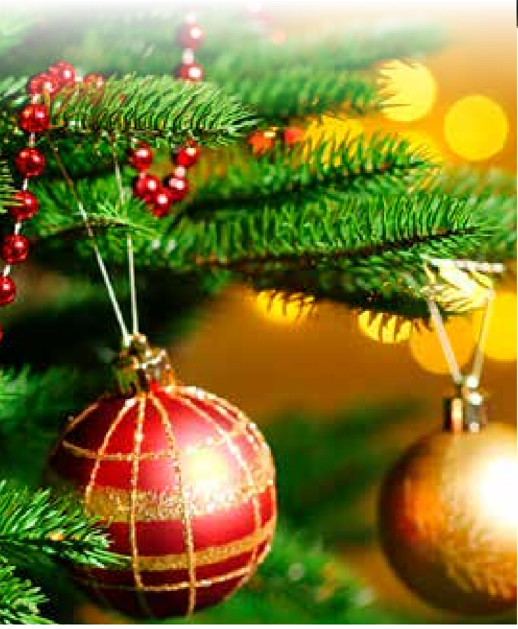
Welcome to the Summer 2018 *InFocus*

In this edition, we look at some recent tax changes and have a follow up to our Winter newsletter article on the Single Touch Payroll system, which will impact small business employers from 1 July 2019.

In the lead-up to the Federal Election next year, we take a look at one of the Labor Party's planned tax policies in relation to franking credits. With Christmas just around the corner, we also take a brief look at Fringe Benefits Tax consequences of providing gifts and benefits to staff, with the ATO being 'The Grinch'.

We hope you find this edition of InFocus informative, and invite you to contact your CMS Advisor to discuss any of the content and how it may have an impact on you.

From all the Directors and staff at CMS Private Advisory, we wish you and your families a happy and safe Christmas and New Year.



CMS PRIVATE ADVISORY
CHARTERED ACCOUNTANTS

RECENT TAX UPDATES

CHANGES TO BUSINESS DEDUCTIONS ON SALARY AND WAGE

From 1 July 2019, businesses that fail to meet their PAYG withholding obligations will be denied a deduction from being claimed on salary and wages. This adds to existing penalties and is another incentive to comply with the reporting and payment obligations.

CENTS PER KILOMETRE RATE

From 1 July 2018, the cents per kilometre rate increased from 66 to 68 cents per kilometre. The ATO has confirmed that an employer needs to withhold tax on any excess amount under the PAYG withholding system, where they pay a car allowance higher than the 68 cents per kilometre rate.

FUEL TAX CREDITS

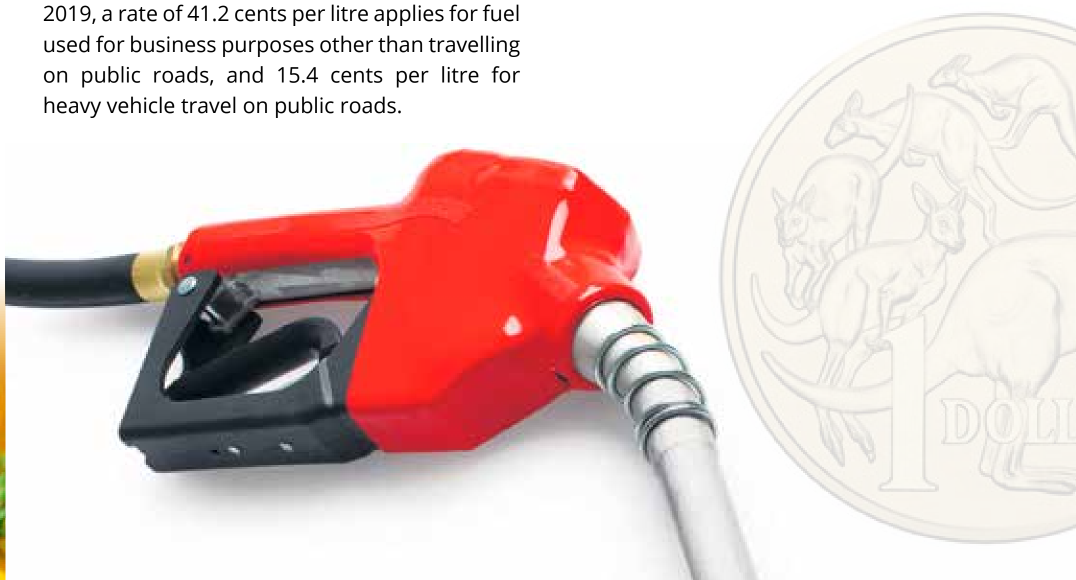
Fuel Tax Credits have increased from 1 August 2018. For the period 1 August 2018 to 31 January 2019, a rate of 41.2 cents per litre applies for fuel used for business purposes other than travelling on public roads, and 15.4 cents per litre for heavy vehicle travel on public roads.

