BWR Accountants & Advisers

June 2013 Newsletter

Special points of interest:

- A large number of tax changes apply in the 2012/13 income year. A brief summary is provided in this newsletter.
- There may be some advantages in acting on some of these items before 30 June.
- If you think any of these changes may affect you, please contact us for more details.

Inside this issue:

General Year End Tax Planning Strategies

Business Income & Expenses

Subject to cash flow requirements, consider deferring income until after 30 June, especially if you expect lower income for 2013/14 compared to 2012/13.

Most businesses are taxed on income when it is invoiced. Some small businesses may be taxed only when income is received. Income from construction contracts is generally taxed when progress payments are invoiced or received.

Ensure that you have complied with the requirements to claim deductions in 2012/13:

- *Bad debts must be written off in your accounts before 30 June.*
- *Employer and/or self-employed superannuation contributions must be paid to, and received by, the super fund before 30 June and must be within the contributions cap (generally $25,000 per individual).*
- *Depreciation can be claimed for assets first used, or installed ready for use, before 30 June.*
- *Small businesses (turnover less than $2 million) can claim expenses prepaid up to 12 months in advance – for larger businesses, this is generally limited to expenses below $1,000.*
- *Wages paid to your spouse or family members must be reasonable for the work performed.*

Small businesses planning major purchases or replacements of capital equipment should contact us for advice. Careful timing of those transactions can result in substantial tax savings.

Review valuations of trading stock in the lead up to 30 June. Best practice is generally to value stock at the lower of cost or market selling value. This may change if you expect a tax loss for 2012/13, or substantially higher income in 2013/14 compared to 2012/13.

Personal Income, Deductions and Tax Offsets

Subject to cash flow requirements, set term deposits to mature after 1 July, rather than before 30 June.

Consider realising capital losses if you have already realised capital gains on other assets during 2012/13. Conversely, consider realising capital gains if you have un-recouped capital losses, or you expect substantially higher income in 2013/14 compared to 2012/13.

If you expect lower income in 2013-14 due to retirement or any other reason, consider deferring income until after 1 July, when you will be in a lower tax bracket.

If you are a primary producer and you expect a permanent reduction in income, consider withdrawing from the income averaging system.

Where possible, arrange for substantial out-of-pocket medical expenses to be grouped in the same financial year, and for all expenses to be invoiced in the name of the higher income earner. This may enable you to meet the annual threshold for the Net Medical Expenses Tax Offset.

Arrange for deductible donations to be grouped in the higher income year, if you expect substantially higher or lower income in 2013-14 compared to 2012-13. Make all donations in the name of the higher income earner.

If you plan to purchase income-producing assets, consider acquiring assets that will generate positive cash flow in the name of the lower income earner. Conversely, consider acquiring negatively geared assets in the name of the higher income earner. However, the time you are considering holding such assets may impact the decision of whose name to hold the asset.

If you expect a lower income in 2013/14 due to retirement or any other reason, consider deferring income until after 1 July when you will be in a lower tax bracket.

Other Tax Planning Considerations

Trustees of trusts should ensure that all necessary documentation is completed before 30 June, where you intend to stream capital gains or franked distributions to specific beneficiaries. Family discretionary trusts may need to make a family trust election if the trust has un-recouped losses, or has beneficiaries whose total franking credits for the year may exceed $5,000.

Be skeptical of year-end tax shelter schemes. You should not enter a scheme without advice regarding both its tax consequences and commercial viability.

Income Tax Changes

Small Businesses

Depreciation and Low Cost Asset Deductions

There were significant changes to the timing of deductions for plant & equipment from 1 July 2012.

Items costing less than $6,500 excluding GST are now immediately deductible (up from $1,000).

Motor vehicles costing $6,500 or more qualify for an upfront deduction of $5,000 + 15% of the remaining amount is depreciable in the first year and 30% thereafter if in the small business depreciation pool system.

Primary Producers

Farmers are still able to claim a 15% refundable tax offset (RTO) for new eligible conservation tillage (no –till) equipment installed and ready for use between 1 July 2012 and 30 June 2015. The offset is conditional on completing the conservation tillage survey in the year of purchase and receiving a research participation certificate.

Individuals

Cap on self Education Expenses

Deductions for work related self education expenses will be capped to a maximum annual deduction of $2,000 starting from 1 July 2014 as proposed by the recent federal budget.

Tax-Free Threshold and Tax Rates

The tax-free threshold for 2012/13 for Australian resident individuals is $18,200 (up from $6,000). When combined with the Low Income Tax Offset, residents pay no tax on incomes below $20,542.

Higher thresholds apply to senior Australians and pensioners. For incomes above the thresholds, tax rates are slightly lower.

Non-resident individuals for the whole of 2012-13 do not get a tax-free threshold. Part-year residents get a partial threshold which is more generous than in previous years.

Means Testing of Private Health Insurance Rebate & Medicare Levy Surcharge

Tiered rates of private health insurance rebates now apply, based on your age and income.

