



TAX NEWS UPDATE

MAY 2017

Moore Lewis & Partners



Important Information: Tax audit insurance for your peace of mind

The Australian Taxation Office (ATO) and other relevant agencies are reaching unprecedented audit activity levels due to enhanced data matching capabilities. Therefore if you are yet to opt-in to our tax audit insurance service, Audit Shield, now is the time to consider it. If you have already taken up our offer, you can rest assured as you are protected

Audit Shield covers professional fees incurred as a result of official audit activity instigated by the ATO or other relevant federal, state and territory based agencies. If you have misplaced the communications regarding our Audit Shield service, please contact us via email, phone or in person as we will be able to supply you with information on the offer.

IT'S THAT TIME OF YEAR AGAIN! *Don't forget to make an appointment for your tax*

For Individual Tax Returns

- PAYG Summary (Group Certificate)
- Work related expense receipts
- Interest
- Donation receipts
- PAYG Summary for any Centrelink payments
- Dividends and Share Transactions
- Managed fund Summaries
- Income protection insurance
- Private health insurance

INFORMATION REQUIRED

We will need you to bring information to assist us in preparing your income tax return.

Please check the following and bring along payment summaries, statements, accounts, receipts etc. to help us prepare the return.

Income/Receipts:

- ◆ Payment summaries for salary and wages
- ◆ Lump sum and termination payments
- ◆ Government pensions and allowances
- ◆ Other pensions and/or annuities
- ◆ Allowances (e.g. entertainment, car, tools)
- ◆ Interest, rent and dividends
- ◆ Distributions from partnerships or trusts
- ◆ Details of any assets sold that were either used for income earning purposes or which may be caught by capital gains tax (CGT)

Deductions

- ◆ Depreciable plant, etc. costing \$300 or less
- ◆ Clothing Expenses
 - Compulsory (or non-compulsory and registered) uniforms, and occupation specific and protective clothing.
 - Other expenses associated with such work related clothing, such as dry cleaning, laundry and repair expense
- ◆ Self-Education expenses
 - Course Fees
 - Purchases of stationery and text books.
- ◆ Other work related expenses
 - Union Fees
 - Subscriptions to trade, professional or business associations
 - Magazine and newspaper subscriptions
 - Seminars and conferences
 - Income protection insurance (excluding death and total/permanent disability)
- ◆ award transport allowance claims
- ◆ bank and government charges on deposits of income, and deductible expenditure
- ◆ bridge/road tolls (travelling on business)
- ◆ car parking (when travelling on business)
- ◆ conventions, conferences and seminars
- ◆ depreciation of library, tools, business equipment (incl. portion of home computer)
- ◆ gifts or donations

- ◆ interest and dividend deductions:
 - account keeping fees
 - ongoing management fees
 - interest on borrowings to acquire shares
 - advice relating to *changing* investments (but *not* setting them up)
- ◆ interest on loans to purchase equipment or income-earning investments
- ◆ motor vehicle expenses (business/work related)
- ◆ overtime meal allowances
- ◆ rental property expenses – including:
 - advertising expenses
 - council/water rates
 - insurance
 - interest
 - land tax
 - legal expenses/management fees
 - genuine repairs and maintenance
 - telephone expenses
 - travelling to inspect property
- ◆ superannuation contributions by sole traders or substantially unsupported taxpayers
- ◆ sun protection items
- ◆ tax agent fees
- ◆ telephone expenses (business)
- ◆ tools of trade

Company tax cuts pass the Senate with amendments

Editor: After a marathon few days of extended sittings (the last before the Federal Budget in May), the Government finally managed to get its company tax cuts through the Senate, but it was not without compromise.

The following outlines the final changes to the law, as passed by the Senate, including a recap of which of the original proposals remained intact and also which ones were changed.

Increase to the SBE turnover threshold

As was previously announced, the Small Business Entity ('SBE') definition has changed with respect to the turnover eligibility requirement.