TREASURY LAWS AMENDMENT (SUPPORTING AUSTRALIAN FARMERS) BILL 2018: FODDER STORAGE ASSETS

An immediate deduction is available for primary producers on capital expenditure on fodder storage assets that are first used or installed ready for use on or after 19 August 2018. Previously these assets could generally be deducted over three years.

TREASURY LAWS AMENDMENT (ACCELERATED DEPRECIATION FOR SMALL BUSINESS ENTITIES) BILL 2018: INSTANT ASSET WRITE-OFF

The $20,000 threshold for claiming an immediate deduction for the cost of assets by small businesses that choose to apply the simplified depreciation rules has been extended to 30 June 2019. The extension was announced in the 2018-19 Federal Budget, but the legislation was not passed until late September 2018.



TREASURY LAWS AMENDMENT (LOWER TAXES FOR SMALL AND MEDIUM BUSINESSES) BILL 2018: COMPANY TAX CUTS

An amendment to company tax cuts for small businesses has been passed through parliament. Companies with turnover below $50 million will be subject to a tax rate of 26% for the 2020-21 income year, reducing to 25% from the 2021-22 income year onwards. The reduced rate will not apply to companies if more than 80% of their assessable income is classified as base rate entity passive income (e.g. interest, rent, some dividends, capital gains etc).

OTHER NEWS

TREASURY LAWS AMENDMENT (2018 MEASURES NO. 4) BILL 2018: SINGLE TOUCH PAYROLL

The highly anticipated STP law has been passed by the Senate, and now awaits Royal Assent. The Bill extends the STP reporting requirements to all employers, regardless of the number of employees, from 1 July 2019.

The passage of legislation follows months of uncertainty for the small business sector after STP was officially rolled out for employers with 20 or more employees from 1 July 2018.

The ATO has stated that they will not force small businesses into purchasing payroll software, with a number of alternate options set to be available, including the option of allowing their registered tax or BAS agent to report quarterly, rather than each time they run their payroll.

Exemptions to STP reporting will also be available to businesses that have no internet or an unreliable connection.

DATE SET FOR FEDERAL BUDGET 2019-20

The Prime Minister has announced the next Federal Budget will be handed down earlier than usual, on 2 April 2019. This will lead into a likely May Federal Election.

LIMITING DEDUCTIONS FOR VACANT LAND

Draft legislation has been released by Treasury relating to vacant land expenses. The Government is planning to prevent taxpayers from claiming deductions on holding costs on vacant land unless they are carrying on a business. The proposed amendments will not apply to companies, superannuation funds (other than SMSF), managed investments trusts or certain public trusts.

The proposed changes are to apply to outgoings incurred on or after 1 July 2019, regardless of whether the land was first held prior to this date.

FEDERAL OPPOSITION PLATFORM ON DIVIDEND FRANKING SYSTEM

With the upcoming Federal Election, there has been quite a lot of discussion about Labor's tax plans if they are elected to Government. One of Labor's plans is to make changes to the dividend franking system which will have a substantial impact to many Australians. The policy change however, must be passed by the Senate with minor parties in general opposed to the change, as it is believed it will affect many Australians on low incomes.