If you claim the rebate as a premium reduction you are (or were) required to nominate your rate when renewing your policy. If you quoted the wrong rate, you will have an amount payable or refundable on your 2012-13 tax assessment. If you don't hold private health insurance, tiered rates of Medicare levy surcharge apply based on your income.

Proposed Increases in the Medicare Levy to fund DisabilityCare Australia

As announced before the budget, from 1 July 2014, the Medicare Levy will increase from 1.5% to 2%. This measure has passed Parliament and is awaiting Royal Assent. Low income earners will continue to receive relief from the Medicare Levy through the low income thresholds for singles, families, seniors & pensioners. The current exemptions from the Medicare Levy will also remain in place. The revenue raised by the increase in the Medicare Levy will be invested in DisabilityCare Australia.

Baby Bonus abolished

From 1 March 2014, the Baby Bonus will be replaced by an increase to FBT Part A of $2,000.

Multiple Changes to Personal Tax Offsets

A major restructure of personal tax offsets takes effect in 2012/13. If you have previously benefited from any of the following, you may have an increased tax liability for 2012/13:

Net Medical Expenses Tax Offset – for most tax payers, the net medical expenses tax offset (NMETO) will be abolished from 1 July 2013 and tax payers will no longer be eligible to claim a 20% tax offset for net medical expenses. There will be a transition period for tax payers who claimed the offset for the 2012/13 year.

The Mature Age Worker Tax Offset is now restricted to taxpayers born before 1 July 1957, there is no change if you were already eligible for the tax offset in the 2011-12 or earlier years.

The Spouse Tax Offset is now limited to spouses born before 1 July 1952 (previously 1 July 1971).

A new income test applies to the Employment Termination Payments Tax Offset.

Individual Resident Tax Rates			
Taxable Income		Rates 2012-13, 2013-14 & 2014-15	
Lower Threshold	Upper Threshold	Tax on income up to lower threshold	Rate of tax for each $1 over lower threshold
0	18,200	0	0%
18,201	37,000	0	19%
37,001	80,000	3,572	32.5%
80,001	180,000	17,547	37%
180,001	–	54,547	45%
Rates above are excluding the Medicare Levy			

Companies Loss Carry Back

Companies that have paid tax in the past, that incur a loss in 2012-13 income year, may be able to obtain a refund of some of the tax previously paid. Multiple conditions apply.

Building & Construction Industry Annual Report

If you are primarily in the building and construction industry, and you make payments to contractors for building and construction services and you hold an ABN, for the year ending 30 June 2013 you need to complete a "Taxable Payments Annual Report".

For each contractor you need to report to the ATO their:

* *ABN, if known*
* *Name*
* *Address*
* *Gross amount you paid to them for the financial year (this is the total paid including GST)*

The Taxable Payments Annual Report is due on 21 July 2013. *The information reported will be used for data matching to detect those contractors who may not have included all their income or lodged tax returns.*

Please call our office to make an appointment with your accountant if you require any assistance completing and lodging the taxable payments annual report.

Superannuation

From 1 July 2013 the super guarantee rate will start to increase. This means employers must pay more into their workers' compulsory superannuation. Generally employees are entitled to superannuation guarantee contributions if they are aged 18 or older and paid $450 or more (before tax) in a month. It doesn't matter whether they are working full time, part time or casual, and it doesn't matter if they are a temporary resident of Australia. On 1 July 2013 the super guarantee rate will increase from 9% to 9.25%.

from 1 July 2013 the compulsory employer superannuation rate will increase to 9.25% up from 9% previously

Low income earners (adjusted taxable income below $37,000) may benefit from the Low Income Super Contribution (LISC) - a government superannuation payment equal to 15% of deductible contributions made by you or your employer, up to a maximum of $500. The LISC is additional to the existing super co-contribution. The co-contribution is now 50% of personal non-deductible contributions, up to a maximum of $500. The maximum eligible income has been reduced.

High income earners (adjusted taxable income above $300,000) will have the tax concession on super contributions increased from 15% to 30%. The government is still deciding whether the additional 15% tax will be collected from the individual or the superannuation fund.

If you have inadvertently made super contributions in excess of the maximum deductible amount (generally $25,000), you may be able to take the excess back out of your super fund. Multiple conditions apply, this should not be considered without advice.

The minimum pension payment for account based pensions and transition to retirement (TRIS) pensions in 2012-13 is again reduced by 25%.

The ban on SMSF and off market transfers has been dumped. Schedule 4 of the Tax and Superannuation Laws Amendment (2013 Measures No.1) Bill 2013 *was removed from the Bill on 29 May. The Bill passed the house without this schedule. Despite being a recommendation of the Super System Review, we assume the ban has been abandoned in its current form.*

Tips for Contributing to Super

There is a limit to the concessionally taxed amount that can be contributed to super every year. From 1 July 2012 the concessional contributions cap is $25,000.