The aggregated turnover threshold has increased from \$2 million to **\$10 million** with effect from 1 July 2016 (i.e., the *current*, 2017, income year).

Note that, whilst the increase in this threshold will expand access to most SBE concessions (e.g., simplified depreciation), this change will **not** apply with respect to:

- ◆ the Small Business Income Tax Offset (a special **\$5 million threshold** will apply when determining eligibility for this tax offset); and
- ◆ the Small Business CGT concessions (the aggregated turnover threshold to access these concessions will **remain at \$2 million**, although taxpayers may still seek to satisfy the \$6 million maximum net assets test as an alternative method of obtaining access to these concessions).

Reduction in the corporate tax rate

The most significant difference between the Government's original proposals and what was finally passed by Parliament was in relation to the reduction in the corporate tax rate.

Although the corporate tax rate will still decrease to 25% (by the 2027 income year, as originally proposed), access to the reduced corporate tax rate will be restricted to corporate entities that **carry on business** with an aggregated turnover of **less than \$50 million** (from the 2019 income year).

The following table provides a summary of how the progressive reduction in the corporate tax rate will apply.

Income Year	Aggregated turnover	Company tax rate
2016	< \$2 million	28.5%
2017	< \$10 million	27.5%
2018	< \$25 million	
2019	< \$50 million	
2020		
2021		
2022		
2023		
2024	27%	
2025	26%	
2026	25%	
2027 & later		25%

Editor: As noted above, corporate entities with at least \$50 million aggregated turnover or, more importantly, companies that do not carry on business (e.g., passive investment companies and 'bucket companies') will continue to have a corporate tax rate of 30%.

Changes to the franking of dividends

Prior to this income year, companies that paid tax on their taxable income at 28.5% could still pass on franking credits to their shareholders at a rate of 30%, subject to there being available franking credits.

However, with effect from 1 July 2016 (i.e., this income year), the maximum franking credit that can be allocated to a frankable distribution paid by a company will be based on the tax rate that is applicable to the company.

Editor: Please contact this office if you would like to know how these changes will affect your business specifically.

Costs of travelling in relation to the preparation of tax returns

The ATO has released a Taxation Determination confirming that the costs of travelling to have a tax return prepared by a “recognised tax adviser” are deductible.

In particular, a taxpayer can claim a deduction for the cost of managing their tax affairs.

However, apportionment may be required to the extent that the travel relates to another non-incidentual purpose.

Example – Full travel expenses deductible

Maisie and John, who are partners in a sheep station business located near Broken Hill, travel to Adelaide for the sole purpose of meeting with their tax agent to finalise the preparation of their partnership tax return.

They stay overnight at a hotel, meet with their tax agent the next day and fly back to Broken Hill that night.

The **full cost** of the trip, including taxi fares, meals and accommodation, is deductible.

Example – Apportionment required

Julian is a sole trader who carries on an art gallery business in Oatlands.

He travels to Hobart for two days to attend a friend's birthday party and to meet his tax agent to prepare his tax return, staying one night at a hotel.

Because the travel was undertaken **equally** for the preparation of his tax return and a private purpose, Julian must reasonably apportion these costs.

In the circumstances, it is reasonable that **half of the total costs** of travelling to Hobart, accommodation, meals, and any other incidental costs are deductible.

Editor: Although the ATO's Determination directly considers the treatment of travel costs associated with the preparation of an income tax return, the analysis should also apply where a taxpayer is travelling to see their tax agent in relation to the preparation of a BAS, or another tax related matter.

Credit and debit card and online selling data matching program

The ATO is collecting new data from financial institutions and online selling sites as part of its credit and debit cards and online selling data-matching programs, specifically:

- ◆ the total credit and debit card payments received by businesses; and
- ◆ information on online sellers who have sold at least \$12,000 worth of goods or services.

The ATO will be matching this data with information it has from income tax returns, activity statements and other ATO records to identify businesses that may not be reporting all their income or meeting their registration, lodgement or payment obligations.

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