In its present form, the biggest losers from Labour's proposals will be individuals who pay little or no tax. Given that the ability to use franking credits to offset taxable income will remain intact, those whose tax liability is greater than the franking credits to which they would be entitled will not be affected.

Self-Managed Superannuation Funds that are in pension phase will be affected by the proposed change, as they will have no taxable income to be used to offset the franking credits.

Charities and not-for-profit institutions, such as universities, are exempt from these changes.

Take the following example.

Mr & Mrs Smith are retired and are not eligible for an aged pension as they own a portfolio of shares as trustees in a Family Trust, worth approximately $1 million. Dividends of approximately $55,000 are received annually (mostly franked) and attached are approximately $23,000 of franking credits. This income is distributed equally to Mr & Mrs Smith, resulting in a taxable income of approximately $39,000 each. The franking credits of $11,500 each are applied to the tax payable including the Medicare Levy of approximately $5,000 each, resulting in a refund of around $6,500 each.

The proposed changes under a Labor Government, would leave Mr & Mrs Smith worse off to the tune of $6,500 each because they would lose their annual refunds of this amount. A portion of their franking credits applies to offset the tax but that is it – the remaining credits are lost. A total of $13,000 in this example is a substantial percentage of total "cash" income of $68,000.

There is likely to be a great deal more discussion about this proposed tax policy in the lead up to the Election.

GST MISTAKES/REMINDER - Not having tax invoices

An often made GST mistake is not having records (i.e. tax invoices) in order to claim GST credits. Invoices are required as proof of all business purchases that cost more than $82.50 (inclusive of GST).

Suppliers must provide tax invoices within 28 days of a request being made.

The ATO recommends waiting until the invoice is received before claiming GST credits, even if that pushes it into a subsequent reporting period.

Incomplete or incorrect tax invoices are also not considered as being legitimate for income tax purposes.

FRINGE BENEFITS TAX (FBT) – CHRISTMAS IMPLICATIONS

With Christmas approaching, employers must consider the implications of providing benefits to staff such as parties and gifts.

FBT can essentially double the cost of providing the Christmas party for employees. It is important to understand the FBT rules and implications for the business when providing various benefits to employees. With proper planning, costs can be significantly reduced by legitimately avoiding FBT.

$300 is the minor benefit threshold for Fringe Benefits Tax. Any gift or benefit above this, individually, or on a per head basis, will result in a "gift" to the Tax Office as well at a rate of 47%. Minor benefits must be ad hoc, irregular payments.

If the work Christmas party is at an employee's place of work on a work day, FBT will not apply regardless of the amount you spend per person.

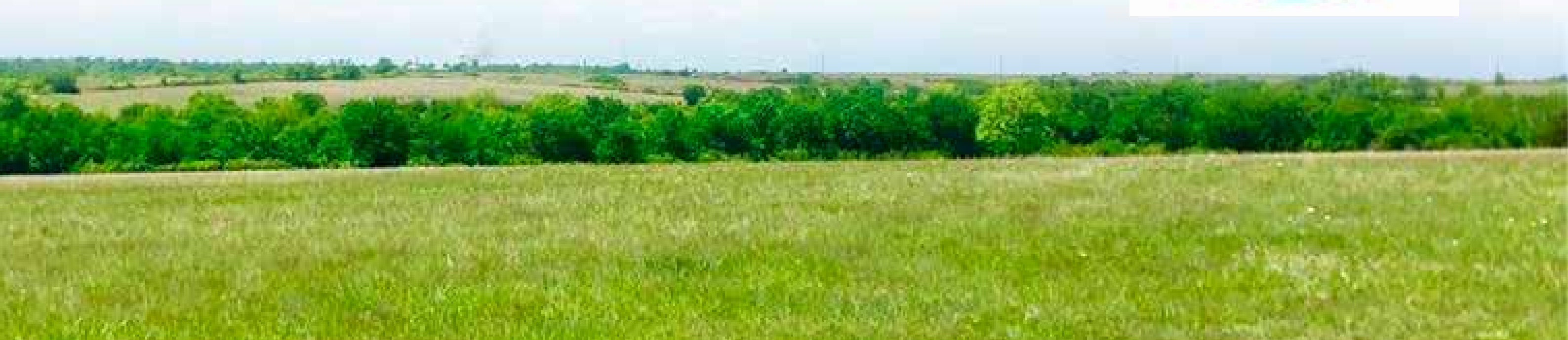
If the work Christmas party is out of the office, keeping the cost per person below $300 will be a minor benefit and therefore exempt. Otherwise, you will have to pay FBT but a tax deduction may be claimed for the event.