When planning to make contributions you should be aware of the following:

- *If you have had a pay rise– this will increase the amount of compulsory employer contributions made to your super fund for the year, which will count towards your contribution limit.*
- *If you salary sacrifice into super– these amounts will count towards your concessional cap.*
- *If your employer or (you do for your SMSF) pays expenses like super administration fees, insurance premiums, or other costs– these expenses can count towards your concessional contributions cap.*
- *Timing issues– if your contributions are made in late June & the fund doesn't receive the money until July, the contributions will count towards the cap for the following year.*

For the 2012-2013 financial year the concessional contribution cap for everyone is $25,000

For members aged between 65 and 75 years to be eligible to make contributions to the fund they must meet the "work test" where a person is gainfully employed on a part time basis for at least 40 hours in a period of not more than 30 consecutive days in that financial year.

For member's aged 75 years or older, super funds can still only accept mandated employer contributions.

Where to Now for Superannuation?

The recent round of superannuation reforms might make you question the future of superannuation and whether it is still a tax effective vehicle. The answer is yes, for now.

There is no question, however, that the $1.5 trillion sitting in superannuation accounts is a very large tax temptation. The problem for any Government is that once you have a concession in place, it's almost impossible to remove it without enraging voters. Increasing tax on superannuation is not something you can slip through unnoticed as it affects almost every taxpayer. Treasury is already forecasting to collect $9.05 billion tax from superannuation in 2013/2014.

One of the big questions for the latest round of superannuation changes is whether the proposed reforms will be legislated prior to the election. While there are some reforms that many will be happy to forget, like the increased tax on superannuation pensions and annuities, there are others, like the reforms to the operation of the excess contributions tax, that are sorely needed.

Either way, constant change means that you need to keep one step ahead and constantly reassess your position. This applies to everything from salary sacrifice agreements to investments and retirement planning. We look at the key pros and cons of the proposed reforms:

Pros:

Refunding excess contributions tax:

The impact of the excess contributions tax (ECT) has been contentious for quite some time. In the 2011/12 financial year the Australian Taxation Office issued 66,435 ECT assessments with a value of $174.3m.

Under current arrangements, concessional contributions that exceed the annual cap are taxed at the top marginal tax rate of 46.5%. In some cases a 93% tax rate was applied to excess concessional contributions.

In other cases, a payroll error meant a superannuation contribution was made late and was inadvertently made in the wrong financial year. The error meant that the employee breached their contributions cap and ended up with a total ECT assessment of just under $70,000. The horror stories are endless.

In a welcome move, the proposed reforms will allow individuals to withdraw excess concessional contributions from their super fund. These excess concessional contributions will then be taxed at the individual's marginal tax rate plus an interest charge. Unfortunately if you have already paid ECT, you can't get your money back. The reforms, if enacted, will apply to excess concessional contributions made from 1 July 2013.

Changes to the contributions cap:

In this latest round of proposed changes, the Government has announced that a contributions cap of $35,000 will now apply from 1 July 2013 for those 60 and over. This increased cap of $35,000 will also apply to people aged 50 and over from 1 July 2014. In addition, the Government has decided not to limit the higher cap to those with super balances below $500,000. It will now apply to everyone who meets the age tests. For everyone else the contributions cap will remain at $25,000 (with indexing returning to the cap from 1 July 2014).

The increased contributions caps and higher contributions base will allow more people to benefit from tax planning opportunities, particularly for salary sacrifice and those transitioning to retirement.

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building futures

Cons:

Changing how earnings on super are taxed

At present, all new earnings (such as dividends, rent and interest) on assets supporting income streams (superannuation pensions and annuities) are tax free. Whereas the earnings you make on superannuation assets when you are building your super (accumulation phase), are taxed at 15%.

Under the proposed reforms, from 1 July 2014, the tax exemption for earnings on superannuation assets supporting income streams will be capped at the first $100,000 of future earnings per individual per annum. Earnings above $100,000 will be taxed at 15% (the same concessional rate that applies to earnings in accumulation phase). So earnings on superannuation assets supporting income streams will be tax free up to $100,000 each year and then taxed at 15%. Special transitional arrangements apply to capital gains on assets purchased before 1 July 2014 that in some circumstances will push the impact of the new tax out until 2024.

The proposed change will more than likely affect:

- ⇒ *Members' who's fund balance exceeds $2 million (assuming a 5% cash rate return)*
- ⇒ *People whose fund assets produce a higher level of income return than usual or*
- ⇒ *situations where a CGT event occurs and pushes fund income above the threshold.*

People holding property inside their superannuation fund are particularly exposed.

What can you do about it?
If you have a spouse, then think about contribution splitting or
withdrawing super and re-contributing it to your spouse's account, subject to the annual non-concessional contribution caps. This might result in more equitable distribution of earnings on superannuation balances and reduce the likelihood of one member's fund earnings exceeding $100,000 and the other not.

Market Value Super Fund Assets

Where your SMSF owns assets such as shares, real estate, plant & equipment, artwork, collectables etc. the fund must value these assets at their market value each year from 30 June 2013.
Asset valuation should take into consideration the following:
The value of similar assets
The amount that was paid for the asset in an arms length market
Independent appraisals
Whether the asset has undergone improvements since it was last valued
For commercial properties, net income yields.
A valuation need not be done by a registered valuer, however to meet the regulatory requirements the valuation must be based on objective and supportable data reflecting the asset's value if it were freely traded in an open market.