Contact your CMS advisor for more information or advice in relation to FBT.

XERO & TRANSACTIONAL SERVICES

At CMS Private Advisory we encourage our business clients to use Xero accounting software which is a cloud based platform, connecting their business with their bank and accountant. At CMS we offer transactional services to assist clients who do not have bookkeepers, or are time poor, to process transactions and supporting documentation. Much of this work can be automated with the cloud and Xero.

xero



Beware of scammers

This is a reminder to be vigilant as there has been a substantial increase in scam activity of late, with scammers impersonating the ATO and its officers, in particular. There have been quite a few stories in the media recently, and we have had several clients contact us after receiving unusual calls or messages from scammers purporting to be the ATO. Usually the tone of these calls or messages is a giveaway that it is a scam, including poorly written text messages and automated, robot sounding, telephone voicemails threatening arrest for non-compliance. Fortunately the clients that have contacted us after having these unusual encounters have been alert to it and have not complied with any request for information or payment. If you have received an obvious scam text message, email or voicemail, it is best not to engage with the scammers – you should delete it rather than call or email back. If you are unsure as to whether a call or message is legitimate, you should contact us, or the ATO on 1800 008 540.

The ATO has reported that over $800,000 was lost during November. This is what has actually been reported. It is likely the total lost by taxpayers is actually much greater. There has been an increase in scam calls using software that resembles a legitimate phone number to disguise the caller's true identity. The ATO does not project its number using caller ID, so you can be confident that if there is a number displayed in your caller ID, it isn't the ATO. Whilst the ATO does contact taxpayers by phone, email and SMS, there are some tell-tale signs when it isn't the ATO. The ATO will not:

- use aggressive or rude behaviour, or threaten you with arrest, jail or deportation;
- request payment of a debt via iTunes, pre paid visa cards, cryptocurrency or direct credit to a bank account with a BSB that isn't either 092-009 or 093-003;
- request a fee in order to release a refund owed to you; or
  send you an email or SMS asking you to click on a link to provide login, personal or financial information, or to download a file or open an attachment.

Top tips to protect yourself from scammers

1. Know your tax affairs – you can log into myGov to check your tax affairs at any time, or you can contact us as your tax agent, or the ATO directly.

2. Guard your personal and financial information – be careful when clicking on links, downloading files or opening attachments. Only give your personal information to people you trust, and try not to share it on social media.

3. If you are unsure about whether a call, text message or email is genuine, don't reply. Call us, or the ATO on 1800 008 540.

4. Know legitimate ways to make payments to the ATO (visit ato.gov.au/howtopay). Scammers may use threatening tactics to trick their victims into paying false debts in pre-paid gift cards or by sending money to non-ATO bank accounts.

5. Talk to your family and friends about scams - if you or someone you know has fallen victim to a tax related scam, call the ATO as soon as you can.

Smart ways to handle finances in a relationship

Staying on top of finances can help couples achieve their shared goals.

Whether they're saving for a house or a holiday or seeking to grow or preserve their family wealth, setting up and sticking to a budget can help couples attain their common goals. By handling money well, they can avoid disagreements that could put a strain on their relationship.

So how can people in a relationship keep their finances healthy? Here are some practical tips.

Sit down and talk

Money can be a sensitive topic in relationships – and for this reason, many couples avoid discussing it. But it's vital to talk about your finances and how to manage them, to avoid potential conflict. It's particularly important to be upfront about your:

- financial situation
- financial goals
- concerns about the future.

The American Psychological Association also suggests discussing your beliefs about money early in the relationship.[1] This will help you to better understand each other and set the stage for healthy conversations.

Set goals as a couple

Couples often have different financial priorities – one may want to spend on experiences such as overseas travel, while the other may prefer stability by building long-term investments. But this doesn't mean you can't set common goals and work together to save for them.

Keeping an open line of communication about your financial aspirations could help you adjust your priorities and plans, and keep on track to achieving your shared goals.

Assign responsibilities

Divvying up the responsibilities for paying for your expenses and building your savings may help ensure you and your partner are on the same page when it comes to financial matters. You may opt to split those responsibilities equally or put one person in charge of most of them. Whatever you choose to do, it's important that both partners are happy with the decision.

Create a budget

Having a budget helps you achieve your financial goals by setting limits on what you spend. A budget usually tracks your spending on a weekly or monthly basis. However, if this is too restrictive, you may simply agree on a plan for spending – and saving – your money.

Build your retirement funds together

If you are married or in a de facto relationship, you may want to ensure that your partner is nominated as a beneficiary on your superannuation accounts and insurance policies. You may also want to consider helping each other build your retirement funds. If your partner is not working or earns a low income, you might explore making a one-off contribution to their super or arranging to have some of your contributions put into their super account.

But before you decide to make any such arrangements, it is wise to get professional advice on how they work. Your financial adviser can talk you through the rules of spouse contributions and contribution splitting, and the eligibility requirements for receiving a tax offset.

1 The American Psychological Association, 'Happy couples: How to avoid money arguments'. Available at http://www.apa.org/helpcenter/money-conflict.aspx.

FURTHER CHANGES TO DIVISION 7A

Treasury has released a new consultation paper regarding significant changes to Division 7A intended to take effect from 1 July 2019.

The Australian Taxation Office defines Division 7A as follows:

A payment or other benefit provided by a private company to a shareholder or their associate can be treated as a dividend for income tax purposes under Division 7A even if the participants treat it as some other form of transaction such as a loan, advance, gift or writing-off a debt.

Division 7A can also apply when a private company provides a payment or benefit to a shareholder or associate through another entity, or if a trust has allocated income to a private company but has not actually paid it, and the trust has provided a payment or benefit to the company's shareholder or their associate.

Division 7A is part of the Income Tax Assessment Act 1936 and is intended to prevent profits or assets being provided to shareholders or their associates, without tax being paid by the shareholders.

The proposed changes are as follows:

- Capping loan agreements to a maximum of 10 years.
- Changing the treatment of pre 4 December 1997 loans
- Remove the concept of distributable surplus.

Current loans may be for a period of 7 or 25 years. Existing loans would retain their existing outstanding term.

Loans made before 4 December 1997 will be refreshed and brought into Division 7A. As at 30 June 2021, they will be need to repaid or placed under a complying loan agreement by the company's lodgement day for the 2021 tax return to avoid a deemed dividend.

The concept of distributable surplus will be removed. The entire value of the loan, payment or forgiven debt will be an assessable deemed dividend.

Unpaid present entitlements (UPEs) will trigger a deemed dividend unless they are repaid or placed under a complying loan agreement by the lodgement day of the company's tax return. Existing UPEs between 16 December 2009 and 30 June 2019 will be brought into the scope of these new rules also.

Treasury is considering whether UPEs pre 16 December 2009 will be caught by these new rules.

Staff News

The Directors and Staff of CMS will be pausing for some much needed rest and relaxation over the Christmas period. The CMS office will be closed from 5.00pm on Friday 21st December 2018 and will reopen for usual business hours on Thursday 3rd January 2019.

This year we will be making a donation to the Royal Flying Doctors Service instead of sending out Christmas cards. The RFDS is an invaluable charity bringing medical assistance to those that live, work and travel in rural and remote Australia. For further information on the RFDS and to read some inspiring stories please visit www.flyingdoctor.org.au

We welcome our new transactional accountant Mae Kudzius who joined us in July 2018 to assist us with our transactional clients. Mae comes to us with valuable experience in running the day to day transactions in commerce using a vast range of the latest technological applications available to SMEs. She has a passion and a talent for finding solutions for an organisation's particular needs.

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